

NEW ISSUE

RATINGS: Standard & Poor's: "AA"
Moody's: "Aa"
See "Ratings" herein.

\$283,390,000
STATE OF ARIZONA
ARIZONA TRANSPORTATION BOARD
SUBORDINATED HIGHWAY REVENUE
REFUNDING BONDS
SERIES 1993A AND SERIES 1993B

Dated: December 1, 1993

Due: July 1, as shown on the inside cover page hereof

The Subordinated Highway Revenue Refunding Bonds, Series 1993A and the Subordinated Highway Revenue Refunding Bonds, Series 1993B (collectively, the "Series 1993 Subordinated Bonds") are being issued by the Arizona Transportation Board (the "Board") as fully registered bonds in denominations of \$5,000 or any integral thereof. The Series 1993A and 1993B Subordinated Bonds are on a parity and, unless otherwise indicated herein, have identical terms and provisions.

Interest on the Series 1993 Subordinated Bonds is payable January 1 and July 1 of each year, commencing July 1, 1994. Principal of and premium, if any, on the Series 1993 Subordinated Bonds are payable at the principal corporate trust office of the Bond Registrar and Paying Agent, initially Bank One, Arizona, NA, Phoenix, Arizona. Interest on the Series 1993 Subordinated Bonds is payable by check or draft mailed, or by wire transfer as described herein upon request of registered owners of \$1,000,000 or more aggregate principal amount, to the registered owners thereof as of the record date described herein.

The maturities, interest rates and yields of the Series 1993 Subordinated Bonds are shown on the reverse side of this cover page.

The Series 1993 Subordinated Bonds are being issued to advance refund portions of the Board's outstanding Highway Revenue Bonds and to pay costs of issuing the Series 1993 Subordinated Bonds.

The Series 1993 Subordinated Bonds are subject to redemption prior to maturity as more fully described herein.

The Series 1993 Subordinated Bonds, together with the Board's outstanding Subordinated Highway Revenue Bonds and all obligations that may be subsequently issued by the Board on a parity therewith (collectively, the "Subordinated Bonds") pursuant to the Board's 1991 Resolution, as supplemented (the "Subordinated Bond Resolution"), are issued subordinate to and not on a parity as to security and source of payment with the Senior Bonds (as defined herein) of the Board to be outstanding after issuance of the Series 1993 Subordinated Bonds in the aggregate principal amount of \$343,365,000 and any additional Senior Bonds subsequently issued on a parity therewith.

The Series 1993 Subordinated Bonds are special obligations of the Board payable from and secured solely by a subordinate lien on and pledge of the Pledged Revenues (as defined herein), which are moneys on deposit in the Arizona Highway Fund that are derived from motor vehicle fuel taxes, motor vehicle registration fees, motor carrier taxes, a portion of motor vehicle license (in lieu) taxes, certain excess license and sales tax collections, and motor vehicle operators' license fees and miscellaneous taxes and revenues collected by the State of Arizona, subject to a prior lien and pledge for all payments required for the benefit of the Senior Bonds, all as described herein. The Series 1993 Subordinated Bonds are not obligations general, special or otherwise, of the State of Arizona, do not constitute a legal debt of the State of Arizona, and are not enforceable against the State of Arizona.

In the opinion of Squire, Sanders & Dempsey, Bond Counsel, under existing law (i) assuming compliance with certain covenants, interest on the Series 1993 Subordinated Bonds is excluded from gross income for federal income tax purposes and is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended and (ii) interest on the Series 1993 Subordinated Bonds is exempt from Arizona State income tax. The interest may be subject to certain federal taxes imposed only on certain corporations, including imposition of the corporate alternative minimum tax on a portion of that interest. (For a more complete discussion of tax aspects, see "Tax Exemption".)

This cover page contains only a brief description of the Series 1993 Subordinated Bonds and the security therefor. It is not a summary of material information with respect to the Series 1993 Subordinated Bonds. Investors should read the entire Official Statement to obtain information necessary to make an informed investment decision.

The Series 1993 Subordinated Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Squire, Sanders & Dempsey, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Snell & Wilmer. It is expected that the Series 1993 Subordinated Bonds, in definitive form, will be available for delivery to the Underwriters in New York, New York, on or about January 5, 1994.

PaineWebber Incorporated
Merrill Lynch & Co.
A.G. Edwards & Sons, Inc.

CS First Boston

Smith Barney Shearson Inc.
Dean Witter Reynolds Inc.
Artemis Capital Group, Inc.

The date of this Official Statement is December 17, 1993.

**STATE OF ARIZONA
ARIZONA TRANSPORTATION BOARD
SUBORDINATED HIGHWAY REVENUE
REFUNDING BONDS
SERIES 1993A AND SERIES 1993B**

MATURITY SCHEDULES

SERIES 1993A SUBORDINATED BONDS

\$248,390,000 Serial Bonds

<u>July 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>July 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
1994	\$ 645,000	3.250%	2.60%	2003	\$16,585,000	4.500%	4.60%
1995	1,835,000	3.200	3.20	2004	1,620,000	4.600	4.70
1996	1,895,000	3.500	3.50	2005	13,820,000	4.700	4.80
1997	1,960,000	3.600	3.70	2006	18,170,000	4.800	4.90
1998	2,030,000	3.750	3.85	2007	28,235,000	4.875	5.00
1999	11,480,000	4.000	4.10	2008	29,610,000	6.000	5.04
2000	1,925,000	4.200	4.25	2009	31,395,000	5.000	5.09
2001	2,010,000	4.300	4.40	2010	26,685,000	5.000	5.13
2002	13,970,000	4.400	4.50	2011	44,520,000	4.750	5.17

SERIES 1993B SUBORDINATED BONDS

\$35,000,000 Serial Bonds

<u>July 1</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Yield</u>
2010	\$25,000,000	6.000%	5.13%
2011	10,000,000	5.100	NRO

(plus accrued interest)

STATE OF ARIZONA

J. Fife Symington, III, Governor

TRANSPORTATION BOARD OF THE STATE OF ARIZONA

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James A. Soto
Vice Chairman

Linda Brock-Nelson
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Division Director
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State Engineer, Division Director
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John McGee
Special Assistant
for Strategic Management
Administrative Services Division

Gary Adams
Division Director
Aeronautics Division

Rauscher Pierce Refsnes, Inc.
Phoenix, Arizona
Financial Consultant

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John McGee
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No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the State of Arizona, the Arizona Transportation Board, the Arizona Department of Transportation or the Underwriters. This Official Statement does not constitute an offer to sell, or the solicitation of an offer to buy, any securities other than the securities offered hereby or an offer to sell or solicitation of offers to buy, nor shall there be any sale of the Series 1993 Subordinated Bonds, by any person in any jurisdiction where such offer or solicitation or sale would be unlawful. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State of Arizona, the Arizona Transportation Board or the Arizona Department of Transportation since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 1993 SUBORDINATED BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The information contained in this Official Statement has been obtained from the Arizona Transportation Board, the Arizona Department of Transportation and other sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a representation by, the Underwriters.

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SUMMARY STATEMENT

The following summary information regarding the terms of the Series 1993 Subordinated Bonds is not intended to be comprehensive, and is qualified in its entirety by reference to the more detailed descriptions appearing elsewhere in this Official Statement and by reference to the documents described in this Official Statement. The offering of the Series 1993 Subordinated Bonds to potential investors is made only by means of this entire Official Statement, including the cover page and the Appendices hereto, and no person is authorized to offer to sell, or solicit offers to buy, any Series 1993 Subordinated Bonds unless the entire Official Statement, including the Appendices, is delivered in connection therewith. Certain capitalized terms used below are defined elsewhere in this Official Statement or in Appendices D and E hereto.

The Issuer The Arizona Transportation Board (the "Board"). The Board consists of seven members, one from each of the six transportation districts within the State of Arizona (the "State") and one from the State at large. The Board is responsible for various aspects of State highway and transportation facilities, including issuing bonds for State highway purposes and developing a Five Year Capital Program for establishing and improving State highway facilities. See "PROGRAM RESPONSIBILITY AND MANAGEMENT".

The Series 1993A Subordinated Bonds \$248,390,000 State of Arizona, Arizona Transportation Board, Subordinated Highway Revenue Refunding Bonds, Series 1993A consisting of \$248,390,000 principal amount of serial bonds due July 1, 1994 through 2011.

The Series 1993B Subordinated Bonds \$35,000,000 State of Arizona, Arizona Transportation Board, Subordinated Highway Revenue Refunding Bonds, Series 1993B consisting of \$35,000,000 principal amount of serial bonds due July 1, 2010 and 2011.

Composite Offering The Series 1993A and Series 1993B Subordinated Bonds, each dated December 1, 1993, are issued as separate series of bonds on a parity with one another and, unless otherwise stated in the Official Statement, have identical terms and provisions.

Interest Payment Dates January 1 and July 1 of each year, commencing July 1, 1994.

Redemption Provisions The Series 1993A Subordinated Bonds maturing on and prior to July 1, 2004 and on July 1, 2008, 2009 and 2010 are not subject to redemption prior to their respective maturity dates.

The Series 1993A Subordinated Bonds maturing on July 1, 2005, 2006, 2007 and 2011 are subject to optional redemption prior to maturity, at the election of the Board, as a whole or in part at any time, on or after July 1, 2004 at the respective redemption prices stated herein as more fully described under "THE SERIES 1993 SUBORDINATED BONDS - Redemption Provisions - Series 1993A Subordinated Bonds."

The Series 1993B Subordinated Bonds maturing on July 1, 2010 are not subject to redemption prior to their maturity date.

The Series 1993B Subordinated Bonds maturing on July 1, 2011 are subject to optional redemption prior to maturity, at the election of the Board, as a whole or in part at any time, on or after July 1, 2004 at the respective redemption prices stated herein as more fully described under "THE SERIES 1993 SUBORDINATED BONDS - Redemption Provisions - Series 1993B Subordinated Bonds."

Plan of Advance

Refunding

The Series 1993 Subordinated Bonds are issued under the Act for the purpose of advance refunding a portion of the Board's outstanding Senior Bonds and Subordinated Bonds (see "PLAN OF ADVANCE REFUNDING") and paying costs of issuing the Series 1993 Subordinated Bonds.

Security and

Sources of

Payment

The Series 1993 Subordinated Bonds are special obligations of the Board payable from and secured solely by a subordinated pledge of Pledged Revenues, which are moneys deposited into the Arizona Highway Fund that are derived from a portion of specified revenue sources. Generally, such sources are: motor vehicle fuel taxes, motor vehicle registration fees, motor carrier taxes, a portion of motor vehicle license (in lieu) taxes, certain excess license and sales tax collections, and motor vehicle operators' license fees and miscellaneous fees and revenues collected by the State of Arizona, as described under "SOURCES AND APPLICATION OF PLEDGED REVENUES." These monies are initially deposited in the Arizona Highway User Revenue Fund, and then a portion are transferred to the Arizona Highway Fund where they become Pledged Revenues.

The Series 1993 Subordinated Bonds are being issued on a parity with the Board's previously issued Subordinated Bonds, and all obligations that may subsequently be issued by the Board on a parity therewith (collectively, the "Subordinated Bonds"). After the issuance of the Series 1993 Subordinated Bonds there will be \$417,345,000 of Subordinated Bonds outstanding. The pledge of Pledged Revenues in favor of the Subordinated Bonds is subordinate to and not on a parity as to security or source of payment with the pledge of Pledged Revenues in favor of outstanding Senior Bonds and Additional Senior Bonds issued in the future. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1993 SUBORDINATED BONDS". Immediately after issuance of the Series 1993 Subordinated Bonds, Senior Bonds will be outstanding in the aggregate principal amount of \$343,365,000.

The Series 1993 Subordinated Bonds are not obligations, general, special or otherwise, of the State, do not constitute a legal debt of the State and are not enforceable against the State, nor shall payment thereof be enforceable out of any funds of the State, the Board or the Arizona Department of Transportation (the "Department") other than the money pledged and otherwise available for the benefit of the Owners of the Series 1993 Subordinated Bonds pursuant to the Act and the Subordinated Bond Resolution.

Additional Revenues

for the Series 1993

Subordinated

Bonds

In addition to Pledged Revenues, the Series 1993 Subordinated Bonds and all other Subordinated Bonds and Senior Bonds of the Board are also payable from, but not secured by a pledge of, all moneys to be deposited in the Arizona Highway User Revenue Fund. Arizona statutes currently require that if there are defaults in amounts due on the Senior Bonds or the Subordinated Bonds, then the Department shall deduct from the revenues that otherwise would be deposited to the Arizona Highway User

Revenue Fund, prior to their deposit, an amount sufficient to avoid such default. See "SOURCES AND APPLICATION OF PLEDGED REVENUES" for further information and a description of Arizona Highway User Revenue Fund Revenues.

**Additional
Bonds**

Additional Subordinated Bonds. Under the Subordinated Bond Resolution, Additional Subordinated Bonds may be issued on a parity with the Series 1993 Subordinated Bonds and the outstanding Subordinated Bonds upon certification by the Board that the amount of Pledged Revenues received by the State Treasurer during any 12 consecutive months out of the most recent preceding 18 months (as adjusted as permitted in the Subordinated Bond Resolution) was not less than 300% of the maximum aggregate Adjusted Debt Service Requirements in the then current or any future Bond Year on the outstanding Senior Bonds and the outstanding Subordinated Bonds, including the proposed series of Additional Subordinated Bonds, but excluding any Senior Bonds or Subordinated Bonds to be refunded thereby.

The Subordinated Bond Resolution provides that Additional Subordinated Bonds may also be issued at any time on a parity with all other Subordinated Bonds to refund in whole or in part any outstanding Subordinated Bonds, Senior Bonds or Second Subordinated Bonds upon meeting the requirements described in the immediately preceding paragraph or upon certification by the Board that the aggregate Adjusted Debt Service Requirements on Senior Bonds and Subordinated Bonds to be outstanding immediately after the date of issuance of the proposed refunding Subordinated Bonds is not, for each Bond Year from the then current Bond Year through the last Bond Year during which Senior Bonds and Subordinated Bonds are outstanding immediately prior to the issuance of the proposed refunding Subordinated Bonds, more than 105% of the aggregate Adjusted Debt Service Requirements by Bond Year on all Senior Bonds and Subordinated Bonds outstanding immediately prior to the issuance of the refunding Subordinated Bonds.

Additional Senior Bonds. Under the Subordinated Bond Resolution, Additional Senior Bonds may be issued on a parity with the outstanding Senior Bonds upon certification by the Board that the amount of Pledged Revenues received by the State Treasurer during any 12 consecutive months out of the most recent preceding 18 months (as adjusted as permitted in the Subordinated Bond Resolution) was not less than 300% of the maximum aggregate Adjusted Debt Service Requirements in the then current or any future Bond Year on the outstanding Senior Bonds and the outstanding Subordinated Bonds, including the proposed Additional Senior Bonds, but excluding any Senior Bonds or Subordinated Bonds to be refunded thereby.

Under the Subordinated Bond Resolution, Additional Senior Bonds may be issued for refunding purposes upon meeting the requirements described in the immediately preceding paragraph or upon certification by the Board that the aggregate Adjusted Debt Service Requirements on Senior Bonds and Subordinated Bonds to be outstanding immediately after the date of issuance of the proposed refunding Senior Bonds is not, for each Bond Year from the then current Bond Year through the last Bond Year during which Senior Bonds and Subordinated Bonds are outstanding immediately prior to the issuance of the proposed refunding Senior Bonds, more than 105% of the aggregate Adjusted Debt Service Requirements by Bond Year on all Senior Bonds and Subordinated Bonds outstanding immediately prior to the issuance of the refunding Senior Bonds.

The Senior Bond Resolution presently provides that Additional Senior Bonds may be issued on a parity with the outstanding Senior Bonds provided the Pledged Revenues

for the preceding 12-month period exceed by three times the highest annual principal and interest payments on all outstanding Senior Bonds and the Additional Senior Bonds to be issued for the highest aggregate one-year period during the life of the outstanding Senior Bonds and the Additional Senior Bonds to be issued.

In addition, the Act currently limits the total principal amount of bonds issued thereunder that the Board may have outstanding at any time, excluding refunded bonds, to no more than \$800,000,000, unless an additional amount is authorized by the Legislature. Immediately after issuance of the Series 1993 Subordinated Bonds, there will be outstanding \$760,710,000 aggregate principal amount of outstanding Senior Bonds and Subordinated Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1993 SUBORDINATED BONDS - Additional Bonds."

OFFICIAL STATEMENT
relating to
\$283,390,000
State of Arizona
Arizona Transportation Board
Subordinated Highway Revenue Refunding Bonds
Series 1993A and Series 1993B

INTRODUCTION

This Official Statement (including the cover page, Summary Statement and Appendices attached hereto) provides certain information in connection with the issuance for the Arizona Department of Transportation (the "Department") by the Arizona Transportation Board (the "Board") of its State of Arizona, Arizona Transportation Board, Subordinated Highway Revenue Refunding Bonds, Series 1993A (the "Series 1993A Subordinated Bonds") and its State of Arizona, Arizona Transportation Board, Subordinated Highway Revenue Refunding Bonds, Series 1993B (the "Series 1993B Subordinated Bonds"). The Series 1993A and 1993B Subordinated Bonds (collectively the "Series 1993 Subordinated Bonds") are being issued as a separate series of bonds on a parity with one another and, unless otherwise stated herein, have identical terms and provisions.

The Series 1993 Subordinated Bonds are issued pursuant to the State Highway Bonding Authorization Law, Title 28, Chapter 15, Article 1, Arizona Revised Statutes, as amended (the "Act"), and under and pursuant to a resolution adopted by the Board on September 27, 1991, as supplemented (collectively, the "Subordinated Bond Resolution").

Capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in Appendices D and E.

The Series 1993 Subordinated Bonds are issued for the purpose of advance refunding certain maturities of the Board's outstanding Senior Bonds and Subordinated Bonds (see "PLAN OF ADVANCE REFUNDING") and paying costs of issuing the Series 1993 Subordinated Bonds.

The Series 1993 Subordinated Bonds are special obligations of the Board. The principal of, premium, if any, and interest (collectively, "debt service") on the Series 1993 Subordinated Bonds, together with the Board's outstanding Subordinated Bonds, are payable from and secured solely by a subordinated pledge of and lien on Pledged Revenues as provided in the Subordinated Bond Resolution, as more fully described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1993 SUBORDINATED BONDS". Additional Bonds may be issued on a parity with the Board's Subordinated Highway Revenue Bonds, Series 1991A (the "Series 1991A Subordinated Bonds"), the Board's Subordinated Highway Revenue Bonds, Series 1992A and Series 1992B (the "Series 1992A and Series 1992B Subordinated Bonds") and the Series 1993 Subordinated Bonds under the conditions and in the manner provided in the Subordinated Bond Resolution. The Series 1993 Subordinated Bonds, the outstanding Subordinated Bonds and Additional Subordinated Bonds that may be issued are collectively referred to as the "Subordinated Bonds".

The Series 1993 Subordinated Bonds are not obligations, general, special or otherwise, of the State, do not constitute a legal debt of the State and are not enforceable against the State, nor shall payment thereof be enforceable out of any funds of the State, the Board or the Department other than the money pledged and otherwise available for the benefit of the Owners of the Series 1993 Subordinated Bonds pursuant to the Act and the Subordinated Bond Resolution.

The Series 1993 Subordinated Bonds, together with all other Subordinated Bonds, are issued subordinate to and not on a parity as to security and source of payment with all payments required by the

Subordinated Bond Resolution and the Senior Bond Resolution (described below), for the benefit of the Board's State of Arizona Highway Revenue Refunding Bonds, Series 1993 (the "Series 1993 Bonds"), the Board's State of Arizona Highway Revenue Bonds, Series 1990 (the "Series 1990 Bonds"), the Board's State of Arizona Highway Revenue Bonds, Series 1987 (the "Series 1987 Bonds"), and the Board's State of Arizona Highway Revenue Bonds, Series 1986 (the "Series 1986 Bonds"), which together with any Additional Senior Bonds hereafter issued by the Board on a parity therewith, are referred to collectively as the "Senior Bonds".

The Senior Bonds were authorized by a resolution adopted by the Board on May 1, 1980, as supplemented to date, which resolution, as supplemented and as it may in the future be further supplemented in connection with the issuance of Additional Senior Bonds or otherwise, is collectively referred to as the "Senior Bond Resolution". The Subordinated Bond Resolution and the Senior Bond Resolution are sometimes hereinafter referred to as the "Bond Resolutions".

The aggregate principal amount of Senior Bonds outstanding immediately after delivery of the Series 1993 Subordinated Bonds, after giving effect to the partial refunding of the Series 1987 and 1990 Bonds, will be \$343,365,000. Immediately after issuance of the Series 1993 Subordinated Bonds, after giving effect to the partial refunding of the Series 1991A Subordinated Bonds and the Series 1992B Subordinated Bonds, the aggregate principal amount of Subordinated Bonds outstanding will be \$417,345,000. See "PLAN OF ADVANCE REFUNDING."

Highway projects approved by the Board may be financed in whole or in part by the issuance of bonds up to the limit under the Act of \$800,000,000 in aggregate principal amount for all bonds issued thereunder, including Senior Bonds and Subordinated Bonds, outstanding at any one time, excluding refunded bonds, unless an additional amount is authorized by the Legislature. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1993 SUBORDINATED BONDS - Additional Bonds."

Payments on the Series 1993 Subordinated Bonds are not subject to annual appropriation by the Legislature of the State nor are payments on the Series 1993 Subordinated Bonds subject to any constitutional or statutory limitation on expenditures.

The Arizona Legislature has previously and may in the future amend the Act and other statutes that govern Pledged Revenues. However, any such amendments would be subject to the covenants of the Board in the Senior Bond Resolution and in the Subordinated Bond Resolution that the State will not limit or alter the rights vested in the Board to collect such fees and taxes as may be necessary to produce sufficient revenues to fulfill the terms of such Bond Resolutions or any agreement made with the owners of the Senior Bonds and Subordinated Bonds or in any way impair the rights and remedies of such owners until all Senior Bonds and Subordinated Bonds, together with interest thereon and interest on unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of any owners, are fully met and discharged. There are no requirements in the Bond Resolutions that amounts be deposited into the Arizona Highway Fund in excess of the amounts necessary to make transfers required thereunder to the Bond Funds.

This Official Statement describes the terms of and security for the Series 1993 Subordinated Bonds and the use of proceeds of the Series 1993 Subordinated Bonds. Also included are summaries of certain provisions of the Senior Bond Resolution and the Subordinated Bond Resolution. These descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the Senior Bond Resolution and the Subordinated Bond Resolution are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Senior Bond Resolution and the Subordinated Bond Resolution and are further qualified in their entirety by reference to laws and principles of equity relating to or affecting the enforceability of creditors' rights. Copies of the Senior Bond Resolution and the Subordinated Bond Resolution may be obtained as set forth under "MISCELLANEOUS."

THE SERIES 1993 SUBORDINATED BONDS

General Description

The Series 1993 Subordinated Bonds will be dated December 1, 1993 and will bear interest at the rates and mature (unless earlier redeemed) on the dates and in the amounts, all as set forth on the inside cover page hereof. The principal of and premium, if any, on the Series 1993 Subordinated Bonds will be payable upon presentation and surrender thereof at the principal corporate trust office of the paying agent, initially Bank One, Arizona, NA, in Phoenix, Arizona (the "Paying Agent"). The Board may remove the Paying Agent and Bond Registrar (as defined below), which removal may become effective only upon the appointment of a successor.

The Series 1993 Subordinated Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Interest on the Series 1993 Subordinated Bonds will be payable on each January 1 and July 1 (each such date is referred to herein as an "Interest Payment Date"), commencing July 1, 1994, and will accrue from such dated date. Interest on the Series 1993 Subordinated Bonds will be payable by the Paying Agent by check or draft mailed on the Interest Payment Date, or if such date falls on a Saturday, Sunday, legal holiday or a day on which the Board or banking institutions in the State are authorized by law or otherwise to remain closed, on the next succeeding business day, to the Owners thereof as shown on the bond register maintained by Bank One, Arizona, NA, as bond registrar (the "Bond Registrar"), at the address appearing therein, at the close of business of the Bond Registrar on June 15 and December 15 of each year (the "Regular Record Date"); provided that at the written request of Owners of \$1,000,000 or more in principal amount of a series, delivered to the Bond Registrar prior to a Regular Record Date, interest on such series will be paid by wire transfer (at the Owner's expense) to a bank account in the continental United States.

The Board, the Paying Agent and the Bond Registrar may treat the Owner of any Series 1993 Subordinated Bond whose name appears on the bond register as the absolute Owner of such Series 1993 Subordinated Bond for any and all purposes, and the Board, the Paying Agent and the Bond Registrar shall not be affected by any notice to the contrary.

Redemption Provisions - Series 1993A Subordinated Bonds

The Series 1993A Subordinated Bonds maturing on and prior to July 1, 2004 and on July 1, 2008, 2009 and 2010 are not subject to redemption prior to their respective maturity dates.

The Series 1993A Subordinated Bonds maturing on July 1, 2005, 2006, 2007, and 2011 are subject to optional redemption prior to maturity, at the election of the Board, as a whole or in part at any time, on or after July 1, 2004 at the respective redemption prices (expressed as percentages of the principal amount of the Series 1993A Subordinated Bonds or portions thereof to be redeemed) set forth below, in each case together with accrued interest to the redemption date:

<u>Period During Which Redeemed (both dates inclusive)</u>	<u>Redemption Prices</u>
July 1, 2004 to June 30, 2005	102%
July 1, 2005 to June 30, 2006	101%
July 1, 2006 and thereafter	100%

Redemption Provisions - Series 1993B Subordinated Bonds

The Series 1993B Subordinated Bonds maturing on July 1, 2010 are not subject to redemption prior to their maturity date.

The Series 1993B Subordinated Bonds maturing on July 1, 2011 are subject to optional redemption prior to maturity, at the election of the Board, as a whole or in part at any time, on or after July 1, 2004 at the respective redemption prices (expressed as percentages of the principal amount of the Series 1993B Subordinated Bonds or portions thereof to be redeemed) set forth below, in each case together with accrued interest to the redemption date:

<u>Period During Which Redeemed (both dates inclusive)</u>	<u>Redemption Prices</u>
July 1, 2004 to June 30, 2005	102%
July 1, 2005 to June 30, 2006	101%
July 1, 2006 and thereafter	100%

Method of Redemption.

If fewer than all outstanding Series 1993 Subordinated Bonds are called for redemption at one time, the Series 1993 Subordinated Bonds to be redeemed shall be determined by the Board, but within any maturity so selected, shall be redeemed by lot within such maturity in any manner which the Bond Registrar in its discretion deems fair and appropriate. Upon surrender of any Series 1993 Subordinated Bond redeemed in part only, the Board shall execute and the Bond Registrar shall authenticate and deliver to the Owner thereof, a new Series 1993 Subordinated Bond or Bonds of the same series, in an amount equal to the unredeemed portion of the Series 1993 Subordinated Bond surrendered and with the same maturity date. Such partial redemption shall be valid upon payment of the amount required to be paid to such Owner and the Board and the Paying Agent and Bond Registrar shall be released and discharged thereupon from all liability to the extent of such payment.

Notice of Redemption (the "Redemption Notice") will be mailed by the Bond Registrar, postage prepaid, not less than 30 days prior to the redemption date, to the Owners of the Series 1993 Subordinated Bonds to be redeemed at their addresses appearing on the bond register. Notice of redemption shall specify (i) the maturity or maturities of Series 1993 Subordinated Bonds to be redeemed, (ii) the redemption date, (iii) the place or places where amounts due upon such redemption will be payable, (iv) if less than all of the Series 1993 Subordinated Bonds are to be redeemed, the identifying numbers of Series 1993 Subordinated Bonds to be redeemed, and (v) the redemption price.

The failure of the Bond Registrar to mail any notice or any defect in any notice to the Owner of any Series 1993 Subordinated Bond which is to be redeemed shall not affect the validity of the proceedings for the redemption of any other Series 1993 Subordinated Bond for which notice is properly given. Any notice which is mailed in the manner provided in the Subordinated Bond Resolution shall be conclusively presumed to have been duly given, whether or not the Owner receives the notice.

Notice having been properly given, the Series 1993 Subordinated Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the redemption price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the place specified in the Redemption Notice, such Series 1993 Subordinated Bonds or portions thereof shall be paid at such price. If on the redemption date money shall be held by the Paying Agent so as to be available therefor, then, from and after the redemption date, interest on the Series 1993 Subordinated Bonds or portions thereof so called for redemption shall cease to accrue and become payable.

Exchange and Transfer

The registration of any Series 1993 Subordinated Bond may be transferred upon the bond register by the Owner in whose name it is registered, in person or by his or her attorney duly authorized in writing, upon surrender of such Series 1993 Subordinated Bond at the principal corporate trust office of the Bond Registrar accompanied by a written instrument of transfer satisfactory to the Bond Registrar and duly executed by the Owner or by his or her duly authorized attorney. Any Series 1993 Subordinated Bond may be exchanged at

the principal corporate trust office of the Bond Registrar for new Series 1993 Subordinated Bonds of the same series of any authorized denomination and of the same aggregate principal amount and maturity as the surrendered Series 1993 Subordinated Bond. The Bond Registrar will not charge for any new Series 1993 Subordinated Bond issued upon any exchange or transfer, but may require the Owner requesting such exchange or transfer to pay any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. The Bond Registrar is not required to register transfers or make exchanges of any Series 1993 Subordinated Bond (i) for a period beginning on the Regular Record Date next preceding an Interest Payment Date and ending on such Interest Payment Date, (ii) for a period of fifteen days next preceding any selection of Series 1993 Subordinated Bonds to be redeemed, or (iii) called for redemption.

Defeasance

Payment of the Series 1993 Subordinated Bonds of either series may be provided for by the deposit in trust under an irrevocable escrow agreement with the State Treasurer, or with a bank or trust company appointed by the Board, of moneys or Defeasance Securities, or both moneys and Defeasance Securities. The moneys and maturing principal and interest income on such Defeasance Securities, if any, shall be sufficient without reinvestment, as evidenced by a report of an independent nationally recognized firm of certified public accountants or a financial consulting firm of recognized standing in the field of municipal bonds, to pay the principal of, premium, if any, and interest on such Series 1993 Subordinated Bonds to their maturity or to their prior redemption dates as may be specified by the Board. The moneys and Defeasance Securities shall be held irrevocably in trust for the Owners of such Series 1993 Subordinated Bonds, solely for the purpose of paying the principal of, premium, if any, and interest on such Series 1993 Subordinated Bonds, as the same shall mature, come due or become payable upon prior redemption. See "DEFEASANCE" in Appendix E hereof for further information concerning defeasance and a description of the Defeasance Securities.

PLAN OF ADVANCE REFUNDING

The proceeds of the Series 1993 Subordinated Bonds (net of accrued interest and costs of issuance) together with other available funds will be placed in an irrevocable depository trust with Bank of America Arizona, in Phoenix, Arizona (the "Escrow Trustee") and will be used to acquire United States Treasury obligations (the "Treasury Obligations"), the principal of and interest on which, when due, are calculated to be sufficient to provide moneys to provide the principal of, redemption premium, and interest due on the Senior Bonds and Subordinated Bonds to be refunded, as described below (the "Bonds Being Refunded") to their redemption dates. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

<u>Highway Revenue Bonds (Dated Date)</u>	<u>Original Principal Amount</u>	<u>Maturity Date(s) to be Refunded</u>	<u>Principal Amount of Bonds Being Refunded</u>	<u>Redemption Date</u>	<u>Redemption Premium (Percent of Principal Redeemed)</u>	<u>Remaining Unrefunded Principal Amount Outstanding</u>
Series 1987 Bonds (Senior) (7-1-87)	\$115,000,000	7-1-99	\$ 9,375,000	7-1-97	2.0%	\$38,950,000
Series 1990 Bonds (Senior) (7-1-90)	179,785,000	7-1-02/03 & 2010	45,300,000	7-1-00	1.0%	38,525,000
Series 1991A (Subordinated) (9-1-91)	171,140,000	7-1-05/11	149,235,000	7-1-01	1.5%	21,905,000
Series 1992B (Subordinated) (3-15-92)	88,910,000	7-1-07/11	52,350,000	7-1-02	1.5%	36,560,000

Such Treasury Obligations will be held by the Escrow Trustee in trust for the payment of such principal, redemption premium, and interest on the Bonds Being Refunded pursuant to the terms of an Escrow Agreement (the "Escrow Agreement"), between the Board and the Escrow Trustee. Upon deposit of such Treasury Obligations, the Bonds Being Refunded will no longer be outstanding under the Bond Resolutions and will be considered paid in accordance with their terms.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Deloitte & Touche, independent certified public accountants, will deliver a report on the mathematical accuracy of certain computations contained in schedules provided to them by Rauscher Pierce Refsnes, Inc. and PaineWebber Incorporated relating to (a) the adequacy of the maturing principal amounts of the Treasury Obligations held pursuant to the Escrow Agreement established for the payment of the Bonds Being Refunded, interest earned thereon and certain other moneys on deposit pursuant to the Escrow Agreement to pay all of the principal of, redemption premium, and interest on the Bonds Being Refunded, as such principal, redemption premium and interest become due and payable to their redemption dates and (b) the computations of yield on both the Treasury Obligations and the Series 1993 Subordinated Bonds used by Bond Counsel to support its opinion that the interest on the Series 1993 Subordinated Bonds is excluded from gross income for federal income tax purposes. Deloitte & Touche will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Series 1993 Subordinated Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1993 SUBORDINATED BONDS

Legal Authority

The Series 1993 Subordinated Bonds are special obligations of the Board and are being issued by the Board pursuant to the Act and the Subordinated Bond Resolution. Under the terms and provisions of the Act, the Board is authorized to issue bonds for the payment of highway obligations and costs of construction, reconstruction, maintenance and repair of public highways and bridges, county, city and town roads and streets and the costs allocated thereto, including the acquisition of those real properties and any appurtenances thereto, located within a highway right-of-way corridor and for the refunding of any bonds previously issued.

The Act provides that the Board may issue bonds, including Senior Bonds and Subordinated Bonds, up to a total principal amount of \$800,000,000 outstanding at any time, excluding refunded bonds. The State Legislature has reserved the right to increase or change the foregoing limitations and restrictions. See "Additional Bonds" below.

The Series 1993 Subordinated Bonds, the outstanding Subordinated Bonds and any Additional Subordinated Bonds that may subsequently be issued by the Board on a parity therewith pursuant to the Subordinated Bond Resolution, are issued subordinate to and not on a parity as to security and source of payment with all payments required for the benefit of the Board's Senior Bonds currently outstanding and those that may be subsequently issued by the Board. Immediately after the delivery of the Series 1993 Subordinated Bonds, and after giving effect to the refunding of the Bonds Being Refunded, there will be \$343,365,000 of Senior Bonds outstanding and \$417,345,000 of Subordinated Bonds outstanding. The issuance of the Series 1993 Subordinated Bonds is permitted under the Senior Bond Resolution.

General

Payments of principal and interest on the Series 1993 Subordinated Bonds and all other Subordinated Bonds are payable from and secured solely by a lien on and pledge of the Pledged Revenues, subordinate in all respects to payments required for the benefit of the Senior Bonds. Pledged Revenues are the moneys deposited by the State Treasurer into the Arizona Highway Fund that are derived from a portion of specified

revenue sources. Generally, such sources are: motor vehicle fuel taxes, motor vehicle registration fees, motor carrier taxes, a portion of motor vehicle license (in lieu) taxes, certain excess license and sales tax collections, and motor vehicle operators' license fees and certain miscellaneous fees and revenues collected by the State of Arizona. For a discussion of the sources of the Pledged Revenues, see "SOURCES AND APPLICATION OF PLEDGED REVENUES" herein.

As provided in the Act, all Pledged Revenues deposited into the State Highway Fund shall be immediately subject to the lien of the first pledge granted in the Senior Bond Resolution for the Senior Bonds and the lien of the subordinated pledge granted in the Subordinated Bond Resolution for the Subordinated Bonds, without any future physical delivery or further act, and the lien of such pledge for Subordinated Bonds shall be valid and binding from the date of issuance of the Series 1991A Subordinated Bonds on October 17, 1991 as against all parties having claims of any kind in tort, contract or otherwise against the Board irrespective of whether such parties have notice of such pledge.

In addition to Pledged Revenues, the Series 1993 Subordinated Bonds and all other Subordinated Bonds and Senior Bonds are also payable from, but are not secured by a pledge of, all moneys to be deposited into the Arizona Highway User Revenue Fund. Arizona statutes currently require that if there are defaults in amounts required by the Senior Bond Resolution and the Subordinated Bond Resolution to be deposited into the Bond Funds (as defined below), then the Department shall deduct from the revenues that otherwise would be deposited into the Arizona Highway User Revenue Fund, prior to their deposit, an amount sufficient to avoid such default, which will be applied to avoid such default. For a discussion of the revenues that are deposited to the Arizona Highway User Revenue Fund, see "SOURCES AND APPLICATION OF PLEDGED REVENUES - Arizona Highway User Revenue Fund" herein.

The Senior Bonds and the Subordinated Bonds are not subject to acceleration under any circumstances.

The Board may issue Additional Senior Bonds on a parity with the outstanding Senior Bonds as described under "Additional Bonds - *Additional Senior Bonds*" herein. The Board may issue Additional Subordinated Bonds on a parity with the Series 1993 Subordinated Bonds and the outstanding Subordinated Bonds as described under "Additional Bonds - *Additional Subordinated Bonds*" herein.

Special Obligations

The Series 1993 Subordinated Bonds are special obligations of the Board and are payable solely from the sources specified in the Act and the Subordinated Bond Resolution. The Series 1993 Subordinated Bonds are not obligations, general, special or otherwise, of the State, do not constitute a legal debt of the State and are not enforceable against the State, nor shall payment thereof be enforceable out of any funds of the State, the Board or the Department other than the money pledged and otherwise available for the benefit of the Owners of the Series 1993 Subordinated Bonds pursuant to the Act and the Subordinated Bond Resolution.

Pledged Revenues

The Series 1993 Subordinated Bonds, together with the outstanding Subordinated Bonds and any Additional Subordinated Bonds that may be subsequently issued, are payable from and secured solely by a lien on and pledge of the Pledged Revenues on deposit in the Arizona Highway Fund, subordinate in all respects to payments required for the benefit of the Senior Bonds. The Arizona Highway Fund is the operating fund of the Department from which the Department pays debt service on bonds or other evidences of indebtedness, operational expenses of the Department and expenditures for highway construction and improvement and acquisition of right of ways. The Arizona Highway Fund includes money transferred from the Arizona Highway User Revenue Fund and moneys derived from other sources. Only money deposited in the Arizona Highway Fund that has been transferred from the Arizona Highway User Revenue Fund constitutes Pledged Revenues. See "ARIZONA HIGHWAY FUND" in Appendix B.

Revenues from specified sources are deposited into the Arizona Highway User Revenue Fund. See "SOURCES AND APPLICATION OF PLEDGED REVENUES--Arizona Highway User Revenue Fund". Each month, according to statutory allocations, a portion of moneys in the Arizona Highway User Revenue Fund is transferred to the Arizona Highway Fund. Moneys that are paid into and are on deposit in the Arizona Highway Fund from the Arizona Highway User Revenue Fund constitute "Pledged Revenues".

By current statutory allocations, the following portions of money deposited in the Arizona Highway User Revenue Fund are required to be deposited monthly into the Arizona Highway Fund:

- (i) 50% of \$.13 per gallon of the motor vehicle fuel tax;
- (ii) 64% of \$.03 per gallon of the motor vehicle fuel tax;
- (iii) 100% of \$.02 per gallon of the motor vehicle fuel tax;
- (iv) 50% of 31.5% of motor vehicle license (in lieu) tax revenues;
- (v) 50% of excess license and sales tax revenues deposited to the Highway User Revenue Fund (described below); and
- (vi) 50% of motor vehicle registration fee revenues, motor carrier tax revenues, motor vehicle operators' license fees and miscellaneous fees and revenues.

See "SOURCES AND APPLICATION OF PLEDGED REVENUES--Arizona Highway User Revenues" herein for a more detailed discussion of such revenues.

An amount equal to 7% of (i), (iv), (v) and (vi) above, upon deposit to the Arizona Highway Fund, are immediately paid out to cities in Arizona with a population in excess of 300,000 persons. Consequently, although such moneys prior to such transfer constitute Pledged Revenues, such moneys may not be available to be transferred to the Bond Funds for payment of Senior and Subordinated Bonds.

The Arizona Legislature has previously altered and may in the future alter (1) the type and/ or rate of the taxes, fees and charges which are deposited into the Arizona Highway User Revenue Fund, or (2) the allocation of such moneys between (a) deposits into the Arizona Highway Fund, which upon such deposit become Pledged Revenues and (b) distributions to cities, towns and counties (or other state funds). The authority of the Arizona Legislature to make such changes in use of moneys deposited into the Arizona Highway User Revenue Fund is subject to the requirement of the Arizona Constitution that the revenues described in (i), (ii), (iii) and (vi) above may only be used for highway-related purposes including, but not limited to, paying debt service on bonds issued under the Act.

The Legislature's right to make such changes is further restricted by the Bond Resolutions in which the Board, as agent for the State, has pledged and agreed with the Owners of the outstanding Senior Bonds and Subordinated Bonds that the State will not limit or alter the rights vested in the Board to collect such fees and taxes as may be necessary to produce sufficient revenues to fulfill the terms of the Bond Resolutions or any agreement made with the Owners of such Senior Bonds and Subordinated Bonds or in any way impair the rights and remedies of the Owners until all Senior Bonds and Subordinated Bonds, together with interest thereon and interest on unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of any Owners are fully met and discharged.

There is no requirement in the Bond Resolutions that amounts be deposited into the Arizona Highway Fund in excess of the amounts necessary to make transfers required thereunder to the Bond Funds.

