

## OFFICIAL STATEMENT

NEW ISSUE – BOOK-ENTRY-ONLY

RATINGS: Standard & Poor's: "AA+"  
Moody's: "Aa1"  
See "Ratings" herein

**\$351,370,000**

### ARIZONA TRANSPORTATION BOARD HIGHWAY REVENUE AND REVENUE REFUNDING BONDS SERIES 2023

**Dated: Date of Initial Delivery**

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

The Highway Revenue and Revenue Refunding Bonds, Series 2023 (the "Series 2023 Bonds") are being issued by the Arizona Transportation Board (the "Board") pursuant to the Senior Bond Resolution described below. Initially, the Series 2023 Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2023 Bonds. Purchases of beneficial interests in the Series 2023 Bonds will be made in book-entry-only form in denominations of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interests in the Series 2023 Bonds.

Interest on the Series 2023 Bonds is payable until maturity semiannually on January 1 and July 1 of each year, commencing January 1, 2024. Principal of the Series 2023 Bonds will be payable annually in accordance with the schedule set forth on the inside front cover page. So long as the Series 2023 Bonds are registered in the name of DTC, or its nominee, payments of the principal of and interest on the Series 2023 Bonds will be made directly by the paying agent, initially U.S. Bank Trust Company, National Association to DTC which, in turn, is obligated to remit such payments to its participants for subsequent distribution to beneficial owners of the Series 2023 Bonds, as described herein.

The maturities, interest rates, yields and CUSIP numbers of the Series 2023 Bonds are shown on the inside front cover page.

The Series 2023 Bonds are not subject to redemption prior to maturity as more fully described herein. See "THE SERIES 2023 BONDS – No Prior Redemption" herein.

The Series 2023 Bonds are issued pursuant to a resolution adopted by the Board on May 1, 1980, as supplemented (the "Senior Bond Resolution"), on a parity as to security and source of payment with the previously issued Series 2015 Bonds, Series 2016 Bonds and Series 2020 Bonds of the Board to be outstanding after issuance of the Series 2023 Bonds, and any additional Senior Bonds subsequently issued on a parity therewith (collectively, the "Senior Bonds").

Proceeds of the Series 2023 Bonds are intended to be used for the purposes of (i) financing portions of the Board's Five-Year Capital Program; (ii) repurchasing by means of a tender offer, certain Outstanding Series 2020 Bonds of the Board; and (iii) paying costs of issuing the Series 2023 Bonds. See "PLAN OF FINANCE" herein.

**The Series 2023 Bonds and all other Senior Bonds are special obligations of the Board payable from and secured solely by a first lien on and pledge of the Pledged Revenues (as defined herein), which consist of a portion of the moneys derived from fees, excises, or license taxes relating to registration, operation or use of vehicles on the public highways of the State of Arizona (the "State"), and from motor vehicle fuel taxes that are deposited into the State Highway Fund, all as described herein. The Series 2023 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 out of any moneys other than Pledged Revenues, as provided in the Senior Bond Resolution.**

In the opinion of Squire Patton Boggs (US) LLP, Bond Counsel, under existing law, (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series 2023 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and (ii) interest on the Series 2023 Bonds is exempt from Arizona state income taxes. Interest on the Series 2023 Bonds may be subject to certain federal taxes imposed only on certain corporations. For a more complete discussion of the tax aspects, see "TAX MATTERS" herein.

This cover page contains only a brief description of the Series 2023 Bonds and the security therefor. It is not a summary of material information with respect to the Series 2023 Bonds. Investors should read this entire Official Statement to obtain information necessary to make an informed investment decision.

*The Series 2023 Bonds are offered when, as and if issued and received by the Underwriters identified below, subject to the opinion on certain legal matters relating to their issuance by Squire Patton Boggs (US) LLP, Bond Counsel to the Board, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Greenberg Traurig, LLP, Phoenix, Arizona. It is expected that the Series 2023 Bonds, in book-entry form, will be available for delivery to DTC or its agent on or about September 20, 2023.*

**Wells Fargo Securities**

**Citigroup**

**Morgan Stanley**

**J.P. Morgan**

**UBS**

**Siebert Williams Shank & Co., LLC**

**\$351,370,000**  
**ARIZONA TRANSPORTATION BOARD**  
**HIGHWAY REVENUE AND REVENUE REFUNDING BONDS**  
**SERIES 2023**

**MATURITY SCHEDULE**

<b>Year (July 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP<sup>(a)</sup> (040654)</b>
2024	\$27,020,000	5.00%	3.29%	YE9
2025	51,745,000	5.00	3.23	YF6
2026	33,440,000	5.00	3.12	YG4
2027	28,810,000	5.00	3.04	YH2
2028	29,295,000	5.00	3.00	YJ8
2029	33,920,000	5.00	3.07	YK5
2030	37,585,000	5.00	3.09	YL3
2031	34,385,000	5.00	3.12	YM1
2032	37,285,000	5.00	3.14	YN9
2033	37,885,000	5.00	3.16	YP4

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## STATE OF ARIZONA

Katie Hobbs  
*Governor*

### ARIZONA TRANSPORTATION BOARD

	Gary Knight <i>Chairman</i>	
Richard Searle <i>Vice Chairman</i>	Jenn Daniels <i>Member</i>	Jenny Howard <i>Member</i>
Ted Maxwell <i>Member</i>	Jackie Meck <i>Member</i>	Jesse Thompson* <i>Member</i>

### STATE OF ARIZONA DEPARTMENT OF TRANSPORTATION

Jennifer Toth <i>Director</i>	Greg D. Byres, P.E. <i>Deputy Director for Transportation and State Engineer</i>	Teresa Welborn <i>Deputy Director and Chief Operating Officer</i>
Kristine Ward <i>Deputy Director and Chief Financial Officer</i>	Floyd Roehrich, Jr., P.E. <i>Deputy Director for Business Enterprise</i>	Wayde Webb <i>Deputy Director of Motor Vehicle Division and Compliance</i>
Stacy Guillen <i>Director of Law and Policy</i>	Teri Kennedy <i>Director of Administrative Services Division</i>	Steve Boschen, P.E. <i>Director of Infrastructure Delivery and Operations</i>
Eric Jorgensen <i>Director of Motor Vehicle Division</i>	Brent Cain, P.E. <i>Director of Transportation Systems Management and Operations Division</i>	Paul Patane <i>Director of Multimodal Planning Division</i>

### FINANCIAL ADVISOR

RBC Capital Markets, LLC  
Phoenix, Arizona

### BOND COUNSEL

Squire Patton Boggs (US) LLP  
Phoenix, Arizona

### CONTACT PERSON CONCERNING THIS OFFERING:

Arizona Department of Transportation  
Kristine Ward  
(602) 712-7441

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\* Mr. Thompson's term on the Board ended on January 16, 2023. Mr. Thompson will continue to serve on the Board until a successor is appointed and confirmed.

No dealer, broker, person or other salesperson has been authorized to give any information or to make any representations, other than those contained in this Official Statement, including the cover page, inside front cover page and Appendices attached hereto, 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 “Board”), or the State of Arizona Department of Transportation (the “Department”). This Official Statement does not constitute an offer to sell, or the solicitation of an offer to buy, any securities other than the Board’s Highway Revenue and Revenue Refunding Bonds, Series 2023 (the “Series 2023 Bonds”), by any person in any jurisdiction where such offer or solicitation or sale would be unlawful.

The information contained in this Official Statement has been obtained from the Board, the Department 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 promise by, any of the foregoing. The presentation of such information, including tables of receipts from taxes and other sources, is intended to show recent historical information and is not intended to indicate future or continuing trends. No representation is made that the past experience, as shown by such financial and other information, will necessarily continue or be repeated in the future. **This Official Statement contains, in part, estimates and matters of opinion, whether or not expressly stated to be such, which are not intended as statements or representations of fact or certainty, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. This Official Statement contains projections and forecasts which are forward looking statements concerning facts which may or may not occur in the future. All such forward looking statements may not be realized and must be viewed with an abundance of caution.** 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 Board, or the Department since the date hereof.

The Board and the Department have undertaken to provide continuing disclosure with respect to the Series 2023 Bonds as required by Rule 15c2-12 of the Securities and Exchange Commission. See “CONTINUING DISCLOSURE UNDERTAKING” and APPENDIX C – “FORM OF CONTINUING DISCLOSURE UNDERTAKING” herein.

The information in APPENDIX D – “BOOK-ENTRY-ONLY SYSTEM” attached hereto has been furnished by The Depository Trust Company and no representation has been made by the Board, the Department or the Underwriters, the Financial Advisor or any of their counsel or agents, as to the accuracy or completeness of such information.

A wide variety of other information, including financial information, concerning the Board and the Department is available from publications and websites of the Board and the Department and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement, except as expressly noted herein.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM THE INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS, AND THE UNDERWRITERS MAY OVER ALLOT OR ENGAGE IN TRANSACTIONS INTENDED TO STABILIZE THE PRICES OF THE SERIES 2023 BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET IN ORDER TO FACILITATE THEIR DISTRIBUTION. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Series 2023 Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency has passed upon the accuracy of this Official Statement.

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# OFFICIAL STATEMENT

relating to

**\$351,370,000**

## **Arizona Transportation Board Highway Revenue and Revenue Refunding Bonds Series 2023**

### INTRODUCTION

*This Introduction is not a summary of this Official Statement, but is only a brief description of and a guide to, and is qualified by, more complete information contained in this entire Official Statement which includes the cover page, inside front cover page and appendices hereto, and the documents described herein.*

This Official Statement provides certain information in connection with the original sale and issuance by the Arizona Transportation Board (the “Board”) of its Highway Revenue and Revenue Refunding Bonds, Series 2023 (the “Series 2023 Bonds”).

The Series 2023 Bonds are issued pursuant to the State Highway Bonding Authorization Law, Title 28, Chapter 21, Article 1, Arizona Revised Statutes, as amended (the “Act”), and under and pursuant to a resolution adopted by the Board on May 1, 1980, as supplemented to date, including by a supplemental resolution adopted on July 21, 2023 (the “2023 Resolution”) authorizing the Series 2023 Bonds (collectively, the “Senior Bond Resolution”).

Proceeds of the Series 2023 Bonds are intended to be used for the purposes of (i) financing portions of the Board’s Five-Year Capital Program in an approximate amount of \$302.6 million; (ii) repurchasing, by means of a tender offer, certain Outstanding Series 2020 Bonds of the Board; and (iii) paying the costs of issuing the Series 2023 Bonds. See “PLAN OF FINANCE” herein.

The Series 2023 Bonds are special obligations of the Board. The principal of, premium, if any, and interest on the Series 2023 Bonds, together with the Outstanding Senior Bonds (as defined herein), are payable solely from and secured solely by a first pledge of and lien on the Pledged Revenues as provided in the Senior Bond Resolution, as defined and as more fully described under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2023 BONDS.” Additional bonds may be issued on a parity with the Board’s Outstanding Senior Bonds (“Additional Senior Bonds”) under the conditions and in the manner provided in the Senior Bond Resolution and pursuant to State of Arizona (the “State”) statutes. The Series 2023 Bonds, the Outstanding Senior Bonds and any Additional Senior Bonds are collectively referred to as the “Senior Bonds.”

**The Series 2023 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 State of Arizona Department of Transportation (the “Department”) other than the Pledged Revenues, as provided in the Senior Bond Resolution.**

The Series 2023 Bonds are issued on a parity as to security and source of payment with the Board’s Outstanding Senior Bonds to be outstanding immediately after the delivery of the Series 2023 Bonds, being the: Highway Revenue Refunding Bonds, Series 2015 (the “Series 2015 Bonds”), Highway Revenue Refunding Bonds, Series 2016 (the “Series 2016 Bonds”), and Highway Revenue Refunding Bonds, Taxable Series 2020 (the “Series 2020 Bonds”).

On September 8, 2023, the Board defeased \$300,835,000 principal amount of the Series 2015 Bonds maturing on July 1, 2025 through July 1, 2033 in a separate transaction using unrestricted cash balances of the Board (the “Cash Defeasance”). The aggregate principal amount of Senior Bonds that will be outstanding immediately after delivery of the Series 2023 Bonds, and after giving effect to the Cash Defeasance and the purchase by the Board of \$83,045,000 principal amount of Tendered 2020 Bonds (as defined herein), will be \$910,940,000.

In addition, the Board may issue bonds payable solely from and secured solely by a subordinated and junior lien on the Pledged Revenues (the “Subordinated Bonds”), which may be issued under and pursuant to the Act and a resolution adopted by the Board on September 27, 1991, as supplemented (the “Subordinated Bond Resolution”). The Subordinated Bond Resolution and the Senior Bond Resolution are sometimes hereinafter referred to as the “Bond Resolutions.” Subordinated Bonds are payable solely from and secured solely by a lien on and pledge of the Pledged Revenues which is subordinate in all respects to payments required for the benefit of the Owners of the Subordinated Bonds. No Subordinated Bonds are currently outstanding.

Payments on the Series 2023 Bonds are not subject to annual appropriation by the Legislature of the State nor are payments on the Series 2023 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 Bond Resolutions 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 and any agreements 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. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2023 BONDS – Pledged Revenues.”

This Official Statement describes the terms of and security for the Series 2023 Bonds and the use of proceeds of the Series 2023 Bonds. Also included are summaries of certain provisions of the Bond Resolutions and of certain State statutes. These descriptions do not purport to be comprehensive or definitive. All references herein to the Bond Resolutions are qualified in their entirety by reference to the definitive forms thereof, all references to the Series 2023 Bonds are qualified by the forms thereof contained in the Bond Resolutions and are further qualified in their entirety by reference to bankruptcy and other laws and principles of equity relating to or affecting the enforceability of creditors’ rights. Capitalized terms not defined herein shall have the meanings set forth in the Bond Resolutions. Copies of the Bond Resolutions may be obtained as set forth under “MISCELLANEOUS.”

## **THE SERIES 2023 BONDS**

### **General Description**

The Series 2023 Bonds are issuable as fully registered bonds. The Series 2023 Bonds will bear interest from their respective dates of initial delivery, at the rates, and will mature on the dates and in the amounts, all as set forth on the inside front cover page hereof. As described in APPENDIX D – “BOOK-ENTRY-ONLY SYSTEM”, the Series 2023 Bonds will be registered in the name of Cede & Co., as registered Owner and nominee of The Depository Trust Company (“DTC”), New York, New York. So long as DTC, or its nominee, Cede & Co., is registered Owner of all of the Series 2023 Bonds, all payments with respect to the Series 2023 Bonds will be made directly to DTC.

So long as Cede & Co. is the registered Owner of the Series 2023 Bonds references herein to “Owners” or registered owners of the Series 2023 Bonds (other than under the caption “TAX MATTERS”) shall mean Cede & Co., as aforesaid, and shall not mean the owners of book-entry-only interests in the Series 2023 Bonds as described in APPENDIX D (the “Beneficial Owners”). When notices are given under the Senior Bond Resolution, they will be sent by the Board or the paying agent or bond registrar, initially U.S. Bank Trust Company, National Association (and its successors the “Paying Agent” or “Bond Registrar”) to DTC only, as the Owner. When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes.

The Series 2023 Bonds initially will be dated as shown on the cover page, and will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the Series 2023 Bonds will be payable on each January 1 and July 1 (each such date is referred to herein as an “Interest Payment Date”), commencing January 1, 2024. Interest on the Series 2023 Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on the Series 2023 Bonds will be payable by the Paying Agent on each Interest Payment Date to the Owners thereof



as shown on the registration books maintained by the Bond Registrar, initially U.S. Bank Trust Company, National Association and its successors (the “Bond Registrar”), at the address appearing therein, at the close of business of the Bond Registrar on the 15<sup>th</sup> day next preceding such Interest Payment Date (the “Regular Record Date”). So long as the Series 2023 Bonds are registered in the name of Cede & Co., payments of the principal of and interest on the Series 2023 Bonds will be made directly by the Paying Agent to Cede & Co.

### **No Prior Redemption**

The Series 2023 Bonds are not subject to redemption prior to their stated maturity dates.

### **Exchange and Transfer**

If the Series 2023 Bonds are not in book-entry-only form, the following paragraph will be applicable.

The registration of any Series 2023 Bond may be transferred upon the bond register of the Board by the Owner thereof, in person or by his or her duly authorized attorney, upon surrender of such Series 2023 Bond at the designated 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 2023 Bond may be exchanged at the designated office of the Bond Registrar for new Series 2023 Bonds of any authorized denomination, aggregate principal amount and maturity as the surrendered Series 2023 Bond. The Bond Registrar will not charge an administrative fee for any new Series 2023 Bond issued upon any exchange or transfer, but may require the Owner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. The Bond Registrar is not required to exchange or transfer any Series 2023 Bond during the period commencing on the Regular Record Date and ending on the subsequent Interest Payment Date.

### **Defeasance**

If the Board pays or causes to be paid, or there is otherwise paid, to the Owners of all Outstanding Series 2023 Bonds or Series 2023 Bonds of a particular maturity or a particular Series 2023 Bond within a maturity, the principal, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Senior Bond Resolution, such Series 2023 Bonds will cease to be entitled to any lien, benefit or security under the Senior Bond Resolution, and all covenants, agreements and obligations of the Board to the Owners of such Series 2023 Bonds will thereupon cease, terminate and become void and be discharged and satisfied.

Subject to the provisions of the Senior Bond Resolution, any Outstanding Series 2023 Bonds will be deemed to have been paid within the meaning and with the effect expressed in the foregoing paragraph if there has been deposited with an escrow agent appointed for such purpose, moneys or Defeasance Securities or both. The maturing principal and interest income on such Defeasance Securities, if any, shall be sufficient without reinvestment, together with any cash (as evidenced by a report of an independent nationally recognized certified public accounting firm or financial consulting firm), to pay the principal of, and interest on such Series 2023 Bonds to their maturity as may be specified by the Board. The moneys and Defeasance Securities shall be held irrevocably in trust for the Owners of such Series 2023 Bonds, for the purpose of paying the principal of, and interest on such Series 2023 Bonds, as the same shall mature and come due. Upon such deposit, the Series 2023 Bonds so provided for shall no longer be outstanding under the Senior Bond Resolution. *Defeasance Securities* are: (i) direct obligations of, or obligations fully guaranteed by, the United States of America; (ii) 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 S&P Global Ratings, a division of Standard and Poor’s Financial Services LLC (“S&P”) and Moody’s Investor Services (“Moody’s”); (iii) certain certificates evidencing 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 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 a financial institution which shall be rated at the time of purchase thereof in the highest rating category by both S&P and Moody’s; (iv) certain certificates evidencing ownership of the

right to payments of principal or interest on obligations of the character described in clauses (i), (ii) and (iii); and (v) 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 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), (ii) and (iii).

## **PLAN OF FINANCE**

### **General**

Approximately \$302.6 million of the proceeds received from the sale of the Series 2023 Bonds are intended to be used to finance portions of the Board's Five-Year Capital Program discussed under "MANAGEMENT OF STATE HIGHWAY PROGRAM – Arizona Department of Transportation – Funding the Department" herein. Such proceeds may also be used to pay interest on any bonds of the Board issued for highway purposes. Approximately \$78.3 million of the proceeds will be used by the Board to repurchase, by means of a tender offer, certain Outstanding Series 2020 Bonds of the Board, as described below. The remaining proceeds of the Series 2023 Bonds will be used to pay costs incurred in issuing the Series 2023 Bonds.

### **Tender Offer Plan**

Approximately \$78.304 million of the proceeds of the Series 2023 Bonds will be used by the Board to repurchase, pursuant to the tender offer, \$83.045 million of Outstanding Series 2020 Bonds (the "Tendered 2020 Bonds") as set forth in APPENDIX E – "SUMMARY OF THE TENDERED 2020 BONDS."

## **SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2023 BONDS**

### **Legal Authority**

The Series 2023 Bonds are special obligations of the Board and are being issued by the Board pursuant to the Act and the Senior Bond Resolution. Under the terms and provisions of the Act, the Board is authorized to issue bonds for the payment of highway obligations; the costs of construction, reconstruction, maintenance and repair of public highways and bridges; county, city and town roads and streets; acquisition of real properties for future highway needs; other related highway purposes; and for the refunding of any bonds previously issued.

The Series 2023 Bonds, the Outstanding Senior Bonds and any Additional Senior Bonds that may subsequently be issued by the Board on a parity therewith pursuant to the Senior Bond Resolution, are issued on a parity as to security and source of payment. Immediately after the delivery of the Series 2023 Bonds, and after giving effect to the Cash Defeasance and the purchase by the Board of \$83,045,000 principal amount of Tendered 2020 Bonds, there will be \$910,940,000 of Senior Bonds Outstanding.

### **General**

Payments of principal of and interest on the Series 2023 Bonds and all other Senior Bonds are payable solely from and secured solely by a first lien on and pledge of the Pledged Revenues on deposit in the State Highway Fund. The lien on and pledge of Pledged Revenues for Senior Bonds is in all respects senior and prior to the lien on and pledge of Pledged Revenues for the Subordinated Bonds. Pledged Revenues are the moneys deposited with the State Treasurer into the State Highway Fund that are derived from a portion of specified sources. Generally, such sources are: (i) motor vehicle fuel and use fuel taxes, (ii) motor vehicle registration fees, (iii) motor carrier fees, (iv) motor vehicle license (in lieu) taxes and (v) motor vehicle operators' license fees and miscellaneous fees and revenues. For a discussion of the sources of the Pledged Revenues, see "Pledged Revenues" and "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 subordinate pledge granted in the Subordinated Bond Resolution for the Subordinated Bonds, without any future physical delivery or further act.

In addition to Pledged Revenues, the Series 2023 Bonds and all other Senior Bonds and Subordinated 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 cure 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 Series 2023 Bonds and the other Outstanding Senior Bonds as described under “Additional Bonds - *Additional Senior Bonds*” herein. The Board may also issue Additional Subordinated Bonds as described under “Additional Bonds - *Additional Subordinated Bonds*” herein.

### **Special Obligations**

**The Series 2023 Bonds are special obligations of the Board and are payable solely from the sources specified in the Act and the Senior Bond Resolution. The Series 2023 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 Pledged Revenues, as provided in the Senior Bond Resolution.**

### **Pledged Revenues**

The Series 2023 Bonds, together with the other Outstanding Senior Bonds and any Additional Senior Bonds that may be subsequently issued, are payable from and secured solely by a first lien on and pledge of the Pledged Revenues on deposit in the State Highway Fund. The State Highway Fund is the operating fund of the Department from which the Department pays debt service on highway revenue bonds or other evidences of indebtedness, operational expenses of the Department and expenditures for highway construction and improvement and acquisition of rights of way. The State Highway Fund contains money derived from many sources. Only the money in the State Highway Fund derived from certain sources as specified in the Bond Resolutions and the Act constitutes Pledged Revenues (described below and relating generally to motor vehicles).

Certain specified revenues are deposited into the Arizona Highway User Revenue Fund. See “SOURCES AND APPLICATION OF PLEDGED REVENUES-Arizona Highway User Revenue Fund.” Each month, pursuant to Arizona statutes, 50.5% of moneys in the Arizona Highway User Revenue Fund (after making certain significant distributions pursuant to Arizona statutes) are transferred to the State Highway Fund. In addition to the distribution from the Arizona Highway User Revenue Fund, certain other moneys are distributed to and deposited in the State Highway Fund. Only moneys from specified sources that are paid into and are on deposit in the State Highway Fund constitute “Pledged Revenues.” See “SOURCES AND APPLICATION OF PLEDGED REVENUES-Arizona Highway User Revenues” herein for a more detailed discussion of such revenues.

The State Legislature has previously altered and may in the future alter: (1) the type and/or rate of the taxes, fees and charges relating to motor vehicles which are deposited into the Arizona Highway User Revenue Fund; (2) the allocation of such moneys between (a) deposits into the State Highway Fund, certain of which upon such deposit become Pledged Revenues and (b) distributions to cities, towns and counties (or to other state funds); or (3) the type and/or rate of the taxes, fees and charges which are deposited directly into the State Highway Fund. For a discussion of certain recent changes made by the State Legislature, see “SOURCES AND APPLICATION OF PLEDGED REVENUES – Legislative Modifications” below.

The authority of the State Legislature to make changes in use of moneys deposited into the Arizona Highway User Revenue Fund is subject to the requirement of the State Constitution that revenues derived from fees or taxes related to the registration, operation or use of motor vehicles, excluding the State’s motor vehicle license (in lieu) tax,

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 and pursuant to the Act, 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 State Highway Fund in excess of the amounts necessary to make transfers to the Bond Funds, as described under "SOURCES AND APPLICATION OF PLEDGED REVENUES—Funds and Accounts and Application of Pledged Revenues."

### **Additional Bonds**

The Board currently estimates that it may issue additional bonds under the Bond Resolutions in the aggregate principal amount of approximately \$1.65 billion over the remainder of the current Five-Year Capital Program (ending fiscal year 2028) to fund additional highway projects. Such additional bonds may be issued as either Additional Senior Bonds, Additional Subordinated Bonds, Second Subordinated Bonds (all as described below), or any combination thereof. The actual amount of additional bonds to be issued and whether they will be Senior or Subordinated Bonds will depend upon, among other considerations, the ability of the Board to comply with the requirements for issuance of additional bonds found in the Bond Resolutions and the Arizona statutes, market conditions, cash flow requirements of the Board for construction, and other sources of funding available to meet such requirements.

**Additional Senior Bonds.** Pursuant to the Senior Bond Resolution, the Board has previously issued and, after the issuance of the Series 2023 Bonds and after giving effect to the Cash Defeasance and the purchase by the Board of \$83,045,000 principal amount of Tendered 2020 Bonds, there will be Outstanding Senior Bonds in the aggregate principal amount of \$910,940,000. The Bond Resolutions provide that any Outstanding Senior Bonds enjoy a pledge of and a claim upon Pledged Revenues prior to the claim in favor of any Subordinated Bonds.

Under the Senior Bond Resolution, Additional Senior Bonds may be issued on a parity with the Outstanding Senior Bonds only when the Board certifies that:

- (a) all the payments of the principal of and interest on the then Outstanding Senior Bonds are current; and
- (b) the Pledged Revenues deposited with the State Treasurer into the State Highway Fund for the preceding 12-month period were not less than 400% of the highest annual principal and interest payments on all Outstanding Senior Bonds for the highest aggregate one-year period during the life of the Outstanding Senior Bonds, including the principal and interest payments on the Additional Senior Bonds proposed to be issued, but excluding the principal and interest on any Senior Bonds to be refunded that will not be outstanding immediately after the issuance of such proposed Additional Senior Bonds; and
- (c) subject to (e) below, the Additional Senior Bonds to be issued shall be payable as to principal and interest on such date or dates as the Board shall designate; and
- (d) the proceeds from the sale of the Additional Senior Bonds are to be used for any lawful highway purpose, including refunding any bonds; and
- (e) all other requirements of law existing on the date such Additional Senior Bonds are issued have been met.

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 unless the Pledged Revenues deposited with the State Treasurer into the State Highway Fund 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 (as defined in the Subordinated Bond Resolution) on all Outstanding Senior Bonds and Outstanding Subordinated Bonds, including the Additional Senior Bonds to be issued but excluding any Senior Bonds or Subordinated Bonds to be refunded that will not be outstanding immediately after the issuance of such Additional Senior Bonds, in the then current or any future Bond Year (as defined in the Subordinated Bond Resolution), during the life of the Outstanding Senior Bonds, including the proposed Additional 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 for any Bond Year on all Senior Bonds and Subordinated Bonds outstanding immediately prior to the issuance of the refunding Senior Bonds.

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.** Pursuant to the Subordinated Bond Resolution, the Board has previously issued, and may in the future issue, Subordinated Bonds but no such Subordinated Bonds are currently outstanding. Under the Subordinated Bond Resolution, Additional Subordinated Bonds may be issued only when the requirements of the Subordinated Bond Resolution have been met, including the requirement that the amount of Pledged Revenues deposited with the State Treasurer into the State Highway Fund 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, if any, including the proposed series of Additional Subordinated Bonds but excluding any Senior Bonds or Subordinated Bonds to be refunded that will not be outstanding immediately after the issuance of the Additional Subordinated Bonds.

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 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 for any Bond Year on all Senior Bonds and Subordinated Bonds outstanding immediately prior to the issuance of the refunding Subordinated Bonds. If the Board cannot satisfy the requirement of the preceding sentence, the Board may nevertheless issue Subordinated Bonds for the purpose of refunding in whole or in part any Outstanding Subordinated Bonds, Senior Bonds or Second Subordinated Bonds upon compliance with the test described in the preceding paragraph.

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 Bond Resolutions, 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 funds established for the Senior Bonds and Subordinated Bonds required by the Bond Resolutions 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 (such bonds being referred to herein as “Second Subordinated Bonds”). There are currently no Second Subordinated Bonds outstanding nor any current plans to issue Second Subordinated Bonds.

In addition to the requirements of the Bond Resolutions, 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.

***Statutory Limitation on Issuance of Additional Bonds.*** The aggregate principal amount of Bonds that will be outstanding immediately after the delivery of the Series 2023 Bonds, and after giving effect to the Cash Defeasance and the purchase by the Board of \$83,045,000 principal amount of Tendered 2020 Bonds, will be \$910,940,000 of Senior Bonds. 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 12 month period exceed by three 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. The Act also limits the maximum term of each series of such bonds to 30 years. In addition, for any additional bonds to be issued, the requirements of the applicable Bond Resolutions, described above, must also be met.

### **Amendments to 2023 Resolution**

The Board may amend the 2023 Resolution pursuant to which the Series 2023 Bonds are issued or the Senior Bond Resolution without notice to or consent of the Owners for any of the following purposes: (1) to cure any ambiguity, inconsistency, formal defect or omission in the 2023 Resolution or the Senior Bond Resolution; (2) to grant to or confer upon the Owners of the Series 2023 Bonds any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon them; or (3) to amend or supplement the 2023 Resolution or the Senior Bond Resolution in any other respect, provided such amendment or supplement is not materially adverse to the interests of the Owners of the Series 2023 Bonds.

Exclusive of the amendments described above, the 2023 Resolution or the Senior Bond Resolution, and the rights and obligations of the Board and of the Owners of the Series 2023 Bonds thereunder, may be amended by the Board only with consent of Owners of at least a majority in aggregate principal amount of the Outstanding Series 2023 Bonds; provided, however, that no such modification or amendment shall, without the express written consent of the Owner of each Series 2023 Bond affected, reduce the principal amount of or the interest rate payable thereon, advance the earliest redemption date, extend its maturity or the times for paying interest, nor shall any such modification or amendment reduce the percentage of consent required for amendment or modification.

Any act done pursuant to an amendment consented to as provided in the 2023 Resolution or the Senior Bond Resolution shall be binding upon the Owners of all of the Series 2023 Bonds.

To obtain any such consent, the Board shall cause the Bond Registrar to mail a notice, first-class postage prepaid, to the registered Owners (Cede & Co., so long as the book-entry-only system is in effect) of the Series 2023 Bonds at their addresses appearing on the registration books, briefly describing the proposed amendment.

## **SOURCES AND APPLICATION OF PLEDGED REVENUES**

The Series 2023 Bonds and all other Senior Bonds are payable solely from and secured solely by a lien on and pledge of the Pledged Revenues on deposit in the State Highway Fund. Moneys in the State Highway Fund that constitute Pledged Revenues consist primarily of certain moneys distributed from the Arizona Highway User Revenue Fund. The distribution of moneys to the State Highway Fund that constitute Pledged Revenues is more fully discussed below.

### **Arizona Highway User Revenue Fund**

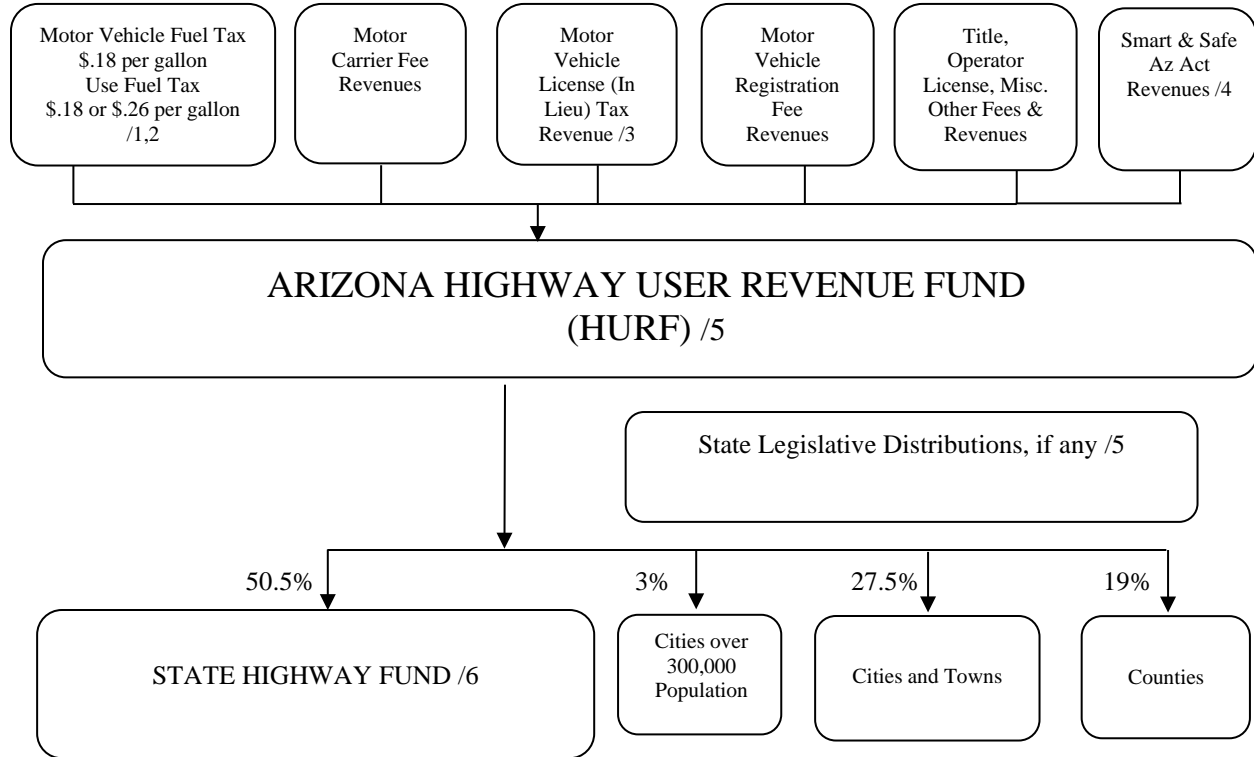
The State imposes motor vehicle fuel taxes and a variety of different types of taxes, fees and charges relating to the registration, operation and use of motor vehicles on the public highways of the State that are allocated by statute to the State Highway Fund and to the cities, towns and counties of 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 deposit to the Arizona Highway User Revenue Fund. Each month, in accordance with statute and after certain specified distributions enacted by the State Legislature which may be significant, the State Treasurer distributes revenues transferred to the Arizona Highway User Revenue Fund primarily to the State Highway Fund and to the appropriate cities, towns and counties. Only after moneys from certain specified sources are deposited to the State Highway Fund do they become Pledged Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2023 BONDS - Pledged Revenues” and “SOURCES AND APPLICATION OF PLEDGED REVENUES – Legislative Modifications” herein.

The taxes, fees and charges deposited to the Arizona Highway User Revenue Fund consist of all or a portion of (i) motor vehicle fuel and use fuel taxes, (ii) motor vehicle registration fees, (iii) motor carrier fees, (iv) motor vehicle license (in lieu) taxes, (v) motor vehicle operators’ license fees and miscellaneous fees and revenues, and (vi) Smart & Safe Az Act (as defined herein) taxes and fees. These revenue sources are further described below.

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The chart below 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**



Notes:

- /1 The use fuel tax rate of \$.18 per gallon applies to vehicles under 26,001 pounds and other qualifying vehicles. The use fuel tax rate for all other vehicles is \$.26 per gallon.
- /2 Arizona Revised Statutes 28-5926 and 28-5927 transfer 1.6% of motor vehicle fuel tax revenues to the State Lake Improvement Fund and 0.55% of motor vehicle fuel tax revenues to the Off-Highway Vehicle Recreation Fund. In fiscal year 2023, it is estimated that \$11.5 million was transferred to those two funds.
- /3 The Arizona Highway User Revenue Fund currently receives approximately 44.99% of the motor vehicle license (in lieu) tax revenues collected by the State. See “SOURCES AND APPLICATION OF PLEDGED REVENUES – Arizona Highway User Revenues” herein.
- /4 The Smart & Safe Az Act was enacted into law in November 2021. See “SOURCES AND APPLICATION OF PLEDGED REVENUES – Arizona Highway User Revenues – *Smart & Safe Az Act Taxes and Fees*” herein. **Smart & Safe Az Act revenues that are deposited in the State Highway Fund do not constitute Pledged Revenues.**
- /5 In certain years, the Arizona Legislature may enact legislation that authorizes, either on an ongoing or one-time basis, the distribution of moneys from the Arizona Highway User Revenue Fund (HURF) for various constitutionally and statutorily allowable purposes. See “SOURCES AND APPLICATION OF PLEDGED REVENUES – Legislative Modifications.” Distributions made in fiscal year 2023 include the transfer from the HURF of \$1.0 million to the State’s Economic Strength Project Fund to be expended for highway projects that provide economic benefits to the State or a local jurisdiction and \$0.9 million to operating expenses and authorized third-party programs for the Motor Vehicle Division. No assurances can be made that the Arizona Legislature will or will not authorize distributions from the HURF in the future, and, if so, how much any such distributions might be.
- /6 In certain years, the Arizona Legislature may enact legislation that authorizes, either on an ongoing or one-time basis, the distribution of moneys from the State Highway Fund for various constitutionally and statutorily allowable purposes. See “SOURCES AND APPLICATION OF PLEDGED REVENUES – Legislative Modifications.” Ongoing distributions currently codified in law include the transfer of 1.51% of the State Highway Fund share of HURF motor vehicle license (in lieu) tax to the Arizona Department of Public Safety Parity Compensation Fund (\$4.2 million in fiscal year 2023); the transfer of certain fees collected on abandoned vehicles from the State Highway Fund share of HURF motor vehicle license (in lieu) tax revenue to the State General Fund (\$4.5 million in fiscal year 2023); and a transfer of a portion of the revenues from a five-year vehicle registration option for certain vehicles and areas to the State General Fund (\$3.5 million in fiscal year 2023).



## 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 also discussed below. This summary does not purport to be a complete description of each of these revenue sources and legislative changes and, accordingly, is qualified by reference to the Arizona Revised Statutes regarding these sources of revenue. The Arizona Legislature has in the past 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 2023 BONDS - Pledged Revenues” and “SOURCES AND APPLICATION OF PLEDGED REVENUES – Legislative Modifications” herein.

*Motor Vehicle Fuel Tax Revenues.* Motor vehicle fuel tax revenues consist of motor vehicle fuel (gasoline) taxes and motor vehicle use fuel (primarily diesel) taxes. These are excise taxes imposed upon fuel used in the propulsion of a motor vehicle on the public highways of the State. The motor vehicle fuel (gasoline) tax is currently assessed at the rate of \$.18 per gallon, and the use fuel (primarily diesel) tax is assessed at \$.18 per gallon for vehicles under 26,001 pounds and other qualifying vehicles and \$.26 per gallon for all other vehicles. The motor vehicle fuel tax is collected by the Department from licensed suppliers for each gallon of gasoline possessed, used or consumed in the State and the use fuel tax is collected by the Department from the supplier or paid by the user for the use of the highways in the State and remitted to the Department.

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 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, 2023.

### Motor Vehicle Fuels Imported or Consumed Based on Revenue Gallonage (000's Gallons)

<b>Fiscal Year</b>	<b>Gasoline Fuel Imported /1</b>	<b>Estimated Diesel Fuel Consumed</b>	<b>Total /2</b>	<b>Percentage Change from Previous Year</b>
2023	2,960,188	1,057,205	4,017,393	-0.7%
2022	2,988,105	1,057,682	4,045,787	5.3
2021	2,806,805	1,036,078	3,842,883	1.8
2020	2,863,600	909,485	3,773,085	-2.5
2019	2,950,376	921,198	3,871,574	2.4
2018	2,929,751	851,679	3,781,429	3.7
2017	2,800,227	847,994	3,648,221	2.5
2016	2,748,969	811,694	3,560,663	4.7
2015	2,616,126	783,167	3,399,293	3.4
2014	2,541,196	745,393	3,286,590	0.4

Notes: /1 Beginning in fiscal year 2018, the gas tax revenue and gallonage forecast includes the distributions of the 1.6% of the motor vehicle fuel tax revenues to the State Lake Improvement Fund per Arizona Revised Statutes 28-5926 and 0.55% of the motor vehicle fuel tax revenues to the Off-Highway Vehicle Recreation Fund per Arizona Revised Statutes 28-5927. Prior to fiscal year 2018, these tax revenues and gallonages were not part of the Department’s official forecast of Arizona Highway User Revenue Fund revenues. The Gasoline Fuel Imported gallonage for fiscal years 2013-2017 does not include gallonage associated with distributions to the State Lake Improvement Fund and Off-Highway Vehicle Recreation Fund.

/2 Totals may not add due to rounding.

Source: Arizona Department of Transportation, Office of Financial Planning and Cash Management.

*Motor Vehicle Registration Fee Revenues.* Motor vehicles are required to be registered in the State on a staggered monthly registration basis. The fee for passenger vehicles and non-commercial pickup trucks is generally \$8 per year and for motorcycles the fee is generally \$9 per year. The fee for commercial motor vehicles, including

trucks, buses and taxis, is generally \$12 per year, 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 motor vehicle registration fees are deposited in the Arizona Highway User Revenue Fund.

*Smart & Safe Az Act Taxes and Fees.* In November 2020, Arizona voters passed Proposition 207, the Smart and Safe Arizona Act (the “Smart & Safe Az Act”), which legalized recreational adult use of marijuana. The Smart & Safe Az Act also created licensing fees for marijuana establishments and a 16.0% excise tax on recreational marijuana sales. Pursuant to the Smart & Safe Az Act, the Arizona Highway User Revenue Fund receives 25.4% of the revenues generated from the Smart & Safe Az Act after certain off-the-top distributions. These revenues are distributed to the Arizona Highway User Revenue Fund twice each fiscal year in December and June. Due to timing delays associated with implementation, an approximately \$9.0 million distribution of Smart & Safe Az Act revenues to the Arizona Highway User Revenue Fund scheduled for June 2021 was not received and recognized by the Department until August 2021. As a result, three distributions were made to the Arizona Highway User Revenue Fund in fiscal year 2022. Smart & Safe Az Act revenues distributed from the Arizona Highway User Revenue Fund and deposited in the State Highway Fund do not constitute Pledged Revenues. Such revenues may, however, be used by the Board to make debt service payments on the Senior Bonds.

*Motor Vehicle License (In Lieu) Tax Revenues.* The motor vehicle license (in lieu) taxes are based upon the value of the vehicle (according to a statutory formula) and are collected with the vehicle registration fees. These license taxes are distributed pursuant to Arizona statutes, which currently provide an estimated distribution of: (i) approximately 44.99% to the Arizona Highway User Revenue Fund, (ii) approximately 24.59% to the general fund of the county where the motor vehicle is registered, (iii) approximately 24.59% to the cities and towns of the county where the motor vehicle is registered, and (iv) approximately 5.83% to the counties for the same use as Arizona Highway User Revenue Fund purposes. The above distribution percentages are estimated since the tax rates vary between new and renewal vehicles.

*Motor Carrier Fee Revenues.* The motor carrier fee is imposed on commercial motor vehicles, whether common, contract or private carriers, with a gross weight in excess of 12,000 pounds. The motor carrier fee increases as the declared gross vehicle weight of the vehicle increases. All motor carrier fee revenues are deposited 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, oversize permit fees, inquiry fees, investment income on moneys held in the Arizona Highway User Revenue Fund, certain fines, penalties and other miscellaneous fees.

## **Legislative Modifications**

From time to time legislation is enacted that alters or modifies the deposits of moneys into, and the distribution of moneys from, the Arizona Highway User Revenue Fund and/or the State Highway Fund, or otherwise affects the Department’s capital and financing programs. The information provided below reflects the more significant legislative enactments that have occurred beginning with the Legislature’s 2018 regular session.

During the 2018 regular session, legislation was enacted (SB1520) that distributed \$15.5 million from the Arizona Highway User Revenue Fund to the Arizona Department of Public Safety (“DPS”) in fiscal year 2019. The result of this change from the previous year’s DPS transfer from the Arizona Highway User Revenue Fund was a \$42.4 million increase to the State Highway Fund (which receives 50.5 percent of Arizona Highway User Revenue Fund revenues). The bill also included a one-time transfer of \$42.4 million of motor vehicle license (in lieu) tax revenues from the State Highway Fund to the State General Fund. The result of these two actions was revenue neutral to the State Highway Fund. An additional distribution of \$8.2 million of motor vehicle license (in lieu) tax revenue was made from the State Highway Fund to the DPS in fiscal year 2019.

Additional legislation enacted in the 2018 session (SB1529) amended Laws 2017 (SB1531), chapter 312, chapter 9 to reduce from \$60.0 million to \$30.0 million an appropriation from the Arizona Highway User Revenue Fund to cities, towns and counties in fiscal year 2020.

During the 2019 regular session, legislation was enacted (HB2747) that distributed a total of \$8.2 million from the State Highway Fund in fiscal year 2020, including \$0.3 million distributed to the DPS and \$7.9 million of motor vehicle license (in lieu) tax revenue transferred from the State Highway Fund to the State General Fund. The \$8.2 million was identical to the amount distributed to DPS in fiscal year 2019, and the result of these two actions was revenue neutral to the State Highway Fund. In addition, \$15.5 million was transferred from the Arizona Highway Patrol Fund to the State Highway Fund in fiscal year 2020, which was offset by a \$15.5 million transfer from motor vehicle license (in lieu) tax revenue in the State Highway Fund to the State General Fund in fiscal year 2020. The result of these two actions was also revenue neutral to the State Highway Fund.

During the 2020 regular session, legislation was enacted (SB1692) that distributed a total of \$8.2 million from the State Highway Fund in fiscal year 2021, including \$0.3 million distributed to the DPS and \$7.9 million of motor vehicle license (in lieu) tax revenue transferred from the State Highway Fund to the State General Fund. The \$8.2 million was identical to the amount distributed to DPS in fiscal year 2019, and the result of these two actions was revenue neutral to the State Highway Fund. In addition, \$15.5 million was transferred from the Arizona Highway Patrol Fund to the State Highway Fund in fiscal year 2021, which was offset by a \$15.5 million transfer from motor vehicle license (in lieu) tax revenue in the State Highway Fund to the State General Fund in fiscal year 2021. The result of these two actions was also revenue neutral to the State Highway Fund.

Arizona voters passed the Smart & Safe Az Act in November 2020, which legalized recreational adult use of marijuana. The Smart & Safe Az Act also created licensing fees for marijuana establishments and a 16.0% excise tax on recreational marijuana sales. Pursuant to the Smart & Safe Az Act, the Arizona Highway User Revenue Fund receives 25.4% of the revenue generated from the Smart & Safe Az Act after certain off-the-top distributions. The distribution of such revenue to the Arizona Highway User Revenue Fund began in fiscal year 2021, however, due to timing delays associated with implementation, distributions were not received or recognized by the Department until August of 2021 in fiscal year 2022.