Additional Bonds

Additional Senior Bonds. Pursuant to the Senior Bond Resolution, the Board has previously issued and there are outstanding Senior Bonds comprising the Series 1986 Bonds, the Series 1987 Bonds, the Series 1990 Bonds and the Series 1993 Bonds, (after giving effect to the refunding of the Bonds Being Refunded) in the

aggregate principal amount of \$343,365,000. The Bond Resolutions provide that such Senior Bonds and any Additional Senior Bonds enjoy a pledge of and a claim upon Pledged Revenues prior to the claim in favor of the Subordinated Bonds.

Under the Senior Bond Resolution, Additional Senior Bonds may be issued on a parity with the outstanding Senior Bonds only when:

(a) all the payments of the principal of and interest on the then outstanding Senior Bonds are current; and

(b) the Pledged Revenues for the preceding 12-month period exceed by three times the highest annual principal and interest payments on all outstanding Senior Bonds and the Additional Senior Bonds to be issued for the highest aggregate one-year period during the life of the outstanding Senior Bonds and the Additional Senior Bonds to be issued; and

(c) the Senior Bonds sought to be issued shall be payable as to principal on July 1 of each year in which principal becomes due and the interest shall be payable on January 1 and July 1 in each year in which interest becomes due; and

(d) the proceeds from the sale of the Additional Senior Bonds are to be used for any lawful highway purpose; and

(e) all other requirements of law existing on the date such Additional Senior Bonds are issued have been met to the satisfaction of the chairman of the Board as shown by his certificate pertaining thereto.

From and after such time as the Series 1986 Bonds and the Series 1987 Bonds are no longer outstanding, or upon the consent of the owners of a majority in aggregate principal amount of each Series of such outstanding Senior Bonds, the provisions of subparagraph (c) above shall be amended to read: "(c) the Additional Senior Bonds sought to be issued shall be payable as principal and interest on such date or dates as the Board shall designate."

Under the Subordinated Bond Resolution, the Board has agreed for the benefit of the Owners of Subordinated Bonds that the Board will not issue Additional Senior Bonds on parity with the outstanding Senior Bonds unless the Pledged Revenues received by the State Treasurer in any 12 consecutive months out of the most recent preceding 18 months (as adjusted as permitted in the Subordinated Bond Resolution) were not less than 300% of the maximum aggregate Adjusted Debt Service Requirements on all outstanding Senior Bonds and outstanding Subordinated Bonds, including the Senior Bonds to be issued but excluding any Senior Bonds or Subordinated Bonds to be refunded that shall not be outstanding immediately after the issuance of such additional Senior Bonds, in the then current or any future Bond Year, during the life of the outstanding Senior Bonds and Subordinated Bonds, including the proposed Senior Bonds to be issued.

Under the Subordinated Bond Resolution, the Board has agreed for the benefit of the Owners of Subordinated Bonds that the Board will not issue Additional Senior Bonds for refunding purposes unless either the requirements described in the immediately preceding paragraph are met or unless the aggregate Adjusted Debt Service Requirements on Senior Bonds and Subordinated Bonds to be outstanding immediately after the date of issuance of the proposed refunding Senior Bonds is not, for each Bond Year from the then current Bond Year through the last Bond Year during which Senior Bonds and Subordinated Bonds are outstanding immediately prior to the issuance of the proposed refunding Senior Bonds, more than 105% of the aggregate Adjusted Debt Service Requirements by Bond Year on all Senior Bonds and Subordinated Bonds outstanding immediately prior to the issuance of the refunding Senior Bonds.

For a more complete description of the requirements under the Subordinated Bond Resolution for the issuance of Additional Senior Bonds see "PARTICULAR COVENANTS OF THE BOARD - Limitation on Additional Senior Bonds" in Appendix E.

In addition to the requirements of the Senior Bond Resolution and the Subordinated Bond Resolution, certain additional statutory requirements, described below under the subheading "Statutory Limitation on Issuance of Additional Bonds", must be met in order for the Board to issue Additional Senior Bonds.

Additional Subordinated Bonds. Under the Subordinated Bond Resolution, Additional Subordinated Bonds may be issued on a parity with the Subordinated Bonds only when:

(a) a written order as to the delivery of such Subordinated Bonds, signed by an Authorized Board Representative, has been delivered to the Bond Registrar; and

(b) the adoption of a Supplemental Subordinated Bond Resolution authorizing such Series of Additional Subordinated Bonds has been adopted; and

(c) the Subordinated Bond Reserve Fund Requirement established in any subsequent Supplemental Subordinated Bond Resolution, if any, has been met (there is no such Requirement at this time); and

(d) there exists no material violation of any covenant or requirement established under the Subordinated Bond Resolution; and

(e) the amount of Pledged Revenues received by the State Treasurer during any 12 consecutive months out of the most recent preceding 18 months (as adjusted as permitted under the Subordinated Bond Resolution) was not less than 300% of the maximum aggregate Adjusted Debt Service Requirements in the then current or any future Bond Year on the outstanding Senior Bonds and the outstanding Subordinated Bonds, including the proposed Series of Additional Subordinated Bonds but excluding any Senior Bonds or Subordinated Bonds to be refunded that shall not be outstanding immediately after the issuance of the Additional Subordinated Bonds; and

(f) All other requirements of the Subordinated Bond Resolution and of law existing on the date such Additional Subordinated Bonds are issued have been met to the satisfaction of the chairman of the Board as shown by his certificate pertaining thereto.

Additional Subordinated Bonds may be issued at any time to refund in whole or in part any outstanding Subordinated Bonds, Senior Bonds or Second Subordinated Bonds, provided that the Board certifies that the requirements of (e) above have been met or that the aggregate Adjusted Debt Service Requirements on Senior Bonds and Subordinated Bonds to be outstanding immediately after the date of issuance of the proposed refunding Subordinated Bonds is not, for each Bond Year from the then current Bond Year through the last Bond Year during which Senior Bonds and Subordinated Bonds are outstanding immediately prior to the issuance of the proposed refunding Subordinated Bonds, more than 105% of the aggregate Adjusted Debt Service Requirements by Bond Year on all Senior Bonds and Subordinated Bonds outstanding immediately prior to the issuance of the refunding Subordinated Bonds.

For a more complete description of the requirements under the Subordinated Bond Resolution for the issuance of Additional Subordinated Bonds, see "AUTHORIZATION AND ISSUANCE OF ADDITIONAL SUBORDINATED BONDS" in Appendix E.

In addition to the requirements of the Subordinated Bond Resolution, certain additional statutory requirements, described below under the subheading "Statutory Limitation on Issuance of Additional Bonds", must be met in order for the Board to issue Additional Subordinated Bonds.

Second Subordinated Bonds. The Board may, at any time, or from time to time, in accordance with the Senior Bond Resolution and the Subordinated Bond Resolution, issue or incur Second Subordinated Bonds for any of its lawful purposes, which shall be payable out of, and which may be secured by a pledge of and lien on, amounts of Pledged Revenues remaining after all deposits to the Bond Funds established for the Senior Bonds and Subordinated Bonds required by the Senior Bond Resolution and Subordinated Bond Resolution have been made; provided, however, that such pledge of and lien on Pledged Revenues shall be, and shall be expressed to be, subordinate and junior in all respects to the lien and pledge created by the Senior Bond Resolution as security for the Senior Bonds and shall also be subordinate and junior in all respects to the lien and pledge created by the Subordinated Bond Resolution as security for the Subordinated Bonds.

In addition to the requirements of the Subordinated Bond Resolution, certain additional statutory requirements, described below under the subheading "Statutory Limitation on Issuance of Additional Bonds", must be met in order for the Board to issue Second Subordinated Bonds.

Future Additional Bonds. The Board currently estimates that it may issue additional bonds in the aggregate principal amount of up to approximately \$55,000,000 over the remainder of the current Five Year Capital Program to fund additional highway projects. Such additional bonds may be issued as either Additional Senior Bonds, Additional Subordinated Bonds, Second Subordinated Bonds, or any combination thereof. The actual amount and lien status of any bonds to be issued will depend upon, among other considerations, market conditions, cash flow requirements of the Board for construction, statutory limits on the principal amount of bonds that may be issued and the availability of other sources of funding available to meet such requirements.

Statutory Limitation on Issuance of Additional Bonds. The Act limits the total principal amount of bonds issued thereunder, including Senior Bonds, Subordinated Bonds and Second Subordinated Bonds, that the Board may have outstanding at any time, excluding refunded bonds, to no more than \$800,000,000, unless an additional amount is authorized by the Arizona Legislature. The Act presently provides that the Board may issue additional bonds, which may be Senior Bonds, Subordinated Bonds or Second Subordinated Bonds, if the moneys pledged to the payment of such bonds for the preceding twelve-month period exceed by two times the highest annual principal and interest payments on all the outstanding bonds and the bonds to be issued for the highest one-year period during the life of both the outstanding bonds and the bonds to be issued. In addition, for any additional bonds to be issued, the requirements of the applicable Bond Resolutions described above must also be met.

SOURCES AND APPLICATION OF PLEDGED REVENUES

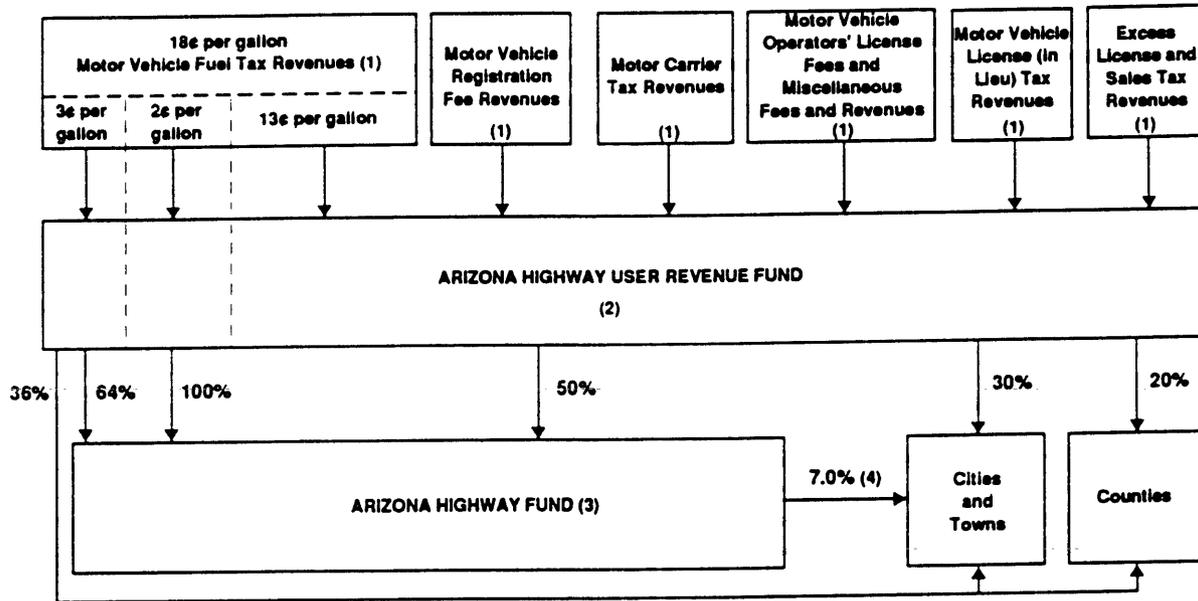
Arizona Highway User Revenue Fund

The State imposes motor vehicle fuel taxes and a variety of different types of taxes, fees and charges relating to the registration, operation and use of motor vehicles on the public highways of the State that are allocated by statute to the Arizona Highway Fund and to the cities, towns and counties of the State, to finance highway improvements and other transportation-related expenses. These taxes, fees and charges are collected by various State officers and transferred to the Department for immediate transfer, after all exemptions and refunds, to the State Treasurer for deposit to the Arizona Highway User Revenue Fund. Each month, in accordance with statutory allocations, the State Treasurer distributes revenues transferred to the Arizona Highway User Revenue Fund primarily to the Arizona Highway Fund and to the appropriate cities, towns and counties. Only after moneys are deposited to the Arizona Highway Fund do they become Pledged Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1993 SUBORDINATED BONDS - Pledged Revenues."

The taxes, fees and charges deposited to the Arizona Highway User Revenue Fund consist of (i) motor vehicle fuel taxes, (ii) motor vehicle registration fees, (iii) motor carrier taxes, (iv) a portion of motor vehicle license (in lieu) taxes, (v) certain excess license and sales tax collections, and (vi) motor vehicle operators' license fees and miscellaneous fees and revenues. These revenue sources are further described below.

The following chart illustrates the flow of the revenues into the Arizona Highway User Revenue Fund and the distribution of such revenues.

Arizona Highway User Revenue Fund Flow



(1) In the event of any default in amounts required by the Bond Resolutions to be deposited monthly into the Bond Funds, Arizona law currently provides that the revenues otherwise to be deposited to the Arizona Highway User Revenue Fund, in an amount sufficient to avoid such default, are to be deducted by the Department before they are deposited in the Arizona Highway User Revenue Fund and applied to avoid such default.

For a further discussion of the sources and distribution of revenues deposited in the Arizona Highway User Revenue Fund, see "Arizona Highway User Revenues" below.

(2) Since Fiscal Year 1989, \$500,000 or more has been annually distributed by the State Treasurer from the Arizona Highway User Revenue Fund to the Economic Strength Project Fund to be expended for highway projects that provide economic benefits to the State or a local jurisdiction. Beginning in Fiscal Year 1992, the amount annually distributed to the Economic Strength Project Fund is \$1,000,000.

In certain Fiscal Years, the Legislature has authorized the distribution of Arizona Highway User Revenues to the Arizona Department of Public Safety for Highway Patrol expenditures and to the Department's Motor Vehicle Division for funding mandatory insurance enforcement. The amount of such distributions for the current and past ten Fiscal Years is shown under "Arizona Highway User Revenue Fund" in Appendix B herein.

(3) In certain Fiscal Years, the Legislature has authorized the distribution of Arizona Highway Fund moneys to the Arizona Department of Public Safety for Highway Patrol expenditures. See "Recent Legislation" below for the distribution of such amounts in Fiscal Year 1993 and thereafter.

(4) By statute, 7.0% of the revenues allocated to the Arizona Highway Fund from the Arizona Highway User Revenue Fund (other than the moneys resulting from \$.03 and \$.02 per gallon of the motor vehicle fuel tax) are allocated to cities in Arizona with a population in excess of 300,000 persons.

Arizona Highway User Revenues

The following is a summary of the sources of revenue that are deposited to the Arizona Highway User Revenue Fund under existing statutes. Recent legislative changes are discussed below. This summary does not purport to be a complete description of each of these revenue sources and, accordingly, is qualified by reference to the Arizona Revised Statutes regarding these sources of revenue. The Arizona Legislature has altered and may in the future alter the statutes governing these revenue sources and their allocation. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1993 SUBORDINATED BONDS--Pledged Revenues" herein.

Motor Vehicle Fuel Tax Revenues. Motor vehicle fuel tax revenues consist of motor vehicle fuel (gasoline) license taxes and motor vehicle use fuel (primarily diesel) taxes. Every distributor of gasoline is required to pay a fuel license tax for each gallon of gasoline imported into or refined in the State. The use fuel tax is an excise tax imposed primarily upon diesel fuel used in the propulsion of a motor vehicle on the public highways of the State. The fuel license tax and the use fuel tax are currently assessed at the rate of \$.18 per gallon regardless of the market price of motor vehicle fuel. The fuel license tax is collected by the Department from licensed vendors and the use fuel tax is either collected by the vendor or paid by the user and remitted to the Department. A summary of the motor vehicle fuels imported or consumed in the State is set forth in Appendix B hereto.

Of the current \$.18 per gallon fuel tax, \$.13 per gallon is allocated as follows: 50% to the Arizona Highway Fund, 30% to cities and towns and 20% to counties; \$.03 per gallon is allocated as follows: 64% to the Arizona Highway Fund and 36% to cities, towns and counties; and \$.02 per gallon is allocated to the Arizona Highway Fund.

Motor Vehicle Registration Fee Revenues. Motor vehicles are required to be annually registered in the State on a staggered monthly registration basis. The fee for passenger vehicles and non-commercial pickup trucks is \$8 and for motorcycles the fee is \$9, of which \$1 is paid to the motorcycle education fund. The fee for commercial motor vehicles, including trucks, buses and taxis, is \$12, plus a graduated registration fee based upon the declared gross weight of the motor vehicle. Commercial motor vehicles that operate in several states may instead pay fees which are prorated based on the ratio of operating mileage in the State to the total fleet operating mileage in all states. All but \$1 of each motor vehicle registration fee is deposited in the Arizona Highway User Revenue Fund. Motor vehicle registrations in the State are set forth in Appendix B hereto.

Motor Carrier Tax Revenues. The motor carrier tax is imposed on commercial motor vehicles, whether common, contract or private carriers, with a gross weight in excess of 12,000 pounds. Commercial motor vehicles of 12,000 to 26,000 pounds are subject to an annual fixed motor carrier tax. Commercial motor vehicles having a gross weight in excess of 26,000 pounds are subject to a motor carrier tax based upon the declared gross weight of the motor vehicle and the actual number of miles traveled. The motor carrier tax per ton-mile increases as the weight of the motor vehicle increases. All motor carrier tax revenues are deposited to the Arizona Highway User Revenue Fund.

Motor Vehicle License (In Lieu) Tax Revenues. The owner of a motor vehicle is assessed an annual motor vehicle license (in lieu) tax at the rate of 4% of the assessed value of the motor vehicle at the time of registration. The assessed value of a new motor vehicle for the first year of registration is 60% of the manufacturer's base retail price. Thereafter, the value of the motor vehicle is depreciated at an annual rate of 15% per year for motor vehicle license (in lieu) tax purposes. Arizona Statutes provide that the minimum annual motor vehicle license (in lieu) tax per vehicle is \$10.

Of the motor vehicle license (in lieu) taxes collected, 31.5% is remitted to the State Treasurer for deposit in the Arizona Highway User Revenue Fund. The remaining 68.5% of motor vehicle license (in lieu) tax revenues are further distributed (i) 13.7% to the State Treasurer, to be placed in the general fund of the State for general purposes, except as discussed below in *Excess License and Sales Tax Collections*, (ii)

17.125% to the general fund of the county where the motor vehicle is registered, (iii) 17.125% to the State Treasurer, to be placed in the general fund of the State to aid in school financial assistance, (iv) 17.125% to the cities and towns of the county where the motor vehicle is registered, and (v) 3.425% to the agency which registers the motor vehicle.

Excess License and Sales Tax Collections. If there is an annual increase in the State's general fund share of motor vehicle license (in lieu) tax revenues in excess of 7%, then a portion, calculated by statutory formula, of the State's general fund share for general purposes is to be transferred to the Arizona Highway User Revenue Fund. In both Fiscal Years 1992 and 1993, legislation was enacted to prohibit any such transfers, if applicable, to the Arizona Highway User Revenue Fund for Fiscal Years 1993 and 1994. Additionally, should there be any annual increase in taxable retail sales of tangible personal property within the State in excess of 7%, then a portion, calculated by statutory formula, of the State's general fund share of tangible personal property sales tax revenue is to be transferred to the Arizona Highway User Revenue Fund.

Motor Vehicle Operators' License Fees and Miscellaneous Fees and Revenues. The balance of the Arizona Highway User Revenue Fund revenues include motor vehicle operators' license fees and miscellaneous fees and revenues. The miscellaneous fees and revenues include certificates of title fees, dealer plates and license fees, oversize permit fees, station fuel fees, investment income on moneys held in the Arizona Highway User Revenue Fund, certain fines, penalties and other miscellaneous fees.

Recent Legislation

The Arizona Legislature has periodically enacted legislation to increase funding for the State's transportation needs. In both 1981 and 1985, comprehensive transportation financing programs were enacted that significantly increased transportation funding in the State and put into place many of the current funding mechanisms.

During the 1990 legislative session, a one cent increase in the State's fuel tax rate was enacted, with all proceeds going to the Arizona Highway Fund. The increase was enacted to help offset annual appropriations from the Arizona Highway Fund to the Department of Public Safety (DPS) for Highway Patrol expenditures of approximately \$18.3 million in Fiscal Year 1993 and \$18.1 million in Fiscal Year 1994. In addition, the Legislature appropriated from the Highway User Revenue Fund \$24.9 million in both Fiscal Year 1993 and Fiscal Year 1994 to fund the Highway Patrol division within the Department of Public Safety.

During the 1993 session, legislation was enacted which would limit the amount of money the Legislature could appropriate from the Highway User Revenue Fund and the State Highway Fund to fund the Department of Public Safety. The legislation stipulates that for fiscal year 1995, no more than \$20 million will be appropriated from each fund for such purpose and such amount will be reduced to no more than \$17.5 million from each fund for Fiscal Year 1996, no more than \$15 million from each fund for Fiscal Year 1997, no more than \$12.5 million from each fund for Fiscal Year 1998, and no more than \$10 million from each fund for Fiscal Year 1999 and each fiscal year thereafter.

In its 1993 regular session, the Legislature enacted HB2239 which alters certain of the current sources of Pledged Revenues. The major impacts of the legislation are as follows:

- o Motor Carrier Tax rates on vehicles weighing over 26,000 pounds will be reduced effective January 1, 1994 by approximately 24%.
- o A new Motor Vehicle Use Fuel Tax Surcharge of \$.08 per gallon will be levied effective January 1, 1994 on all use class motor vehicles (primarily includes vehicles weighing over 26,000 pounds). This would raise the State's effective Use Fuel Tax rate from \$.18 per gallon to \$.26 per gallon on such use class motor vehicles.

- Motor Carrier Tax rates are subject to further reduction in future years but only to the extent that the gallons of Use Fuel purchased and consumed exceeds a 3.1% annually compounded growth rate. Such a reduction in Motor Carrier Tax rates is designed to proportionately offset greater than anticipated increases in revenues from Motor Vehicle Use Fuel Taxes resulting from such excess consumption.
- If the revenues generated by the new Use Fuel Surcharge are less than such indexed growth rates, sufficient revenues will be transferred to the cities and counties from the State Highway Fund to the extent of such revenue shortfalls.
- A nine member Highway User Revenue Study Committee was formed to conduct a comprehensive study of highway funding in Arizona. The committee is required to submit its findings and recommendations to the Legislature by December 1, 1994.

It is anticipated by the Department that HB2239 as described above will be essentially revenue-neutral to the Highway User Revenue Fund and to all recipients of moneys from such fund, including the Department.

Funds and Accounts and Application of Pledged Revenues

The Senior Bond Resolution established for the payment of the principal of and interest on the Senior Bonds: a Senior Bond Fund, containing a Principal Account, a Redemption Account and an Interest Account; a Senior Bond Related Costs Fund; and a Senior Bond Reserve Fund. In order to facilitate the administration of the deposit of Pledged Revenues into the funds relating to the Senior Bonds, the Subordinated Bonds and the Second Subordinated Bonds, if any, the Bond Resolutions also established a Subordinated Bond Fund, a Subordinated Bond Related Costs Fund, a Subordinated Bond Reserve Fund, and other similar funds for the Second Subordinated Bonds (all of the above-referenced funds are collectively referred to herein as the "Bond Funds").

Upon the issuance of the Series 1993 Subordinated Bonds, no amounts are required by the Bond Resolutions to be deposited or maintained in any of the funds referenced above other than the Senior Bond Fund and the Subordinated Bond Fund. Subsequent Bond Resolutions may require deposits to additional Bond Funds.

The Bond Resolutions require that all Pledged Revenues paid into the Arizona Highway Fund shall be accounted for by the Board and State Treasurer and held by the State Treasurer and deposited by the State Treasurer into the Bond Funds in the following order and manner:

(1) into the Interest Account in the Senior Bond Fund, on the first day of each month, an amount which in the aggregate is not less than one-fifth (1/5) of the amount of the next semiannual interest payment, net of any investment income deposited to such Account, coming due on the outstanding Senior Bonds; and then

(2) into the Principal Account in the Senior Bond Fund, on the first day of each month, one-eleventh (1/11) of the amount of the principal of the outstanding Senior Bonds coming due on the next principal payment date (whether by stated maturity or mandatory sinking fund redemption), net of any investment income deposited to such Account; and then

(3) into the account in the Highway Bond Proceeds Fund for any outstanding Series of Additional Senior Bonds at such times and in such amounts as may be specified by the provisions of any subsequent Senior Bond Resolution, an amount equal to the unreimbursed amounts, if any, theretofore expended from such account for payment of principal of and interest on any Senior Bonds; and then

(4) into the Senior Bond Related Costs Fund, at such times and in such amounts, if any, specified in any subsequent Senior Bond Resolution for payment of Bond Related Costs for any Additional Senior Bonds; and then

(5) into the Senior Bond Reserve Fund, at such times and in such amounts, if any, specified in any subsequent Senior Bond Resolution for deposit therein; and then

(6) into the Interest Account in the Subordinated Bond Fund, on or before the fifteenth day of the month preceding an interest payment date on the Outstanding Subordinated Bonds and Series 1993 Subordinated Bonds, an amount equal to the interest payment due on such interest payment date on such Subordinated Bonds and on such dates and in such amounts as specified in any subsequent Subordinated Bond Resolution with respect to any Series of Additional Subordinated Bonds; and then

(7) into the Principal Account in the Subordinated Bond Fund, on or before the fifteenth day of the month preceding a principal payment date (whether at maturity or by mandatory sinking fund redemption) on the Outstanding Subordinated Bonds and Series 1993 Subordinated Bonds, an amount equal to the principal payment due on such principal payment date on such Subordinated Bonds and on such dates and in such amounts as specified in any subsequent Subordinated Bond Resolution with respect to any Series of Additional Subordinated Bonds; and then

(8) into the Subordinated Bond Related Costs Fund, at such times and in such amounts, if any, specified in any subsequent Subordinated Bond Resolution, for deposit therein for payment of Bond Related Costs for any Additional Subordinated Bonds; and then

(9) into the Subordinated Bond Reserve Fund, at such times and in such amounts, if any, specified in any subsequent Subordinated Bond Resolution for deposit therein; and then

(10) into the Second Subordinated Funds, at such times and in such amounts, if any, specified pursuant to any subsequent resolution of the Board authorizing Second Subordinated Bonds for deposit therein; and then

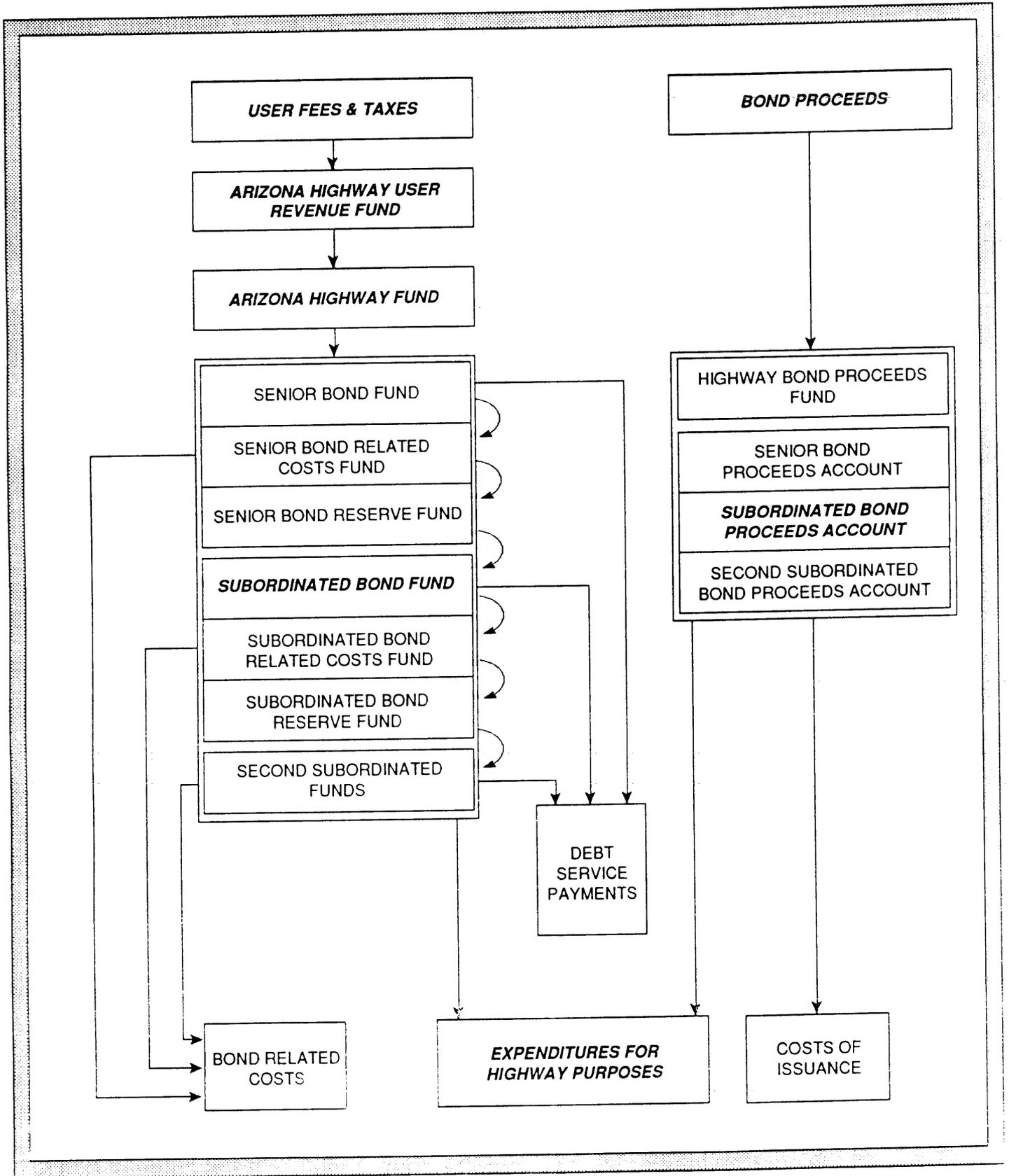
(11) the remaining Pledged Revenues, if any, may be used and expended by the Board for any other lawful use of the Arizona Highway Fund.

If there is a deficiency in the required deposit to any of the Bond Funds as provided above, and unless the Board uses lawfully available Pledged Revenues on deposit in the Arizona Highway Fund or other lawfully available moneys to cure such deficiency, all additional Pledged Revenues deposited into the Arizona Highway Fund shall be used to make up such deficiencies in such Bond Funds, but only in the priority of deposit set forth above, prior to making any deposits to any lower priority Bond Fund. See "ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF - Use of Bond Funds" in Appendix E.

The Bond Resolutions provide that, to the extent that moneys in the Senior Bond Fund, Senior Bond Related Costs Fund and Senior Bond Reserve Fund are insufficient to pay, when due, principal of and interest on the Senior Bonds, the Senior Bonds shall have a first claim on moneys in all Subordinated Funds for the payment of principal and interest on the Senior Bonds.

To the extent that earnings are credited to the Senior and Subordinated Bond Fund pursuant to the Bond Resolutions, subsequent deposits to the Senior and Subordinated Bond Fund shall be reduced by the amount so credited.

HIGHWAY REVENUE BONDS FLOW OF FUNDS



REVENUES AND DEBT SERVICE COVERAGE

Historical Revenues

The following table sets forth the sources of revenues which were deposited into the Arizona Highway User Revenue Fund and the Arizona Highway Fund for each of the last ten fiscal years ended June 30, 1993.

**Sources of Revenues Deposited in the
Arizona Highway User Revenue Fund and Arizona Highway Fund
(000's)**

Fiscal Year	Motor Vehicle Fuel Tax Revenues (1)	Motor Vehicle Registration Fee Revenues	Motor Carrier Tax Revenues	Motor Vehicle Operators' License Fees and Misc. Fees and Revenues	Motor Vehicle License (In Lieu) Tax Revenues	Excess License and Sales Tax Revenues	Total Deposited to Arizona Highway User Revenue Fund(2)	Total Distributed to Arizona Highway Fund (3)
1993	\$387,235	\$80,717	\$120,303	\$24,161	\$105,027	\$ -0-	\$717,443	\$355,304
1992	369,789	74,180	109,573	25,507	96,146	-0-	675,195	339,807
1991	362,018	75,657	108,655	24,033	92,826	16,632	679,821	346,867
1990	339,116	88,536	104,343	25,474	91,390	15,198	664,057	329,698
1989	336,898	80,338	104,709	23,402	80,125	13,789	646,485	320,821
1988	314,928	79,090	98,707	22,996	79,240	12,422	607,383	292,767
1987	309,541	74,727	92,704	23,821	69,030	10,205	580,028	279,870
1986	257,445	77,622	86,834	21,862	61,834	5,644	511,074	239,329
1985	223,651	66,658	78,148	20,416	54,336	3,310	446,519	202,981
1984	194,774	63,127	70,326	18,776	42,595	-0-	389,598	174,188

(1) The increases in fiscal years 1984 and thereafter reflect, in part, increases in the motor vehicle fuel tax rates that took effect on July 1, 1983 (\$.02 per gallon increase), July 1, 1984 (\$.01 per gallon increase), January 1, 1986 (\$.03 per gallon increase), September 1, 1988 (\$.01 per gallon increase) and October 1, 1990 (\$.01 per gallon increase).

(2) Total for fiscal year 1989 includes a legal settlement of \$7,223,227.

(3) Net of 7% of Arizona Highway User Revenues (exclusive of \$.03 and \$.02 per gallon of the motor vehicle fuel tax) distributed to cities with a population greater than 300,000 persons.

Note: Totals may not add due to rounding.

Source: Arizona Department of Transportation

Projected Revenues

Recognizing the need for formal, well documented forecasts, the Department has developed a long-range forecasting model for revenues to be deposited to the Arizona Highway User Revenue Fund and the Arizona Highway Fund. This model reflects underlying economic, population and energy-related trends. These trends are important in forecasting growth rates in personal income, motor vehicle fuel prices and fuel economies, all of which in turn are major components of the revenue forecast which follows.

The model uses a disaggregated structural regression-based econometric modeling approach. The use of this technique provides a framework that allows for the complex interaction of economic, demographic, and technological factors which influence collections over the long term. The key variables incorporated in the model which influence growth in Arizona Highway User Revenue Fund collections are: (i) Arizona population, (ii) real Arizona personal income, (iii) real gross national product, (iv) real price of gas, and (v) vehicle efficiency. Of these variables, Arizona population and real personal income are the most important in projecting revenues.

Over the years, the model has exhibited the ability to forecast revenues with a high degree of accuracy. For the twelve-month periods ending June 30, 1993, 1992, 1991, and 1990, the forecast of collections to be deposited to the Arizona Highway User Revenue Fund which was made at the start of each such period, was within 1.4%, 2.6%, 1.7% and 0.3%, respectively, of actual collections in such periods.

In 1992, the Department expanded the capabilities of the model by retaining economic consultants to introduce a risk analysis process into the forecast development effort, thereby providing a means of dealing with the uncertainty concerning future values for the critical model variables. This procedure provides information concerning the range of potential future revenues and their probability of occurrence. In view of the modest levels of economic growth currently exhibited at both the national and state levels, a decision was made to use more conservative revenue forecasts for the next ten years. As a result of this decision, forecast values with a 60 percent probability of occurrence were utilized rather than the most likely (50 percent probability) revenue forecasts used in the past.

The Department's current 10-year forecast of revenues shows a steady, upward growth trend with revenues increasing at an estimated average annual rate of 3.8%. The expected gain in revenues reflects anticipated growth in revenue sources related to future population and economic expansion in the State. The motor vehicle fuel tax (gasoline) component is expected to show continued growth, but at moderated rates compared to the past several years. While travel in the State is anticipated to show relatively healthy gains in response to future population growth, increased tourism and general economic expansion, these increases are expected to be offset to some extent by the increasing efficiency of the motor vehicle fleet. The Department's forecast assumes no change in fee or tax rates or sources of revenue.

The following table sets forth the Department's forecast of revenues anticipated to be deposited into the Arizona Highway User Revenue Fund and the amounts to be distributed to the Arizona Highway Fund for each of the ten fiscal years through June 30, 2003. THE ACTUAL REVENUES THAT WILL BE DEPOSITED IN THE ARIZONA HIGHWAY USER REVENUE FUND AND THE ARIZONA HIGHWAY FUND WILL VARY FROM THE FORECAST BECAUSE OF FLUCTUATING ECONOMIC CONDITIONS, CHANGES IN LAW AND OTHER VARIABLES AFFECTING REVENUE GROWTH. SUCH VARIATIONS COULD BE MATERIAL.

**Forecast of Revenues to be Deposited in the
Arizona Highway User Revenue Fund and the Arizona Highway Fund
Fiscal Years ending June 30, 1994 through June 30, 2003
(000's)**

Fiscal Year	Motor Vehicle	Motor Vehicle	Motor Carrier	Motor Vehicle	Motor Vehicle	Total Deposited to Arizona Highway User Revenue Fund	Total Distributed to Arizona Highway Fund (2)
	Fuel Tax Revenues(1)	Registration Fee Revenues	Tax Revenues(1)	License Fees and Misc. Fees and Revenues	License (In Lieu) Tax Revenues		
1994	\$379,400	\$ 84,500	\$133,100	\$26,300	\$109,500	\$ 732,800	\$362,090
1995	385,100	87,500	138,000	26,700	116,500	753,800	374,885
1996	391,800	90,900	145,900	27,100	126,600	782,300	389,920
1997	397,200	94,400	153,000	27,500	136,200	828,300	412,952
1998	401,900	97,600	158,700	28,000	147,600	855,500	427,116
1999	408,000	100,500	163,100	28,400	159,700	883,800	442,041
2000	414,400	103,600	167,000	28,800	174,600	914,900	457,016
2001	424,800	106,700	174,400	29,300	188,800	954,000	476,137
2002	430,100	109,700	183,200	29,700	204,500	990,200	493,449
2003	439,600	112,400	186,600	30,200	222,100	1,027,300	511,515

- (1) HB 2239 increased Motor Vehicle Fuel Tax Revenues and decreased Motor Carrier Tax Revenues; such changes are not anticipated to materially effect the aggregate revenues indicated under these two columns. See "Recent Legislation" herein for a more detailed description of such legislation.
- (2) Net of 7% of Arizona Highway User Revenues (exclusive of \$.03 and \$.02 per gallon of the motor vehicle fuel tax) distributed to cities with a population greater than 300,000 persons and the maximum annual distributions to the Department of Public Safety allowable under current law. See "Recent Legislation" herein.

Note: Totals may not add due to rounding.
Source: Arizona Department of Transportation.

Debt Service Requirements, Projected Pledged Revenues and Debt Service Coverage

The debt service requirements of the outstanding Senior Bonds, Subordinated Bonds and Series 1993 Subordinated Bonds are set forth below. Based upon such debt service and the Department's current forecasts of Pledged Revenues, the projected debt service coverage of the outstanding Senior Bonds, Subordinated Bonds, and Series 1993 Subordinated Bonds (assuming no issuance of Additional Senior Bonds or Additional Subordinated Bonds) is as follows:

Twelve Months Ending	Projected Pledged Revenues(1)	Outstanding Senior Bonds(2)	Projected Senior Debt Service Coverage	Outstanding Subordinated Bonds(2)	Series 1993 Subordinated Bonds			Total Debt Service	Total Senior and Subordinated Debt Service Requirements	Projected Total Debt Service Coverage
					Principal Payments	Interest Payments(3)	Service			
July 1, 1994	\$362,090,000	\$53,818,925	6.73	\$16,115,491	\$ 645,000	\$ 6,872,875	\$ 7,517,875	\$77,452,291	4.68	
1995	374,885,000	51,833,273	7.23	9,559,128	1,835,000	14,037,191	15,872,191	77,264,592	4.85	
1996	389,921,000	51,765,973	7.53	9,560,378	1,895,000	13,978,471	15,873,471	77,199,822	5.05	
1997	412,952,000	51,687,405	7.99	9,557,998	1,960,000	13,912,146	15,872,146	77,117,549	5.35	
1998	427,116,000	51,237,535	8.34	9,561,828	2,030,000	13,841,586	15,871,586	76,670,949	5.57	
1999	442,041,000	18,614,410	15.71	31,035,243	11,480,000	13,765,461	25,245,461	74,895,114	5.90	
2000	457,016,000	28,129,573	16.25	31,041,873	1,925,000	13,306,261	15,231,261	74,402,707	6.14	
2001	476,137,000	27,418,310	17.37	31,061,273	2,010,000	13,225,411	15,235,411	73,714,994	6.46	
2002	493,449,000	19,201,328	22.54	10,308,768	13,970,000	13,138,981	27,108,981	56,619,077	8.64	
2003	511,515,000	6,179,088	23.37	21,319,378	16,585,000	12,524,301	29,109,301	56,606,767	8.95	
2004		21,889,088		21,319,126	1,620,000	11,777,976	13,397,976	56,606,190		
2005		21,891,088		9,197,002	13,820,000	11,703,456	25,523,456	56,611,546		
2006		18,187,088		9,196,200	18,170,000	11,053,916	29,223,916	56,607,204		
2007		18,194,038			28,235,000	10,181,756	38,416,756	56,610,794		
2008		18,194,775			29,610,000	8,805,300	38,415,300	56,610,075		
2009		18,192,463			31,395,000	7,028,700	38,423,700	56,616,163		
2010					51,685,000	5,458,950	57,143,950	57,143,950		
2011					54,520,000	2,624,700	57,144,700	57,144,700		

(1) For purposes of presenting debt service coverage, the amount of projected Pledged Revenues has been reduced by the 7% of certain Pledged Revenues which are immediately paid out to cities with a population in excess of 300,000 persons, which may not be available to be transferred to the Bond Funds. See "SOURCES AND APPLICATION OF PLEDGED REVENUES - Pledged Revenues."

(2) Actual debt service on the outstanding Senior Bonds and Subordinated Bonds, after giving effect to refunding of the Bonds Being Refunded.

(3) Interest is shown net of accrued interest to be paid on the Series 1993 Subordinated Bonds.