During the 2021 regular session, legislation was enacted (SB1823) that distributed \$8.2 million directly from the State Highway Fund to the DPS in fiscal year 2022. This bill (SB1823) also distributed \$3.3 million from the State General Fund in fiscal year 2022 in the same manner as rental vehicle surcharge. As a recipient of rental vehicle surcharge, the Arizona Highway User Revenue Fund received \$1.2 million in fiscal year 2022 as a result of this one-time transfer.

During the 2022 regular session, legislation was enacted (HB2862) that distributed \$8.2 million directly from the State Highway Fund to the DPS in fiscal year 2022. Additional legislation enacted in the 2022 session (HB2871) appropriated \$925,447,500 of transaction privilege tax revenues collected by the State to the State Highway Fund in fiscal year 2023 for funding certain specified State highway capital projects.

As part of the Department's forecast of future deposits to the State Highway Fund, certain of the enactments are assumed to continue at various funding levels in future fiscal years. See "REVENUES AND DEBT SERVICE COVERAGE – Projected Revenues."

### **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 2023 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 funds.

The Bond Resolutions require that 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 with the State Treasurer into the Bond Funds in the following order and manner, subject to the rights, described below, of the Owners of the Senior Bonds in the event of a deficiency in the Senior Bond Fund:

(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 (the Bond Resolutions currently do not require any deposits to this Fund); 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 (the Bond Resolutions currently do not require any deposits to this Fund); 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, an amount equal to the interest payment due on such interest payment date on the Outstanding 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, an amount equal to the principal payment due on such principal payment date on the Outstanding 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 (the Bond Resolutions currently do not require any deposits to this Fund); 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 (the Bond Resolutions currently do not require any deposits to this Fund); 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 (the Bond Resolutions currently do not require any deposits to this Fund); and then

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

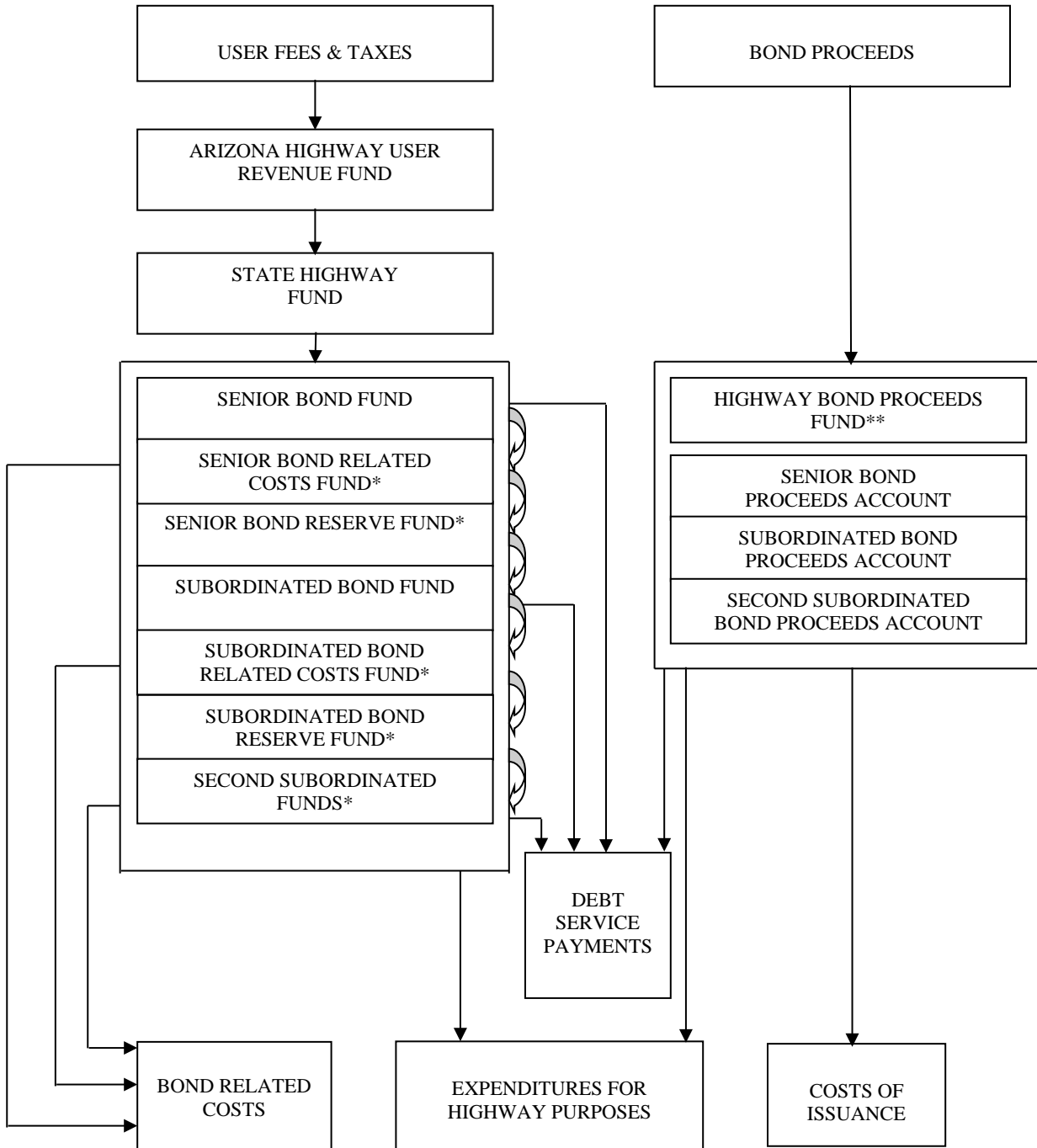
The Bond Resolutions provide that, to the extent that moneys in the Senior Bond Fund, Senior Bond Related Costs Fund and Senior Bond Reserve Fund are insufficient to pay, when due, principal of and interest on the Senior Bonds, the Senior Bonds shall have a first claim on moneys in all Subordinated Funds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

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.

To the extent that investment 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.

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**HIGHWAY REVENUE BONDS  
FLOW OF FUNDS**



\* As no moneys are currently required to be deposited to or paid from these funds, these funds are not currently in use.

\*\* Proceeds may also be deposited into an escrow fund to provide for payment of bonds being refunded.

## 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 State Highway Fund for each of the last ten fiscal years ended June 30, 2023.

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

Fiscal Year	Motor Vehicle Fuel Tax Revenues	Motor Vehicle Registration Fee Revenues	Motor Carrier Tax Revenues	Motor Vehicle Operators' License Fees and Misc. Fees and Revenues	Smart & Safe Az Act Revenues/1	Motor Vehicle License (In Lieu) Tax Revenues	Total Deposited to Arizona Highway User Revenue Fund	Percentage Change	Total Distributed to State Highway Fund/2
2023	\$784,698	\$242,960	\$58,486	\$54,234	\$41,613	\$567,304	\$1,749,295	1.2%	\$829,723
2022	794,737	236,121	56,698	55,578	43,167	542,835	1,729,138	6.3	820,170
2021	755,063	220,075	52,129	48,762		551,141	1,627,170	9.9	749,986
2020	733,406	191,464	45,472	37,236		473,259	1,480,836	-2.6	682,310
2019	749,885	192,926	45,812	62,128		469,470	1,520,221	4.4	656,751
2018	729,469	181,227	42,823	57,503		444,757	1,455,779	2.8	624,919
2017	705,737	177,868	42,091	57,813		421,939	1,405,448	3.6	610,998
2016	688,105	173,693	41,058	57,943		395,952	1,356,752	5.1	589,476
2015	655,403	168,589	40,227	56,502		369,719	1,290,439	4.0	566,352
2014	633,783	163,715	38,842	56,484		348,509	1,241,332	2.6	537,768

- /1 The Smart & Safe Az Act was enacted into law in November 2021. See "SOURCES AND APPLICATION OF PLEDGED REVENUES – Arizona Highway User Revenues – *Smart & Safe Az Act Taxes and Fees*" herein. Smart & Safe Az Act revenues deposited to the State Highway Fund do not constitute Pledged Revenues. Such amounts deposited in the State Highway Fund were approximately \$21.0 million in fiscal year 2023 and approximately \$21.8 million in fiscal year 2022.
- /2 Subject to certain adjustments, 50.5% of revenues deposited to the Arizona Highway User Revenue Fund are distributed to the State Highway Fund. Adjustments may include other distributions from the Arizona Highway User Revenue Fund that are required by State legislation and amounts paid to third party collection agents. See "SOURCES AND APPLICATION OF PLEDGED REVENUES – Legislative Modifications" herein for a discussion of statutory changes resulting in changes to the deposits to the State Highway Fund for fiscal years 2018 through 2023.

Note: Totals may not add due to rounding.

Source: Arizona Department of Transportation, Office of Financial Planning and Cash Management.

### 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 distributed to the State Highway Fund. This model reflects underlying economic and energy-related trends. These trends are important in forecasting growth rates in personal income, motor vehicle fuel efficiency, employment, and population, 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) Arizona real per capita income, (iii) Arizona non-farm employment, (iv) Arizona vehicle fuel efficiency, (v) Arizona gasoline price, and (vi) West Coast diesel price. Of these variables, Arizona population and Arizona real per capita income are the most important in projecting revenues.

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, which mitigates 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.

Over the years the model has generally exhibited the ability to forecast revenues with a reasonably high degree of accuracy. For the 12-month periods ended June 30, 2022, 2021 and 2020, 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 2.6%, 7.5% and 5.6%, respectively, of actual collections in such periods.

The following table sets forth the Department's current forecast of revenues to be deposited to the Arizona Highway User Revenue Fund and the amounts to be distributed to the State Highway Fund for fiscal years 2024 through 2028. Based on the forecast of revenues to be deposited to the Arizona Highway User Revenue Fund, the Department then forecasts the amount that will be deposited to the State Highway Fund based on certain assumptions of legislative funding for other highway related purposes and activities. See "SOURCES AND APPLICATION OF PLEDGED REVENUES – Legislative Modifications." The amounts shown below in the current forecast for fiscal years 2024 through 2028 reflect a number of such considerations and assumptions, including:

- Anticipated growth in the amount of revenues deposited to the Arizona Highway User Revenue Fund.
- Funding for the DPS Parity Compensation Fund from the State Highway Fund of \$4.2 million to \$5.4 million per year.
- Transfers to the State General Fund from the State Highway Fund of \$9.4 million to \$10.6 million per year, reflecting the transfer of certain registration fee revenues and certain motor vehicle license (in lieu) tax revenues as required by statute.
- Funding for the operating budget and the Motor Vehicle Division's third party program from the Arizona Highway User Revenue Fund of \$0.9 million per year and \$1.0 million per year to the Economic Strength Project Fund.

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**Forecast of Revenues to be Deposited in the  
Arizona Highway User Revenue Fund and State Highway Fund  
Fiscal Years ending June 30, 2024 through June 30, 2028  
(000's)**

<b>Fiscal Year</b>	<b>Motor Vehicle Fuel Tax Revenues</b>	<b>Motor Vehicle Registration Fee Revenues</b>	<b>Motor Carrier Fee Revenues</b>	<b>Motor Vehicle Operators' License Fees and Misc. Fees and Revenues</b>	<b>Smart &amp; Safe Az Act Tax Revenues/1</b>	<b>Motor Vehicle License (In Lieu) Tax Revenues</b>	<b>Total Deposited to Arizona Highway User Revenue Fund</b>	<b>Total Distributed to State Highway Fund/2, 3, 4</b>
2024	\$815,300	\$236,800	\$62,200	\$56,900	\$61,000	\$596,500	\$1,828,700	\$862,398
2025	828,400	242,400	64,600	58,000	69,700	630,700	1,893,700	892,462
2026	841,000	248,500	67,000	59,100	77,800	666,100	1,959,500	922,904
2027	853,400	254,800	69,500	60,100	85,300	702,800	2,026,100	952,095
2028	866,200	261,600	72,100	61,200	92,200	742,900	2,096,200	984,291

- /1 Smart & Safe Az Act revenues deposited to the State Highway Fund do not constitute Pledged Revenues. Such amounts to be deposited in the State Highway Fund are forecast to be approximately \$30.8 million in fiscal year 2024, \$35.2 million in fiscal year 2025, \$39.3 million in fiscal year 2026, \$43.1 million in fiscal year 2027, and \$46.6 million in fiscal year 2028.
- /2 Subject to certain adjustments, 50.5% of revenues deposited to the Arizona Highway User Revenue Fund are distributed to the State Highway Fund. Adjustments may include other distributions from the Arizona Highway User Revenue Fund as required by State legislation and amounts paid to third party collection agents. See "SOURCES AND APPLICATION OF PLEDGED REVENUES" herein.
- /3 For a discussion of recent legislation and its impact on forecasted Pledged Revenues, see "SOURCES AND APPLICATION OF PLEDGED REVENUES – Legislative Modifications" herein.
- /4 Includes a direct distribution from Vehicle License (In Lieu) Tax Revenues to the State Highway Fund.

Note: Totals may not add due to rounding

Source: Arizona Department of Transportation, Office of Financial Planning and Cash Management.

The prospective financial information included in this Official Statement under this heading has been prepared by, and is the responsibility of, the Department. In the view of the Department, the forecasts included herein were prepared on a reasonable basis utilizing the methodology described under this heading. The forecast reflects the best currently available estimates and judgments, and presents, to the best of the Department's knowledge and belief, the estimated future performance of, and estimated level of revenues flowing into the Highway User Revenue Fund and State Highway Fund under current law and the assumptions set forth above. However, these forecasts are not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on any prospective financial information.

Neither the Department's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

THE ACTUAL REVENUES THAT WILL BE DEPOSITED IN THE ARIZONA HIGHWAY USER REVENUE FUND AND THE STATE HIGHWAY FUND MAY VARY FROM THE FORECAST BECAUSE OF CHANGES IN THE ECONOMIC AND DEMOGRAPHIC ASSUMPTIONS USED IN DEVELOPING THE FORECAST, CHANGES IN STATUTORY DISTRIBUTIONS AND OTHER CHANGES IN LAW, FLUCTUATING ECONOMIC CONDITIONS AND OTHER VARIABLES AFFECTING REVENUE GROWTH. SUCH VARIATIONS COULD BE MATERIAL.

**Debt Service Requirements, Forecasted Pledged Revenues and Projected Debt Service Coverage<sup>(1)</sup>**

The debt service requirements of the Bonds of the Board to be Outstanding after issuance of the Series 2023 Bonds, and after giving effect to the Cash Defeasance and the purchase by the Board of the Tendered 2020 Bonds, are set forth below. Based upon the Department’s forecast of Pledged Revenues and debt service requirements, the projected debt service coverage of such Senior Bonds to be Outstanding (assuming no issuance of Additional Bonds) is as follows:

Twelve Months Ending July 1	Forecasted Pledged Revenues <sup>(3)</sup>	Outstanding Senior Bond Debt Service	Less:	Less:	Plus: Series 2023 Bonds		Total Senior Bond Debt Service	Projected Debt Service Coverage on Senior Bonds
			Defeased Senior Bond Debt Service <sup>(4)</sup>	Tendered 2020 Bond Debt Service <sup>(2)</sup>	Principal Payments	Interest Payments <sup>(5)</sup>		
2024	\$831,593,000	\$138,491,146	(\$15,041,750)	(\$30,282,372)	\$27,020,000	\$13,713,190	\$133,900,216	6.21x
2025	857,263,000	128,481,572	(42,321,750)	(29,579,440)	51,745,000	16,217,500	124,542,883	6.88x
2026	883,615,000	119,271,014	(42,327,750)	(8,680,997)	33,440,000	13,630,250	115,332,517	7.66x
2027	909,018,000	111,141,587	(42,330,250)	(2,376,316)	28,810,000	11,958,250	107,203,271	8.48x
2028	937,730,000	111,132,968	(42,326,000)	(1,428,948)	29,295,000	10,517,750	107,190,770	8.75x
2029		111,141,659	(42,321,750)	(4,585,328)	33,920,000	9,053,000	107,207,581	
2030		111,139,191	(42,323,750)	(6,554,507)	37,585,000	7,357,000	107,202,934	
2031		72,942,858	(42,327,750)	(150,632)	34,385,000	5,477,750	70,327,226	
2032		71,758,358	(42,319,500)	(150,632)	37,285,000	3,758,500	70,331,726	
2033		73,026,300	(42,320,250)	(150,632)	37,885,000	1,894,250	70,334,668	
2034		30,705,800		(150,632)			30,555,168	
2035		30,393,300		(1,050,632)			29,342,668	
2036		30,389,757		(4,054,424)			26,335,333	
2037		19,147,173					19,147,173	
2038		19,147,610					19,147,610	

- <sup>(1)</sup> Does not reflect debt service requirements on approximately \$1.65 billion of bonds the Board currently anticipates issuing under the Bond Resolutions through fiscal year 2028. The issuance of such bonds may result in a decrease in the projected debt service coverage figures shown. Such bonds may only be issued by the Board, however, subject to meeting certain requirements of the Act and the Bond Resolutions. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2023 BONDS - Additional Bonds” for a further discussion of such requirements.
- <sup>(2)</sup> Reflects the Board’s purchase, by means of a tender offer, of \$83,045,000 principal amount of the tendered Outstanding Series 2020 Bonds maturing on July 1, 2024 through and including July 1, 2030, July 1, 2035 and July 1, 2038 to occur concurrently with the issuance of the Series 2023 Bonds.
- <sup>(3)</sup> Reflects the Department’s forecast of Pledged Revenues for fiscal years 2024 through 2028 described under “Projected Revenues” above exclusive of Smart & Safe Az Act revenues deposited to the State Highway Fund which do not constitute Pledged Revenues. For a discussion of recent State legislation and its impact on forecasted Pledged Revenues, see “SOURCES AND APPLICATION OF PLEDGED REVENUES – Legislative Modifications” herein.
- <sup>(4)</sup> Reflects the Board’s defeasance of \$300,835,000 principal amount of the Series 2015 Bonds maturing on July 1, 2025 through July 1, 2033 on September 8, 2023.
- <sup>(5)</sup> The first interest payment on the Series 2023 Bonds is January 1, 2024.

## MANAGEMENT OF STATE HIGHWAY PROGRAM

### Arizona Transportation Board

The Board consists of seven members, with two members appointed from Transportation District 1 (Maricopa County) and one member from each of the other five transportation districts within the State. 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, among other duties, 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, opening, 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 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>
Gary Knight, Chairman Transportation District 6 Yavapai, Yuma, Mohave and La Paz Counties	Yuma	2024
Richard Searle, Vice Chairman Transportation District 3 Cochise, Greenlee, and Santa Cruz Counties	Pearce	2025
Jenn Daniels, Member Transportation District 1 Maricopa County	Gilbert	2026
Jenny Howard, Member Transportation District 4 Gila, Graham and Pinal Counties	Thatcher	2028
Ted Maxwell, Member Transportation District 2 Pima County	Oro Valley	2027
Jackie Meck, Member Transportation District 1 Maricopa County	Phoenix	2024
Jesse Thompson*, Member Transportation District 5 Apache, Coconino and Navajo Counties	Window Rock	2023

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\* Mr. Thompson's term on the Board ended on January 16, 2023. Mr. Thompson will continue to serve on the Board until a successor is appointed and confirmed.

## **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 a safe, efficient, and cost-effective transportation system for the State.

### *Responsibilities and Organization.*

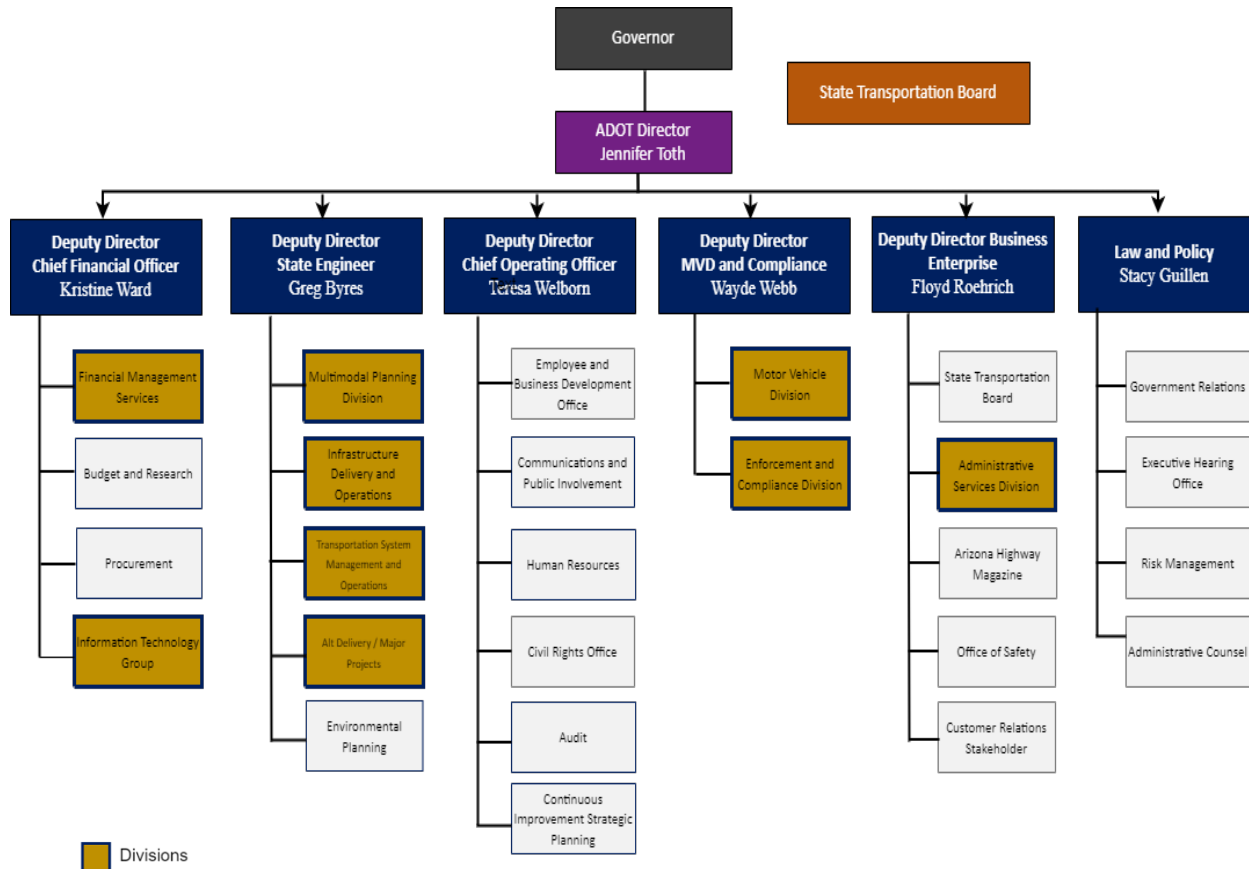
The Department administers the State highway system. The Department's responsibilities also include: (i) registration of motor vehicles and aircraft; (ii) transportation planning, coordination of transportation planning with local governments and annual development of a priority program of capital improvements for both highway and aviation transportation modes; (iii) design and construction of transportation facilities in accordance with a priority plan; (iv) maintenance and operation of the State highway system; and (v) 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 Transportation Plan Freeway Program is determined by the Department taking into consideration the priorities recommended by the Maricopa Association of Governments. The final list of projects in the Five-Year Capital Program is approved by the Board.

The Director of the Department serves as the Chief Executive 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 has organized itself into six divisions: Infrastructure Delivery and Operations Division, Transportation System Management and Operations Division and Multimodal Planning Division, all directed by the Deputy Director for Transportation/State Engineer, as well as the Motor Vehicle Division, Enforcement and Compliance Division, and Administrative Services Division. The Deputy Director for Transportation/State Engineer also directs Environmental Planning, Major Projects, Partnering and Resource Management. The Department is also supported by certain other operational and business units under the direction of the Deputy Director/Chief Operating Officer, including Human Resources; Information Technology; Office of Continuous Improvement; Employee and Business Development; Audit and Analysis; and Arizona Highways Magazine. The Chief Financial Officer directs the Budget and Research and Financial Management Services units. The Executive Officer is the primary liaison to the Board and advises the Office of Public-Private Partnerships and International Affairs.

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



*Financial Management Services Division.* The Financial Management Services Division (FMS) of the Department is responsible for managing the financial foundation on which Arizona's highways and bridges are built and administered. This includes forecasting, collecting, distributing and accounting for all the funds available to construct and maintain Arizona's highway system. To accomplish this vital mission, FMS is comprised of five core units and approximately 100 employees. FMS provides support to internal and external customers such as council of governments and metropolitan planning organizations, coordinates with the Department’s Multimodal Planning Division and the Intermodal Transportation Division, and tracks legislation pertaining to transportation at both the State and national level.

*Information Technology Group.* The Information Technology Group (ITG) supports the technology needs of the entire Department. ITG provides a wide array of services ranging from personal computer support to application development and disaster recovery plans. ITG’s involvement with projects ensures no redundancy and duplication of investments or efforts are made under the technology umbrella. ITG strives to provide on-time/on-budget delivery of products and services that meet or exceed customer expectations.

*Multimodal Planning Division.* The Multimodal Planning Division is responsible for the planning of the Statewide transportation system including highways, transit, rail, and airports. Its functions include traffic and travel studies and projections, five-year construction programming studies, and coordination with local and regional transportation planning agencies. The Multimodal Planning Division produces an annually updated Five-Year Capital Program, from which the Board establishes the priorities for highway and airport projects within the State. The Multimodal Planning Division also distributes federal funding for planning, operational, and capital acquisitions for transit programs in smaller cities, towns, and rural areas, administers federal grants for transit planning in metropolitan

areas, and performs State regulatory safety oversight for the light rail systems. The Multimodal Planning Division also coordinates general aviation in the State and is responsible for administering the Local Airports Grant Program.

*Infrastructure Delivery and Operations Division.* The Infrastructure Delivery and Operations Division is responsible for the location, design, construction and maintenance of the State highway system. The Infrastructure Delivery and Operations Division manages bridge inspections, environmental mitigation, project design, right-of-way acquisition, construction, federal regulatory compliance and highway maintenance.

*Transportation Systems Management and Operations Division.* The Transportation Systems Management and Operations Division is responsible for a variety of traffic safety and operational programs, including roadway safety improvements, traffic signal systems, pavement conditions and crash response. The Transportation Systems Management and Operations Division also manages the State's network of highway traffic-flow sensors, overhead message boards and closed-circuit cameras operated from the Department's Traffic Operations Center in Phoenix.

*Alternative Delivery/Major Projects.* Alternative Delivery/Major Projects leads communications for the Department's public-private partnership design-build projects. While providing oversight of the general engineering consultant's public involvement team, Major Projects also manages social media and news media relations for each project and works to build strong, positive relationships with local governments, key stakeholders and businesses impacted by project activities.

*Enforcement and Compliance Division.* The Enforcement and Compliance Division is comprised of the Enforcement Services Section and the Office of the Inspector General. The Enforcement and Compliance Division is responsible for the State's 23 ports of entry, commercial vehicle weight and fuel tax enforcement, collection of various fees, registration compliance, criminal investigations involving license and title fraud, and internal affairs.

*Motor Vehicle Division.* The Motor Vehicle Division regulates motor vehicles and drivers in the State through registration and licensing. The Motor Vehicle Division also collects various fees and taxes including: motor vehicle registration, motor carrier, motor vehicle operators' license and non-operating identification cards, aircraft registration, and miscellaneous fees and revenues. The Motor Vehicle Division annually processes millions of motor vehicle registrations and records, issues certificates of title for motor vehicles, and processes drivers' license applications while maintaining oversight of over 50 offices and more than 150 authorized third parties.

*Administrative Services Division.* The Administrative Services Division provides Department-wide support functions including Equipment Services, Facilities Management, the Grand Canyon National Park Airport, Procurement, and Safety and Risk Management.

*Staff of the Department.*

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

**JENNIFER TOTH**

*Director*

Ms. Toth was appointed Director of the Department on January 5, 2023, to lead the agency responsible for planning, designing, building, maintaining and operating the State's multimodal transportation system, managing transportation revenue, and providing motor vehicle title, registration and driver license services.

Ms. Toth has over 25 years of experience in the public works field. She has spent the majority of her career working in the public sector and was most recently the Director for the Maricopa County Department of Transportation (MCDOT) as well as the Maricopa County Engineer. Before joining MCDOT in 2014, Ms. Toth served as State Engineer and Deputy Director of the Department. She has also worked in the private sector as a transportation consultant.

Ms. Toth holds a Bachelor of Science degree in Civil Engineering from the University of Houston and a Master of Science degree in Civil Engineering from the University of New Mexico. She brings a passion for public service and meeting the transportation needs of the residents of the State.

**GREGORY D. BYRES, P.E.**

*Deputy Director for Transportation and State Engineer*

Mr. Byres serves as deputy director/state engineer for transportation. Supervising the Infrastructure Delivery and Operations Division, Transportation Systems Management and Operations Division, and the Multimodal Transportation Division, he leads development and delivery of the Department's construction program, including environmental studies, engineering design, land acquisition and construction. He also supports the maintenance and operation of more than 6,000 miles of interstate and State highways in Arizona.

Mr. Byres joined the Department in 2015, having served as a senior project manager, State Roadway Engineer and as Director of the Multimodal Planning Division.

**TERESA WELBORN**

*Deputy Director and Chief Operating Officer*

Ms. Welborn serves as chief operating officer/deputy director for the Department.

Ms. Welborn has more than 30 years in the non-profit and government sectors, most recently at the Maricopa County Department of Transportation serving as the Administrator from 2014 through 2020. In this role, Ms. Welborn led the Communications, Administrative Services, Information Technology and Finance divisions. Ms. Welborn also served the Department from 2006 through 2014 as Statewide Public Involvement Director, Assistant Communication Director and Partnering Administrator.

Ms. Welborn holds a Bachelor of Science in Business Administration degree in Finance from The University of Arizona and a Masters of Education in Educational Leadership from Northern Arizona University.

**KRISTINE WARD**

*Deputy Director and Chief Financial Officer*

Ms. Ward serves as the chief financial officer and deputy director of the Department, overseeing Financial Management Services, Budget and Research, Procurement and the Information Technology Group. She has been with the Department since December 2011.

Prior to joining the Department, Ms. Ward served as the deputy director for the Department of Revenue (DOR) from 2005 to 2011. As deputy director, she oversaw all aspects of department operations, including the accounting and processing of the State's more than 5 million tax documents and \$12 billion in tax revenue. Before joining DOR, Ms. Ward served three gubernatorial administrations in Arizona—Governors Symington, Hull and Napolitano—in the Office of Strategic Planning and Budgeting (OSPB) in various roles, including director and deputy director. At OSPB, she oversaw and coordinated more than 120 State agency budgets, totaling \$20.6 billion, and represented the Governor in budget matters.

Ms. Ward holds a bachelor's degree in business with a concentration in finance from Bowie State University and a master's degree in public administration from Arizona State University.

**FLOYD ROEHRICH, JR., P.E.**

*Deputy Director for Business Enterprise*

Mr. Roehrich, Jr., serves as deputy director of Business Enterprise for the Department. He serves as the primary liaison between the Department and the Board, and oversees the Administrative Services Division, Arizona Highways Magazine, Office of Safety and Customer Relations Stakeholder offices. Mr. Roehrich also works with

Arizona's metropolitan planning organizations, councils of government, the Federal Highway Administration and other stakeholders.

Mr. Roehrich served as the Department's deputy director for policy from 2011-2015. Mr. Roehrich also served as state engineer from 2008 to 2011. He has nearly 40 years of engineering experience, more than 30 of which have been with the Department in Roadway Engineering, Statewide Project Management, Valley Project Management Group, State Engineer and Director's Office.

#### **WAYDE WEBB**

*Motor Vehicle Division and Compliance / Deputy Director*

Mr. Webb serves as deputy director for Motor Vehicle Division and Compliance. Prior to joining the Department in 2023, Mr. Webb worked in law enforcement at the Arizona Department of Public Safety (DPS) for more than 28 years including serving as Human Resources Assistant Manager, Legislative Liaison, Chief Information Officer, Executive Officer for two agency directors, and as the Metro Highway Patrol Bureau Commander, overseeing Highway Patrol, Motors, Commercial Motor Vehicles and the Capital District. Mr. Webb also held roles in Special Investigations, and from 2016 to 2019 was appointed assistant director overseeing the Agency Support Division and later the Highway Patrol Division. In his last assignment at DPS, Mr. Webb served as a major in the Technical Services Division.

Mr. Webb holds a bachelor's degree from Wayland Baptist University and a Certified Public Manager certificate from Arizona State University. He is also a graduate of the Harvard Kennedy School's Senior Executives in State and Local Government and Northwestern University's School of Police Staff and Command.

#### **STACY GUILLEN**

*Director of Law and Policy*

Ms. Guillen serves as the director of Law and Policy and manages the operations for the following work groups: Government Relations Office, Executive Hearing Office, Risk Management and the Administrative Counsel. She serves as the chief legal counsel for the Department, acts as a liaison to the Office of the Attorney General, and confers with all levels of international, federal, State and local governments, and members of the public affected by the Department.

Before joining the Department in 2015, Ms. Guillen previously served as the deputy general counsel for Governor Janice Brewer for two years, advising the Governor and her staff on a variety of issues while managing the day-to-day activities of the legal staff. She was the rules attorney and ethics counsel for the Arizona State Senate and staff attorney for the Arizona House of Representatives over a six-year period from 2007 to 2013.

Ms. Guillen received her juris doctor in 2007 from the Sandra Day O'Connor College of Law at Arizona State University and was admitted to the Arizona State Bar in 2007. She earned a bachelor of arts degree in journalism with a minor in business administration from Arizona State University.

#### **TERI KENNEDY**

*Director of Administrative Services Division*

Ms. Kennedy serves as the director for the Administrative Services Division and manages the following work groups: Equipment Services, Facilities Management and Support, and the Administrative Services Budget Office. She also oversees the Grand Canyon National Park Airport and the Physical Security Office.

Ms. Kennedy has had a long and diverse career in transportation and transportation planning, budgeting and leadership. She previously worked in the State Engineer's Office as the transportation division's finance officer where she managed and developed the maintenance and operations budgets of multiple divisions. She also worked in the Multimodal Planning Division from 2007 to 2011, helping lead transit programs and grants. In between her assignments at the Department, she worked nearly 10 years as transportation improvement program manager at the Maricopa Association of Governments (MAG), managing MAG's Transportation Improvement Program budgets of up to \$7 billion dollars annually. Ms. Kennedy also has worked as a contractor with the City of Scottsdale Planning Department and started her career managing a variety of information technology roles.



**STEVE BOSCHEN, P.E.**

*Director of Infrastructure Delivery and Operations*

Mr. Boschen currently serves as the-Director for the Infrastructure Delivery and Operations Division, which oversees all statewide project delivery, including Department and Local Public Agency projects, and statewide operations and maintenance. He is responsible for Project Management, Operations, Project Delivery, Contracts and Local Public Agency areas of the Department, which include a total of 20 groups and districts. This includes the development, construction, maintenance and operation of more than 6,000 miles of interstate and state highways in Arizona.

Mr. Boschen previously worked for the Department from 1985-1992. He rejoined the Department in October 2012 as a Deputy State Engineer for Project Delivery after a 20-year consulting engineer career, including five years as principal of a local firm.

Mr. Boschen holds a bachelor's degree in Civil Engineering from the University of Arizona and is a registered Professional Engineer in the State.

**ERIC JORGENSEN**

*Director of Motor Vehicle Division*

Mr. Jorgensen joined the Department in 2015, overseeing the Motor Vehicle Division. He is responsible for the operations of approximately 50 offices and 180 authorized third parties engaged in the licensing and registration of motor vehicles in Arizona.

Mr. Jorgensen has worked for the State since 2004. Prior to joining the Department, he served as the Deputy Director for Administration at the Arizona Department of Child Safety (DCS), where he oversaw the separation of the DCS from the Department of Economic Security and the creation of the administrative structure for the new agency. Previously, he served as Chief Financial Officer for the \$800 million self-insured state employee benefit program and as Assistant Director for the Arizona Joint Legislative Budget Committee.

Mr. Jorgensen holds a bachelor's degree in International Political Science from Brigham Young University, and a master's degree in International Affairs with an emphasis on Economic Policy from Columbia University.

**BRENT CAIN, P.E.**

*Director of Transportation Systems Management and Operations*

Mr. Cain serves as the Assistant Director for the Transportation Systems Management and Operations Division. Mr. Cain leads the Department's efforts to optimize performance of existing infrastructure by implementing multimodal, intermodal and cross-jurisdictional systems, services and projects. The functions of the division include traffic safety and traffic incident management; travel and roadway weather information services; freeway, work-zone and freight management; connected and automated vehicles; traffic-signal systems and coordination; managed lanes; emergency management; wrong-way driver detection; adaptive ramp metering; and rapidly evolving new technologies which enhance transportation system operations and safety.

Mr. Cain was previously the Deputy State Engineer for Urban Operations, which included overseeing the Phoenix construction and maintenance districts, Traffic Operations Center, Tucson district, and statewide maintenance.

Mr. Cain has over 30 years of experience in transportation planning, engineering and operation. He holds a bachelor's degree in Civil Engineering from the University of Missouri-Rolla and is a registered Professional Engineer in the State. He has also completed the AASHTO National Transportation Leadership Institute.

## **PAUL PATANE**

*Director of Multimodal Planning Division*

Mr. Patane serves as the Multimodal Planning Division director, supporting the statewide transportation network from planning to programming. He oversees Aeronautics, Asset Management, Corridor Planning, Grant Coordination, Planning and Programming, Research, Transit and Transportation analytics.

Mr. Patane joined the Department more than 40 years ago and has worked in many areas of the agency, most recently as the Southwest District engineer.

### *Funding the Department.*

The Department has several major sources of revenue available for financing its capital program and day-to-day operations. The operating budget, which is appropriated by the State Legislature, is funded primarily by the Department's share of Arizona Highway User Revenue Funds, which revenues are deposited in the State Highway Fund. Included in the highway operating budget are maintenance, general engineering activities, administrative functions, and all other highway related operating expenses.

The Five-Year Capital Program is funded from three primary sources: federal aid highway program funds, highway user revenues, and the revenues generated by the transportation excise tax deposited into the Maricopa County Regional Area Road Fund. Debt financing supplements these three sources of revenues to ensure timely and cost-effective accomplishment of 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 funding availability, project priority, and engineering and construction considerations.*

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 funding availability, user benefits, public need, land use, safety, road conditions, and continuity of improvements. 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 funding availability, changing priorities, 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.

### **Summary of Revenues, Expenditures and Changes in Fund Balances**

Set forth on the following pages is a table that summarizes certain information for the five fiscal years ended June 30, 2022, derived from the Department's audited financial statements. The information for the fiscal year ended June 30, 2022, should be read in conjunction with the audited basic financial statements of the Department for the fiscal year ended June 30, 2022, and the notes therein included as Appendix A.

*This information is presented as background information only. As described under “SECURITY AND SOURCES OF PAYMENTS FOR THE SERIES 2023 BONDS,” the Series 2023 Bonds are special obligations of the Board payable solely from a senior lien on Pledged Revenues, which Pledged Revenues are not segregated or identified in these tables.*

**Arizona Department of Transportation  
State Highway Fund  
Summary of Revenues, Expenditures, and Changes in Fund Balances  
Fiscal years ended June 30, 2018 through June 30, 2022**

	Audited				
	2018	2019	2020	2021	2022
<b>Revenues:</b>					
Vehicle registration, title, license and related fees	\$310,604,558	\$418,089,453	\$448,012,145	\$499,509,924	\$506,458,485
Fuel and motor carrier taxes and fees	408,832,093	418,318,223	388,938,460	448,235,876	429,269,098
Reimbursement of construction expenditures – federal aid	409,830,913	437,140,971	396,499,503	468,099,274	423,926,985
Other federal grants and reimbursements	-	-	-	-	-
Reimbursements from Arizona counties and cities	17,335,455	11,308,984	162,567	-	4,496,827
Distribution from other state agencies	27,346,623	14,908,058	42,181,138	22,687,387	93,936,538
Interest on loans receivable	16,927	5,119	-	-	63,447
Interest on investments	8,437,369	15,776,358	11,912,963	3,570,643	3,224,158
Sales and charges for services	-	7,509,033	7,850,521	15,992,362	10,828,559
Rental Income	1,362,054	2,020,096	3,497,210	8,901,252	8,892,006
Other	13,483,356	4,191,046	14,980,965	3,055,970	21,439,041
Total revenues	<u>\$1,197,249,348</u>	<u>\$1,329,267,341</u>	<u>\$1,314,035,472</u>	<u>\$1,470,052,688</u>	<u>\$1,502,535,144</u>
<b>Expenditures:</b>					
Current:					
Transportation:					
Administration	\$68,075,262	\$84,355,201	\$127,757,963	\$124,668,769	\$129,670,632
Highway	128,098,135	164,171,750	81,157,656	76,666,735	114,945,570
Highway Maintenance	93,301,936	113,143,943	137,247,928	142,055,180	135,316,657
Motor Vehicle Division	105,197,352	105,735,548	138,287,253	184,061,761	149,023,762
Total Transportation	<u>\$394,672,685</u>	<u>\$467,406,442</u>	<u>\$484,450,800</u>	<u>\$527,452,445</u>	<u>\$528,956,621</u>
Non-capital, including asset preservation	\$195,368,143	\$186,062,904	\$243,817,005	\$377,589,240	\$400,307,869
Capital Outlay:					
Highway construction	321,468,945	316,025,121	391,141,465	94,904,877	96,018,761
Distributions to Arizona counties, cities and other state agencies	98,504,864	138,155,297	142,978,051	160,878,537	126,805,591
Debt Service <sup>(a)</sup>	23,551,656	-	-	-	-
Total Expenditures	<u>\$1,033,566,293</u>	<u>\$1,107,649,764</u>	<u>\$1,262,387,321</u>	<u>\$1,160,825,099</u>	<u>\$1,152,088,842</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$163,683,055</u>	<u>\$221,617,577</u>	<u>\$51,648,151</u>	<u>\$309,227,589</u>	<u>\$350,446,302</u>
<b>Other financing sources (uses):</b>					
Transfers in	-	-	-	-	\$2,479,521
Transfers out <sup>(b)</sup>	(\$130,371,894)	(\$142,912,555)	(\$141,219,592)	(\$139,921,302)	(\$139,321,008)
Debt Issuance	-	-	-	-	-
Other	8,295,889	6,712,235	6,290,983	5,902,313	9,253,043
Total other financing (uses)	<u>(\$122,076,005)</u>	<u>(\$136,200,320)</u>	<u>(\$134,928,609)</u>	<u>(\$134,018,989)</u>	<u>(\$127,588,444)</u>
Net change in fund balance	41,607,050	85,417,257	(83,280,458)	175,208,600	222,857,858
Fund balances, Beginning of year	701,472,453	743,079,503	828,496,760	745,216,302	920,424,902
<b>Fund balances, End of year</b>	<u><b>\$743,079,503</b></u>	<u><b>\$828,496,760</b></u>	<u><b>\$745,216,302</b></u>	<u><b>\$920,424,902</b></u>	<u><b>\$1,143,282,760</b></u>

(a) Primarily reflects debt service on vehicle and equipment leases, and certain obligations internal to the Department or with other State agencies. Effective with fiscal year 2019, expenditures associated with vehicle and equipment leases are now included in Administrative expenditures.

(b) Primarily reflects transfers into debt service redemption accounts; may include other transfers.

Source: Provided by the Arizona Department of Transportation, Financial Management Services, as derived from audited financial statements of the Department.

## **Sunset Laws**

In order to encourage systematic legislative review of State agencies and statutes, State statutes provide for automatic termination of State agencies and statutes pursuant to a statutory schedule unless the State Legislature takes affirmative action to continue the existence of the agencies or statutes. These State statutes are commonly known as “Sunset Laws.” Under the State Sunset Laws, the Department and the Board are scheduled for termination on July 1, 2024, and Title 28, Arizona Revised Statutes, is scheduled for termination on January 1, 2025. Title 28 contains most of the transportation laws of the State, including the provisions relating to the 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 State Highway Fund, the Act, as well as traffic laws of the State.

The State 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 existence and authority; the Act and the statutes relating to the fees and taxes pertaining to the registration, operation, and use of motor vehicles; and the statutes related to motor vehicle fuel taxes have been reviewed and continued four times. While there can be no assurance that the State Legislature will continue the Department after July 1, 2024, the Department is not aware of any matters which would cause the State Legislature to terminate the existence of the Department or the Board or to repeal Title 28 or to amend Title 28 in a manner detrimental to the Owners of the Series 2023 Bonds.

The State Sunset Laws provide that if Title 28 is repealed pursuant to the Sunset Laws, so long as there are any outstanding debts or other obligations, such as the Series 2023 Bonds, payable from the Arizona Highway User Revenue Fund and provision has not 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 will remain in full force and effect until those 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, prior to the final maturity of the Series 2023 Bonds, to take affirmative action to continue the existence of the Department, the Board or the Act on or prior to their effective termination dates, the State would be obligated to make payments on the Senior Bonds and the Subordinated Bonds, including the Series 2023 Bonds, when due 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 2023 Bonds or in any way contest or affect the validity of the Series 2023 Bonds, or which concerns the proceedings of the Board taken in connection with the issuance and sale of the Series 2023 Bonds or the levy, pledge or application of Pledged Revenues, or the pledge and application of any funds 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 Department in connection with its operations, and has reported that there are several proceedings in which the Department is either a plaintiff or defendant and which are generally incidental to the operations of the Department. The ultimate disposition of such pending legal proceedings cannot be predicted or determined at present. It is the belief 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 Department which would materially and adversely affect the Department’s ability to pay debt service on the Senior Bonds and Subordinated Bonds, its continued operations or its financial position.

## **LEGAL INVESTMENT**

To the extent governed by Arizona law, the Act provides that the Series 2023 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 2023 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 MATTERS**

In the opinion of Squire Patton Boggs (US) LLP, Bond Counsel, under existing law: (i) interest on the Series 2023 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; and (ii) interest on the Series 2023 Bonds is exempt from Arizona state income taxes. Bond Counsel expresses no opinion as to any other tax consequences regarding the Series 2023 Bonds.

The opinion on federal tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Board and the Department contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series 2023 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 representations and certifications of the Board and the Department or the continuing compliance with the covenants by the Board and the Department.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel’s legal judgment as to exclusion of interest on the Series 2023 Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service (the “IRS”) or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Board or the Department may cause loss of such status and result in the interest on the Series 2023 Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2023 Bonds. The Board and the Department have each covenanted to take the actions required of it for the interest on the Series 2023 Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Series 2023 Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel’s attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2023 Bonds or the market value of the Series 2023 Bonds.