PROGRAM RESPONSIBILITY AND MANAGEMENT

Arizona Transportation Board

The Board consists of seven members, one from each of the six transportation districts within the State and one from the State at large. Each member of the Board is appointed by the Governor of the State, subject to confirmation by the State Senate, for a term of six years expiring on a staggered basis on the third Monday in January. The Board is responsible for (i) issuing bonds for State highway purposes; (ii) establishing a complete system of State highway routes; (iii) determining which State highway routes or portions thereof will be accepted into the State highway system, and which will be improved; (iv) establishing, operating, relocating, altering, vacating or abandoning any portion of a State route or State highway; (v) determining priority program planning with respect to highway transportation facilities and monitoring the status of such programs; and (vi) distributing money appropriated to the Department's Aeronautics Division from the State Aviation Fund for planning, design, development, acquisition of interests in land, and construction and improvement of publicly owned and operated airport facilities in the counties, cities and towns of the State.

The following sets forth information with respect to each member of the Board:

<u>Name and Transportation District Represented</u>	<u>City of Residence</u>	<u>Term Expires January</u>
Donald D. Denton, Chairman Transportation District 6 Yavapai, Yuma, Mohave and La Paz Counties	Parker	1994
James A. Soto, Vice Chairman Transportation District 3 Cochise, Greenlee and Santa Cruz Counties	Nogales	1995
Linda Brock-Nelson, Member Transportation District 1 Maricopa County	Scottsdale	1996
Sharon B. Megdal, Member Transportation District 2 Pima County	Tucson	1997
Donovan M. Kramer, Sr., Member Transportation District 4 Gila, Graham and Pinal Counties	Casa Grande	1998
Jack F. Husted, Member Transportation District 5 Navajo, Apache and Coconino Counties	Springerville	1999
Burton Kruglick, Member State At Large	Phoenix	1994

Arizona Department of Transportation

General.

The Department was established by the State Legislature in July 1974 by combining the former Arizona Highway Department (originally established in 1927) and the State Department of Aeronautics (originally established in 1952). The Department's mission is to provide the State's citizens and visitors with a safe, balanced and integrated statewide transportation system. It serves as the State's public instrument to plan, develop, maintain and operate facilities for the efficient movement of people and goods by surface and air throughout the State. The Department coordinates closely with other levels of government and builds citizen participation into its planning and decision making processes.

The headquarters of the Department are located at 206 South 17th Avenue in Phoenix, Arizona, with more than 150 work locations throughout the State coordinated by district offices. Highway construction is coordinated by the Department's four district offices located in Phoenix, Tucson, Prescott and Flagstaff. In addition, the Highways Division has area offices in Safford, Globe, Holbrook, Page, Kingman and Yuma. The Motor Vehicle Division has zone offices located in Flagstaff, Phoenix and Tucson. The Department employs approximately 4,600 persons.

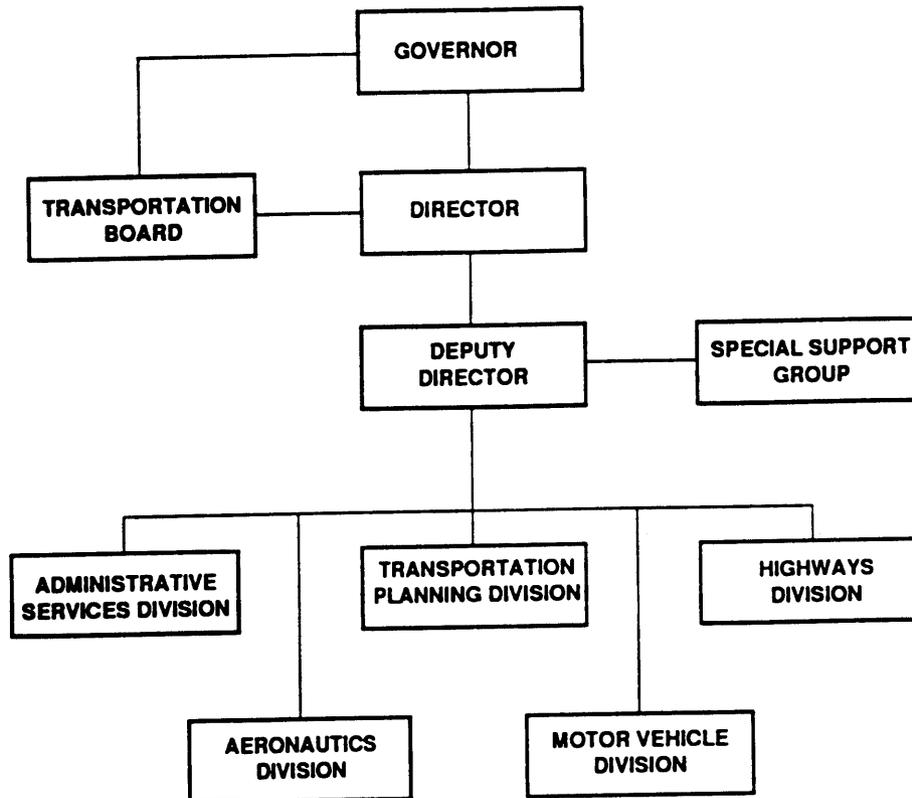
Responsibilities and Organization.

The Department administers the State highway system and the State-owned airport at the Grand Canyon. The Department's responsibilities also include: (i) registration of motor vehicles and aircraft and enforcement of motor vehicle and aviation laws; (ii) transportation planning, coordination of transportation planning with local governments and annual development of a priority program of capital improvements for both highway and aviation transportation modes; (iii) design and construction of transportation facilities in accordance with a priority plan, and maintenance and operation of the State highway system and the State-owned airport; and (iv) research and evaluation of new transportation systems and cooperative efforts with and advice to local governments concerning the development and operation of public transit systems.

The Department's operating budget and capital outlay budget for buildings are reviewed by the Governor's office and funds for these purposes are appropriated by the State Legislature. The Department's capital outlay budget for the acquisition of land and the development, construction and improvement of the State highway system is approved by the Board. The recommended budgeting of funds for the Maricopa County Regional Freeway and Expressway Plan is determined by the Department taking into consideration the priorities recommended by the Maricopa Association of Governments. The funds are allocated by the Board as part of the statewide Five-Year Capital Program.

The Director of the Department serves as the Chief Administrative Officer of the Department. The Director is appointed by the Governor and confirmed by the Senate, and is directly responsible to the Governor. The Department is organized into five divisions: Administrative Services Division, Highways Division, Motor Vehicle Division, Transportation Planning Division, and Aeronautics Division. In addition, the Special Support Group under the direction of the Deputy Director contains units for Legal Services, Community Relations, Affirmative Action, Audit and Analysis, Safety, Training and Arizona Highways Magazine. In addition, two new offices, the MAG Life Cycle Office and the Privatization Office, have been established and report directly to the Director (see *"Management Directions"* below).

The Department's table of organization and a brief description of each of the divisions is set forth below:



Administrative Services Division. The Administrative Services Division is responsible for financial, data processing and administrative support for all activities of the Department and its divisions. The Administrative Services Division provides the Department's management with timely budgetary and financial information on a current as well as projected basis, maintains the Department's accounting system, provides purchasing and warehouse services and coordinates the planning, construction and maintenance of all buildings and grounds for the Department. In addition, the Division is responsible for all personnel and quality consulting services for the Department. The Administrative Services Division also maintains and operates a revenue forecasting system, a computerized project cash forecasting system and a project financial planning and monitoring system. Other activities of the Administrative Services Division include contract coordination, cash management, management of bond programs, risk management, budget coordination and general services, including mail distribution, reproduction and communications.

Highways Division. Of the five divisions of the Department, the Highways Division is the largest. The Highways Division is responsible for the management and maintenance of the existing State highway system and related facilities as well as the location, design and construction of new highways and facilities that are a part of the State highway system. The Highways Division provides technical supervision to assure completion of State highway contracts in accordance with plans and specifications. Major groups within the Highways Division include Highway Development, which handles all matters in preparation of new highway

projects, and Highway Operations, responsible for overseeing maintenance of the existing 6,120-mile State highway system and construction of new facilities.

Motor Vehicle Division. The Motor Vehicle Division regulates motor vehicles in the State. The Motor Vehicle Division also collects motor vehicle fuel taxes, registration fees, motor carrier taxes, motor vehicle operators' license fees and miscellaneous fees and revenues. The Motor Vehicle Division annually processes motor vehicle registrations and records, issues certificates of title for motor vehicles and processes drivers' license applications. The Motor Vehicle Division also operates 17 port-of-entry stations.

Transportation Planning Division. The Transportation Planning Division is responsible for the planning of the statewide transportation system including highways and airports. Its functions include traffic and travel studies and projections, five-year construction priority studies and coordination with local and regional transportation planning agencies. The Transportation Planning Division produces an annually updated Five-Year Capital Program for the Board, from which the Board establishes the priorities for highway and airport projects within the State. The highway project priorities are based on a quantitative computer-based rating system that takes into account the physical condition of the roadway plus other factors such as safety, traffic load, and environmental and socioeconomic impacts.

Aeronautics Division. The Aeronautics Division coordinates general aviation in the State. The Aeronautics Division also is responsible for registering and licensing all general aviation aircraft, conducting the Local Airports Grant Program and representing the State at air service hearings. Air travel is assuming greater importance in the State and as Federal aviation regulations change, the Aeronautics Division develops programs to coordinate those regulations with economic and public needs concerning aviation.

Staff of the Department.

Information concerning the primary administrative personnel of the Department is set forth below:

LARRY S. BONINE
Director

Larry S. Bonine was appointed Director of the Arizona Department of Transportation on March 1, 1993. Prior to joining ADOT, Mr. Bonine was with the firm of Parsons Brinckerhoff Quade and Douglas where he served as partnering champion for the Massachusetts Highway Department's Central Artery/ Tunnel project, the largest construction project of its kind in the United States today.

Mr. Bonine is a 26-year veteran of the U.S. Army Corps of Engineers. He is one of the pioneers of public sector partnering and is a strong proponent of Total Quality Management. From 1987 to 1990, he served as Commander of the U.S. Army Engineer District in Mobile, Alabama, one of the U.S. Army Corps of Engineer's largest districts. In that position he oversaw an engineering and construction program in excess of \$1 billion and provided leadership to over 2,000 federal employees. Mr. Bonine earned his Bachelor's degree from Tennessee Tech and his Master's degree in Civil Engineering from the University of Missouri at Rolla.

THOMAS R. WARNE
Deputy Director

Mr. Warne was appointed as the Deputy Director of the Department in September 1992. He joined the Department in 1983 and has held positions of responsibility within the Highways Division since that time. Prior to joining the Department, Mr. Warne was an officer in the Army Corps of Engineers for four years. Mr. Warne's most recent assignment within the Department was as the Assistant State Engineer for Construction where he was responsible for the administration of the state's \$400 million highway construction program. In that capacity, Mr. Warne was responsible for the implementation of the "partnering" concept on the Department's highway construction projects and is nationally renowned for his expertise in this area.

Mr. Warne holds a Bachelor of Science degree in Civil Engineering from Brigham Young University and a Master of Science degree in Civil Engineering from Arizona State University. He is a registered Professional Engineer in the State of Arizona.

SUZANNE H. SALE

Division Director, Administrative Services Division

Ms. Sale has served as Division Director of the Administrative Services Division since August 1988. Prior to assuming this position, she served as Acting Division Director for four months and as a senior financial administrative services officer since 1977. As chief financial officer for the Department, she has oversight responsibility for the financial management of the Board's capital program, including bond financing. Ms. Sale currently serves on two Transportation Research Board Committees and is the chairperson of the Transportation Research Board's Subcommittee on Bond Financing. Ms. Sale holds a Masters in Business Administration degree from Arizona State University. Prior to joining the Department in 1975, Ms. Sale held the position of senior management officer with the United Nations in Vienna, Austria. Prior to that position she was employed by the National Science Foundation in the capacity of program manager in the economic studies area.

GARY K. ROBINSON

State Engineer, Division Director, Highways Division

Mr. Robinson has served as State Engineer since 1990. He has been an engineer with the Department since 1986 and served as Deputy State Engineer from May 1988 to December 1990. Prior to joining the Department, Mr. Robinson served for 10 years as Superintendent of the Planning, Roads and Equipment/ Maintenance Divisions for the Arabian/ American Oil Company in Saudi Arabia. He began his career in 1958 with the Missouri Highway Department. Mr. Robinson is a registered professional engineer and received a degree in Civil Engineering from the University of Idaho. He has also completed graduate level courses in geotechnical engineering at the University of Montana and administrative and management courses at Georgetown University in Washington, D.C.

THOMAS G. SCHMITT

Division Director, Motor Vehicle Division

Mr. Schmitt was appointed Director of the Motor Vehicle Division in June, 1993. Prior to his appointment he served in the Highway Division as the District Engineer for the Southern portion of the State. In that position, he was responsible for construction maintenance and administration of over 5000 lane miles of highway. He has been with the Department for 12 years. Mr. Schmitt graduated from California State Polytechnic University-Pomona with a degree in Civil Engineering and is a registered civil engineer in Arizona, California, and Texas. He has also completed graduate level courses in Business Administration at Golden Gate University.

HARRY A. REED

Division Director, Transportation Planning Division

Mr. Reed has served as Division Director of the Department's Transportation Planning Division since November 1983. His career has included a variety of engineering and administrative positions in state and Federal government, as well as in the private sector. Mr. Reed received national recognition for his leadership role in the "Transportation 2020" project of the American Association of State Highway and Transportation Officials. Mr. Reed received a degree in Civil Engineering from Davis and Elkins College in West Virginia.

GARY ADAMS

Division Director, Aeronautics Division

Mr. Adams was appointed Division Director in September 1988. He previously served as Deputy Director of the Aeronautics Division since 1981 and has been employed within the Aeronautics Division since 1978. He is also an Adjunct Faculty member at Embry-Riddle Aeronautical University. Mr. Adams is a graduate of Arizona State University and received a Masters in Public Administration from Golden State University.

JOHN MCGEE

Special Assistant for Strategic Management, Administrative Services Division

Mr. McGee has served as Special Assistant for Strategic Management in the Administrative Services Division since December 1988. He has primary responsibility for day-to-day management of the Board's bond financing program and fiscal planning activities. Prior to joining the Department, he was employed for sixteen years in various financial and managerial positions with a major Phoenix-based development company. Mr. McGee holds a Masters Degree in Business Administration from Arizona State University.

Management Directions.

The Department continues to focus its management efforts on programs that will bring about quality and productivity improvements through business process review, innovation and new technology. The following are representative examples of current Department projects that are directed to enhancing day-to-day operations, the efficiency of the Department, and service to the citizens of the State.

The Department is participating in a statewide management review process known as SLIM (Statewide Long-Term Improved Management Project). The ultimate goals of the SLIM project are to 1) establish appropriate long-range strategies and missions for each agency unit and recommend service levels; 2) establish an effective overall management structure; 3) analyze the cost effectiveness and quality of activities performed and recommend cost savings, service quality and productivity improvements; and 4) develop an effective and useful implementation plan for the recommended changes. To show its commitment to this project, the Department recommended one of its major divisions, the Motor Vehicle Division, as a prototype for study. The SLIM analysis of this Division was completed in March 1992, and identified potential savings of \$6.2 million and 217 full-time equivalent positions. Implementation of the SLIM recommendations for the Motor Vehicle Division is currently underway. The Department's Highways Division also participated in a SLIM review, which was completed in June 1993. The analysis identified potential annual cost reductions of \$14.5 million, annual cost avoidance of \$20.5 million and full-time equivalent position savings of 729. Implementation of these recommendations is to begin in January 1994.

The Department has implemented a new concept referred to as "Partnering" for dealing with its contractors, sub-contractors, and others doing work for the Department. Partnering represents an innovative approach to working with the private sector to make certain all parties to a contract understand what is required of each other. The partnering process requires that all parties (stakeholders) sign an agreement committing to the quality, safety, timeliness, and cost efficiency of the project. The concept is based on a "win-win" relationship, and discourages one party from profiting at the expense of the other. The results of ADOT's partnering initiative have been effective. Since July 1991, the Department has partnered 138 projects totaling \$505 million. 34 of those projects have been completed with a total cost savings on these projects of over \$2.9 million. The average time savings per project was over 20%, and, most significantly, there were no unresolved contract claims remaining at the end of any project.

Another major initiative aimed at improving efficiency within the Department is the development of a comprehensive computerized driver license, title, and registration project. This new system, designated the "Enterprise" project, is expected to provide significant improvements to Motor Vehicle Division operations and thereby enhance service to the public. The development of this system has generated interest from

several other states, and could serve as a prototype for future systems. For its efforts in the technical development of this system, the Department has been named a member of the IBM ShowCase program reserved for organizations worldwide that demonstrate innovation in improving the quality of system development and life cycle management. This selection is significant because the Department is the only public sector organization to be included.

To provide for future effective long range planning for the Maricopa County Regional Freeway and Expressway Plan, a Life Cycle Office, reporting directly to the Director of the Department, has been established. The Office allows the Department to plan and control the proposed 231 mile freeway plan over the total life of the project, instead of the current five year planning horizon.

The Department has been working on two studies dealing with transportation issues in the state. The first is a cost-allocation study for commercial class vehicles. This study compares the relative wear on transportation facilities for each weight classification with corresponding revenue contributions. A draft of this study was completed in January 1993. The second study evaluated the possible effects of the North American Free Trade Agreement (NAFTA) on Arizona and its transportation systems. This study was completed in May 1993.

Looking ahead, the Department will continue to emphasize efficiency and cost effectiveness at all levels and within all programs. ADOT management is dedicated to instituting the concept of "Total Quality Management" (TQM) throughout the Department. ADOT's TQM initiative stresses efficiency, effectiveness, and strong customer service. The Department has implemented a comprehensive three-year plan to support its quality and productivity initiative.

Recent Awards.

The Department and its employees have often been recognized professionally for both highway design and management practices, and have received numerous awards, including the following most recent awards:

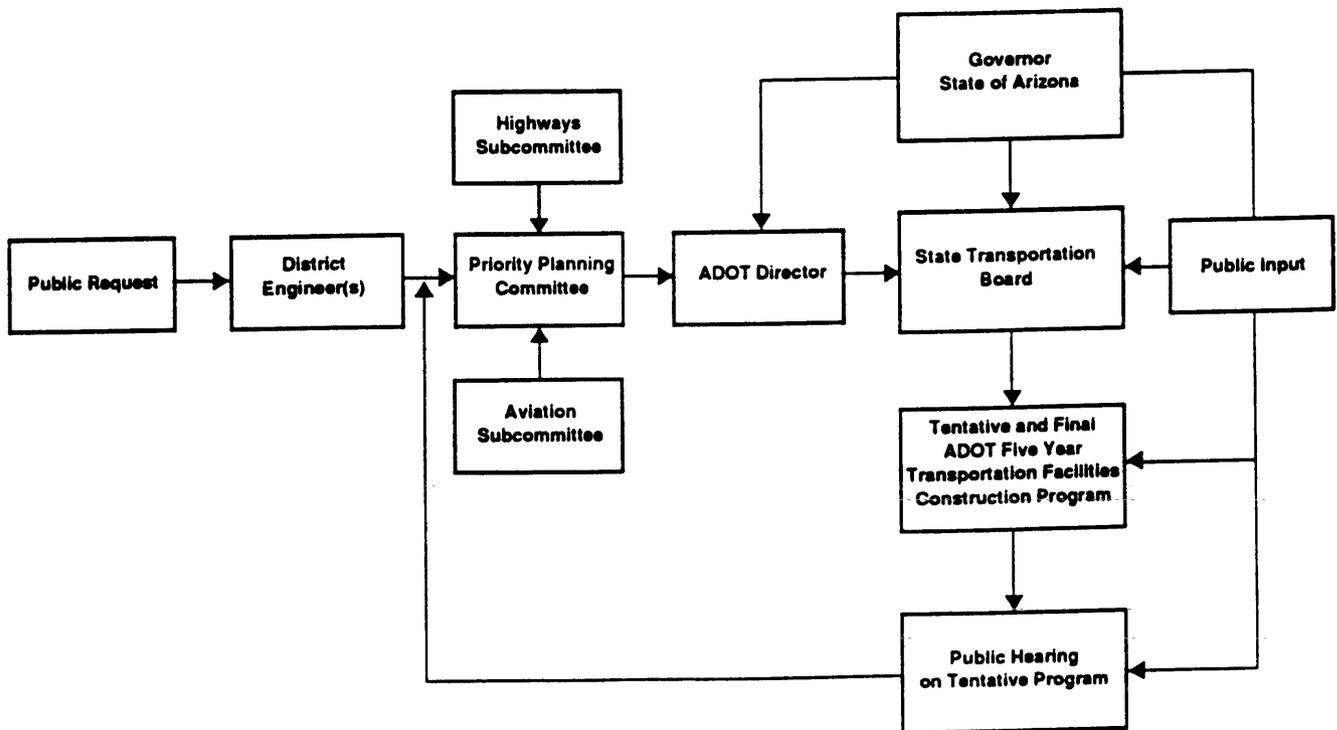
- For the third consecutive year, the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association of the United States and Canada. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.
- Two Federal Design Achievement Awards from the National Endowment for the Arts (NEA), as part of the NEA's Presidential Design Awards Program. The awards, the highest honor of their kind given by the NEA, were provided for the Department's work on the Roosevelt Lake Bridge and for the completion of the I-10 freeway.
- For the second consecutive year, the Distinguished Budget Presentation Award given by the Government Finance Officers Association of the United States and Canada. This award is the highest form of recognition in governmental budgeting.
- The prestigious Marvin M. Black Partnering Award was recently presented to ADOT and Granite Construction Company to recognize their cooperative partnering efforts on the State Route 386, Kitt Peak National Observatory project. The partnering effort between the Department and its contractor saved significant time and expense which would have otherwise been incurred due to unforeseen geotechnical problems encountered on the Project.
- In 1992 the Glass Ceiling Award was presented to the Department by the Federal Highway Administration. This award recognizes the Department's significant efforts in fostering the career advancement of females and minorities within the Agency.

Arizona Transportation Board's Five Year Capital Program

General. The proceeds of the previously issued Bonds of the Board, together with certain other available funds, will be used to finance construction and other improvement projects contained in the Department's Five Year Transportation Facilities Construction Program (the "Five Year Capital Program"). The Five Year Capital Program identifies the improvements to be made by the Department to the State Highway System during the next five fiscal years and contains detailed information about each project including location, description, estimated cost and timing. Improvements are scheduled based primarily upon project priority, funding availability and engineering and construction considerations.

Preparation and Adoption of Program. The Five Year Capital Program is updated annually by the Board in accordance with a statutorily defined and scheduled process designed to assure that the improvements to the State Highway System that are of highest priority to the State are made and funded in an orderly way, consistent with statutory guidelines and Board policies. Initially, a preliminary Five Year Capital Program is developed by the Director of the Department based upon the Board's guidelines and input from transportation professionals at the state and local level, from state and local elected officials and from the general public. Also considered in determining the priority of the projects to be included in the Five Year Capital Program are user benefits, public need, land use, safety, road conditions, continuity of improvements and availability of funds. Each update to the Five Year Capital Program includes projects to be scheduled for the fifth year of the forthcoming five year period as well as modifications to the Program dictated by changing priorities, funding availability and other considerations. The Board adopts the revised Five Year Capital Program on or before June 30 of each year following a series of public meetings throughout the State. The development process for the Five Year Capital Program can be illustrated as follows:

PRIORITY PROGRAMMING PROCESS



Current Five Year Capital Program

The Board's current Five Year Capital Program (Fiscal Years 1994 through 1998), was adopted in June of 1993. The Five Year Capital Program totals an estimated \$2.042 billion and will be financed from a variety of sources. The estimated allocations included within the Five Year Capital Program are as follows: \$504.5 million for freeway and expressway construction in Maricopa County; \$33.8 million for new limited access facilities in Pima County; \$1,105.4 million for new construction and widening projects on the statewide system; and \$398.5 million for pavement preservation.

The Board's Five Year Capital Program is funded primarily from three sources. Federal Highway apportionments, highway user related revenues, and the one-half cent sales tax levied in Maricopa County that is designated as a transportation excise tax. Bond financing supplements these three sources of revenue to ensure timely and cost effective accomplishment of the Board's Five Year Capital Program.

Sunset Laws

In order to encourage systematic legislative review of State agencies and statutes, State law provides for automatic termination of State agencies and statutes pursuant to a statutory schedule unless the State Legislature takes affirmative action to continue the agencies' or statutes' existence. The Department and the Board are scheduled for termination on July 1, 1998, and Title 28, Arizona Revised Statutes, as amended, which contains most of the transportation laws of the State, including the provisions relating to fees and taxes pertaining to the registration, operation and use of motor vehicles and motor vehicle fuel taxes, the Arizona Highway User Revenue Fund and the Arizona Highway Fund, as well as traffic laws, is scheduled for termination on January 1, 1999.

The termination statutes, commonly known as sunset laws, provide a system for automatic committee and legislative review of agencies and statutes prior to their termination. Since the enactment of the sunset laws, the Department's authority and the provisions relating to the fees and taxes pertaining to the registration, operation and use of motor vehicles and motor vehicle fuel taxes have been reviewed only once and the existence of each was continued. While it is impossible at this time to predict what action, if any, the State Legislature will take, the Department is not aware of any factual matter which would cause the State Legislature to discontinue the existence of the Department or the Board in their present form or to discontinue the effects of or to amend Title 28 in such a manner as to be detrimental to the bondholders on or prior to their respective termination dates.

To protect holders of the outstanding Senior Bonds and Subordinated Bonds, including the Series 1993 Subordinated Bonds, the Arizona statutes provide that if the Act is repealed pursuant to the sunset laws, so long as there are any debts or other obligations payable from the Arizona Highway User Revenue Fund and no provision has been made for payment of those debts or obligations, the provisions of the Act regarding the Arizona Highway User Revenue Fund, the pledge of revenues from that fund and the liens on that fund to pay the debts or other obligations remain in full force and effect until the debts or other obligations have been fully paid and satisfied (or provision is made therefor). In the opinion of Bond Counsel, in the event that the State Legislature fails to take affirmative action to continue the existence of the Department and the Board or the Act, on or prior to their respective termination dates, the State would be obligated to assume and make payments on the Series 1993 Subordinated Bonds from Pledged Revenues under the terms and conditions for payment contained in the Bond Resolutions.

LITIGATION

There is no litigation or administrative action pending in any court or, to the best knowledge of the Department and the Board, threatened, which would restrain or enjoin the issuance, sale or delivery of the Series 1993 Subordinated Bonds or in any way contest or affect the validity of the Series 1993 Subordinated Bonds, or which concerns the proceedings of the Board taken in connection with the issuance and sale of the Series 1993 Subordinated Bonds or the collection, pledge or application of any Pledged Revenues provided for their payment, or which contests the powers of the State, including the Department and the Board, with respect to the foregoing.

The Office of the Attorney General of the State has reviewed the status of pending lawsuits affecting the State, the Board and the Department in connection with their operations and has reported that there are several proceedings in which the Board or the Department is either a plaintiff or defendant and which are generally incidental to the operations of the Board or Department. The ultimate disposition of such pending legal proceedings cannot be predicated or determined at present. With regard to such pending litigation, it is the opinion of the Office of the Attorney General of the State that such pending litigation will not be finally determined so as to result, individually or in the aggregate, in a final judgment against the State, the Board or the Department which would materially and adversely affect the continued operations or financial position of the Board or the Department.

LEGAL INVESTMENT

To the extent governed by Arizona law, the Act provides that the Series 1993 Subordinated Bonds are securities in which all public officers and bodies of the State and all municipalities and political subdivisions of the State, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries and all other persons authorized to invest in bonds or other obligations of the State, may properly and legally invest money, including capital in their control or belonging to them. The Series 1993 Subordinated Bonds are also securities which may be deposited with and may be received by all public officers and bodies of the State and all municipalities and political subdivisions of the State for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

TAX EXEMPTION

In the opinion of Squire, Sanders & Dempsey, Bond Counsel, under existing law (i) interest on the Series 1993 Subordinated Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations and (ii) interest on the Series 1993 Subordinated Bonds is exempt from Arizona state income tax. Bond Counsel will express no opinion as to any other tax consequences regarding the Series 1993 Subordinated Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications as to facts, circumstances, estimates and expectations and compliance with certain covenants of the Board and the Department to be contained in the Subordinated Bond Resolution and the transcript of proceedings and which are intended to evidence and assure the foregoing, including that the Series 1993 Subordinated Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the certifications and representations made by the Board and the Department.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and remain excluded from gross income for federal income tax purposes, some

of which, including provisions for potential payments by the issuer to the federal government, require future or continued compliance after issuance of the obligations in order for the interest to be and to remain excluded from the date of issuance. Noncompliance with these requirements could cause the interest on the Series 1993 Subordinated Bonds to be included in gross income for federal income tax purposes, and thus to be subject to federal income tax, retroactively to the date of their issuance. The Board has covenanted in the Subordinated Bond Resolution to take all such actions that may be required of it for the interest on the Series 1993 Subordinated Bonds to be and to remain excluded from gross income for federal income tax purposes and not to take any actions which would adversely affect that exclusion.

Under Code provisions applicable only to corporations (as defined for federal income tax purposes), 75% of the excess of adjusted current earnings (which includes interest on all tax-exempt bonds including the Series 1993 Subordinated Bonds) over other alternative minimum taxable income is included in (i) alternative minimum taxable income and may be subject to a corporate alternative minimum tax and (ii) modified alternative minimum taxable income and may be subject to an environmental tax imposed on certain corporations for certain taxable years. In addition, interest on the Series 1993 Subordinated Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes can have certain adverse federal income tax consequences on items of income or deductions for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, and those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations. The applicability and extent of these or other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 1993 Subordinated Bonds. Bond Counsel expresses no opinion regarding those consequences.

From time to time there are legislative proposals in Congress which, if enacted, could alter or amend one or more of the federal tax matters referred to or adversely affect the market value of the Series 1993 Subordinated Bonds. It cannot be predicted whether or in what form any such proposal might be enacted and there can be no assurance that any such proposal would not apply to obligations (such as the Series 1993 Subordinated Bonds) issued prior to enactment of such proposal.

Original Issue Discount

Certain of the Series 1993 Subordinated Bonds ("Discount Bonds") are being offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the face amount) over the "issue price" of such Discount Bonds. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity are sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant interest rate method, compounded semiannually. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period that the purchaser owns the Discount Bond (i) is interest excludable from that purchaser's gross income for federal income tax purposes to the same extent and subject to the same considerations discussed above as to other interest on the Series 1993 Subordinated Bonds, and (ii) is added to that purchaser's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond.

Owners of Discount Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID properly accruable each year with respect to the Discount Bonds and as to other federal tax consequences and any state and local tax aspects of owning Discount Bonds.

Premium Bonds

Certain of the Series 1993 Subordinated Bonds ("Premium Bonds") are being offered and sold to the public at an issue price in excess of their stated redemption price (the face amount) at maturity. This excess constitutes amortizable bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the constant interest rate method, compounded semiannually. No portion of such bond premium is deductible by an owner of Premium Bonds. The tax basis of an owner of a Premium Bond is reduced each year by the amount of bond premium properly attributable to such year for purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond. As a result, an owner may realize taxable gain for federal income tax purposes upon the sale of a Premium Bond for an amount equal to or less than the amount paid by that owner for the Premium Bond. An owner who purchases a Premium Bond in the initial public offering of such Premium Bonds at their issue price and who holds such Premium Bonds to maturity will realize no gain or loss upon the retirement of the Premium Bonds.

Owners of Premium Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of amortizable bond premium properly accruable each year with respect to the Premium Bonds and as to other federal tax consequences and any state and local tax aspects of owning Premium Bonds.

CERTAIN LEGAL MATTERS

Legal matters incident to the issuance of the Series 1993 Subordinated Bonds and with regard to the tax-exempt status of the interest on the Series 1993 Subordinated Bonds (see "Tax Exemption") are subject to the legal opinion of Squire, Sanders & Dempsey, whose legal services as Bond Counsel have been retained by the Board. The signed legal opinion, dated and premised on law in effect as of the date of original delivery of the Series 1993 Subordinated Bonds, will be delivered to the Board at the time of original delivery. The text of that opinion will be printed on the Series 1993 Subordinated Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Snell & Wilmer.

The proposed text of the legal opinion of Bond Counsel is set forth as Exhibit F. The legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution of it by recirculation of the Official Statement or otherwise shall create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referred to in the opinion subsequent to its date.

In its capacity as Bond Counsel, Bond Counsel has participated in the preparation of, and has reviewed those portions of, this Official Statement pertaining to the Series 1993 Subordinated Bonds, the Subordinated Bond Resolution, the Senior Bond Resolution and the tax-exempt status of interest on the Series 1993 Subordinated Bonds contained under the captions "SUMMARY STATEMENT" (except for outstanding amounts of Senior Bonds and Subordinated Bonds), "INTRODUCTION" (except for outstanding amounts of Senior Bonds and Subordinated Bonds), "THE SERIES 1993 SUBORDINATED BONDS", "PLAN OF ADVANCE REFUNDING", "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1993 SUBORDINATED BONDS", "SOURCES AND APPLICATION OF PLEDGED REVENUES" (except for the subheading "Recent Legislation"), "LEGAL INVESTMENT" and "TAX EXEMPTION" herein and "SUMMARY OF THE SENIOR BOND RESOLUTION" and "SUMMARY OF THE SUBORDINATED BOND RESOLUTION" contained in Appendices D and E, respectively, hereto. Bond Counsel has not been retained to pass upon, and will not express any opinion upon, any other information in this Official Statement or any other information pertaining to the Series 1993 Subordinated Bonds or the Board or the Department that may be made available to the prospective purchasers of the Series 1993 Subordinated Bonds or to others.

In addition to rendering the legal opinion, Bond Counsel will assist in the preparation of and advise the Board concerning documents for the bond transcript.

RATINGS

The Series 1993 Subordinated Bonds have been rated "AA" and "Aa", respectively, by Standard & Poor's Corporation and Moody's Investors Service, Inc. Such ratings reflect only the views of the rating organizations, and any explanation of the meaning or significance of the ratings may only be obtained from the rating agency. The Board and the Department furnished to the rating agencies certain information and materials, some of which may not have been included in this Official Statement relating to the Series 1993 Subordinated Bonds and the Board and the Department. Generally, rating agencies base their ratings on such information and materials and on their own investigation, studies and assumptions. There can be no assurance that a rating when assigned will continue for any given period of time or that it will not be lowered or withdrawn entirely by a rating agency if in their judgment circumstances so warrant. Any lowering or withdrawal of a rating may have an adverse effect on the marketability or market price of the Series 1993 Subordinated Bonds.

The Board and the Department expect to furnish the rating agency with information and materials that it may request. The Board and the Department, however, assume no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. Failure to furnish requested information and materials, or the issuance of the debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the Series 1993 Subordinated Bonds.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 1993 Subordinated Bonds from the Board at a price of \$284,584,993.23. Based upon the initial offering yields of the 1993 Subordinated Bonds as shown on the inside cover hereof, the underwriters will receive compensation of \$1,561,558.25. The public offering prices may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 1993 Subordinated Bonds to dealers (including dealers depositing the Series 1993 Subordinated Bonds into investment trusts) and others at prices lower than such initial public offering prices. The Underwriters will be obligated to purchase all of the Series 1993 Subordinated Bonds if any are purchased.

MISCELLANEOUS

The Department and the Board have furnished the information in this Official Statement relating to the State, the Department and the Board.

Copies of the Bond Resolutions summarized herein and information with respect to the State, the Department and the Board may be obtained from the Department's Administrative Services Division, located at 206 South 17th Avenue, Phoenix, Arizona 85007 (telephone: 602-255-7441). All communications concerning this offering should be directed to Ms. Suzanne H. Sale, Division Director of the Administrative Services Division, or to John McGee, Special Assistant for Strategic Management, Administrative Services Division. Prior to the delivery of the Series 1993 Subordinated Bonds, information with respect to the State, the Department and the Board also may be obtained, upon request, from the Board's Financial Consultant, Rauscher Pierce Refsnes, Inc., Forty North Central Avenue, Suite 2300, Two Renaissance Square, Phoenix, Arizona 85004 (telephone: 602-257-7770).

This Official Statement is submitted in connection with the sale of the Series 1993 Subordinated Bonds and may not be reproduced or used, as a whole or in part, for any other purpose. This Official Statement has been duly authorized and approved by the Board and the Department and duly executed and delivered on their behalf by the officials signing below.

All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections, or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. The agreements of the Board and the

State are fully set forth in the Bond Resolutions in accordance with the Act and this Official Statement is not to be construed as a contract or agreement between the Board, the Department or the State, and the purchasers or Owners of any of the Series 1993 Subordinated Bonds.

ARIZONA TRANSPORTATION BOARD

/s/ Donald D. Denton

Donald D. Denton, Chairman

ARIZONA DEPARTMENT OF
TRANSPORTATION

/s/ Larry S. Bonine

Larry S. Bonine, Director

APPENDIX A

SELECTED INFORMATION CONCERNING ARIZONA

The following information concerning Arizona is furnished for background information only. The Series 1993A Subordinated Bonds are not an obligation of the State and are special obligations of the Board payable solely from Pledged Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1993A SUBORDINATED BONDS."

STATE OF ARIZONA

Located in the country's sunbelt, Arizona has been, and is projected to continue to be, one of the fastest growing areas in the United States. Over the last several decades the State has outpaced most other regions of the country in virtually every major category of growth, including population, personal income, gross state product and job creation.

Geographically, Arizona is the nation's sixth largest state in terms of area (113,417 square miles). It is divided into three distinct topographic regions: northern Arizona - high plateau country traversed by deep canyons such as the Grand Canyon National Park; central Arizona - rugged, mountainous and heavily forested; and southern Arizona - encompassing desert areas and flat, fertile agricultural lands in valleys between mountains rich in mineral deposits. These topographic areas all have different climates, which have distinctively influenced development in each region. Land ownership is vested largely in the federal and State governments: 32% is owned by the federal government, 28% is held as Federal Trust Land (Indian), 17% is in private ownership and 13% is held by the State, leaving approximately 10% held in other categories.

The State is divided into fifteen counties. Two of these counties, namely Maricopa County and Pima County, are more urban in nature and account for approximately 76% of total population and 82% of total wage and salary employment in Arizona. Located within Maricopa County is the greater Phoenix metropolitan area, which consists of the City of Phoenix, the ninth largest city in the United States, and the surrounding cities of Scottsdale, Tempe, Mesa, Glendale, Chandler, Peoria, Gilbert and Avondale. Located within Pima County is the Tucson metropolitan area, which is dominated by the City of Tucson, the State's second most populous city.

The chart below depicts the population growth since 1950 of the State and its most populous political subdivisions, as compared to that of the United States.

Population Profile

<u>Area</u>	<u>1950</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>1992</u>	<u>Percent Change</u>	
						<u>Est. (1)</u>	<u>1950-92</u>	<u>1980-92</u>
Phoenix	106,818	439,170	584,303	789,704	983,403	1,020,295	855.17%	29.20%
Maricopa County	331,770	663,510	971,228	1,509,175	2,122,101	2,233,700	573.27%	48.01%
Tucson	45,454	212,892	262,933	330,537	405,390	424,180	833.21%	28.33%
Pima County	141,216	265,660	351,667	531,443	666,880	700,250	395.87%	31.76%
State of Arizona	749,587	1,302,161	1,775,399	2,718,215	3,665,228	3,858,825	414.79%	41.96%
United States	151,325,798	179,323,175	203,302,031	226,545,805	248,709,873	255,081,838	68.56%	12.60%

(1) Population figures are estimated as of December 1992.

Source: Population figures prior to 1992 are from the U.S. Department of Commerce, Bureau of Census. The 1992 estimated population figures for Maricopa County and the State of Arizona are from the Arizona Department of Economic Security.

Over the last two decades, the population growth in the Phoenix and Tucson metropolitan areas has been particularly significant and compares favorably with other metropolitan areas as cited in the following chart.

**Population of
Metropolitan Statistical Areas
(in thousands)**

	% Growth				
	<u>7-1-70</u>	<u>7-1-80</u>	<u>7-1-90</u>	<u>1970-80</u>	<u>1980-90</u>
Phoenix, AZ	971.2	1,509.3	2,122.1	54.0	40.6
Tucson, AZ	351.7	531.4	666.8	51.1	25.5
Albuquerque, NM	318.3	420.3	480.6	32.0	14.3
Atlanta, GA	1,695.0	2,138.1	2,833.5	26.1	32.5
Austin, TX	363.2	536.7	781.6	47.8	45.6
Dallas, TX	1,560.7	1,957.4	2,553.3	25.4	30.4
Denver - Boulder, CO	1,112.7	1,618.5	1,848.3	45.5	14.2
El Paso, TX	360.5	479.9	591.6	33.1	23.3
Greensboro - Winston Salem - High Point, NC	745.4	851.4	942.14	14.2	10.7
Houston, TX	1,901.8	2,734.6	3,301.9	43.8	20.7
Lansing - East Lansing, MI	379.0	419.8	432.6	10.8	3.0
Little Rock - North Little Rock, AR	383.4	474.5	513.1	23.8	8.1
Los Angeles - Long Beach, CA	7,042.8	7,477.4	8,863.2	6.2	18.5
Memphis, TN	835.7	913.5	981.7	9.3	7.5
Minneapolis - St. Paul, MN	1,986.1	2,137.1	2,464.1	7.6	15.3
Portland, OR	920.8	1,105.8	1,239.8	20.1	12.1
Raleigh - Durham, NC	448.2	561.3	735.5	25.2	31.0
Salt Lake City - Ogden, UT	687.8	910.2	1,072.2	32.3	17.8
San Antonio, TX	893.9	1,072.1	1,302.1	19.9	21.5
San Diego, CA	1,366.0	1,861.8	2,498.0	36.3	34.2
San Francisco, CA	1,478.1	1,488.9	1,603.7	.7	7.7
San Jose, CA	1,071.4	1,295.1	1,497.5	20.9	15.6
Tulsa, OK	526.4	657.2	708.9	24.8	7.9

Source: Economic Planning Division, The Valley National Bank of Arizona (now Bank One, Arizona, NA) and Data Resources.

Equally important to the State's development is the diversity of its economic growth. As the growth in the mining and agricultural employment sectors has diminished over the last twenty-five years, significant job growth has occurred in the areas of aerospace and high technology, construction, finance, insurance and real estate.

The chart below indicates the relative non-agricultural wage and salary employment structure through July, 1993 of Maricopa County, Pima County and the State compared to the United States as a whole.

**1993 Non-Agricultural Wage and Salary Employment*
Percent Distribution**

<u>Employment Sector</u>	<u>Maricopa County</u>	<u>Pima County</u>	<u>State of Arizona</u>	<u>United States</u>
Manufacturing	12.67%	8.90%	11.07%	16.12%
Mining	.08	.74	.81	.55
Construction	5.60	5.87	5.50	4.08
Goods Producing	18.35	15.51	17.39	20.75
Transportation, Communications and Public Utilities	5.35	4.15	5.05	5.18
Trade	24.86	23.80	24.70	23.50
Finance, Insurance and Real Estate	7.54	4.34	6.20	6.00
Services	29.30	29.60	28.26	27.45
Government	14.60	22.60	18.40	17.10
Service Producing	81.65	84.49	82.61	79.25
Total	100.00%	100.00%	100.00%	100.00%

*Average through July 1993.

Source: Arizona Department of Economic Security, U.S. Department of Commerce.

Over the past decade, Arizona's two major metropolitan areas have diversified their employment base to buffer against the cyclical nature of various industries and markets. As the chart below indicates, the growth of the Phoenix and Tucson metropolitan statistical areas has historically compared favorably with that of the average for the United States, as well as other major metropolitan areas, during periods of both economic contraction and expansion. The recessionary and growth periods shown are as determined by economists from The Valley National Bank of Arizona (now Bank One, Arizona, NA), Data Resources and the WEFA Group.

**Percentage Change in
Non-Agricultural Wage & Salary Employment
Metropolitan Statistical Area
Not Seasonally Adjusted**

	RECESSION PERIODS				GROWTH PERIODS			
	Jan. 1970 to Nov. 1970	Nov. 1973 to Mar. 1975	Jan. 1980 to Nov. 1982	July 1990 to Mar. 1991	Nov. 1970 to Nov. 1973	Mar. 1975 to Jan. 1980	Nov. 1982 to July 1990	Mar. 1991 to Feb. 1993
U.S. Average	1.1%	-3.7%	-0.2%	-1.8%	10.9%	18.3%	22.5%	0.7%
Phoenix, AZ	2.1	-5.6	6.0	2.5	35.3	47.1	45.5	1.1
Tucson, AZ	4.6	0.7	5.3	7.7	33.0	27.1	25.9	4.7
Albuquerque, NM	-	-	-	-0.3	-	-	30.3	3.2
Atlanta, GA	2.1	-7.3	7.7	-2.5	19.2	35.3	40.7	5.6
Austin, TX	5.9	6.1	18.3	4.5	26.4	31.9	33.8	8.3
Dallas, TX	-	-	9.6	0.2	-	-	24.8	2.1
Denver - Boulder, CO	5.9	-2.7	8.9	0.6	23.4	30.6	12.3	4.4
El Paso, TX	4.3	1.1	3.4	1.0	19.8	22.2	25.2	6.2
Houston, TX	-	-	10.3	0.8	-	39.7	8.5	0.0
Los Angeles - Long Beach, CA	-2.4	-3.1	-2.6	-3.4	9.2	20.5	20.0	-7.3
Oakland, CA	-	-	-	-1.1	-	-	32.6	-3.8
Portland, OR	0.6	-2.0	-5.6	-0.6	16.3	27.6	22.1	2.1
Salt Lake City - Ogden, UT	-	0.9	3.4	1.0	-	23.8	27.9	5.5
San Antonio, TX	2.1	0.0	8.9	1.5	14.4	25.6	22.4	6.7
San Diego, CA	1.6	1.7	2.8	-0.8	19.3	37.0	48.3	-4.7
San Francisco, CA	-0.4	-0.4	1.1	-2.4	6.1	16.9	11.2	-4.4
San Jose, CA	0.6	-0.7	7.4	-2.3	22.6	44.2	19.2	-6.1
Seattle, WA	-8.1	2.6	-1.1	-1.5	10.3	37.1	46.1	1.8

Source: Economic Planning Division, The Valley National Bank of Arizona (now Bank One, Arizona, NA) and Data Resources, Inc. and the WEFA Group.

Arizona's economy, as reflected by several key economic variables, has continued to grow in recent years, although at a slower rate of growth than was experienced in earlier periods. The following table shows the performance of several key economic variables for the State of Arizona for the most recent six year period.

**Arizona Economic Variables
(In thousands¹)**

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Personal Income	\$48,425,000	\$52,345,000	\$56,353,000	\$59,732,000	\$63,249,000	\$66,115,000
Per Capita Income	14,007	14,751	15,640	16,200	16,594	17,119 ³
Retail Sales ²	15,390,012	16,005,274	17,413,030	17,669,879	18,068,699	\$19,400,097
Secondary Assessed Valuation	19,339,010	20,817,296	22,333,861	22,533,348	22,188,831	21,934,246
Value of Building Permits	5,107,057	4,598,419	3,797,744	3,701,687	3,627,492	4,627,431

¹ All numbers are in thousands with the exception of per capita figures.

² Excludes food sales and gas tax.

³ Preliminary.

Source: Economic Planning Division, The Valley National Bank of Arizona; Arizona State University Center for Real Estate; Arizona Department of Revenue; Arizona State University Center for Research; Arizona Department of Economic Security.

MARICOPA COUNTY

Maricopa County is Arizona's most populous county. It is located in the central portion of Arizona and comprises an area of 9,226 square miles, making it larger than the states of Massachusetts, Connecticut and Delaware combined. Maricopa County was established in 1871 and derives its name from one of Arizona's Indian tribes. The principal geographic features of Maricopa County are the broad river valleys of the Salt and Gila rivers and a number of rugged mountain ranges. Within Maricopa County's boundaries lies the greater metropolitan Phoenix area, known as The Valley of the Sun due to the area's climate. The metro area consists primarily of the city of Phoenix, the ninth largest city in the United States, and the surrounding cities of Scottsdale, Tempe, Mesa, Glendale, Chandler, Peoria, Gilbert and Avondale. The Arizona Department of Economic Security reported the total population of Maricopa County for 1992 at 2,233,700, representing approximately 58% of Arizona's total population.

Over the last several decades, the Phoenix Metropolitan Area has experienced substantial population growth. In line with this growth, the County's economy has expanded, with 8,200 jobs created in the Phoenix area from July 1990 to July 1991. However, during 1991 and 1992, Maricopa County's civilian labor force and total employment decreased slightly. The average number of people employed in the County for 1992 was 981,400, down from 984,300 in 1991. Through September 1993, 1,000,900 people were employed in the County, and the unemployment rate was 6.5%. Unemployment for 1992 averaged 6.3%, as compared to 7.4% nationally, continuing the trend that since 1977 Maricopa County's average annual unemployment rate has been below the national average.

The following chart depicts Maricopa County's non-agricultural wage and salary employment structure since 1988.

**Non-Agricultural Wage and Salary Employment
(Yearly Average)
Maricopa County**

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993(a)</u>
Manufacturing	138,300	139,300	138,900	132,200	125,800	126,800
Mining	700	900	800	700	800	800
Construction	64,200	57,900	55,400	51,100	54,300	56,100
Transportation, Communication & Public Utilities	51,400	53,600	58,800	57,300	55,300	53,500
Trade	238,400	247,600	247,600	247,900	244,600	248,800
Finance, Insurance & Real Estate	74,900	74,300	75,400	74,000	73,200	75,500
Services & Miscellaneous	247,800	262,700	273,900	280,600	284,000	293,300
Government	<u>122,900</u>	<u>126,800</u>	<u>134,600</u>	<u>140,500</u>	<u>143,400</u>	<u>146,100</u>
Total Wage & Salary	<u>938,600</u>	<u>963,100</u>	<u>985,400</u>	<u>984,300</u>	<u>981,400</u>	<u>1,000,900</u>

(a) Annual average through September.

Source: U.S. Department of Labor, Bureau of Labor and the State of Arizona Department of Economic Security, Resource Administration.

Good transportation facilities, a substantial pool of available labor, a variety of support industries, and a warm climate have made Maricopa County and the Phoenix metropolitan area not only the major economic center in Arizona, but a major business center in the southwestern United States. Located within the Phoenix metropolitan area is Arizona State University, the fifth largest institution of higher learning in the United States. The University's main campus is located in the City of Tempe and a branch campus was opened in the fall of 1987 in the City of Phoenix. In addition to Arizona State University, there are nine junior college campuses and four private colleges and graduate schools located within Maricopa County.

Over the last decade, Maricopa County has become a center for high technology and electronics-related manufacturing. Firms such as Bull HN Information Systems, Inc., Honeywell Commercial Flight Systems Group, Unisys Corporation, Allied Signal Aerospace Company, Motorola, Inc., Gould Electronics, Intel Corporation, and McDonnell Douglas Helicopter Company have office and manufacturing facilities in Maricopa County.

Maricopa County is also a major tourist center. Excellent tourist accommodations, scenic attractions and climate attract millions of visitors to the area annually. The development of the Phoenix convention center and Maricopa County's proximity to many of Arizona's natural wonders, as well as to Las Vegas, Southern California and Mexico make it a natural tourist center for the entire Southwest. For 1992, it is estimated that tourism and travel expenditures accounted for approximately \$3.7 billion in revenues for the County's economy.

**Tourist Expenditures in Maricopa County
(\$ in millions)**

<u>Year</u>	<u>Maricopa County*</u>	<u>State of Arizona</u>
1992	\$3,700	\$7,400
1991	3,600	7,200
1990	3,500	6,800
1989	3,400	6,200
1988	3,300	5,500
1987	2,900	5,100
*Estimate		

Source: Arizona Office of Tourism and Economic Planning Division, The Valley National Bank of Arizona (now Bank One, Arizona, NA).

CITY OF PHOENIX

The City of Phoenix is the capital city of Arizona, the county seat of Maricopa County, the largest city in Arizona and the ninth largest city in the United States. Phoenix encompasses an area of approximately 427 square miles and has an estimated 1992 population of 1,020,295 persons as reported by the Arizona Department of Economic Security. The Phoenix metropolitan area is Arizona's dominant population, economic and political center and geographically accounts for the major portion of Maricopa County. The Arizona Department of Economic Security reported total population of the Phoenix metropolitan area for 1992 at 2,233,700.

Phoenix is one of the Southwest's primary population, commerce and education centers. Phoenix is both a manufacturing and an agricultural hub with a diversified economic base which is not dependent on any single industry. While manufacturing is the area's leading source of income, construction, services, tourism, commerce, finance, agriculture, government and education all make contributions to the Phoenix economy.

The Phoenix area has become one of the fastest growing regional markets in the country. More than 3,100 manufacturers and wholesalers are located in the metropolitan area employing 125,800, or 74.4% of the State's total manufacturing employment in 1992. Similar to Maricopa County as a whole, this growth has been stimulated by a favorable combination of warm climate, a substantial pool of available labor, good transportation facilities and a variety of support industries. The combination of a fine supporting infrastructure and a growing regional market has attracted a variety of manufacturers. The metropolitan area is home to over eighty national and regional headquarters, ranging from major hotel and restaurant chains to high-tech manufacturers and airlines.

The Phoenix area is served by Sky Harbor International Airport. Sky Harbor accommodates 10 major airlines and 7 regional airlines. A fourth terminal has been added to Phoenix Sky Harbor in order to meet the increasing passenger traffic and also to expand the number of destination points with additional air carrier service. It also serves as the hub and corporate headquarters for America West Airlines. In June 1991, America West filed for protection under Chapter 11 of the United States Bankruptcy Code. Newspaper reports published since the date of the filing have indicated, among other actions, that America West is restructuring its operations, including reducing the number of persons employed and the destinations served. The effect of these actions on the continued operation of America West cannot be determined.

Phoenix operates a convention and cultural center located on six square blocks in downtown Phoenix. Construction and recent expansion of this facility has added significantly to the attractiveness of Phoenix as a major national convention center. Recently completed in the Phoenix downtown area is a new arena which accommodates the Phoenix Suns professional basketball team. Phoenix and Maricopa County offer various athletic and sporting activities along with professional basketball, including professional football, spring training for several major league baseball teams, minor league baseball, dog racing, horse racing, automobile racing and major college sporting events.

PIMA COUNTY

Pima County is located in south central Arizona. It is the second most populous county in Arizona and comprises approximately 9,240 square miles. The County's 1992 population as reported by the Arizona Department of Economic Security is 700,250, representing nearly 18.2% of Arizona's estimated total population. From 1980 to 1990, Pima County's population increased approximately 25%, making it one of the fastest growing counties in Arizona and the nation. Pima County's diverse economic base is comprised predominantly of manufacturing, mining, government, agriculture, tourism, education and finance.

Over the past few decades, the Tucson Metropolitan area has also experienced substantial economic growth. The metropolitan area's economy leveled off to a moderate rate of growth in the late 1980's with additional slow down of growth in recent years. The unemployment rate for 1992 averaged 5.2% compared to the State's level of 7.4% and 7.4% for the United States.

The economy of the County is based largely on government employment and on a variety of service industries, wholesale and retail trade, agriculture, manufacturing, tourism, and mining. Figures from the Arizona Department of Economic Security indicate that 265,700 persons were employed, on average, in the County in 1992 and 269,400 through September 1993. The average employment levels in the County for 1991 and 1990 were 260,900 and 254,000, respectively.

The manufacturing and mining sectors in the County have experienced some contraction, but continue to contribute to the County's economy. High-tech industries dominate the manufacturing sector, however, most of the reductions in employment have occurred in defense-related manufacturers. Arizona, and particularly Pima County, produces a major portion of the nation's copper supply. Although cyclical in nature, the industry's direct economic impact statewide for 1992 was \$1.73 billion and is expected to be similar in 1993.

The government employment sector has continued to experience growth despite the stabilization or contraction of other employment sectors and represents approximately 23% of the County's wage and salary employment. Significant contributors to government employment are the Davis-Monthan Air Force Base and the State, County and the City of Tucson.

The University of Arizona, as the major employer in the County, is a stabilizing factor for the County's economy. The University provides almost 10,000 jobs to the area and is an important link to the economic growth of Pima County. Its presence as a research university has assisted in attracting new business enterprises to the area. Also located in the County is Pima Community College, which is a branch of the Arizona State Community College System.

The following chart depicts Pima County's non-agricultural wage and salary employment structure since 1988.

**Non-Agricultural Wage and Salary Employment
(Yearly Average)
Pima County**

<u>Industry</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993(a)</u>
Manufacturing	30,400	27,900	26,500	25,600	23,900	24,000
Construction	17,100	15,500	14,800	15,300	14,900	15,800
Transportation, Communication & Public Utilities	9,100	9,400	9,500	10,000	10,600	11,200
Wholesale & Retail Trade	57,000	58,900	60,200	61,300	63,900	64,100
Finance, Insurance & Real Estate	12,200	11,700	11,700	11,700	11,700	11,700
Services & Miscellaneous	67,500	71,400	74,000	78,100	77,100	79,700
Government	51,900	53,300	55,100	56,600	61,300	60,900
Mining & Quarrying	<u>1,800</u>	<u>2,100</u>	<u>2,200</u>	<u>2,300</u>	<u>2,300</u>	<u>2,000</u>
Total Wage & Salary Employment	<u>247,000</u>	<u>250,200</u>	<u>254,000</u>	<u>260,900</u>	<u>265,700</u>	<u>269,400</u>

(a) Annual average through September.

Source: U.S. Department of Labor, Bureau of Labor and the State of Arizona Department of Economic Security, Resource Administration.

CITY OF TUCSON

The City of Tucson is the second largest city in Arizona and is the county seat of Pima County. Its population has grown from 262,933 in 1970 to an estimated 424,180 in 1992, and it now encompasses an area of approximately 156 square miles.

Over the past three decades, Tucson has experienced balanced economic growth with overall increases in most economic sectors. Today, manufacturing is one of the predominant contributors to the city's economic base. Good transportation, labor force, resources and climate have all influenced industry to locate in or near Tucson. Major firms located in or near Tucson include Hughes Aircraft Company, AiResearch, Burr-Brown Research Corporation, National Semiconductor and Krueger Division/Philips Industries.

The University of Arizona is located in Tucson and for the 1993 Fall Semester enrollment was in excess of 35,000 students. The educational community of Tucson is further enhanced through the facilities of the Pima County Community College System and various research institutions and vocational training facilities.

The city is served by 10 airlines at the Tucson International Airport and by the main freight line of the Southern Pacific Railway. Amtrak's southern U.S. route also stops in Tucson. In addition, 50 freight lines and two transcontinental bus lines serve the area. Tucson and Pima County are traversed by Interstate 10, the transcontinental all-weather route through the Southern United States; Interstate 19, which is an important travel route to the Republic of Mexico; and U.S. Highways 80, 84, 86, 89 and 93.

Tourism has always been an important source of income to Tucson's economy. The City's climate, historical sites, location and proximity to vacation areas in California and other destinations contribute to attracting vacationers, conventioners and other visitors. The metropolitan Tucson Convention and Visitors Bureau estimates that over 175,000 convention delegates visited the Tucson area in Fiscal Year 1992-93. In the Tucson area, there are 138 hotels and resorts with approximately 12,200 rooms. According to the State of Arizona's Department of Tourism, \$1.37 billion and \$1.40 billion in tourism dollars were spent in Pima County in 1991 and 1992, respectively. For the fiscal year ending June 30, 1992, hotel/ motel taxable sales in the County were in excess of \$165.3 million. Points of interest, recreational sites and sight-seeing attractions include the Arizona-Sonora Desert Museum, the Old Tucson movie set, Kitt Peak National Observatory, Pima Air Museum, Saguaro National Monument, Mission San Xavier del Bac, Mount Lemmon, Sabino Canyon and numerous golf courses and resorts.

APPENDIX B

ADDITIONAL INFORMATION REGARDING REVENUES AND THE ARIZONA DEPARTMENT OF TRANSPORTATION

ARIZONA HIGHWAY USER REVENUE FUND

The Arizona Highway User Revenue Fund serves as the depository fund for various revenues which are distributed to the Arizona Highway Fund, the counties, and the cities and towns of the State for financing highway improvements and other highway purposes. After the revenues are collected, they are transferred by the Department to the State Treasurer who then deposits them in the Arizona Highway User Revenue Fund.

The revenues which are deposited in the Arizona Highway User Revenue Fund and which, to the extent they are deposited into the Arizona Highway Fund, constitute Pledged Revenues, include (i) motor vehicle fuel tax revenues, (ii) motor vehicle registration fee revenues, (iii) motor carrier tax revenues, (iv) a portion of motor vehicle license (in lieu) taxes, (v) certain excess license and sales tax collections, and (vi) motor vehicle operators' license fees and miscellaneous fees and revenues.

The following tables provide historical and projected revenues deposited or projected to be deposited to the Arizona Highway User Revenue Fund and the distribution of such revenues to the Arizona Highway Fund, counties, cities, towns and other recipients.

Historical Distribution of Revenues. The following table sets forth the historical distribution of the revenues which were deposited in the Arizona Highway User Revenue Fund for each of the last ten fiscal years ended June 30, 1993.

**Historical Distribution of the
Arizona Highway User Revenue Fund
(000's)**

<u>Fiscal Year</u>	<u>Arizona Highway Fund</u>	<u>Cities and Towns</u>	<u>Counties</u>	<u>Department of Public Safety (1)</u>	<u>Economic Strength Project Fund (2)</u>	<u>Mandatory Insurance Transfer (4)</u>	<u>Total</u>
1993	\$355,304	\$210,531	\$124,468	\$24,928	\$1,000	\$1,212	\$717,443
1992	339,807	201,394	119,068	12,453	1,000	1,473	675,195
1991	346,867	208,708	123,746		500		679,821
1990	329,698	209,767	124,092		500		664,057
1989	320,821	204,112	121,052		500		646,485
1988	292,767	197,472	117,144				607,383
1987	279,870	188,643	111,515				580,028
1986	239,329	167,205	99,540	5,000			511,074 (3)
1985	202,981	146,234	87,304	10,000			446,519
1984	174,188	125,490	74,920	15,000			389,598

- (1) In certain Fiscal Years, the Legislature has authorized the distribution of Arizona Highway User Revenues to the Arizona Department of Public Safety for Highway Patrol expenditures. From June 30, 1986 through June 30, 1991, no distribution was made from the Arizona Highway User Revenue Fund to the Department of Public Safety.
- (2) The Economic Strength Project Fund was statutorily established on May 17, 1989. Monies in the fund are to be used for highway projects that provide economic benefits to the State or a local jurisdiction.
- (3) Due to monthly adjustments, the amount distributed may not match the amount collected.
- (4) Appropriation to the Motor Vehicle Division for funding of mandatory insurance enforcement administration.

Source: Arizona Department of Transportation.

Forecast of Distribution of the Arizona Highway User Revenue Fund. The following table sets forth the Department's forecast of distribution from the Arizona Highway User Revenue Fund for each of the forthcoming ten fiscal years through June 30, 2003.

**Forecast of Distribution of the
Arizona Highway User Revenue Fund (1)
(000's)**

<u>Fiscal Year</u>	<u>Arizona Highway Fund</u>	<u>Cities and Towns</u>	<u>Counties</u>	<u>Economic Strength Fund (1)</u>	<u>Department of Public Safety (2)</u>	<u>Mandatory Insurance Enforcement(3)</u>	<u>Total</u>
1994	\$362,090	\$216,313	\$127,946	\$1,000	\$24,928	\$523	\$ 732,800
1995	374,885	224,876	133,039	1,000	20,000	0	753,800
1996	389,920	234,886	138,994	1,000	17,500	0	782,300
1997	412,952	250,844	148,504	1,000	15,000	0	828,300
1998	427,116	260,581	154,303	1,000	12,500	0	855,500
1999	442,041	270,534	160,225	1,000	10,000	0	883,800
2000	457,016	280,644	166,240	1,000	10,000	0	914,900
2001	476,137	293,174	173,689	1,000	10,000	0	954,000
2002	493,449	305,012	180,739	1,000	10,000	0	990,200
2003	511,515	316,949	187,836	1,000	10,000	0	1,027,300

- (1) Monies in the Economic Strength Project Fund are to be used for highway projects that provide economic benefits to the State or a local jurisdiction. Distributions to the fund were increased from \$500,000 to \$1,000,000 beginning with the Fiscal Year 1991-92.
- (2) Reflects the actual amount appropriated to the Department of Public Safety for Fiscal Year 1994 and the maximum annual appropriation allowable under current law for all subsequent Fiscal Years. See "SOURCES AND APPLICATION OF PLEDGED REVENUES - Recent Legislation" for a further discussion.
- (3) Appropriation to the Motor Vehicle Division for funding of mandatory insurance enforcement administration.

Source: Arizona Department of Transportation, Office of Fiscal Planning

Motor Vehicle Registration. The following table sets forth the total number of motor vehicle registrations subject to renewal in the State by type of vehicle for each of the last ten calendar years ending December 31, 1992.

Motor Vehicle Registrations

<u>Calendar Year</u>	<u>Passenger Vehicles</u>	<u>Trucks(1)</u>	<u>Buses and Taxis</u>	<u>Trailers</u>	<u>Motorcycles</u>	<u>Total</u>
1992	1,760,292	711,363	2,704	271,338	63,580	2,809,277
1991	1,827,950	735,814	2,735	262,168	73,514	2,902,181
1990	1,784,458	722,742	2,489	256,785	72,044	2,838,518
1989	1,750,868	719,680	2,406	265,907	73,576	2,812,437
1988	1,719,118	721,860	2,539	269,069	76,091	2,788,677
1987	1,665,833	699,860	2,453	259,090	78,556	2,705,792
1986	1,632,604	679,769	2,275	248,131	80,313	2,643,092
1985	1,567,569	634,836	2,193	232,256	81,997	2,518,851
1984	1,489,321	591,894	2,132	221,994	81,811	2,387,152
1983	1,423,573	554,654	1,972	209,686	77,334	2,267,219

- (1) Includes commercial and non-commercial trucks.
- Source: Arizona Department of Transportation

Fuel Consumption. The following is a summary of the gallons of motor vehicle fuels imported into and consumed in the State, subject to the motor vehicle fuel license tax (primarily gasoline fuel imported into the State) or motor vehicle use fuel tax (primarily diesel fuel consumed in the State), for each of the last ten fiscal years ended June 30, 1993.

**Motor Vehicle Fuels Imported or Consumed
(000's Gallons)**

<u>Fiscal Year</u>	<u>Gasoline Fuel Imported (Net)</u>	<u>Diesel Fuel Consumed</u>	<u>Total</u>	<u>Percentage Change from Previous Year</u>
1993	1,751,092	400,219	2,151,311	+ 4.7%
1992	1,710,440	343,994	2,054,384	+ 0.3%
1991	1,679,757	369,375	2,049,132	+ 2.7%
1990	1,683,766	311,035	1,994,801	- 0.8%
1989	1,708,162	303,399	2,011,561	+ 2.2%
1988	1,670,736	297,564	1,968,300	+ 1.7%
1987	1,653,704	280,925	1,934,629	+ 7.2%
1986	1,531,060	273,233	1,804,293	+ 4.2%
1985	1,485,072	246,194	1,731,266	+ 5.2%
1984	1,421,687	224,751	1,646,438	+ 7.1%

Source: Arizona Department of Transportation

ARIZONA HIGHWAY FUND

The Arizona Highway Fund is a special fund established by State law to account for the majority of the Department's highway related activities and as such serves as the principal operating fund of the Department. Revenues deposited in the Arizona Highway Fund include Pledged Revenues, (which is money transferred from the Arizona Highway User Revenue Fund) federal aid reimbursements and other miscellaneous income. Federal aid reimbursements and such miscellaneous income do not constitute Pledged Revenues. The principal of and interest on the Series 1993A Subordinated Bonds are payable from Pledged Revenues on deposit in the Arizona Highway Fund, as described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1993A SUBORDINATED BONDS."

Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991. The ISTEA legislation provides authorizations for Federal funding of highways, highway safety and mass transportation through 1997. The major features of this Act include the establishment of a National Highway System (NHS), provision of greater flexibility for state and local governments in selecting solutions to transportation problems, expansion of funding for new transportation technologies, continuation of funding for highway and traffic safety projects, increased latitude for use of tolls on Federal-aid projects, and transportation assistance to help achieve air quality standards. It is expected that the Act will result in Federal-aid apportionments of approximately \$1.6 billion to Arizona between 1992 and 1997.

Federal Aid Reimbursements. The various federal assistance programs which provide funds to the Department include assistance for the following: (i) the National Highway System Program (includes interstate maintenance apportionments); (ii) the surface transportation program; (iii) the bridge program; (iv) the congestion mitigation and air quality improvement program; and (v) the federal lands highway program.

Generally, the costs of financing highways for which the Federal government provides assistance is undertaken on a shared basis with the state, with the Federal government providing 90% of the cost of financing when federal-aid funding is used on Interstate Highways and 80% of the costs on other highways or streets functionally classified as principal arterials.

In Arizona, however, the Federal government's share of such costs is increased due to the large amounts of Indian and Federal lands located in the State. Currently, in Arizona, federal funding provides approximately 94% of the construction costs on Interstate routes and approximately 94% of the construction costs on highways or streets functionally classified as principal arterials. Federal aid reimbursements are deposited in the Arizona Highway Fund.

The following table sets forth Federal aid reimbursements to the Arizona Highway Fund for each of the last ten fiscal years ended June 30, 1993.

**FEDERAL AID REIMBURSEMENTS TO THE
ARIZONA HIGHWAY FUND
Fiscal Years ending June 30, 1984 through June 30, 1993
(000's omitted)**

<u>Fiscal Year</u>	<u>Interstate</u>	<u>Primary</u>	<u>Secondary</u>	<u>Other(1)</u>	<u>Total Amount Reimbursed</u>
1993	\$ 16,019	\$18,143	\$2,713	\$108,802	\$145,677
1992	16,214	24,138	1,383	111,313	153,048
1991	88,784	8,383	3,059	60,489	160,715
1990	113,000	12,683	4,325	52,179	182,187
1989	134,730	14,230	7,205	23,956	180,121
1988	171,886	16,534	1,381	9,429	199,230
1987	216,079	31,712	1,036	10,008	258,835
1986	165,044	36,570	7,315	29,581	238,510
1985	159,403	27,110	2,418	11,719	200,650
1984	90,632	10,084	454	7,776	108,946

(1) Includes minimum allocation funds that may be used on either the interstate or primary systems.

Source: Arizona Department of Transportation, Administrative Services Division, Cost Accounting and Federal Aid Services Report

Revenues and Expenditures. The revenues, expenditures and changes in fund balances of the Arizona Highway Fund for the past five fiscal years ended June 30, 1993 are summarized in the following table.

**Arizona Department of Transportation
State Highway Fund
Summary of Revenues, Expenditures and Changes in Fund Balance
Fiscal Years ended June 30, 1989 through June 30, 1993**

	ACTUAL				
	1993	1992	1991	1990 As Restated (1)	1989 As Restated (1)
Revenues:					
Vehicle registration, title, license and related fees	\$ 84,739,469	\$ 77,507,729	\$ 87,932,680	\$ 99,534,600	\$ 93,168,747
Fuel and motor carrier taxes	270,231,219	261,226,435	255,918,377	225,206,889	230,095,717
Reimbursements of construction expenditures, primarily federal aid	156,011,743	145,914,471	165,715,220	177,441,580	171,594,942
Other federal grants and reimbursements	3,419,406	4,349,081	3,643,867	1,707,552	938,090
Reimbursements from Arizona counties, cities, and other state agencies	5,006,589	14,246,310	7,631,716	13,011,899	10,695,775
State appropriations	120,142	119,621	128,576	2,152,700	450,099
Other Distributions from agency funds	1,392,363	1,974,245	-	-	-
Department of Environmental Quality contribution appropriated by State Legislature	400,000	-	-	-	-
Interest income	7,879,529	10,222,666	14,571,580	17,737,879	15,522,296
Other	<u>7,307,350</u>	<u>8,394,751</u>	<u>5,713,108</u>	<u>3,038,041</u>	<u>5,244,055</u>
Total revenues	536,507,810	523,955,309	541,255,124	539,831,140	527,709,721
Expenditures:					
Current:					
Transportation - appropriated by State legislature:					
Motor Vehicle Division	30,775,812	29,588,410	29,311,886	29,864,691	26,861,900
Highway Division (2)	111,188,038	105,725,195	107,434,279	100,225,615	97,543,276
Administrative	38,473,159	34,619,951	32,685,164	31,117,129	29,409,412
Transportation Planning Division	3,588,903	4,046,681	3,716,574	3,426,335	3,525,952
Special Support Group	2,748,891	3,759,464	3,756,093	3,354,838	3,507,749
Director's Division	2,980,978	432,944	338,132	423,186	428,077
Other	<u>1,281,343</u>	<u>2,308,728</u>	<u>408,557</u>	<u>469,649</u>	<u>1,598,376</u>
	191,037,124	180,481,373	177,650,685	168,881,443	162,874,742
Transportation - not appropriated by State legislature					
	3,971,888	1,889,564	6,742,912	2,714,583	1,712,362
Capital outlay - Highway construction (3)	267,508,923	262,491,621	352,944,658	230,656,185	337,042,646
Capital outlay - Land, buildings and improvements - appropriated by State legislature	6,289,769	4,104,651	7,646,577	5,635,891	3,520,784
Capital outlay - Contracts payable	850,184	896,416	1,101,314	6,083,160	-
AZ Department of Public Safety distributions - appropriated by State legislature	18,891,947	29,243,000	23,303,300	1,322,000	1,326,000
Distributions to Arizona counties, cities and other state agencies	<u>224,177</u>	<u>222,005</u>	<u>304,910</u>	<u>2,000,000</u>	<u>-</u>
Total expenditures	<u>488,774,012</u>	<u>479,328,630</u>	<u>569,694,356</u>	<u>417,293,262</u>	<u>506,476,534</u>
Excess (deficiency) of revenues over expenditures	47,733,798	44,626,679	(28,439,232)	122,537,878	21,233,187
Other financing sources (uses):					
Proceeds from contracts payable	850,184	896,416	1,101,314	6,083,160	-
Operating transfers in	7,277,551	4,555,826	5,575,395	-	-
Operating transfers out:					
Debt service	(81,953,255)	(66,576,660)	(57,203,340)	(48,539,083)	(48,720,588)
Other	<u>(16,923,562)</u>	<u>(1,497,523)</u>	<u>(109,641)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(90,749,082)</u>	<u>(62,621,941)</u>	<u>(50,636,272)</u>	<u>(42,455,923)</u>	<u>(48,720,588)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(43,015,284)	(17,995,262)	(79,075,504)	80,081,955	(27,487,401)
Fund Balance, beginning of year, as previously reported	171,772,603	189,419,365	269,729,431	189,143,489	216,219,370
Restatement related to reclassification of funds from general to special revenue (1)	-	-	(1,234,562)	(730,575)	(319,055)
Fund Balance, beginning of year, as restated	171,772,603	189,419,365	268,494,869	188,412,914	215,900,315
Residual equity transfer in	-	348,500	-	-	-
Fund Balance, end of year	<u>\$128,757,319</u>	<u>\$171,772,603</u>	<u>\$189,419,365</u>	<u>\$268,494,869</u>	<u>\$188,412,914</u>

(1) Beginning balances for State Highway fund have been restated due to the reclassification of the County Vehicle License and Abandoned Vehicles funds to special revenue funds.

(2) Includes expenditures for highway maintenance.

(3) Excludes highway and bridge construction funded from the Regional Area Road Fund and bond funds.

Source: Arizona Department of Transportation

ARIZONA'S HIGHWAYS

In the State, four levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties, the cities and towns and various Federal agencies. The State is served by 41,497 miles of public highways, streets and roads administered by the Department, the counties, and the cities and towns. An additional 14,462 miles of public highways, streets and roads in the national forests, national parks, military reservations and Indian Reservations are the responsibility of various Federal agencies, including the United States Forest Service, the United States National Park Service and the Bureau of Indian Affairs.

The State's highways, streets and roads are discussed below, first by the level of government responsible for administering the roadway (State, counties, cities and towns, and Federal agencies), followed by a discussion of the Federal aid system which includes the interstate system, primary, secondary and urban systems. These Federal aid systems are allocated most of the Federal aid highway funds made available to the State.

State Highway System. The State highway system, which is administered by the Department, consists of 6,120 miles of intercity and urban highways and streets connecting cities and major tourist attractions in the State. The most important component of the State Highway System is the interstate system spanning the State from east to west in three corridors (Interstates 8, 10 and 40) and running from south to north (Interstates 17 and 19) to connect Nogales with Tucson, Phoenix and Flagstaff. In addition, the Interstate System in urban areas represents the backbone of the State metropolitan regional highway system. The remaining portion of the State Highway System is composed of U.S. Highways and State Routes that reach every portion of the State, serving the major corridors of travel. Although the State Highway System accounts for only 11% of public roadways within the State, it carries approximately 44% of all vehicular traffic.

The two major metropolitan regions of the State, Maricopa and Pima Counties, are important transportation areas that are critical to the coordination of State highway and local transportation efforts. In the Maricopa County metropolitan area, the Maricopa Association of Governments ("MAG") plays an important role in developing and coordinating the Maricopa County Regional Freeway and Expressway Plan. The current Maricopa County Freeway and Expressway Plan is a part of the overall State highway system described above and represents approximately 231 miles of planned and completed freeways, expressways and highways.

County Highways, Streets and Roads. The public highways, streets and roads of the State's 15 counties total 20,394 miles. These roadways include subdivision streets, multi-lane thoroughfares and rural roads ranging from modern paved highways to dirt roads. The two urban counties, Maricopa and Pima, have extensive urban and suburban systems including heavily traveled arterial roads. By contrast, Apache and Greenlee Counties' road systems consist almost entirely of low volume rural roads. Although the highways, streets and roads of the counties contain approximately 36% of the total miles of the highways, streets and roads in the State, they carry only approximately 10% of the total volume of vehicular traffic. Of the 20,394 total miles, 2,626 miles are classified as arterials or collectors. The remainder are local roads serving predominantly as land access roads.

Cities' and Towns' Streets. The cities' and towns' streets total 14,983 miles. Of that total, 3,301 miles are freeways, arterials and collectors, and the remaining 11,682 miles are local streets. The streets of the cities and towns represent approximately 27% of the State's roadway system and carry approximately 45% of the total volume of vehicular traffic.

The following table sets forth the number of miles of the various categories of public highways and streets, both urban and rural, in the State under the administrative jurisdiction of the Department, the counties and the cities and towns as of December 31, 1992.

STATEWIDE MILEAGE SUMMARY

<u>Urban Highways and Streets</u>					
<u>Functional Classification</u>	<u>Department</u>	<u>Counties</u>	<u>Cities and Towns</u>	<u>Total</u>	<u>% of Total</u>
Interstate	133	0	0	133	0.9
Other Freeways	48	0	6	54	0.4
Other Principal Arterials	110	46	853	1,009	6.7
Minor Arterials	156	12	826	994	6.6
Collectors	20	30	1,595	1,645	10.9
Locals	<u>0</u>	<u>1,083</u>	<u>10,175</u>	<u>11,258</u>	<u>74.5</u>
Total	467	1,171	13,455	15,093	100.0
<u>Rural Highways and Streets</u>					
<u>Functional Classification</u>	<u>Department</u>	<u>Counties</u>	<u>Cities and Towns</u>	<u>Total</u>	<u>% of Total</u>
Interstate	1,036	0	0	1,036	3.9
Other Principal Arterials	1,044	0	0	1,044	3.9
Minor Arterials	2,175	16	0	2,191	8.3
Major Collectors	1,161	2,048	4	3,213	12.2
Minor Collectors	237	474	17	728	2.8
Locals	<u>0</u>	<u>16,685</u>	<u>1,507</u>	<u>18,192</u>	<u>68.9</u>
Total	5,653	19,223	1,528	26,404	100.0
Grand Total	<u>6,120</u>	<u>20,394</u>	<u>14,983</u>	<u>41,497</u>	<u>100.0</u>

Federal Agencies. Various Federal agencies have jurisdiction over approximately 14,462 miles of roadways in the State, including roads constructed and maintained by the United States Forest Service, the United States National Park Service and the Bureau of Indian Affairs. Within the jurisdiction of the United States Forest Service there are two distinct road systems: forest highways and forest development roads. Supervision over construction and maintenance of most roads within the Indian reservations in Arizona is under the control of the United States Bureau of Indian Affairs. The United States National Park Service also builds and maintains roads within the boundaries of the national parks.

Federal Aid System

Under the 1991 ISTEA legislation, the State of Arizona receives most of its Federal-aid under the following programs: the National Highway System (NHS), Surface Transportation Program (STP), Congestion Mitigation & Air Quality Improvement Program (CMAQ), Bridge Replacement and Rehabilitation Program and Federal Lands Highway Program.

National Highway System. The NHS includes the Interstate Highway System, principal arterials connecting air, sea, bus or rail facilities and strategic defense highways.

Each state, in cooperation with local governments, is to propose roads for inclusion in the NHS. All states are to reclassify their highways by function. ADOT's functional classification was approved by the Federal Highway Administration (FHWA) in September, 1993. Current plans call for the FHWA to submit its proposed NHS system map to Congress in December, 1993. Congress will then have two years to act upon the proposal.

Through Federal Fiscal Year 1995, all highways within the State that are functionally classified as principal arterials are to be considered eligible for NHS funds.

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APPENDIX C

**ARIZONA DEPARTMENT OF TRANSPORTATION -
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 1993 WITH
REPORT OF INDEPENDENT AUDITORS**

ARIZONA DEPARTMENT OF TRANSPORTATION

FINANCIAL STATEMENTS

Year ended June 30, 1993

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Report of Independent Auditors

Mr. Larry S. Bonine, Director
Arizona Department of Transportation

We have audited the accompanying component unit financial statements of the Arizona Department of Transportation (Department) at June 30, 1993, and for the year then ended, listed in the table of contents. These component unit financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the component unit financial statements of the Department are intended to present the financial position and results of operations and the cash flows of its proprietary fund types of only that portion of the funds and account groups of the state of Arizona that is attributable to the transactions of the Department.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Arizona Department of Transportation at June 30, 1993, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted primarily for the purpose of forming an opinion on the component unit financial statements taken as a whole. The individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the component unit financial statements of the Department. Such additional information has been subjected to the auditing procedures applied in our audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.