Interest on the Series 2023 Bonds may be subject: (1) to a federal branch profits tax imposed on certain foreign corporations doing business in the United States; (2) to a federal tax imposed on excess net passive income of certain S corporations; and (3) to the alternative minimum tax imposed under Section 55(b) of the Code on “applicable corporations” (within the meaning of Section 59(k) of the Code). Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 2023 Bonds. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Series 2023 Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Series 2023 Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Bond Counsel’s engagement with respect to the Series 2023 Bonds ends with the issuance of the Series 2023 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Board or the owners of the Series 2023 Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has

a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2023 Bonds, under current IRS procedures, the IRS will treat the Board as the taxpayer and the beneficial owners of the Series 2023 Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Series 2023 Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the Series 2023 Bonds.

Prospective purchasers of the Series 2023 Bonds upon their original issuance at prices other than the respective prices indicated on the inside cover of this Official Statement, and prospective purchasers of the Series 2023 Bonds at other than their original issuance, should consult their own tax advisors regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

### **Risk of Future Legislative Changes and/or Court Decisions**

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Series 2023 Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Series 2023 Bonds will not have an adverse effect on the tax status of interest on the Series 2023 Bonds or the market value or marketability of the Series 2023 Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction in the benefit) of the exclusion of interest on the Series 2023 Bonds from gross income for federal or state income tax purposes for all or certain taxpayers.

For example, federal tax legislation that was enacted on December 22, 2017 reduced corporate tax rates, modified individual tax rates, eliminated many deductions, repealed the corporate alternative minimum tax that was in effect at that time, and eliminated the tax-exempt advance refunding of tax-exempt bonds and tax-advantaged bonds, among other things. Additionally, investors in the Series 2023 Bonds should be aware that future legislative actions might increase, reduce or otherwise change (including retroactively) the financial benefits and the treatment of all or a portion of the interest on the Series 2023 Bonds for federal income tax purposes for all or certain taxpayers. In all such events, the market value of the Series 2023 Bonds may be affected and the ability of holders to sell their Series 2023 Bonds in the secondary market may be reduced.

Investors should consult their own financial and tax advisors to analyze the importance of these risks.

### **Original Issue Premium**

The Series 2023 Bonds (“Premium Series 2023 Bonds”) were offered and sold to the public at a price in excess of their stated redemption price at maturity (the principal amount). That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Series 2023 Bond, based on the yield to maturity of that Premium Series 2023 Bond (or, in the case of a Premium Series 2023 Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Series 2023 Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Series 2023 Bond. For purposes of determining the owner’s gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Series 2023 Bond, the owner’s tax basis in the Premium Series 2023 Bond is reduced by the amount of bond premium that is amortized during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Series 2023 Bond for an amount equal to or less than the amount paid by the owner for that Premium Series 2023 Bond. A purchaser of a Premium Series 2023 Bond in the initial public offering who holds that Premium Series 2023 Bond to maturity (or, in the case of a callable Premium Series 2023 Bond, to its earlier call date that results in the lowest yield on that Premium Series 2023 Bond) will realize no gain or loss upon the retirement of that Premium Series 2023 Bond.

***Owners of Premium Series 2023 Bonds should consult their own tax advisors as to the determination for federal income tax purposes of the existence of bond premium, the determination for federal income tax purposes of the amount of bond premium properly amortizable in any period with respect to the Premium Series 2023 Bonds, other federal tax consequences in respect of bond premium, and the treatment of bond premium for purposes of state and local taxes on, or based on, income.***

## **INDEPENDENT AUDITORS**

The basic financial statements of the Department as of and for the year ended June 30, 2022 included in this Official Statement in Appendix A have been audited by CliftonLarsonAllen, LLP, independent auditors, as stated in their report appearing therein.

## **CONTINUING DISCLOSURE UNDERTAKING**

In accordance with the requirements of Rule 15c2-12 (the “Rule”) promulgated by the Securities and Exchange Commission (the “Commission”), the Board and the Department will execute a written Continuing Disclosure Undertaking, dated the date of closing of the Series 2023 Bonds (the “Disclosure Undertaking”), substantially in the form set forth as Appendix C, wherein the Board and the Department will agree, for the benefit of the Beneficial Owners of the Series 2023 Bonds, to provide, or cause to be provided, as therein provided, certain annual financial information generally consistent with the information contained under the heading “REVENUES AND DEBT SERVICE COVERAGE – Historical Revenues” herein, and notice of the occurrence of certain events or failures to take certain required actions with respect to the Series 2023 Bonds. Pursuant to the Rule, such disclosures are to be provided to the Municipal Securities Rulemaking Board (“MSRB”) in a format prescribed by the MSRB. Currently, the MSRB requires filing such disclosures in electronic format through the Electronic Municipal Market Access website (“EMMA”).

The Board and the Department may from time to time choose to provide notice of the occurrence of other events, in addition to those required in the Disclosure Undertaking, but the Board and the Department do not undertake to commit to provide any notice of the occurrence of any event except those events listed in the Disclosure Undertaking. Such notices will be provided through EMMA.

The obligations of the Board and the Department described in the Disclosure Undertaking will remain in effect until the Series 2023 Bonds are no longer outstanding (within the meaning of the Senior Bond Resolution) or the Rule no longer applies to the Series 2023 Bonds. The Disclosure Undertaking may be amended or waived as provided therein.

A Beneficial Owner of a Series 2023 Bond may seek to enforce the undertakings of the Board and the Department in the Disclosure Undertaking by an action for specific performance in any court of competent jurisdiction in Phoenix, Arizona, after providing the Board and the Department with 30 days prior written notice of their failure to perform. Any failure of the Board or the Department to comply with any of their obligations in the Disclosure Undertaking shall not be a default or Event of Default with respect to the Series 2023 Bonds under the Senior Bond Resolution.

## **RATINGS**

The Series 2023 Bonds have been rated “AA+” and “Aa1”, respectively, by S&P and Moody’s. 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 relating to the Series 2023 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 revised, lowered or withdrawn entirely by a rating agency if in their judgment circumstances so warrant. Any lowering, suspension or withdrawal of a rating or other action by a rating agency relating to its rating may have an adverse effect on the marketability or market price of the Series 2023 Bonds.

The Board and the Department expect to furnish each 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 2023 Bonds.

## **CERTAIN LEGAL MATTERS**

Legal matters incident to the issuance of the Series 2023 Bonds and with regard to the treatment of interest for federal and state tax purposes (see “TAX MATTERS”) are subject to the legal opinion of Squire Patton Boggs (US) LLP, Bond Counsel, whose legal services 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 2023 Bonds, will be delivered on the date of issuance.

The proposed text of the legal opinion of Bond Counsel is set forth as Appendix B. 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 2023 Bonds, the Senior Bond Resolution, the Subordinated Bond Resolution and the tax treatment of interest on the Series 2023 Bonds (except for outstanding amounts of Senior Bonds and Subordinated Bonds), contained under the captions “INTRODUCTION”, “THE SERIES 2023 BONDS”, “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2023 BONDS”, “SOURCES AND APPLICATION OF PLEDGED REVENUES” (excluding “—Legislative Modifications” and financial data), “LEGAL INVESTMENT”, “TAX MATTERS”, “CONTINUING DISCLOSURE UNDERTAKING”, APPENDIX B – “PROPOSED FORM OF BOND COUNSEL OPINION” and APPENDIX C – “FORM OF CONTINUING DISCLOSURE UNDERTAKING” herein. 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 2023 Bonds or the Board or the Department that may be made available to the prospective purchasers of the Series 2023 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. Certain legal matters will be passed upon for the Underwriters by their counsel, Greenberg Traurig, LLP, Phoenix, Arizona.

## **FINANCIAL ADVISOR**

RBC Capital Markets, LLC is employed as the Financial Advisor to the Board in connection with the issuance of the Series 2023 Bonds. The fees for Financial Advisor are contingent upon the issuance, sale and delivery of the Series 2023 Bonds.

The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification and does not guarantee the accuracy, completeness, or fairness of the information in this Official Statement.

## **DEALER MANAGERS**

J.P. Morgan Securities LLC and Wells Fargo Bank, National Association, as joint dealer managers (collectively, the “Dealer Managers”), entered into a Dealer Manager Agreement with the Board, dated August 18, 2023, pursuant to which the Dealer Managers assisted the Board in solicitation of offers to tender the Series 2020 Bonds, See “PLAN OF FINANCE – Tender Offer Plan” herein.

## **UNDERWRITING**

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2023 Bonds from the Board at a price of \$382,280,414.94. Based upon the initial offering yields of the Series 2023 Bonds as shown on the inside front cover page hereof, the Underwriters will receive compensation of \$603,910.56. The public offering prices may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2023 Bonds to dealers (including dealers depositing the Series 2023 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 2023 Bonds if any are purchased.



The Dealer Managers acted as dealer managers in connection with the Offer to Tender Bonds and will receive customary compensation in connection therewith. In addition, certain of the Underwriters and/or their respective affiliates may hold a portion of the Tendered 2020 Bonds for their own account and/or for the accounts of their customers and, therefore, may receive a portion of the sale proceeds from the Series 2023 Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Finance Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Finance Group ("WFBNA"), one of the Underwriters of the Series 2023 Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Series 2023 Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2023 Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Series 2023 Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Series 2023 Bonds, has entered into negotiated dealer agreements (each, a Dealer Agreement) with each of the Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Series 2023 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2023 Bonds that such firm sells.

Citigroup Global Markets Inc., one of the Underwriters of the Series 2023 Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

UBS Financial Services Inc. ("UBS FSI"), one of the Underwriters of the Series 2023 Bonds, has entered into a distribution and service agreement with its affiliate UBS Securities LLC ("UBS Securities") for the distribution of certain municipal securities offerings. Pursuant to such agreement, UBS FSI will share a portion of its underwriting compensation with UBS Securities. UBS FSI and UBS Securities are each subsidiaries of UBS Group AG.

Morgan Stanley & Co. LLC, one of the Underwriters of the Series 2023 Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of the arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2023 Bonds.

## **MISCELLANEOUS**

The Department and the Board have furnished the information in this Official Statement relating to the Department, the Board, the Arizona Highway User Revenue Fund and the State Highway Fund. The Independent Auditors' Report and management discussion and analysis included in the Department's financial statements contained in Appendix A refer to certain sections and schedules all of which are not included in this document.

Copies of the Senior Bond Resolution and the Subordinated Bond Resolution discussed herein may be obtained from Tina Munoz, the Department's Financial Reporting Manager, located at 800 West Washington Street, Suite 601, Phoenix, Arizona 85007 (telephone: 602-712-7277).

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 or certainty and no representation is made that any of those statements have been or will be realized. The agreements of the Board and the State with respect to the Series 2023 Bonds are fully set forth in the Senior Bond Resolution and neither this Official Statement nor any statements that may have been or that may be made orally or in writing is to be construed as a contract or agreement between the Board, the Department or the State, and the purchasers, Owners or Beneficial Owners of any of the Series 2023 Bonds.

This Official Statement is submitted in connection with the original sale and issuance of the Series 2023 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.

ARIZONA TRANSPORTATION BOARD

/s/ Gary Knight  
Gary Knight, Chairman

ARIZONA DEPARTMENT OF TRANSPORTATION

/s/ Jennifer Toth  
Jennifer Toth, Director

**APPENDIX A**

**ARIZONA DEPARTMENT OF TRANSPORTATION  
FINANCIAL STATEMENTS FOR THE  
YEAR ENDED JUNE 30, 2022  
WITH REPORT OF INDEPENDENT AUDITORS**

The Independent Auditors' Report and management discussion and analysis included in the Department's financial statements contained in Appendix A, refer to certain sections and schedules all of which are not included in this Appendix A.

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FISCAL YEAR 2022

# ANNUAL COMPREHENSIVE FINANCIAL REPORT

For fiscal year ended June 30, 2022



STATE OF ARIZONA | DEPARTMENT OF TRANSPORTATION



**Arizona Department of Transportation**  
**Annual Comprehensive Financial Report**  
For the Fiscal Year Ended June 30, 2022

Prepared by Financial Management Services  
State of Arizona Department of Transportation  
206 S. 17<sup>th</sup> Avenue  
Phoenix, Arizona 85007  
**azdot.gov**

**Arizona Department of Transportation**  
**Annual Comprehensive Financial Report**  
**For the Fiscal Year Ended June 30, 2022**  
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## Introductory Section

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January 12, 2023

The Honorable Katie Hobbs  
Governor of the State of Arizona,  
Members of the Legislature, and  
Citizens of the State of Arizona

The Arizona Department of Transportation (Department) is pleased to submit the Annual Comprehensive Financial Report (ACFR) of the Department for the fiscal year ended June 30, 2022. The ACFR is presented in three sections: Introductory, Financial, and Statistical. The **Introductory Section** includes this Letter of Transmittal, a List of Principal Officials, and the Department's Organization Chart. The **Financial Section** includes the Independent Auditors' Report, Management's Discussion and Analysis, Basic Financial Statements, Notes to the Financial Statements, Required Supplementary Information, as well as Other Supplementary Information. The **Statistical Section** includes additional financial information and transportation data presented on a multi-year comparative basis.

Arizona Revised Statutes, §41-1279.03, requires the State Auditor General to "conduct or cause to be conducted at least biennial financial and compliance audits of financial transactions and accounts kept by or for all state agencies subject to the single audit act of 1984 (P.L. 98-502)." In fulfillment of this requirement, the Department prepared this ACFR, for the fiscal year ended June 30, 2022, and contracted with the independent auditing firm of CliftonLarsonAllen LLP to audit the financial statements.

The objective of the independent audit is to provide a reasonable assurance that the financial statements are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Department's financial statements for the fiscal year ended June 30, 2022, are fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP). The independent auditors' report is presented as the first component of the Financial Section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The Department's MD&A can be found immediately following the report of the independent auditors.

The ACFR includes all funds (some of which are external to the Department) used to record the financial activity of the Department. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Department.

To provide a reasonable basis for making these representations, the Department has established a comprehensive internal control framework that is designed both to protect the Department's assets from loss, theft, or misuse and to compile sufficiently reliable information for the preparation of the financial statements in conformity with GAAP. The Department's internal control includes both automated controls, which are an integral component of the financial accounting system, and comprehensive policies and procedures. In addition, the Department's Office of Audit and Analysis is an independent unit that reviews accounting controls and performs operational audits of the various divisions and units of the Department. Because the cost of internal controls should not outweigh their benefits, the

Department's comprehensive framework of internal control has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

To the best of our knowledge and belief, this financial report is complete and reliable in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds. All disclosures necessary to enable the reader to gain an understanding of the Department's financial activities have been included.

## Profile of the Department

The Department was established by the state legislature in July 1974 by combining the former Arizona Highway Department (originally established in 1927) and the Department of Aeronautics (originally established in 1962). The Department is not legally separate from the State of Arizona's primary government. The Department's mission is to provide a safe, efficient, cost-effective transportation system. The vision is creating a transportation system for Arizona that improves the quality of life. The Department's statutory authority for carrying out its programs is found in Arizona Revised Statutes, Titles 28, 35, and 41.

The Department receives guidance in capital planning and program development from a seven-member Transportation Board of the State of Arizona Department of Transportation (Transportation Board) appointed by the governor and confirmed by the state senate. The Transportation Board is responsible for the annual update of the Five-Year Transportation Facilities Construction Program and awards contracts each month for highway projects. The Transportation Board also has authority for the issuance of highway revenue and transportation excise tax bonds, grant anticipation notes (GARVEE bonds), and board funding obligations.

As of June 30, 2022, , the Department was organized into six major operating divisions supported by several groups, such as Human Resources, Information Technology and Financial Management Services. The six major operating divisions include: Infrastructure Delivery and Operations (IDO), Motor Vehicle Division (MVD), Enforcement and Compliance Division (ECD), Administrative Services Division (ASD), Multimodal Planning Division (MPD) and Transportation System Management and Operations (TSMO).

- The IDO 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 goals of the IDO are to enhance the safe movement of people and products throughout Arizona, optimize efficiencies and effectiveness of the transportation system, develop and retain a high performing workforce, and promote environmental sustainability and stewardship.
- The MVD regulates motor vehicles in the state and collects motor vehicle registration fees, motor carrier fees, motor vehicle operators' license fees, and miscellaneous fees and revenues. The MVD annually processes motor vehicle registrations and records, issues certificates of title for motor vehicles, and processes drivers' license applications.
- The ECD conducts criminal and administrative investigations related to all facets of agency operations, e.g., titling, registration, and licensing; as well as providing services to the local and national law enforcement communities while enforcing transportation related laws and regulations.
- The ASD provides a wide variety of services for the Department business areas and employees. The ASD work units include Equipment Services, Facilities Maintenance & Support, Procurement, and Safety & Health. The ASD also oversees operations of the Grand Canyon National Park Airport.
- The MPD is responsible for the planning of the statewide transportation system, including highways and airports, in coordination with local and regional planning agencies. The MPD produces the Five-Year Transportation Facilities Construction Program through which the Transportation Board establishes the priorities for highways and airports. The MPD also supports statewide public transit planning, administers federal grants for transit planning in rural and metropolitan areas, and performs state regulatory safety oversight for the light rail system in Maricopa County.

- The TSMO is responsible for optimizing performance of existing infrastructure by implementing multimodal, intermodal, and cross-jurisdictional systems, services, and projects. The TSMO strategies improve system efficiency, enhance public safety and security, reduce traffic delays, and improve access to information to travelers. The TSMO responsibilities include traffic safety, incident management, travel information, roadway weather, freeway management, connected and automated vehicles, traffic signal systems, work zone, managed lanes, emergency response, Homeland Security, freight, active traffic management, and new technologies that are rapidly occurring.

Overall, the Department employs approximately 3,660 persons.

**Budgetary Controls** Upon the effective date of the operating budget appropriations bill, allocations are made to organizational levels within each division. The allocations result in a detailed operating budget that guides the divisions and programs in their financial operation. State funding for the Five-Year Transportation Facilities Construction Program is included in the capital outlay appropriations bill as a lump-sum budget without identifying individual projects. In the land, building, and improvements portion of that bill, each separate capital project is identified for control purposes. This bill also provides funding for building renewal purposes. The budgets are prepared on a cash basis except that liabilities (encumbrances) incurred before the end of the fiscal year and paid within the "administrative adjustment" period (typically one year) are charged against the prior fiscal year's budget. With a few exceptions, such as the capital budgets, highway maintenance, and special line items, state appropriations typically lapse at the end of the fiscal year.

The Department relies on the Arizona Financial Information System (AFIS) to control total expenditures by appropriation and to ensure budgetary compliance and management control. These features of AFIS include: encumbrance and pre-encumbrance capabilities, appropriation allocation and control capabilities to the expense budget/organization unit level, and management control reports from the expense budget/organizational unit level, with summary reporting capabilities by program, division, or appropriation.

### Factors Affecting Financial Condition

**Arizona Economy** In FY 2022, Arizona continued to experience economic recovery that began in FY 2021 following FY 2020 declines caused by the Coronavirus pandemic. Inflation increased sharply during FY 2022. The 12-month average price of gasoline in Arizona increased 50.6 percent in FY 2022, and the 12-month average price of use fuel (diesel) increased 48.6 percent in FY 2022. According to the Arizona Office of Economic Opportunity, the Arizona unemployment rate decreased from 5.2 percent in June 2021 to 3.3 percent in June 2022. During this period, non-farm employment increased by approximately 104,400 jobs.

Apart from Federal funding, the Department's two main funding sources are the Highway User Revenue Fund (HURF) and the Regional Area Road Fund (RARF), also known as the Maricopa County Transportation Excise Tax. The Highway User Revenue Fund (HURF) completed FY 2022 with a total of \$1,729.1 million in collections, an increase of 6.3 percent over FY 2021 and 2.6 percent below forecast. It is important to note that in FY 2022, a new revenue category was added to HURF as a result of voters approving Prop 207, the Smart and Safe Arizona Act, in November 2020. The Maricopa County Transportation Excise Tax performed above the official forecast. Maricopa County Transportation Excise Tax collections totaled \$664.8 million, an increase of 18.9 percent over FY 2021 and 5.4 percent above forecast.

Inflation, interest rate hikes and continued supply chain issues are creating economic uncertainty. The May 2022 University of Arizona Economic and Business Research Center forecast Arizona non-farm employment to grow 3.6 percent in calendar year (CY) 2022 and to grow 3.0 percent in CY 2023. According to the August 2022 Western Blue Chip report, personal income in Arizona is expected to increase by 4.0 percent in CY 2022 and by 5.5 percent in CY 2023, and Arizona population is forecast to grow by 1.6 percent in CY 2022 and 1.5 percent in CY 2023.

The Department's FY 2023 HURF revenue forecast is \$1,748.5 million, a 1.1 percent increase over FY 2022. The HURF ten-year compound growth rate for FY 2013- FY 2022 was 4.0 percent. The Department forecasts the distribution of

FY 2023 HURF revenue as follows: State Highway Fund \$876.3 million; Arizona cities and towns \$529.2 million; Arizona counties \$329.7 million; State Lake Improvement Fund and Off-Highway Vehicle Recreation Fund \$11.4 million; Economic Strength Project Fund \$1.0 million; and the Motor Vehicle Division for the registration compliance/ third party program \$0.9 million. An estimated \$13.6 million of the State Highway Fund share of HURF vehicle license tax revenues will be reallocated as follows: State General Fund \$9.4 million and the Department of Public Safety \$4.2 million.

The Maricopa County Transportation Excise Tax revenue forecast for FY 2023 totals \$720.1 million, an increase of 8.3 percent over FY 2022. The Maricopa County Transportation Excise Tax ten-year compound growth rate for FY 2013-FY 2022 was 7.7 percent. The forecasted distribution of the Maricopa County Transportation Excise Tax revenue in FY 2023 is as follows: Maricopa County Regional Area Road Fund \$404.7 million for highways, \$75.6 million for arterial streets, and \$239.8 million for the Public Transportation Fund.

**Long-term Financial Planning** The Department has developed a long-range forecasting model for revenues to be deposited in the Highway User Revenue Fund and the Maricopa County Regional Area Road Fund. This econometric modeling approach provides a framework that allows for the complex interaction of economic, demographic, and technological factors which influence revenue collections over the long term. Using this process, the Department updates and publishes its official forecast on an annual basis, after the close of the fiscal year, and uses this data in developing cash-flow projections for the statewide Highway Construction Program and the Regional Transportation Plan (RTP) Freeway Program, two components of the Five-Year Transportation Facilities Construction Program (the other components being the Pima Association of Governments Highway Program and the Airport Program).

These cash-flow projections incorporate estimates of all funding sources available to the capital program and estimates of project-related and other expenditures.

**Planned Construction Activity** On June 18, 2021, the transportation board adopted the Five-year Transportation Facilities Construction Program for fiscal years 2022 through 2026. A total of \$5.8 billion of transportation facilities expenditures are planned during this time period. This includes \$2.9 billion for the statewide highway program, \$2.8 billion for the Regional Transportation Plan for Maricopa and Pima counties, and \$0.1 billion for airports. Further details of the Five-year Transportation Facilities Construction Program for fiscal years 2022 through 2026 can be found at:

[https://apps.azdot.gov/ADOTLibrary/Multimodal\\_Planning\\_Division/FiveYrPlan/Five\\_Year\\_Program-FY2022-26.pdf](https://apps.azdot.gov/ADOTLibrary/Multimodal_Planning_Division/FiveYrPlan/Five_Year_Program-FY2022-26.pdf)

## Legislative updates

The major legislative updates taking effect in fiscal year 2022, which impacted the Department, include:

**Senate Bill 2115, Chapter 235** This bill extends from June 30, 2021 to June 30, 2025, the transfer of \$1 from each motorcycle registration fee to the Motorcycle Safety Fund.

**Senate Bill 1820, Chapter 406** This is the Capital Outlay Bill for FY 2022. This bill appropriates \$15.4 million from the State Highway Fund, and \$310,400 from the State Aviation Fund for major maintenance and repair of state buildings.

**Senate Bill 1829, Chapter 413** This is the Transportation Budget Reconciliation Bill for FY 2022. This bill adds and amends statutes in Title 28 which are the provisions from the Fleet Transfer Bill (SB 1460). The bill also repeals the Highway Safety fee, and redirects relevant fee deposits to the State Highway Fund (55%), and the Arizona Highway Patrol Fund (45%).

## Other Information

**Single Audit** The Department is required to undergo an annual Single Audit in accordance with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal*

*Awards.* The Department's Single Audit information is included in the Single Audit of the State of Arizona for the fiscal year ended June 30, 2022.

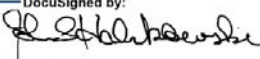
**Awards** The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Arizona Department of Transportation for its Annual Comprehensive Financial Report for the fiscal year ended June 30, 2021. This accomplishment was the thirty-second consecutive year that the Department has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Annual Comprehensive Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Annual Comprehensive Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

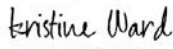
**Acknowledgments** We would like to express our sincere appreciation to the many individuals whose dedicated efforts have made this report possible. A special note of thanks is extended to the staff of Fiscal Operations whose commitment, professionalism, and dedicated efforts contributed to the preparation of the fiscal year 2022 Annual Comprehensive Financial Report.

Respectfully Submitted,

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DocuSigned by:  
  
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John S Halikowski, Director  
Arizona Department of Transportation

DocuSigned by:  
  
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Kristine Ward, Chief Financial Officer  
Arizona Department of Transportation



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Arizona Department of Transportation**

For its Annual Comprehensive  
Financial Report  
For the Fiscal Year Ended

June 30, 2021

*Christopher P. Morill*

Executive Director/CEO



**Arizona Department of Transportation  
List of Principal Officials**

**John S. Halikowski**

Director

**Kismet Weiss**

Deputy Director/Chief Operating Officer

**Greg Byres**

Deputy Director Transportation/State Engineer

**Kristine Ward**

Chief Financial Officer

**Steve West**

Chief Information Officer

**Sonya E. Herrera**

Director, Administrative Services Division

**Leah Ray**

Chief, Enforcement Services Bureau

**Steve Boschen**

Director, Infrastructure Delivery and Operations

**Eric Jorgensen**

Director, Motor Vehicle Division

**Paul Patane**

Director, Multimodal Planning Division

**Jeff Stanhope**

Chief, Office of the Inspector General

**Brent Cain**

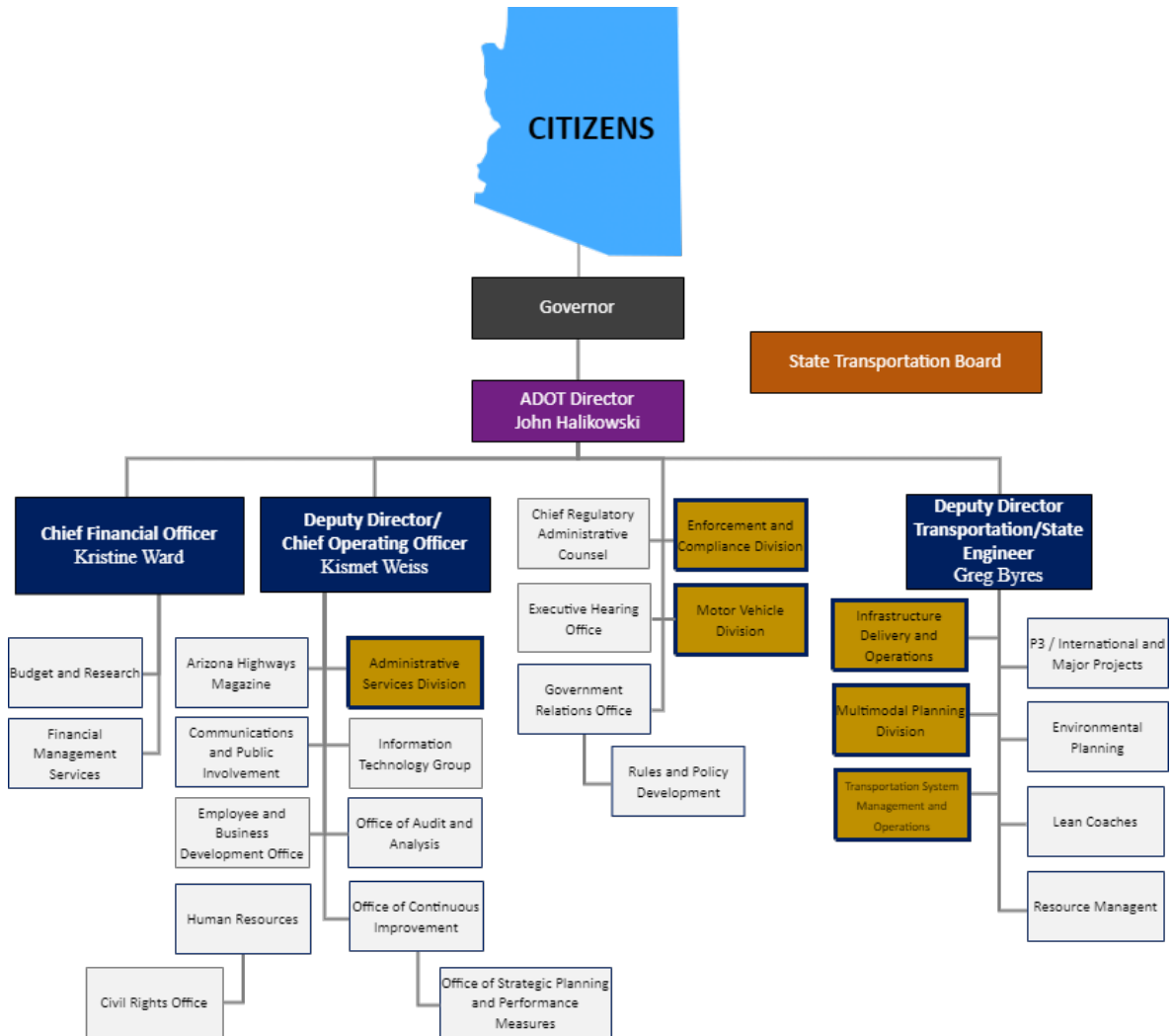
Director, Transportation Systems Management and Operations

**Arizona State Transportation Board**

<b>Member</b>	<b>Counties</b>	<b>Term Expires</b>
Jesse Thompson, Chairman	District 5 (Apache, Coconino, and Navajo Counties)	2023
Gary Knight, Vice Chairman	District 6 (Yavapai, Yuma, Mohave, and La Paz Counties)	2024
Jackie Meck, Member	District 1 (Maricopa County)	2024
Richard Searle, Member	District 3 (Santa Cruz, Cochise, and Greenlee Counties)	2025
Jenn Daniels, Member	District 1 (Maricopa County)	2026
Ted Maxwell, Member	District 2 (Pima County)	2027
Steve Stratton	District 4 (Gila, Graham, and Pinal Counties)	2022

**State of Arizona  
Department of Transportation  
Organization Chart**

June 30, 2022



## Financial Section

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## INDEPENDENT AUDITORS' REPORT

Honorable Katie Hobbs  
Governor of the State of Arizona

Members of the Arizona State Legislature  
Arizona Department of Transportation  
Phoenix, Arizona

### Report on the Audit of the Financial Statements

#### ***Opinions***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Arizona Department of Transportation (Department), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Emphasis of Matters***

During the fiscal year ended June 30, 2022, the Department updated its deferred gains/losses on refunding transactions calculations due to the previous change in its method of amortizing bond premiums from the straight-line basis to the effective interest method. As a result, the Department reported a restatement to beginning net position of its Governmental Activities. The restatement is described further in Note 6.D. to the financial statements. Our auditors' opinion was not modified with respect to the restatement.

Honorable Katie Hobbs  
Governor of the State of Arizona

Members of the Arizona State Legislature  
Arizona Department of Transportation

As discussed in Note 5.D. to the financial statements, effective July 1, 2021, the Department adopted new accounting guidance for leases. The guidance requires lessors to recognize a lease receivable and corresponding deferred inflow of resources for all leases with lease terms greater than twelve months. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements present only the Arizona Department of Transportation and do not purport to, and do not present fairly the financial position of the State of Arizona as of June 30, 2022, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion was not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Honorable Katie Hobbs  
Governor of the State of Arizona

Members of the Arizona State Legislature  
Arizona Department of Transportation

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, information about infrastructure assets reported using the modified approach, and the Department's proportionate share of the net pension liability and contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Arizona Department of Transportation's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

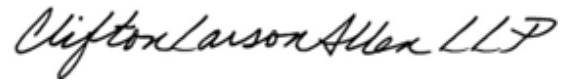
In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Honorable Katie Hobbs  
Governor of the State of Arizona

Members of the Arizona State Legislature  
Arizona Department of Transportation

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2023, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Phoenix, Arizona  
January 12, 2023

**Arizona Department of Transportation  
Management's Discussion and Analysis  
For the Year Ended June 30, 2022**

As management of the Arizona Department of Transportation (the "Department"), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2022. We encourage readers to consider the information presented here in conjunction with the [Letter of Transmittal](#) and the Department's [basic financial statements](#), with the accompanying [notes](#) and [Required Supplementary Information \(RSI\)](#).

## **Financial Highlights**

### ***Government-Wide***

- The net position of the Department at the close of the fiscal year is \$24.4 billion. Of this amount, \$530.3 million represents the *unrestricted* component, \$1.1 billion is *restricted*, and \$22.7 billion is *net investment in capital assets*.
- Total net position of the Department increased by \$1.2 billion, excluding beginning net position restatements. See [Note 6D](#) for further details.
- The Department's capital assets are \$24.6 billion, compared to \$24.2 billion for fiscal year 2021, an increase of 2.0%. This increase is attributable to the results of highway construction activity. The Department's *net investment in capital assets* is \$22.7 billion, compared to \$22.0 billion for fiscal year 2021, an increase of 3.1%.
- The Department's total liabilities are \$2.6 billion, compared to \$2.9 billion in 2021. The Department had \$235.4 million less in bonds outstanding in 2022 than in 2021. During fiscal year 2022, refunding bonds of \$84.5 million were issued and road construction bonds of \$320.0 million were retired.

### ***Fund Level***

- As of the close of the fiscal year, the governmental funds of the Department reported combined ending fund balances of \$1.9 billion, as compared to \$1.5 billion in 2021.
- The total restricted fund balance (governmental funds) is \$1.1 billion; the majority of this amount is restricted for capital projects. Inventories of \$402 thousand represent the nonspendable portion of fund balance while \$828.9 million represents the committed fund balance portion.
- The enterprise fund reported net position at year-end of \$4 thousand, as compared to \$1.2 million in 2021.

## **Overview of Financial Statements**

This discussion and analysis is intended to serve as an introduction of the Department's basic financial statements. The Department's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other Required Supplementary Information, in addition to the basic financial statements.

### ***Government-wide Financial Statements (Reporting the Department as a Whole)***

The government-wide financial statements are designed to present an overall picture of the financial position of the Department. These statements consist of the Statement of Net Position and the Statement of Activities, and are prepared using the accrual basis of accounting, which is similar to the



**Arizona Department of Transportation  
Management's Discussion and Analysis  
For the Year Ended June 30, 2022**

accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position combines and consolidates the Department's current financial resources with capital assets and long-term obligations. This statement includes all of the Department's assets and liabilities.

Net position is the difference between the Department's assets and deferred outflows of resources less liabilities and deferred inflows of resources, and represents one measure of the Department's financial health.

- An increase or decrease in the Department's net position from one year to the next is an indicator of whether its financial health is improving or declining.
- Other indicators of the Department's financial health include the condition of its roads and bridges (infrastructure) and economic trends affecting the Department's future tax revenues.

The Statement of Activities focuses on both the gross and net cost of various activities (governmental and business-type); these costs are paid by the Department's general tax and other revenues. This statement summarizes the cost of providing specific Department services and includes all current year revenues and expenses.

The Statement of Net Position and the Statement of Activities divide the Department's activities into two types:

*Governmental Activities*-The Department's basic services are reported here, including administration, highway, highway maintenance, and motor vehicle. Taxes, fees, and federal grants finance most of these activities.

*Business-type Activities*-Activities for which the Department charges a fee to customers to pay for most or all of the costs of the services it provides are reported as business-type activities. The Department's Highway Expansion and Extension Loan Program (HELP) is reported here.

The government-wide financial statements can be found in the [Basic Financial State Financial Statements](#) section of this report.

This report includes two schedules (Exhibit 3.1 and Exhibit 4.1) that reconcile the amounts reported on the governmental fund financial statements (prepared using the modified accrual basis of accounting and current financial resources measurement focus) with governmental activities (prepared using the accrual basis of accounting and economic resources measurement focus) on the appropriate government-wide statements. The following summarizes the impact of utilizing Governmental Accounting Standards Board Statement 34 (GASB 34), as amended, reporting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Long-term assets that are not available to pay for current period expenditures are not reported on governmental fund statements.
- Internal service fund activities are reported as governmental activities, but reported as proprietary funds in the fund financial statements.
- Debt service principal payments are reported as expenditures in the funds, but reduce long-term liabilities in the government-wide Statement of Net Position
- Unless currently due and payable, long-term liabilities, such as lease obligations, compensated absences, bonds, notes payable, and others only appear as liabilities on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the governmental fund statements.

**Arizona Department of Transportation  
Management's Discussion and Analysis  
For the Year Ended June 30, 2022**

- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

**Fund Financial Statements (Reporting the Department's Major Funds)**

The fund financial statements provide detailed information about the major individual funds. A fund is an accounting entity with a self-balancing set of accounts that the Department uses to keep track of specific sources of funding and spending for a particular purpose. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department can be divided into two categories: governmental and proprietary.

*Governmental Funds*—A majority of the Department's activities are reported in governmental funds. Reporting of these funds focuses on how financial resources flow in and out of the funds, and amounts remaining at year-end for future spending. Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Department's general governmental operations and the basic services it provides. This information should help determine whether there are more or less current financial resources available for the Department's programs. The reconciliations following the fund financial statements explain the differences between the government's activities, reported in the government-wide statement of activities, and the governmental funds.

The Department maintains fourteen individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund (State Highway Fund), Maricopa Regional Area Road Construction Fund, Motor Vehicle Division Clearing Fund, Highway User Revenue Fund, Debt Service Fund, and Capital Projects Fund, which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds are provided in the form of combining statements in the [Supplementary Information](#) of this report.

The legislature appropriates an annual budget from the Department's General Fund (State Highway Fund). The Budgetary Comparison Schedule – General Fund (State Highway Fund) has been provided to demonstrate compliance with this budget and is presented as Required Supplementary Information. The governmental funds financial statements can be found within the [Basic Financial Statements](#) section of this report.

*Proprietary Funds:* When the Department charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize full accrual accounting, the same method used by most private sector businesses. Enterprise funds report activities that provide goods and services to outside customers, to other agencies, or to other divisions of the Department. The Department's enterprise fund is the Highway Expansion and Extension Loan Program Fund. The internal service fund reports activities that provide supplies and services for the Department's other programs and activities and other state agencies. The Equipment Revolving Fund is the Department's only internal service fund. Internal service fund activities are reported as governmental activities on the government-wide statements. The proprietary funds financial statements can be found within the [Basic Financial Statements](#) section of this report.

**Arizona Department of Transportation  
Management's Discussion and Analysis  
For the Year Ended June 30, 2022**

***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in the [Notes to Financial Statements](#) section of this report.

***Required Supplementary Information***

In addition to the basic financial statements, including accompanying notes, this section presents certain Required Supplementary Information including the Department's Budgetary Comparison Schedule – General Fund (State Highway Fund), the modified approach to reporting infrastructure assets, and the Pension Liability and Pension Contributions as per GASB statement 68, as amended. Required Supplementary Information can be found in the [Required Supplementary Information](#) section of this report.

***Supplementary Information***

Other Supplementary Information includes the combining statements for the nonmajor governmental funds and is presented immediately following the Required Supplementary Information. Combining fund statements and schedules can be found in the [Supplementary Information](#) section of this report.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of the Department's financial health. The following tables, graphs, and analysis address the net position and changes to net position for the Department as a whole as of and for the fiscal years ended June 30, 2022 and 2021.

The Department's combined net position increased by \$1.1 billion (including beginning net position restatements) or 4.9%, over the course of this fiscal year's operations. The net position of the governmental activities increased by \$1.1 billion (including beginning net position restatements) or 4.9%; and business-type activities decreased by \$1.2 million, or (99.7)% over the previous year. The overall increase in the Department's net position was due primarily to an increase in the Department's infrastructure, combined with a decrease in long-term debt due to retirement and refunding of the Department's revenue bonds.

**Arizona Department of Transportation  
Management's Discussion and Analysis  
For the Year Ended June 30, 2022**

The following table reflects the condensed Statements of Net Position as of June 30, 2022 and 2021:

**Condensed Statements of Net Position  
As of June 30,**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
<b>Assets</b>						
Current and other assets	\$ 2,377,633,417	\$ 1,891,889,278	\$ 3,686	\$ 1,223,511	\$ 2,377,637,103	\$ 1,893,112,789
Capital Assets	24,639,346,264	24,165,182,204	—	—	24,639,346,264	24,165,182,204
Total Assets	27,016,979,681	26,057,071,482	3,686	1,223,511	27,016,983,367	26,058,294,993
<b>Deferred Outflows of Resources</b>						
	122,360,216	137,893,506	—	—	122,360,216	137,893,506
<b>Liabilities</b>						
Current liabilities	386,050,076	347,373,475	—	—	386,050,076	347,373,475
Noncurrent liabilities	2,190,400,891	2,538,206,160	—	—	2,190,400,891	2,538,206,160
Total liabilities	2,576,450,967	2,885,579,635	—	—	2,576,450,967	2,885,579,635
<b>Deferred Inflows of Resources</b>						
	186,386,235	76,360,721	—	—	186,386,235	76,360,721
<b>Net Position</b>						
Net investment in capital assets	22,728,369,729	22,040,146,776	—	—	22,728,369,729	22,040,146,776
Restricted	1,117,816,299	877,979,541	—	—	1,117,816,299	877,979,541
Unrestricted	530,316,667	314,898,315	3,686	1,223,511	530,320,353	316,121,826
Total net position	\$24,376,502,695	\$23,233,024,632	\$ 3,686	\$ 1,223,511	\$24,376,506,381	\$23,234,248,143

The total assets of the Department (excluding deferred outflows of resources) were \$27.0 billion, while total liabilities (excluding deferred inflows of resources) were \$2.6 billion, resulting in a net position balance of \$24.4 billion. The majority of the Department's net position, \$22.7 billion (93.2%), was invested in capital assets (e.g., land, infrastructure, buildings, machinery, and equipment), net of any related debt used to acquire those assets. The Department uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities. For Business-type activities the decrease reflects a transfer of \$1.22 million to the State Highway Fund.

The governmental activities reported an increase in capital assets with the largest increase being in the area of infrastructure construction in progress.

**More detailed information regarding beginning net position restatements is in [Note 6D](#)**

**Arizona Department of Transportation  
Management's Discussion and Analysis  
For the Year Ended June 30, 2022**

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Department's net position changed during the year, compared to the prior year:

**Condensed Statements of Activities  
For the Years Ended June 30,**

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 219,616,577	\$ 272,829,363	\$ —	\$ —	\$ 219,616,577	\$ 272,829,363
Operating grants and contributions	205,523,328	179,561,999	—	—	205,523,328	179,561,999
Capital grants and contributions	839,289,402	667,685,565	—	—	839,289,402	667,685,565
General revenues						
Motor vehicle registration, title, and related taxes	1,591,473,624	1,692,766,312	—	—	1,591,473,624	1,692,766,312
Fuel and motor carrier taxes and fees	855,964,720	868,074,330	—	—	855,964,720	868,074,330
Transportation excise taxes	448,236,772	376,901,322	—	—	448,236,772	376,901,322
Flight property taxes	14,027,137	17,310,560	—	—	14,027,137	17,310,560
Other taxes and fees	33,727,395	—	—	—	33,727,395	—
Income from investments	6,727,323	7,540,269	975	5,691	6,728,298	7,545,960
Other	10,641,825	4,485,874	—	—	10,641,825	4,485,874
Total revenues	<u>4,225,228,103</u>	<u>4,087,155,594</u>	<u>975</u>	<u>5,691</u>	<u>4,225,229,078</u>	<u>4,087,161,285</u>
<b>Expenses</b>						
Distributions to Arizona counties and cities	1,659,180,185	1,636,706,541	—	—	1,659,180,185	1,636,706,541
Noncapital, including asset preservation	476,232,412	436,305,935	—	—	476,232,412	436,305,935
Distributions to other state agencies	192,616,411	380,697,552	—	—	192,616,411	380,697,552
Highway	115,386,588	84,954,778	—	—	115,386,588	84,954,778
Highway maintenance	135,540,481	152,740,239	—	—	135,540,481	152,740,239
Local governmental assistance	116,712,120	85,788,987	—	—	116,712,120	85,788,987
Motor vehicle	170,137,957	222,307,796	—	—	170,137,957	222,307,796
Interest on long-term debt	35,108,869	53,121,586	—	—	35,108,869	53,121,586
Administration	155,467,650	146,990,951	—	—	155,467,650	146,990,951
Loss on sale of capital assets	14,297,717	41,421	—	—	14,297,717	41,421
Total expenses	<u>3,070,680,390</u>	<u>3,199,655,786</u>	<u>—</u>	<u>—</u>	<u>3,070,680,390</u>	<u>3,199,655,786</u>
Transfers	1,220,800	—	(1,220,800)	—	—	—
Changes in net position	1,155,768,513	887,499,808	(1,219,825)	5,691	1,154,548,688	887,505,499
Net position, beginning, as restated (Note 6D)	23,220,734,182	22,345,524,824	1,223,511	1,217,820	23,221,957,693	22,346,742,644
<b>Net position, ending</b>	<u>\$ 24,376,502,695</u>	<u>\$ 23,233,024,632</u>	<u>\$ 3,686</u>	<u>\$ 1,223,511</u>	<u>\$ 24,376,506,381</u>	<u>\$ 23,234,248,143</u>

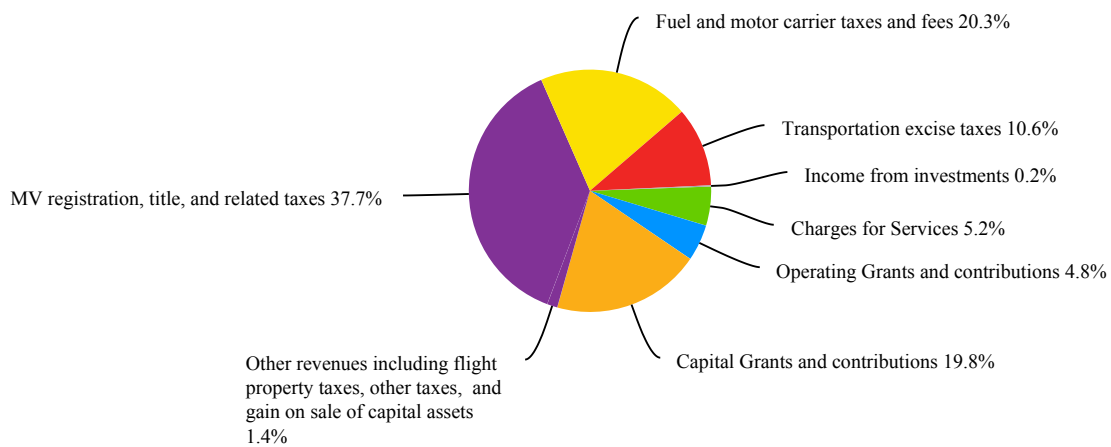
For additional information on the difference between fiscal year 2021 ending net position and fiscal year 2022 beginning net position, see [Note 6D](#).