October 8, 1993

Arizona Department of Transportation

Combined Balance Sheet – All Fund Types and Account Groups

June 30, 1993 (with comparative totals for June 30, 1992)

	Governmental Fund Types			
	General (State Highway) Fund	Special Revenue	Debt Service	Capital Projects
Assets				
Cash and cash equivalents on deposit with the State Treasurer	\$105,417,259	\$ 89,256,459	\$ 23,873,236	\$76,003,911
Receivables (net of allowance for uncollectibles):				
Due from U.S. Government for reimbursable construction costs	28,749,871	336,754	-	-
Due from other Arizona Department of Transportation funds	40,204,508	9,061,057	379,904	301,773
Due from Arizona counties, cities and other state agencies	796,337	11,103,052	-	-
Subscriptions receivable	-	-	-	-
Grants receivable	-	35,823	-	-
Accrued interest	1,876,764	824,017	969,259	250,397
Other	1,759,034	125,568	-	-
	<u>73,386,514</u>	<u>21,486,271</u>	<u>1,349,163</u>	<u>552,170</u>
Inventories	4,371,011	-	-	-
Prepaid expenses	-	-	-	-
Fixed assets, net of accumulated depreciation	-	-	-	-
Land held for future highway use	1,473,394	-	-	-
Amount available in debt service funds for retirement of general long-term debt	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-
Total assets	<u>\$184,648,178</u>	<u>\$110,742,730</u>	<u>\$ 25,222,399</u>	<u>\$ 76,556,081</u>

See accompanying notes.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	1993	1992
\$ 6,283,932	\$11,510,653	\$76,836,401	\$ -	\$ -	\$ 389,181,851	\$ 468,611,531
-	-	3,975,029	-	-	33,061,654	20,127,265
-	1,788,628	13,255,512	-	-	64,991,382	46,179,665
-	102,967	9,800,801	-	-	21,803,157	14,136,650
230,958	-	-	-	-	230,958	174,109
-	-	-	-	-	35,823	954,008
132,642	190,516	257,083	-	-	4,500,678	6,367,479
386,129	52,560	3,616,050	-	-	5,939,341	4,390,324
749,729	2,134,671	30,904,475	-	-	130,562,993	92,329,500
2,398,102	2,615,374	-	-	-	9,384,487	10,365,721
277,702	-	-	-	-	277,702	190,089
1,816,514	29,696,114	-	148,799,105	-	180,311,733	168,571,004
-	-	-	-	-	1,473,394	1,522,181
-	-	-	-	25,222,399	25,222,399	23,865,728
-	-	-	-	1,502,837,219	1,502,837,219	1,502,410,835
\$11,525,979	\$45,956,812	\$107,740,876	\$148,799,105	\$1,528,059,618	\$2,239,251,778	\$2,267,866,589

(continued)

Arizona Department of Transportation

Combined Balance Sheet – All Fund Types and Account Groups (continued)

June 30, 1993 (with comparative totals for June 30, 1992)

	Governmental Fund Types			
	General (State Highway) Fund	Special Revenue	Debt Service	Capital Projects
Liabilities, equity and other credits				
Liabilities:				
Construction contracts payable	\$ 29,647,231	\$ 879,885	\$ -	\$ 7,944,937
Accounts payable	7,034,038	2,694,373	-	88,143
Accrued payroll and other accrued expenses	5,225,602	329,224	-	-
Due to:				
Other Arizona Department of Transportation funds	11,773,766	3,109,300	-	726,696
Arizona counties, cities and other state agencies	2,210,222	693,729	-	-
Deferred revenue	-	-	-	-
Surety and rental deposits	-	-	-	-
Bonds payable	-	-	-	-
Contracts payable	-	-	-	-
Long-term accrued vacation leave	-	-	-	-
Total liabilities	55,890,859	7,706,511	-	8,759,776
Commitments and contingencies				
Equity and other credits:				
State Highway Fund contribution	-	-	-	-
Investment in general fixed assets	-	-	-	-
Retained earnings	-	-	-	-
Fund balances:				
Reserved for:				
Bridge construction	-	-	-	-
Highway construction	79,907,000	-	-	-
Inventories	4,371,011	-	-	-
Land held for future highway use	1,473,394	-	-	-
Unreserved, undesignated	43,005,914	103,036,219	25,222,399	67,796,305
Total equity and other credits	128,757,319	103,036,219	25,222,399	67,796,305
Total liabilities, equity and other credits	\$184,648,178	\$110,742,730	\$ 25,222,399	\$ 76,556,081

See accompanying notes.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	1993	1992
\$ -	\$ -	\$ 3,789,929	\$ -	\$ -	\$ 42,261,982	\$ 18,203,272
215,416	2,690,785	1,740,287	-	-	14,463,042	9,396,282
174,471	597,509	33,482	-	-	6,360,288	6,259,819
23,251	55,772	49,302,597	-	-	64,991,382	46,179,665
-	-	43,143,539	-	-	46,047,490	34,774,200
4,129,146	-	-	-	-	4,129,146	4,085,050
-	-	1,982,309	-	-	1,982,309	1,945,847
-	-	-	-	1,518,172,404	1,518,172,404	1,515,341,179
-	-	-	-	2,861,920	2,861,920	4,021,563
-	-	-	-	7,025,294	7,025,294	6,913,821
4,542,284	3,344,066	99,992,143	-	1,528,059,618	1,708,295,257	1,647,120,698
2,038,698	6,038,281	-	-	-	8,076,979	8,047,353
-	-	-	148,799,105	-	148,799,105	137,227,484
4,944,997	36,574,465	-	-	-	41,519,462	39,906,771
-	-	2,449,233	-	-	2,449,233	2,591,764
-	-	5,299,500	-	-	85,206,500	86,959,088
-	-	-	-	-	4,371,011	5,461,539
-	-	-	-	-	1,473,394	1,522,181
-	-	-	-	-	239,060,837	339,029,711
6,983,695	42,612,746	7,748,733	148,799,105	-	530,956,521	620,745,891
\$11,525,979	\$45,956,812	\$107,740,876	\$148,799,105	\$1,528,059,618	\$2,239,251,778	\$2,267,866,589

Arizona Department of Transportation

Combined Statement of Revenues, Expenditures and Changes in Fund Balances –
All Governmental Fund Types and Expendable Trust Funds

Year ended June 30, 1993 (with comparative totals for the year ended June 30, 1992)

	Governmental Fund Types			
	General (State Highway) Fund	Special Revenue	Debt Service	Capital Projects
Revenues:				
Transportation excise tax	\$ -	\$127,273,318	\$ -	\$ -
Vehicle registration, title, license and related fees	84,739,469	11,859,822	-	-
Fuel and motor carrier taxes	270,231,219	-	-	-
Reimbursements of construction expenditures, primarily federal aid	156,011,743	-	-	-
Other federal grants and reimbursements	3,419,406	3,228,203	-	-
Reimbursements from Arizona counties, cities and other state agencies	5,006,589	10,022,977	-	-
State appropriations	120,142	-	-	-
Other distributions from agency funds	1,392,363	1,219,100	-	-
Department of Environmental Quality contribution - appropriated by State legislature	400,000	-	-	-
Interest income	7,879,529	2,786,723	2,363,735	5,529,898
Other	7,307,350	15,698,690	-	-
Total revenues	536,507,810	172,088,833	2,363,735	5,529,898
Expenditures:				
Current:				
Transportation-appropriated by State legislature	191,037,124	1,464,637	-	-
Transportation-not appropriated by State legislature	3,971,888	26,828,853	-	-
Capital outlay- highway construction	267,508,923	24,905,655	-	125,265,521
Capital outlay-land, buildings and improvements - appropriated by State legislature	6,289,769	16,314	-	-
Capital outlay-contracts payable	850,184	-	-	-
Department of Public Safety distributions - appropriated by State legislature	18,891,947	-	-	-
Debt service:				
Principal on bonds	-	-	73,515,000	-
Interest on bonds	-	-	95,168,819	-
Bond issue costs	-	-	972,884	810,800
Refunding bond issuance costs	-	-	2,409,353	-
Payment to refunded bond escrow agent	-	-	7,564,386	-
Distributions to Arizona counties, cities and other state agencies	224,177	6,132,202	-	-
Other	-	-	-	-
Total expenditures	488,774,012	59,347,661	179,630,442	126,076,321
Excess (deficiency) of revenues over expenditures	47,733,798	112,741,172	(177,266,707)	(120,546,423)
Other financing sources (uses):				
Proceeds from sale of bonds	-	-	-	30,753,482
Proceeds from contracts payable	850,184	-	-	-
Operating transfers in	7,277,551	16,923,260	175,026,013	-
Operating transfers out	(98,876,817)	(93,261,772)	-	(6,674,295)
Proceeds of refunding bonds	-	-	372,789,457	-
Payment to refunded bond escrow agent	-	-	(369,192,092)	-
Total other financing sources (uses)	(90,749,082)	(76,338,512)	178,623,378	24,079,187
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(43,015,284)	36,402,660	1,356,671	(96,467,236)
Fund balances, beginning of year	171,772,603	66,633,559	23,865,728	164,263,541
Residual equity transfer in (out)	-	-	-	-
Fund balances, end of year	\$128,757,319	\$103,036,219	\$ 25,222,399	\$ 67,796,305

See accompanying notes.

Fiduciary Fund		Totals (Memorandum Only)	
Types			
Expendable Trust	1993	1992	
\$ -	\$ 127,273,318	\$116,496,624	
-	96,599,291	89,260,813	
-	270,231,219	261,678,006	
20,747,980	176,759,723	165,965,258	
-	6,647,609	8,717,842	
4,703,838	19,733,404	18,392,975	
-	120,142	119,621	
-	2,611,463	2,074,245	
-	400,000	-	
-	18,559,885	22,421,836	
42,842	23,048,882	19,526,974	
25,494,660	741,984,936	704,654,194	
-	192,501,761	182,200,729	
-	30,800,741	28,902,784	
26,246,339	443,926,438	450,793,231	
-	6,306,083	4,129,878	
-	850,184	896,416	
-	18,891,947	29,243,000	
-	73,515,000	64,595,000	
-	95,168,819	94,500,934	
-	1,783,684	3,223,470	
-	2,409,353	97,273	
-	7,564,386	2,232,000	
-	6,356,379	6,139,405	
114,198	114,198	-	
26,360,537	880,188,973	866,954,120	
(865,877)	(138,204,037)	(162,299,926)	
-	30,753,482	263,607,206	
-	850,184	896,416	
-	199,226,824	166,554,506	
(414,242)	(199,227,126)	(166,554,506)	
-	372,789,457	74,505,697	
-	(369,192,092)	(74,307,032)	
(414,242)	35,200,729	264,702,207	
(1,280,119)	(103,003,308)	102,402,361	
9,028,852	435,564,283	333,847,746	
-	-	(685,824)	
\$7,748,733	\$332,560,975	\$435,564,283	

Arizona Department of Transportation

Combined Statement of Revenues and Expenditures – Budget and Actual (Budget Basis) –
General and Budgeted Special Revenue Funds

Year ended June 30, 1993

	General (State Highway) Fund			Special Revenue Funds		
	Budget	Actual Non-GAAP	Variance Favorable (Unfavorable)	Budget	Actual Non-GAAP	Variance Favorable (Unfavorable)
Revenues:						
Vehicle registration, title, license and related fees	\$ 93,102,000	\$ 84,727,114	\$ (8,374,886)	\$ 1,701,000	\$ 1,761,382	\$ 60,382
Fuel and motor carrier taxes	256,560,000	267,736,025	11,176,025	554,000	396,733	(157,267)
Interest income	-	-	-	1,316,000	1,362,377	46,377
Flight property tax	-	-	-	12,896,000	11,329,977	(1,566,023)
Grand Canyon Airport income	-	-	-	1,011,000	853,032	(157,968)
Other	-	-	-	32,000	183,508	151,508
Total revenues	349,662,000	352,463,139	2,801,139	17,510,000	15,887,009	(1,622,991)
Expenditures appropriated by State legislature in 1993 budget:						
Transportation:						
Director's Office	3,318,700	2,970,201	348,499	-	-	-
Transportation Planning Division	3,716,200	3,593,186	123,014	-	-	-
Administrative Services Division	39,800,168	39,571,031	229,137	-	-	-
Special Support Group	2,800,900	2,739,017	61,883	-	-	-
Motor Vehicle Division	32,605,087	30,812,822	1,792,265	236,600	138,523	98,077
Highways Division	112,532,900	110,159,881	2,373,019	-	-	-
Aeronautics Division	-	-	-	1,530,100	1,335,233	194,867
Air Quality Programs	70,000	58,158	11,842	-	-	-
General Fund Programs	69,700	61,985	7,715	-	-	-
	194,913,655	189,966,281	4,947,374	1,766,700	1,473,756	292,944
Capital outlay - land, build- ings and improvements:						
Highway	16,995,490	6,289,769	10,705,721	-	-	-
Aviation	-	-	-	31,948	16,361	15,587
Department of Public Safety transfers						
	19,297,500	18,891,947	405,553	-	-	-
Expenditures appropriated by State legislature by carryover of previous years' unexpended budgets						
	494,869	494,869	-	-	-	-
Total expenditures	231,701,514	215,642,866	16,058,648	1,798,648	1,490,117	308,531
Excess of revenues over expenditures	\$117,960,486	\$136,820,273	\$18,859,787	\$15,711,352	\$14,396,892	\$(1,314,460)

See accompanying notes.

Arizona Department of Transportation

Combined Statement of Revenues, Expenses and
Changes in Retained Earnings – All Proprietary Fund Types

Year ended June 30, 1993 (with comparative totals for the year ended June 30, 1992)

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	Internal Service	1993	1992
Operating revenues:				
Equipment rentals	\$ -	\$22,324,386	\$22,324,386	\$21,371,307
Warehouse supply billings	-	1,502,096	1,502,096	1,465,977
Magazine sales	5,558,908	-	5,558,908	5,431,340
Sales of calendars and other merchandise	3,929,272	-	3,929,272	3,556,623
List rentals	100,943	-	100,943	164,318
Other miscellaneous revenue	323,064	1,922,401	2,245,465	2,180,885
Total operating revenues	9,912,187	25,748,883	35,661,070	34,170,450
Operating expenses:				
Equipment operations	-	17,922,638	17,922,638	17,045,225
Warehouse operations	-	1,433,550	1,433,550	1,363,319
Cost of sales	8,911,384	-	8,911,384	8,371,603
General and administrative	1,113,159	-	1,113,159	1,109,918
Depreciation	245,172	5,521,824	5,766,996	5,393,998
Total operating expenses	10,269,715	24,878,012	35,147,727	33,284,063
Operating income (loss)	(357,528)	870,871	513,343	886,387
Nonoperating revenue:				
Interest	404,448	551,715	956,163	887,833
Gain on sale of fixed assets	-	142,883	142,883	51,690
Total nonoperating revenue	404,448	694,598	1,099,046	939,523
Income before operating transfers	46,920	1,565,469	1,612,389	1,825,910
Operating transfers in	-	302	302	-
Net income	46,920	1,565,771	1,612,691	1,825,910
Retained earnings, beginning of year	4,898,077	35,008,694	39,906,771	39,011,161
Residual equity transfer out	-	-	-	(930,300)
Retained earnings, end of year	\$ 4,944,997	\$36,574,465	\$41,519,462	\$39,906,771

See accompanying notes.

Arizona Department of Transportation

Combined Statement of Cash Flows – All Proprietary Fund Types

Year ended June 30, 1993 (with comparative totals for the year ended June 30, 1992)

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	Internal Service	1993	1992
Cash flows from operating activities				
Operating income (loss)	\$ (357,528)	\$ 870,871	\$ 513,343	\$ 886,387
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	245,172	5,521,824	5,766,996	5,393,998
Changes in assets and liabilities:				
(Increase) decrease in due from other Arizona Department of Transportation funds	-	807,327	807,327	(767,629)
(Increase) decrease in due from other State agencies	-	(26,776)	(26,776)	19,191
(Increase) decrease in other receivables	(160,632)	31,804	(128,828)	45,712
(Increase) decrease in inventories	(187,007)	77,713	(109,294)	(232,548)
Increase in prepaid expenses	(87,613)	-	(87,613)	(30,071)
Increase in accounts payable	71,348	2,009,009	2,080,357	338,094
Increase in accrued payroll and other accrued expenses	5,606	20,697	26,303	50,715
Increase (decrease) in due to other Arizona Department of Transportation funds	(12,857)	29,577	16,720	40,419
Increase in deferred revenue	44,096	-	44,096	321,904
Net cash provided (used) by operating activities	(439,415)	9,342,046	8,902,631	6,066,172
Cash flows from noncapital financing activities				
Operating transfers in	-	302	302	-
Residual equity transfer out	-	-	-	(930,300)
Net cash provided (used) by noncapital financing activities	-	302	302	(930,300)
Cash flows from capital and related financing activities				
Acquisition of fixed assets	(228,458)	(6,148,775)	(6,377,233)	(5,606,341)
Proceeds from sales of fixed assets	-	613,638	613,638	591,085
Net cash used for capital and related financing activities	(228,458)	(5,535,137)	(5,763,595)	(5,015,256)
Cash flows from investing activities				
Interest income	465,103	542,551	1,007,654	746,341
Net cash provided by investing activities	465,103	542,551	1,007,654	746,341
Net increase (decrease) in cash and cash equivalents	(202,770)	4,349,762	4,146,992	866,957
Cash and cash equivalents, beginning of year	6,486,702	7,160,891	13,647,593	12,780,636
Cash and cash equivalents, end of year	\$ 6,283,932	\$ 11,510,653	\$ 17,794,585	\$ 13,647,593

Supplemental Disclosure of Noncash Transactions

Mobile equipment of \$29,626 and \$14,915 was transferred during the 1993 and 1992 fiscal years, respectively, from the General Fixed Assets Account Group to the internal service funds, and recorded as contributed capital.

See accompanying notes.

Arizona Department of Transportation

Notes to Financial Statements

June 30, 1993

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Arizona Department of Transportation (Department) is an agency of the state of Arizona. The Director of the Department serves as the Chief Administrative Officer and is directly responsible to the Governor. The Governor appoints a seven-member State of Arizona Transportation Board (Transportation Board) which has responsibility for establishing a complete system of state highway routes and distributing monies for local airport facilities projects through a grant program.

The Division of Finance of the Arizona Department of Administration controls expenditures and adherence to annual budgets. The State Treasurer controls the cash balances of the Department.

The financial statements of the Department have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The more significant of the Department's accounting policies are described below.

Reporting entity

The Governmental Accounting Standards Board (GASB) requires certain organizations, functions, and activities of government that meet the following criteria to be included in the general purpose financial statements. The criteria are defined as:

1. Manifestation of oversight by:
 - a) financial interdependency
 - b) selection of governing authority
 - c) designation of management
 - d) ability to significantly influence operations
 - e) accountability for fiscal matters

2. Scope of public service by:
 - a) benefits of reporting entity and/or its residents
 - b) geographic boundaries

Applying these criteria, the Department has no component units.

The Department is responsible for the construction and maintenance of all State highways. The Department cooperates with the various cities and counties within the State in the construction and maintenance of State roads and with the Federal Highway Administration in the construction and maintenance of interstate highways. Assistance in the development of local airports, registering motor vehicles and aircraft, licensing drivers and the publishing of the Arizona Highways Magazine are also responsibilities of the Department.

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Fund accounting

The accounts of the Department are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds of the Department are grouped, in the financial statements, into six fund types and two account groups within four categories as follows:

GOVERNMENTAL FUNDS

Governmental Funds are those through which most governmental functions typically are financed. The acquisition, use, and balances of the government's expendable financial resources and the related current liabilities--except those accounted for in proprietary funds--are accounted for through governmental funds (general, special revenue, debt service, and capital projects funds). All governmental funds are accounted for using a current financial resources measurement focus.

Governmental funds are, in essence, accounting segregations of financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "Fund Balance."

General Fund - The State Highway Fund is used to account for all financial transactions applicable to the general operations of the Department. Revenues are received from the following primary sources: motor fuel taxes, sales tax, motor vehicle registrations, licenses and permits, and federal grants. This fund accounts for the general operating expenditures of the Department, including road and bridge repairs, maintenance and construction, planning and development, engineering, and administration.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. Special revenue funds of the Department include the State Aviation Fund, Abandoned Vehicles Fund, Dealer Enforcement Revolving Fund, Mobile Home Administration Revolving Fund, Motorcycle Education Fund, Maricopa Regional Area Road Construction Fund (RARF), Special Number Plate Replacement Fund, Commercial Drivers' License Fund, County Vehicle License Fund, Criminal Background Investigation Administration Fund, Motor Vehicle Liability Insurance Enforcement Fund, and Motor Carrier Safety Revolving Fund.

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Debt service funds include the Highway Improvement Bond Principal Redemption and Interest Fund which accounts for the state of Arizona highway improvement bonds and revenue bonds, and the Maricopa Regional Area Road Bond Fund which accounts for the state of Arizona transportation excise tax revenue bonds.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). The capital projects funds of the Department are the Highway Bond Proceeds Fund, which accounts for transactions related to the issuance and use of the proceeds from the state of Arizona highway improvement bonds and revenue bonds, and the Maricopa Regional Area Road Bond Proceeds Fund, which accounts for the issuance and use of the proceeds from the state of Arizona transportation excise tax revenue bonds.

PROPRIETARY FUNDS

Proprietary funds are used to account for the Department's on-going organizations and activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the Department's business and quasi-business activities--where net income and capital maintenance are measured--are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows.

Enterprise Fund - An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises -- where the intent of the Department is that the costs (including depreciation) of providing goods and/or services to the general public on a continuing basis be financed from sales or other revenues. The only enterprise fund of the Department is the Arizona Highways Magazine Fund.

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Department, or to other governments, on a cost-reimbursement basis. Internal service funds of the Department include the Transportation Department Equipment Revolving Fund and Warehouse Revolving Fund.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the Department in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Expendable trust funds are accounted for using a current financial resources measurement focus.

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Trust and Agency Funds - These funds include expendable trust funds and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds and include the Bridge Construction Fund and the Local Agency Deposits Fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency Funds of the Department include the Motor Vehicle Division Clearing Fund, Highway User Revenue Fund, Underground Storage Tank Fund, Highway Property Rentals - 24 Percent Fund, Highway Trust Right-of-Way Fund, Economic Strength Project Fund, Fiber Optic Cable Repair Fund, Privilege Tax Fund, and the Special Organization Plates Clearing Fund.

ACCOUNT GROUPS

Account groups are used to establish accounting control and accountability for the government's general fixed assets and unmatured principal of its general long-term debt.

General Fixed Assets - Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group, rather than in governmental funds.

General Long-Term Debt - Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group.

Basis of accounting

The modified accrual basis of accounting is used for all governmental fund types, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due. Reimbursements of construction expenditures, due primarily from the federal government on a percentage of costs incurred basis, are recognized when the related obligation is incurred.

Those revenues susceptible to accrual are federal grant revenues, reimbursable county, city and other state agency construction costs incurred by the Department, and other monies received shortly after the end of the fiscal year. Federal grant monies are received after the incurrence of qualifying expenditures. As a result, the federal share of all qualifying goods or services received or performed prior to year end has been accrued. Motor fuel taxes, sales tax, and motor vehicle registrations, licenses and permits are not susceptible to accrual because they are generally not measurable until received in cash.

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

All proprietary funds are accounted for using the accrual basis of accounting. Under this basis, revenues are recorded when they are earned and expenses are recorded when incurred.

Budgets and budgetary accounting

Annual budgets for the operating expenditures and capital outlay - land, building and improvements of the General (State Highway) Fund and the State Aviation Fund (special revenue fund type) and annual budgets for certain operating expenditures of the Abandoned Vehicles Fund and the Dealer Enforcement Revolving Fund (special revenue fund types) are submitted to the Governor in accordance with state law. The budgets are legally enacted as appropriations after approval by the Governor and the legislature. Expenditure budgets are prepared and compliance therewith determined using a modified lump sum format. Personal services, employee related expenditures and other operating expenditures are specifically budgeted within most divisions. In certain divisions, other specific programs are budgeted in addition to these three categories. Amendments to the approved appropriations require legislative approval, however, budget transfers of personal services, employee related expenditures or other operating expenditures, may be made between divisions. Expenditures may not legally exceed these budgeted appropriations. Revenue budgets are developed internally by the Department and are not part of the appropriations process.

The budgets are prepared on the cash basis except that liabilities incurred before the end of the fiscal year and paid within the next calendar month are charged against that fiscal year's budget. All other state appropriations lapse at year end.

For financial reporting purposes, the accompanying financial statements present the legally adopted budget for those operations subject to these legislative appropriations.

A legal limitation is not adopted for capital outlay - highway construction, capital outlay - contracts payable and certain transportation operating expenditures of the State Highway and State Aviation Funds, the other special revenue funds, and all of the debt service funds, capital projects funds, proprietary funds and fiduciary funds. The Department monitors expenditures for such items without legal limitations through an internal budgetary process and the five-year construction program developed by the Transportation Board.

Encumbrance accounting

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable fund balance, is used by the Department as a budgetary control mechanism. However, outstanding encumbrances lapse at year-end. Accordingly, no reserve for encumbrances is reflected in the accompanying financial statements.

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Cash and cash equivalents

The Department's cash and cash equivalents balance is on deposit with the State Treasurer for pooled investment purposes and is not evidenced by securities that exist in physical or book entry form in the Department's name. All investments are carried in the name of the state of Arizona. State statutes require the State Treasurer to invest these pooled funds in collateralized time certificates of deposit, repurchase agreements or obligations of the U.S. Government. All investments are carried at cost, which approximates market.

State statutes require the State Treasurer to maintain separate investment accounts for the portions of the Highway Improvement Bond Principal Redemption and Interest Proceeds Funds relating to the highway revenue bond issues and the Maricopa Regional Area Road Bond Principal Redemption and Interest Proceeds Funds relating to the transportation excise tax revenue bond issues. These funds may be invested in obligations of the U.S. Government.

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments (investments with original maturities of three months or less).

Inventories

The State Highway Fund inventory is valued at cost, which approximates market, using the first-in, first-out (FIFO) method. This inventory is accounted for using the consumption method. Under this method, inventories are recorded as an expenditure as they are used.

Proprietary fund inventories are stated at the lower of cost or market. Costs of enterprise fund inventories consisting of resale products and supplies are generally determined by specific identification and moving average cost methods, respectively. Costs of internal service funds' inventories (consisting of vehicle parts and supplies, fuels and lubricants, and other supplies) are determined by moving average cost.

General fixed assets

General fixed assets purchased are recorded as expenditures in the governmental funds and capitalized at cost in the general fixed assets account group. In recent years, land has been recorded primarily at cost. If cost was not determinable on previously acquired property, estimated cost was used. Other general fixed assets are stated at either actual or estimated cost. Contributed fixed assets are recorded in the general fixed assets account group at estimated fair market value at the date received. Public domain ("infrastructure") general fixed assets consisting of roads and bridges are not capitalized, as these assets are immovable and of value only to the government. No depreciation is provided on general fixed assets.

Property and equipment of the proprietary funds are stated at cost, or estimated historical cost if original cost is not available; and, if donated, are stated at estimated fair market value at the date received. Depreciation is provided using the straight-line method based on estimated useful lives as follows:

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Buildings	40 years
Land and building improvements	20 years
Furniture and fixtures	5 years
Mobile equipment	3-15 years
Shop tools, office and computer equipment, and software	5 years

The cost of additions, improvements, and renewals which substantially extend the useful life of the particular asset are capitalized in the property accounts. Repairs and maintenance expenses are charged to operations as incurred. The cost and related accumulated depreciation of assets sold or otherwise disposed of are eliminated from the property accounts and any resultant gain or loss is recognized in income.

Land held for future highway use

Land held for future highway use consists of certain rights-of-way acquired in prior years as to which specific development plans have not been completed. Such property or parts thereof may be sold at the discretion of the Transportation Board.

Bond premiums and discounts

Premiums or discounts on bond issuances are netted against the bond proceeds in the capital projects funds. The bonds are recorded at their face value in the general long-term debt account group, except in the case of Capital Appreciation bonds. These bonds are initially recorded net of their discount. The discount is amortized over the life of the issue using the interest method.

Deferred revenue

Deferred revenue relates to unearned subscription income associated with the enterprise fund. Unearned subscription income is recorded when subscription orders are received and is amortized into income over the terms of the related subscriptions. Costs associated with the procurement of subscriptions are expensed within the year incurred.

Long-term obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Compensated absences

Employees are permitted to accumulate sick leave in accordance with the policies of the state of Arizona. This policy allows a retiring employee to be paid a total of \$750 for any accumulated unpaid sick leave in excess of 1,000 hours. An accrual for vested unpaid sick leave has been made and is included under the caption "Accrued payroll and other accruals." No accrual for the nonvested accumulated unpaid sick leave is reflected in the combined financial statements. As of June 30, 1993, employees had accumulated approximately \$18,740,000 of nonvested unpaid sick leave.

Employees are allowed to accumulate up to 240 hours of vacation leave (320 for exempt employees), which is paid when vacation is taken or upon termination of employment at the individual's current rate of pay. An accrual for vacation leave has been made and the current portion is included under the caption "Accrued payroll and other accrued expenses." For governmental funds, the portion of vacation normally taken in the first sixty days of the next fiscal year is recorded as a current liability. The amount of long-term accrued vested vacation leave recorded in the general long-term debt account group represents that portion which is not expected to be liquidated with expendable available financial resources. For proprietary funds, all of the outstanding vacation accrual is recorded as a current liability.

Fund equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. There were no designated fund balances at June 30, 1993.

Administrative expenditures

The Department renders certain services (primarily administrative services as trustee or agent) to counties and cities of Arizona as well as to other agencies of the state of Arizona, the costs of which are accounted for in the State Highway Fund. No charges are made for these services. The Department receives certain services (primarily claims processing and treasury services) without cost from other Arizona state agencies.

The Arizona Highways Magazine Fund provides promotional magazines to other Arizona state agencies without charge.

Transactions between funds

Transactions which would be treated as revenue, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenue, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures or expenses in the fund that is reimbursed.

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Nonrecurring or nonroutine transfers of equity between funds are treated as residual equity transfers and are reported as additions to or deductions from the fund balance of governmental funds. Residual equity transfers to proprietary funds are treated as contributed capital, and such transfers from proprietary funds are reported as reductions of retained earnings or contributed capital as is appropriate in the circumstances. All other transactions are treated as operating transfers and are included in the results of operations of both governmental and proprietary funds.

Certain services, including accounting and investment services and claims processing, are furnished to certain funds by various funds of the Department without charge.

Operations of the internal service funds are conducted in facilities recorded in the general fixed assets account group, the costs of which are accounted for in the State Highway Fund of the Department. These funds pay the costs of repairs and maintenance of those facilities, but no rental charges are made to the funds for the use thereof.

Memorandum and comparative totals

Total columns for 1993 and 1992 included in the accompanying combined financial statements are captioned memorandum only to indicate they are presented only to facilitate financial analysis. The information in the columns is not intended to present financial position, results of operations or cash flows of its proprietary fund types in conformity with generally accepted accounting principles. This information is not comparable to a consolidation, and interfund eliminations have not been made in the aggregation of the information.

Certain amounts have been reclassified in 1992 to conform to the 1993 presentation.

NOTE 2--BUDGET BASIS OF ACCOUNTING

The Department prepares its annual budget on a basis which differs from generally accepted accounting principles (GAAP). The budget and the actual results of transactions are presented in accordance with the Department's method (budget basis) in the combined statement of revenues and expenditures - budget and actual (budget basis) - general and budgeted special revenue funds in order to provide a meaningful comparison of actual results with the budget.

The adjustments required to convert the revenues and expenditures for the State Highway Fund and budgeted special revenue funds from the GAAP basis to the budgetary basis consist of accrual to cash basis adjustments, and also for the budgeted special revenue funds, the exclusion of funds not budgeted through legislative appropriations.

Adjustments necessary to convert the excess (deficiency) of revenue and other sources over expenditures and other uses for the year ended June 30, 1993, on a GAAP basis to budget basis are as follows:

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 2--BUDGET BASIS OF ACCOUNTING--Continued

	General (State Highway) Fund	Special Revenue Funds
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses — GAAP basis	\$ (43,015,284)	\$ 36,402,660
Basis Differences		
Net increase (decrease) in accounts payable, accrued payroll and other accruals not recognized as expenditures for GAAP purposes	175,974	(9,166)
Net (increase) decrease in receivables related to taxes and interest income not recognized as revenue on budget basis	(2,350,903)	362,313
Total basis differences	(2,174,929)	353,147
Perspective Differences		
Revenue and other financing sources not recognized on budget basis:		
Reimbursements of construction expenditures, primarily federal aid	(156,011,743)	-
Other federal grants and reimbursements	(3,419,406)	(3,208,203)
Reimbursements from Arizona counties, cities, and other state agencies	(5,006,589)	-
State appropriations	(120,142)	-
Other distributions from agency funds	(1,392,363)	-
Interest income	(7,879,529)	-
Other permit revenue	(12,355)	-
Underground storage tax revenue	(99,282)	-
Water credit fuel	(45,009)	-
Other income	(7,307,350)	-
Proceeds from contracts payable	(850,184)	-
Operating transfers in	(7,277,551)	-
Expenditures and other financing uses not recognized on budget basis:		
Transportation - not appropriated by State legislature	3,971,888	15,941,970
Capital outlay - highway construction	267,508,923	-
Capital outlay - contracts payable	850,184	-
Distributions to Arizona counties, cities and other state agencies	224,177	-
Operating transfers out	98,876,817	6,142
Total perspective differences	182,010,486	12,739,909
Entity differences		
(Excess) deficiency of revenues over expenditures for funds for which no annual budgets are prepared	-	(35,098,824)
Excess of revenues over expenditures — budget basis	\$136,820,273	\$ 14,396,892

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 2--BUDGET BASIS OF ACCOUNTING--Continued

Throughout the fiscal year the legislature may revise the budget. The following schedule reflects the original budget, subject to legislative limitations and cumulative revisions during the fiscal year.

	Expenditures	
	General (State Highway) Fund	Special Revenue Funds
Original budget	\$225,481,659	\$ 1,777,748
Cumulative revisions	6,219,855	20,900
Revised budget	\$231,701,514	\$ 1,798,648

NOTE 3--SECURITIES HELD IN LIEU OF RETENTION

In accordance with Arizona law, a contractor may assign to the Department, in lieu of contract retention, time certificates of deposit in federally insured banks licensed by the state of Arizona or securities of the United States of America, the state of Arizona, its counties, municipalities and school districts or deposits in savings and loan institutions authorized to transact business in the state of Arizona.

At June 30, 1993, the Trustee held assignments on securities aggregating \$6,353,621, \$2,022,856, \$2,600,271 and \$551,205, in lieu of contractor retentions for construction in the state highway fund, other special revenue funds, capital projects funds, and expendable trust funds, respectively. Additional securities aggregating \$44,085 were on deposit but not assigned to a specific project. These securities are not reflected in the accompanying financial statements.

NOTE 4--RESTRICTION OF USE OF GENERAL (STATE HIGHWAY) FUND CASH

Effective July 1, 1981, state law requires accumulation of at least 15 percent of the revenues allocated each year to the State Highway Fund from the Highway User Revenue Fund (agency fund) for the design, right-of-way purchase or construction of controlled-access highways which are included in the regional transportation plans in counties with populations in excess of 400,000 (Maricopa and Pima counties). At June 30, 1993, approximately \$79,907,000, including interest, of the fund balance was reserved representing such unspent monies.

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 5--INTERFUND RECEIVABLES AND PAYABLES

A summary of interfund receivables and payables at June 30, 1993, follows:

	Interfund Receivables	Interfund Payables
General (State Highway) fund:		
Due from Highway User Revenue Fund for taxes and fees	\$36,385,091	\$ -
Maricopa Regional Area Road Construction Fund	1,447,013	8,565,859
Other	2,372,404	3,207,907
Total State Highway Fund	40,204,508	11,773,766
Special revenue funds:		
State Aviation Fund	153,400	14,374
Abandoned Vehicles Fund	6,143	81,056
Dealer Enforcement Revolving Fund	100	71,540
Mobile Home Administration Revolving Fund	36,520	-
Motorcycle Education Fund	2,977	-
Maricopa Regional Area Road Construction Fund	8,565,859	1,447,013
Special Number Plate Replacement Fund	15,073	847,638
Commercial Drivers' License Fund	21,259	70,703
County Vehicle License Fund	225,077	575,296
Criminal Background Investigation Administration Fund	-	1,061
Motor Vehicle Liability Insurance Enforcement Fund	34,649	383
Motor Carrier Safety Revolving Fund	-	236
Total special revenue funds	9,061,057	3,109,300
Debt service funds:		
Highway Bond Proceeds Fund	379,904	-
Capital projects funds:		
Highway Bond Proceeds Fund	-	723,752
Maricopa Regional Area Road Bond Proceeds Fund	301,773	2,944
Total capital projects funds	301,773	726,696
Enterprise fund:		
Arizona Highways Magazine Fund	-	23,251
Internal service funds:		
Equipment Revolving Fund	1,778,866	55,772
Warehouse Revolving Fund	9,762	-
Total internal service funds	1,788,628	55,772
Expendable trust funds:		
Local Agency Deposits Fund	1,405,191	64,376
Agency funds:		
Motor Vehicle Division Clearing Fund	700,000	10,753,275
Highway User Revenue Fund	9,222,522	37,092,091
Underground Storage Tank Fund	1,888,730	-
Highway Property Rentals - 24% Fund	32,915	492
Highway Trust Right-of-Way Fund	-	1,392,363
Privilege Tax Fund	6,154	-
Total agency funds	11,850,321	49,238,221
Total trust and agency funds	13,255,512	49,302,597
Total all funds	\$64,991,382	\$64,991,382

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 6--FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance July 1, 1992	Additions	Disposals	Balance June 30, 1993
Land	\$ 6,834,432	\$ 202,373	\$ -	\$ 7,036,805
Building and improvements	68,282,453	4,655,504	62,556	72,875,401
Improvements other than buildings	2,850,512	981,210	6,849	3,824,873
Airport facilities	12,897,923	16,314	-	12,914,237
Machinery and equipment	46,067,955	7,871,064	2,085,439	51,853,580
Shop tools	294,209	-	-	294,209
	<u>\$137,227,484</u>	<u>\$13,726,465</u>	<u>\$2,154,844</u>	<u>\$148,799,105</u>

A summary of proprietary fund type fixed assets at June 30, 1993 follows:

	Enterprise Fund	Internal Service Fund
Land	\$ 7,900	\$ -
Buildings	869,974	-
Furniture and fixtures	480,574	-
Mobile equipment	13,059	68,270,668
Shop tools, office and computer equipment, and software	1,859,938	1,702,276
	<u>3,231,445</u>	<u>69,972,944</u>
Less accumulated depreciation	1,414,931	40,276,830
	<u>\$1,816,514</u>	<u>\$29,696,114</u>

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 7--FUND EQUITY

Fund equity for the proprietary funds consists of the following:

Enterprise fund:

	Arizona Highways Magazine Fund			
	Contributed Capital	Retained Earnings	Totals	
			1993	1992
Balance, beginning of year	\$2,038,698	\$4,898,077	\$6,936,775	\$6,754,779
Net income	-	46,920	46,920	181,996
Balance, end of year	<u>\$2,038,698</u>	<u>\$4,944,997</u>	<u>\$6,983,695</u>	<u>\$6,936,775</u>

Internal service funds:

	Transportation Department Equipment Revolving Fund		
	Contributed Capital	Retained Earnings	Total Fund Equity
	Balance, beginning of year	\$5,695,252	\$34,712,718
Contributed capital	29,626	-	29,626
Net income	-	1,484,589	1,484,589
Balance, end of year	<u>\$5,724,878</u>	<u>\$36,197,307</u>	<u>\$41,922,185</u>

	Transportation Department Warehouse Revolving Fund		
	Contributed Capital	Retained Earnings	Total Fund Equity
	Balance, beginning of year	\$ 313,403	\$ 295,976
Net income	-	81,182	81,182
Balance, end of year	<u>\$ 313,403</u>	<u>\$ 377,158</u>	<u>\$ 690,561</u>

	Totals Internal Service Funds	
	1993	1992
	Balance, beginning of year	\$41,017,349
Residual equity transfer out	-	(930,300)
Contributed capital	29,626	14,915
Net income (loss)	1,565,771	1,643,914
Balance, end of year	<u>\$42,612,746</u>	<u>\$41,017,349</u>

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 7--FUND EQUITY--Continued

Arizona Revised Statutes, Section 28-1884, established an Arizona Highways Magazine Fund. The fund consists of monies appropriated by the legislature from the State Highway Fund of the Arizona Department of Transportation, not to exceed \$500,000 annually, and all revenue and interest income received, less expenses. The balance of contributed capital represents contributions from the State Highway Fund of \$38,698 during 1991. Balances remaining in the fund at the end of the fiscal year do not revert to the State of Arizona General Fund or the State Highway Fund.

NOTE 8--BONDS PAYABLE

Bonds payable are due in varying annual principal amounts plus varying semiannual interest amounts, except for the 1988 Series A Capital Appreciation Bonds which are due in annual installments of \$21,500,000 in 2002 through 2004 with the balance of \$8,500,000 due in 2005. Bonds payable at June 30, 1993, are comprised of the following individual issues:

Issue	Interest Rates	Final Maturity Date	Balance at June 30, 1993
State of Arizona Highway Revenue Bonds:			
1986	7.1% - 7.8%	7/1/97	\$ 82,850,000
1987	6.0% - 6.8%	7/1/99	48,325,000
1990	6.0% - 6.9%	7/1/10	83,825,000
1991 Series A, Subordinated	6.25% - 8.75%	7/1/11	171,140,000
1992 Series A, Subordinated, Refunding	4.6% - 6.1%	7/1/01	75,490,000
1992 Series B, Subordinated	6.1% - 8.0%	7/1/11	88,910,000
1993 Series, Refunding	2.6% - 5.25%	7/1/09	<u>183,040,000</u>
			733,580,000
State of Arizona Transportation Excise Tax Revenue Bonds:			
1986 Series A	6.75% - 7.3%	7/1/98	59,105,000
1987 Series A	6.7% - 7.6%	7/1/99	100,420,000
1988 Series A:			
Current Interest Bonds	7.3%	7/1/02	21,555,000
Capital Appreciation Bonds (maturity value of \$73,000,000)	7.25% - 7.5%	7/1/05	34,952,404
1989 Series A, Subordinated	6.5% - 7.0%	7/1/05	300,205,000
1991 Series A	5.0% - 6.3%	7/1/05	49,155,000
1992 Series A, Refunding	2.85% - 5.75%	7/1/05	190,655,000
1992 Series B	2.85% - 5.75%	7/1/05	<u>28,545,000</u>
			<u>784,592,404</u>
			<u>\$1,518,172,404</u>

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 8--BONDS PAYABLE--Continued

The following is a summary of changes in general long-term debt for the year ended June 30, 1993:

	Balance July 1, 1992	Additions	Retirements	Amortization of Discount	Balance June 30, 1993
Bonds:					
Highway Improvement Bonds:					
1980	\$ 14,700,000	\$ -	\$ 14,700,000	\$ -	\$ -
Highway Revenue Bonds:					
1986	124,270,000	-	41,420,000	-	82,850,000
1987	87,000,000	-	38,675,000	-	48,325,000
1990	179,785,000	-	95,960,000	-	83,825,000
1991 Series A	171,140,000	-	-	-	171,140,000
1992 Series A	75,490,000	-	-	-	75,490,000
1992 Series B	88,910,000	-	-	-	88,910,000
1993 Series	-	183,040,000	-	-	183,040,000
Transportation Excise Tax Revenue Bonds:					
1986 Series A	115,500,000	-	56,395,000	-	59,105,000
1987 Series A	157,275,000	-	56,855,000	-	100,420,000
1988 Series A:					
Current Interest	96,290,000	-	74,735,000	-	21,555,000
Capital Appreciation	37,511,179	-	3,802,110	1,243,335	34,952,404
1989 Series A	315,865,000	-	15,660,000	-	300,205,000
1991 Series A	51,605,000	-	2,450,000	-	49,155,000
1992 Series A	-	192,825,000	2,170,000	-	190,655,000
1992 Series B	-	30,695,000	2,150,000	-	28,545,000
	<u>1,515,341,179</u>	<u>406,560,000</u>	<u>404,972,110</u>	<u>1,243,335</u>	<u>1,518,172,404</u>
Other long-term debt:					
Contracts payable	4,021,563	850,184	2,009,827	-	2,861,920
Long-term accrued vacation leave	6,913,821	111,473	-	-	7,025,294
	<u>\$1,526,276,563</u>	<u>\$407,521,657</u>	<u>\$406,981,937</u>	<u>\$ 1,243,335</u>	<u>\$1,528,059,618</u>

The Highway Revenue Bonds are secured by a prior lien on and a first pledge of motor vehicle and related fuel fees and taxes of the State Highway Fund. Arizona Revised Statutes prohibit the total principal amount of Arizona Highway Revenue Bonds, excluding refunded bonds, to exceed \$800,000,000 dollars unless the additional amount is authorized by the legislature.

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 8--BONDS PAYABLE--Continued

The Transportation Excise Tax Revenue Bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa county. The 1989 Series A Bonds are subordinate to the other senior Transportation Excise Tax Revenue Bonds. The Transportation Board may issue additional transportation excise tax revenue bonds as long as the amount of transportation excise tax (plus any other monies deposited during the period) deposited with the Maricopa Regional Area Road Fund in any 12 consecutive months out of the 18 months prior to the issuance date of the proposed bonds is 130 percent for senior debt and 115 percent for subordinated debt of the greatest combined adjusted aggregate debt service in the current or future bond years, including any proposed bonds.

The various bonds are generally subject to redemption prior to their maturity dates, at the option of the Transportation Board, in whole at any time, or in part at various interest payment dates. The bonds may be redeemed at various redemption prices ranging from 100 percent to 103 percent of principal, plus accrued interest to the date fixed for redemption.

The 1988 Series A Capital Appreciation Bonds maturing July 1, 2002 through July 1, 2005 and the 1993 Series Highway Revenue Refunding Bonds maturing on or before July 1, 2003 are not subject to redemption prior to maturity. The 1989 Series A Bonds include \$126,465,000 of term bonds maturing on July 1, 2005 which are subject to mandatory sinking fund redemption in 2002 to 2005. The 1990 State of Arizona Highway Revenue Bonds include \$18,435,000 of term bonds maturing on July 1, 2010. The 1991 Series A and 1992 Series B State of Arizona Transportation Board Subordinated Highway Revenue Bonds include \$84,035,000 and \$33,365,000, respectively, of term bonds maturing July 1, 2011 which are subject to mandatory sinking fund redemptions on July 1 of the years 2009 to 2011.

The Bond Resolution adopted by the Transportation Board on July 25, 1986 established a debt service reserve requirement equal to the maximum annual interest due in the current year or future years on any series of outstanding Transportation Excise Tax Revenue Bonds. The Second Supplemental Transportation Excise Tax Revenue Bond Resolution adopted by the Transportation Board on September 22, 1988 gives the Board the option, which it has elected, of acquiring debt service reserve insurance policies in lieu of the debt service reserve requirement. The policies (aggregating \$64,339,954 at June 30, 1993) were issued by Financial Guaranteed Insurance Company, except for the 1989 Series A, which were issued by Municipal Bond Investors Assurance Corporation. These policies are noncancelable and insure the payment of the bond principal and interest on their respective payment dates. The policies shall terminate on the earlier of July 1, 2005 or the date when no bonds are outstanding under the Bond Resolution. Accordingly, no debt service reserve is reflected in the accompanying financial statements. The premiums on these insurance policies are recorded as expenditures in the year of payment.

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 8--BONDS PAYABLE--Continued

On October 16, 1992, the Department issued \$192,825,000 in Transportation Excise Tax Revenue Bonds (1992 Series A) with an average interest rate of 5.65 percent to advance refund \$168,567,110 of the 1986 Series A, 1987 Series A and 1988 Series A Transportation Excise Tax Revenue Bonds (Refunded Bonds) with an average interest rate of 7.2 percent. The net proceeds of \$189,163,006 (after payment of \$3,661,994 in underwriting fees, original issue discount, bond issue costs and receipt of forward supply payment) plus an additional \$3,140,899 of monies were used from the Debt Service Fund to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the partial future debt service payments on the above referenced bonds. As a result, the Refunded Bonds are considered defeased and the liability for these bonds has been removed from the General Long-Term Debt Account Group. The Department advance refunded a portion of the Refunded Bonds to reduce its total debt service payments over the next twelve years by \$7,624,963 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$5,620,564.

On May 1, 1993, the Department issued \$183,040,000 in Highway Revenue Bonds (1993 Series) with an average interest rate of 4.3 percent to advance refund \$10,150,000 of the 1980 Highway Improvement bonds with an average interest rate of 6.5 percent and \$152,740,000 of the 1986, 1987 and 1990 Highway Revenue Bonds (Refunded Bonds) with an average interest rate of 7.1 percent. The net proceeds of \$180,029,086 (after payment of \$3,010,914 in underwriting fees, original issue discount, bond issue costs and receipt of forward supply payment) plus an additional \$4,423,487 of Highway Improvement Bond Principal Redemption and Interest Fund monies were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the partial future debt service payments on the above referenced bonds. As a result, the Refunded Bonds are considered defeased and the liability for these bonds has been removed from the General Long-Term Debt Account Group. The Department advance refunded a portion of the Refunded Bonds to reduce its total debt service payments over the next sixteen years by \$8,478,134 and to obtain an economic gain (difference between the present values of the values of the debt service payments on the old and new debt) of \$5,840,349.

In prior years and during fiscal year 1993, the Department refinanced various bond issues through advance refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government Securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded.

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 8--BONDS PAYABLE--Continued

The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the financial statements of the Department. Refunded debt of the Department outstanding as of June 30, 1993, is as follows:

Issue Date	Type	Balance Outstanding
Prior Year Refundings		
1986	Highway Revenue Bonds	\$ 69,750,000
Fiscal Year 1993 Refundings		
1980	Highway Improvement Bonds	10,150,000
1986	Highway Revenue Bonds	24,610,000
1987	Highway Revenue Bonds	32,170,000
1990	Highway Revenue Bonds	95,960,000
1986 Series A	Transportation Excise Tax Revenue Bonds	46,730,000
1987 Series A	Transportation Excise Tax Revenue Bonds	43,300,000
1988 Series A:		
Current Interest	Transportation Excise Tax Revenue Bonds	74,735,000
Capital Appreciation	Transportation Excise Tax Revenue Bonds	13,000,000
Total refunded bonds outstanding		<u>\$410,405,000</u>

Future debt service requirements of bonds outstanding at June 30, 1993, are as follows:

Fiscal Year	Highway Revenue Bonds	
	1986 Bonds	
	Principal	Interest
1994	\$17,675,000	\$ 6,208,000
1995	16,680,000	4,953,000
1996	23,400,000	3,736,000
1997	25,095,000	1,957,000
	<u>\$ 82,850,000</u>	<u>\$16,854,000</u>

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 8--BONDS PAYABLE--Continued

Fiscal Year	Highway Revenue Bonds			
	1987 Bonds		1990 Bonds	
	Principal	Interest	Principal	Interest
1994	\$ 6,880,000	\$ 3,131,035	\$ 305,000	\$ 5,530,570
1995	7,295,000	2,718,235	2,325,000	5,511,508
1996	7,745,000	2,265,945	2,470,000	5,362,707
1997	8,245,000	1,770,265	2,635,000	5,202,158
1998	8,785,000	1,226,095	4,805,000	5,028,247
1999	9,375,000	637,500	8,425,000	4,711,118
2000	-	-	8,495,000	4,142,430
2001	-	-	9,065,000	3,569,017
2002	-	-	11,875,000	2,957,130
2003	-	-	14,695,000	2,137,755
2004	-	-	-	1,123,800
2005	-	-	-	1,123,800
2006	-	-	-	1,123,800
2007	-	-	-	1,123,800
2008	-	-	-	1,123,800
2009	-	-	-	1,123,800
2010	-	-	18,730,000	1,123,800
	\$ 48,325,000	\$11,749,075	\$ 83,825,000	\$ 52,019,240

Fiscal Year	Subordinated Highway Revenue Bonds					
	1991 Series A Bonds		1992 Series A Refunding Bonds		1992 Series B Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
1994	\$ -	\$ 11,332,875	\$ 745,000	\$ 4,499,630	\$ -	\$ 6,090,080
1995	-	11,332,875	775,000	4,465,360	-	6,090,080
1996	-	11,332,875	815,000	4,426,610	-	6,090,080
1997	-	11,332,875	855,000	4,384,230	-	6,090,080
1998	-	11,332,875	905,000	4,338,060	-	6,090,080
1999	-	11,332,875	22,430,000	4,286,475	-	6,090,080
2000	-	11,332,875	23,760,000	2,963,105	-	6,090,080
2001	-	11,332,875	25,205,000	1,537,505	-	6,090,080
2002	-	11,332,875	-	-	5,990,000	6,090,080
2003	10,495,000	11,332,875	-	-	6,870,000	5,724,690
2004	11,410,000	10,414,563	-	-	7,300,000	5,298,750
2005	12,125,000	9,701,438	-	-	7,885,000	4,714,750
2006	16,595,000	8,931,500	-	-	8,515,000	4,083,950
2007	17,665,000	7,861,123	-	-	9,190,000	3,402,750
2008	18,815,000	6,704,065	-	-	9,795,000	2,805,400
2009	20,060,000	5,462,275	-	-	10,435,000	2,168,725
2010	21,365,000	4,158,375	-	-	11,105,000	1,490,450
2011	42,610,000	2,769,650	-	-	11,825,000	768,625
	\$171,140,000	\$169,331,739	\$ 75,490,000	\$ 30,900,975	\$ 88,910,000	\$85,268,810

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 8--BONDS PAYABLE--Continued

Fiscal Year	Highway Revenue Bonds			
	1993 Series Refunding Bonds		Total	
	Principal	Interest	Principal	Interest
1994	\$ 7,175,000	\$ 8,711,260	\$ 32,780,000	\$ 45,503,450
1995	7,420,000	8,524,710	34,495,000	43,595,768
1996	2,105,000	8,276,140	36,535,000	41,490,357
1997	2,180,000	8,197,203	39,010,000	38,933,811
1998	26,880,000	8,107,823	41,375,000	36,123,180
1999	1,470,000	6,965,423	41,700,000	34,023,471
2000	11,550,000	6,899,273	43,805,000	31,427,763
2001	11,385,000	6,356,423	45,655,000	28,885,900
2002	13,380,000	5,821,328	31,245,000	26,201,413
2003	1,000,000	5,179,088	33,060,000	24,374,408
2004	16,760,000	5,129,088	35,470,000	21,966,201
2005	17,600,000	4,291,088	37,610,000	19,831,076
2006	14,820,000	3,367,088	39,930,000	17,506,338
2007	15,605,000	2,589,038	42,460,000	14,976,711
2008	16,425,000	1,769,775	45,035,000	12,403,040
2009	17,285,000	907,463	47,780,000	9,662,263
2010	-	-	51,200,000	6,772,625
2011	-	-	54,435,000	3,538,275
	<u>\$183,040,000</u>	<u>\$ 91,092,211</u>	<u>\$733,580,000</u>	<u>\$457,216,050</u>

Fiscal Year	Transportation Excise Tax Revenue Bonds						
	1986 Series A Bonds		1987 Series A Bonds		1988 Series A Bonds		Capital Appreciation Bonds
	Principal	Interest	Principal	Interest	Principal	Interest	
1994	\$ 10,290,000	\$ 4,189,020	\$ 14,500,000	\$ 7,228,425	\$ -	\$ 1,573,515	\$ -
1995	10,985,000	3,494,445	15,075,000	6,256,925	-	1,573,515	-
1996	11,755,000	2,725,495	16,025,000	5,216,750	-	1,573,515	-
1997	12,585,000	1,890,890	16,935,000	4,078,975	-	1,573,515	-
1998	13,490,000	984,770	18,270,000	2,842,720	-	1,573,515	-
1999	-	-	19,615,000	1,490,740	-	1,573,515	-
2000	-	-	-	-	-	1,573,515	-
2001	-	-	-	-	-	1,573,515	-
2002	-	-	-	-	21,555,000	1,573,515	21,500,000
2003	-	-	-	-	-	-	21,500,000
2004	-	-	-	-	-	-	21,500,000
2005	-	-	-	-	-	-	8,500,000
	<u>\$ 59,105,000</u>	<u>\$13,284,620</u>	<u>\$100,420,000</u>	<u>\$27,114,535</u>	<u>\$21,555,000</u>	<u>\$14,161,635</u>	<u>\$73,000,000</u>

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 8--BONDS PAYABLE--Continued

Fiscal Year	Transportation Excise Tax Revenue Bonds					
	1989 Series A Subordinated Bonds		1991 Series A Bonds		1992 Series A Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
1994	\$ 16,580,000	\$ 20,691,395	\$ 2,525,000	\$ 2,943,938	\$ 1,655,000	\$10,323,868
1995	18,060,000	19,613,695	3,065,000	2,810,113	1,715,000	10,264,288
1996	19,335,000	18,421,735	3,340,000	2,641,538	1,780,000	10,196,545
1997	20,870,000	17,126,290	3,625,000	2,451,158	1,860,000	10,119,115
1998	22,185,000	15,707,130	3,855,000	2,240,908	1,945,000	10,033,555
1999	23,700,000	14,198,550	4,100,000	2,013,463	16,515,000	9,938,250
2000	25,620,000	12,563,250	4,360,000	1,769,513	38,165,000	9,112,500
2001	27,390,000	10,769,850	4,640,000	1,507,913	40,170,000	7,127,920
2002	28,480,000	8,852,550	4,435,000	1,223,713	110,000	4,958,740
2003	30,480,000	6,858,950	4,740,000	950,960	23,240,000	4,952,690
2004	32,610,000	4,725,350	5,060,000	657,080	24,545,000	3,651,250
2005	34,895,000	2,442,650	5,410,000	340,830	38,955,000	2,239,912
2006	-	-	-	-	-	-
2007	-	-	-	-	-	-
2008	-	-	-	-	-	-
2009	-	-	-	-	-	-
2010	-	-	-	-	-	-
2011	-	-	-	-	-	-
	\$300,205,000	\$151,971,395	\$49,155,000	\$21,551,127	\$190,655,000	\$92,918,633

Fiscal Year	Transportation Excise Tax Revenue Bonds					
	1992 Series B Bonds		Total		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
1994	\$ 1,835,000	\$ 1,448,182	\$ 47,385,000	\$ 48,398,344	\$ 80,165,000	\$ 93,901,794
1995	1,905,000	1,382,122	50,805,000	45,395,103	85,300,000	88,990,871
1996	1,980,000	1,306,875	54,215,000	42,082,453	90,750,000	83,572,810
1997	2,065,000	1,220,745	57,940,000	38,460,688	96,950,000	77,394,499
1998	2,160,000	1,125,755	61,905,000	34,508,353	103,280,000	70,631,533
1999	2,265,000	1,019,915	66,195,000	30,234,433	107,895,000	64,257,904
2000	2,380,000	906,665	70,525,000	25,925,443	114,330,000	57,353,206
2001	2,500,000	782,905	74,700,000	21,762,103	120,355,000	50,648,003
2002	2,635,000	647,905	78,715,000	17,256,423	109,960,000	43,457,836
2003	2,780,000	502,980	82,740,000	13,265,580	115,800,000	37,639,988
2004	2,935,000	347,300	86,650,000	9,380,980	122,120,000	31,347,181
2005	3,105,000	178,538	90,865,000	5,201,930	128,475,000	25,033,006
2006	-	-	-	-	39,930,000	17,506,338
2007	-	-	-	-	42,460,000	14,976,711
2008	-	-	-	-	45,035,000	12,403,040
2009	-	-	-	-	47,780,000	9,662,263
2010	-	-	-	-	51,200,000	6,772,625
2011	-	-	-	-	54,435,000	3,538,275
	\$28,545,000	\$10,869,888	\$822,640,000	\$331,871,833	\$1,556,220,000	\$789,087,883

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 9--CONTRACTS PAYABLE AND LEASES

Contracts payable--Data processing and other equipment totaling \$5,646,403 acquired through purchase contracts are recorded in the General Fixed Assets Account Group. Payments are due in monthly installments through May 1996 with interest rates from 4.73 percent to 7.65 percent. At June 30, 1993 remaining annual payments for these contracts payable were as follows:

1994	\$1,569,423
1995	1,331,589
1996	<u>164,252</u>
Total payments	3,065,264
Less interest	<u>203,344</u>
	<u><u>\$2,861,920</u></u>

Operating leases--The Department leases data processing and other equipment and certain facilities from various lessors. The principal leases are for a one-year term, renewable annually. Total rental expenditures (excluding interfund transactions) for the year ended June 30, 1993, approximated \$4,300,000.

Various funds also rent mobile equipment from the Transportation Department Equipment Revolving Fund on an as-needed basis. Rental expense/expenditure for mobile equipment for the year ended June 30, 1993, was as follows:

State Highway Fund	\$22,136,060
State Aviation Fund	20,482
Commercial Drivers' License Fund	26,789
County Vehicle License Fund	84,680
Arizona Highways Magazine Fund	27,357
Other	<u>29,018</u>
	<u><u>\$22,324,386</u></u>

NOTE 10--OTHER REVENUE

Other revenue consists primarily of certain cost reimbursements, proceeds from the sale or rental of excess land, insurance and property damage recoveries, flight property tax revenue, and miscellaneous service fees.

NOTE 11--RETIREMENT PLANS

The Arizona State Retirement System Board administers the Arizona State Retirement Plan (Plan), a cost sharing multi-employer public employee retirement system, for the benefit of Arizona employees and employees of certain other governmental entities. Plan provisions, including death, disability, and retirement benefits, are established by State statute. Substantially all employees of the Department are covered by the Plan. The Department's total payroll for fiscal 1993 was approximately \$107,451,000 of which \$104,396,000 related to employees participating in the Plan.

Employees may retire at or after age 65, at or after age 62 with ten years of credited service, or the date at which age plus total credited service equals 82. Retirees are entitled to a retirement benefit payable monthly for life generally equal to two percent of their final average salary, as defined by State Statute, multiplied by the years of credited service. Benefits fully vest upon reaching five years of credited service. Vested employees may retire at age 50 and

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 11--RETIREMENT PLANS--Continued

receive reduced retirement benefits. The Plan is funded through payroll deductions from employees' gross earnings and amounts contributed by the Department. Retirement benefits are obligations of the Plan and not of the Department.

Arizona Revised Statutes provide statutory authority for employee and employer contributions. The employee and employer contribution rate for the year ended June 30, 1993 was actuarially computed to be 3.59 percent of covered payroll by an actuarial valuation performed at June 30, 1991. The contribution requirement for the year ended June 30, 1993 was \$3,902,551 by both the employees and the Department.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess a plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among government pension plans and employers.

The Plan does not prepare separate measurements of assets and pension benefit obligations for individual employers. The pension benefit obligation for the Plan as a whole was determined as part of the actuarial valuation of the Plan at June 30, 1992, the most recent valuation date available. Significant actuarial assumptions used include: (a) a rate of return on investment of present and future assets of 8 percent per year compounded annually; (b) a projected salary increase of 5.50 percent, compounded annually, attributable to cost-of-living and merit increases ranging from .5 percent to 3 percent; and (c) no post-retirement benefit increase. At June 30, 1992, the assets in excess of pension benefit obligation was \$379,100,826, determined as follows:

Pension benefit obligation

Retirees and beneficiaries current receiving benefits	\$3,154,359,187
Terminated employees not yet receiving benefits	157,875,744
<u>Current employees</u>	
Accumulated employee contributions including allocated investment income	1,931,862,207
Employer financed — vested	2,216,611,793
Employer financed — nonvested	<u>619,051,600</u>
Total pension benefit obligation	8,079,760,531
Net assets available for benefits at cost (market value of \$9,437,180,124)	<u>8,458,861,357</u>
Assets in excess of pension benefit obligation	<u><u>\$ 379,100,826</u></u>

The actuarial valuation performed at June 30, 1991 determined that the normal cost rate for the year ended June 30, 1993 is 9.58 percent including the required amortization credit of the assets in excess of the actuarial accrued liability at 2.4 percent of compensation. The result is a total employer and employee contribution rate of 7.18 percent (3.59 percent for the employers and 3.59 percent for the employees) for the 1993 fiscal year.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Ten-year trend information for the Plan is presented in its comprehensive annual financial report. Trend information for the three years ended June 30, 1990, 1991, and 1992, respectively, is as follows: Available assets were sufficient to fund 109.8 percent, 110.3 percent, and 104.7 percent of the pension benefit obligation. The over-funded pension benefit obligation represented 20.2 percent, 21.1 percent, and 10.5 percent of the annual payroll for

Arizona Department of Transportation
Notes to Financial Statements (continued)

NOTE 11--RETIREMENT PLANS--Continued

employees covered by the Plan for 1990, 1991, and 1992, respectively. Presenting the over-funded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. In addition, for the three years ended June 30, 1990, 1991, and 1992, the Department's contributions to the Plan made in accordance with actuarially determined requirements, were 2.0 percent, 3.82 percent, and 3.60 percent, respectively, of annual covered payroll. The Department's 1992-1993 contribution represented 1.24 percent of total contributions required of all participating entities.

NOTE 12--CONTINGENT LIABILITIES

Claims

The Department has a variety of claims pending against it that arose during the normal course of its activities. Management of the Department believes, based on the advice of legal counsel, that the losses, if any, resulting from settlement of these claims will not have a material effect on the financial position of the Department's fund types.

Commitments under construction contracts

The Department had outstanding commitments under construction contracts of approximately \$390,000,000 at June 30, 1993.

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**Arizona Department of Transportation
State Highway Fund**

Balance Sheet

June 30, 1993 (with comparative totals for June 30, 1992)

	1993	1992
Assets		
Cash and cash equivalents on deposit with the State Treasurer	\$105,417,259	\$137,191,908
Receivables (net of allowance for uncollectibles):		
Due from U.S. Government for reimbursable construction costs	28,749,871	17,717,373
Due from other Arizona Department of Transportation funds	40,204,508	32,187,333
Due from Arizona counties, cities and other state agencies	796,337	2,823,605
Accrued interest	1,876,764	3,886,470
Other	1,759,034	1,801,744
	73,386,514	58,416,525
Inventories	4,371,011	5,461,539
Land held for future highway use	1,473,394	1,522,181
Total assets	\$184,648,178	\$202,592,153
 Liabilities and fund balances		
Liabilities:		
Construction contracts payable	\$ 29,647,231	\$ 13,071,286
Accounts payable	7,034,038	7,293,079
Accrued payroll and other accrued expenses	5,225,602	4,898,064
Due to:		
Other Arizona Department of Transportation funds	11,773,766	3,380,544
Arizona counties, cities and other state agencies	2,210,222	2,176,577
Total liabilities	55,890,859	30,819,550
 Commitments and contingencies		
 Fund balances:		
Reserved for:		
Highway construction	79,907,000	80,522,000
Inventories	4,371,011	5,461,539
Land held for future highway use	1,473,394	1,522,181
Unreserved, undesignated	43,005,914	84,266,883
Total fund balances	128,757,319	171,772,603
Total liabilities and fund balances	\$184,648,178	\$202,592,153

Arizona Department of Transportation
State Highway Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance

Year ended June 30, 1993 (with comparative totals for June 30, 1992)

	1993	1992
Revenues:		
Vehicle registration, title, license and related fees	\$ 84,739,469	\$ 77,507,729
Fuel and motor carrier taxes	270,231,219	261,226,435
Reimbursements of construction expenditures, primarily federal aid	156,011,743	145,914,471
Other federal grants and reimbursements	3,419,406	4,349,081
Reimbursements from Arizona counties, cities and other state agencies	5,006,589	14,246,310
State appropriations	120,142	119,621
Distributions from agency funds	1,392,363	1,974,245
Department of Environmental Quality contribution - appropriated by State legislature	400,000	-
Interest income	7,879,529	10,222,666
Other	7,307,350	8,394,751
Total revenues	536,507,810	523,955,309
Expenditures:		
Current:		
Transportation - appropriated by State legislature:		
Motor vehicle division	30,775,812	29,588,410
Highways division	111,188,038	105,725,195
Administrative	38,473,159	34,619,951
Transportation planning division	3,588,903	4,046,681
Special support group	2,748,891	3,759,464
Directors division	2,980,978	432,944
Other	1,281,343	2,308,728
	191,037,124	180,481,373
Transportation - not appropriated by State legislature	3,971,888	1,889,564
Capital outlay - highway construction	267,508,923	262,491,621
Capital outlay - land, buildings, and improvements - appropriated by State legislature	6,289,769	4,104,651
Capital outlay - contracts payable	850,184	896,416
Department of Public Safety distributions - appropriated by State legislature	18,891,947	29,243,000
Distributions to Arizona counties, cities and other state agencies	224,177	222,005
Total expenditures	488,774,012	479,328,630
Excess of revenues over expenditures	47,733,798	44,626,679
Other financing sources (uses):		
Proceeds from contracts payable	850,184	896,416
Operating transfers in	7,277,551	4,555,826
Operating transfers out:		
Debt service	(81,953,255)	(66,576,660)
Other	(16,923,562)	(1,497,523)
	(90,749,082)	(62,621,941)
Total other financing sources (uses)		
Deficiency of revenues and other financing sources over expenditures and other financing uses	(43,015,284)	(17,995,262)
Fund balance, beginning of year	171,772,603	189,419,365
Residual equity transfer in	-	348,500
Fund balance, end of year	\$128,757,319	\$171,772,603

Arizona Department of Transportation
State Highway Fund

Schedule of Revenues and Expenditures – Budget and Actual (Budget Basis)

Year ended June 30, 1993

	Budget	Actual Non-GAAP	Variance Favorable (Unfavorable)
Revenues			
Vehicle registration, title, license and related fees	\$ 93,102,000	\$ 84,727,114	\$ (8,374,886)
Fuel and motor carrier taxes	256,560,000	267,736,025	11,176,025
Total revenues	349,662,000	352,463,139	2,801,139
Expenditures appropriated by State legislature in 1993 budget			
Transportation			
Director's Office			
Personal services	394,200	391,648	2,552
Employee related expenditures	66,900	62,108	4,792
Other operating expenditures	73,000	63,725	9,275
Reorganization	2,784,600	2,452,720	331,880
Total Director's Office	3,318,700	2,970,201	348,499
Transportation Planning Division			
Personal services	2,477,800	2,416,630	61,170
Employee related expenditures	568,800	555,511	13,289
Other operating expenditures	669,600	621,045	48,555
Total transportation planning division	3,716,200	3,593,186	123,014
Administrative Services Division			
Personal services	9,574,300	9,546,392	27,908
Employee related expenditures	2,167,900	2,163,532	4,368
Other operating expenditures	13,514,300	13,318,172	196,128
Health insurance trust fund	1,020,000	1,020,000	-
Risk management premium	12,930,500	12,930,500	-
Regional Area Road Fund property rental	506,500	506,500	-
Legislative relief – highway	70,868	70,868	-
Education and training	15,800	15,067	733
Total administrative services division	39,800,168	39,571,031	229,137
Special Support Group			
Personal services	1,971,400	1,943,527	27,873
Employee related expenditures	426,500	402,125	24,375
Other operating expenditures	403,000	393,365	9,635
Total special support group	2,800,900	2,739,017	61,883

(continued)

Arizona Department of Transportation
State Highway Fund

Schedule of Revenues and Expenditures – Budget and Actual (Budget Basis) (continued)

Year ended June 30, 1993

	Budget	Actual Non-GAAP	Variance Favorable (Unfavorable)
Motor Vehicle Division			
Personal services	\$ 17,270,700	\$ 17,173,025	\$ 97,675
Employee related expenditures	4,709,800	4,703,034	6,766
Other operating expenditures	4,831,700	4,561,457	270,243
License plates and tabs	1,275,300	1,254,575	20,725
Medical advisory board	87,200	63,455	23,745
Drivers license/title	2,200,000	1,090,247	1,109,753
Drivers license/title (nonreverting balance forward)	2,180,387	1,967,029	213,358
Traffic ticket enforcement assistance	50,000	-	50,000
Total motor vehicle division	32,605,087	30,812,822	1,792,265
Highways Division			
Personal services	27,693,000	26,844,615	848,385
Employee related expenditures	6,815,200	6,632,280	182,920
Other operating expenditures	8,902,600	8,382,106	520,494
Highway maintenance	68,705,000	67,903,137	801,863
Radio communications	417,100	397,743	19,357
Total highways division	112,532,900	110,159,881	2,373,019
Air Quality Programs			
Public transit air quality project:			
Personal services	31,400	31,157	243
Employee related expenditures	7,800	6,217	1,583
Motor Vehicle Division air quality projects:			
Personal services	23,800	17,081	6,719
Employee related expenditures	6,000	3,703	2,297
Other operating expenditures	1,000	-	1,000
Total air quality programs	70,000	58,158	11,842
General Fund Programs			
Public transit:			
Personal services	39,200	36,500	2,700
Employee related expenditures	9,900	7,796	2,104
Other operating expenditures	3,800	1,170	2,630
Other transit planning	16,800	16,519	281
Total general fund programs	69,700	61,985	7,715
Capital outlay – land, buildings and improvements	16,995,490	6,289,769	10,705,721
Department of Public Safety transfers	19,297,500	18,891,947	405,553
Expenditures appropriated by State legislature by carryover of previous years' unexpended budgets	494,869	494,869	-
Total expenditures	231,701,514	215,642,866	16,058,648
Excess of revenues over expenditures	\$117,960,486	\$136,820,273	\$18,859,787

APPENDIX D

SUMMARY OF THE SENIOR BOND RESOLUTION

The following excerpts summarize the portions of the resolution adopted by the Transportation Board on May 1, 1980 (the "1980 Resolution"), as supplemented by resolutions adopted on June 11, 1986, June 20, 1986, July 24, 1987, June 29, 1990 and May 7, 1993 (collectively, the "Senior Bond Resolution").

Existing Senior Bonds. The Board has previously issued \$50,000,000 aggregate principal amount of State of Arizona Highway Improvement Bonds, Project of 1980 (the "Series 1980 Bonds") pursuant to the 1980 Resolution, \$168,125,000 aggregate principal amount of State of Arizona Highway Revenue Bonds, Series 1982 (the "Series 1982 Bonds") pursuant to a Resolution adopted December 3, 1982 (the "1982 Resolution"), \$222,765,000 aggregate principal amount of State of Arizona Highway Revenue Bonds, Series 1986 (the "Series 1986 Bonds") pursuant to a Resolution adopted June 11, 1986, as amended June 20, 1986 (the "1986 Resolution"), \$115,000,000 aggregate principal amount of State of Arizona Highway Revenue Bonds, Series 1987 (the "Series 1987 Bonds") pursuant to a Resolution adopted July 24, 1987 (the "1987 Resolution"), \$179,785,000 aggregate principal amount of State of Arizona Highway Revenue Bonds, Series 1990 (the "Series 1990 Bonds") pursuant to a Resolution adopted June 29, 1990 (the "1990 Resolution") and \$183,040,000 aggregate principal amount of State of Arizona Highway Revenue Refunding Bonds, Series 1993 (the "Series 1993 Bonds") pursuant to a Resolution adopted on May 7, 1993 (the "1993 Resolution").

The Series 1980 and 1982 Bonds have been fully paid and are no longer outstanding. The Series 1986 Bonds, the Series 1987 Bonds, the Series 1990 Bonds and the Series 1993 Bonds and any bonds hereafter issued on a parity therewith are hereinafter referred to as the "Senior Bonds."

Creation and Maintenance of Special Funds. The State Treasurer shall create and maintain the following special funds separate and apart from all other State moneys:

- (A) Highway Bond Proceeds Fund (hereinafter referred to as the "Highway Bond Proceeds Fund")
- (B) Highway Improvement Bond Principal Redemption and Interest Fund (hereinafter referred to as the "Senior Bond Fund").

Pledge of Revenues. The Senior Bonds shall be secured by a first lien on and by a pledge effected in the manner and to the extent hereinafter provided of substantially all moneys paid into the Arizona Highway Fund derived from fees, excises, or license taxes relating to registration, operation or use of vehicles on the public highways of the State, or to fuel used for the propulsion of such vehicles as prescribed by Article IX, Section 14 of the State Constitution and from monies distributed pursuant to subsections C, E and F of Section 28-1591, Arizona Revised Statutes, and subsection C of Section 42-1342, Arizona Revised Statutes (the "Pledged Revenues"), which lien shall be prior to any lien in favor of any other bonds or other evidences of indebtedness payable from Pledged Revenues. All Senior Bonds shall be equally and ratably secured, without priority by reason of number, date, sale, execution or delivery, by such lien. Except as provided in the Senior Bond Resolution, no bonds or other evidences of indebtedness, payable from the Pledged Revenues, shall be issued subsequent to the Series 1980 Bonds, nor any charge of any kind created thereon, having any priority over or lien equal to the Senior Bonds with respect to payment of principal or interest.

FLOW OF FUNDS - Senior Bond Fund

For the purpose of making effective the lien of the Senior Bonds, all moneys paid into the Arizona Highway Fund as specifically provided in Article IX, Section 14 of the State Constitution, subsections C, E and F of Section 28-1591, Arizona Revised Statutes, and subsection C of Section 42-1342, Arizona Revised Statutes, shall be accounted for by the Board and applied by the State Treasurer in the following order and manner:

(A) On the first day of each and every month for so long as any of the Senior Bonds are outstanding, the Board shall, as the Pledged Revenues are received, segregate from the Pledged Revenues an amount which in the aggregate is not less than one-fifth (1/5) of the next semiannual interest payment coming due on the Senior Bonds; and in the same manner each month one-eleventh (1/11) of the amount of the principal of the Senior Bonds coming due on the next principal payment date. Upon such segregation of moneys from the Pledged Revenues, the Board shall transfer and deliver all funds so segregated to the State Treasurer to be placed in the Senior Bond Fund. Such transfers are to be made each month until the requisite semiannual interest and annual principal payments have been transferred to the State Treasurer. If, at any time, the aggregate moneys paid into the Senior Bond Fund are insufficient to meet the principal and interest requirements on the Senior Bonds, the Board shall make up any deficit from the Pledged Revenues received in the ensuing months before any other charge, encumbrance or payment is made from the Pledged Revenues.

All moneys transferred to the Senior Bond Fund shall be kept separate and apart from all other moneys in the hands of the State Treasurer and shall be held in trust for the benefit of the holders of the Senior Bonds and coupons, if any, entitled to be paid therewith and shall be used solely for the purpose of paying the principal of and interest on the Senior Bonds as the same become due and for no other purpose, except that money in the Senior Bond Fund may, as added security for the Senior Bonds, be invested in authorized investments. Neither the Board, the State, nor any tort or contract claimant nor any Owner of a Subordinated Bond shall ever have any claim upon or beneficial interest in any of the Pledged Revenues of the Senior Bond Fund.

(B) After all required moneys have been paid into the Senior Bond Fund in each year, the Board shall, when necessary, pay into the Highway Bond Proceeds Fund from the remaining Pledged Revenues an amount equal to the unreimbursed amounts theretofore expended from the Highway Bond Proceeds Fund for payment of principal and interest on any Senior Bonds, except that the Board shall have no obligation to pay into the Highway Bond Proceeds Fund any investment income or capitalized interest transferred to the Senior Bond Fund pursuant to the Senior Bond Resolution.

(C) In lieu or in aid of the foregoing paragraphs, the Director of the Department may, at any time, order the State Treasurer to transfer any and all sums into the Senior Bond Fund in any year from unallocated funds which may be lawfully used to pay principal and interest on the Senior Bonds.

(D) In any year wherein the amounts required to be paid into the Senior Bond Fund pursuant to subsection (A) above will not be sufficient to meet the currently maturing interest or annual principal requirements, the amounts will be increased without further order or direction so that there will be no default in the terms of the Senior Bond Resolution.

After the annual principal and interest and Highway Bond Proceeds Fund replenishment requirements have been met in each year, the Board shall not be required to make any other payments from the Pledged Revenues to the Senior Bond Fund for the remainder of the year and those amounts remaining in the Arizona Highway Fund after all of the above requirements have been met may be expended as provided by law as if the pledge did not exist.

Notwithstanding anything to the contrary in the Senior Bond Resolution, neither the State nor the Board shall be required to advance any moneys derived from any source of income other than the revenues pledged to payment of the Senior Bonds to pay the principal of or interest on the Senior Bonds.

Highway Bond Proceeds Fund. The Highway Bond Proceeds Fund created by Section 28-2005, Arizona Revised Statutes, as amended, shall consist of the proceeds of the Senior Bonds and bonds thereafter issued for all purposes, after deducting the necessary costs and expenses of the issuance and sale of the bonds. The State Treasurer shall deposit in the Highway Bond Proceeds Fund the moneys allocated by the Board to said fund, which shall be separate and apart from all other moneys held by the State Treasurer, provided that the State Treasurer shall first deposit in any reserve or sinking funds the amount of bond proceeds, if any, required to be so deposited by the Senior Bond Resolution or any supplemental resolutions of the Board. Moneys in the Highway Bond Proceeds Fund may be spent for any lawful highway purpose. The State

Treasurer shall create separate accounts within the Highway Bond Proceeds Fund for each Series of bonds which are issued. The owners of the Senior Bonds shall have a lien on the monies in the Highway Bond Proceeds Fund pending expenditure for the purposes for which the bonds are issued, said lien to secure payment of debt service on the Senior Bonds, pending expenditure for purposes for which the Senior Bonds were issued.

Issuance of Additional Senior Bonds. Until such time as the existing Senior Bonds are no longer outstanding, additional Senior Bonds on a parity with the Senior Bonds shall be issued only when:

(A) All of the payments of principal and interest on the then outstanding Senior Bonds are current; and

(B) The Pledged Revenues for the preceding twelve-month period exceed by three times the highest annual principal and interest payments on all outstanding Senior Bonds and the Senior Bonds to be issued for the highest aggregate one-year period during the life of the outstanding Senior Bonds and the Senior Bonds to be issued; and

(C) The Senior Bonds sought to be issued shall be payable as to principal on July 1 of each year in which principal becomes due. The interest shall be payable on January 1 and July 1 in each year in which interest becomes due; and

(D) The proceeds from the sale of the Additional Senior Bonds shall be used for any lawful highway purpose; and

(E) All other requirements of law existing on the date such Additional Senior Bonds are issued including, without limitation, the provisions of Section 28-2006, Arizona Revised Statutes (so long as that section contains tests which pertain to the issuance of parity bonds) have been met to the satisfaction of the Chairman as shown by his certificate pertaining thereto.

From and after such time as the Series 1986 Bonds and the Series 1987 Bonds are no longer outstanding or upon the consent of the owners of a majority in aggregate principal amount of each series of such Senior Bonds, while the Series 1990 Bonds and Series 1993 Bonds remain outstanding, the provisions of subparagraph C above is amended to read: "(C) The Senior Bonds sought to be issued shall be payable as to principal and interest on such date or dates as the Board shall designate."

Agreement of State. Pursuant to the authority contained in Section 28-2007, Arizona Revised Statutes, the Board, as agent for the State, pledges and agrees with the owner or owners of the Senior Bonds that the State will not limit or alter the rights vested in the Board to collect such fees, excises and taxes as may be necessary to produce sufficient revenues to meet the expenses of the State Highway System and to fulfill the terms of the Senior Bond Resolution and any agreement made with the owners of the Senior Bonds, or in any way impair the rights and remedies of the owners of any Senior Bonds, until all Senior Bonds issued under the authority of Title 28, Chapter 15, Article 1, Arizona Revised Statutes, together with interest thereon and interest on any unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of any owners, are fully met and discharged.

Resolution to Constitute a Contract. The Senior Bond Resolution shall constitute a contract between the Board and the bondholders and the covenants and agreements set forth therein to be performed by the Board shall be for the equal performance, protection and security of the legal holders of any and all such Senior Bonds.

Reservation of Right to Issue Refunding Bonds. The Board reserves the right to issue refunding bonds whenever the issuance of such refunding bonds is deemed expedient to refund any Senior Bonds authorized under the Senior Bond Resolution at or in advance of maturity of the Senior Bonds being refunded.

Defeasance. If the payment of all principal of and interest on the Senior Bonds has been made or has been provided for as provided in the applicable Senior Bond Resolution, then the Senior Bond Resolution shall be deemed to be of no further effect.

Amendments to the Senior Bond Resolution. The Senior Bond Resolution may be modified or amended from time to time without the consent of the holders of the Senior Bonds (i) to cure any ambiguity, formal defect or omission in the Senior Bond Resolution, (ii) to grant to or confer upon the owners of the Senior Bonds any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon them, or (iii) to amend or supplement the Senior Bond Resolution, provided that such amendment or supplement is not adverse to the interests of the owners of the Senior Bonds. In addition, the Senior Bond Resolution may be modified or amended from time to time, after notice is given as provided in the Senior Bond Resolution, with the consent of the holders of a majority of the aggregate principal amount of the holders of a majority of the aggregate principal amount of all Senior Bonds outstanding; provided, that no such modification or amendment shall, without the express written consent of the registered owner of the Senior Bond affected, reduce the principal amount of any Senior Bond, reduce the interest payable thereon, advance the earliest redemption date, reduce the premium payable upon redemption thereof, extend its maturity or the times for paying interest thereon or change the monetary medium in which principal or interest is payable, nor shall any such modification or amendment reduce the percentage of consent required for amendment or modification.

APPENDIX E

SUMMARY OF THE SUBORDINATED BOND RESOLUTION

The following is a summary of certain provisions of the Subordinated Bond Resolution. This summary does not purport to be a full statement of the terms of the Subordinated Bond Resolution and, accordingly, is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not defined in this summary or in the Official Statement shall have the respective meanings set forth in the Subordinated Bond Resolution.