**Arizona Department of Transportation  
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**Governmental Activities**

The following chart depicts revenues of the governmental activities for the fiscal year ended June 30, 2022:

**Revenues – Governmental Activities  
\$4,225,228,103**



Of the Department's revenues, \$3.3 billion (or 77.8%) are from the following three revenue sources:

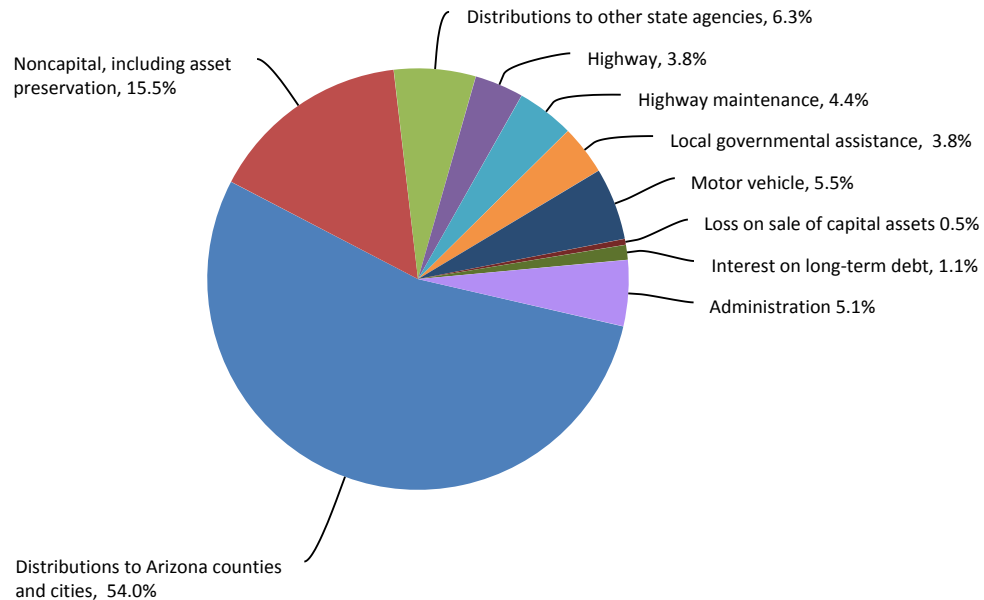
- Motor vehicle registration, title, license, and related taxes comprise the Department's largest revenue source of \$1.6 billion (37.7%).
- Fuel and motor carrier taxes and fees represent the Department's second largest revenue source of \$856.0 million (20.3%).
- Capital grants and contributions represent the Department's third largest revenue source of \$839.3 million (19.9%).

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The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Regional Area Road Fund (RARF), also known as the Maricopa County Transportation Excise Tax, posted positive year-results in fiscal year 2022. HURF collections totaled approximately \$1.7 billion, 6.3% above fiscal year 2021 and 2.6% above the *official* forecast. Maricopa County Transportation Excise Tax collections totaled \$664.9 million, an increase of 18.9% over fiscal year 2021 and 19.3% above the Department's *official* forecast. The Transportation Excise Tax distribution to the Department was \$448.2 million compared to \$376.9 million for fiscal year 2021. The positive variances from forecast primarily resulted from less than expected revenue decreases from the Covid-19 pandemic.

The following chart depicts expenses of the governmental activities for the fiscal year ended June 30, 2022:

**Expenses – Governmental Activities  
\$3,070,680,390**



Of the Department's top three expenses, \$2.3 billion (or 75.8%) were for the following:

- Distributions to Arizona counties and cities comprise the Department's largest expense of \$1.7 billion (54.0%).
- Non-capital, including asset preservation, represents the Department's second largest expense of \$476.2 million (15.5%).
- Distributions to other state agencies represent the Department's third largest expense of \$192.6 million (6.3%).

Distributions to Arizona counties and cities increased in fiscal year 2022 as compared to fiscal year 2021 due to an increase in vehicle license tax and registration and fuel tax revenue collections. The

**Arizona Department of Transportation  
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distributions to other government entities (excluding distributions from the Local Agency Deposit Fund) equal \$1.9 billion (60.3%); making up more than half of the expenditures for fiscal year 2022.

***Business-type Activities***

Net position for business-type activities decreased by \$1.2 million in fiscal year 2022. Total revenues were \$975 , all of which came from income from investments. There were no operating expenses for business type activities during the year.

The Highway Expansion and Extension Loan Program did not approve or disburse any loans in Fiscal Year 2022, and no future program loans are planned at this time. the Highway Expansion and Extension Loan Program Fund was closed through legislative action during the year and, therefore, will not be reported in the Department's ACFR in future fiscal years.

## Financial Analysis of the Department's Funds

As previously mentioned, the Department uses fund accounting to ensure and demonstrate compliance with budgetary and legal requirements. The following is a brief discussion of financial highlights from the fund financial statements.

*Governmental Funds:* The focus of the Department's governmental funds financial statements ([Governmental Funds financial statements](#)) is to provide information on near-term inflows, outflows, and balances of spendable resources. All major governmental funds are discretely presented on these financial statements, while the nonmajor governmental funds are combined into a single column. Combining statements for the nonmajor governmental funds may be found in the [Supplementary Information](#) section of this report.

As of the end of the fiscal year, the fund balances of the governmental funds totaled \$1.9 billion, an increase of \$376.1 million over the previous fiscal year. The majority of fund balances are restricted for capital projects. See [Note 5F](#) for further information regarding components of fund balance.

The General Fund (State Highway Fund) is the primary operating fund of the Department. At the end of the current fiscal year, the nonspendable fund balance was \$402 thousand; the restricted fund balance was \$410.2 million; and the committed fund balance was \$732.6 million.

The Maricopa Regional Area Road Construction Fund is a major special revenue fund that receives a portion of Maricopa County Transportation Excise Tax monies that are used to provide a funding source for the construction of new freeways and other routes, improvements to existing freeways and other routes, and improvements to the arterial street system within Maricopa County. Total revenues collected in the fund in fiscal year 2022 were \$804.5 million; Transportation Excise Tax revenue of \$443.5 million (or 55.1%) was a significant revenue source. The remaining revenue was mainly federal revenue, reimbursements from local governments within Maricopa county, and excess land sales.

The Debt Service Fund is used for the accumulation of resources for, and the payment of, general long-term debt principal and interest of the governmental funds. Other financing sources totaled \$312.9 million. Of this amount, \$139.3 million was transferred in from the General Fund (State Highway Fund), \$143.1 million was transferred in from Maricopa Regional Area Road Construction Fund, and \$30.0 million was transferred in from Grant Anticipation Notes Fund. In addition, the department issued revenue refunding bonds totaling \$84.5 million. Upon issuance, \$84.0 million was deposited with escrow agents who called the maturities of the refunded bonds. Total debt service paid during fiscal year 2022 was \$313.3 million, including \$238.7 million of principal payments and \$74.2 million of interest payments.



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The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital facilities in the governmental funds. In fiscal year 2022, the Capital Projects Funds' expenditures were \$21,649. Non-capital, including asset preservation expenditures of \$21,406 (98.9%) accounted for the majority of the expenditures in the Capital Projects Fund. The expenditures were for preservation pavement projects primarily financed by remaining proceeds from the Grant Anticipation Notes Series 2019A, issued in fiscal year 2019. Please see the [Capital Asset and Debt Administration](#) section in the MD&A for more information.

**Budget Variances**

The Department's appropriated operating budget from the General Fund (State Highway Fund) increased by about \$7.9 million from fiscal year 2021 to fiscal year 2022. The difference was primarily due to increases for salaries, maintenance on additional lane miles, and other operating costs. These increases were offset somewhat by other decreases made for various statewide adjustments. In fiscal year 2021, the Department spent 91.9% of its budget and in fiscal year 2022 the Department spent 89.9% of its budget. Ultimately, the Department spent about \$923 thousand less in fiscal year 2022 than in fiscal year 2021 from its appropriated operating budget from the General Fund (State Highway Fund). Reference the budgetary comparison schedule in the [Required Supplementary Information](#) section of this report.

**Capital Assets (See Note 5A to the financial statements for additional information)**

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2022, amounts to \$24.6 billion, a \$465.1 million increase net of accumulated depreciation over the previous fiscal year.

**Capital Assets  
June 30, 2022**

	Governmental Activities		Business-type Activities		Total	
	2022	2021, as restated	2022	2021	2022	2021, as restated
Land	\$ 3,636,607,872	\$ 3,525,299,539	\$ —	\$ —	\$ 3,636,607,872	\$ 3,525,299,539
Infrastructure	16,856,741,678	16,677,597,966	—	—	16,856,741,678	16,677,597,966
Construction in progress	3,896,531,155	3,701,360,175	—	—	3,896,531,155	3,701,360,175
Buildings and improvements	222,671,647	222,560,150	—	—	222,671,647	222,560,150
Improvements other than buildings	40,861,707	37,829,673	—	—	40,861,707	37,829,673
Computer software	80,622,704	80,622,704	—	—	80,622,704	80,622,704
Machinery and equipment	43,837,994	47,363,226	—	—	43,837,994	47,363,226
Mobile fleet and aircraft	218,549,547	224,145,006	—	—	218,549,547	224,145,006
Less: Accumulated depreciation	(357,078,040)	(342,546,794)	—	—	(357,078,040)	(342,546,794)
<b>Total</b>	<b>\$24,639,346,264</b>	<b>\$24,174,231,645</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$24,639,346,264</b>	<b>\$24,174,231,645</b>

**Arizona Department of Transportation  
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Beginning balance in note 5A was restated due to the transfer of \$9.0 million of assets from the Arizona Department of Administration to the ADOT on July 1, 2021. This transfer is reflected as contributed capital in the Equipment Services Revolving Internal Service Fund.

As provided by accounting principles generally accepted in the United States (GAAP), the Department has elected to record its infrastructure assets using the modified approach, as defined in GASB Statement 34, as amended. Assets accounted for under the modified approach include 9,415 center line miles of roads (22,383 travel lane miles) and 4,927 bridges that the Department is responsible for maintaining.

The Five-Year Transportation Facilities Construction Program (the "Program") is a dynamic program and adjustments are made to the annual plans based on the needs of the Department to maintain the condition level of the roads and bridges at a level equal to, or greater than, the goals established by the Department. The Program is updated annually and adjustments are made monthly during the fiscal year, as circumstances may require.

The Department manages its roads using the Present Serviceability Rating (PSR), which measures the condition of the pavement and its ability to serve the traveling public. The PSR uses a five-point scale (5 excellent, 0 impassable) to characterize the condition of the roadway. The Department's serviceability rating goal is 3.23 for the overall system. The Department's most recent assessment indicated that an overall rating of 3.51 was achieved for fiscal year 2022.

The Department manages its bridges using the Arizona Bridge Information and Storage System (ABISS). To comply with Federal standards, the Department is expected to maintain its Bridges to a condition where not more than 10.0% are classified as poor. The Department's most recent assessment indicated that 0.6% of the bridges were so classified for fiscal year 2022.

**Noncurrent Liabilities (See Note 5E to the financial statements for additional information)**

The Department's noncurrent liabilities for its governmental and business-type activities as of June 30, 2022, amount to \$2.19 billion, a decrease of \$347.81 million from the previous fiscal year.

**Arizona Department of Transportation  
Management's Discussion and Analysis  
For the Year Ended June 30, 2022**

	2022	2021
Governmental Activities		
Bonds and notes		
Highway revenue bonds	\$ 988,100,000	\$ 1,138,455,000
Transportation excise tax revenue bonds	377,485,000	511,125,000
Grant anticipation notes (GARVEE bonds)	163,705,000	184,460,000
Highway revenue bonds-direct placement	54,650,000	—
Transportation excise tax revenue bonds-direct placement	14,670,000	—
Unamortized Premium on bonds	243,927,358	289,528,127
Total bonds and notes	<u>1,842,537,358</u>	<u>2,123,568,127</u>
Compensated absences	20,306,811	20,349,695
Utility and railroad settlement accrual	786,021	10,898,695
Accrued Relocation Costs	34,182,046	4,588,492
Total governmental activities	<u>\$ 1,897,812,236</u>	<u>\$ 2,159,405,009</u>
	2022	2021
Net pension liability	\$ 220,920,611	\$ 284,995,265
Net OPEB liability	\$ 71,668,044	\$ 93,805,886

The Department issued \$84.5 million of revenue refunding bonds through direct placement in 2022. These bonds were issued to refund certain outstanding maturities of the Highway Revenue Bonds and the Transportation Excise Tax Revenue Bonds to generate interest expense savings resulting from lower interest rates of the refunding bonds compared to the outstanding maturities of the refunded bonds. All outstanding bonds as of June 30, 2022, are scheduled to mature on various dates with none later than July 1, 2038. The bonds are obligations of the Transportation Board of the State of Arizona Department of Transportation (the "Transportation Board") and are not obligations of the State of Arizona.

Standard & Poor's Ratings Services and Moody's Investors Service have respectively rated the Senior lien Highway Revenue Bonds as AA+/Aa1 and subordinate lien Highway Revenue Bonds as AA+/Aa2; Transportation Excise Tax Revenue Bonds as AA+/Aa1; and the Grant Anticipation Notes as AA+/Aa2/AA+ with the additional rating of AA+ from Fitch Ratings.

**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with an overview of the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, Arizona Department of Transportation, 206 S. 17th Avenue, Phoenix, Arizona, 85007, or by visiting our website at:

<http://www.azdot.gov/about/FinancialManagementServices/transportation-funding/financial-reports>.

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# BASIC FINANCIAL STATEMENTS

**Government-wide Financial Statements** – includes a statement of net position and a statement of activities. These statements report the overall Department activities. The statements also distinguish between the Department’s government and business-type activities. These statements are prepared utilizing the accrual basis of accounting for financial reporting.

**Governmental and Proprietary Fund Financial Statements** – provides information about the Department’s funds. Separate statements are presented for the governmental and proprietary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

**Notes to the Financial Statements** – provide additional information that is essential for the full understanding of the data provided in the government-wide and fund financial statements.

# GOVERNMENT-WIDE FINANCIAL STATEMENTS

**Statement of Net Position** – combines and consolidates the Department’s current financial resources with capital assets and long-term obligations. This statement includes all of the Department’s non-fiduciary assets and liabilities.

**Statement of Activities** – focuses on both the gross and net cost of various activities (governmental and business-type); these costs are paid by the Department’s general tax and other revenues. This statement summarizes the cost of providing specific Department services and includes all current year revenues and expenses.

# Arizona Department of Transportation

Exhibit 1

## Statement of Net Position

June 30, 2022

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Unrestricted cash on deposit with State Treasurer	\$ 737,600,733	\$ 3,686	\$ 737,604,419
Receivables			
Taxes and fees	72,499,764	—	72,499,764
Leases, notes, and loans	22,129,586	—	22,129,586
Other, net of allowance for doubtful accounts	11,892,663	—	11,892,663
Due from U.S. government	139,385,936	—	139,385,936
Due from other state agencies	38,581,351	—	38,581,351
Inventories	3,914,063	—	3,914,063
Restricted cash on deposit with State Treasurer	1,341,167,781	—	1,341,167,781
Restricted cash with fiscal agents	2,185,335	—	2,185,335
Net OPEB asset	8,276,205	—	8,276,205
Capital assets not subject to depreciation (Notes 5A)	24,389,880,705	—	24,389,880,705
Capital assets subject to depreciation, net of accumulated depreciation, (Notes 5A)	249,465,559	—	249,465,559
Total assets	27,016,979,681	3,686	27,016,983,367
<b>Deferred Outflows of Resources</b>			
Relating to pensions (Note 6C)	58,831,820	—	58,831,820
Relating to OPEB	21,465,601	—	21,465,601
Loss on debt refundings	42,062,795	—	42,062,795
Total deferred outflows of resources	122,360,216	—	122,360,216
<b>Liabilities</b>			
Accounts payable and other current liabilities	144,836,612	—	144,836,612
Accrued payroll and other accrued expenses	4,722,234	—	4,722,234
Due to other state agencies	31,806,647	—	31,806,647
Tax and refunds payable	8,202,898	—	8,202,898
Due to Arizona counties and cities	194,931,960	—	194,931,960
Unearned revenue (Note 5C)	1,549,725	—	1,549,725
Non-current liabilities:			
Due within one year (bonds and other liabilities, Note 5E)	297,504,734	—	297,504,734
Due in more than one year:			
Bonds and other noncurrent liabilities (Note 5E)	1,600,307,502	—	1,600,307,502
Net OPEB liability (Note 6C)	71,668,044	—	71,668,044
Net pension liability (Note 6C)	220,920,611	—	220,920,611
Total liabilities	2,576,450,967	—	2,576,450,967
<b>Deferred Inflows of Resources</b>			
Leases	21,617,360	—	21,617,360
Relating to pensions (Note 6C)	72,379,971	—	72,379,971
Relating to OPEB	50,162,058	—	50,162,058
Gain on debt refundings	42,226,846	—	42,226,846
Total deferred inflows of resources	186,386,235	—	186,386,235
<b>Net Position</b>			
Net investment in capital assets	22,728,369,729	—	22,728,369,729
Restricted:			
Loans and other financial assistance	122,597,648	—	122,597,648
Debt service	294,221,593	—	294,221,593
Capital projects	700,997,058	—	700,997,058
Unrestricted	530,316,667	3,686	530,320,353
Total net position	\$ 24,376,502,695	\$ 3,686	\$ 24,376,506,381

The accompanying notes are an integral part of these financial statements.

# Arizona Department of Transportation

Exhibit 2

## Statement of Activities For the Year Ended June 30, 2022

Functions/Programs	Program Revenues				Net (Expenses) Revenues
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities</b>					
Administration	\$ 155,467,650	\$ 19,831,509	\$ 41,833,870	\$ 37,349,657	\$ (56,452,614)
Highway	115,386,588	900,951	38,285,912	801,939,745	725,740,020
Highway maintenance	135,540,481	9,210,968	—	—	(126,329,513)
Motor vehicle	170,137,957	163,376,551	—	—	(6,761,406)
Noncapital, including asset preservation	476,232,412	26,296,598	—	—	(449,935,814)
Distributions to other state agencies	192,616,411	—	—	—	(192,616,411)
Distributions to Arizona counties and cities	1,659,180,185	—	—	—	(1,659,180,185)
Local government assistance	116,712,120	—	125,403,546	—	8,691,426
Loss on sale of capital assets	14,297,717	—	—	—	(14,297,717)
Interest on long-term debt	35,108,869	—	—	—	(35,108,869)
Total governmental activities	<u>3,070,680,390</u>	<u>219,616,577</u>	<u>205,523,328</u>	<u>839,289,402</u>	<u>(1,806,251,083)</u>
Total primary government	<u>\$ 3,070,680,390</u>	<u>\$ 219,616,577</u>	<u>\$ 205,523,328</u>	<u>\$ 839,289,402</u>	<u>\$ (1,806,251,083)</u>
			Governmental Activities	Business-type Activities	Total
Net (expenses) revenues			\$ (1,806,251,083)	\$ —	\$ (1,806,251,083)
General revenues					
Transportation excise taxes			448,236,772	—	448,236,772
Motor vehicle registration, title, and related taxes			1,591,473,624	—	1,591,473,624
Fuel and motor carrier taxes and fees			855,964,720	—	855,964,720
Flight property taxes			14,027,137	—	14,027,137
Other taxes and fees			33,727,395	—	33,727,395
Income from investments			6,727,323	975	6,728,298
Other			10,641,825	—	10,641,825
Transfers			1,220,800	(1,220,800)	—
Total general revenues			<u>2,962,019,596</u>	<u>(1,219,825)</u>	<u>2,960,799,771</u>
Changes in net position			1,155,768,513	(1,219,825)	1,154,548,688
Beginning net position, as restated July 1			<u>23,220,734,182</u>	<u>1,223,511</u>	<u>23,221,957,693</u>
Ending net position June 30			<u>\$ 24,376,502,695</u>	<u>\$ 3,686</u>	<u>\$ 24,376,506,381</u>

The accompanying notes are an integral part of these financial statements.



# GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

## MAJOR FUNDS

**General Fund (State Highway Fund)** – This fund is used to account for all financial transactions applicable to the general operations of the Department. The fund receives money from the Highway User Revenue Fund including vehicle registration, title, license, and related fees and fuel and motor carrier taxes. Reimbursements for certain construction expenditures are received from the federal government, Arizona cities and counties, and other state agencies. The fund also receives interest and other revenues. The fund disburses money primarily for the design, construction, and maintenance of state highways, parts of highways forming state routes, and highways under cooperative agreements with the United States and day-to-day operating expenses.

**Maricopa Regional Area Road Construction Fund** – This fund receives certain Maricopa County transportation excise tax monies collected by the Department of Revenue. These monies are used for the construction of new freeways and other routes, improvements to existing freeways and other routes, and improvements to the arterial streets within Maricopa County.

**Motor Vehicle Division Clearing Fund** – This fund accounts for the collection and disbursement of Motor Vehicle Division revenues.

**Highway User Revenue Fund** – This fund receives all revenues collected by the Department and its agents that are not designated for other purposes. The revenues include: motor fuel taxes, a portion of vehicle license tax, vehicle registration fees, driver license fees, dealer fees, permits, and other miscellaneous fees. These monies are distributed to the General Fund (State Highway Fund), the Department of Public Safety, the Economic Strength Project Fund, incorporated cities, counties, and other legislatively appropriated entities.

**Debt Service Fund** – This fund is used to administer all payments of principal and interest on bonds and notes issued by the Arizona Transportation Board for Highway Revenue Bonds, Transportation Excise Tax Revenue Bonds, and Grant Anticipation Notes (GARVEE bonds).

**Capital Projects Fund** – This fund is used to administer bond proceeds for Arizona Transportation Board Highway Revenue Bonds, Arizona Transportation Board Transportation Excise Tax Revenue Bonds, Grant Anticipation Notes (GARVEE bonds). These monies are expended for the construction of projects in the Five-Year Transportation Facilities Construction Program.

## NONMAJOR FUNDS

**Other Governmental Funds** are the nonmajor funds and are all special revenue funds. These funds can be found on Exhibit 8 and Exhibit 9.

**Arizona Department of Transportation**  
**Balance Sheet — Governmental Funds**  
**June 30, 2022**

**Exhibit 3**

	Special Revenue Funds		
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund
<b>Assets</b>			
Unrestricted cash on deposit with the State Treasurer	\$ 627,272,941	\$ —	\$ —
Receivables			
Interfund	137,335,488	—	19,527,201
Taxes and fees	—	—	4,246,640
Leases, notes and loans	21,757,942	—	—
Due from other state agencies	—	38,581,351	—
Other, net	4,585,327	2,704,220	1,163,363
Amounts due from U.S. government	73,535,191	51,845,399	—
Inventories	402,377	—	—
Restricted cash held by fiscal agents	2,185,335	—	—
Restricted cash on deposit with the State Treasurer	408,056,046	627,101,166	117,994,900
Total assets	<u>\$ 1,275,130,647</u>	<u>\$ 720,232,136</u>	<u>\$ 142,932,104</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
Liabilities			
Accounts payable	\$ 89,456,036	\$ 31,784,346	\$ —
Accrued payroll and other accrued expenditures	4,381,725	82,346	—
Tax and refunds payable	—	—	7,477,413
Interfund payables	2,040,547	—	66,219,242
Amounts due to			
Other state agencies	4,246,639	—	26,572,797
Arizona counties and cities	7,845,892	3,952,015	50,791,075
Unearned revenue	1,549,725	—	—
Total liabilities	<u>109,520,564</u>	<u>35,818,707</u>	<u>151,060,527</u>
Deferred inflows of resources			
Leases	21,617,360	—	—
Unavailable revenue	709,963	31,523,706	—
	<u>22,327,323</u>	<u>31,523,706</u>	<u>—</u>
Fund balances			
Unassigned	—	—	(8,128,423)
Nonspendable	402,377	—	—
Restricted	410,241,382	652,889,723	—
Committed	732,639,001	—	—
Total fund balances (deficits)	<u>1,143,282,760</u>	<u>652,889,723</u>	<u>(8,128,423)</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 1,275,130,647</u>	<u>\$ 720,232,136</u>	<u>\$ 142,932,104</u>

The accompanying notes are an integral part of these financial statements.

Exhibit 3 - Continued

Special Revenue Funds					Total Nonmajor Governmental Funds (See Exhibit 8)	Total Governmental Funds
Highway User Revenue Fund	Debt Service Fund	Capital Projects Fund				
\$ —	\$ —	\$ —	\$ —	\$ 95,229,321	\$ 722,502,262	
56,861,446	—	—	—	272,609	213,996,744	
68,253,124	—	—	—	—	72,499,764	
—	—	—	—	371,644	22,129,586	
—	—	—	—	—	38,581,351	
713	—	—	—	1,889,161	10,342,784	
—	—	—	—	14,005,346	139,385,936	
—	—	—	—	—	402,377	
—	—	—	—	—	2,185,335	
146,608,235	236,043	3,570,543	—	37,600,848	1,341,167,781	
<u>\$ 271,723,518</u>	<u>\$ 236,043</u>	<u>\$ 3,570,543</u>	<u>\$ —</u>	<u>\$ 149,368,929</u>	<u>\$ 2,563,193,920</u>	
\$ —	\$ —	\$ —	\$ —	\$ 23,209,105	\$ 144,449,487	
7,176	—	—	—	70,446	4,541,693	
725,485	—	—	—	—	8,202,898	
144,998,580	—	—	—	25,897	213,284,266	
987,211	—	—	—	—	31,806,647	
125,005,066	—	—	—	7,337,912	194,931,960	
—	—	—	—	—	—	
—	—	—	—	—	1,549,725	
271,723,518	—	—	—	30,643,360	598,766,676	
—	—	—	—	—	21,617,360	
—	—	—	—	—	32,233,669	
—	—	—	—	—	53,851,029	
—	—	—	—	—	(8,128,423)	
—	—	—	—	—	402,377	
—	236,043	3,570,543	—	22,451,526	1,089,389,217	
—	—	—	—	96,274,043	828,913,044	
—	236,043	3,570,543	—	118,725,569	1,910,576,215	
<u>\$ 271,723,518</u>	<u>\$ 236,043</u>	<u>\$ 3,570,543</u>	<u>\$ —</u>	<u>\$ 149,368,929</u>	<u>\$ 2,563,193,920</u>	

The accompanying notes are an integral part of these financial statements.

**Arizona Department of Transportation  
Reconciliation of the Balance Sheet of Governmental  
Funds to the Statement of Net Position  
June 30, 2022**

**Exhibit 3.1**

<b>Fund balances – total governmental funds (Exhibit 3)</b>	\$ 1,910,576,215
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (Note 4 B1).	24,568,022,060
Certain receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the funds (Exhibit 3).	32,233,669
Internal service funds are used by management to charge the costs of equipment rentals to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position (Exhibit 5).	74,245,567
Deferred outflows of resources are not reported in the funds (Notes 4 B2).	118,615,448
OPEB assets are not available to pay for current period expenditures and, therefore, are not reported in the funds (Note 4 B7).	7,854,946
OPEB liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds (Note 4 B3).	(68,070,308)
Pension liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds (Note 4 B4).	(210,957,091)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds (Note 4 B5).	(1,897,035,813)
Certain deferred inflows of resources are not reported in the funds (Note 4 B6).	(158,981,998)
<b>Net position of governmental activities (Exhibit 1)</b>	<u>\$ 24,376,502,695</u>

The accompanying notes are an integral part of these financial statements.

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**Arizona Department of Transportation**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances — Governmental Funds**  
**For the Year Ended June 30, 2022**

	Special Revenue Funds		
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund
<b>Revenues</b>			
Transportation excise taxes	\$ —	\$ 443,461,951	\$ —
Vehicle registration, title, license, and related taxes and fees	506,458,485	—	835,019,330
Fuel and motor carrier taxes and fees	429,269,098	—	—
Flight property taxes	—	—	—
Other taxes and fees	17,132,308	—	—
Reimbursement of construction expenditures – federal aid	423,926,985	324,918,733	—
Other federal grants and reimbursements	—	—	—
Reimbursements from Arizona counties and cities	4,496,827	3,538,402	—
Distributions from other state agencies	93,936,538	—	3,300,000
Interest on leases/loans receivable	63,447	—	—
Income from investments	3,224,158	2,460,085	—
Sales and charges for services	10,828,559	26,037,329	—
Lease and rental income	8,892,006	900,951	—
Other	4,306,733	3,146,762	—
Total revenues	1,502,535,144	804,464,213	838,319,330
<b>Expenditures</b>			
<b>Current</b>			
Administration	129,670,632	13,867,332	4,452,878
Highway	114,945,570	3,557,253	—
Highway maintenance	135,316,657	2,291,317	—
Motor vehicle	149,023,762	—	19,857,704
Total current expenditures	528,956,621	19,715,902	24,310,582

The accompanying notes are an integral part of these financial statements.

**Exhibit 4**

Special Revenue Funds						
Highway User Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds (See Exhibit 9)	Total Governmental Funds		
\$	—	\$	—	\$	4,774,821	\$ 448,236,772
	409,819,044		—		3,553,316	1,754,850,175
	425,362,098		—		1,333,524	855,964,720
	—		—		14,027,137	14,027,137
	16,595,087		—		—	33,727,395
	—		—		35,674,491	784,520,209
	—		—		95,754,017	95,754,017
	—		—		31,184,914	39,220,143
	35,321		—		—	97,271,859
	—		—		20,847	84,294
	210,859	553,467	—		363,423	6,811,992
	—	—	—		—	36,865,888
	—	—	—		285,919	10,078,876
	2,648,946	—	—		594,496	10,696,937
	<u>854,671,355</u>	<u>553,467</u>	<u>—</u>		<u>187,566,905</u>	<u>4,188,110,414</u>
	7,583,745	—	243		4,542,487	160,117,317
	—	—	—		83,811,480	202,314,303
	—	—	—		283,279	137,891,253
	<u>659,466</u>	<u>—</u>	<u>—</u>		<u>3,664,303</u>	<u>173,205,235</u>
	<u>8,243,211</u>	<u>—</u>	<u>243</u>		<u>92,301,549</u>	<u>673,528,108</u>

The accompanying notes are an integral part of these financial statements.

	Special Revenue Funds		
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund
<b>Expenditures - continued</b>			
Intergovernmental			
Distributions to other state agencies	\$ 52,997,416	\$ —	\$ 125,993,707
Distributions to Arizona counties and cities	73,808,175	53,132,918	688,015,041
Debt service			
Principal	—	—	—
Interest	—	—	—
Bond issuance costs	—	—	—
Noncapital, including asset preservation	400,307,869	75,201,732	—
Capital outlay	96,018,761	374,501,623	—
Total expenditures	<u>1,152,088,842</u>	<u>522,552,175</u>	<u>838,319,330</u>
Revenues over (under) expenditures	<u>350,446,302</u>	<u>281,912,038</u>	<u>—</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	2,479,521	—	—
Transfers out	(139,321,008)	(143,123,874)	—
Proceeds from sale of capital assets	42,075	—	—
Insurance recovery	9,210,968	—	—
Refunding debt issuance	—	—	—
Payment to refunded bond escrow agent	—	—	—
Total other financing sources (uses)	<u>(127,588,444)</u>	<u>(143,123,874)</u>	<u>—</u>
Net change in fund balances	222,857,858	138,788,164	—
Fund balances (deficits), beginning of year	920,424,902	514,101,559	(8,128,423)
<b>Fund balances (deficits), end of year</b>	<u>\$ 1,143,282,760</u>	<u>\$ 652,889,723</u>	<u>\$ (8,128,423)</u>

The accompanying notes are an integral part of these financial statements.



Special Revenue Funds				Total Nonmajor Governmental Funds (See Exhibit 9)	Total Governmental Funds
Highway User Revenue Fund	Debt Service Fund	Capital Projects Fund			
\$ 11,477,908	\$ —	\$ —	\$ 2,147,380	\$ 192,616,411	
834,950,236	—	—	44,438,987	1,694,345,357	
—	238,655,000	—	—	238,655,000	
—	74,185,921	—	—	74,185,921	
—	500,805	—	—	500,805	
—	—	21,406	—	475,531,007	
—	—	—	3,117,744	473,638,128	
<u>854,671,355</u>	<u>313,341,726</u>	<u>21,649</u>	<u>142,005,660</u>	<u>3,823,000,737</u>	
<u>—</u>	<u>(312,788,259)</u>	<u>(21,649)</u>	<u>45,561,245</u>	<u>365,109,677</u>	
—	312,422,882	—	—	314,902,403	
—	—	—	(31,236,721)	(313,681,603)	
—	—	—	—	42,075	
—	—	—	—	9,210,968	
—	84,520,000	—	—	84,520,000	
—	(84,004,588)	—	—	(84,004,588)	
<u>—</u>	<u>312,938,294</u>	<u>—</u>	<u>(31,236,721)</u>	<u>10,989,255</u>	
—	150,035	(21,649)	14,324,524	376,098,932	
—	86,008	3,592,192	104,401,045	1,534,477,283	
<u>\$ —</u>	<u>\$ 236,043</u>	<u>\$ 3,570,543</u>	<u>\$ 118,725,569</u>	<u>\$ 1,910,576,215</u>	

The accompanying notes are an integral part of these financial statements.

**Arizona Department of Transportation  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2022**

**Exhibit 4.1**

<b>Net change in fund balances – total governmental funds (Exhibit 4)</b>	\$	376,098,932
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:		
Capital outlays are reported as expenditures in governmental funds (Note 4 C1).		468,830,310
Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the statement of net position. Governmental funds report the effect of premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities (Note 4 C2).		(114,113,554)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position (Note 4 C2).		362,237,445
Internal services funds are used by management to charge the cost of equipment rentals to individual funds. The change in net position of the internal service funds is reported with governmental activities (Note 4 C3).		18,149,109
Pension contributions are reported as expenditures in the governmental funds, however, the change in net pension liability is reported in the Statement of Activities (Note 4 C4)		6,417,622
OPEB Contributions are reported as expenditures in governmental funds, however, the change in net OPEB liability is reported in the Statement of Activities (Note 4 C4)		(601,065)
Some items reported in the statement of activities do not require the use of, or provide current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds (Note 4 C5).		38,749,714
<b>Change in net position of governmental activities (Exhibit 2)</b>	<b>\$</b>	<b><u>1,155,768,513</u></b>

The accompanying notes are an integral part of these financial statements.

# PROPRIETARY FUNDS FINANCIAL STATEMENTS

## MAJOR FUND

**Highway Expansion and Extension Loan Program Fund** – This fund is an innovative financing mechanism to administer monies designated to provide loans and credit enhancement assistance to the Department and to sponsors of local transportation projects.

## NONMAJOR FUND

**Internal Service Fund** – The Equipment Revolving Fund is primarily funded by the charges it collects from the Department of Transportation, other state agencies, and local organizations to support a statewide fleet operation and replacement program, and repair and maintenance for vehicles and equipment.

**Arizona Department of Transportation**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2022**

**Exhibit 5**

	Business-type Activities – Enterprise Fund	Governmental Activities- Internal Service Fund
	Highway Expansion and Extension Loan Program Fund	
<b>Assets</b>		
Current assets		
Unrestricted cash on deposit with the State Treasurer	\$ 3,686	\$ 15,098,471
Receivables		
Other, net allowance for doubtful accounts	—	1,549,879
Inventories	—	3,511,686
Total current assets	3,686	20,160,036
Noncurrent assets		
Net OPEB asset	—	421,259
Capital assets subject to depreciation, net of accumulated depreciation	—	71,324,204
Total noncurrent assets	—	71,745,463
Total assets	3,686	91,905,499
<b>Deferred Outflows of Resources</b>		
Relating to pensions	—	2,667,277
Relating to OPEB	—	1,077,491
Total deferred outflows of resources	—	3,744,768
<b>Liabilities</b>		
Current liabilities		
Accounts payable	—	387,125
Accrued payroll and other accrued expenses	—	180,541
Interfund payables (Note 5C)	—	712,478
Compensated absences	—	776,423
Total current liabilities	—	2,056,567
Noncurrent liabilities		
Net OPEB liability	—	3,597,736
Net pension liability	—	9,963,520
Total noncurrent liabilities	—	13,561,256
Total liabilities	—	15,617,823
<b>Deferred Inflows of Resources</b>		
Relating to pensions (Note 6C)	—	3,264,337
Relating to OPEB	—	2,522,540
Total deferred inflows of resources	—	5,786,877
<b>Net Position</b>		
Net investment in capital assets	—	71,324,204
Unrestricted	3,686	2,921,363
Total net position	\$ 3,686	\$ 74,245,567

The accompanying notes are an integral part of these financial statements.

**Arizona Department of Transportation**  
**Statement of Revenues, Expenses, and Changes in**  
**Fund Net Position – Proprietary Funds**  
**For the Year Ended June 30, 2022**

**Exhibit 6**

	Business-type Activities - Enterprise Fund	Governmental Activities- Internal Service Fund
	Highway Expansion and Extension Loan Program Fund	
<b>Operating Revenues</b>		
Sales and charges for services	\$ —	\$ 36,079,688
Other	—	426,645
Total operating revenues	—	36,506,333
<b>Operating Expenses</b>		
Publication and promotional cost	—	11,558
Repair and maintenance	—	4,845,820
Fuel and lubricants	—	11,706,945
Salaries and related benefits	—	13,205,371
Supplies	—	101,120
Equipment purchase and rental	—	94,560
Professional and outside services	—	865,709
Travel	—	47,142
Depreciation	—	14,797,807
Other	—	964,409
Total operating expenses	—	46,640,441
Operating loss	—	(10,134,108)
<b>Nonoperating Income (Expenses)</b>		
Income from investments	975	6,027
Gain on sale/disposal of capital assets	—	1,586,051
Distributions from other State agencies	—	8,708,744
Total nonoperating revenues (expenses)	975	10,300,822
Income (loss) Before Contributions and Transfers	975	166,714
Capital contributions	—	17,982,395
Transfers out	(1,220,800)	—
Change in net position	(1,219,825)	18,149,109
Net position, beginning of year	1,223,511	56,096,458
<b>Net position, end of year</b>	<b>\$ 3,686</b>	<b>\$ 74,245,567</b>

The accompanying notes are an integral part of these financial statements.

**Arizona Department of Transportation  
Statement of Cash Flows  
Proprietary Funds  
For the fiscal year ended June 30, 2022**

**Exhibit 7**

	Business-type Activities - Enterprise Fund	
	Highway Expansion and Extension Loan Program Fund	Governmental Activities - Internal Service Fund
<b>Cash flows from operating activities:</b>		
Receipts from other Funds	\$ —	\$ 35,667,367
Payments to suppliers	—	(19,807,223)
Payments to employees	—	(13,534,136)
Other receipts	—	426,645
Net cash provided by operating activities	—	2,752,653
<b>Cash flows from non-capital financing activities</b>		
Transfers out	(1,220,800)	—
Distributions from other state agencies	—	8,708,744
Net cash used in non-capital financing activities	(1,220,800)	8,708,744
<b>Cash flows from capital and related financing activities:</b>		
Proceeds from sale of capital assets	—	2,150,237
Acquisition of capital assets	—	(2,044,348)
Net cash provided by capital and related financing activities	—	105,889
<b>Cash flows from investing activities:</b>		
Income from investments	975	6,027
Net cash provided by investing activities	975	6,027
Net increase <decrease> in cash	(1,219,825)	11,573,313
Cash - July 1	1,223,511	3,525,158
Cash - June 30	\$ 3,686	\$ 15,098,471

The accompanying notes are an integral part of these financial statements.

**Arizona Department of Transportation  
Statement of Cash Flows  
Proprietary Funds  
For the fiscal year ended June 30, 2022**

**Exhibit 7  
- continued**

	Business-type Activities - Enterprise Fund	
	Highway Expansion and Extension Loan Program Fund	Governmental Activities - Internal Service Fund
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities</b>		
Operating loss	\$ —	\$ (10,134,108)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	—	14,797,807
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources		
Other receivables	—	(412,321)
Inventories	—	(999,124)
Deferred outflows of resources	—	(143,388)
Accounts payable	—	(217,978)
Accrued payroll and other accrued expenses	—	34,416
Compensated absences	—	18,435
Net OPEB asset	—	(421,259)
Net OPEB liability	—	(1,017,514)
Net pension liability	—	(3,037,866)
Deferred inflows of resources	—	4,285,553
Total adjustments	—	12,886,761
Net cash provided by operating activities	\$ —	\$ 2,752,653
<b>Non-cash capital and financing activities:</b>		
Certain vehicles were contributed to the Equipment Revolving Fund by ADOA	\$ —	\$ 9,049,441
Certain vehicles were contributed to the Equipment Revolving Fund by the General Fund	—	8,932,954
Total Noncash Capital and Financing Activities	\$ —	\$ 17,982,395

The accompanying notes are an integral part of these financial statements.

## Notes to Financial Statements





**Arizona Department of Transportation**  
**Index — Notes to the Financial Statements**  
**June 30, 2022**

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**Arizona Department of Transportation**  
**Notes to the Financial Statements**  
**June 30, 2022**

**1) Summary of Significant Accounting Policies**

The accounting and reporting policies of the Arizona Department of Transportation (the “Department”) conform in all material respects to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the primary standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB’s *Codification of Governmental and Financial Reporting Standards* (GASB Codification). Following is a summary of the Department’s significant accounting policies.

**A. Reporting Entity**

The Department is a department of the State of Arizona (the “State”) and is not a legally separate entity. The Department has no component units. The Director of the Department serves as the Chief Executive Officer and is directly responsible to the governor. The governor appoints a seven-member Transportation Board of the State of Arizona Department of Transportation (the “Transportation Board”), which has responsibility for establishing a complete system of state highway routes, approving all highway construction contracts, and distributing monies for local airport facilities’ projects through a grant program.

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 and other highways. Responsibilities of the Department also include grants to local airports, registering motor vehicles and aircraft, licensing drivers, certain law enforcement activities, and the publishing of the *Arizona Highways Magazine*.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the government. Governmental activities, which normally are supported by federal reimbursement, taxes, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Position presents the reporting entity’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation and is reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted* results when constraints placed on asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted* consists of those assets which do not meet the definition of the two preceding categories. Unrestricted often are designated to indicate that management does not consider them to be available for general operations. The unrestricted component often has constraints on resources which are imposed by

**Arizona Department of Transportation**  
**Notes to the Financial Statements**  
**June 30, 2022**

management, but can be removed or modified by management or the Transportation Board.

When both restricted and unrestricted resources are available for use, the Department generally expends the restricted resources first, and then unrestricted resources, as they are needed to maintain appropriate cash balances and finance the construction program.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identified with a specific function. Program revenues include: charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

#### Fund Financial Statements

Separate statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major proprietary funds are reported as separate columns in the fund financial statements. Nonmajor funds are reported in a single column with combining statements provided in the supplementary information.

#### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*, as are the proprietary funds. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year they are collected for transportation excise, aircraft licensing, aviation and motor fuel, flight property, and underground storage tanks. Motor carrier and vehicle license taxes are recognized when received. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the end of the fiscal year, e.g., federal revenue reimbursements, vehicle license taxes, and highway user revenue taxes. Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and payable.

#### Financial Statement Presentation

The Department reports the following major governmental funds:

The *General Fund*, known as the State Highway Fund, is the primary operating fund. It accounts for all financial resources except for those required to be accounted for

**Arizona Department of Transportation**  
**Notes to the Financial Statements**  
**June 30, 2022**

in another fund. Expenditures are reported for general operations of the Department, including road and bridge repairs, maintenance and construction, planning and development, engineering, and administration. Revenues are received from the following primary sources: fuel and motor carrier taxes and fees, vehicle registrations, titles, licenses and related fees, and federal grants.

The *Maricopa Regional Area Road Construction Fund* is a special revenue fund that receives a portion of Maricopa County Transportation Excise Tax monies collected by the Department of Revenue. Monies are collected under Prop 400, which is a 1/2 cents sales tax that was approved by voters in November 2004; set with an effective date of January 1, 2006 through December 31, 2025. These monies are expended for the construction of new freeways and other routes, improvements to existing freeways and other routes, and improvements to the arterial street system, which are included in the Maricopa County Regional Transportation Plan.

The *Motor Vehicle Division Clearing Fund* is a special revenue fund which accounts for the collection and disbursement of certain Motor Vehicle Division revenues (e.g., vehicle registration, title, license, and related taxes and fees, and fuel and motor carrier taxes and fees).

The *Highway User Revenue Fund* is a special revenue fund which collects motor vehicle and fuel use taxes and receives certain Motor Vehicle Division revenues from the Motor Vehicle Division Clearing Fund. These monies are distributed to the General Fund (State Highway Fund), the Department of Public Safety, incorporated cities, towns, counties, and other legislatively appropriated entities.

The *Debt Service Fund* is used to account for the accumulation of resources for, and the payments of, general long-term debt principal and interest of the governmental funds.

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities in the governmental funds.

The Department reports the following major proprietary fund:

The *Highway Expansion and Extension Loan Program Fund (HELP)* is an innovative financing mechanism to administer funds designated to provide loan and credit enhancement assistance to sponsors of local transportation projects. The program is inactive as of June 30, 2022. See the separate Independent Audited Financial Reports for more information.

Additionally, the Department reports the following fund:

The *Internal Service Fund*, which accounts for purchases and maintenance of equipment and materials to be used by divisions in the Department and other government agencies. The Equipment Revolving Fund is the Department's only internal service fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for services by the Equipment

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Revolving Fund to the other governmental functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include: charges for services, operating grants and contributions, and capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating revenues* and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges for services, interest on loan receivables and other revenues intended to recover the cost of services. Operating expenses for the enterprise fund and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**D. Assets Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance**

Deposits and Investments

The Department's cash includes petty cash and deposits with the State Treasurer for pooled investments. 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, obligations of the U.S. Government, or other permitted investments. All investments are carried at fair value. These balances are not subject to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, classification because they are included in the state's investment pool.

The investment pool is not required to register (and is not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The activity and performance of the pool is reviewed monthly by the State Board of Investment in accordance with Arizona Revised Statutes, §35-311. The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Asset Value (NAV) of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding. The State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed. As of June 30, 2022, the State's investment pool 2, pool 3, and pool 4 were not rated. The weighted average maturity at year-end for investment pool 2 was 1.41 years while for investment pool 3 was 0.67 years, and for investment pool 4 it was 1.65 years.

State statutes require the State Treasurer to maintain separate investment accounts for the portions of the Highway Revenue Bond Proceeds Fund relating to the Highway Revenue Bond issues and the Maricopa Regional Area Road Bond Proceeds Fund relating to the Transportation Excise Tax Revenue Bond issues. These funds may be invested by the Treasurer in the State's investment pool.

The Department's investments are included in the State investment pools and these investments are not shown in the Department's name. From the perspective of the Department,

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the pool functions as both a cash management pool and a demand deposit account. Therefore, the Department presents its equity in the internal pool as required in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and carries the investments at fair value.

The Department has restricted cash for payment of capital projects for Maricopa and Pima Counties, and for future debt service payments.