DEFINITIONS OF TERMS

"Accreted Value" shall mean (a) with respect to any Additional Senior Bonds that are Capital Appreciation Bonds, the meaning given to such term in the applicable Senior Bond Resolution, and (b) with respect to any Additional Subordinated Bonds that are Capital Appreciation Bonds, an amount equal to the principal amount of such Capital Appreciation Subordinated Bond (determined on the basis of the initial principal amount per \$5,000 at maturity thereof) plus the amount assuming compounding (as set forth in the applicable Subordinated Bond Resolution) of earnings which would be produced on the investment of such initial amount, beginning on the dated date of such Capital Appreciation Subordinated Bond and ending at the maturity date thereof, at a yield which, if produced until maturity, will produce \$5,000 at maturity. As of any Valuation Date, the Accreted Value of any Capital Appreciation Subordinated Bonds shall mean the amount set forth for such date in the applicable Subordinated Bond Resolution authorizing such Subordinated Bonds and as of any date other than a Valuation Date, the sum of (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Accreted Values for such Valuation Dates.

"Act" shall mean Title 28, Chapter 15, Article 1, Arizona Revised Statutes, as amended.

"Additional Senior Bonds" shall mean any Senior Bonds or other obligations that may be issued by the Board pursuant to applicable law, in accordance with the Senior Bond Resolution, on a parity (as provided in the Senior Resolution) with the Senior Bonds then Outstanding.

"Additional Subordinated Bonds" shall mean any Subordinated Bonds or other obligations that may be issued by the Board pursuant to applicable law, in accordance with the Subordinated Bond Resolution, on a parity (as provided in the Subordinated Bond Resolution) with the Outstanding Series 1991A, 1992 and 1993A Subordinated Bonds and any other Series of Subordinated Bonds then Outstanding.

"Adjusted Debt Service Requirements" shall mean, for any period, as of any date of calculation (a) with respect to the Senior Bonds, the aggregate Debt Service Requirements on the Senior Bonds for such period taking into account for any Additional Senior Bonds such adjustments, if any, as may be provided in the Senior Bond Resolution authorizing such Senior Bonds, and (b) with respect to any Subordinated Bonds, the aggregate Debt Service Requirements on Subordinated Bonds during such period, taking into account the following adjustments:

(i) With respect to Interim Subordinated Bonds, the aggregate Debt Service Requirements thereon shall be determined as if each Series of Interim Subordinated Bonds were payable (1) with level annual Bond Service Charges over a period of 20 years (or such longer period as may be permitted by the Act and selected by the Board), commencing the date on which such Series is anticipated by the Board to be refinanced or refunded (but not more than 5 years from original issuance of such Interim Subordinated Bonds) and (2) with interest at the average of the Bond Buyer's 11 Bond Index (or any

successor or, if discontinued, a similar index selected by the Authorized Board Representative) published during the 90 day period ending not more than 40 days from the date of calculation.

(ii) With respect to Subordinated Bonds that bear interest at a Variable Interest Rate, the aggregate Debt Service Requirements thereon shall be determined as if each such Bond bore interest at the Assumed Rate; provided, however, if the Board (1) enters into a Qualified Swap Agreement with a Swap Provider requiring the Board to pay a fixed interest rate on a notional amount, and (2) has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for a particular maturity of Subordinated Bonds in a principal amount equal to the notional amount of the Qualified Swap Agreement, then during the term of such Qualified Swap Agreement and so long as the Swap Provider under such Qualified Swap Agreement is not in default under such Qualified Swap Agreement, the interest rate on such Subordinated Bonds shall be determined as if such Subordinated Bonds bore interest at the fixed interest rate payable by the Board under such Qualified Swap Agreement.

(iii) With respect to Subordinated Bonds that bear interest at a fixed interest rate, if the Board (1) enters into a Qualified Swap Agreement with a Swap Provider requiring the Board to pay a variable interest rate on a notional amount and (2) has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for a particular maturity of Subordinated Bonds in a principal amount equal to the notional amount of the Qualified Swap Agreement, then during the term of such Qualified Swap Agreement and so long as the Swap Provider under such Qualified Swap Agreement is not in default under such Qualified Swap Agreement, the interest rate on such Subordinated Bonds shall be determined as if such Bonds bore interest at an Assumed Rate on the notional amount of such Subordinated Bonds.

(iv) With respect to Optional Tender Bonds, the aggregate Debt Service Requirements thereon shall not include amounts payable upon mandatory or optional tender, but shall be deemed to include all periodic Bond Related Costs and other payments to the provider of any Liquidity Facility, and shall not be based upon the terms of any reimbursement obligation to such provider except to the extent and for periods during which Bond Related Costs and other payments are required to be made pursuant to such reimbursement obligation due to such provider advancing funds.

(v) With respect to Subordinated Bonds that have Credit Enhancement, the aggregate Debt Service Requirements thereon shall be deemed to include all periodic Bond Related Costs and other payments to the provider of the Credit Enhancement, but shall not be based upon the terms of any reimbursement obligation to such provider except to the extent and for periods during which Bond Related Costs and other payments are required to be made pursuant to such reimbursement obligation due to such provider advancing funds.

(vi) The aggregate Debt Service Requirements for any period on any Subordinated Bonds shall not include any interest which is payable from Capitalized Interest (defined below) which is to be deposited into the applicable Interest Account in the Subordinated Bond Fund at the time of such computation for the period in question, and which is available and is to be applied under the applicable Subordinated Bond Resolution to make interest payments on such Subordinated Bond when due. "*Capitalized Interest*" means that portion of the proceeds of any Series of Subordinated Bonds that are restricted to be used to pay interest due or to become due on such Subordinated Bonds, including funds held in connection with Subordinated Crossover Refunding Bonds.

(vii) With respect to Subordinated Crossover Refunding Bonds, the aggregate Debt Service Requirements thereon until the Crossover Refunding Bonds Break Date shall be disregarded.

For purposes of this definition, the principal and interest portions of the Accreted Value of Capital Appreciation Subordinated Bonds and the Appreciated Value of any Deferred Income Subordinated Bonds becoming due at maturity or by virtue of Mandatory Sinking Fund Requirements shall be included in the

calculations of accrued and unpaid and accruing interest or principal installments in such manner and during such period of time, in both cases as is specified in the Subordinated Bond Resolution authorizing such Capital Appreciation Subordinated Bonds or Deferred Income Subordinated Bonds.

"Appreciated Value" shall mean (a) with respect to any Additional Senior Bonds that are Deferred Income Bonds, the meaning given to such term in the applicable Senior Bond Resolution, and (b) with respect to any Additional Subordinated Bonds that are Deferred Income Bonds until the Interest Commencement Date thereon, an amount equal to the principal amount of such Deferred Income Subordinated Bond (determined on the basis of the initial principal amount per \$5,000 at the Interest Commencement Date thereof) plus the amount, assuming compounding (as set forth in the applicable Subordinated Bond Resolution) of earnings which would be produced on the investment of such initial amount, beginning on the dated date of such Deferred Income Subordinated Bond and ending on the Interest Commencement Date, at a yield which, if produced until the Interest Commencement Date, will produce \$5,000 at the Interest Commencement Date. As of any Valuation Date, the Appreciated Value of any Additional Subordinated Bonds that are Deferred Income Bonds shall mean the amount set forth for such date in the Subordinated Bond Resolution authorizing such Deferred Income Subordinated Bonds and as of any date other than a Valuation Date, the sum of (i) the Appreciated Value on the preceding Valuation Date and (ii) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Appreciated Values for such Valuation Dates.

"Assumed Rate" shall mean the lesser of (a) the Maximum Interest Rate on such Subordinated Bond, or (b) the interest rate which both Rating Agencies indicate in written evidence to the Board will not, by itself, result in a reduction or withdrawal of each of their respective ratings on the Subordinated Bonds that is in effect prior to such lower rate being used as the Assumed Rate.

"Bond Issuance Costs" shall mean all printing, publication or advertising expenses with respect to the sale and issuance of any Senior Bonds or Subordinated Bonds; all fees, expenses and costs of Registrars and Paying Agents retained by the Board; all fees, expenses and costs of attorneys, Bond Counsel, accountants, feasibility consultants, computer programmers or other experts employed to aid in the sale and issuance of the Senior Bonds or Subordinated Bonds, and all other costs related thereto; and all other costs, fees and expenses incurred or reasonably related to the issuance and sale of the Senior Bonds or Subordinated Bonds that may under the Act be paid from proceeds of bonds.

"Bond Related Costs" shall mean all costs, fees and expenses of the Board incurred or reasonably related to any Liquidity Facility, Credit Enhancement, Reserve Fund Guaranty, any remarketing or other secondary market transactions, Qualified Swap Agreement (whether requiring the Board to pay fixed or variable amounts) that the Board has determined was entered into for the purposes of providing substitute interest payments for a particular maturity of Subordinated Bonds, any fees of Bond Counsel, attorneys, financial advisors, remarketing agents, rebate consultants, accountants and other advisors retained by the Board in connection with a Series, and any other fees, charges and expenses that may be lawfully incurred by the Board relating to Senior Bonds or Subordinated Bonds; including, without limitation, any obligation of the Board to a provider of a Credit Enhancement, Liquidity Facility or Reserve Fund Guaranty for a Series, to repay or reimburse any amounts paid by such provider due to a payment under such Enhancement, Facility or Guaranty and any interest on such repayment obligation unless any such amount constitutes a Bond Service Charge for such Series.

"Bond Service Charges" shall mean, for any applicable time period or date, the scheduled principal of and premium, if any, and interest on the Senior Bonds or Subordinated Bonds, as applicable, accruing for that period or due and payable on that date. In determining Bond Service Charges accruing for any period or due and payable on any date, Mandatory Sinking Fund Requirements accruing for that period or due on that date shall be included.

"Bond Year" shall mean the twelve (12) month period commencing at 12:01 a.m. on July 2 of each year and ending at 12:01 a.m. the succeeding July 2, or, in the discretion of the Board, any other twelve (12) month period designated by an official action of the Board.

"Capital Appreciation Bonds" shall mean any Additional Senior Bonds or Additional Subordinated Bonds as to which interest is payable only at the maturity or prior redemption thereof. For the purposes of (i) receiving payment of the redemption price, if any, of a Capital Appreciation Bond that is redeemed prior to maturity, and (ii) computing the principal amount of Capital Appreciation Bonds held by the Owner thereof in giving any notice, consent, request, or demand pursuant to the applicable Bond Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond as of a specific date shall be deemed to be its Accreted Value as of such date.

"Credit Enhancement" shall mean any agreement with a bank, trust company, insurance company, surety bonding company, pension fund or other financial institution that provides increased credit on or security for any Series (or portion thereof) of Senior Bonds or Subordinated Bonds.

"Crossover Refunding Bonds" shall mean any Additional Senior Bonds or Additional Subordinated Bonds the proceeds of which: (i) are deposited in a segregated account in the Highway Bond Proceeds Fund established for such purpose, (ii) cannot be applied to the purpose for which such Crossover Refunding Bonds are to be issued until the Crossover Refunding Bonds Break Date, (iii) must be certified by an Authorized Board Representative to be sufficient, together with the investment income thereon, after the payment of Bond Issuance Costs and Bond Related Costs, if any, to pay the Bond Service Charges on such Series on and prior to such Crossover Refunding Bonds Break Date and (iv) other than paying or providing for the payment of Bond Issuance Costs and Bond Related Costs, if any, cannot be used for any purpose (subject to lien of the Senior Bonds and other requirements of the Senior Bond Resolution) other than the payment of Bond Service Charges on such Crossover Refunding Bonds on and prior to the Crossover Refunding Bonds Break Date.

"Crossover Refunding Bonds Break Date" shall mean the date specified in the Senior Bond Resolution or Subordinated Bond Resolution authorizing a Series of Crossover Refunding Bonds as the date upon which the proceeds of such Crossover Refunding Bonds can be applied to the purpose of which such Crossover Refunding Bonds are to be issued upon the satisfaction of certain conditions, which conditions shall be set forth in such Resolution.

"Debt Service Requirements" shall mean during the applicable period and as of any date of calculation (a) with respect to any Series of Outstanding Senior Bonds, the aggregate of the Bond Service Charges on such Series, as provided in the applicable Senior Bond Resolution, and (b) with respect to any Series of Outstanding Subordinated Bonds, the aggregate of the Bond Service Charges on such Series. For purposes of this definition, the scheduled principal and interest portions of the Accreted Value of Capital Appreciation Subordinated or Senior Bonds and the Appreciated Value of Deferred Income Subordinated or Senior Bonds becoming due at maturity or by virtue of mandatory sinking fund redemption shall be included in the calculations in such manner and during such period of time as is specified in the Senior or Subordinated Bond Resolution authorizing such Capital Appreciation Bonds or Deferred Income Bonds.

"Deferred Income Bonds" shall mean any Additional Senior Bonds or Subordinated Bonds as to which accruing interest is not paid prior to the Interest Commencement Date specified in the Senior or Subordinated Bond Resolution authorizing such Series.

"Depository" shall mean any bank, trust company, national banking association, savings and loan association, savings bank or other banking association selected by the Board as a depository of moneys and securities held under the provisions of the Subordinated Bond Resolution, and may include the Bond Registrar.

"Fiduciary" shall mean the Bond Registrar, Depository, Paying Agent and Escrow Agent for any Subordinated Bonds.

"First Supplemental Subordinated Bond Resolution" shall mean the Supplemental Resolution adopted by the Board authorizing the issuance of the Series 1992 Subordinated Bonds.

"Highway Bond Proceeds Fund" shall mean the Highway Bond Proceeds Fund established by the 1980 Resolution and the Act, including all Accounts therein.

"Highway Purpose Costs" shall mean, without limiting the use of proceeds of Senior Bonds or Subordinated Bonds permitted under the Act, (i) all Bond Issuance Costs, (ii) all Bond Related Costs, (iii) all amounts necessary to create and fund reserve funds and to pay interest on Senior Bonds and Subordinated Bonds as provided in the applicable Senior Bond Resolution or Subordinated Bond Resolution, (iv) all costs, expenses and liabilities paid or incurred or to be paid or incurred in connection with the design, right-of-way purchase or construction of highways, and (v) such other costs, fees, charges and expenses or otherwise which may be incurred pursuant to the Act and may be payable from the Highway Bond Proceeds Fund.

"Interest Commencement Date" shall mean, with respect to any particular Deferred Income Bonds, the date specified in the applicable Senior or Subordinated Bond Resolution authorizing such Deferred Income Bonds (which date must be prior to the maturity date for such Deferred Income Bonds), after which interest accruing on such Deferred Income Bonds shall be payable with the first such payment date being the applicable interest payment date immediately succeeding such Interest Commencement Date.

"Interim Subordinated Bonds" shall mean any Subordinated Bonds issued by the Board which are declared by the Board prior to the issuance thereof either (a) to be issued in anticipation of being refinanced or refunded with Senior Bonds or Subordinated Bonds or (b) to be intended to be paid with moneys that are not Pledged Revenues.

"Investment Securities" shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of the Board's funds:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed as to full and timely payment of principal and interest by, the United States of America;

(ii) bonds, debentures, or other evidences of indebtedness issued or guaranteed by the following United States government sponsored agencies: Federal Home Loan Mortgage Corporation, Farm Credit System, Federal Home Loan Banks, Federal National Mortgage Association, Student Loan Marketing Association, Financing Corporation, Resolution Trust Corporation, Resolution Funding Corporation or any other government-sponsored agencies which are not backed by the full faith and credit of the U.S. government which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America;

(iii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bond or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clauses (i) and (ii) hereof which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (iii), as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clauses (i) and (ii) hereof which have been deposited

in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (iii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (iii), as appropriate;

(iv) project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(v) direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase such obligations are rated in one of the two highest Rating Categories by both Rating Agencies;

(vi) obligations of any state of the United States of America or any political subdivision of any state of the United States of America or any agency or instrumentality of any such state or political subdivision which shall be rated at the time of their purchase in one of the two highest Rating Categories by both Rating Agencies;

(vii) direct and general obligations of the State of Arizona to the payment of the principal of and interest on which the full faith and credit of the State of Arizona are pledged or any bonds or other obligations which as to principal and interest are unconditionally guaranteed by the State of Arizona, provided that at the time of their purchase such obligations are rated in one of the two highest Rating Categories by both Rating Agencies;

(viii) certificates or other instruments that evidence ownership of the right to payments of principal of or interest on obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision, provided that such obligations shall be held in custody by a bank or trust company or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$50,000,000, and provided further that the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed as to payment pursuant to a credit support arrangement provided by one or more financial institutions or insurance companies or associations which shall be rated at the time of purchase thereof in one of the two highest Rating Categories by both Rating Agencies, or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being so rated at the time of purchase;

(ix) certificates that evidence ownership of the right of payments of principal or interest on obligations described in clauses (i) to (vii), provided that such obligations shall be held in custody by a bank or trust company or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$50,000,000;

(x) certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances of any bank or trust company in the United States which are rated at the time of purchase in one of the two highest Rating Categories by both Rating Agencies;

(xi) any repurchase agreements collateralized by securities described in clauses (i) to (vii) above with any registered broker/ dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank, if such broker/ dealer or bank has an uninsured, unsecured and unguaranteed obligation rated (an "unsecured rating") at the time of purchase thereof at least "Prime-1" or "A" by Moody's and at least "A-1" or "A" by S&P, provided (1) a specific written agreement governs the transaction; (2) the securities are held by a depository acting solely as agent for the State Treasurer, and such third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and with combined capital, surplus and undivided profits of not less than \$25

million, and the State Treasurer shall have received written confirmation from such third party that it holds such securities; (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the State Treasurer; (4) the repurchase agreement has a term of 1 year or less, or the collateral securities will be valued no less frequently than monthly and will be liquidated if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation; (5) the repurchase agreement matures at least ten days (or other appropriate liquidation period) prior to an interest payment date; and (6) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 100%;

(xii) investment agreements which represent the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed by a financial institution, in either case that has an unsecured rating, or which agreement is itself rated, as of the date of execution thereof, in one of the two highest Rating Categories by both Rating Agencies;

(xiii) any other investment permitted by State law that is rated at the time of purchase in one of the two highest Rating Categories by both Rating Agencies; and

(xiv) shares of an Investment Company, organized under the Investment Company Act of 1940 as amended, which invests its assets exclusively in obligations of the type described in clauses (i) to (xiii).

"Liquidity Facility" shall mean any agreement with a bank, trust company, insurance company, surety bonding company, pension fund or other financial institution under which it agrees to purchase Optional Tender Bonds.

"Mandatory Sinking Fund Requirements" shall mean the principal amount of term bonds which are required to be redeemed by mandatory sinking fund redemption, in the principal amount, at the prices and on the dates as set forth in the applicable Senior Bond Resolution or Subordinated Bond Resolution.

"Maximum Interest Rate" shall mean, with respect to any particular Additional Senior Bonds that have a Variable Interest Rate, the meaning given to such term in the applicable Senior Bond Resolution, and with respect to any particular Subordinated Bonds that bear interest at a Variable Interest Rate, shall mean a numerical rate of interest, which shall be set forth in the Subordinated Bond Resolution authorizing such Additional Subordinated Bonds, that shall be the maximum rate of interest such Subordinated Bonds that bear interest at a Variable Interest Rate may at any time bear.

"Optional Tender Bonds" shall mean Additional Senior Bonds or Additional Subordinated Bonds which by their terms may be tendered by and at the option of, or are required to be tendered by, the Owner thereof for payment or purchase by the Board or another party prior to the stated maturity thereof, or the maturities of which may be extended by and at the option of the Owner thereof.

"Outstanding" shall mean (a) when used with respect to Senior Bonds, the Senior Bonds which have been issued and remain unpaid except for those Senior Bonds that are considered no longer outstanding in accordance with the provisions of the applicable Senior Bond Resolution, and (b) when used with reference to Subordinated Bonds, as of any date, shall mean Subordinated Bonds theretofore or thereupon being authenticated and delivered under the applicable Subordinated Bond Resolution, except:

(i) Subordinated Bonds canceled pursuant to the applicable Subordinated Bond Resolution at or prior to such date;

(ii) Subordinated Bonds (or portions of Subordinated Bonds) for the payment or redemption or purchase for cancellation of which sufficient moneys shall be held in trust under the Subordinated Bond Resolution and set aside for such purpose (whether at or prior to the maturity or redemption date), provided that if such Subordinated Bonds (or portions thereof) are to be redeemed, notice of such

redemption shall have been given or provision satisfactory to the Bond Registrar shall have been made for the giving of such notice as provided in the Subordinated Bond Resolution;

(iii) Subordinated Bonds in lieu of or in substitution for which other Subordinated Bonds shall have been authenticated and delivered under the Subordinated Bond Resolution;

(iv) Subordinated Bonds deemed to have been paid as described in "Defeasance" below; and

(v) Optional Tender Subordinated Bonds deemed tendered in accordance with the provisions of the Subordinated Bond Resolution authorizing such Subordinated Bonds on the applicable tender, adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payment as provided therein.

"Pledged Revenues" shall mean (a) all moneys derived from fees, excises, or license taxes relating to registration, operation or use of vehicles on the public highways, or to fuel used for the propulsion of such vehicles, paid into the State Highway Fund as prescribed by Article IX, Section 14 of the Constitution of the State of Arizona, and the monies distributed pursuant to subsections C, E and F of Section 28-1591, Arizona Revised Statutes, and subsection C of Section 42-1342, Arizona Revised Statutes and paid into the State Highway Fund, and (b) to the extent permitted by law, including the Act and the Constitution of the State, such additional or other money as the Board may, by a subsequent Subordinated Bond Resolution or Senior Bond Resolution, as applicable, add to the definition of Pledged Revenues.

"Qualified Swap Agreement" shall mean an agreement between the Board and a Swap Provider under which the Board agrees to pay the Swap Provider an amount calculated at an agreed-upon rate based upon a notional amount and the Swap Provider agrees to pay the Board an amount calculated at an agreed-upon rate based upon such notional amount, where (a) the Swap Provider, or the person who guarantees the obligation of the Swap Provider to make its payments to the Board, has unsecured long-term obligations rated, or (b) the swap agreement itself is rated, in each case as of the date the swap agreement is entered into, by both Rating Agencies in either (i) a Rating Category not less than the Rating Category then in effect on the Subordinated Bonds subject to such swap agreement or (ii) such lower Rating Category which both Rating Agencies indicate in written evidence to the Board will not, by itself, result in a reduction or withdrawal of each of their respective ratings on the Subordinated Bonds subject to such swap agreement that is in effect prior to entering into such swap agreement.

"Rating Agency" shall mean Moody's Investors Service ("Moody's") or Standard & Poor's Corporation ("S&P") or both, as applicable, or their successors or assigns.

"Rating Categories" shall mean the rating as published by a Rating Agency in its written compilations of ratings and any written supplement or amendment thereto and any such rating shall be determined on the generic rating without regard to any modifiers and, unless otherwise specified in the Subordinated Bond Resolution, shall be long term ratings.

"Refunding Subordinated Bonds" shall mean all Subordinated Bonds, whether issued in one or more Series, authenticated and delivered on original issuance pursuant to the Subordinated Bond Resolution.

"Reserve Fund Guaranty" shall mean a letter of credit, surety bond or similar arrangement representing the unconditional and irrevocable obligation of a financial institution to pay to the Paying Agent upon request made by the Paying Agent up to an amount stated therein for application as provided in a subsequent Subordinated Bond Resolution which Guaranty shall be held as part of the Subordinated Bond Reserve Fund.

"Second Subordinated Bonds" shall mean any bonds or other obligations that may be hereafter issued by the Board pursuant to applicable law, which are payable from a pledge of Pledged Revenues, which pledge

is junior and subordinated to that in favor of the Senior Bonds and Subordinated Bonds, as described in "Second Subordinated Bonds" below.

"Second Supplemental Subordinated Bond Resolution" means the Supplemental Resolution adopted by the Board authorizing the Series 1993A Subordinated Bonds.

"Series" shall mean the separate series of Senior Bonds identified as such under the applicable Senior Bond Resolution and the separate series of Subordinated Bonds identified as such under the applicable Subordinated Bond Resolution.

"Senior Bonds" shall mean, collectively, the Outstanding Series 1986 Bonds, Series 1987 Bonds, Series 1990 Bonds, Series 1993 Bonds and any Additional Senior Bonds.

"Senior Bond Resolution" shall mean, collectively, the 1980 Resolution, the 1986 Resolution, the 1987 Resolution, the 1990 Resolution, the 1993 Resolution and the resolution or resolutions of the Board adopted hereafter authorizing Additional Senior Bonds, each to the extent applicable by their terms to Outstanding Senior Bonds; in each case as amended or supplemented from time to time in accordance with its terms.

"State Highway Fund" shall mean the State Highway Fund established by Section 28-1821, Arizona Revised Statutes. The State Highway Fund is sometimes referred to as the Arizona Highway Fund in this Official Statement.

"Subordinated Bond Resolution" shall mean (a) when used with reference to the Series 1991A Subordinated Bonds, the Resolution adopted by the Board authorizing the issuance of Subordinated Bonds and containing the lien on and pledge of Pledged Revenues for the Subordinated Bonds on September 27, 1991, (b) when used with reference to the Series 1992 Subordinated Bonds, the Subordinated Bond Resolution and the First Supplemental Subordinated Bond Resolution authorizing the issuance of the Series 1992 Subordinated Bonds, (c) when used with reference to the Series 1993A Subordinated Bonds, the Subordinated Bond Resolution and Second Supplemental Bond Resolution authorizing the issuance of the Series 1993A Subordinated Bonds, (d) when used with reference to a Series of Additional Subordinated Bonds, the Subordinated Bond Resolution and the Supplemental Resolution of the Board authorizing such Series, and (e) when used with reference to the Series 1991A Subordinated Bonds when Additional Subordinated Bonds are Outstanding, the Subordinated Bond Resolution; in each case as amended or supplemented from time to time in accordance with its terms.

"Subordinated Bonds" shall mean any bonds or other obligations of the Board permitted under applicable law and issued pursuant to the Subordinated Bond Resolution which are on a parity with the Series 1991A, 1992A and B and 1993A and B Subordinated Bonds and which share a lien on the Pledged Revenues subordinate only to the Senior Bonds.

"Supplemental Resolution" shall mean (a) with respect to Senior Bonds, any resolution of the Board which shall supplement or amend a Senior Bond Resolution pursuant to its terms, and (b) with respect to Subordinated Bonds, any resolution of the Board which shall supplement or amend the Subordinated Bond Resolution adopted by the Board in accordance with the Subordinated Bond Resolution.

"Swap Provider" shall mean the counterparty with whom the Board enters into a Qualified Swap Agreement.

"Valuation Date" shall mean (i) with respect to any Additional Subordinated Bonds that are Capital Appreciation Bonds, the date or dates set forth in the Subordinated Bond Resolution authorizing such Subordinated Bonds on which specific Accreted Values are assigned to such Bonds and (ii) with respect to any Additional Subordinated Bonds that are Deferred Income Bonds, the date or dates prior to the Interest Commencement Date set forth in the Subordinated Bond Resolution authorizing such Bonds on which specific Appreciated Values are assigned to such Bonds.

"Variable Interest Rate" shall mean with respect to any Additional Senior Bonds, the meaning given to such term in the applicable Senior Bond Resolution and with respect to any Additional Subordinated Bonds, a variable interest rate or rates to be borne by a Series of Subordinated Bonds or any one or more maturities within a Series of Subordinated Bonds. The method of computing such variable interest rate shall be specified in the Subordinated Bond Resolution authorizing such Series of Subordinated Bonds.

AUTHORIZATION AND ISSUANCE OF ADDITIONAL SUBORDINATED BONDS

One or more Series of Additional Subordinated Bonds may be authenticated and delivered upon original issuance at any time or from time to time for any lawful purpose under the Act. The proceeds, including accrued interest, of the Additional Subordinated Bonds of each Series shall be applied simultaneously with the delivery of such Subordinated Bonds as provided in the Supplemental Resolution authorizing such Series.

Additional Subordinated Bonds may be issued for such purposes, other than Additional Subordinated Bonds issued for refunding purposes upon certification with respect to the aggregate Adjusted Debt Service Requirements described below, upon satisfaction of certain conditions including certification by the Board that the sum of (i) (A) the amount of Pledged Revenues deposited by the State Treasurer into the State Highway Fund in any twelve consecutive months out of the most recent eighteen months preceding the issuance of such Series of Subordinated Bonds then proposed to be issued (provided, that in the event that state legislation is enacted that changes the rate of any of the fees, excises or license taxes comprising Pledged Revenues or changes any of the transactions subject to the fees, excises or license taxes comprising Pledged Revenues, at any time subsequent to the beginning of such twelve month period, then the Authorized Board Representative shall estimate and use for these purposes the Pledged Revenues which would have been deposited into the State Highway Fund in such twelve month period if such changed rate or such change in such transactions had been in effect for the entire twelve consecutive month period); plus (B) the amount of any other moneys received by the State Treasurer during the period described in (A) and which constitute Pledged Revenues was not less than (ii) three hundred percent (300%) of the maximum aggregate Adjusted Debt Service Requirements on Outstanding Senior Bonds and Outstanding Subordinated Bonds in the then current or any future Bond Year, including the maximum Adjusted Debt Service Requirements on the Series of Subordinated Bonds then proposed to be issued but excluding the Adjusted Debt Service Requirements on any Senior Bonds or Subordinated Bonds to be refunded that shall not be Outstanding immediately after the issuance of such Series.

Additional Subordinated Bonds may be issued for refunding purposes ("Refunding Subordinated Bonds") upon satisfaction of certain conditions including either (i) that the conditions set forth in the immediately preceding paragraph are met or (ii) a certification by the Board setting forth (A) by Bond Year, the aggregate Adjusted Debt Service Requirements due on all Senior Bonds and Subordinated Bonds Outstanding immediately prior to the date of issuance of such Refunding Subordinated Bonds for the then current and each future Bond Year during which such Bonds are Outstanding; (B) the aggregate Adjusted Debt Service Requirements for each Bond Year set forth in (A) above on all Senior Bonds and Subordinated Bonds to be Outstanding immediately after the issuance of the proposed Refunding Subordinated Bonds; and (C) that the aggregate Adjusted Debt Service Requirement set forth for each Bond Year pursuant to (B) above is not more than 105% of that set forth for such Bond Year pursuant to (A) above.

ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF

The Pledge of the Subordinated Bond Resolution. The Subordinated Bonds are special obligations of the Board and are payable from and secured as to payment of Bond Service Charges thereon, in accordance with their terms and the provisions of the Subordinated Bond Resolution, solely from a lien on and by a pledge of all Pledged Revenues, but subject, however, to the prior first lien on and first pledge of Pledged Revenues made in the Senior Bond Resolution for payment of principal of and interest on all Senior Bonds. The Subordinated Bond Resolution has pledged and assigned as security for the payment of Bond Service Charges on the Subordinated Bonds in accordance with their terms and the provisions of the Subordinated Bond Resolution, to the extent not required to pay the Bond Service Charges on the Senior Bonds, amounts

on deposit in the Subordinated Bond Fund, Subordinated Bond Reserve Fund, Subordinated Bond Related Costs Fund, Second Subordinated Bond Fund, Second Subordinated Bond Related Costs Fund, Second Subordinated Bond Reserve Fund and Highway Bond Proceeds Fund.

Subject to the prior lien on Pledged Revenues in favor of the Senior Bonds under the Senior Bond Resolution, the Board shall use all Pledged Revenues in the State Highway Fund, to the extent lawfully available, to avoid a default in payment of Bond Service Charges on the Subordinated Bonds, when due.

As provided in the Act, all Pledged Revenues deposited into the State Highway Fund shall be immediately subject to the lien of the pledge granted in the Senior Bond Resolution for the Senior Bonds and in the Subordinated Bond Resolution for the Subordinated Bonds, without any future physical delivery or further act, and the lien of such pledge for Subordinated Bonds shall be valid and binding from the date of issuance of the Series 1991A Subordinated Bonds on October 17, 1991 as against all parties having claims of any kind in tort, contract or otherwise against the Board irrespective of whether such parties have notice thereof of such pledge.

Establishment of Funds. The Board shall cause the State Treasurer to establish and maintain the following special funds to be held separate and apart from all other State moneys: (a) Highway Bond Proceeds Fund (which is created in the Act and the Senior Bond Resolution) and shall create therein a separate account for each Series of Senior Bonds, Subordinated Bonds and Second Subordinated Bonds; (b) Senior Bond Fund (which is the same fund as the Bond Fund created in the Senior Bond Resolution); (c) Senior Bond Related Costs Fund; (d) Senior Bond Reserve Fund; (e) Subordinated Bond Fund; (f) Subordinated Bond Related Costs Fund; (g) Subordinated Bond Reserve Fund; (h) Second Subordinated Bond Fund; (i) Second Subordinated Bond Related Costs Fund; and (j) Second Subordinated Bond Reserve Fund (collectively, "Bond Funds").

Deposits into Bond Funds; General. The Board shall make deposits of Pledged Revenues into the Bond Funds as provided in the Subordinated Bond Resolution and as further specified in subsequent Senior Bond Resolutions regarding the Senior Bonds, in subsequent Subordinated Bond Resolutions and in subsequent Senior Bond Resolutions authorizing Second Subordinated Bonds; provided, however, no such subsequent specification of deposits into the Bond Funds shall be inconsistent with the requirements of the Senior Bond Resolution existing on the date of the Subordinated Bond Resolution; or with the requirements of the Subordinated Bond Resolution.

Subordinated Bond Proceeds Account. Moneys in the Subordinated Bond Proceeds Account for each series of Subordinated Bonds shall be used (1) to pay all Bond Issuance Costs in connection with the issuance of the applicable Subordinated Bonds; (2) to pay Highway Purpose Costs in the manner provided in the 1980 Resolution; (3) if a Senior Bond Payment Deficiency (defined below under "Use of Bond Funds") remains after transfers from all other Bond Funds, Related Costs Funds and Reserve Funds, to satisfy such Senior Bond Payment Deficiency; (4) if a Subordinated Bond Payment Deficiency (defined below under "Use of Bond Funds") remains after transfers from the Funds for the Subordinated Bonds and the Second Subordinated Bonds, and there is no Senior Bond Payment Deficiency, to satisfy such Subordinated Bond Payment Deficiency; and (5) if a Second Subordinated Bond Payment Deficiency (defined below under "Use of Bond Funds") remains after transfers from the Funds for the Second Subordinated Bonds, and there is no Senior Bond Payment Deficiency or Subordinated Bond Payment Deficiency, to satisfy such Second Subordinated Bond Payment Deficiency.

Deposit of Pledged Revenues into Bond Funds. All Pledged Revenues paid into the State Highway Fund shall be accounted for by the Board and State Treasurer and held by the State Treasurer and deposited by the State Treasurer into the Bond Funds in the following order and manner:

On the dates provided below, the Board shall, as Pledged Revenues are received, segregate from the Pledged Revenues the following amounts and the State Treasurer shall transfer such amounts to the Bond Funds and Accounts in the following order:

(1) into the Interest Account in the Senior Bond Fund, on the first day of each month, an amount which in the aggregate is not less than one-fifth (1/5) of the amount of the next semiannual interest payment coming due on the Outstanding Senior Bonds; and then

(2) into the Principal Account in the Senior Bond Fund, on the first day of each month, one-eleventh (1/11) of the amount of the principal of the Outstanding Senior Bonds coming due on the next principal payment date (whether by stated maturity or mandatory sinking fund redemption); provided however that, so long as investment income on investments from accounts in the Highway Bond Proceeds Fund is transferred to the Senior Bond Fund, the Board need only transfer the amount necessary to cause the Principal Account and the Interest Account in the Senior Bond Fund to be current at the date payments are required to be made from such Accounts to pay principal of and interest on the Outstanding Senior Bonds; and then

(3) into the account in the Highway Bond Proceeds Fund for any Outstanding Series of Additional Senior Bonds at such times and in such amounts as may be specified in any subsequent Senior Bond Resolution, an amount equal to the unreimbursed amounts theretofore expended from such account for payment of principal of and interest on any Senior Bonds; and then

(4) into the Senior Bond Related Costs Fund, at such times and in such amounts, if any, specified in any subsequent Senior Bond Resolution for payment of Bond Related Costs for any Additional Senior Bonds; and then

(5) into the Senior Bond Reserve Fund, at such times and in such amounts, if any, specified in any subsequent Senior Bond Resolution for deposit therein; and then

(6) into the Interest Account in the Subordinated Bond Fund, on or before the fifteenth day of the month preceding an interest payment date on the Series 1991A, 1992 and 1993 Subordinated Bonds, an amount equal to the interest payment due on such interest payment date on the Series 1991A, 1992 and 1993 Subordinated Bonds and on such dates and in such amounts as specified in any subsequent Subordinated Bond Resolution with respect to any Series of Additional Subordinated Bonds; and then

(7) into the Principal Account in the Subordinated Bond Fund, on or before the fifteenth day of the month preceding a principal payment date (whether at maturity or by mandatory sinking fund redemption) on the Series 1991A, 1992 and 1993 Subordinated Bonds, an amount equal to the principal payment due on such principal payment date on the Series 1991A, 1992 and 1993 Subordinated Bonds, less in the case of mandatory sinking fund redemption, the amount of credit described in the applicable Subordinated Bond Resolution and on such dates and in such amounts as specified in any subsequent Subordinated Bond Resolution with respect to any Series of Additional Subordinated Bonds; and then

(8) into the Subordinated Bond Related Costs Fund, at such times and in such amounts, if any, specified in any subsequent Subordinated Bond Resolution for deposit therein for payment of Bond Related Costs for any Additional Subordinated Bonds; and then

(9) into the Subordinated Bond Reserve Fund, at such times and in such amounts, if any, specified in any subsequent Subordinated Bond Resolution for deposit therein; and then

(10) into the Interest Account in the Second Subordinated Bond Fund at such times and in such amounts, if any, specified pursuant to the resolution of the Board authorizing the Second Subordinated Bonds for deposit therein; and then

(11) into the Principal Account in the Second Subordinated Bond Fund at such times and in such amounts, if any, specified pursuant to the resolution of the Board authorizing the Second Subordinated Bonds for deposit therein; and then

(12) into the Second Subordinated Bond Related Costs Fund at such times and in such amounts, if any, specified pursuant to the resolution of the Board authorizing the Second Subordinated Bonds for deposit therein; and then

(13) into the Second Subordinated Bond Reserve Fund at such times and in such amounts, if any, specified pursuant to the resolution of the Board authorizing the Second Subordinated Bonds for deposit therein; and then

(14) the remaining Pledged Revenues, if any, may be used and expended by the Board for any other lawful use of the State Highway Fund.

If there is a deficiency in the required deposit to any of the Bond Funds as provided above, and unless the Board uses lawfully available Pledged Revenues on deposit in the State Highway Fund or other lawfully available moneys to cure such deficiency, all additional Pledged Revenues deposited into the State Highway Fund shall be used to make up such deficiencies in such Bond Funds, but only in the priority of deposit set forth above, prior to making any deposits to any lower priority Bond Fund.

The provisions of clauses (1) through (5) above may be amended by any Senior Bond Resolution hereafter adopted by the Board and shall be deemed to have been amended to conform to the provisions of such subsequent Senior Bond Resolution, provided, however, that such an amendment shall not impair or adversely affect the rights or security of the Owners of the Subordinated Bonds then Outstanding or the Second Subordinated Bonds then Outstanding.

Use of Bond Funds

Use of Senior Bond Fund. Moneys in the Senior Bond Fund shall be used by the State Treasurer to pay principal of (whether at maturity or mandatory sinking fund redemption) premium, if any, and interest on the Senior Bonds, as provided in the applicable Senior Bond Resolution and the Senior Bonds. All moneys at any time paid or transferred to the Senior Bond Fund shall be kept separate and apart from all other moneys in the hands of the State Treasurer and shall be held in trust for the benefit of the holders of the Outstanding Senior Bonds and coupons entitled to be paid therewith, and shall be used solely for the purpose of paying the Bond Service Charges on the Outstanding Senior Bonds as the same become due and for no other purpose. Neither the Board, the State of Arizona, nor any tort or contract claimant nor Owner of Subordinated Bonds shall ever have any claim upon or beneficial interest in any of the moneys of the Pledged Revenues in the Senior Bond Fund.

Use of Senior Bond Related Costs Fund. Moneys, if any, in the Senior Bond Related Costs Fund shall be used by the State Treasurer to pay Bond Related Costs, when due, with respect to Additional Senior Bonds as provided in the Senior Bond Resolution authorizing any such Series of Additional Senior Bonds, upon written direction from the Authorized Board Representative. To the extent moneys in the Senior Bond Fund are insufficient to pay, when due, principal of and interest on the Senior Bonds (a "Senior Bond Payment Deficiency"), the State Treasurer shall, after use of moneys in the Senior Bond Reserve Fund, use moneys in the Senior Bond Related Costs Fund to pay such Deficiency, except as otherwise provided in the Senior Bond Resolution authorizing any such Series of Additional Senior Bonds.

Use of Senior Bond Reserve Fund. Moneys, if any, in the Senior Bond Reserve Fund shall be used by the State Treasurer: (a) to pay any Senior Bond Payment Deficiency; and then (b) to the extent moneys in the Senior Bond Related Costs Fund are insufficient to pay, when due, the Bond Related Costs with respect to the Additional Senior Bonds as provided in the Senior Bond Resolution authorizing any such Series of Additional Senior Bonds (a "Senior Bond Related Costs Deficiency"), to pay any remaining Senior Bond Related Costs Deficiency, except as otherwise provided in the Senior Bond Resolution authorizing any such Series of Additional Senior Bonds.