At June 30, 2022, the carrying amount of the Department's cash on deposit with the State Treasurer (unrestricted and restricted) totaled \$2,078,772,200. Of this amount, \$1,922,560,029 was invested in the State Agency's pool numbers 2, 3 and 4. The remaining \$156,212,171 is operating cash, and was not invested in the State's pools, but was held by the State Treasurer as demand deposit accounts. These pools are valued at the pool's share price multiplied by the number of shares the Department held. The fair value of a participant's position in the pools approximate the value of that participant's shares. The funds are invested in accordance with the Investment Policy of the Arizona State Treasurer's office.

Receivables, Payables and Advances

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/payables. All other outstanding balances between the U.S. Government, Arizona counties and cities, and other state agencies are reported as due to/from. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

Advances between funds, as reported in the fund financial statements, are classified as nonspendable fund balance in the General Fund (State Highway Fund) to indicate that they are not available for appropriation and are not expendable available financial resources. The other receivables are shown net of allowance for doubtful accounts. For other receivables comprising recoverable claims, the amount reserved for doubtful accounts is comprised of 100% of the balances sent to the Attorney General's Office for collection. There are no Advances outstanding as of June 30, 2022.

Notes receivable represents loans made to parties purchasing assets previously owned by the Department for highway construction purposes. There are no Notes receivable outstanding as of June 30, 2022.

Inventories

The governmental activities inventory is valued at cost, which approximates market, using the moving average method. This inventory is accounted for using the consumption method. Under this method, inventories are recorded as expenditures as they are used. The fund financial statement reports inventory as nonspendable for the like amount indicating it does not constitute available expendable resources.

Costs of the internal service fund's inventories (consisting of vehicle parts and supplies, fuels and lubricants, and other supplies) are determined by moving average cost methods.

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Restricted Assets

Certain proceeds of the Department’s governmental revenue bonds, as well as certain resources of the General Fund (State Highway Fund) are classified as restricted assets on the balance sheet because they are maintained in separate accounts and their use is limited by applicable bond covenants, constitutional mandates, or voter initiatives. State law, in conjunction with cooperative agreements with local governments, require 12.6% of the revenues allocated each year to the General Fund (State Highway Fund) from the Highway User Revenue Fund be allocated for design, purchase of right-of-way, or construction of controlled-access highways, arterial streets, and local highways that are included in the regional transportation plan of counties with populations in excess of 400,000 (Maricopa and Pima counties). State Transportation Board policy further allocates 2.6% of the revenues for the same purpose as listed above. The debt service fund is used to report the resources set aside for payment of future debt service. Bond proceeds deposited in the capital projects fund and are restricted by bond covenants for acquisitions of right-of-way and construction of federal, state, and local highways.

Capital Assets

Capital assets, which include land, buildings and improvements, improvements other than buildings, machinery and equipment, mobile fleet and aircraft, infrastructure, development in progress, and construction in progress, are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the Department as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Purchased capital assets are recorded at historical cost or estimated historical cost if historical cost is not available. Donated capital assets are recorded at acquisition value at time of donation.

Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized. Outlays for capital assets are capitalized at the time of the purchase or, in the case of infrastructure, at the time of final acceptance by the Department from the contractor. Accumulated costs of infrastructure prior to final acceptance by the Department are reported as Construction in Progress. Asset preservation costs are expensed as incurred. The Department depreciates/amortizes non-infrastructure capital assets/computer software on a straight-line basis using the following estimated useful lives

Capital Assets	Useful Life
Buildings and improvements	20-40 years
Improvements other than buildings	15-40 years
Computer software	10 years
Machinery and equipment	5 years
Mobile fleet and aircraft	5-15 years

Infrastructure was capitalized for the first time in fiscal year 2002. The infrastructure assets are reported in the governmental activities column of the Statement of Net Position. The

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Department's infrastructure assets consist of roads and bridges and are presented using the modified approach and, therefore, are not depreciated.

In order to utilize the modified approach, the Department is required to maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets, perform condition assessments of eligible assets and summarize the results using a measurement scale, estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Department, and document that the assets are being preserved approximately at or above the established condition level.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net assets by the Department that applies to future periods, and therefore will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources increase net position, similar to assets. More detailed information regarding deferred outflows of resources can be found in the applicable footnotes to which such deferred outflows of resources applies.

Unearned/Unavailable Revenues

In the government-wide statements and proprietary fund financial statements, unearned revenues are recorded when cash, receivables, or other assets are received prior to revenue being recognized. Unearned revenue in the Governmental Activities represents subscription revenue received in advance of delivery of the related subscriptions. Additionally, in the governmental funds, unavailable revenue is reported as deferred inflows of resources, until such revenue is available to liquidate liabilities of the current period. Unearned revenues are reported in the government-wide statements for the governmental activities and in the fund statements for the governmental funds. In the fund statements, unavailable revenue represents a receivable from the Federal Highway Administration for un-reimbursed accrued relocation cost for various infrastructure projects not received during the period of availability.

Compensated Absences

It is the Department's policy to permit employees to accumulate earned but unused sick leave and vacation benefits as well as compensatory time. There is no liability for unpaid accumulated sick leave for the Department. All vacation pay and compensatory time is accrued when incurred in the government-wide and proprietary fund financial statements.

Effective July 1, 1998, state employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1,500 hours, upon retirement directly from state service. The benefit value is calculated by taking the employee's hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date, times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25% for 500 hours to a maximum of 50% for 1,500 hours. The maximum benefit value is \$30,000. Per Arizona Revised Statute 38-615D, the benefit shall be paid either in a lump sum or in installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the State's financial statements as an Internal Service Fund.



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Most employees accrue vacation time which is paid when taken or upon termination of employment at the individual's then current rate of pay. Additionally, some employees may earn compensatory time in lieu of overtime pay, which is paid in the same manner as vacation time. To limit the Department's liability, employees are allowed to carry forward a maximum of 240 hours of vacation time if covered and 320 hours if uncovered at the end of each calendar year. Compensatory time accrual is capped at 240 hours at any time, however the agency policy has been to evaluate and pay quarterly to keep this accrual low. The liabilities for vacation and compensatory time outstanding as of June 30 for both the governmental and proprietary funds are reported on the Statement of Net Position.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Beginning in fiscal year 2020, bond premiums and discounts are deferred and amortized using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Gains and losses related to refunding of debt are reported as deferred inflows of resources and deferred outflows of resources, respectively. Debt issuance costs are expensed in the current period. Other long-term obligations also include amounts that other governmental entities advance to the Department for highway road construction projects and accrued relocation costs. No intergovernmental advances are outstanding as of June 30, 2022.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Advances from other governmental entities are recorded as debt issuance in other financing sources.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net assets or fund balance that applies to future periods, and therefore will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources decrease net position or fund balance, similar to liabilities. More detailed information regarding deferred inflows of resources can be found in the applicable footnotes to which such deferred inflows of resources applies.

Net Position/Fund Balance

The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources is "Net Position" on the government-wide and proprietary statements and "Fund Balance" on the governmental fund statements.

*Net investment in capital assets* – describes that portion that cannot be spent because of the illiquid nature of capital assets. This amount is presented net of all outstanding debt and deferred outflows/inflows of resources related to the acquisition and/or construction of capital assets. Although most items included in the calculation of *Net investment in capital assets* can be traced to specific line items in the financial statements and/or notes to the financial statements, accrued payables related to capital asset purchases are included in the line item

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"Accounts payable" in Exhibit 1, which also includes payables related to operating expenses. The amount of accrued payables related to capital purchases included in overall Accounts payable is \$37,899,666.

Fund balances for governmental funds may be reported in classifications that comprise a hierarchy based primarily on the extent to which the Department is bound to honor constraints on the specific purposes for which amounts in those fund can be spent. Five classifications are available:

*Nonspendable fund balance* – describes that portion that cannot be spent because of its form (inventories, prepaid amounts, etc.) and are not expected to be converted to cash.

*Restricted fund balance* – describes that portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions (voter initiatives, court orders, etc.).

*Committed fund balance* – describes that portion which can be used only for specific purposes pursuant to constraints imposed by a formal action of the Department's highest level of decision-making authority. This formal action is the passage of law by the Legislature creating, modifying or rescinding fund balance commitments.

*Assigned fund balance* – describes that portion of that reflects the Department's intended use of resources for a specific purpose, but are neither restricted nor committed.

*Unassigned fund balance* – is the residual classification for the general fund and includes all spendable amounts not reported in other classifications. Also, deficits in fund balances of other governmental funds are reported as unassigned.

The Department's highest level of Authority is the Arizona State Legislature where the legislative appropriations are determined, identifying the uses of funds for specific purposes. The Arizona State Legislature also grants authority to other Boards (such as the Arizona State Transportation Board) and Commissions to authorize fund uses.

When practicable, the Department segregates restricted funds from unrestricted funds using existing chart of account elements. As a result, an assumption as to the order of how monies are spent is unnecessary for those restricted funds so segregated. In cases where it is impractical to segregate restricted from unrestricted funds, expenditures incurred for purposes for which restricted, committed and unassigned fund balance is available, the Department considers restricted, committed and unassigned amounts to have been spent in that order.

**E. Revenues and Expenditures/Expenses**

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g., Administration, Highway). Additionally, revenues are classified between program and general revenues. Program revenues include charges for services, operating grants and contributions, and capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. General revenue includes all taxes and income on investments.

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In the governmental fund financial statements, revenues are reported by source. Expenditures are reported by function (e.g., administration, distributions to Arizona counties and cities, distributions to other state agencies, debt service, capital outlay).

The distributions to Arizona counties and cities and distributions to other state agencies are shared tax revenues that are distributed based on statutory requirements. Debt service includes both interest and principal outlays that may be related to bonds, loans, advances, board funding obligations, or capitalized leases. Capital outlay includes expenditures for real property or infrastructure (i.e., bridges and roads).

Revenues and expenses of proprietary funds are classified as operating and non-operating and are sub-classified by the type of expense (e.g., salaries, equipment rental, depreciation). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as non-operating.

Other Financing Sources (Uses)

Other financing sources are additions to the governmental fund balances in the fund financial statements and include resources and financing provided by bond issuance, sale of capital assets, lease proceeds where the leased asset(s) reside(s) in that fund, insurance recovery, and transfers from other funds. Other financing uses are reductions of governmental fund resources in fund financial statements normally resulting from transfers to other funds.

**F. Interfund Activity and Balances**

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are activities between the funds reported as governmental activities and the funds reported as business-type activities (e.g., the transfer of the gain or loss from the Equipment Revolving Fund).

Interfund Balances

Interfund receivables and payables have been eliminated from the Statement of Net Position, except for the residual amounts due between governmental and business-type activities.

**G. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets, deferred outflow of resources, liabilities, deferred inflows of resources, and net position, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

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**2) Funds by Classification**

**Funds**

The following table lists all of the funds whose balances are reflected in this financial report.

<b>FUND TYPES</b>	
<b>MAJOR FUNDS</b>	<b>NONMAJOR FUNDS</b>
<i>Governmental Funds</i>	<i>Special Revenue Funds</i>
General Fund (State Highway Fund)	State Aviation Fund
Special Revenue Funds:	Safety Enforcement and
Maricopa Regional Area Road	Transportation Infrastructure Fund
Construction Fund	Motor Vehicle Liability Insurance
Motor Vehicle Division Clearing Fund	Enforcement Fund
Highway User Revenue Fund	Motor Vehicle Inspection and Title
Debt Service Fund	Enforcement Fund
Capital Projects Fund	Motor Carrier Safety Revolving Fund
<i>Proprietary Funds</i>	Economic Strength Project Fund
Enterprise Fund:	Grant Anticipation Notes Fund
Highway Expansion and Extension	Local Agency Deposits Fund
Loan Program Fund	<i>Internal Service Fund:</i>
	Equipment Revolving Fund

**3) Budgeting, Budgetary Control and Legal Compliance**

An annual budget for the operating expenditures of the General Fund (State Highway Fund) is submitted to the Governor in accordance with state law. The budget is legally enacted as appropriations after approval by the state legislature and signature of the Governor. The legal level of control for operating expenditures is set at the agency level and expenditure budgets are appropriated using special line-item appropriations for highway maintenance, vehicles and construction equipment, other capital expenditures, and Attorney General legal services. Expenditure details for personal services, employee-related expenditures, and all other operating expenditures are specifically allocated within all divisions. In certain divisions, other specific programs are allocated in addition to these categories. Revenue budgets are developed internally by the Department and are not part of the appropriation process.

Amendments to the approved appropriations require legislative approval. However, since the Department's appropriation is a lump sum appropriation, the allocation of funds between personal services, employee-related expenditures, and other operating expenditures is an internal decision. Accordingly, transfers between line items such as personal services and other operating expenditures within a particular program may be made by the program manager. Expenditures may not exceed appropriations in total. All transfers of funds are reported to the Department's Office of Strategic Planning and Budgeting for monitoring purposes.

Budgets are prepared on the cash basis except that liabilities incurred before the end of the fiscal year and paid within the first month of the subsequent fiscal year are charged against the

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prior fiscal year's budget. The Department's appropriations lapse at fiscal year-end unless exempted by the legislature.

In addition, budgets for capital outlay, including land, building, and improvements for the State Highway Fund and State Aviation Fund, are also submitted to the governor in accordance with state law. The capital outlay appropriation includes state highway construction and land, building, and improvements for the State Highway Fund. A legal limitation is adopted for land, building, and improvements; however, legislation allows the Department to spend in excess of its appropriation for state highway construction up to the current fund balance. The Department monitors expenditures through an internal budgetary process and the Five-Year Transportation Facilities Construction Program approved by the Transportation Board.

**4) Accounting Pronouncements and Reconciliation of Government-Wide and Fund Financial Statements**

**A. New Accounting Pronouncements**

For the year ended June 30, 2022, the Department implemented the provisions of the following GASB pronouncements:

- GASB Statement No. 87, Leases – This statement enhances the relevance and consistency regarding reporting of leases. GASB 87 is effective for reporting periods beginning after December 15, 2019, and was implemented for fiscal year 2022.
- GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of the Construction Period – This statement improves the relevance and comparability of information about capital assets, and the cost of borrowing, and to simplify the accounting for interest costs incurred before the end of construction. GASB 89 is set to take effect for reporting periods beginning after December 15, 2020.
- GASB Statement No. 92, Omnibus 2020 - This statement addresses practice issues that were identified during the implementation of certain GASB Statements. GASB 92 is set to take effect as follows: for requirements relating to GASB 87 and implementation guide 2019-3, on the same effective date for the guidance it amends; for requirements relating to GASB 73 and 74, effective for fiscal years beginning after June 15, 2020; for requirements relating to GASB 84, effective for reporting periods beginning after June 15, 2020; and for requirements related to the measurement of liabilities associated with AROs in government acquisition, effective for government acquisitions occurring in reporting periods beginning after June 15, 2020.
- GASB Statement No. 93, Replacement of Interbank Offered Rates – This guidance to replaces the reference rate or adds or changes fallback provisions related to the reference rate, since the LIBOR will cease to exist at the end of 2021. GASB 93 is effective for reporting periods beginning after December 31, 2021, for requirements relating to the LIBOR, and for all other requirements after June 15, 2020.
- GASB Statement No. 97, Section 457 Plans – This statement is meant to enhance the relevance, consistency and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans. The accounting and financial reporting requirements of GASB 97 are effective for fiscal years beginning after June 15, 2021.

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- GASB Implementation Guide No. 2019-3, Leases – This guidance clarifies, explains and elaborates on the requirements of GASB Statement No. 87. This guide is effective for fiscal years beginning after June 15, 2021.
- GASB Implementation Guide No. 2020-1, Accounting and Financial Reporting Issues Related to Coronavirus funds – This guidance clarifies the application of the recognition requirements of Statements 33, 56, and 70 related to Coronavirus resources received. This guide is effective immediately.

Except for GASB 87, the implementation of the above GASB Statements and other authoritative guidance did not have a material effect on the Department's financial statements.

**B. Explanations of Reconciling Items of the Balance Sheet of Governmental Funds to the Statement of Net Position**

The governmental funds Balance Sheet includes reconciliation between total fund balances – governmental funds and net position of governmental activities as reported on the government-wide Statement of Net Position. The following explanations are necessary to clarify these differences between the governmental fund Balance Sheet and the government-wide Statement of Net Position:

1. Capital assets are not included on the fund statements, but are included on the government-wide statement as follows:

Capital assets not subject to depreciation	\$	24,389,880,705
Capital assets subject to depreciation		249,465,559
		24,639,346,264
Less: Internal Service Fund (Equipment Revolving Fund) capital assets		(71,324,204)
	\$	24,568,022,060

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2. Deferred outflows of resources are not reported in the governmental funds, but are reported in the government-wide Statement of Net Position. The detail for the difference is as follows:

Deferred outflows of resources related to pensions	\$	58,831,820
Less: Internal Service Fund (Equipment Revolving Fund) deferred outflows of resources related to pensions		<u>(2,667,277)</u>
		<u>56,164,543</u>
Deferred outflows of resources-loss on debt refunding		42,062,795
Deferred outflows of resources relating to OPEB		21,465,601
Less: Internal Service Fund (Equipment Revolving Fund) deferred outflows of resources related to OPEB		<u>(1,077,491)</u>
		<u>20,388,110</u>
	\$	<u><u>118,615,448</u></u>

3. OPEB liabilities are as follows:

Net OPEB liability	\$	(71,668,044)
Less: Internal Service Fund (Equipment Revolving Fund) net OPEB liability		<u>3,597,736</u>
	\$	<u><u>(68,070,308)</u></u>

4. Pension liabilities are not due and payable from current financial resources and, therefore, are not reported in the governmental funds. The detail for the difference is as follows:

Net pension liability	\$	(220,920,611)
Less: Internal Service Fund (Equipment Revolving Fund) net pension liability		<u>9,963,520</u>
	\$	<u><u>(210,957,091)</u></u>

5. Long-term liabilities, including bonds payable, are not due and payable in the current period, and are not reported in the current period on the fund statements. The detail for the difference is as follows:

Bonds payable (including unamortized premium)	\$	(1,842,537,358)
Compensated absences		(19,530,388)
Utility and railroad settlement accrual		(786,021)
Accrued Relocation Costs		<u>(34,182,046)</u>
	\$	<u><u>(1,897,035,813)</u></u>

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6. Deferred inflows of resources are not reported in the governmental funds. The detail for the difference is as follows:

Deferred inflows of resources related to pensions	\$ (72,379,971)
Less: Internal Service Fund (Equipment Revolving Fund) deferred inflows of resources related to pensions	3,264,337
	(69,115,634)
Deferred inflows of resources related to OPEB	(50,162,058)
Less: Internal Service Fund (Equipment Revolving Fund) deferred inflows of resources related to OPEB	2,522,540
	(47,639,518)
Deferred inflows of resources gain on debt refunding	(42,226,846)
	\$ (158,981,998)

7. Net OPEB assets are not reported in the funds:

Net OPEB assets	\$ 8,276,205
Less: Internal Service Fund (Equipment Revolving Fund) Net OPEB asset	(421,259)
	\$ 7,854,946

**C. Explanations of Reconciling Items of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities**

The governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net change in fund balances – total governmental funds and changes in net position of governmental activities as reported on the government-wide Statement of Activities. The following explanations are necessary to clarify these differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities:

1. Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, these costs are removed; some costs are capitalized as assets while other costs are expensed as follows:

Capital outlay	\$ 473,638,128
Assets removed from service, net of accumulated depreciation	(27,189,715)
Capitalized relocation costs for the South Mountain Project accrued as a long term liability	34,182,046
Less: depreciation expense - governmental funds	(8,564,501)
Less: Prior Year Relocation Costs and Condemnation Judgment - government wide	(4,588,492)
Net prior year adjustments	1,352,844
	\$ 468,830,310

2. The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of the governmental funds. Neither transaction, however, has any effect



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on net position. Also, the government reports the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The details of this difference are as follows:

Debt issued or incurred:	
Issuance of Highway Revenue Bonds	\$ (56,385,000)
Issuance Transportation Excise Tax Revenue Bonds	(28,135,000)
Net Change in accrued relocation costs	(29,593,554)
	<u>\$ (114,113,554)</u>

Principal repayments	
Highway Revenue Refunding Bonds	\$ 98,660,000
Transportation Excise Tax Revenue Refunding Bonds	119,240,000
Grant Anticipation Notes	20,755,000
Payment to refunded Bond escrow agent	84,004,588
Amortization of premium and discount	31,206,234
Amortization of net deferred losses on refunding	8,371,623
	<u>\$ 362,237,445</u>

3. The Internal Service Fund (Equipment Revolving Fund) is used by the Department to charge the cost for purchases and maintenance of equipment and material to be used by other funds and state agencies. The gain /(loss) in the Internal Service Fund (Equipment Revolving Fund) represents over/(under) billing and must be eliminated from the government-wide Statement of Activities for the governmental activities.

Internal Service Fund (Equipment Services Revolving Fund)	
Changes in net position	<u>\$ 18,149,109</u>

4. Pension and OPEB contributions are reported as expenditures in the governmental funds in the fiscal year contributed. However, current year contributions are reported as deferred outflows of resources in the government-wide Statement of Net Position because the reported net pension liability and net OPEB obligation is measured a year before the Department's current fiscal year-end financial statements. Pension and OPEB expense, which is the change in net pension liability/net OPEB obligation adjusted for changes in deferred outflows and inflows of resources related to pensions and OPEB, is reported in the Statement of Activities:

Pension contributions	\$ 21,970,761
Pension expense	(15,553,139)
	<u>\$ 6,417,622</u>
OPEB expense, net of Internal Service Fund	<u>\$ (601,065)</u>

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5. Some items reported in the Statement of Activities do not provide or require the use of current financial resources and, therefore, are not reported in the governmental funds. The details are as follows:

Certain noncurrent liabilities do not require the use of current financial resources, and, therefore, are not reported in the funds.	\$ 10,781,674
Net change in accrued relocation/condemnation reimbursement revenue does not provide current financial resources, and, therefore, is not reported in the funds	27,906,721
Compensated absences	61,319
	<u>38,749,714</u>

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**5) Detailed Notes on All Funds and Activities**

**A. Capital Assets**

Capital assets activity for the year ended June 30, 2022, was as follows:

	July 1, 2021			June 30, 2022	
	Beginning Balance, as restated	Increases	Decreases	Transfers	Ending Balance
<i>Governmental Activities</i>					
Capital assets, not being depreciated					
Land	\$ 3,525,299,539	\$ 122,805,412	\$ (11,497,079)	\$ —	\$ 3,636,607,872
Infrastructure	16,677,597,966		—	179,143,712	16,856,741,678
Construction in progress	3,701,360,175	374,314,692	—	(179,143,712)	3,896,531,155
Total capital assets, not being depreciated	<u>23,904,257,680</u>	<u>497,120,104</u>	<u>(11,497,079)</u>	<u>—</u>	<u>24,389,880,705</u>
Capital assets, being depreciated/ amortized					
Buildings and improvements	222,560,150	119,979	(8,482)	—	222,671,647
Improvements other than buildings	37,829,673	3,032,034	—	—	40,861,707
Computer software	80,622,704	—	—	—	80,622,704
Machinery and equipment	47,363,226	3,163,378	(6,688,610)	—	43,837,994
Mobile fleet and aircraft	224,145,006	12,819,333	(18,414,792)	—	218,549,547
Total capital assets, being depreciated	<u>612,520,759</u>	<u>19,134,724</u>	<u>(25,111,884)</u>	<u>—</u>	<u>606,543,599</u>
Less accumulated depreciation/ amortization for					
Buildings and improvements	(134,235,464)	(4,735,507)	8,397	—	(138,962,574)
Improvements other than buildings	(23,396,686)	(624,912)	—	—	(24,021,598)
Computer software	(8,062,270)	(1,987,957)	—	—	(10,050,227)
Machinery and equipment	(37,552,211)	(2,492,677)	4,064,290	—	(35,980,598)
Mobile fleet and aircraft	(139,300,163)	(13,521,255)	4,758,375	—	(148,063,043)
Total accumulated depreciation	<u>(342,546,794)</u>	<u>(23,362,308)</u>	<u>8,831,062</u>	<u>—</u>	<u>(357,078,040)</u>
Total capital assets, being depreciated, net	<u>269,973,965</u>	<u>(4,227,584)</u>	<u>(16,280,822)</u>	<u>—</u>	<u>249,465,559</u>
Governmental activities capital assets, net	<u>\$ 24,174,231,645</u>	<u>\$ 492,892,520</u>	<u>\$ (27,777,901)</u>	<u>\$ —</u>	<u>\$ 24,639,346,264</u>

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Capital asset additions are not included on the fund statements, but are included on the government-wide Statement of Net Position, as follows:

Capital asset additions not subject to depreciation	\$	497,120,104
Capital asset additions subject to depreciation		19,134,724
		516,254,828
Add: Accrued relocation costs (long-term liability) added in prior fiscal year		4,588,492
Less: Internal Service Fund (Equipment Services Fund) asset additions		(11,001,302)
Accrued relocation costs (long-term liability)		(34,182,046)
Accrued AP Project Settlement recorded directly to capital assets		(669,000)
Adjustments related to capital outlay and capital asset additions timing differences		(1,352,844)
Total capital outlay (Exhibit 4)	\$	473,638,128

Depreciation expense was charged to functions/programs as follows:

*Governmental activities*

Administration	\$	1,774,352
Highway		1,339,642
Highway maintenance		1,534,965
Motor vehicle		3,915,542
		8,564,501
Capital assets held by the Department's internal service fund are		
charged to the various functions based on their usage of the assets		14,797,807
Total depreciation expense	\$	23,362,308

Beginning balance in note 5A was restated due to the transfer of \$9.0 million of assets from the Arizona Department of Administration to the ADOT on July 1, 2021. This transfer is reflected as contributed capital in the Equipment Services Revolving Internal Service Fund.

**B. Construction Commitments**

The Department's outstanding commitments for contracts at June 30, 2022, were \$3.2 billion. Commitments are first categorized by segregating between Local government assistance and

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State Highway construction and related phases, and then further classified by phase of construction, as presented in the following table.

	Remaining Commitment
Local government assistance	\$ 185,442,863
State highways	
Construction	1,756,916,284
Design	243,048,336
Right of way	582,510,016
Utilities	31,426,968
Planning and research	83,234,129
Other	366,773,131
	\$ 3,249,351,727

**C. Interfund Receivables, Payables, Advances, and Transfers**

The balances of current interfund receivables and payables as of June 30, 2022, were:

Receivables	Payables	Amount
Governmental activities		
General Fund (State Highway Fund)	Equipment Services Fund	\$ 712,478
	Highway User Revenue Fund	127,537,823
	Motor Vehicle Division Clearing Fund	9,085,187
Motor Vehicle Division Clearing Fund	General Fund (State Highway Fund)	2,040,547
	Highway User Revenue Fund	17,460,757
	Non-major governmental Funds	25,897
Highway User Revenue Fund	Motor Vehicle Division Clearing Fund	56,861,446
Non-major governmental Funds	Motor Vehicle Division Clearing Fund	272,609
		\$ 213,996,744

The General Fund (State Highway Fund) receivable of \$127.5 million is an accrual for fuel taxes and vehicle license tax imposed in fiscal year 2022 from the Highway User Revenue Fund that will be collected in fiscal year 2023.

The Motor Vehicle Division Clearing Fund receivable of \$17.5 million is an accrual for vehicle license taxes due in fiscal year 2022 from the Highway User Revenue Fund that will be collected in fiscal year 2023.

The Highway User Revenue Fund receivable of \$56.9 million is an accrual for vehicle license taxes due in fiscal year 2022 from the Motor Vehicle Division Clearing Fund that will be collected in fiscal year 2023.

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Interfund transfers for the year ended June 30, 2022, consisted of the following:

	Transfers To		
	Debt Service Fund	General Fund (State Highway Fund)	Total
<u>Transfers from</u>			
General Fund (State Highway Fund)	\$ 139,321,008	\$ —	\$ 139,321,008
Maricopa Regional Area Road Fund	143,123,874	\$ —	143,123,874
Non-major Governmental Funds	29,978,000	\$ 1,258,721	31,236,721
Highway Expansion and Loan Program Fund	—	\$ 1,220,800	1,220,800
Total Debt Service Fund	<u>\$ 312,422,882</u>	<u>\$ 2,479,521</u>	<u>\$ 314,902,403</u>

Transfers from the General Fund (State Highway Fund), Maricopa Regional Area Road Fund, and the Non-major Governmental Fund (GANS) into the Debt Service Fund are to pay bond debt service. Transfers from Non-major governmental funds and the Highway Expansion and Loan Program Fund to the General Fund (State Highway Fund) is a result of legislative action which closed the Safety Enforcement and Transportation Infrastructure Fund and the Highway Expansion and Loan Program Fund.

**D. Leases/Financed Purchases**

**Leases - Department as Lessor**

ADOT is the Lessor of Cell tower site leases that convey control of the right to use the land on which the tower is placed or the connection point to which the antenna is affixed. A Master Lease agreement for limited access right of way for cell towers is entered into by the parties pursuant to A.R.S. 28-1865.01 and is approved by the State Transportation Board. The Site Agreements fully describe the lease of each Site. The Site Agreement is incorporated into the Master Lease, unless otherwise set forth in the individual Site Agreement.

Most agreements are for a five (5) year term and automatically renew every five (5) years for a total of twenty (20) years. Lease rates are calculated using the annual rate for the last five (5) year period increased by an amount equal to the change in Consumer Price Index (CPI), or increased by a fixed percentage.

At the commencement of a lease, ADOT initially measures the lease receivable at the present value of payments expected to be received during the initial lease term. Present Value is calculated using a 2.28% Discount Rate based on ADOT's incremental borrowing rate for secured debt (equipment leases).

Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term on a straight-line basis.

ADOT recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

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The Department recognized lease revenue during the year as follows:

Lease revenue	\$	1,588,169
Interest revenue		63,447
Total lease revenue	\$	<u>1,651,616</u>

Future lease payments included in the lease receivable are as follows:

Fiscal Year	Principal	Interest	Total Payment
2023	\$ 1,343,919	\$ 488,944	\$ 1,832,863
2024	1,089,440	465,440	1,554,880
2025	1,179,775	440,600	1,620,375
2026	1,227,552	413,702	1,641,254
2027	1,182,416	385,713	1,568,129
2028-2032	6,189,879	1,527,814	7,717,693
2033-2037	7,252,022	750,806	8,002,828
2038-2042	2,212,748	95,217	2,307,965
2043-2044	80,191	2,753	82,944
Totals	<u>\$ 21,757,942</u>	<u>\$ 4,570,989</u>	<u>\$ 26,328,931</u>

**Leases - Department as Lessee**

The Department has entered into lease agreements as lessee for financing the acquisition of various vehicles, equipment, and modular buildings. These agreements transfer ownership of the underlying assets upon execution, and, therefore, are not subject to the requirements of GASB Statement No. 87, *Leases*. Such lease agreements, if material, are accounted for as financed purchases subject to the requirements of authoritative GAAP existing prior to GASB 87. Leases are not material to the Department's financial statements, and, therefore, are not reported herein.

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**E. Noncurrent Liabilities**

**Arizona Transportation Board Highway Revenue Bonds-Public Offerings**

The Transportation Board has issued Senior and Subordinate Lien Highway Revenue Bonds to provide funds for acquisition of right-of-way, design, and construction of federal and state highways. The balance of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$1.138 billion.

The Highway Revenue Bonds are secured by a prior lien on and a pledge of motor vehicle and related fuel fees and taxes of the General Fund (State Highway Fund). On September 21, 2006, House Bill 2206 became effective and eliminated the restriction that limited the principal amount of Highway Revenue Bonds that could be outstanding at any time to \$1.3 billion. Also, during fiscal year 2007, the Transportation Board received legislative authority to begin issuing Highway Revenue Bonds with maturities up to 30 years in length, replacing the 20-year maturity requirement that had been in place since 1980.



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Highway Revenue Bonds currently outstanding are as follows:

**Outstanding Highway Revenue Bonds**  
**As of June 30, 2022**

Maturity (7/1)	Series 2015		Series 2016		Series 2020		Series 2021 (Direct Placement)	
	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon
2023	\$ 24,745,000	5.000			\$ 19,905,000	1.795	\$ 54,650,000	0.60 %
2024	25,985,000	5.000			76,370,000	1.958		
2025	27,280,000	5.000			67,860,000	2.058		
2026	28,650,000	5.000	\$ 6,605,000	5.000%	53,435,000	2.174%		
2027	30,085,000	5.000	18,615,000	5.000%	34,785,000	2.224%		
2028	31,585,000	5.000	19,545,000	5.000%	35,555,000	2.362%		
2029	33,160,000	5.000	20,530,000	5.000%	36,400,000	2.412%		
2030	34,820,000	5.000	21,550,000	5.000%	37,280,000	2.462%		
2031	36,565,000	5.000	22,625,000	5.000%				
2032	38,385,000	5.000	19,535,000	5.000%	3,045,000	2.662%		
2033	40,305,000	5.000	24,905,000	5.000%				
2034			26,150,000	5.000				
2035			10,205,000	5.000	16,940,000	2.912%		
2036			10,715,000	5.000	17,430,000			
2037					17,990,000			
2038					18,560,000	3.166		
<b>Totals</b>	<b>\$ 351,565,000</b>		<b>\$ 200,980,000</b>		<b>\$ 435,555,000</b>		<b>\$ 54,650,000</b>	

Annual debt service requirements to maturity for Highway Revenue Bonds, including direct placements, are as follows:

Fiscal year ending June 30,	Highway Revenue Bonds		
	Principal	Interest	Total
2023	\$ 99,300,000	\$ 38,058,592	\$ 137,358,592
2024	102,355,000	36,136,147	138,491,147
2025	95,140,000	33,341,572	128,481,572
2026	88,690,000	30,581,014	119,271,014
2027	83,485,000	27,656,587	111,141,587
2028-2032	390,580,000	87,535,033	478,115,033
2033-2037	164,640,000	19,022,328	183,662,328
2038	18,560,000	587,610	19,147,610
	<b>\$ 1,042,750,000</b>	<b>\$ 272,918,883</b>	<b>\$ 1,315,668,883</b>

The Department has pledged future motor vehicle and related fuel fees and taxes to repay \$1.04 billion in outstanding Highway Revenue Bonds and direct placements issued since 2011. Proceeds from the bonds finance portions of the Transportation Board's Five-Year Transportation Facilities Construction Program, and to refund certain maturities of outstanding Highway Revenue bond issues. The bonds are payable solely from motor vehicle and related fuel fees and taxes and are payable through 2038. The total principal and interest remaining to be paid on the bonds is \$1.3 billion. Principal and interest paid for the current year and total pledged revenues were \$139.5 million and \$820.2 million respectively. The annual principal and interest payments on the bonds required 17.0% of the pledged revenues.

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**Arizona Transportation Board Highway Revenue Bonds-Direct Placements**

The Transportation Board negotiated a direct placement with Wells Fargo Bank, National Association to refund, in advance of maturity certain outstanding Highway Revenue Bonds as described below.

**Bond Issuance**

On November 10, 2021, the Transportation Board issued \$56.4 million of Taxable Highway Revenue Refunding Bonds Series 2021 (Series 2021 bonds), as a direct placement, with an interest rate of 0.600% and serial maturities ranging from 2022 to 2023. Net proceeds totaled \$56.1 million, after payment of \$286 thousand of issuance costs and underwriter's discount. The net proceeds were used to refund, in advance of maturity, portions of the outstanding Series 2013A Highway Revenue Bonds. The advance-refunding resulted in a debt service savings of \$1.8 million, and a net present value economic gain of \$1.8 million (difference between the present values of the old and new debt service payments). The advance-refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$11.1 million. This gain was recognized in fiscal year 2022 as the 2013A bonds were called on July 1, 2022.

**Arizona Transportation Board Transportation Excise Tax Revenue Bonds**

The Maricopa Regional Area Road Construction Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the Transportation Board. These bonds are secured by a portion of transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The balance of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$511.125 million.

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All Transportation Excise Tax Revenue Bonds mature no later than July 1, 2025. Transportation Excise Tax Revenue Bonds currently outstanding are as follows:

Maturity (7/1)	2014 Series		2016 Series		2018 Series		2021 Series (Direct Placement)	
	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon
2023	\$ 58,505,000	4.00 %	\$ 26,135,000	5.00 %	\$ 39,760,000	5.00 %		
2024	76,800,000	4.00 %	13,015,000	5.00 %	40,805,000	5.00 %		
2025	63,675,000	5.00 %	15,660,000	5.00 %	43,130,000	5.00 %	\$ 14,670,000	0.78 %
Totals	<u>\$198,980,000</u>		<u>\$ 54,810,000</u>		<u>\$123,695,000</u>		<u>\$ 14,670,000</u>	

Annual debt service requirements to maturity for Transportation Excise Tax Revenue Bonds, including direct placements, are as follows:

Fiscal year ending June 30,	Transportation Excise Tax Revenue Bonds		
	Principal	Interest	Total
2023	\$ 124,400,000	\$ 18,988,676	\$ 143,388,676
2024	130,620,000	12,768,676	143,388,676
2025	137,135,000	6,237,676	143,372,676
	<u>\$ 392,155,000</u>	<u>\$ 37,995,028</u>	<u>\$ 430,150,028</u>

The Department has pledged future transportation excise taxes to repay \$392.2 million in outstanding Transportation Excise Tax Revenue Bonds and direct placements issued since 2009. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County and to refund certain maturities of various outstanding Transportation Excise Tax Revenue bond issues. The bonds are payable solely from transportation excise taxes and are payable through 2025. The total principal and interest remaining to be paid on the bonds is \$430.2 million. Principal and interest paid for the current year and total pledged revenues were \$143.4 million and \$443.5 million, respectively. The annual principal and interest payments on the bonds required 32.3% of the pledged revenues.

**Arizona Transportation Board Transportation Excise Tax Revenue Bonds-Direct Placements**

**Bond Issuance**

On July 8, 2021, the Transportation Board issued \$28.1 million of Transportation Excise Tax Revenue Refunding Bonds Series 2021 (Series 2021 bonds), as a direct placement, with an interest rate of 0.780% and serial maturities ranging from 2022 to 2025. Net proceeds totaled \$27.9 million, after payment of \$215 thousand of issuance costs and underwriter's discount. The net proceeds were used to refund, in advance of maturity, portions of the outstanding Series 2011 Regional Area Road Fund Bonds. The advance-refunding resulted in a debt service savings of \$1.3 million, and a net present value economic gain of \$1.3 million (difference between the present values of the old and new debt service payments). The advance-refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$544 thousand. This gain was recognized in fiscal year 2022 as the 2011 bonds were called on July 20, 2021.

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**Arizona Transportation Board Grant Anticipation Notes**

The Grant Anticipation Notes Fund administers all payments of principal and interest for notes issued by the Transportation Board and is secured by revenues received from the Federal Highway Administration under grant agreements and certain other federal-aid revenues. The balance of Grant Anticipation Notes issued in prior years and outstanding at the start of the fiscal year was \$184.460 million.

Grant Anticipation Notes currently outstanding are as follows:

Maturity (7/1)	Series 2016		Series 2017A		Series 2019A	
	Principal	Coupon	Principal	Coupon	Principal	Coupon
2023	\$ 14,700,000	5.000%	\$ 3,740,000	5.000 %	\$ 3,360,000	5.000 %
2024	15,430,000	5.000%	3,925,000	5.000 %	3,520,000	5.000 %
2025	16,205,000	5.000%	4,125,000	5.000 %	3,690,000	5.000 %
2026	17,015,000	5.000%	4,325,000	5.000 %	3,880,000	5.000 %
2027			4,540,000	5.000 %	4,070,000	5.000 %
2028			4,770,000	5.000 %	4,270,000	5.000 %
2029			5,010,000	5.000 %	4,495,000	5.000 %
2030			5,260,000	5.000 %	4,715,000	5.000 %
2031			5,520,000	5.000 %	4,955,000	5.000 %
2032			5,800,000	5.000 %	5,195,000	5.000 %
2033					5,455,000	5.000 %
2034					5,735,000	5.000 %
Totals	<u>\$ 63,350,000</u>		<u>\$ 47,015,000</u>		<u>\$ 53,340,000</u>	

Annual debt service requirements to maturity for Grant Anticipation Notes are as follows:

Fiscal year ending June 30,	Grant Anticipation Notes		
	Principal	Interest	Total
2023	\$ 21,800,000	\$ 8,185,250	\$ 29,985,250
2024	22,875,000	7,095,250	29,970,250
2025	24,020,000	5,951,500	29,971,500
2026	25,220,000	4,750,500	29,970,500
2027	8,610,000	3,489,500	12,099,500
2028-2032	49,990,000	10,540,000	60,530,000
2033-2034	11,190,000	846,250	12,036,250
	<u>\$ 163,705,000</u>	<u>\$ 40,858,250</u>	<u>\$ 204,563,250</u>

The Department has pledged federal revenues to repay \$163.7 million in outstanding Grant Anticipation Notes. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Arizona and to refund certain maturities of various outstanding Grant Anticipation Notes. The bonds are payable solely from federal revenues and are payable through 2034. The total principal and interest remaining to be paid on the bonds is \$204.6 million. Principal and interest paid for the current year and total pledged revenues were \$30.0 million and \$843.9 million, respectively. The annual principal and interest payments on the bonds required 3.6% of the pledged revenues.

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**Refunded Bonds Deposited with Escrow Agents**

In the prior fiscal years, the Transportation Board refinanced various bond issues through refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, 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. The assets, liabilities, and financial transactions of these trust accounts and the liability for these legally defeased bonds are not reflected in the financial statements of the Department.

**Changes in Noncurrent Liabilities**

The activity for the fiscal year ended June 30, 2022, was as follows:

	Beginning Balance July 1, 2021	Additions	Reductions	Ending Balance June 30, 2022	Due Within One Year
<i>Governmental activities</i>					
Bonds and notes					
Highway Revenue bonds	\$ 1,138,455,000	\$ —	\$ (150,355,000)	\$ 988,100,000	\$ 44,650,000
Transportation Excise Tax Revenue bonds	511,125,000	—	(133,640,000)	377,485,000	124,400,000
Grant Anticipation notes	184,460,000	—	(20,755,000)	163,705,000	21,800,000
Highway Revenue Bonds Direct Placement	—	56,385,000	(1,735,000)	54,650,000	54,650,000
Transportation Excise Tax Revenue Bonds Direct Placement	—	28,135,000	(13,465,000)	14,670,000	—
Unamortized premium on bonds	289,528,127	—	(45,600,769)	243,927,358	34,453,763
<b>Total bonds and notes</b>	<b>2,123,568,127</b>	<b>84,520,000</b>	<b>(365,550,769)</b>	<b>1,842,537,358</b>	<b>279,953,763</b>
Compensated absences	20,349,695	12,725,501	(12,768,385)	20,306,811	12,768,386
Utility and railroad settlement accrual	10,898,695	786,021	(10,898,695)	786,021	—
Accrued relocation costs	4,588,492	34,182,046	(4,588,492)	34,182,046	4,782,585
<b>Total governmental activities</b>	<b>\$ 2,159,405,009</b>	<b>\$ 132,213,568</b>	<b>\$ (393,806,341)</b>	<b>\$ 1,897,812,236</b>	<b>\$ 297,504,734</b>

Utility and railroad settlement accruals represent estimates of unpaid amounts due to vendors in which the Department has agreed to settle disputed amounts for work performed on road construction projects.

Accrued relocation costs represent expenditures to relocate displaced individuals and businesses resulting from eminent domain proceedings related to the South Mountain Freeway project. Such expenditures will be paid out over several years, and, therefore, are accrued as a long-term liability.

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The Internal Service Fund predominantly serves the governmental funds. Accordingly, long-term liabilities for that fund are included as part of the above totals for governmental activities. At year-end, \$776 thousand of the Internal Service Fund's compensated absences is included in the above amounts.

Bonds and notes issued by the Department require compliance with a number of covenants. The Department believes that it is in compliance with all such covenants. In addition, certain of the Department's obligations are subject to Internal Revenue Service regulations pertaining to issuance of tax-exempt debt by governmental entities. The Department does not have and has not accrued a liability under these regulations.

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**F. Fund Balances**

The fund balance classifications of the governmental funds as of June 30, 2022, were as follows:

	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Debt Service Fund	Capital Projects Funds	Non-major Governmental Funds	Total
<b>Fund Balances</b>							
<b>Nonspendable</b>							
Inventories	\$ 402,377	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 402,377
Total nonspendable	<u>402,377</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>402,377</u>
<b>Restricted for</b>							
Highway	214,713,076	451,864,978	—	—	3,570,543	—	670,148,597
Debt Service	149,084,208	145,137,385	—	236,043	—	—	294,457,636
Aid to local governments	44,258,762	55,887,360	—	—	—	22,451,526	122,597,648
Motor vehicle	2,185,336	—	—	—	—	—	2,185,336
Total restricted	<u>410,241,382</u>	<u>652,889,723</u>	<u>—</u>	<u>236,043</u>	<u>3,570,543</u>	<u>22,451,526</u>	<u>1,089,389,217</u>
<b>Committed to</b>							
Administration	—	—	—	—	—	90,330,745	90,330,745
Highway	336,501,093	—	—	—	—	—	336,501,093
Highway maintenance	396,137,908	—	—	—	—	—	396,137,908
Motor vehicle	—	—	—	—	—	5,943,298	5,943,298
Total committed	<u>732,639,001</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>96,274,043</u>	<u>828,913,044</u>
<b>Unassigned</b>	<u>—</u>	<u>—</u>	<u>(8,128,423)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8,128,423)</u>
Total fund balances	<u>\$1,143,282,760</u>	<u>\$ 652,889,723</u>	<u>\$ (8,128,423)</u>	<u>\$ 236,043</u>	<u>\$ 3,570,543</u>	<u>\$ 118,725,569</u>	<u>\$ 1,910,576,215</u>

The \$(8.1) million in the unassigned portion of the fund balance is due to Arizona Revised Statutes, §28-6542 (B), which prohibits adjustments more than 24 months after the original distribution.

**Arizona Department of Transportation**  
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**6) Other Information**

**A. Interstate 10 Broadway Curve Project and South Mountain Freeway Maintenance Contract**

**Interstate 10 Broadway Curve Project**

On January 5, 2021 the Department entered into a design-build contract totaling \$615.6 million with Pulice Construction, Inc. FNF Construction, Inc., and Flatiron Constructors, Inc. (PFF) Joint Venture for the design and construction of the I-10 Broadway Curve: I-17 (Split) to SR202 Freeway widening project. This Project is mainly located on I-10 between milepost (MP) 149.5 and MP 160.5 in Maricopa County, Arizona within the cities of Phoenix, Tempe, Chandler, and the town of Guadalupe. I-10 is a key component of the National Highway System and a major element of the MAG-adopted Regional Transportation Plan Freeway Program. The Project also includes segments of 48th Street/SR 143, from Broadway Road to the south bank of the Salt River and US 60 from I-10 to Hardy Drive. Pre-construction activities and preparation began early 2021. Construction began in the fall 2021 and the anticipated project completion date is late fall 2024.

**Cost and Funding Sources**

The anticipated cost of this project is approximately \$842.3 million, including capital asset replacement and routine maintenance costs, but not including financing costs as shown in the schedule below. Right-of-way cost estimates are not contractually committed, but are necessary costs to complete the project. The significant cost components of this project are as follows:

Developer Design and construction	\$	615,600,950
Construction Management, Other Utilities & Contingency		61,075,744
Preliminary engineering and right of way		165,601,149
Total anticipated cost of project	\$	<u>842,277,843</u>

Actual cost incurred by the Department through June 30, 2022 for this project is \$264.5 million.