Use of Subordinated Bond Fund. Moneys in the Subordinated Bond Fund shall be used by the State Treasurer: (i) after use (in the following order) of the Senior Bond Reserve Fund, the Senior Bond Related Costs Fund, the Second Subordinated Bond Reserve Fund, the Second Subordinated Bond Related Costs Fund, the Second Subordinated Bond Fund, the Subordinated Bond Reserve Fund and the Subordinated Bond Related Costs Fund to pay any Senior Bond Payment Deficiency, to pay any remaining Senior Bond Payment Deficiency; and then (ii) to pay principal of (whether at maturity or mandatory sinking fund redemption), premium, if any, and interest on the Subordinated Bonds as specified in the Subordinated Bond Resolution with respect to the Subordinated Bonds.

All moneys at any time paid or transferred to the Subordinated Bond Fund shall be kept separate and apart from all other moneys in the hands of the State Treasurer and shall be held in trust for the benefit of the Owners of the Outstanding Subordinated Bonds entitled to be paid therewith and shall be used solely for the purpose of paying the principal of and interest on the Outstanding Subordinated Bonds as the same become due and for no other purpose, subject to the provisions of (i) of the prior paragraph under this heading "Use of Subordinated Bond Fund". Neither the Board, the State of Arizona nor any tort or contract claimant nor holder of any Second Subordinated Bonds shall ever have any claim upon or beneficial interest in any of the moneys of the Pledged Revenues in the Subordinated Bond Fund.

The Board shall order the State Treasurer to pay out of the Subordinated Bond Fund to the respective Paying Agents (i) on or before each interest payment date, the amount from the Interest Account required for the interest payable on such due date; and (ii) on or before each principal payment date, the amount from the Principal Account required for the principal payment on such due date (whether at stated maturity or by mandatory sinking fund redemption); and (iii) on or before any optional redemption date for the Subordinated Bonds, the amount from the redemption account required for the payment of the redemption price on the Subordinated Bonds then to be optionally redeemed. The Board shall furnish or cause to be furnished to the State Treasurer a certificate setting forth the amount to be paid on Subordinated Bonds that bear interest at a Variable Interest Rate on each interest payment date, which certificate shall be furnished on or prior to the appropriate Regular Record Date with respect to any interest payment date. The Board shall order the State Treasurer also to pay out of the Interest Account in the Subordinated Bond Fund the accrued interest included in the purchase price of Subordinated Bonds purchased for retirement.

Amounts accumulated in the Principal Account of the Subordinated Bond Fund with respect to any mandatory sinking fund requirement may and, if so ordered by the Authorized Board Representative, shall be applied by the State Treasurer, on or prior to the 35th day next preceding the next mandatory sinking fund redemption date, to the purchase of Subordinated Bonds of the Series and maturity for which such mandatory sinking fund requirement was established. All purchases of any Subordinated Bonds shall be made at prices not exceeding the applicable mandatory sinking fund redemption price of such Subordinated Bonds plus accrued interest, and such purchases shall be made by an Authorized Board Representative. The Board shall receive a credit for any such Bonds so purchased. As soon as practicable after the 35th day preceding the next mandatory sinking fund redemption date, the Bond Registrar shall proceed to call for redemption, by giving notice as provided in the Subordinated Bond Resolution on such mandatory sinking fund redemption date, the Subordinated Bonds of the Series and maturity for which such mandatory sinking fund requirement was established (except in the case of Subordinated Bonds maturing on a mandatory sinking fund redemption date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such mandatory sinking fund requirement after making allowance for any credit for Subordinated Bonds purchased or redeemed which the Board has directed the State Treasurer to apply as a credit against such unsatisfied balance.

In the event of the refunding of any Subordinated Bonds, the Board may order the State Treasurer to withdraw from the Subordinated Bond Fund all, or any portion of, the amounts accumulated therein with respect to Bond Service Charges on the Subordinated Bonds being refunded and deposit such amounts with the Escrow Agent to be held for the payment of Bond Service Charges on the Subordinated Bonds being refunded; provided that such withdrawal may not be made unless immediately thereafter the Subordinated

Bonds being refunded shall be deemed to have been paid pursuant to the defeasance provisions of the Subordinated Bond Resolution.

Use of Subordinated Bond Related Costs Fund. Moneys, if any, in the Subordinated Bond Related Costs Fund shall be used by the State Treasurer:

(a) after use (in the following order) of the Senior Bond Reserve Fund, the Senior Bond Related Costs Fund, the Second Subordinated Bond Reserve Fund, the Second Subordinated Bond Related Costs Fund, the Second Subordinated Bond Fund and the Subordinated Bond Reserve Fund to pay any Senior Bond Payment Deficiency, to pay any remaining Senior Bond Payment Deficiency; and then

(b) after use (in the following order) of the Senior Bond Reserve Fund, the Second Subordinated Bond Reserve Fund, the Second Subordinated Bond Related Costs Fund and the Subordinated Bond Reserve Fund to pay any Senior Bond Related Costs Deficiency, to pay any remaining Senior Bond Related Costs Deficiency; and then

(c) after use (in the following order) of the Second Subordinated Bond Reserve Fund, the Second Subordinated Bond Related Costs Fund and the Subordinated Bond Reserve Fund to pay any deficiency in the Senior Bond Reserve Fund (a "Senior Bond Reserve Fund Deficiency"), to pay any remaining Senior Bond Reserve Fund Deficiency; and then

(d) to the extent moneys in the Subordinated Bond Fund are insufficient to pay principal of (whether at maturity or on mandatory sinking fund redemption) and interest on Subordinated Bonds when due (a "Subordinated Bond Payment Deficiency"), after use of moneys in the Subordinated Bond Reserve Fund, to pay any remaining Subordinated Bond Payment Deficiency; and then

(e) to pay the Bond Related Costs, if any, when due, with respect to Additional Subordinated Bonds as provided in the Subordinated Bond Resolution authorizing such Subordinated Bonds, upon written direction from the Authorized Board Representative to make such payment.

Use of Subordinated Bond Reserve Fund. Moneys, if any, in the Subordinated Bond Reserve Fund shall be used by the State Treasurer:

(i) after use (in the following order) of the Senior Bond Reserve Fund, the Senior Bond Related Costs Fund, the Second Subordinated Bond Reserve Fund, the Second Subordinated Bond Related Costs Fund, and the Second Subordinated Bond Fund to pay any Senior Bond Payment Deficiency, to pay any remaining Senior Bond Payment Deficiency; and then

(ii) after use (in the following order) of the Senior Bond Reserve Fund, the Second Subordinated Bond Reserve Fund and the Second Subordinated Bond Related Costs Fund, to pay any Senior Bond Related Costs Deficiency, to pay any remaining Senior Bond Related Costs Deficiency; and then

(iii) after use (in the following order) of the Second Subordinated Bond Reserve Fund and the Second Subordinated Bond Related Costs Fund to pay any Senior Bond Reserve Fund Deficiency, to pay any remaining Senior Bond Reserve Fund Deficiency; and then

(iv) to the extent moneys in the Subordinated Bond Fund are insufficient to pay any Subordinated Bond Payment Deficiency, to pay any remaining Subordinated Bond Payment Deficiency; and then

(v) to the extent moneys in the Subordinated Bond Related Costs Fund are insufficient to pay, when due, the Subordinated Bond Related Costs as provided in the applicable Subordinated Bond Resolution (the "Subordinated Bond Related Costs Deficiency"), to pay any remaining Subordinated Bond Related Costs Deficiency.

Use of Second Subordinated Bond Fund. Moneys, if any, in the Second Subordinated Bond Fund shall be used by the State Treasurer:

(i) after use (in the following order) of the Senior Bond Reserve Fund, the Senior Bond Related Costs Fund, the Second Subordinated Bond Reserve Fund and the Second Subordinated Bond Related Costs Fund to pay any Senior Bond Payment Deficiency, to pay any remaining Senior Bond Payment Deficiency; and then

(ii) after use (in the following order) of the Subordinated Bond Reserve Fund, the Subordinated Bond Related Costs Fund, the Second Subordinated Bond Reserve Fund and the Second Subordinated Bond Related Costs Fund to pay any Subordinated Bond Payment Deficiency, to pay any remaining Subordinated Bond Payment Deficiency; and then

(iii) to pay principal of (whether at maturity or mandatory sinking fund redemption), premium, if any, and interest on the Second Subordinated Bonds, as provided in the applicable resolution of the Board authorizing the Second Subordinated Bonds.

All moneys at any time paid or transferred to the Second Subordinated Bond Fund shall be kept separate and apart from all other moneys in the hands of the State Treasurer and shall be held in trust for the benefit of the owners of the Outstanding Second Subordinated Bonds entitled to be paid therewith and shall be used solely for the purpose of paying the principal of and interest on the Outstanding Second Subordinated Bonds as the same become due and for no other purpose, subject to the provisions of clauses (i) and (ii) above. Neither the Board, the State of Arizona nor any tort or contract claimant shall ever have any claim upon or beneficial interest in any of the moneys of the Pledged Revenues in the Second Subordinated Bond Fund. The Board shall order the State Treasurer to pay debt service on the Second Subordinated Bonds from the Second Subordinated Bond Fund at the times and in the amounts provided in the resolution authorizing such Second Subordinated Bonds.

Use of Second Subordinated Bond Related Costs Fund. Moneys, if any, in the Second Subordinated Bond Related Costs Fund shall be used by the State Treasurer:

(a) after use (in the following order) of the Senior Bond Reserve Fund, the Senior Bond Related Costs Fund and the Second Subordinated Bond Reserve Fund to pay any Senior Bond Payment Deficiency, to pay any remaining Senior Bond Payment Deficiency; and then

(b) after use of the Senior Bond Reserve Fund and the Second Subordinated Bond Reserve Fund to pay any Senior Bond Related Costs Deficiency, to pay any remaining Senior Bond Related Costs Deficiency; and then

(c) after use of the Second Subordinated Bond Reserve Fund to pay any Senior Bond Reserve Fund Deficiency, to pay any remaining Senior Bond Reserve Fund Deficiency; and then

(d) after use (in the following order) of the Subordinated Bond Reserve Fund, the Subordinated Bond Related Costs Fund and the Second Subordinated Bond Reserve Fund to pay any Subordinated Bond Payment Deficiency, to pay any remaining Subordinated Bond Payment Deficiency; and then

(e) after use of the Subordinated Bond Reserve Fund and the Second Subordinated Bond Reserve Fund to pay any Subordinated Bond Related Costs Deficiency, to pay any remaining Subordinated Bond Related Costs Deficiency; and then

(f) to the extent there is a deficiency in the amount required to be deposited into the Subordinated Bond Reserve Fund (a "Subordinated Bond Reserve Deficiency"), after use of moneys in the Second Subordinated Bond Reserve Fund, to pay such Subordinated Bond Reserve Deficiency; and then

(g) to the extent moneys in the Second Subordinated Bond Fund are insufficient to pay principal of (whether at maturity or on mandatory sinking fund redemption) and interest on Second Subordinated Bonds when due in accordance with their terms (a "Second Subordinated Bond Payment Deficiency"), after use of moneys in the Second Subordinated Bond Reserve Fund, to pay any such Second Subordinated Bond Payment Deficiency, except as otherwise provided in the resolution authorizing such Second Subordinated Bonds; and then

(h) to pay the Bond Related Costs, when due, with respect to Second Subordinated Bonds as provided in the resolution authorizing such Second Subordinated Bonds, upon written direction from the Authorized Board Representative to make such payment.

Use of Second Subordinated Bond Reserve Fund. Moneys, if any, in the Second Subordinated Bond Reserve Fund shall be used by the State Treasurer:

(a) after use (in the following order) of the Senior Bond Reserve Fund and the Senior Bond Related Costs Fund to pay any Senior Bond Payment Deficiency, to pay any remaining Senior Bond Payment Deficiency; and then

(b) after use of the Senior Bond Reserve Fund to pay any Senior Bond Related Costs Deficiency, to pay any remaining Senior Bond Related Costs Deficiency; and then

(c) to pay any Senior Bond Reserve Fund Deficiency; and then

(d) after use (in the following order) of the Subordinated Bond Reserve Fund and the Subordinated Bond Related Costs Fund to pay any Subordinated Bond Payment Deficiency, to pay any remaining Subordinated Bond Payment Deficiency; and then

(e) after use of the Subordinated Bond Reserve Fund to pay any Subordinated Bond Related Costs Deficiency, to pay any remaining Subordinated Bond Related Costs Deficiency; and then

(f) to pay any Subordinated Bond Reserve Fund Deficiency; and then

(g) to pay any Second Subordinated Bond Payment Deficiency, except as otherwise provided in the resolution authorizing such Second Subordinated Bonds; and then

(h) to the extent there is a deficiency in the amount required to be deposited into the Second Subordinated Bond Related Costs Fund to pay, when due, any Bond Related Costs relating to the Second Subordinated Bonds, as provided in the resolution authorizing the Second Subordinated Bonds (a "Second Subordinated Bond Related Costs Deficiency"), to pay any such Second Subordinated Bond Related Costs Deficiency, except as otherwise provided in the resolution authorizing such Second Subordinated Bonds.

Second Subordinated Bonds. The Board may, at any time, or from time to time, in accordance with the Subordinated Bond Resolution, the Senior Bond Resolution and applicable law, issue Second Subordinated Bonds for any of its lawful purposes, which Second Subordinated Bonds may be payable out of, and which may be secured by a pledge of and lien on, the Pledged Revenues remaining after all deposits to the funds established for the Senior Bonds and Subordinated Bonds required by the Senior Bond Resolution and Subordinated Bond Resolution have been made as provided in the Subordinated Bond Resolution; provided, however, that such pledge of and lien on Pledged Revenues shall be subordinate and junior in all respects to the lien and pledge created by the Senior Bond Resolution as security for the Senior Bonds and shall also be subordinate and junior in all respects to the lien and pledge created by the Subordinated Bond Resolution as security for the Subordinated Bonds as provided in the Subordinated Bond Resolution.

Investment of Subordinated Bond Fund, Subordinated Bond Reserve Fund and Subordinated Bond Related Costs Funds.

Any moneys held as a part of any of the Subordinated Bond Fund, Subordinated Bond Reserve Fund and Subordinated Bond Related Costs Fund (collectively, the "Subordinated Funds") shall be invested or reinvested in Investment Securities, at the request of the Authorized Board Representative; provided that in any case, the maturities or availability of the investments shall coincide with the respective dates as of which payments are required to be made from the respective Subordinated Funds and Accounts.

Investments shall be held by or under the control of the State Treasurer and shall be deemed at all times to constitute a part of the Subordinated Fund or account from which they shall have been made. Except as provided for the Subordinated Bond Reserve Fund, any profit realized from those investments shall be credited, and any loss resulting therefrom shall be charged, to the respective Subordinated Fund and Accounts from which the investments shall have been made.

The State Treasurer shall sell and reduce to cash a sufficient portion of investments, whenever the cash balance in any of the Subordinated Funds or Accounts is insufficient to pay the current requirements from that Subordinated Fund or account. The State Treasurer shall sell or redeem investments credited to the respective Subordinated Funds and Accounts to produce moneys which are sufficient at the times required for the purposes of paying principal and interest on Subordinated Bonds, without the necessity for and without restriction by reason of any further order of the Board.

Valuation. For the purpose of determining the amount on deposit to the credit of any Subordinated Fund or account (except the Subordinated Bond Reserve Fund which shall be determined as provided in the subsequent Subordinated Bond Resolution requiring a deposit into such Fund), the value of obligations in which money in any Subordinated Fund or account shall have been invested shall be computed at market value or the amortized cost thereof, whichever is lower.

PARTICULAR COVENANTS OF THE BOARD

Payment of Subordinated Bonds. The Board shall duly and punctually pay or cause to be paid the Bond Service Charges on every Subordinated Bond, at the dates and places and in the manner provided in the Subordinated Bonds and the Subordinated Bond Resolution.

Limitation on Additional Senior Bonds. The Board covenants, for the benefit of the Owners of Subordinated Bonds, not to issue Additional Senior Bonds unless an Authorized Board Representative delivers to the Bond Registrar prior to the issuance of such Additional Senior Bonds a certificate evidencing either (a) or (b):

(a) that (i) the sum of:

(A) the amount of Pledged Revenues deposited by the State Treasurer into the State Highway Fund in any twelve consecutive months out of the most recent eighteen months preceding the issuance of such Series of Additional Senior Bonds then proposed to be issued (provided, that in the event that state legislation is enacted that changes the rate of any of the fees, excises or license taxes comprising Pledged Revenues or changes any of the transactions subject to the fees, excises or license taxes comprising Pledged Revenues, at any time subsequent to the beginning of such twelve month period, then the Authorized Board Representative shall estimate and use for these purposes the Pledged Revenues which would have been deposited into the State Highway Fund in such twelve month period if such changed rate or such change in such transactions had been in effect for the entire twelve consecutive month period); plus

(B) the amount of any other moneys received by the State Treasurer during the period described in (A) and which constitute Pledged Revenues,

(ii) was not less than three hundred percent (300%) of the maximum aggregate Adjusted Debt Service Requirements on Outstanding Senior Bonds and Outstanding Subordinated Bonds in the then current or any future Bond Year, including the maximum Adjusted Debt Service Requirements on the Series of Additional Senior Bonds then proposed to be issued but excluding the Adjusted Debt Service Requirements on any Senior Bonds or Subordinated Bonds to be refunded that shall not be Outstanding immediately after the issuance of such Series of Additional Senior Bonds; or

(b) in the case of proposed Additional Senior Bonds to be issued for refunding purposes:

(i) by Bond Year, the aggregate Adjusted Debt Service Requirements due on all Senior Bonds and Subordinated Bonds then Outstanding immediately prior to the date of issuance of such refunding Additional Senior Bonds for the then current and each future Bond Year during which such Bonds are Outstanding; and

(ii) the aggregate Adjusted Debt Service Requirements for each Bond Year set forth in (i) above on all Senior Bonds and Subordinated Bonds to be Outstanding immediately after the issuance of such proposed refunding Additional Senior Bonds; and

(iii) that the aggregate Adjusted Debt Service Requirements set forth for each Bond Year pursuant to (ii) above is not more than 105% of that set forth for such Bond Year pursuant to (i) above.

Creation of Other Liens. Except for Senior Bonds, the Board shall not issue any bonds, notes, debentures, or other evidences of indebtedness of similar nature, other than the Subordinated Bonds, payable out of or secured by a pledge or assignment of the amounts on deposit in the Subordinated Bond Fund, the Subordinated Bond Reserve Fund and the Subordinated Bond Related Costs Fund.

Agreement of State. The Board, as agent for the State of Arizona, agrees, pursuant to the Act, that the State of Arizona will not limit or alter the rights vested in the Board to collect such fees, excises and taxes as may be necessary to produce sufficient revenues to meet the expense of the State Highway System and to fulfill the terms of the Subordinated Bond Resolution and any agreement made with the Owners of Subordinated Bonds or in any way impair the rights and remedies of the Owners of any Subordinated Bonds until all Subordinated Bonds issued under the authority of the Act, together with interest thereon and interest on any unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of any Owners, are fully met and discharged.

Limit on Supplemental Resolutions. The Board covenants not to adopt a Supplemental Resolution which would amend the provisions regarding the pledge for the Subordinated Bonds, the flow of funds or application of Pledged Revenues contained in the Subordinated Bond Resolution in any manner which would impair or adversely affect the rights or security of the Owners of Subordinated Bonds then Outstanding under the Subordinated Bond Resolution.

Tax Covenant for the Series 1993 Subordinated Bonds. The Board covenants (a) that it will take or cause to be taken such actions that may be required of it for the interest on the Series 1993 Subordinated Bonds to be and remain excluded from gross income for federal income tax purposes, (b) that it will not take or authorize to be taken any actions that would adversely affect that exclusion, and (c) that it, or persons acting for it, will, among other acts of compliance, (i) apply the proceeds of the Series 1993 Subordinated Bonds to the governmental purposes of the borrowing, (ii) restrict the yield on investment property, (iii) make timely and adequate payments to the federal government as required under the Tax Compliance Certificate of the Board and the Department relating to the Series 1993 Subordinated Bonds, (iv) maintain books and records and make calculations and reports, and (v) refrain from certain uses of those proceeds and, as applicable, of property financed with such proceeds, all in such manner and to the extent necessary to assure such exclusion of that interest under the Code. The Board also covenants that it will use, and will restrict the use and investment of, the proceeds of the Series 1993 Subordinated Bonds in such manner and to such extent as may be necessary to comply with the Code.

SUPPLEMENTAL RESOLUTIONS

Supplemental Resolutions Effective when Adopted. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of the Board may be adopted amending or supplementing the Subordinated Bond Resolution, which, when adopted, shall be fully effective in accordance with its terms:

(a) To cure any ambiguity, inconsistency or formal defect or omission in the Subordinated Bond Resolution;

(b) To cure any inconsistency between the Subordinated Bond Resolution and the Senior Bond Resolution in effect prior to the Subordinated Bond Resolution.

(c) To close the Subordinated Bond Resolution against, or provide limitations and restrictions (in addition to the limitations and restrictions contained in the Subordinated Bond Resolution) on, the issuance of Additional Subordinated Bonds or the issuance of Additional Senior Bonds or other evidences of indebtedness;

(d) To add to the covenants and agreements of the Board in the Subordinated Bond Resolution, other covenants and agreements to be observed by the Board which are not contrary to or inconsistent with the Subordinated Bond Resolution as theretofore in effect;

(e) To add to the limitations and restrictions in the Subordinated Bond Resolution, other limitations and restrictions to be observed by the Board which are not contrary to or inconsistent with the Subordinated Bond Resolution as theretofore in effect;

(f) To authorize Additional Subordinated Bonds and, in connection therewith, specify and determine the matters and things referred to as general terms and provisions of Subordinated Bonds in the Subordinated Bond Resolution, and also any other matters and things relative to such Additional Subordinated Bonds which are not contrary to or inconsistent with the Subordinated Bond Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first issuance of such Additional Subordinated Bonds;

(g) To authorize, in compliance with all applicable law, Additional Subordinated Bonds of each Series to be issued in the form of coupon Subordinated Bonds and, in connection therewith, specify and determine the matters and things relative to the issuance of such coupon Subordinated Bonds, including provisions relating to the timing and manner of provision of any notice required to be given under the Subordinated Bond Resolution to the Owners of such coupon Subordinated Bonds, which are not contrary to or inconsistent with the Subordinated Bond Resolution as theretofore in effect or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first issuance of such coupon Subordinated Bonds;

(h) To authorize, in compliance with all applicable law, Additional Subordinated Bonds to be issued in the form of Additional Subordinated Bonds issued and held in book-entry form on the books of the Board or any Fiduciary appointed for that purpose by the Board and, in connection therewith, make such additional changes in the Subordinated Bond Resolution, not adverse to the rights of the Owners of the Additional Subordinated Bonds, as are necessary or appropriate to accomplish or recognize such book-entry form Additional Subordinated Bonds and specify and determine the matters and things relative to the issuance of such book-entry form Subordinated Bonds as are appropriate or necessary;

(i) Notwithstanding any other provisions of the Subordinated Bond Resolution, to authorize, in compliance with all applicable laws, Additional Subordinated Bonds having terms and provisions different than the terms and provisions theretofore provided in the Subordinated Bond Resolution,

including but not limited to provisions relating to the timing of the payment of interest, and maturity amounts, valuation of investments as of a given time, and authorizing the form of bond for such Additional Subordinated Bonds and otherwise to provide amendments or modifications of provisions of the Subordinated Bond Resolution relative to such Additional Subordinated Bonds; provided that neither the issuance of such Additional Subordinated Bonds nor any such amendments or modifications shall in any manner impair or adversely affect the rights or security of the Owners of Subordinated Bonds then Outstanding or other persons under the Subordinated Bond Resolution;

(j) To confirm, as further assurance, any pledge or assignment under, and the subjection to any security interest, pledge or assignment created or to be created by, the Subordinated Bond Resolution of the amounts on deposit in the Subordinated Bond Fund, Subordinated Bond Reserve Fund and Subordinated Bond Related Costs Fund and to pledge any additional revenues, moneys, securities or agreements as may be permitted by law and the Senior Bond Resolution for deposit in the Subordinated Bond Fund, Subordinated Bond Reserve Fund and Subordinated Bond Related Costs Fund;

(k) To comply with the provisions of any federal or state securities law, including, without limitation, the Trust Indenture Act of 1939, as amended, or to comply with the Code;

(l) To amend provisions of the clauses regarding the flow of funds for the Senior Bonds as provided in the Subordinated Bond Resolution; and

(m) To modify any of the provisions of the Subordinated Bond Resolution in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Subordinated Bonds of each Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding and (ii) such Supplemental Resolution shall be specifically referred to in the text of all Subordinated Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Resolution and of Subordinated Bonds issued in exchange therefor or in place thereof.

Supplemental Resolutions Effective With Consent of Owners. At any time or from time to time any modification or amendment of the Subordinated Bond Resolution and of the rights and obligations of the Board and of the Owners of the Subordinated Bonds thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in the Subordinated Bond Resolution (i) of the Owners of at least a majority in principal amount of the Subordinated Bonds Outstanding at the time such consent is given and (ii) in case less than all of the several Series of Subordinated Bonds then Outstanding are affected by the modification or amendment, of the Owners of at least a majority in principal amount of the Subordinated Bonds of each Series so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Subordinated Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Subordinated Bonds shall not be required and such Subordinated Bonds shall not be deemed to be Outstanding for the purpose of this calculation of Outstanding Subordinated Bonds. No such modification or amendment shall permit a change: (i) in the terms of redemption (including mandatory sinking fund requirements) or maturity of the principal of any Outstanding Subordinated Bond; or of any installment of interest thereon or a reduction in the principal amount or the redemption price thereof or in the rate of interest thereon without the consent of the Owner of such Subordinated Bond; or (ii) which shall reduce the percentages or otherwise affect the classes of Subordinated Bonds the consent of the Owners of which is required to effect any such modification or amendment; or (iii) in any of the rights or obligations of any Fiduciary without its written assent thereto.

DEFAULTED INTEREST

Any interest on any Subordinated Bond which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (hereinafter "Defaulted Interest"), shall cease to be payable to the Owner on the relevant Regular Record Date by virtue of having been such Owner; and such Defaulted Interest shall

be paid to the persons in whose names such Subordinated Bonds are registered at the close of business on a date (hereinafter the "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Board shall notify the Paying Agent in writing of the amount of Defaulted Interest proposed to be paid on each such Subordinated Bond and the date of the proposed payment, and at the same time the Board shall deposit with the Paying Agent an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Paying Agent for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest as provided in the Subordinated Bond Resolution. Thereupon the Paying Agent shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Paying Agent of the notice of the proposed payment. The Paying Agent shall promptly notify the Board of such Special Record Date and, in the name and at the expense of the Board, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each Owner at his address as it appears in the registration books of the Board, not less than 10 days prior to such Special Record Date.

DEFEASANCE

The lien of the Subordinated Bond Resolution and all covenants, agreements and other obligations of the Board under the Subordinated Bond Resolution shall cease, terminate and become void and be discharged and satisfied in the event that the Bonds are deemed to be paid and discharged pursuant to the terms of the Subordinated Bond Resolution.

Subject to the provisions of the Subordinated Bond Resolution, any Outstanding Subordinated Bonds shall, prior to the maturity or redemption date thereof, be deemed to have been paid and shall cease to be entitled to any lien, benefit or security under the Subordinated Bond Resolution, whenever the following conditions are met if: (i) in case any of said Subordinated Bonds are to be redeemed on any date prior to their maturity, the Board shall have given to the Bond Registrar instructions accepted in writing by the Bond Registrar to mail (as provided in the Subordinated Bond Resolution) notice of redemption by the Bond Registrar to mail (as provided in the Subordinated Bond Resolution) notice of redemption of such Subordinated Bonds (other than Subordinated Bonds which have been purchased or otherwise acquired by the Board and delivered to the Bond Registrar prior to the mailing of such notice of redemption) on said date; (ii) there shall have been deposited with an Escrow Agent appointed for such purposes under an irrevocable escrow agreement, in trust for the Owners of such Subordinated Bonds, either moneys in an amount which shall be sufficient, or Defeasance Securities as defined below (including any Defeasance Securities issued or held in book-entry form on the books of the Department of the Treasury of the United States) the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Escrow Agent at the same time, shall be sufficient to pay when due the Bond Service Charges due and to become due on said Subordinated Bonds on or prior to the redemption date or maturity date thereof, as the case may be; (iii) in the event said Subordinated Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Board shall have given the Bond Registrar in form satisfactory to it instructions to mail a notice to the Owners of such Subordinated Bonds that the deposit required by (ii) above has been made with the Escrow Agent and that said Subordinated Bonds are deemed to have been paid in accordance with the Subordinated Bond Resolution; and stating such maturity or redemption date upon which moneys are expected to be available for the payment of the Bond Service Charges on said Subordinated Bonds (other than Subordinated Bonds which have been purchased or otherwise acquired by the Board and delivered to the Bond Registrar prior to the mailing of the notice of redemption referred to in clause (i) hereof); and (iv) the Board shall have received a report of an independent nationally recognized firm of certified public accountants to the effect that the amount of moneys and the principal of and interest when due on the Defeasance Securities deposited at the same time with the Escrow Agent shall be sufficient to pay when due the Bond Service Charges due and to become due on said Subordinated Bonds on or prior to the redemption or maturity date thereof, as the case may be.

"Defeasance Securities" means if and to the extent the same are at the time legal for investment of the Board's funds:

(1) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed as to full and timely payment of principal and interest by, the United States of America and obligations issued by the Resolution Trust Corporation;

(2) direct and general obligations of any state of the United States or any political subdivision thereof to the payment of the principal of and interest on which the full faith and credit of such state or political subdivision are pledged or any bonds or other obligations which as to principal and interest are unconditionally guaranteed as to full and timely payment of principal and interest by such state or political subdivision, provided that at the time of their purchase such obligations are rated in the highest Rating Category by both Rating Agencies;

(3) certificates or other instruments that evidence ownership or the right to payments of principal of or interest on obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision, provided that (A) such obligations shall be held in trust by a bank or trust company or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$50,000,000, and (B) that the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to Credit Enhancement provided by, one or more financial institutions or insurance companies or associations which shall be rated at the time of purchase thereof in the highest Rating Category by both Rating Agencies, or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated at the time of purchase in the highest Rating Category by both Rating Agencies;

(4) certificates of other instruments that evidence ownership or the right to payments of principal or interest on obligations of the character described in clauses (1), (2) or (3) or specified portions thereof, provided that (A) such obligations shall be held in custody of a bank or trust company or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$50,000,000, (B) the owner of the investment is the real party in interest and has the right to proceed directly against the obligor of the United States obligations and (C) the obligations are not available to satisfy any claim of the custodian of the underlying obligation or any person claiming through the custodian or to whom the custodian may be obligated;

(5) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (A) which are (x) not callable prior to maturity or (y) as to which irrevocable instructions have been given by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (B) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clauses (1), (2) and (3), which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (C) as to which the principal of and interest on the bonds and obligations of the character described in clauses (1), (2) and (3), hereof which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay, without reinvestment, principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (5) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (y) of this clause (5), as appropriate.

Defeasance Securities shall consist of securities which are not subject to redemption prior to their maturity other than at the option of the holder thereof, or shall consist of securities as to which an irrevocable

notice of redemption of such securities on a specified redemption date has been given and such securities are not otherwise subject to redemption prior to such specified date.

For purposes of determining whether Subordinated Bonds that bear interest at a Variable Interest Rate shall be deemed to have been paid, by the deposit of moneys, or Defeasance Securities and moneys, if any, in accordance with the Subordinated Bond Resolution, the interest to come due on such Subordinated Bonds that bear interest at a Variable Interest Rate on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the Maximum Interest Rate permitted by the terms thereof; provided, however, that if on any date, as a result of such Subordinated Bonds that bear interest at a Variable Interest Rate having borne interest at less than such Maximum Interest Rate for any period, the total amount of moneys and Defeasance Securities on deposit with the Escrow Agent for the payment of interest on such Subordinated Bonds that bear interest at a Variable Interest Rate is in excess of the total amount which would have been required to be deposited with the Escrow Agent on such date in respect of such Subordinated Bonds that bear interest at a Variable Interest Rate in order to satisfy the provisions of the Subordinated Bond Resolution, the Escrow Agent shall, if requested by the Board, deposit the amount of such excess into the State Highway Fund free and clear of any trust, lien, pledge or assignment securing the Subordinated Bonds or otherwise existing under the Subordinated Bond Resolution.

Optional Tender Subordinated Bonds shall be deemed to have been paid in accordance with the Subordinated Bond Resolution only if, in addition to satisfying the requirements stated above, there shall have been deposited with the Escrow Agent moneys in an amount which shall be sufficient to pay when due the maximum amount of Bond Service Charges on such Optional Tender Subordinated Bonds which could become payable to the Owners of such Optional Tender Subordinated Bonds upon the exercise of any options provided to the Owners of such Optional Tender Subordinated Bonds; provided, however, that if, at the time a deposit is made with the Escrow Agent pursuant to the Subordinated Bond Resolution, the options originally exercisable by the Owner of an Optional Tender Subordinated Bond are not longer exercisable, such Bond shall not be considered an Optional Tender Subordinated Bond for purposes of this subsection.

Notwithstanding the foregoing, any provisions of the Subordinated Bond Resolution which relate to: (i) the maturity of Subordinated Bonds; (ii) the interest payments and dates thereof; (iii) the optional and mandatory redemption provisions; (iv) the credits against the mandatory sinking fund requirements; (v) the exchange, transfer and registration of Subordinated Bonds; (vi) the replacement of mutilated, destroyed, lost or stolen Subordinated Bonds; (vii) the safekeeping and cancellation of Subordinated Bonds; (viii) the nonpresentment of Subordinated Bonds; (ix) the holding of moneys in trust; (x) the repayments to the Board from the Subordinated Funds; (xi) the timely payment of any rebate of Excess Earnings to the United States and any other provisions which relate to exclusion of interest on the Subordinated Bonds from gross income for federal income tax purposes; and (xii) the duties of the Fiduciaries in connection with all of the foregoing and payment of their fees and expenses; shall remain in effect and shall be binding upon the Board, the Fiduciaries and the Owners, notwithstanding the release, discharge and satisfaction of the Subordinated Bond Resolution. These provisions of the Subordinated Bond Resolution shall survive the release, discharge and satisfaction of the Subordinated Bond Resolution.

APPENDIX F

FORM OF BOND COUNSEL OPINION

[Date of Initial Delivery]

To: Arizona Transportation Board
Phoenix, Arizona

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the Arizona Transportation Board (the "Board") of its \$248,390,000 aggregate principal amount of bonds designated the State of Arizona, Arizona Transportation Board, Subordinated Highway Revenue Refunding Bonds, Series 1993A and its \$35,000,000 aggregate principal amount of bonds designated the State of Arizona, Arizona Transportation Board, Subordinated Highway Revenue Refunding Bonds, Series 1993B (collectively, the "Series 1993 Subordinated Bonds"), dated as of December 1, 1993. The Series 1993 Subordinated Bonds are issued under Title 28, Chapter 15, Article 1, Arizona Revised Statutes, as amended (the "Act"), and pursuant to a resolution adopted by the Board on September 27, 1991 (the "1991 Resolution"), as supplemented to date (collectively, the "Subordinated Bond Resolution"). The documents in the Transcript include a certified copy of the Subordinated Bond Resolution. All capitalized terms not defined herein shall have the meanings set forth in the Subordinated Bond Resolution. We have also examined a conformed copy of a Bond of the first maturity of each series.

Based on this examination, we are of the opinion that, under existing law:

1. The Series 1993 Subordinated Bonds and the Subordinated Bond Resolution are valid, legal, binding and enforceable in accordance with their respective terms, subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion.
2. The Series 1993 Subordinated Bonds constitute special obligations of the Board, and the principal of, premium, if any, and interest (collectively, "debt service") on the Series 1993 Subordinated Bonds, together with debt service on the Outstanding Subordinated Bonds and on any Additional Subordinated Bonds and Refunding Subordinated Bonds that may subsequently be issued under the Subordinated Bond Resolution on a parity with the Outstanding Subordinated Bonds and the Series 1993 Subordinated Bonds (collectively, "Subordinated Bonds"), are payable, as provided in the Subordinated Bond Resolution, solely from the moneys paid into the State Highway Fund that constitute Pledged Revenues (as defined in the Subordinated Bond Resolution). The Series 1993 Subordinated Bonds and the payment of debt service thereon are not secured by an obligation or pledge of any moneys raised by taxation other than the Pledged Revenues, and the Series 1993 Subordinated Bonds do not represent or constitute a general obligation or a pledge of the full faith and credit of the Board or the State of Arizona.
3. The 1991 Resolution created a valid lien and pledge on the moneys that constitute Pledged Revenues paid into the State Highway Fund, which lien and pledge is subject to no prior liens or pledges granted under the Act, except for the prior pledge of the Pledged Revenues made in the Senior Bond Resolution for the payment of principal of, premium, if any, and interest on the Senior Bonds that are currently outstanding and may be subsequently issued by the Board.

4. The interest on the Series 1993 Subordinated Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not treated as an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations. The interest on the Series 1993 Subordinated Bonds is exempt from Arizona state income tax. We express no opinion as to any other tax consequences regarding the Series 1993 Subordinated Bonds.

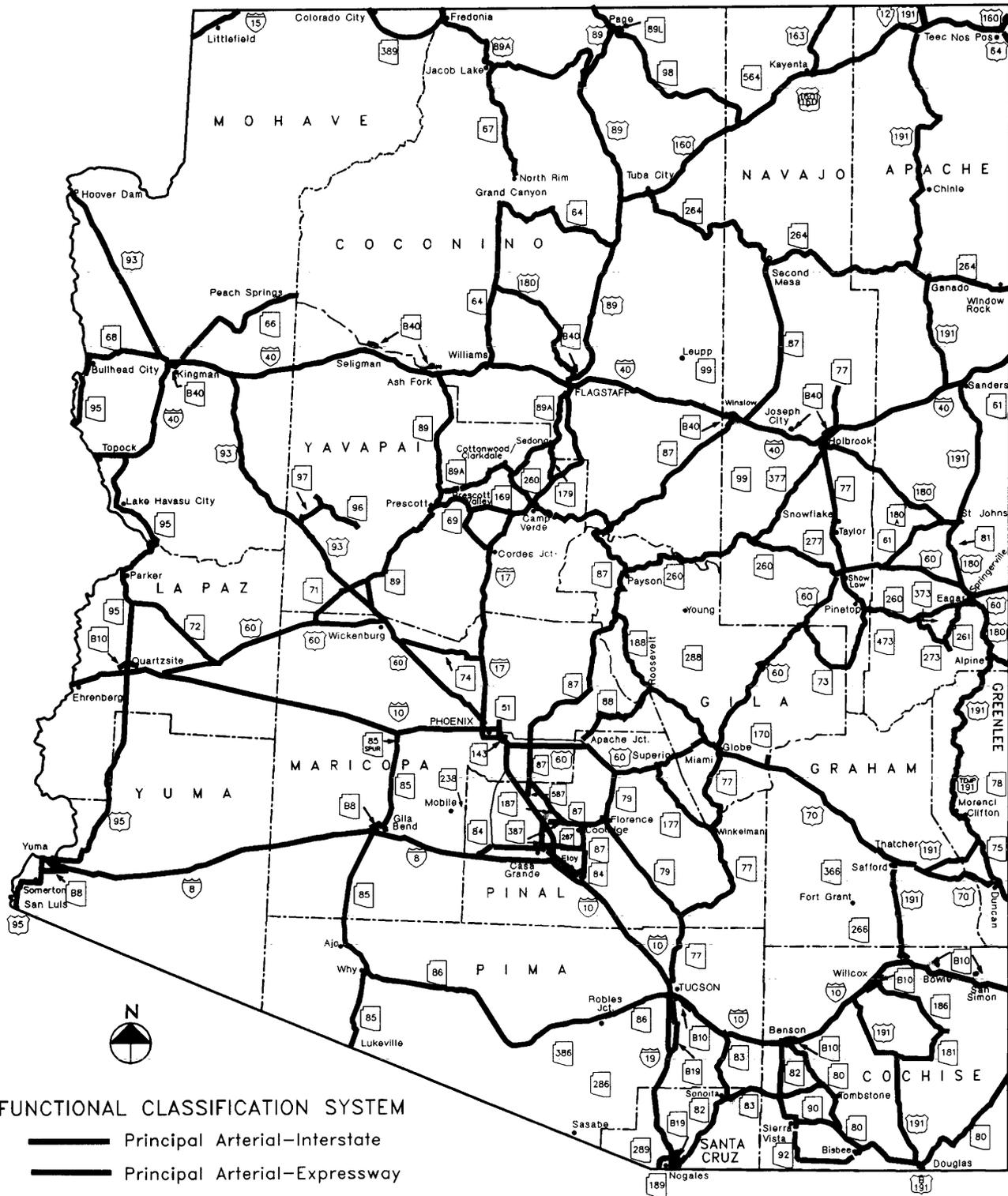
Under the Code, portions of the interest on the Series 1993 Subordinated Bonds earned by certain corporations (as defined for federal income tax purposes) may be subject to a corporate alternative minimum tax and an environmental tax imposed on certain corporations for certain taxable years, and interest on the Series 1993 Subordinated Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

In giving the foregoing opinions with respect to the treatment of the interest on the Series 1993 Subordinated Bonds and the status of the Series 1993 Subordinated Bonds under the tax laws, we have assumed and relied upon compliance with the Board's covenants and the accuracy, which we have not independently verified, of the Board's representations and certifications as to facts, circumstances, estimates and expectations contained in the Transcript. The accuracy of those representations and certifications, and the Board's compliance with those covenants, may be necessary for the interest on the Series 1993 Subordinated Bonds to be and to remain excluded from gross income for federal income tax purposes and for certain of the other tax effects stated above. Failure to comply with certain of those covenants subsequent to issuance of the Series 1993 Subordinated Bonds could cause interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 1993 Subordinated Bonds.

Respectfully submitted,

[to be signed "Squire, Sanders & Dempsey"]

1993 Arizona State Highway System



FUNCTIONAL CLASSIFICATION SYSTEM

- Principal Arterial-Interstate
- Principal Arterial-Expressway
- Principal Arterial-Other
- Minor Arterial
- Major Collector
- Minor Collector
- Non-State



Arizona Department of Transportation
Transportation Planning Division