Anticipated funding for the I-10 Broadway Curve Freeway widening Project will be provided from the following sources (in millions):

Regional Area Road Fund (1/2 - cent sales tax)	\$	468
Federal Funds		375
Total funding by source	\$	<u>843</u>



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**South Mountain Freeway Maintenance Services Contract – 30-Year Period**

Starting in fiscal year (FY) 2020, Connect 202 Partners will maintain the freeway corridor for a period of 30 years. When the contract was signed, the average annual routine maintenance cost to the Department was approximately \$2,932,045 (in 2015\$). The actual amount paid to Connect 202 Partners in a given year will be escalated or reduced based on changes in the Consumer Price Index (CPI). Routine maintenance work began in FY 2020. A total of \$7,460,762 in routine maintenance expense was incurred in FY 2020 through FY 2022. Over the course of the 30 year maintenance period, Connect 202 Partners is expected to spend an additional \$103,192,057 (in 2015\$) on capital asset replacement. Capital asset replacement anticipated for FY 2022 was pushed back to FY 2023. The actual amount given to Connect 202 Partners in a given year will be escalated or reduced based on changes in the Construction Cost Index (CCI). The estimates assume CCI at 3% and CPI 2% annually, although actual CCI and CPI will vary thus increasing or decreasing the routine asset and capital asset obligations for the contract. Due to current economic conditions and inflation trends, CPI forecast for FY 2024 has been increased to 6.9%.

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**B. Contingent Liabilities**

Risk Management Insurance Losses

The Department is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department is a participant in the State's self-insurance program and, in the opinion of the Department's management, any unfavorable outcomes from these claims and actions would be covered by the self-insurance program. Accordingly, the Department has no risk of loss beyond adjustments to future years' premium payments to the State's self-insurance program. All estimated losses for unsettled claims and actions of the State are determined on an actuarial basis and are included in the State of Arizona's Annual Comprehensive Financial Report.

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 losses, if any, resulting from settlement of these claims will not have a material effect on the financial position of the Department.

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Department expects such amounts, if any, to be immaterial.

Light Rail Transit System

Arizona Revised Statutes, §28-9201, requires the Department to establish, implement, and enforce minimum safety standards for light rail transit systems. If a violation of the safety standards is discovered, the Department shall report the violation in writing to the Federal Transit Administration. Furthermore, the organization that operates a light rail transit system shall include a safety oversight function and pay the Department's costs resulting from administration.

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**C. Pension - Retirement Benefits**

Arizona State Retirement System

*Plan Descriptions* – Employees of the Department participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple- employer defined benefit health insurance premium benefit (OPEB); and a cost-sharing, multiple-employer defined benefit long-term disability (OPEB). The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at [www.azasrs.gov](http://www.azasrs.gov).

*Benefits Provided* – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement Initial Membership Date Eligibility for full retirement benefits	
	Before July 1, 2011	On or after July 1, 2011
	Sum of credited service years plus age equals 80	
Years of service plus age required to receive full Retirement benefits	10 years of credited service, at age 62 Any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 Any years, age 65
Early Retirement	5 years of service, at age 50*	5 years of service, at age 50*
Average Monthly Compensation is based on	Highest 36 consecutive months of last 120 months - termination pay excluded	Highest 60 consecutive months of last 120 months - termination pay excluded
Benefit percent multiplier	2.1% to 2.3%	2.1% to 2.3%
Benefit percent multiplier is based on Years of Service	0-19.99 years of service 2.10% 20-24.99 years 2.15% 25-29.99 years 2.20% 30 or more years 2.30%	0-19.99 years of service 2.10% 20-24.99 years 2.15% 25-29.99 years 2.20% 30 or more years 2.30%

\* Early retirement eligibility with actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to Permanent Benefit Increases (PBI) based on excess investment earnings, which are reserved for this purpose. Funds are reserved when total actuarial investment returns for each fiscal year are greater than 8%. If there are no excess investment earnings in the reserve, then no additional PBI is paid. As of June 30, 2021, there is a \$125.0 million balance in the reserve for future PBIs, however, this amount will not create PBIs in the current year per the above statute. Pursuant to A.R.S. § 38-767, retired members with at least 10 years of service who have been retired five or more years are eligible for an enhanced permanent benefit increase. For each complete five-year period the member has been retired, an incremental benefit is paid if monies to pay the benefit are available. This benefit is funded by an interest credit of 8% of the reserve for future PBIs.

Members with a membership date on or after September 13, 2013, are not eligible for PBIs. Survivor benefits are payable upon a member's death. For retired members, the retirement

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benefit option chosen determines the survival benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

*Contributions* – In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2022, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.41% (12.22% for retirement and 0.19% for long-term disability) of the members' annual covered payroll, and the Department was required by statute to contribute at the actuarially determined rate of 12.41% (12.01% for retirement, 0.21% for the health insurance premium benefit, and 0.19% for long-term disability) of the active members' annual covered payroll. In addition, the Department was required by statute to contribute at the actuarially determined rate of 10.22% (10.13% for retirement, 0.00% for health insurance premium benefit, and 0.09% for long-term disability) of annual covered payroll of retired members who worked for the Department in positions that would typically be filled by an employee who contributes to the ASRS. The Department's contributions to the pension plan for the year ended June 30, 2022, were \$23,023,063.

During the fiscal year ended June 30, 2022, the Department paid for ASRS pension contributions as follows: 90% from the General Fund (State Highway Fund), 3% from major funds, and 7% from other non-major funds.

The Department's total covered payroll for fiscal year 2022 was \$191,699,109. The System is funded through payroll deductions from employees' gross earnings and amounts contributed by the Department. Retirement benefits, health care benefits, and long term disability benefits are obligations of the System and not of the Department. The Arizona Revised Statutes provide statutory authority for employee and employer contributions. The contribution requirement for fiscal year 2022 was \$23,023,063 each by both the employees and the Department, of which 100% was so contributed.

Presentation of Deferred Outflows and Deferred Inflows of Resources

Deferred outflows and inflows of resources are reported in the basic statements of net position in a separate section following assets and liabilities, respectively. The Department elected the optional statement of net position presentation.

The Department recognizes the consumption of net position that is applicable to a future reporting period as deferred outflows of resources. The deferred outflows of resources are related to the Department's pension plan.

The Department recognizes the acquisition of net position that is applicable to a future reporting period as deferred inflows of resources. The deferred inflows of resources relate to the Department's pension plan.

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Retirement Plans

The Department contributes to the Arizona State Retirement System plan described below. The plan is a component unit of the State of Arizona. At June 30, 2022, the Department reported the following amounts related to the pension plan to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities
Net pension liability	\$ 220,920,611
Deferred outflows of resources	58,831,820
Deferred inflows of resources	(72,379,971)
Pension expense	15,688,319

Changes in the Department's net pension liability during the fiscal year ended June 30, 2022, were as follows:

	Governmental Activities
Beginning balance	\$ 284,995,265
Increases	200,156,779
Decreases	(264,231,433)
Ending balance	<u>\$ 220,920,611</u>

*Pension Liability* – At June 30, 2022, the Department reported a liability of \$220.9 million for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2020, to the measurement date of June 30, 2021 using generally accepted actuarial procedures.

The Department's reported liability at June 30, 2022, decreased by \$64.1 million from the prior year liability of \$285.0 million because of changes in the ASRS' net pension liability and the Department's proportionate share of that liability. The ASRS' publicly available financial report provides details on the change in the net pension liability.

The Department's proportion of the net pension liability was based on the Department's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2021. The Department's proportion measured as of June 30, 2021, was 1.68134, which was an increase of 0.04% from its proportion measured as of June 30, 2020.

The actuarial assumptions presented herein pertain to assumptions utilized for financial reporting requirements and differ from the assumptions utilized for funding purposes. The principal differences between the actuarial assumptions for financial reporting purposes and those utilized for funding purposes are the amortization methodology and valuation of assets. The actuarial assumptions were selected on the basis of an experience study which was performed for the five-year period ending June 30, 2016. The ASRS Board adopted the experience study which recommended changes, and those changes were effective as of the June 30, 2017 actuarial valuation. A new experience study, adopted in July of 2021 will be utilized in the roll forward of the actuarial valuation in the current year and in future years. Details of the

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assumptions resulting from the experience study performed as of June 30, 2016, and June 30, 2020 appear in the Actuarial Section of the June 30, 2021 ACFR beginning on page 91.

*Pension Expense and Deferred Outflows/Inflows of Resources* – For the year ended June 30, 2022, the Department recognized pension expense from ASRS of \$15.7 million. This amount excludes current year contribution deferrals and the Department's internal change in proportion. At June 30, 2022, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,367,731	\$ —
Change in Assumptions	28,754,584	—
Difference between projected and actual earnings on pension plan investment earnings		69,995,421
Changes in proportion and differences between State contributions and proportionate share of contributions	3,686,442	2,384,550
Contributions subsequent to the measurement date	23,023,063	—
Total	<u>\$ 58,831,820</u>	<u>\$ 72,379,971</u>

The \$23,023,063 reported as deferred outflows of resources related to ASRS pensions resulting from the Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023 (measurement date June 30, 2023). Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense
2023	\$ 440,606
2024	2,539,532
2025	(15,430,404)
2026	(24,120,948)

*Actuarial Assumptions* – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	6/30/2020
Actuarial roll forward date	6/30/2021
Actuarial cost method	Entry age normal
Asset valuation	Fair value
Discount Rate	7.0%
Projected salary increases	2.9 - 8.4%
Inflation	2.3%
Permanent benefit increase	Included
Mortality rates	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2021, valuation was determined by an actuarial valuation as of June 30, 2020, and rolled forward using generally accepted actuarial procedures to June 30, 2021.

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The long-term expected real return on ASRS pension plan investments was determined to be 4.7% using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term contribution to expected real return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Real Return Geometric Basis	Long-Term Contribution to Expected Real Return
Equity	50%	4.90%	2.45%
Credit	20%	5.20%	1.04%
Interest Rate Sensitive Bonds	10%	0.70%	0.07%
Real estate	20%	5.70%	1.14%
Total	<u>100%</u>		<u>4.7%</u>

*Discount Rate* – As of June 30, 2021, the discount rate used to measure the ASRS total pension/OPEB liability was 7.0%, which was a decrease of 0.5 from the discount rate used as of June 30, 2020. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statutes. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

*Sensitivity of the Department’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate* – The following table presents the Department’s proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the Department’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0%) or 1 percentage point higher (8.0%) than the current rate.

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Proportionate share of the net pension liability	\$347,489,617	\$220,920,611	\$115,397,080

*Pension Plan Fiduciary Net Position* – Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910, by calling (602) 240-2000 or (800) 621-3778 or visiting the website at [www.azasrs.gov/content/annual-reports](http://www.azasrs.gov/content/annual-reports).

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**D. Accounting Changes**

**Government-wide Financial Statements**

Government-wide beginning Net Position has been restated as follows:

	Governmental Activities
Net position, as previously reported	\$ 23,233,024,632
Prior period adjustment	<u>(12,290,450)</u>
Net position, as restated	<u><u>\$ 23,220,734,182</u></u>

**Prior Period Adjustment**

Governmental activities beginning net position has been restated to reflect the impact on deferred gains/losses on refundings calculations from amortizing bond premiums on a straight-line basis to the effective interest method.

**E. Subsequent Events**

Subsequent to year end, House Bill 2871, Chapter 321, Section 20 was passed in the 2022 Regular legislative session. This Bill appropriates \$946,047,500 of Transaction Privilege Tax revenues from the State General Fund to ADOT funds in FY 2023 (\$925,447,500 to the State Highway Fund, and \$20,600,000 to the State Aviation Fund). The Bill stipulates that the appropriations will be distributed monthly, at the beginning of the month following the general effective date of the act. It is our understanding that these revenues will be distributed from the State Treasurer for eleven months from August-June, FY 2023. The general effective date is September 24, 2022.



# REQUIRED SUPPLEMENTARY INFORMATION (OTHER THAN MD&A)

**Budgetary Comparison Schedule – General Fund (State Highway Fund)**

**Note to Required Supplementary Information**

**Information about Infrastructure Assets Reported Using the Modified Approach**

**Pension Liability and Pension Contributions**

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**Budgetary Comparison Schedule  
General Fund (State Highway Fund) – Budgetary Basis  
For the Year Ended June 30, 2022**

	Budgeted Amounts		Actual Amounts	Variance with Actual
	Original	Final		Positive
				(Negative)
Expenditures appropriated by State legislature in 2022 budget				
Department of Transportation	\$ 422,701,400	\$ 414,704,100	\$ 372,914,674	\$ 41,789,426
Timing differences:				
Prior year appropriation expenditures expended in current budgetary year			37,415,038	
Basis differences:				
Net increase (decrease) from cash basis for budgeting purposes and modified accrual basis for financial reporting purposes			17,356,916	
Entity differences:				
Funds not appropriated, but included for financial reporting purposes			55,577,607	
Perspective differences:				
Expenditures on modified accrual basis and not recognized on budgetary basis:				
Capital outlay and asset preservation			496,326,630	
Distributions to Arizona counties and cities			73,808,175	
Distributions to other state agencies			52,997,416	
3rd Party MVD fees			45,692,386	
Total expenditures as reported on the Statement of Revenues, Expenditures, and				
Changes in Fund Balances - Governmental Funds (General Fund) - Exhibit 4			\$ 1,152,088,842	

**The accompanying note to required supplementary information is an integral part of this schedule.**

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**Note to Required Supplementary Information**

**1. Budgets and Budgetary Accounting**

An annual budget for the operating expenditures of the General Fund (State Highway Fund) is submitted to the governor in accordance with state law. The budget is legally enacted as appropriations after approval by the state legislature and signature of the governor. The legal level of control for operating expenditures is set at the agency level and expenditure budgets are appropriated using a lump-sum by agency format. Revenue budgets are developed internally by the Department and are not part of the appropriation process.

Amendments to the approved appropriations require legislative approval. However, since the Department's appropriation is a lump sum appropriation by agency, the allocation of funds between personal services, employee-related expenditures, and other operating expenditures is an internal decision. Accordingly, transfers between line items such as personal services and other operating expenditures within a particular program may be made by the program manager. Expenditures may not exceed appropriations. All transfers of funds are reported to the Department's Office of Strategic Planning and Budgeting for monitoring purposes.

Budgets are prepared on the cash basis except that liabilities incurred before the end of the fiscal year and paid within the first month of the subsequent fiscal year are charged against the prior fiscal year's budget. The Department's appropriations lapse at fiscal year-end unless exempted by the legislature.

For financial reporting purposes, the accompanying financial statements present the legally adopted budget for the operations of the General Fund (State Highway Fund) that is subject to legislative appropriation.

In addition, budgets for capital outlay, including land, building, and improvements for the General Fund (State Highway Fund) and State Aviation Fund, are also submitted to the governor in accordance with state law. The capital outlay appropriation includes state highway construction and land, building, and improvements for the General Fund (State Highway Fund). A legal limitation is adopted for land, building, and improvements; however, legislation allows the Department to spend in excess of its appropriation for state highway construction up to the current fund balance. The Department monitors expenditures through an internal budgetary process and the Five-Year Transportation Facilities Construction Program approved by the Transportation Board.

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**Information About Infrastructure Assets Reported Using the Modified Approach**

As allowed by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34), as amended, the Arizona Department of Transportation (the “Department”) reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include 9,415 center line miles (22,383 travel lane miles) of roads and 4,927 bridges that the Department is responsible to maintain.

In order to utilize the modified approach, the Department is required to:

- Maintain an asset management system that includes an up to date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Department.
- Document that the assets are being preserved approximately at or above the established condition level.

As adopted by the Transportation Board of the State of Arizona Department of Transportation (the “Transportation Board”) on an annual basis, the Five-Year Transportation Facilities Construction Program (the “Program”) contains estimated expenditures for highway system improvements and the preservation of existing roadway and bridges. Both of these factors impact the condition assessment of the roads and bridges as described in the following sections. The Program in effect for fiscal year 2022 and beyond was adopted by the Transportation Board on June 16, 2017.

This Program is a dynamic instrument and adjustments are made to the annual plans based on the needs of the Department to maintain the condition level of the roads and bridges at a level equal to, or greater than, the goals established by the Department. In addition, not only are adjustments made during the life of the Program, circumstances may require that refinements to the individual components of the Program be made during the fiscal year.

In comparing Estimated to Actual Expenditures in the tables that follow, significant variances can occur. These variances are primarily due to the methodology used in the preparation of the Program. In this Program, the Estimated Expenditures for the current year are based on “programmed” projects which may or may not be spent in the current year of the Program. Programmed expenditures consist of those items that are planned for the future, with contracts that have not yet been awarded. Furthermore, the Actual Expenditures will include projects that were programmed for a prior year’s Estimated Expenditures, but which did not occur, or were not completed, in the prior year.

The following information pertains to the condition assessment and maintenance of infrastructure assets and reflects the Department’s success in achieving condition levels that exceed the established levels.

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**Roads**

The mission of the Department’s Pavement Management Section (PMS) is to develop and provide a cost effective pavement rehabilitation construction program that preserves the state’s investment in its highway system and enhances public transportation and safety. The requirements of GASB 34 and the PMS both work toward the same basic goal, the efficient, effective management of the Department’s assets to produce long-term benefits while minimizing expenditures.

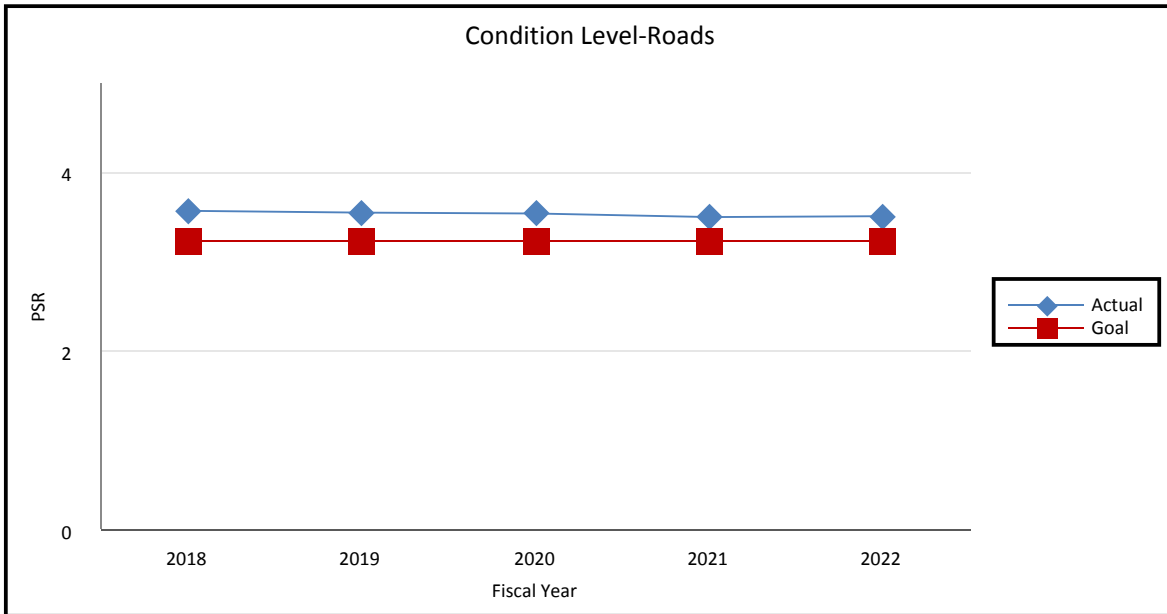
The PMS has developed performance goals for the condition level of the pavement in the state highway system. These goals require periodic assessment of pavement conditions and the budget level needed to meet that goal. The goal is expressed as a measure called “Serviceability” which can be defined as the ability of a pavement to serve the traveling public (as documented in 1961 after American Association of State Highway and Transportation Officials (AASHTO) Road Test, 1956-1961). Serviceability is based on detailed measurements of objective features of the pavement. Many surveys since the original road test have shown that these measurements closely track the subjective opinion of the traveling public. Most commonly, this number is called Present Serviceability Rating and abbreviated as PSR. PSR is a five-point scale (5 excellent, 0 impassable), similar to the Weaver/AASHTO Scale shown as follows:

Numerical Rating	PSR	Weaver/AASHTO Scale
5	Excellent	Perfect
4	Good	Very Good
3	Fair	Good
2	Poor	Fair
1	Very Poor	Poor
0	Impassable	Very Poor

The goal of the Department is to maintain a condition level (PSR) rating of 3.23 or better for all roads in the state highway system. Annually, Transportation Material Technicians drive over the system with inertial profiling equipment and measure the roughness of the pavement. This process is continuous throughout the year in order to assess the condition level of all pavement on an annual basis. As of the end of fiscal year 2022, an overall rating of 3.51 was achieved, as shown in the following graph:

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Figure 1



Preservation of the roads is accomplished through programs managed primarily by the Department's PMS, as well as other units within the Department. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2018 through 2022 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2018	\$375.0	\$218.0
2019	\$364.6	\$231.0
2020	\$509.0	\$294.0
2021	\$371.2	\$209.4
2022	\$845.8	\$374.4

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**June 30, 2022**

**Bridges**

The Department's bridge assets constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2022, the Department owned and maintained 4,927 bridges with an approximate total deck area of 46,298,832 square feet. Bridges, for purposes of this report, include all structures erected over an opening or depression with a centerline of 20 feet or more. Information related to these bridges is stored and updated in AASHTOWare™ Bridge Management software (BrM). This system is used to efficiently manage the bridge inventory through storing all bridge related data and assisting bridge engineers in arriving at appropriate bridge preservation decisions. Also, BrM is used for reporting bridge inventory and condition, on an annual basis, to the Federal Highway Administration (FHWA).

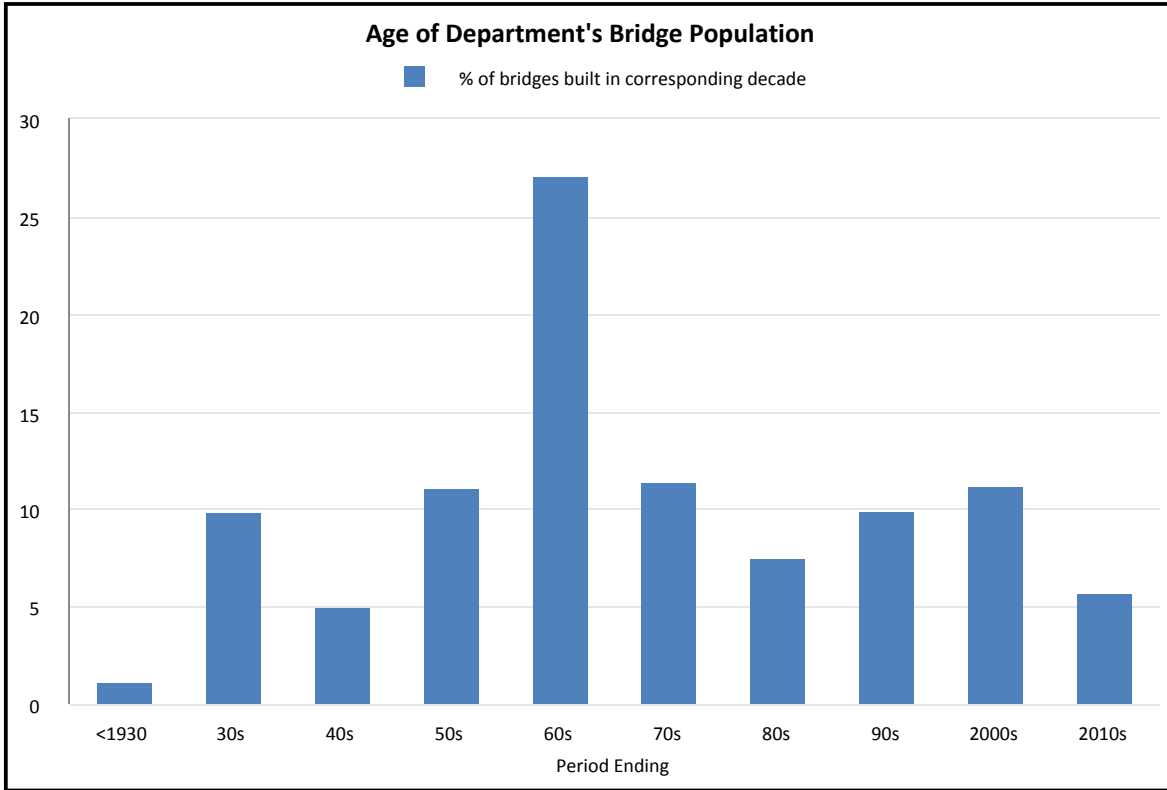
Historically, a Condition Rating Index (CRI) has been used to track the condition of the bridge network. The CRI was based on four selected bridge inspection condition ratings, which in turn were based on standards established in the FHWA's "Recording and Coding Guide for the Structural Inventory of the Nation's Bridges."

In 2015, FHWA issued new rules which have had the effect of replacing CRI as the summary statistic for bridge condition. Instead, the Departments of Transportation of the various States are expected to maintain their bridges so that no more than 10% are classified as Poor. Financial sanctions are held against States that do not comply with this standard. Management of the bridge inventory is a major function of the Department's Bridge Group and regularly scheduled biennial inspections are made of all bridges. A civil or structural engineer, licensed to practice in Arizona, performs these inspections. In fiscal year 2022, 0.6% of bridges maintained by the Department were classified as Poor.

Bridges represent a major public investment, and their inspection and maintenance is an essential function of the Department in its mission of providing products and services for a safe, efficient, and cost effective transportation system. Figure 2 indicates that approximately 72% of the bridges in the state were constructed in 1980 and prior while only 28% have been constructed after 1980.

**Arizona Department of Transportation**  
**Required Supplementary Information**  
**June 30, 2022**

Figure 2



Each bar represents the percentage of bridges built in corresponding decade.

Preservation of the bridges is accomplished through programs managed by the Bridge Group. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2018 through 2022 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2018	\$26.4	\$15.3
2019	\$28.1	\$17.8
2020	\$20.1	\$11.6
2021	\$358.2	\$202.0
2022	\$228.3	\$101.1



**Arizona Department of Transportation**  
**Required Supplementary Information**  
**June 30, 2022**

**Pension Liability and Pension Contributions**

Schedule of the Proportionate Share of the Net Pension Liability

For the last eight fiscal years ended <sup>(1)</sup>

	Fiscal Year (Measurement Date)							
	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Proportion of the net pension liability	1.68%	1.64%	1.7%	1.78%	1.91%	1.99%	2.07%	2.08%
Proportion share of the net pension liability	\$220,920,611	\$284,995,265	\$246,681,510	\$248,089,762	\$296,900,511	\$321,346,418	\$322,028,132	\$307,848,006
Covered payroll	\$192,927,433	\$176,319,415	\$178,584,660	\$176,727,743	\$178,648,729	\$186,117,539	\$190,570,110	\$190,570,110
Proportion share of the net pension liability as a percentage of its covered payroll	114.51%	161.64%	138.13%	140.38%	166.19%	172.66%	168.98%	164.15%
Plan fiduciary net position as a percentage of the total pension liability	78.58%	69.33%	73.24%	73.4%	69.92%	67.06%	68.35%	69.49%

Schedule of Pension Contributions

For the last eight fiscal years ended <sup>(1)</sup>

	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$23,023,063	\$22,476,046	\$20,188,573	\$19,965,765	\$19,263,324	\$19,258,333	\$20,193,753	\$ 20,753,085
Contributions in relation to the statutorily required contribution	23,023,063	22,476,046	20,188,573	19,965,765	19,263,324	19,258,333	20,193,753	20,753,085
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$191,699,109	\$192,927,433	\$176,319,415	\$178,584,660	\$176,727,743	\$178,648,729	\$186,117,539	\$ 190,570,110
Contributions as a percentage of covered payroll	12.01%	11.65%	11.45%	11.18%	10.90%	10.78%	10.85%	10.89%

(1) The Department implemented GASB 68 in fiscal year 2015. Therefore, ten years of data is not available, but will be accumulated over time.

# SUPPLEMENTARY INFORMATION

## NONMAJOR GOVERNMENTAL FUNDS

### FINANCIAL STATEMENTS

#### SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

**The State Aviation Fund** is appropriated by the legislature and receives monies from aviation gasoline taxes, sale of abandoned or seized aircraft, flight property taxes, and the operation of the Grand Canyon National Park Airport. The State Aviation Fund monies are used to build and maintain airport facilities throughout Arizona.

**The Safety Enforcement and Transportation Infrastructure Fund** is appropriated by the legislature and receives monies from registration fees for non-resident vehicles and single trip and limited use fuel tax permits. Monies are used for enforcement of vehicle safety requirements, and construction and maintenance of transportation facilities within twenty-five miles of the border between Arizona and Mexico.

**The Motor Vehicle Liability Insurance Enforcement Fund** is appropriated by the legislature and receives reinstatement fees for insurance-related driver license and vehicle registration suspensions. Monies are used to administer the State's Mandatory Liability Insurance Program.

**The Motor Vehicle Inspection and Title Enforcement Fund** is appropriated by the legislature and receives monies from the fees charged for certain vehicle inspections. Monies are used to defray the cost of investigations involving certificates of title, licensing fraud, registration enforcement, and other enforcement related issues.

**The Motor Carrier Safety Revolving Fund** receives fees to administer and enforce the rules governing the safety operations of motor carriers, shippers, and vehicles transporting hazardous materials, substances, or waste.

**The Economic Strength Project Fund** receives monies from the Highway User Revenue Fund for use on approved economic strength projects recommended by the Arizona Commerce Authority and Economic Development Commission.

**The Grant Anticipation Notes Fund** receives revenues from the Federal Highway Administration under various grant agreements for the repayment of Grant Anticipation Notes (GARVEE bonds).

**The Local Agency Deposits Fund** receives monies from the U.S. Government and local agencies for the payment of local agency sponsored county secondary road construction projects.

**Arizona Department of Transportation**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2022**

**Exhibit 8**

	State Aviation Fund	Safety Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Motor Vehicle Inspection and Title Enforcement Fund
<b>Assets</b>				
Unrestricted cash on deposit with State Treasurer	\$ 86,207,351	\$ —	\$ 5,606,491	\$ 210,581
Receivables:				
Interfund (Note 5D)	100,387	—	123,847	48,375
Notes and loans	371,644	—	—	—
Other (net)	1,285,599	—	—	—
Amounts due from U.S. Government	—	—	—	—
Restricted cash on deposit with the State Treasurer	—	—	—	—
<b>Total assets</b>	<b>\$ 87,964,981</b>	<b>\$ —</b>	<b>\$ 5,730,338</b>	<b>\$ 258,956</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 807,363	\$ —	\$ —	\$ 1,855
Accrued payroll and other accrued expenditures	5,370	—	20,354	24,291
Interfund payables (Note 5D)	25,897	—	—	—
Amounts due to				
Arizona counties and cities	—	—	—	—
<b>Total liabilities</b>	<b>838,630</b>	<b>—</b>	<b>20,354</b>	<b>26,146</b>
<b>Fund balances</b>				
Restricted	—	—	—	—
Committed	87,126,351	—	5,709,984	232,810
<b>Total fund balances</b>	<b>87,126,351</b>	<b>—</b>	<b>5,709,984</b>	<b>232,810</b>
<b>Total liabilities and fund balances</b>	<b>\$ 87,964,981</b>	<b>\$ —</b>	<b>\$ 5,730,338</b>	<b>\$ 258,956</b>

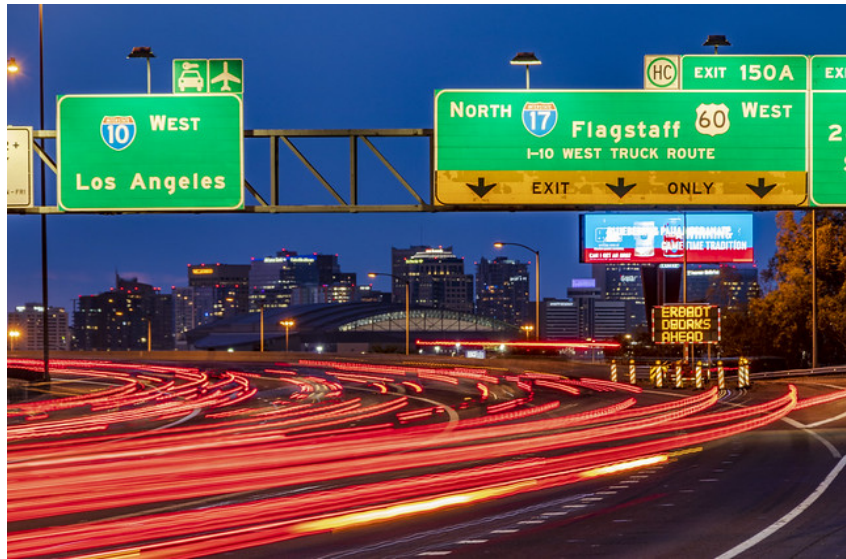
Motor Carrier Safety Revolving Fund	Economic Strength Project Fund	Grant Anticipation Notes Fund	Local Agency Deposits Funds	Total Nonmajor Governmental Funds
\$ 504	\$ 3,204,394	\$ —	\$ —	\$ 95,229,321
—	—	—	—	272,609
—	—	—	—	371,644
—	—	—	603,562	1,889,161
—	—	—	14,005,346	14,005,346
—	—	—	37,600,848	37,600,848
<u>\$ 504</u>	<u>\$ 3,204,394</u>	<u>\$ —</u>	<u>\$ 52,209,756</u>	<u>\$ 149,368,929</u>
—	—	—	22,399,887	23,209,105
—	—	—	20,431	70,446
—	—	—	—	25,897
—	—	—	7,337,912	7,337,912
—	—	—	29,758,230	30,643,360
—	—	—	22,451,526	22,451,526
504	3,204,394	—	—	96,274,043
504	3,204,394	—	22,451,526	118,725,569
<u>\$ 504</u>	<u>\$ 3,204,394</u>	<u>\$ —</u>	<u>\$ 52,209,756</u>	<u>\$ 149,368,929</u>

**Arizona Department of Transportation**  
**Combining Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances — Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2022**

	State Aviation Fund	Safety Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Motor Vehicle Inspection and Title Enforcement Fund
<b>Revenues</b>				
Transportation excise taxes	\$ 4,774,821	\$ —	\$ —	\$ —
Vehicle registration, title, license, and related taxes and fees	162,185	—	1,898,055	1,493,076
Fuel and motor carrier taxes and fees	333,524	—	—	—
Flight property taxes	14,027,137	—	—	—
Reimbursement of construction expenditures - federal aid	5,696,491	—	—	—
Other federal grants and reimbursements	—	—	—	—
Reimbursements from Arizona counties and cities	1,675,166	—	—	—
Interest on loans receivable	20,847	—	—	—
Income from investments	261,831	406	—	—
Rental income	285,919	—	—	—
Other	532,678	—	—	6,706
Total revenues	<u>27,770,599</u>	<u>406</u>	<u>1,898,055</u>	<u>1,499,782</u>
<b>Expenditures</b>				
<b>Current</b>				
Administration	4,327,130	1,297	1,200	802
Highway	2,474,735	—	—	1,855
Highway maintenance	—	283,279	—	—
Motor vehicle	—	581	1,746,977	1,916,745
Total current expenditures	<u>6,801,865</u>	<u>285,157</u>	<u>1,748,177</u>	<u>1,919,402</u>
<b>Intergovernmental</b>				
Distributions to other state agencies	—	—	1,501,900	565,400
Distributions to Arizona counties and cities	8,239,797	—	—	—
Capital outlay	3,110,324	—	—	7,420
Total expenditures	<u>18,151,986</u>	<u>285,157</u>	<u>3,250,077</u>	<u>2,492,222</u>
Revenues over (under) expenditures	<u>9,618,613</u>	<u>(284,751)</u>	<u>(1,352,022)</u>	<u>(992,440)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers out	—	(1,258,721)	—	—
Total other financing sources (uses)	<u>—</u>	<u>(1,258,721)</u>	<u>—</u>	<u>—</u>
Net change in fund balances	9,618,613	(1,543,472)	(1,352,022)	(992,440)
Fund balances, beginning of year	77,507,738	1,543,472	7,062,006	1,225,250
<b>Fund balances, end of year</b>	<u>\$ 87,126,351</u>	<u>\$ —</u>	<u>\$ 5,709,984</u>	<u>\$ 232,810</u>

Exhibit 9 - Continued

Motor Carrier Safety Revolving Fund	Economic Strength Project Fund	Grant Anticipation Notes Fund	Local Agency Deposits Funds	Total Nonmajor Governmental Funds
\$ —	\$ —	\$ —	\$ —	\$ 4,774,821
—	—	—	—	3,553,316
—	1,000,000	—	—	1,333,524
—	—	—	—	14,027,137
—	—	29,978,000	—	35,674,491
—	—	—	95,754,017	95,754,017
—	—	—	29,509,748	31,184,914
—	—	—	—	20,847
—	16,517	—	84,669	363,423
—	—	—	—	285,919
—	—	—	55,112	594,496
<u>—</u>	<u>1,016,517</u>	<u>29,978,000</u>	<u>125,403,546</u>	<u>187,566,905</u>
—	—	—	212,058	4,542,487
—	—	—	81,334,890	83,811,480
—	—	—	—	283,279
—	—	—	—	3,664,303
<u>—</u>	<u>—</u>	<u>—</u>	<u>81,546,948</u>	<u>92,301,549</u>
—	—	—	80,080	2,147,380
—	1,034,018	—	35,165,172	44,438,987
—	—	—	—	3,117,744
<u>—</u>	<u>1,034,018</u>	<u>—</u>	<u>116,792,200</u>	<u>142,005,660</u>
—	(17,501)	29,978,000	8,611,346	45,561,245
—	—	(29,978,000)	—	(31,236,721)
—	—	(29,978,000)	—	(31,236,721)
—	(17,501)	—	8,611,346	14,324,524
504	3,221,895	—	13,840,180	104,401,045
<u>\$ 504</u>	<u>\$ 3,204,394</u>	<u>\$ —</u>	<u>\$ 22,451,526</u>	<u>\$ 118,725,569</u>





**Arizona Department of Transportation  
Overview — Statistical Section  
For the Year Ended June 30, 2022**

This part of the Arizona Department of Transportation’s (the “Department”) Annual Comprehensive Financial Report provides detail in the form of graphs and tables intended to assist the reader of the report with understanding the information presented in the financial statements, note disclosures, and required supplementary information regarding the overall financial health of the Department.

Financial Trends

These schedules show trend information that gives an insight into the Department’s financial well-being and performance over time.

Revenue Capacity

Information about the Motor Vehicle Fuel Tax and the Highway User Revenue Fund, the Department’s most significant own-source revenues, is presented in these tables.

Debt Capacity

These tables present information to help the reader assess the affordability of the Department’s current levels of outstanding debt as well as the Department’s ability to issue additional debt in the future.

Demographic and Economic Information

The demographic and economic indicators presented in this section offer an understanding of the environment in which the Department’s financial activities take place.

Operating Information

The Department’s relationship of the financial report to the services provided as well as its activities is illustrated in these tables depicting service and infrastructure information.

*Sources: Unless otherwise stated, all information in the following tables is derived from the Annual Comprehensive Financial Reports for the years shown.*

**Arizona Department of Transportation  
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For the Year Ended June 30, 2022**

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# FINANCIAL TRENDS

**Arizona Department of Transportation**  
**Changes in Net Position**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2022**  
**(Thousands of Dollars)**

	2013	2014	2015	2016	2017
<b>Expenses</b>					
<b>Governmental activities</b>					
Administration	\$ 101,370	\$ 106,200	\$ 98,855	\$ 88,899	\$ 74,516
Highway	46,076	51,074	41,836	122,025	138,400
Highway maintenance	139,762	122,977	137,473	116,067	102,173
Motor vehicle	107,655	111,397	92,520	113,029	112,119
Noncapital, including asset preservation	257,126	312,519	315,349	373,006	253,205
Distributions to other state agencies	213,394	216,675	189,517	232,905	210,333
Distributions to Arizona counties and cities	1,074,086	1,065,798	1,155,651	1,260,019	1,276,427
Local government assistance	102,332	90,376	98,371	114,650	127,028
Other expenses	—	13,554	—	—	—
Interest on long-term debt	187,315	114,406	94,956	93,840	78,481
Total governmental activities expenses	<u>2,229,116</u>	<u>2,204,976</u>	<u>2,224,528</u>	<u>2,514,440</u>	<u>2,372,682</u>
<b>Business-Type Activities</b>					
Arizona Highways Magazine	4,637	4,821	4,739	—	—
Highway Expansion and Extension Loan Program	46	46	43	20,037	—
Total business-type activities expenses	<u>4,683</u>	<u>4,867</u>	<u>4,782</u>	<u>20,037</u>	<u>—</u>
Total primary government expenses	<u>\$ 2,233,799</u>	<u>\$ 2,209,843</u>	<u>\$ 2,229,310</u>	<u>\$ 2,534,477</u>	<u>\$ 2,372,682</u>
<b>Program Revenues</b>					
<b>Governmental activities</b>					
Charges for services					
Administration	\$ 12,254	\$ 12,400	\$ 8,145	\$ 13,185	\$ 13,636
Highway	842	864	2,157	2,597	2,658
Highway maintenance	1,887	2,418	2,676	6,302	3,544
Motor vehicle	119,733	122,042	132,837	145,899	145,035
Noncapital, including asset preservation	—	—	—	—	—
Operating grants and contributions	168,436	157,705	172,279	134,446	158,156
Capital grants and contributions	651,798	546,680	696,877	856,434	714,608
Total governmental activities program revenues	<u>954,950</u>	<u>842,109</u>	<u>1,014,971</u>	<u>1,158,863</u>	<u>1,037,637</u>
<b>Business-type activities</b>					
Charges for services					
Arizona Highways Magazine	5,188	5,164	5,073	—	—
Highway Expansion and Extension Loan Program	6	—	—	—	—
Total business-type activities program revenues	<u>5,194</u>	<u>5,164</u>	<u>5,073</u>	<u>—</u>	<u>—</u>
Total primary government program revenues	<u>\$ 960,144</u>	<u>\$ 847,273</u>	<u>\$ 1,020,044</u>	<u>\$ 1,158,863</u>	<u>\$ 1,037,637</u>
<b>Net (expenses)/revenues</b>					
Governmental activities	\$ (1,274,166)	\$ (1,362,867)	\$ (1,209,557)	\$ (1,355,577)	\$ (1,335,045)
Business-type activities	511	297	291	(20,037)	—
Total primary government net expense	<u>\$ (1,273,655)</u>	<u>\$ (1,362,570)</u>	<u>\$ (1,209,266)</u>	<u>\$ (1,375,614)</u>	<u>\$ (1,335,045)</u>

**Table A-1**

	2018	2019	2020	2021	2022
\$	77,547	\$ 77,469	\$ 152,885	146,991	\$ 155,468
	133,915	164,752	83,497	84,955	115,387
	97,197	112,939	147,508	152,740	135,540
	110,516	116,727	166,968	222,308	170,138
	319,870	279,298	346,941	436,306	476,232
	224,221	306,615	385,134	380,698	192,616
	1,307,530	1,427,636	1,443,761	1,636,707	1,659,180
	127,400	121,971	113,486	85,789	116,712
	—	—	—	41	14,298
	58,874	87,783	81,939	53,122	35,109
	<u>2,457,070</u>	<u>2,695,190</u>	<u>\$ 2,922,119</u>	<u>3,199,656</u>	<u>3,070,680</u>
	—	—	—	—	—
	30,000	30,000	—	—	—
	30,000	30,000	—	—	—
\$	<u>2,487,070</u>	<u>\$ 2,725,190</u>	<u>\$ 2,922,119</u>	<u>\$ 3,199,656</u>	<u>\$ 3,070,680</u>
\$	12,679	\$ 8,049	\$ 19,194	\$ 46,889	\$ 19,832
	2,640	1,849	2,654	3,033	901
	6,530	6,369	6,186	5,851	9,211
	146,720	180,162	200,755	217,057	163,377
	13,650	34,195	—	—	26,297
	149,779	188,020	197,910	179,562	205,523
	744,854	532,678	554,633	667,686	839,289
	<u>1,076,852</u>	<u>951,323</u>	<u>981,332</u>	<u>1,120,077</u>	<u>1,264,429</u>
	—	—	—	—	—
	—	—	—	—	—
	—	—	—	—	—
\$	<u>1,076,852</u>	<u>\$ 951,323</u>	<u>\$ 981,332</u>	<u>\$ 1,120,077</u>	<u>\$ 1,264,429</u>
\$	(1,380,218)	\$ (1,743,867)	(1,940,787)	\$ (2,079,579)	\$ (1,806,251)
	(30,000)	(30,000)	—	—	—
\$	<u>(1,410,218)</u>	<u>\$ (1,773,867)</u>	<u>\$ (1,940,787)</u>	<u>\$ (2,079,579)</u>	<u>\$ (1,806,251)</u>

**Arizona Department of Transportation**  
**Changes in Net Position**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2022**  
**(Thousands of Dollars)**

	2013	2014	2015	2016	2017
<b>General Revenues and Other Changes in Net Position</b>					
Governmental activities					
Transportation excise taxes	\$ 227,800	\$ 243,786	\$ 254,871	\$ 262,971	\$ 274,553
Motor vehicle registration, title, and related taxes	913,326	963,221	1,036,502	1,134,913	1,135,060
Fuel and motor carrier taxes and fees	708,062	714,852	686,042	735,928	777,315
Flight property taxes	8,084	12,975	8,595	9,620	10,365
Other taxes and fees	—	—	—	—	—
Income from investments	11,781	11,634	9,989	9,064	10,512
Other	13,411	13,931	10,415	7,050	5,884
Transfers	—	—	—	—	—
Governmental activities before accounting	<u>1,882,464</u>	<u>1,960,399</u>	<u>2,006,414</u>	<u>2,159,546</u>	<u>2,213,689</u>
Business-type activities					
Income from investments	747	735	613	560	657
Transfers	—	—	—	—	—
Total business-type activities	<u>747</u>	<u>735</u>	<u>613</u>	<u>560</u>	<u>657</u>
Total primary government	<u>\$ 1,883,211</u>	<u>\$ 1,961,134</u>	<u>\$ 2,007,027</u>	<u>\$ 2,160,106</u>	<u>\$ 2,214,346</u>
<b>Changes in Net Position</b>					
Governmental activities	\$ 608,298	\$ 597,532	\$ 796,857	\$ 803,969	\$ 878,644
Business-type activities	<u>1,258</u>	<u>1,032</u>	<u>904</u>	<u>(19,477)</u>	<u>657</u>
Total primary government	<u>\$ 609,556</u>	<u>\$ 598,564</u>	<u>\$ 797,761</u>	<u>\$ 784,492</u>	<u>\$ 879,301</u>

**Table A-1 - Continued**

	2018	2019	2020	2021	2022
\$	295,100	\$ 316,144	\$ 331,044	\$ 376,901	\$ 448,237
	1,142,561	1,400,749	1,563,351	1,692,766	1,591,474
	838,823	846,289	749,567	868,074	855,965
	13,012	10,297	16,895	17,311	14,027
	—	—	—	—	33,727
	17,264	26,135	26,097	7,540	6,727
	8,618	6,151	21,403	4,486	10,642
	—	—	—	—	1,221
	<u>2,315,378</u>	<u>2,605,765</u>	<u>2,708,357</u>	<u>2,967,079</u>	<u>2,962,020</u>
	—	—	—	—	—
	<u>2,315,378</u>	<u>2,605,765</u>	<u>2,708,357</u>	<u>2,967,079</u>	<u>2,962,020</u>
	570	677	22	6	1
	—	—	—	—	(1,221)
	<u>570</u>	<u>677</u>	<u>22</u>	<u>6</u>	<u>(1,221)</u>
\$	<u>2,315,948</u>	<u>2,606,442</u>	<u>2,708,379</u>	<u>2,967,084</u>	<u>2,960,800</u>
\$	935,160	\$ 861,898	\$ 767,570	\$ 887,500	\$ 1,155,769
	(29,430)	(29,323)	22	6	(1,220)
\$	<u>905,730</u>	<u>832,575</u>	<u>767,592</u>	<u>887,505</u>	<u>1,154,549</u>

**Arizona Department of Transportation**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances — Governmental Funds**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2022**  
**(Thousands of Dollars)**

	2013	2014	2015
<b>Revenues</b>			
Transportation excise taxes	\$ 227,800	\$ 243,786	\$ 254,871
Vehicle registration, title, license, and related taxes and fees	1,021,441	1,085,166	1,169,339
Fuel and motor carrier taxes and fees	613,607	714,852	686,042
Flight property taxes	—	12,975	8,595
Other taxes and fees	—	—	—
Reimbursement of construction expenditures – federal aid	597,762	536,192	685,823
Other federal grants and reimbursements	66,217	148,902	162,701
Reimbursements from Arizona counties and cities	(2,380)	19,314	20,632
Distributions from other state agencies	989	915	1,338
Interest on loans receivable	93	228	179
Income from investments	11,282	11,500	9,989
Sales and charges for services	—	—	—
Grand Canyon National Park Airport	—	1,170	1,295
Rental income	5,244	6,025	6,671
Other	7,779	11,959	10,264
Total revenues	<u>\$ 2,549,834</u>	<u>\$ 2,792,984</u>	<u>\$ 3,017,739</u>
<b>Expenditures</b>			
Current			
Transportation			
Administration	\$ 80,612	\$ 92,966	\$ 93,309
Highway	42,996	128,196	136,527
Highway maintenance	125,199	133,572	130,599
Motor vehicle	100,993	109,553	87,296
Total transportation	<u>349,800</u>	<u>464,287.00</u>	<u>447,731</u>
Intergovernmental			
Distributions to other state agencies	132,685	216,482	189,517
Distributions to Arizona counties and cities	1,053,543	1,065,798	1,155,651
Debt service			
Principal	160,415	216,879	272,053
Interest	142,524	140,259	121,404
Bond issuance costs	2,455	—	3,026
Noncapital, including asset preservation	242,039	223,572	251,953
Capital outlay	677,236	563,428	634,303
Total expenditures	<u>\$ 2,760,697</u>	<u>\$ 2,890,705</u>	<u>\$ 3,075,638</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (210,863)</u>	<u>\$ (97,721)</u>	<u>\$ (57,899)</u>



**Table A-2**

	2016	2017	2018	2019	2020	2021	2022
\$	262,971	\$ 274,553	\$ 295,100	\$ 316,144	\$ 331,044	\$ 376,901	\$ 448,237
	1,280,812	1,280,095	1,289,281	1,580,911	1,764,106	1,909,824	1,754,850
	735,928	777,315	838,823	846,290	749,567	868,074	855,965
	9,620	10,365	13,012	10,297	16,895	17,311	14,027
	—	—	—	—	—	—	33,727
	859,985	638,098	750,540	542,212	579,266	712,031	784,520
	106,660	138,168	106,304	128,045	106,449	91,330	95,754
	24,235	55,828	24,307	50,991	14,854	10,607	39,220
	744	963	27,573	15,009	52,444	40,741	97,272
	207	194	112	127	76	13	84
	9,064	10,512	17,264	26,135	26,298	7,603	6,812
	9,189	10,832	23,279	41,705	17,501	40,081	36,866
	344	647	1,015	—	—	—	—
	5,556	3,931	3,346	2,262	4,271	9,827	10,079
	6,990	5,880	5,954	5,926	19,917	4,489	10,697
\$	<u>3,312,305</u>	<u>\$ 3,207,381</u>	<u>\$ 3,395,910</u>	<u>\$ 3,566,054</u>	<u>\$ 3,682,688</u>	<u>4,088,832</u>	<u>\$ 4,188,110</u>
\$	81,191	\$ 71,638	\$ 79,475	\$ 107,970	\$ 152,251	\$ 145,720	\$ 160,117
	163,011	218,959	235,195	257,117	156,409	139,969	202,314
	108,882	96,396	94,996	116,226	145,727	150,688	137,891
	106,030	106,461	109,592	122,395	165,680	211,529	173,205
	459,114	493,454	519,258	603,708	620,067	647,906	673,528
	232,990	211,145	224,221	306,616	385,134	380,698	192,616
	1,320,949	1,312,206	1,334,573	1,465,877	1,484,276	1,666,878	1,694,345
	194,308	174,448	204,161	199,355	214,765	225,595	238,655
	122,449	108,230	108,976	114,125	102,482	88,283	74,186
	—	2,125	425	1,688	1,753	—	501
	356,753	209,802	233,316	248,782	305,636	411,376	475,531
	689,613	741,658	793,955	798,722	724,048	400,686	473,638
\$	<u>3,376,176</u>	<u>\$ 3,253,068</u>	<u>\$ 3,418,885</u>	<u>\$ 3,738,873</u>	<u>\$ 3,838,161</u>	<u>\$ 3,821,422</u>	<u>\$ 3,823,001</u>
	<u>(63,871)</u>	<u>(45,687)</u>	<u>(22,975)</u>	<u>(172,819)</u>	<u>(155,473)</u>	<u>267,410</u>	<u>365,110</u>

**Arizona Department of Transportation**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances — Governmental Funds**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2022**  
**(Thousands of Dollars)**

	2013	2014	2015
Other Financing Sources (Uses)			
Transfers in	\$ 283,066	\$ 303,030	\$ 305,410
Transfers out for debt service	(227,996)	(303,030)	(305,410)
Sale of capital assets	1,636	900	259
Insurance recovery	1,679	2,328	2,676
Debt issuance	767,020	42,366	783
Debt issuance – refunding bond	92,477	—	754,285
Premium from debt issuance	36,385	—	149,554
Payment to refunded bond escrow agent	(611,874)	—	(900,813)
Total other financing sources (uses)	<u>342,393</u>	<u>45,594</u>	<u>6,744</u>
Net change in fund balances before accounting change	131,530	(52,127)	(51,155)
Special item – State appropriation for Statewide Transportation Acceleration Needs (STAN)	—	—	—
Net change in fund balances	<u>131,530</u>	<u>(52,127)</u>	<u>(51,155)</u>
Fund balances, beginning of year	<u>1,169,853</u>	<u>1,341,636</u>	<u>1,289,508</u>
Fund balances, end of year	<u>\$ 1,301,383</u>	<u>\$ 1,289,509</u>	<u>\$ 1,238,353</u>
Debt service as a percentage of noncapital expenditures	14.5 %	15.3 %	16.1 %
Debt service as a percentage of total revenues	10.4 %	12.8 %	13.0 %

Table A-2 Continued

2016	2017	2018	2019	2020	2021	2022
\$ 304,311	\$ 274,990	\$ 252,974	\$ 310,894	\$ 314,255	\$ 313,209	\$ 314,902
(304,311)	(274,990)	(252,974)	(310,894)	(314,255)	(313,209)	(313,682)
60	1,294	3,524	343	1,591	\$ 52	42
6,302	3,544	6,530	6,369	6,186	\$ 5,851	9,211
—	—	62,595	324,475	—	\$ —	—
—	403,310	—	—	510,275	\$ —	84,520
—	100,305	12,840	41,448	—	\$ —	—
—	(501,478)	—	—	(508,278)	\$ —	(84,005)
6,362	6,975	85,489	372,635	9,774	5,902,313	10,989
(57,509)	(38,712)	62,514	199,816	(145,699)	273,312	376,099
—	—	—	—	—	—	—
(57,509)	(38,712)	62,514	199,816	(145,699)	273,312	376,099
1,240,753	1,183,244	1,144,532	1,207,046	1,406,862	1,261,165	1,534,477
\$ 1,183,244	\$ 1,144,532	\$ 1,207,046	\$ 1,406,862	\$ 1,261,163	\$ 1,534,477	\$ 1,910,576
11.8 %	11.3 %	11.9 %	10.7 %	10.2 %	9.2 %	9.3 %
9.6 %	8.8 %	9.2 %	8.8 %	8.6 %	7.7 %	7.5 %

**Arizona Department of Transportation**  
**Fund Balances of Governmental Funds**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2022**  
**(Thousands of Dollars)**

	2013	2014	2015	2016	2017
General Fund(State Highway Fund)					
Nonspendable	\$ 7,207	\$ 6,833	\$ 6,341	\$ 6,179	\$ 40
Restricted	267,414	295,361	344,347	337,534	428,369
Committed	123,662	129,115	177,384	282,312	273,063
Total general fund	<u>398,283</u>	<u>431,309</u>	<u>528,072</u>	<u>626,025</u>	<u>701,472</u>
All other governmental funds					
Unassigned	(8,128)	(8,128)	(8,128)	(8,128)	(8,128)
Nonspendable	—	—	6,341	—	—
Restricted	870,678	816,591	490,664	548,082	437,071
Committed	40,550	49,737	221,404	17,265	14,117
Total all other governmental funds	<u>903,100</u>	<u>858,200</u>	<u>710,281</u>	<u>557,219</u>	<u>443,060</u>
Total general and other governmental funds	<u>\$ 1,301,383</u>	<u>\$ 1,289,509</u>	<u>\$ 1,238,353</u>	<u>\$ 1,183,244</u>	<u>\$ 1,144,532</u>

**Table A-3**

<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
\$ 53	\$ 212	\$ 437	\$ 271	\$ 402
430,204	464,087	301,046	345,711	410,241
312,823	364,198	443,733	574,443	732,639
<u>743,080</u>	<u>828,497</u>	<u>745,216</u>	<u>920,425</u>	<u>1,143,283</u>
(14,194)	(8,128)	(8,128)	(8,128)	(8,128)
—	—	—	—	—
448,026	545,081	460,778	531,620	679,148
30,134	41,414	63,299	90,561	96,274
<u>463,966</u>	<u>578,366</u>	<u>515,949</u>	<u>614,052</u>	<u>767,293</u>
<u>\$ 1,207,046</u>	<u>\$ 1,406,862</u>	<u>\$ 1,261,165</u>	<u>\$ 1,534,477</u>	<u>\$ 1,910,576</u>

**Arizona Department of Transportation**  
**Expenditures of Federal Awards<sup>1</sup>**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2022**  
**(Thousands of Dollars)**

**Table A-4**

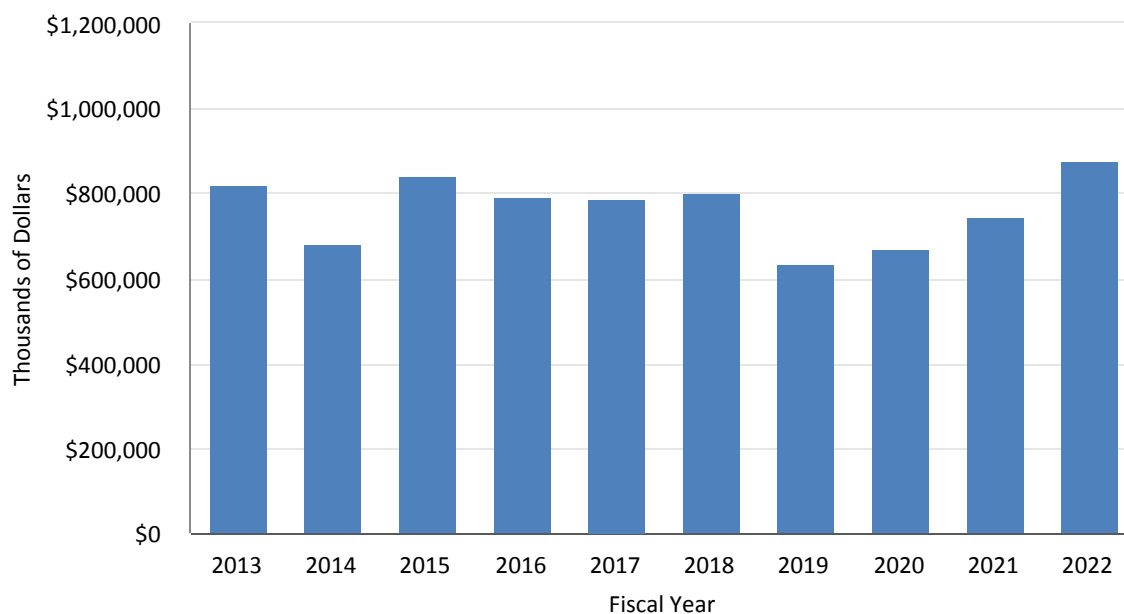
Federal Agencies <sup>1</sup>	Fiscal Year									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
BJA	\$ 13	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
FAA	198	454	428	3,292	4,313	1,220	1,151	512	5,804	5,853
FHWA	794,912	660,644	807,573	763,879	764,482	778,021	590,592	631,025	685,265	812,923
FMCSA	2,747	2,204	2,122	827	502	274	791	427	277	749
FRA	611	65	48	53	120	6	—	—	—	—
FTA	19,056	18,107	18,644	14,923	19,830	20,966	28,577	22,856	30,475	24,247
GSA	—	234	—	—	—	—	—	—	—	—
NHTSA	123	112	103	193	117	100	100	116	—	105
OST	344	1,512	10,417	8,916	117	2,808	12,192	5,963	19,037	—
CARES	—	—	—	—	—	—	—	6,140	2,877	—
USDT	—	—	—	—	—	—	—	—	—	32,301
DOE	—	—	—	—	—	—	—	—	725	—
<b>Total Federal Expenditures</b>	<b>\$ 818,004</b>	<b>\$683,332</b>	<b>\$839,335</b>	<b>\$792,083</b>	<b>\$789,481</b>	<b>\$803,395</b>	<b>\$633,403</b>	<b>\$667,039</b>	<b>\$744,460</b>	<b>\$ 876,177</b>

SOURCE: Arizona Department of Transportation Schedule of Expenditures of Federal Awards – fiscal years 2013 through 2022

NOTES: <sup>1</sup>Bureau of Justice Assistance (BJA); Federal Aviation Administration (FAA); Federal Highway Administration (FHWA); Federal Motor Carrier Safety Administration (FMCSA); Federal Railroad Administration (FRA); Federal Transit Administration (FTA); General Services Administration (GSA); National Highway Transportation Safety Administration (NHTSA); Office of the Secretary (OST) Administration Secretariate; Coronavirus Aid Relief and Economic Security (CARES) Act; United States Department of Treasury (USDT); Department of Education (DOE).

<sup>2</sup>The 2016 total federal expenditures are prepared on the other comprehensive basis of accounting using the cash basis.

**Total Expenditures of Federal Awards**



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**Arizona Department of Transportation**  
**Government-Wide Expenses by Function**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2022**  
**(Thousands of Dollars)**

Fiscal Year	2013	2014	2015	2016
Admin.	\$ 101,370	\$ 106,200	\$ 98,855	\$ 88,899
Highway	46,076	51,074	41,836	122,025
Highway Maintenance <sup>1</sup>	139,762	122,977	137,473	116,067
Motor Vehicle	107,655	111,397	92,520	113,029
Distributions to Arizona Counties, Cities and Other State Agencies	1,287,481	1,282,473	1,345,168	1,492,924
Local Governmental Assistance	102,332	90,376	98,371	114,650
Premium on Long-Term Debt	—	—	—	—
Interest on Long-Term Debt	187,315	114,406	94,956	93,840
Other	257,126	326,073	315,349	373,006
Arizona Highways Magazine <sup>2</sup>	4,637	4,821	4,739	—
Highway Expansion and Extension Loan Program	46	46	43	20,037
<b>Total</b>	<b>\$2,233,800</b>	<b>\$2,209,843</b>	<b>\$2,229,310</b>	<b>\$2,534,477</b>

NOTES: <sup>1</sup>Includes non-capital, including asset preservation.

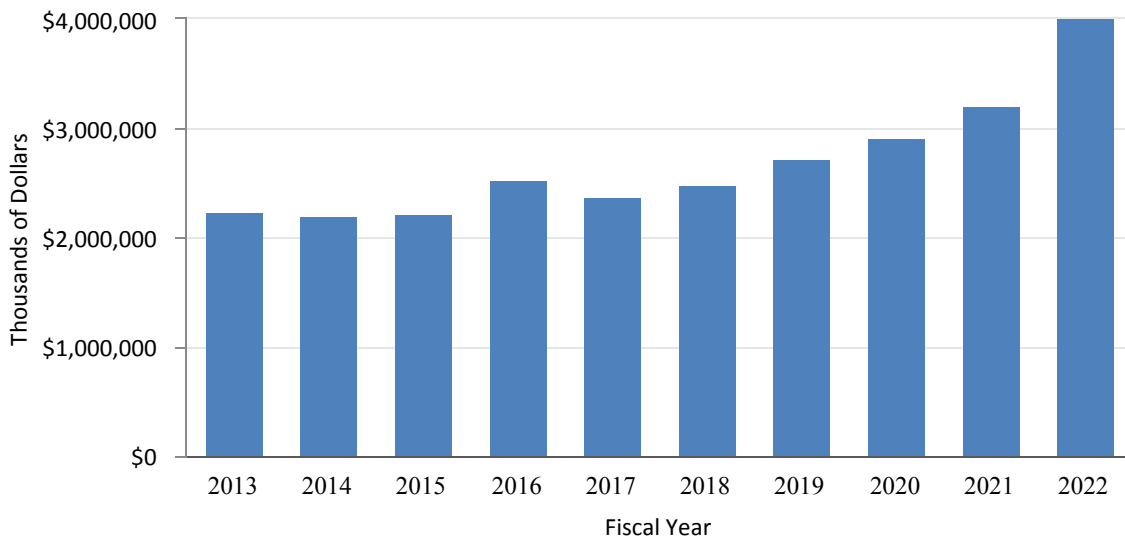
<sup>2</sup>Arizona Highways Magazine was included in the general fund starting in 2016.



**Table A-5**

	2017	2018	2019	2020	2021	2022
\$	74,516	\$ 77,547	\$ 77,469	\$ 152,885	\$ 146,991	\$ 155,468
	138,400	133,915	164,752	83,497	84,955	115,387
	102,173	97,197	1,129,392	147,508	152,740	135,540
	112,119	110,516	1,167,272	166,968	222,308	170,138
	1,486,760	1,531,750	1,734,250	1,828,895	2,017,404	1,851,797
	127,028	127,400	121,971	113,486	85,789	116,712
	—	—	—	—	—	—
	78,481	58,874	87,784	81,939	53,122	35,109
	253,205	319,870	279,298	346,941	436,306	490,530
	—	—	—	—	—	—
	—	30,000	30,000	—	—	—
<b>\$</b>	<b>2,372,682</b>	<b>\$ 2,487,069</b>	<b>\$ 2,725,190</b>	<b>\$ 2,922,119</b>	<b>\$ 3,199,614</b>	<b>\$ 3,070,680</b>

**Government-Wide Expenses**



**Arizona Department of Transportation  
Government-Wide Revenues  
For the Last Ten Fiscal Years  
Fiscal Year Ended June 30, 2022  
(Thousands of Dollars)**

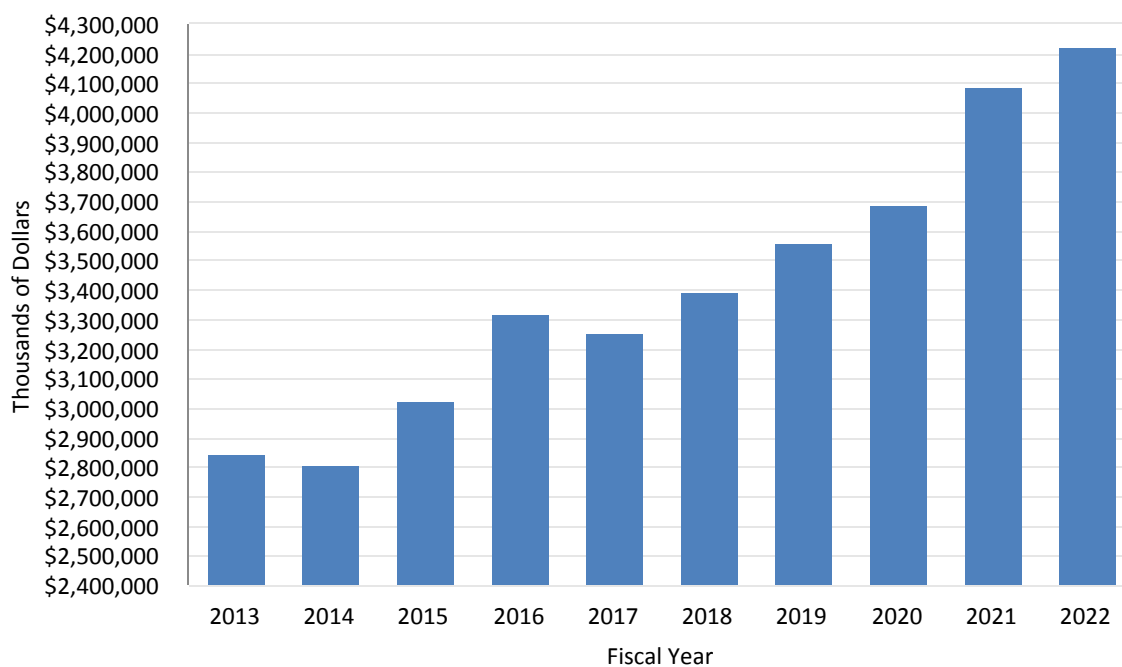
Fiscal Year	Program Revenues			
	Governmental			Business-Type
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Charges for Services
2022	\$ 219,617	\$ 205,523	\$ 839,289	\$ —
2021	272,829	179,562	667,686	—
2020	228,790	197,910	554,633	—
2019	230,625	188,021	532,677	—
2018	182,219	149,779	744,854	—
2017	164,873	158,156	714,608	—
2016	167,983	134,446	856,434	—
2015	145,815	172,279	696,877	5,073
2014	137,725	157,705	546,680	5,164
2013	134,716	168,436	651,798	5,194

NOTE: <sup>1</sup>Includes transfers for multiple years.

**Table A-6**

	General Revenues					Total
	Governmental		Business-Type			
	Taxes	Other Revenues <sup>1</sup>	Income from Investments	Other Revenues <sup>1</sup>	Income from Investments	
\$	2,943,430	\$ 10,642	\$ 6,727	\$ —	\$ 1	\$ 4,225,229
	2,955,053	4,444	7,540	—	5,691	4,087,120
	2,660,856	21,403	26,097	—	22	3,689,711
	2,573,480	6,151	26,135	—	676	3,557,765
	2,289,496	8,618	17,264	—	570	3,392,800
	2,197,293	5,884	10,512	—	657	3,251,983
	2,143,432	7,050	9,064	—	560	3,318,969
	1,986,010	10,264	9,989	151	613	3,027,071
	1,934,835	13,905	11,634	26	735	2,808,409
	1,857,273	13,290	11,781	121	747	2,843,356

**Government-Wide Revenues**



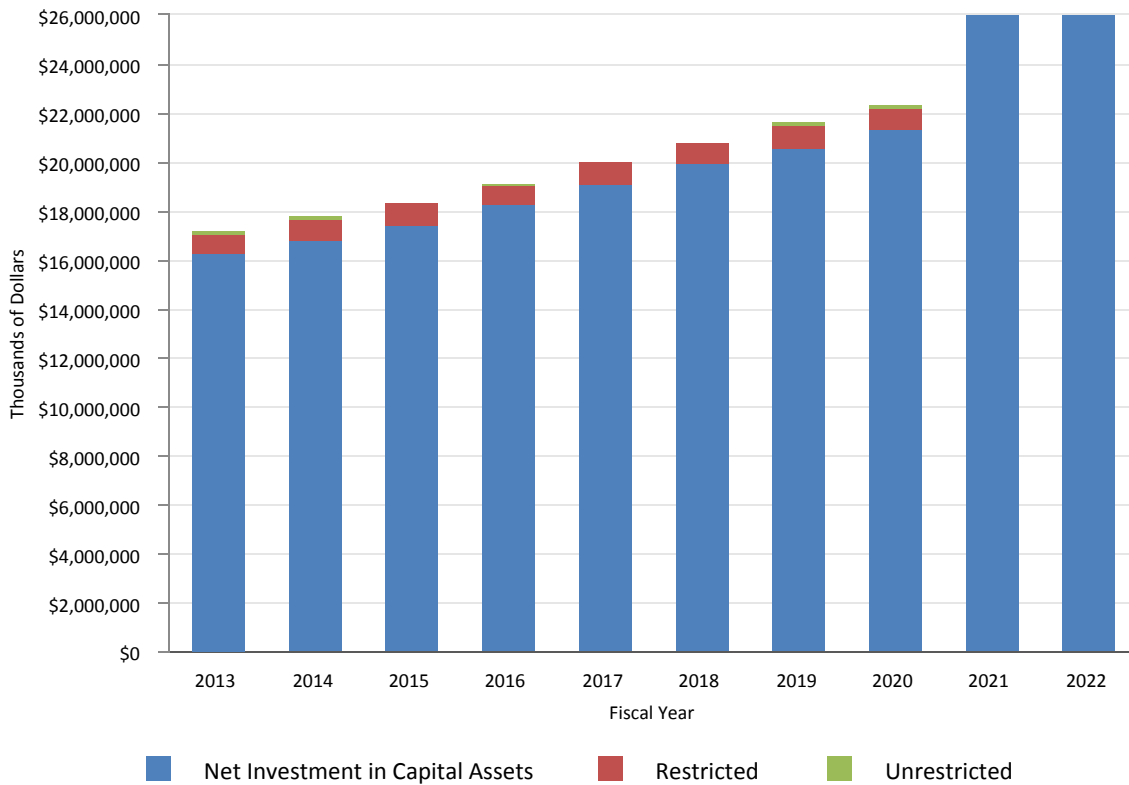
**Arizona Department of Transportation**  
**Net Position by Component**  
**As of the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2022**  
**(Thousands of Dollars)**

Fiscal Year	Governmental Activities				Business-Type	
	Net Investment in Capital Assets	Restricted	Unrestricted	Total	Net Investment in Capital Assets	Restricted
2022	\$ 22,728,370	\$ 1,117,816	\$ 530,317	\$ 24,376,503	\$ —	—
2021	22,040,147	877,980	314,898	23,233,025	—	—
2020	21,417,624	775,343	152,558	22,345,525	—	—
2019	20,611,959	962,899	97,087	21,671,945	—	—
2018	19,987,899	881,310	(59,164)	20,810,045	—	—
2017	19,118,586	890,204	(67,741)	19,941,049	—	59,951
2016	18,305,646	746,099	10,659	19,062,404	—	59,293
2015	17,496,122	819,446	(57,534)	18,258,034	18	78,770
2014	16,812,808	805,893	159,127	17,777,828	24	78,226
2013	16,290,605	738,969	150,721	17,180,295	30	77,564

**Table A-7**

Business-Type			Primary Government		
Unrestricted	Total	Net Investment in Capital Assets	Restricted	Unrestricted	Total
4	4	\$ 22,728,370	\$ 823,595	\$ 530,320	\$ 24,082,285
1,224	1,224	22,040,147	877,980	316,122	23,234,249
1,218	1,218	21,417,624	775,343	153,776	22,346,743
1,196	1,196	20,611,959	962,899	98,283	21,673,141
30,520	30,520	19,987,899	881,310	(28,644)	20,840,565
—	59,951	19,118,586	950,155	(67,741)	20,001,000
—	59,293	18,305,646	805,392	10,659	19,121,697
383	79,171	17,496,140	898,216	(57,151)	18,337,205
1,790	80,040	16,812,832	884,119	160,917	17,857,868
1,414	79,008	16,290,635	816,533	152,135	17,259,303

**Primary Government Net Assets by Component**



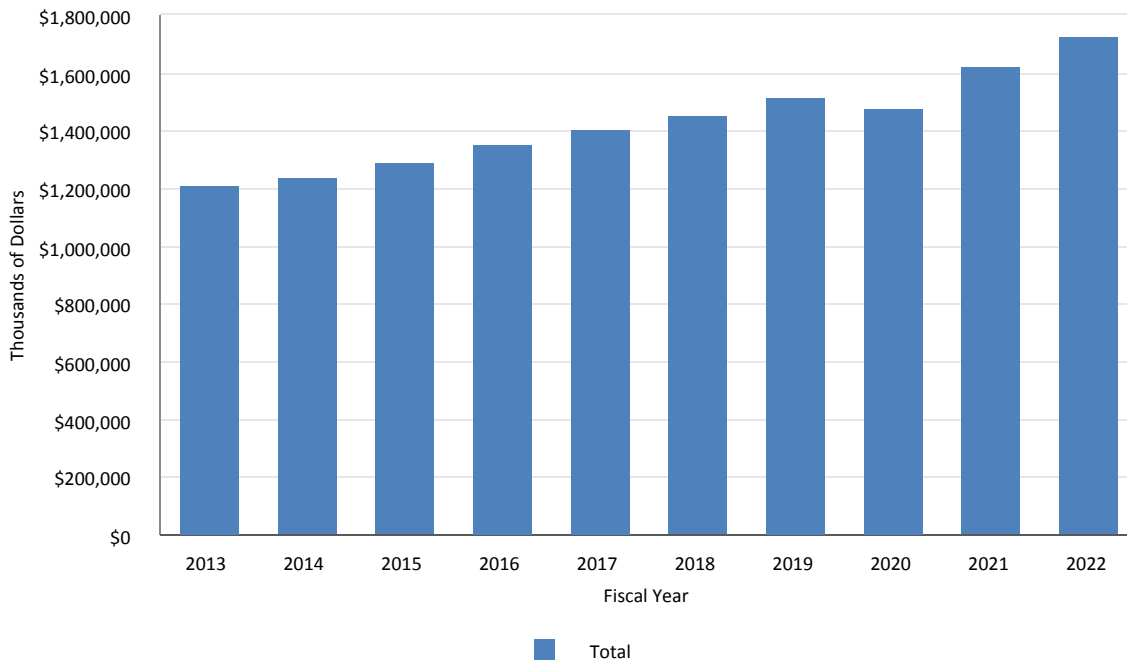
# REVENUE CAPACITY

**Arizona Department of Transportation**  
**Highway User Revenue Fund Collections**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2022**  
**(Thousands of Dollars)**

**Table B-1**

Fiscal Year	Motor Vehicle Fuel Tax Revenues	Motor Vehicle Reg. Fee Revenues	Motor Carrier Tax Revenues	Motor Vehicle Operators' License Fees and Other Fees	Motor Vehicle License (In Lieu) Tax Revenues	Smart & Safe AZ Act	Total Deposited to Arizona HURF
2022	\$ 794,737	\$ 236,121	\$ 56,698	\$ 55,578	\$ 542,835	\$ 43,167	1,729,136
2021	755,063	220,075	52,129	48,762	551,141	—	1,627,170
2020	733,406	191,464	45,472	37,236	473,258	—	1,480,836
2019	749,885	192,926	45,812	62,128	469,470	—	1,520,221
2018	729,469	181,227	42,823	57,503	444,757	—	1,455,779
2017	705,737	177,868	42,091	57,813	421,939	—	1,405,448
2016	688,105	173,693	41,058	57,943	395,952	—	1,356,751
2015	655,403	168,589	40,227	56,502	369,719	—	1,290,440
2014	633,783	163,715	38,842	56,484	348,509	—	1,241,333
2013	631,092	157,801	37,310	57,280	326,541	—	1,210,024

**Highway User Revenue Fund Collections**



**Arizona Department of Transportation**  
**Highway User Revenue Fund Distributions**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2022**  
**(Thousands of Dollars)**

**Table B-2**

Fiscal Year	State Highway Fund	Cities and Towns	Counties	Department of Public Safety <sup>2</sup>	Economic Strength Project Fund	Other <sup>1</sup>	Total
2022	\$ 866,515	\$ 523,341	\$ 326,016	\$ —	\$ 1,000	\$ 12,266	\$ 1,729,138
2021	815,387	492,462	306,780	—	1,000	11,541	1,627,170
2020	726,339	454,683	287,273	—	1,000	11,541	1,480,836
2019	738,294	461,903	291,771	15,509	1,000	11,744	1,520,221
2018	663,318	416,621	263,562	99,284	1,000	11,994	1,455,779
2017	646,308	406,348	253,135	93,980	1,000	11,725	1,412,496
2016	621,182	405,169	233,712	95,035	1,000	11,524	1,367,622
2015	580,993	364,260	226,928	89,255	1,000	15,077	1,277,513
2014	559,765	340,718	212,251	119,247	1,000	14,063	1,247,044
2013	555,030	327,732	219,228	119,965	1,000	11,358	1,234,313

The Highway User Revenue Fund receives certain Motor Vehicle Division revenues from the Motor Vehicle Division Clearing Fund. These monies are distributed: 50.5% to the State Highway Fund, 27.5% to cities and towns, 3% to cities with population over 300,000, and 19% to counties based on Arizona Revised Statutes – Section 28-6538.

<sup>2</sup>Legislation passed in April 2018 (Chapter 265, HB2166), created a new funding source for the Department of Public Safety (DPS) to be started after December 31, 2018. This new funding source, called the Highway Safety Fee, created an additional \$32 fee to be added to new plate registrations and renewals (\$5 for motorcycles) in order to fully fund the DPS budget. Therefore, the distributions through the HURF fund were eliminated and this separate source implemented beginning in January, 2019.

SOURCE: Cash Basis HURF Distribution summary Report



**Arizona Department of Transportation  
Fuel Tax Rates  
For the Last Ten Fiscal Years  
Fiscal Year Ended June 30, 2022  
(Cents per Gallon)**

**Table B-3**

Fiscal Year	Gasoline Tax	Use Fuel Tax <sup>1</sup>
2022	0.18	0.26
2021	0.18	0.26
2020	0.18	0.26
2019	0.18	0.26
2018	0.18	0.26
2017	0.18	0.26
2016	0.18	0.26
2015	0.18	0.26
2014	0.18	0.26
2013	0.18	0.26

SOURCE: Arizona Revised Statutes §28-5606 Imposition of Motor Fuel Taxes

NOTE: Gasohol is currently taxed at the same rate as gasoline and use fuel. Use fuel is primarily diesel.

<sup>1</sup>Light class motor vehicles with a declared vehicle weight <26,001 pounds and have less than three axles pay \$.18 per gallon.

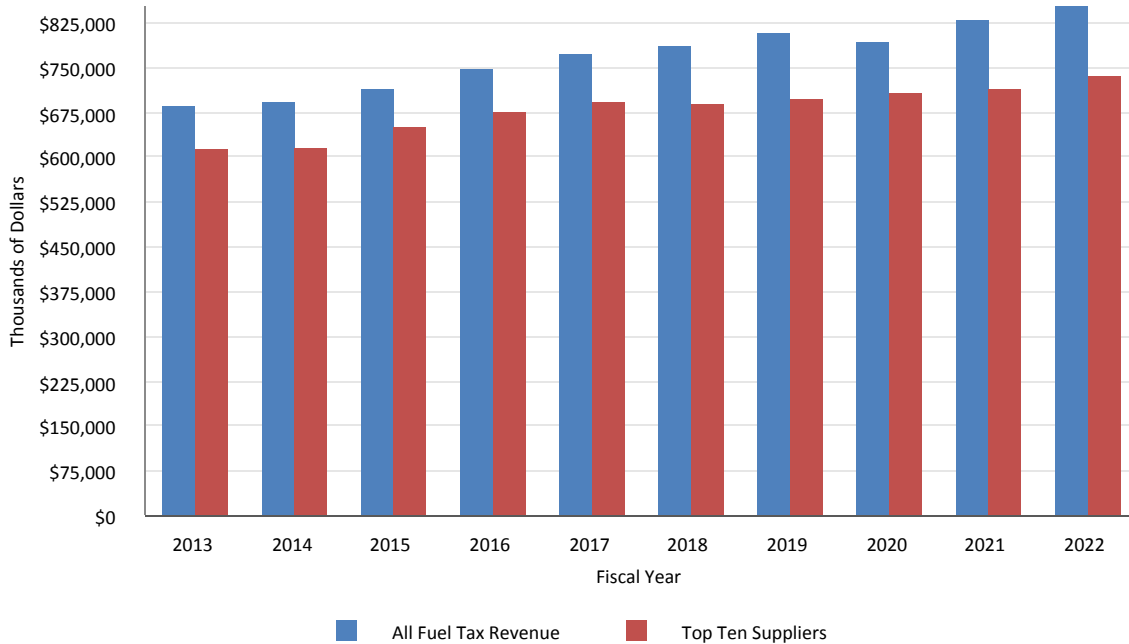
**Arizona Department of Transportation**  
**Motor Vehicle Fuel Tax – Top Ten Suppliers**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2022**  
**(Thousands)**

**Table B-4**

Fiscal Year	Gallons from Top Ten Suppliers	Revenue from Top Ten Suppliers	All Motor Vehicle Fuel Tax Revenue	Revenue Percentage from Top Ten Suppliers
2022	3,691,127	\$736,116	\$876,790	84.0%
2021	3,567,811	715,603	830,389	86.2%
2020	3,558,043	707,947	793,639	89.2%
2019	3,515,864	698,726	809,750	86.3%
2018	3,493,478	688,248	788,033	87.3%
2017	3,516,976	691,191	774,162	89.3%
2016	3,466,062	677,464	749,433	90.4%
2015	3,298,612	650,714	715,248	91.0%
2014	3,138,450	617,134	691,250	89.3%
2013	3,110,955	613,799	685,320	89.6%

SOURCE: Revenue & Fuel Tax Administration reporting, based on gallonage data reported by fuel suppliers.

**Motor Vehicle Fuel Tax Sources**



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**Arizona Department of Transportation  
Gasoline Volume Sold – Top Twenty-Five Suppliers  
For the Last Ten Fiscal Years  
Fiscal Year Ended June 30, 2022**

	2013		2014		2015		2016		2017	
Range – in Millions of Gallons	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold
< 25	14	5.9%	13	4.8%	13	3.9%	16	3.5%	15	3.4 %
26–50	2	2.4%	2	2.0%	3	3.4%	—	—%	1	1.0 %
50–100	1	2.0%	2	4.2%	1	1.6%	2	4.9%	2	4.9 %
101–200	2	10.2%	3	15.0%	2	9.1%	2	9.8%	2	8.6 %
201–300	2	12.7%	1	6.2%	2	13.7%	1	9.0%	1	9.5 %
>300	4	64.2%	4	65.0%	4	66.1%	4	72.4%	4	72.5 %
	25	97.4%	25	97.2%	25	97.8%	25	99.6%	25	99.9 %
<hr/>										
Total Gallons of Gasoline (Thousands)	2,584,277		2,618,944		2,730,156		2,871,627		2,911,255	
Gasoline % of Total	77.7%		79.1%		79.3%		78.2%		77.9%	
Total Gallons of Use Fuel (Diesel) (Thousands)	742,705		693,514		714,035		800,914		825,432	
Diesel % of Total	22.3%		20.9%		20.7%		21.8%		22.1 %	

Source: Data provided by the Revenue & Fuel Tax Administration.

**Table B-5**

	2018		2019		2020		2021		2022	
Range – in Millions of Gallons	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold
< 25	14	4.1%	13	3.2%	16	6.3%	13	4.2%	12	3.9%
26–50	1	1.2%	3	3.6%	1	1.1%	3	3.7%	3	3.4%
50–100	3	7.0%	1	2.8%	1	3.1%	2	5.2%	1	1.7%
101–200	2	8.8%	2	8.8%	2	8.6%	2	11.6%	1	5.3%
201–300	1	9.2%	2	18.6%	2	19.5%	2	19.0%	5	38.4%
>300	4	69.6%	4	63.0%	3	61.4%	3	56.3%	3	47.3%
	25	99.9%	25	100.0%	25	100.0%	25	100.0%	25	100.0%
<hr/>										
Total Gallons of										
Gasoline (Thousands)	2,965,365		2,990,890		2,879,733		2,873,657		3,030,532	
Gasoline % of Total	77.4%		76.7%		75.9%		74.1%		75.3%	
Total Gallons of Use Fuel										
(Diesel) (Thousands)	865,445		906,498		913,216		1,003,352		994,441	
Diesel % of Total	22.6%		23.3%		24.1%		25.9%		24.7%	

Source: Data provided by the Revenue & Fuel Tax Administration.

# DEBT CAPACITY

**Arizona Department of Transportation**  
**Highway Revenue Bonds**  
**Bond Coverage**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2022**  
**(Thousands of Dollars)**

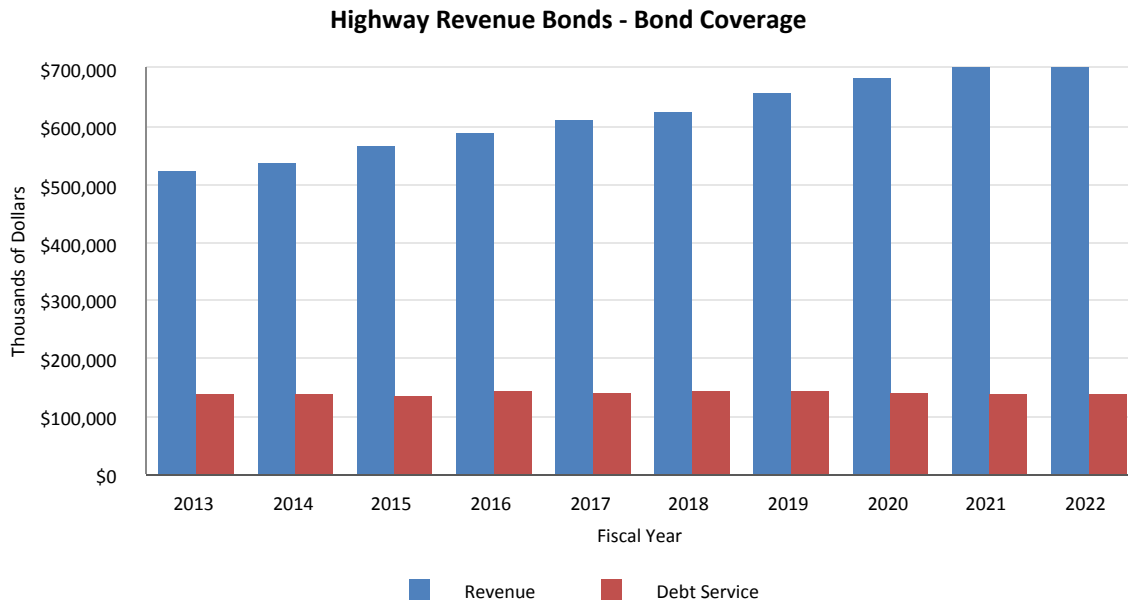
Table C-1

Fiscal Year	Principal	Interest	Total	Pledged Revenues <sup>1,2</sup>	Coverage
2022	\$ 98,660	\$ 40,825	\$ 139,485	\$ 820,170	5.9
2021	92,545	47,652	140,197	749,986	5.3
2020	87,150	55,529	142,679	682,308	4.8
2019	78,670	65,562	144,232	656,751	4.6
2018	76,125	68,104	144,229	624,919	4.3
2017	74,855	68,419	143,274	610,998	4.3
2016	70,195	74,248	144,443	589,476	4.1
2015	61,660	75,937	137,597	566,352	4.1
2014	58,485	80,495	138,980	537,768	3.9
2013	60,540	78,198	138,738	524,291	3.8

SOURCES: Highway User Revenue Fund Schedule fiscal years 2013 through 2022, Debt Service Funds fiscal years 2013 through 2022.

NOTES: <sup>1</sup>Includes vehicle license tax revenues distributed directly to the State Highway Fund.

<sup>2</sup>The Highway Revenue Bonds are secured by a prior lien on and pledge of motor vehicle and related fuel fees and taxes.



**Arizona Department of Transportation**  
**Transportation Excise Tax Revenue Bonds**  
**Bond Coverage**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2022**  
**(Thousands of Dollars)**

Table C-2

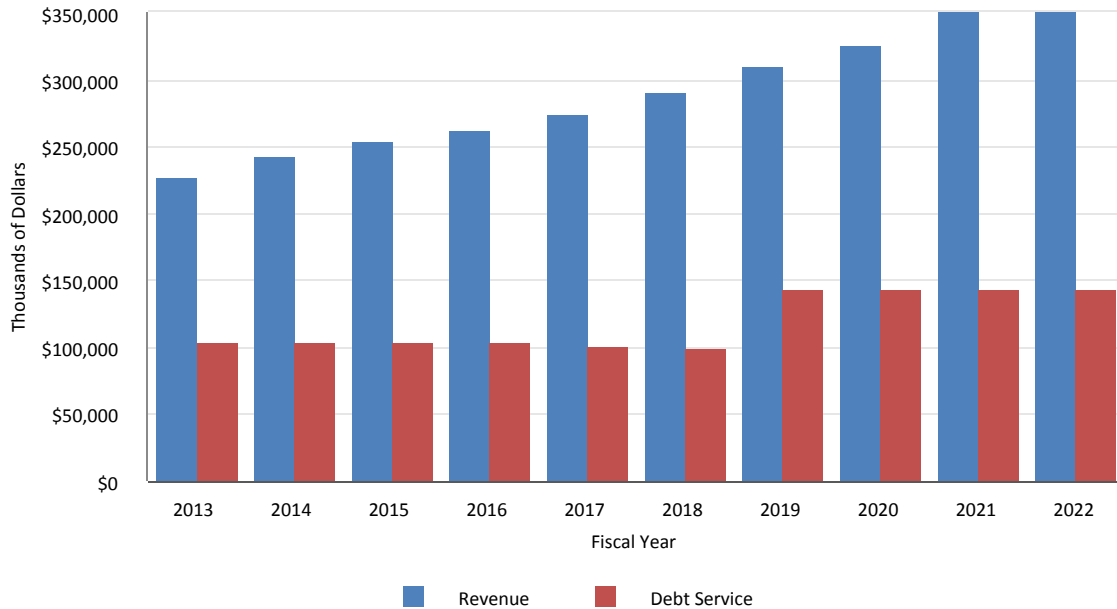
Fiscal Year	Principal	Interest	Total	Pledged Revenues <sup>1</sup>	Coverage
2022	\$ 119,240	\$ 24,138	\$ 143,378	\$ 443,462	3.1
2021	113,290	30,423	143,713	371,847	2.6
2020	107,950	35,763	143,713	326,546	2.3
2019	104,685	39,031	143,716	311,188	2.2
2018	68,270	31,411	99,681	290,949	2.9
2017	67,495	33,257	100,752	274,553	2.7
2016	65,585	38,001	103,586	262,969	2.5
2015	70,940	32,652	103,592	254,921	2.5
2014	58,600	44,988	103,588	243,829	2.4
2013	55,870	47,721	103,591	227,832	2.2

SOURCE: Maricopa County Regional Area Road Fund Report

NOTES: Bond coverage ratio is based upon total Maricopa County Transportation Excise Tax collections.

<sup>1</sup>The Transportation Excise Tax Revenue Bonds are secured by transportation excise taxes collected by the Department of Revenue on behalf of Maricopa County.

**Transportation Excise Tax Revenue Bonds - Bond Coverage**





**Arizona Department of Transportation  
Transportation Excise Tax Revenue Bonds  
Debt Service Revenue and Cost Per Capita  
For the Last Ten Fiscal Years Ended June 30, 2022 (Thousands)**

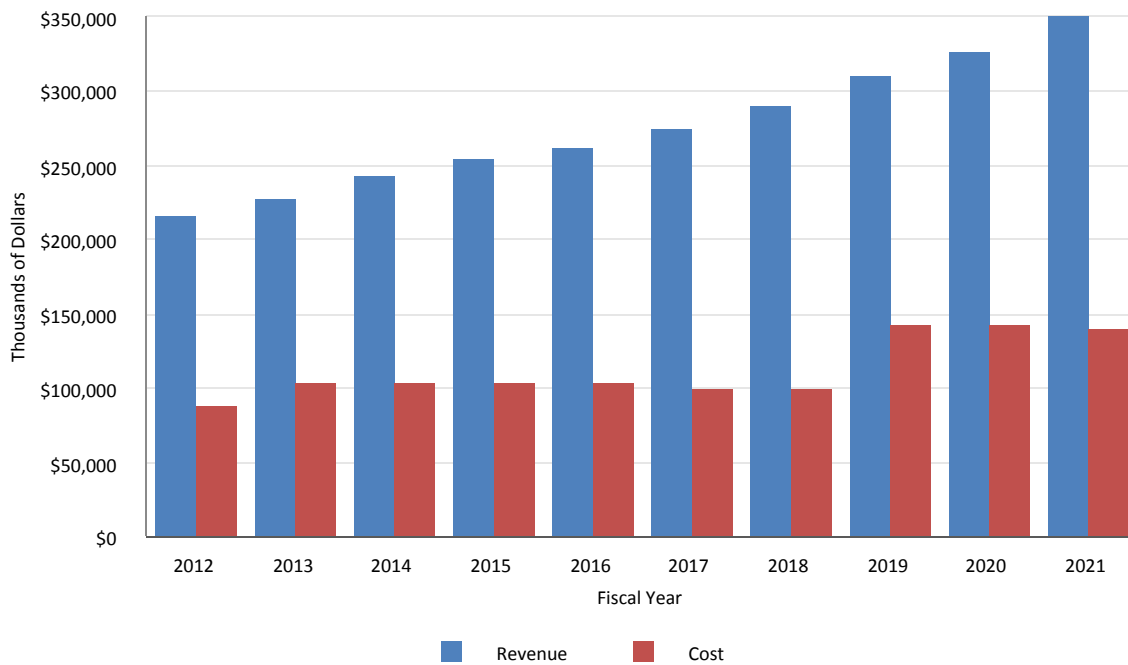
**Table C-3**

Fiscal Year	Principal	Interest	Total Cost	Revenues <sup>1</sup>	Maricopa County Population	Cost per Capita	Revenue per Capita
2022	<b>2021 is the most current population data available. The latest 10 years are displayed below.</b>						
2021	\$ 92,545	\$ 47,652	\$ 140,197	\$ 371,847	4,497	\$ 31	\$ 83
2020	107,950	35,763	143,713	326,546	4,421	33	74
2019	104,685	39,030	143,715	311,188	4,485	32	69
2018	68,270	31,411	99,681	290,949	4,402	23	66
2017	67,495	33,257	100,752	274,553	4,327	23	63
2016	65,585	38,001	103,586	262,971	4,256	24	62
2015	58,600	44,988	103,588	254,871	4,173	25	61
2014	55,870	47,721	103,591	243,786	4,094	25	60
2013	55,460	48,129	103,589	227,800	4,018	26	57
2012	45,970	42,496	88,466	216,281	3,948	22	55

NOTE 1: Based upon total 66.7% of Maricopa County Transportation Excise Tax collections.

Note 2: Maricopa County Regional Area Road Fund Report; population data from the U.S. Census Bureau available only through July 2021. The most updated population estimates were used from 2019 for prior years, therefore, these estimates changed from what was presented in prior year's ACFRs

**Transportation Excise Tax Revenue and Cost Per Capita**



**Arizona Department of Transportation**  
**Ratios of Outstanding Debt by Type**  
**For the Last Ten Fiscal Years Ended June 30, 2022**  
**(Thousands of Dollars)**

	2012	2013	2014	2015
<b>Governmental Activities</b>				
Highway Revenue Bonds	\$ 1,619,965	\$ 1,733,285	\$ 1,674,800	\$ 1,589,965
Transportation Excise Tax Revenue Bonds	981,845	925,975	867,375	782,810
Grant Anticipation Notes	335,230	296,240	247,710	194,670
Premium on bonds	248,892	350,739	323,356	401,520
Capital leases	10,729	22,271	29,324	30,945
Advances and notes payable	55,666	105,816	108,096	22,178
Net pension and OPEB liabilities	—	—	—	307,848
Other long-term liabilities	15,038	16,780	153	18,900
<b>Total governmental activities</b>	<b>3,267,365</b>	<b>3,451,106</b>	<b>3,250,814</b>	<b>3,348,836</b>
<b>Total primary government</b>	<b>\$ 3,267,365</b>	<b>\$ 3,451,106</b>	<b>\$ 3,250,814</b>	<b>\$ 3,348,836</b>
Debt as a Percentage of Personal Income	1.38 %	1.40 %	1.27 %	1.14 %
Amounts of Debt per Capita <sup>1</sup>	\$ 496	\$ 518	\$ 483	\$ 445

**Note:**

Table C-4 was Table C-5 in prior fiscal years.

2021 is the most current population data available. The latest 10 years are displayed in this table.

**SOURCES:**

U.S. Bureau of Economic Analysis (for population, personal income, and per capita personal income figures);

**SOURCES:**

U.S. Bureau of Economic Analysis (for population, personal income, and per capita personal income figures);

**NOTE:**

<sup>1</sup>The Arizona population data are midyear population estimates of the U.S. Bureau of the Census. Years 2012 through 2020 have been revised to reflect revisions made by the U.S. Bureau of the Census. Per capital personal income is total personal income divided by total midyear population estimates of the U.S. Bureau of the Census. Previous years have been revised to reflect revisions in personal income and population estimates.

<sup>2</sup>Pension liabilities were reported for the first time in FY 2015 due to implementation of GASB 68. OPEB liabilities were reported for the first time in FY 2016 due to implementation of GASB 75.

**Table C-4**

	2016 <sup>2</sup>	2017	2018	2019	2020	2021
\$	1,519,770	\$ 1,435,625	\$ 1,359,500	\$ 1,280,830	\$ 1,231,000	\$ 1,138,455
	717,225	643,310	575,040	732,365	624,415	511,125
	147,320	129,475	177,420	223,885	204,220	184,460
	367,143	389,860	344,153	349,554	329,736	289,528
	37,745	33,791	24,252	—	—	—
	40,486	22,179	—	—	—	—
	331,831	338,474	363,265	316,081	322,271	378,801
	—	49,913	47,567	33,837	36,455	35,837
	<u>3,161,520</u>	<u>3,042,627</u>	<u>2,891,197</u>	<u>2,936,552</u>	<u>2,748,097</u>	<u>2,538,206</u>
\$	<u>3,161,520</u>	<u>\$ 3,042,627</u>	<u>\$ 2,891,197</u>	<u>\$ 2,936,552</u>	<u>\$ 2,748,097</u>	<u>\$ 2,538,206</u>
	1.01 %	1.03 %	0.91 %	0.90 %	0.71 %	0.63 %
\$	408	\$ 434	\$ 403	\$ 416	\$ 371	\$ 349

# DEMOGRAPHIC AND ECONOMIC INFORMATION

**Arizona Department of Transportation**  
**Registrations, Temporary Registration Permits and Disability Placards Per Year**  
**For the Last Ten Fiscal Years Ended June 30, 2022**  
**(Thousands)**

Table D-1

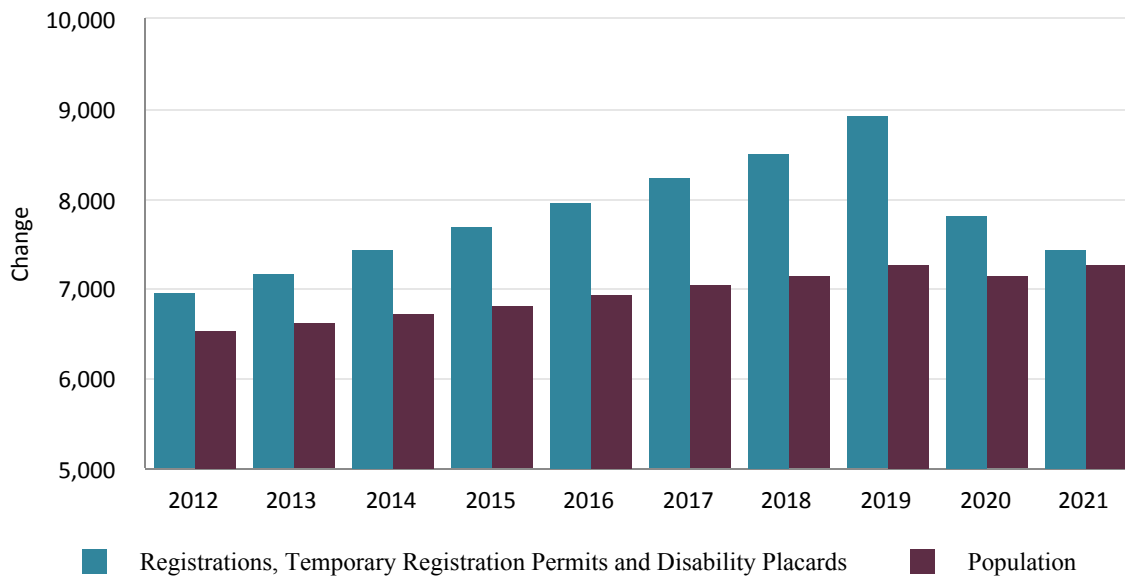
Fiscal Year	Registrations, Temporary Registration Permits and Disability Placards <sup>2</sup>	Change in Number of Registered Vehicles	Arizona Population <sup>1</sup>	Change in Population	Vehicles per Person
2021	7,444	(384)	7,276	125	1.023
2020	7,828	(1,095)	7,152	(127)	1.095
2019	8,923	404	7,279	121	1.226
2018	8,519	271	7,158	114	1.190
2017	8,248	277	7,044	103	1.171
2016	7,971	277	6,941	111	1.148
2015	7,694	241	6,830	99	1.127
2014	7,453	272	6,730	98	1.107
2013	7,181	205	6,633	78	1.083
2012	6,975	136	6,555	82	1.064

SOURCE: Arizona Department of Transportation, Motor Vehicle Division website; United States Census Bureau, data.census.gov

NOTE 1: The Arizona population data for 2019 and prior are July 1, 2019 population estimates of the U.S. Bureau of the Census. Year 2020 was not available. 2020 Arizona population estimate was from April 1, 2020 of the U.S. Census Bureau QuickFacts.

NOTE 2: 2011 - 2019 registrations are not total representation of actual vehicles; disability placards issued to individuals are included in this total. These were a point-in-time count and is not limited to items that renew annually. AS of 2020, data was pulled from ADOT website, About ADOT, Fast Facts from ADOT.

**Change in Registrations, Temporary Registration Permits and Disability Placards Compared to Population Change**



**Arizona Department of Transportation** **Table D-2**  
**Registrations, Temporary Registration Permits and Disability Placards Per Year Compared to Fuel Sales**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2022**  
**(Thousands)**

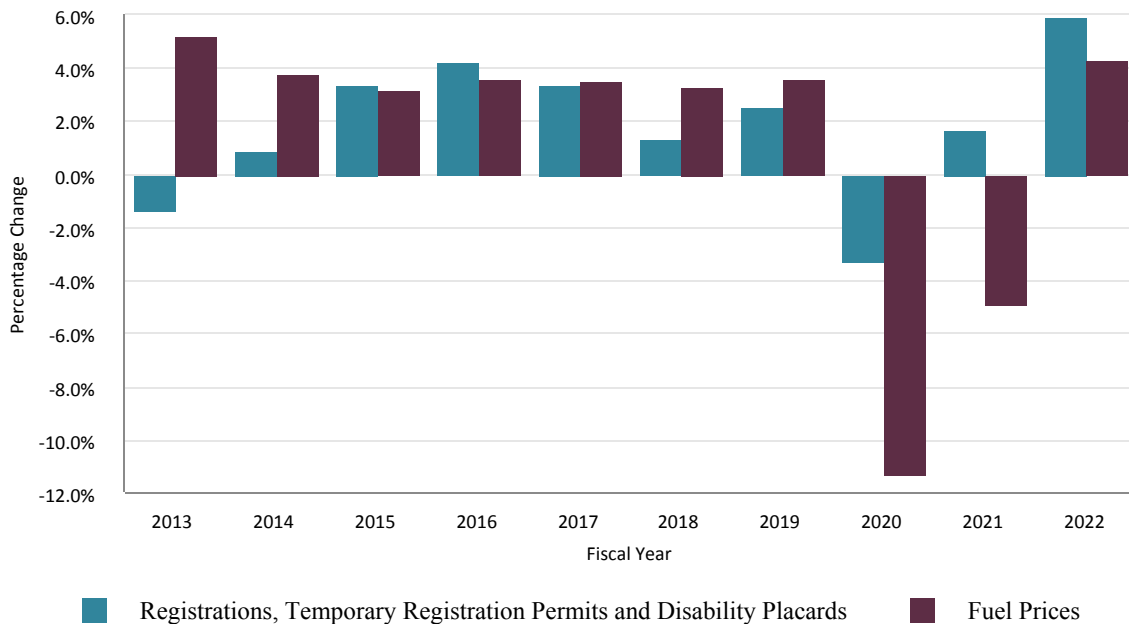
Fiscal Year	Registrations, Temporary Registration Permits and Disability Placards <sup>2</sup>	Percentage Change	Fuel Sales <sup>1</sup>	Percentage Change
2022	7,764	4.3 %	\$ 4,081,785	5.9 %
2021	7,444	(4.9)%	3,853,752	1.7 %
2020	7,828	(11.3)%	3,790,690	(3.3)%
2019	8,822	3.6 %	3,920,663	2.5 %
2018	8,519	3.3 %	3,825,949	1.3 %
2017	8,248	3.5 %	3,776,512	3.4 %
2016	7,971	3.6 %	3,652,363	4.2 %
2015	7,694	3.2 %	3,506,176	3.4 %
2014	7,453	3.8 %	3,389,934	0.9 %
2013	7,181	5.2 %	3,360,587	(1.4)%

SOURCES: Registrations, Temporary Registration Permits and Disability Placards from Motor Vehicle Division website.  
 Fuel sales from Motor Vehicle Division data reported by fuel suppliers.

NOTE 1: Fuel sales include both gasoline and use fuel (primarily diesel) sales.

NOTE2: Prior to 2020, not all of the items included in this total represent actual vehicles; disability placards issued to individuals are included in this total. Starting in 2020, this total includes only registered Vehicles. This is a point-in-time count and is not limited to items that renew annually.

**Percentage Change in Registrations, Temporary Registration Permits, Disability Placards, and Fuel Sales**



**Arizona Department of Transportation  
Demographic and Economic Statistics  
For the Last Ten Calendar years**

**Table D-3**

Calendar Year Ended December 31	Population <sup>1</sup>	Personal Income <sup>2</sup> (in thousands)	Per Capita Personal Income <sup>3</sup>	Unemployment Rate <sup>4</sup>
2021	7,276,316	\$ 395,110,700	\$ 54,301	5.0 %
2020	7,151,502	368,458,600	51,522	7.9 %
2019	7,278,717	334,024,900	45,808	4.9 %
2018	7,158,024	313,040,200	43,733	4.8 %
2017	7,044,008	292,108,028	41,469	4.9 %
2016	6,941,072	278,924,877	40,185	5.3 %
2015	6,829,676	267,361,132	39,147	6.1 %
2014	6,730,413	255,092,928	37,902	6.9 %
2013	6,632,764	245,070,457	36,948	7.8 %
2012	6,554,978	235,780,739	35,970	8.4 %

SOURCES: U.S. Bureau of Economic Analysis (for population, personal income, and per capita personal income figures); U.S. Bureau of the Census (also for population); Arizona Department of Administration's website, [www.workforce.az.gov](http://www.workforce.az.gov) (for unemployment rates).

NOTES: <sup>1</sup>The Arizona population data are midyear population estimates of the U.S. Bureau of the Census. Previous years have been revised to reflect revisions made by the U.S. Bureau of the Census.

<sup>2</sup>Personal income estimates for previous years were revised to reflect revisions made by the U.S. Bureau of the Census.

<sup>3</sup>Per capita personal income is total personal income divided by total midyear population estimates of the U.S. Bureau of the Census. Previous years have been revised to reflect revisions in personal income and population estimates.

<sup>4</sup>The unemployment rates were revised to reflect a revision made by the Arizona Department of Administration website, [www.workforce.az.gov](http://www.workforce.az.gov).

**Arizona Department of Transportation**  
**Principal Employers**  
**Current and Ten Years Ago**

**Table D-4**

Employer	Calendar Year Ended December 31, 2021			Calendar Year Ended December 31, 2012		
	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment
Banner Health	45,918	1	1.31 %	25,126	3	0.82 %
State of Arizona	41,606	2	1.18 %	52,076	1	1.70 %
Walmart Inc.	36,995	3	1.05 %	31,837	2	1.04 %
AZ State University	35,474	4	1.01 %	12,222	8	0.40 %
Fry Food Stores	20,235	5	0.58 %			
City of Phoenix	16,432	6	0.47 %	14,983	4	0.49 %
University of Arizona	16,021	7	0.46 %			
Wells Fargo & Co.	16,000	8	0.45 %	13,679	5	0.45 %
Dignity Health Arizona	15,403	9	0.44 %			
Maricopa County	13,648	10	0.39 %	13,308	6	0.44 %
Bank of America				12,500	7	0.41 %
Raytheon Co.				11,500	9	0.38 %
J P Morgan Chase & Co.				11,407	10	0.37 %
<b>Total</b>	<b>257,732</b>		<b>7.33 %</b>	<b>198,638</b>		<b>6.50%</b>

SOURCES: Bizjournals.com for employers, Business Journal, Book of List for employers; Arizona Department of Commerce website, [www.azcommerce.gov](http://www.azcommerce.gov) (for annual State employment). The sources are those most current at the time of printing.



# OPERATING INFORMATION

**Arizona Department of Transportation**  
**Full-Time Equivalents (FTEs)**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2022**

**Table E-1**

Fiscal Year	Appropriated						Non-appropriated				Total All FTEs
	Admin.	Highways	Multimodal Planning Division	Motor Vehicle Division	Enforcement & Compliance Division	Total Appropriated FTEs	Arizona Highways Magazine	HELP	Other	Total Non-Appropriated FTEs	
2022	829	2,200	70	1,079	376	4,554	17	—	20	37	4,591
2021	829	2,200	70	1,079	376	4,554	17	—	20	37	4,591
2020	824	2,199	84	1,079	368	4,554	17	—	28	45	4,599
2019	792	2,229	84	1,079	368	4,552	18	1	44	63	4,615
2018	792	2,229	84	1,079	368	4,552	18	1	44	63	4,615
2017	792	2,229	84	1,079	368	4,552	18	1	44	63	4,615
2016	792	2,235	78	1,075	368	4,548	18	1	44	63	4,611
2015	792	2,235	78	1,075	368	4,548	18	1	44	63	4,611
2014	792	2,235	78	1,060	383	4,548	20	1	44	65	4,613
2013	792	2,235	78	1,075	368	4,548	18	—	45	63	4,611

**Arizona Department of Transportation**  
**Capital Assets Used in the Operation of Governmental Funds**  
**Schedule by Function and Activity<sup>1</sup>**  
**June 30, 2022**  
**(Thousands of Dollars)**

**Table E-2**

Function and Activity	Land	Buildings and Improvements	Improvements Other Than Buildings	Machinery, Equipment, and Computer Software	Infrastructure	Construction in Progress	Total
Administration	\$ 5,612	\$ 52,929	\$ 9,713	\$ 68,172	\$ —	\$ —	\$ 136,426
Highway	3,620,092	66,891	12,275	39,202	16,856,739	3,896,531	24,491,730
Highway maintenance	4,833	45,581	8,364	79,224	—	—	138,002
Motor vehicle	6,072	57,271	10,510	156,413	—	—	230,266
Total governmental funds capital assets	<u>\$ 3,636,609</u>	<u>\$ 222,672</u>	<u>\$ 40,862</u>	<u>\$ 343,011</u>	<u>\$ 16,856,739</u>	<u>\$ 3,896,531</u>	<u>\$ 24,996,424</u>

NOTE:

<sup>1</sup> This schedule presents only the gross cost of the capital assets related to governmental funds. In prior fiscal years the Department's internal service fund was excluded from the above capital asset amounts. Since the internal service only provides goods and services to governmental funds, its capital assets should be included. Internal service funds are included as governmental activities in the statement of net position.

Reconciliation of Governmental Funds Capital Assets – acquisition cost

Capital assets not subject to depreciation – cost	\$ 24,389,881
Capital assets subject to depreciation – cost	606,543
Total gross cost	<u>24,996,424</u>
Less: Accumulated Depreciation (Note 5A)	<u>(357,078)</u>
Total capital asset per Exhibit 1	<u>\$ 24,639,346</u>

**Arizona Department of Transportation**  
**Capital Assets Used in the Operation of Governmental Funds**  
**Schedule of Changes by Function and Activity<sup>1</sup>**  
**For the Year Ended June 30, 2022**  
**(Thousands of Dollars)**

Table E-3

Function and Activity	Governmental Funds Capital Assets, as restated July 1, 2021	Additions	Deductions	Governmental Funds Capital Assets June 30, 2022
Administration	\$ 137,786	\$ 4,609	\$ (5,969)	\$ 136,426
Highway	24,008,081	502,690	(19,041)	24,491,730
Highway maintenance	139,173	3,969	(5,140)	138,002
Motor vehicle	231,738	4,987	(6,459)	230,266
<b>Total governmental funds capital assets</b>	<b><u>\$ 24,516,778</u></b>	<b><u>\$ 516,255</u></b>	<b><u>\$ (36,609)</u></b>	<b><u>\$ 24,996,424</u></b>

NOTE: <sup>1</sup>This schedule presents only the capital asset gross cost balances (excludes accumulated depreciation) All capital assets relate to governmental funds. In prior fiscal years, the capital assets of the internal service fund were excluded from the above table. However, the internal service fund for the Department only provides goods and services to governmental funds, and therefore, should be included. Beginning balances have been restated to reflect this change.

Reconciliation of Governmental Funds Capital Assets – acquisition cost

Capital assets not subject to depreciation – cost	24,389,881
Capital assets subject to depreciation – cost	606,543
Total gross cost	<u>24,996,424</u>
Less: Accumulated depreciation	<u>-357,078</u>
Capital assets, net of accumulated depreciation per Exhibit 1	<u><u>\$ 24,639,346</u></u>

**Arizona Department of Transportation**  
**Total Public Road Mileage by Highway Class and Governmental Ownership**  
**For the Last Ten Calendar Years Ended December 31**  
**(In Center Line Miles)**

Table E-4

Functional Classification	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Rural</b>										
Interstate Freeway	982	921	921	917	916	916	916	916	916	916
<sup>1</sup> Principal Arterial Freeways & Expressways	Additional categorization beginning 2011			18	18	18	18	19	19	19
Principal Arterial	—	1,174	1,207	1,210	1,210	1,210	1,211	1,263	1,263	1,263
Minor Arterial	1,267	1,173	1,200	1,284	1,284	1,281	1,281	2,186	2,186	2,186
Major Collector	1,308	4,179	4,127	4,204	4,205	4,206	4,208	3,343	3,342	3,336
Minor Collector	6,416	1,794	1,807	1,882	1,882	1,894	1,890	2,961	2,962	2,962
Local	31,370	30,870	30,104	30,285	30,170	30,675	30,876	29,703	29,702	32,429
<b>Total Rural</b>	<b>41,386</b>	<b>40,129</b>	<b>39,384</b>	<b>39,800</b>	<b>39,685</b>	<b>40,200</b>	<b>40,400</b>	<b>40,391</b>	<b>40,390</b>	<b>43,111</b>
<b>Urban</b>										
Interstate Freeway	187	248	248	252	252	252	253	252	252	252
<sup>2</sup> Principal Arterial Freeways & Expressways	181	208	215	214	214	215	215	252	252	251
Principal Arterial	1,437	1,491	846	843	844	844	849	854	854	854
Minor Arterial	1,786	1,957	2,633	2,635	2,636	2,638	2,631	2,543	2,539	2,539
Urban Collector	1,642	2,100	2,103	2,159	2,145	2,156	2,153	5,479	5,479	5,478
Local	18,645	20,308	20,165	20,219	20,258	20,253	20,281	17,129	17,201	22,121
<b>Total Urban</b>	<b>23,878</b>	<b>26,312</b>	<b>26,210</b>	<b>26,322</b>	<b>26,349</b>	<b>26,358</b>	<b>26,382</b>	<b>26,509</b>	<b>26,577</b>	<b>31,495</b>
<b>Statewide composite</b>										
Freeways and expressways	1,350	1,377	1,384	1,383	1,382	1,383	1,384	1,420	1,420	1,419
Arterials	4,533	5,813	5,904	5,990	5,992	5,991	5,990	6,865	6,861	6,861
Collectors	9,366	8,073	8,037	8,245	8,232	8,256	8,251	11,783	11,783	11,776
Locals	50,015	51,178	50,269	50,504	50,428	50,928	51,157	46,832	46,903	54,550
<b>Total statewide composite</b>	<b>65,264</b>	<b>66,441</b>	<b>65,594</b>	<b>66,122</b>	<b>66,034</b>	<b>66,558</b>	<b>66,782</b>	<b>66,900</b>	<b>66,967</b>	<b>74,606</b>

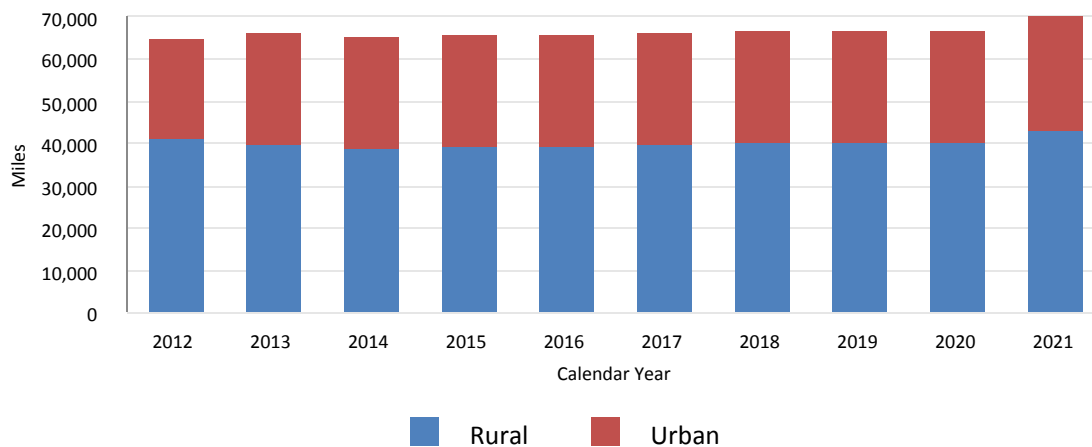
SOURCE: Arizona's Highway Performance Monitoring System (HPMS)

1Additional category created for 2011 reporting.

2Before 2012 this category was titled "Urban Expressway".

Note: corrected column headings to match calendar year reported

**Total Public Road Mileage**



**Arizona Department of Transportation**  
**Vehicle Miles Traveled With Population Data**  
**For the For the Last Ten Calendar Years Ended December 31**  
**(Thousands)**

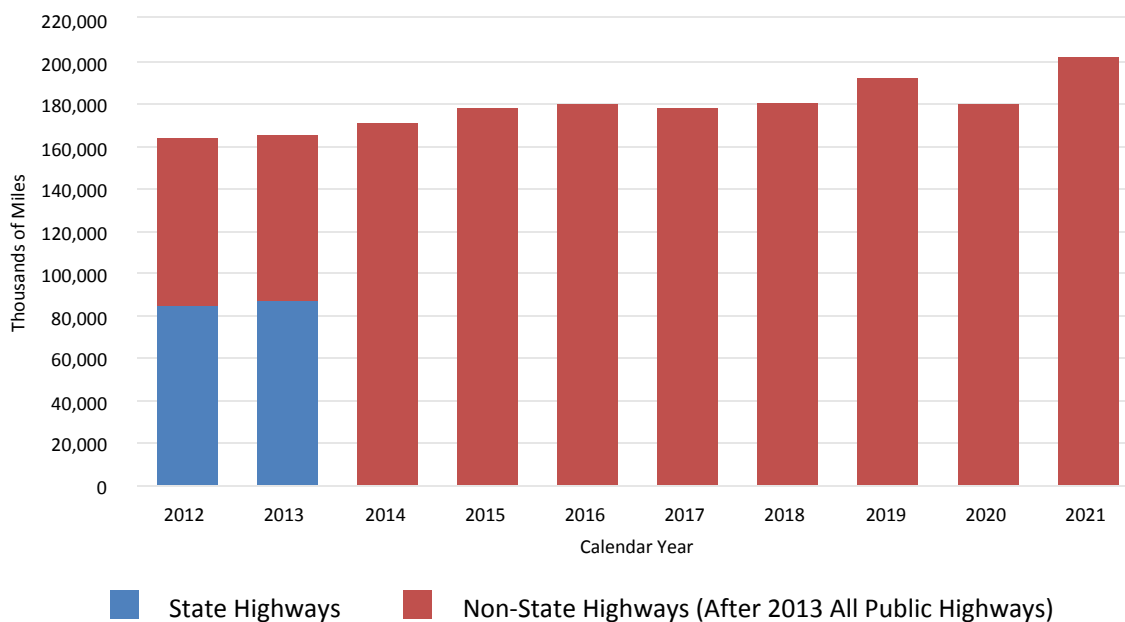
Table E-5

Calendar <sup>1</sup> Year Ended December 31	Non-State <sup>3</sup> Highways	State <sup>3</sup> Highways	All Public Highways	Arizona <sup>3</sup> Population	Daily Miles per Capita
2021	—	—	202,082	7,276	27.8
2020	—	—	179,667	7,421	24.2
2019	—	—	192,550	7,279	26.5
2018	—	—	181,218	7,172	25.3
2017	—	—	178,273	7,049	25.3
2016	—	—	179,742	6,945	25.9
2015	—	—	178,205	6,834	26.1
2014	—	—	171,591	6,734	25.5
2013	88,153	77,837	165,990	6,635	25.0
2012	85,285	79,003	164,288	6,557	25.1

SOURCES: Arizona's Highway Performance Monitoring System (HPMS); ADOT Multimodal Planning Division office records. The Arizona population data are midyear population estimates of the U.S. Bureau of the Census.

1 Calendar year end 2019 is the latest population information available at the time of publication.

**Daily Vehicle Miles Traveled**



## **ACKNOWLEDGMENTS**

The Annual Comprehensive Financial Report was prepared by Financial Management Services, Fiscal Operations:

*Michelle Huckabay, CPA, CGFM*

*Christopher M. Freitag, CPA*

*Liz Rizkallah, MAcc*

*Mary Ann Miller, CPA*

*Tina Munoz*

*Arianna Nelson, MBA*

Special acknowledgment goes to:

The staff of Fiscal Operations, Project and Program Finance, Revenue and Fuel Tax Administration, Financial Planning & Cash Management, and Debt Administration, whose cooperation and hard work contributed to the compilation of financial information that appears in this report.



STATE OF ARIZONA | DEPARTMENT OF TRANSPORTATION

206 South 17th Avenue, Phoenix, Arizona

**ADOT**



## APPENDIX B

### PROPOSED FORM OF BOND COUNSEL OPINION

September 20, 2023

To: Arizona Transportation Board  
Phoenix, Arizona

Ladies and Gentlemen:

We have served as bond counsel to our client the Arizona Transportation Board (the “Board”) and not as counsel to any other person in connection with the issuance by the Board of its \$351,370,000 aggregate principal amount of Arizona Transportation Board, Highway Revenue and Revenue Refunding Bonds, Series 2023 (the “Series 2023 Bonds”), dated the date of this letter.

The Series 2023 Bonds are issued pursuant to Title 28, Chapter 21, Article 1, Arizona Revised Statutes, as amended (the “Act”), and the resolution adopted by the Board on May 1, 1980, as supplemented to date, including as supplemented by a supplemental resolution adopted by the Board on July 21, 2023 (collectively, the “Resolution”). Capitalized terms not otherwise defined in this letter are used as defined in the Resolution.

In our capacity as bond counsel, we have examined the transcript of proceedings relating to the issuance of the Series 2023 Bonds, a copy of the signed and authenticated Series 2023 Bond of the first maturity, the Resolution and such other documents, matters and law as we deem necessary to render the opinions set forth in this letter.

Based on that examination and subject to the limitations stated below, we are of the opinion that under existing law:

1. The Series 2023 Bonds and the Resolution are valid and binding obligations of the Board, enforceable in accordance with their respective terms.
2. The Series 2023 Bonds constitute special obligations of the Board, and the principal of and interest and any premium on (collectively, “debt service”) the Series 2023 Bonds, together with debt service on Outstanding Senior Bonds and on any Additional Senior Bonds that may subsequently be issued under the Resolution on a parity with the Outstanding Senior Bonds and the Series 2023 Bonds, as provided in the Resolution, are payable solely from and secured solely by those moneys paid into the State Highway Fund that constitute Pledged Revenues as defined in the Resolution. The payment of debt service on the Series 2023 Bonds is not secured by an obligation or pledge of any money raised by taxation other than the Pledged Revenues pledged pursuant to the Resolution, and the Series 2023 Bonds do not represent or constitute a general obligation or a pledge of the faith and credit of the Board, the Department, the State of Arizona or any of its political subdivisions.
3. The Resolution creates a valid lien and pledge on the moneys that constitute Pledged Revenues paid into the State Highway Fund for the Senior Bonds, which lien and pledge is subject to no prior liens or pledges granted under the Act.
4. Interest on the Series 2023 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. The interest on the Series 2023 Bonds is exempt from Arizona state income taxes. We express no opinion as to any other tax consequences regarding the Series 2023 Bonds.

The opinions stated above are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. In rendering all such opinions, we assume, without independent verification, and rely upon (i) the accuracy of the factual matters represented, warranted or certified in the proceedings and documents we have examined and (ii) the due and legal authorization, execution and delivery of those documents by, and the valid, binding and enforceable nature of those documents upon, any parties other than the Board.

In rendering those opinions with respect to treatment of the interest on the Series 2023 Bonds under the federal tax laws, we further assume and rely upon compliance with the covenants in the proceedings and documents we have examined, including those of the Board. Failure to comply with certain of those covenants subsequent to issuance of the Series 2023 Bonds may cause interest on the Series 2023 Bonds to be included in gross income for federal income tax purposes retroactively to their date of issuance.

The rights of the owners of the Series 2023 Bonds and the enforceability of the Series 2023 Bonds and the Resolution are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer, and other laws relating to or affecting the rights and remedies of creditors generally; to the application of equitable principles, whether considered in a proceeding at law or in equity; to the exercise of judicial discretion; and to limitations on legal remedies against public entities.

No opinions other than those expressly stated herein are implied or shall be inferred as a result of anything contained in or omitted from this letter. The opinions expressed in this letter are stated only as of the time of its delivery, and we disclaim any obligation to revise or supplement this letter thereafter. Our engagement as bond counsel in connection with the original issuance and delivery of the Series 2023 Bonds is concluded upon delivery of this letter.

Respectfully submitted,

## APPENDIX C

### FORM OF CONTINUING DISCLOSURE UNDERTAKING

**\$351,370,000**

### ARIZONA TRANSPORTATION BOARD HIGHWAY REVENUE AND REVENUE REFUNDING BONDS SERIES 2023

#### CONTINUING DISCLOSURE UNDERTAKING

THIS CONTINUING DISCLOSURE UNDERTAKING (“Undertaking”), dated September 20, 2023, is executed and delivered by the ARIZONA TRANSPORTATION BOARD (the “Board”) and the DEPARTMENT OF TRANSPORTATION (the “Department” which, together with the Board, is referred to as the “Issuer”), in connection with the issuance by the Board of its \$351,370,000 aggregate principal amount of bonds designated the Arizona Transportation Board, Highway Revenue and Revenue Refunding Bonds, Series 2023 (the “Series 2023 Bonds”) dated September 20, 2023.

The Board and the Department each covenant and agree as follows:

Section 1. Purpose of this Undertaking. This Undertaking is executed and delivered by the Issuer, as of the date set forth below, in accordance with the Rule (defined below) for the benefit of the Beneficial Owners (defined below) of the Series 2023 Bonds.

Section 2. Definitions. The terms set forth below shall have the following meanings in this Undertaking, unless the context clearly otherwise requires.

“*Annual Information*” means, for the most recent Fiscal Year, the type of financial information set forth under the heading “REVENUES AND DEBT SERVICE COVERAGE – Historical Revenues” in the final Official Statement, dated September 7, 2023, for the Series 2023 Bonds.

“*Audited Financial Statements*” means the audited financial statements of the Department, prepared in conformity with generally accepted accounting principles.

“*Beneficial Owner*” means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2023 Bonds including persons holding Series 2023 Bonds through nominees, depositories or other intermediaries, or (b) is treated as the owner of any Series 2023 Bonds for federal income tax purposes.

“*EMMA*” means the Electronic Municipal Market Access system of the MSRB. Information regarding submissions to EMMA is available at <http://emma.msrb.org>.

“*Filing Date*” means the first day of the eighth month following the end of each Fiscal Year (or the next succeeding business day if that day is not a business day), beginning February 1, 2024.

“*Financial Obligation*” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“*Fiscal Year*” means the 12-month period beginning on July 1 of each year or such other 12-month period as the State shall adopt as its fiscal year.

“*MSRB*” means the Municipal Securities Rulemaking Board.

“*Rule*” means Rule 15c2-12(b)(5), as adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including any official interpretations thereof issued either before or after the effective date of this Undertaking which are applicable to this Undertaking.

“*SEC*” means the Securities and Exchange Commission.

“*Specified Event*” means the occurrence of any of the events with respect to the Series 2023 Bonds set forth in Sections 4(a) and (b) below.

“*State*” means the State of Arizona.

Section 3. Filing of Annual Information and Audited Financial Statements. The Issuer is the only Obligated Person (as defined in the Rule) for the Series 2023 Bonds. The Issuer hereby agrees to provide or cause to be provided to the MSRB, in a format and with identifying information prescribed by the MSRB:

(a) Annual Information for the preceding Fiscal Year and unaudited financial statements of the Department for the preceding Fiscal Year if Audited Financial Statements are not provided at the same time, not later than the Filing Date for each Fiscal Year; and

(b) Audited Financial Statements for the preceding Fiscal Year, not later than the later of the Filing Date for each Fiscal Year or 30 days after receipt thereof by the Department.

Currently, the MSRB requires filing such information electronically through EMMA. Audited Financial Statements are expected to be available together with the Annual Information. The Issuer is required to deliver, or cause to be delivered, such information in such manner and by such time so that the MSRB receives the information on or before the date specified.

Section 4. Notice of Specified Events and Failure to Provide Annual Information.

(a) The Issuer agrees to provide to the MSRB, in a format and with identifying information prescribed by the MSRB, notice of the occurrence of any of the following events (1) through (10) with respect to Series 2023 Bonds, in a timely manner not in excess of ten business days after the occurrence of the following events:

- (1) Principal and interest payment delinquencies;
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties<sup>1</sup>;
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties<sup>2</sup>;
- (4) Substitution of credit or liquidity providers, or their failure to perform<sup>2</sup>;
- (5) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability or of Notices of Proposed Issue (IRS Form 5701TEB);

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<sup>1</sup> The Series 2023 Bonds are not secured by a debt service reserve as of the date of issue.

<sup>2</sup> No credit enhancement has been obtained for the Series 2023 Bonds as of the date of issue.

- (6) Tender offers;
- (7) Defeasances;
- (8) Rating changes;
- (9) Bankruptcy, insolvency, receivership or similar event of the Issuer; or
- (10) A default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Issuer, any of which reflect financial difficulties.

*Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.*

(b) The Issuer agrees to provide to the MSRB, in a format and with identifying information prescribed by the MSRB, notice of the occurrence of any of the following events (11) through (18) with respect to Series 2023 Bonds, in a timely manner not in excess of ten business days after the occurrence of the following events, if material:

- (11) Unless described in subparagraph (a)(5) above, other material notices or determinations by the Internal Revenue Service with respect to the tax status of Series 2023 Bonds or other material events affecting the tax status of Series 2023 Bonds;
- (12) Modification to rights of security holders;
- (13) Bond calls;
- (14) Release, substitution or sale of property securing repayment of Series 2023 Bonds;
- (15) Non-payment related defaults;
- (16) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
- (17) Appointment of a successor or additional trustee or the change of name of a trustee for the Series 2023 Bonds; or
- (18) The incurrence of a Financial Obligation of the Issuer, if material, or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the Issuer, any of which affect security holders, if material.

(c) The Issuer acknowledges that it must make a determination whether a Specified Event listed in subsection (b) is material under applicable federal securities laws in order to determine whether a filing is required under subsection (b).

(d) The Issuer agrees to provide to the MSRB and in a format and with identifying information prescribed by the MSRB, notice of the Issuer's failure to file the Annual Information on or prior to the applicable Filing Date.

(e) Notwithstanding the foregoing, notice of the Specified Event described in subsection 4(b)(13) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Series 2023 Bonds pursuant to the Senior Bond Resolution (as defined in the Series 2023 Bonds).

(f) Currently, the MSRB requires filing of notice of Specified Events electronically through EMMA.

Section 5. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Information or providing notice of the occurrence of an event, in addition to that which is required by this Undertaking. If the Issuer chooses to include any information from any document or notice of occurrence of an event in addition to that which is specifically required by this Undertaking, the Issuer shall have no obligation under this Undertaking to update such information or include it in any future Annual Information or notice of Specified Events.

Section 6. Failure to Perform. The Issuer agrees that its agreements set forth in Sections 3 and 4 of this Undertaking are intended to be for the benefit of the Beneficial Owners from time to time of the Series 2023 Bonds. Any Beneficial Owner of a Series 2023 Bond may enforce the Issuer's obligation to provide or cause to be provided a filing that is due in accordance with Section 3 or 4 hereof by commencing an action in a court of competent jurisdiction in Phoenix, Arizona to seek specific performance by court order to compel the Issuer to make such filings; provided that any Beneficial Owner seeking to require the Issuer to comply with this Undertaking shall first provide at least 30 days' prior written notice to the Board and the Department of the Issuer's failure, giving reasonable detail of such failure, following which notice the Issuer shall have 30 days to comply. The right of a Beneficial Owner to enforce any provision of this Undertaking shall be limited to a right to obtain specific enforcement of the Issuer's obligations hereunder, and no person or entity shall be entitled to recover monetary damages under this Undertaking, and provided further that any failure of the Issuer to comply with any provisions of this Undertaking shall not be a default or an Event of Default with respect to the Series 2023 Bonds under the Senior Bond Resolution.

Section 7. Amendments; Waiver. The Board reserves the right to amend this Undertaking, and noncompliance with any provision of this Undertaking may be waived, as may be necessary or appropriate to (a) achieve its compliance with the Rule or any other applicable federal securities law or rule, (b) cure any ambiguity, inconsistency or formal defect or omission and (c) address any changes in circumstances arising from a change in legal requirements, change in law or change in the identity, nature or status of the Board. Any such amendment or waiver shall not be effective unless the Undertaking (as amended or taking into account such waiver) would have materially complied with the requirements of the Rule at the time of the primary offering of the Series 2023 Bonds, after taking into account any applicable amendments to or official interpretations of the Rule, as well as any change in circumstances, and until the Board shall have received either (i) a written opinion of bond counsel or other qualified independent special counsel selected by Board that the amendment or waiver would not materially impair the interests of Holders or Beneficial Owners or (ii) the written consent to the amendment or waiver of the Holders of at least a majority of the principal amount of the Series 2023 Bonds then outstanding.

In the event of any amendment or waiver of a provision of this Undertaking, the Issuer shall describe such amendment in the Annual Information or Audited Financial Statements, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing Audited Financial

Statements, (i) notice of such change shall be given in the same manner as Section 3, and (ii) the Annual Information or the Audited Financial Statement for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the Audited Financial Statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 8. Termination of Undertaking. This Undertaking shall terminate when (a) the Series 2023 Bonds are no longer outstanding (within the meaning of the Senior Bond Resolution) or (b) the Rule no longer applies to the Series 2023 Bonds.

Section 9. Dissemination Agent. The Issuer may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such agent, with or without appointing a successor dissemination agent.

Section 10. Beneficiaries. This Undertaking shall inure solely to the benefit of the Issuer and the Beneficial Owners from time to time of the Series 2023 Bonds and shall create no rights in any other person or entity.

Section 11. Recordkeeping. The Issuer shall maintain records of all Annual Information and notice of Specified Events including the content of such disclosure, the names of the entities with whom such disclosures were filed and the date of filing such disclosure.

Section 12. Governing Law. This Undertaking shall be governed by the laws of the State.

IN WITNESS WHEREOF, the parties hereto have caused this Continuing Disclosure Undertaking to be executed and delivered by their duly authorized officers as of this 20<sup>th</sup> day of September, 2023.

ARIZONA TRANSPORTATION BOARD

By: \_\_\_\_\_  
Name: Gary Knight  
Its: Chairman

ARIZONA DEPARTMENT OF TRANSPORTATION

By: \_\_\_\_\_  
Name: Jennifer Toth  
Its: Director

(Signature page of Continuing Disclosure Undertaking)

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## APPENDIX D

### BOOK-ENTRY-ONLY SYSTEM

THE INFORMATION PROVIDED IN THIS APPENDIX D - "BOOK-ENTRY-ONLY SYSTEM" HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE BOARD, THE DEPARTMENT, BOND COUNSEL, THE FINANCIAL ADVISOR, THE UNDERWRITERS OR COUNSEL TO THE UNDERWRITERS AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2023 Bonds. The Series 2023 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2023 Bond will be issued for each maturity of the Series 2023 Bonds in the aggregate principal amount of the Series 2023 Bonds and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of beneficial interests in the Series 2023 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2023 Bonds on DTC's records. The ownership interest of each actual purchaser of a beneficial interest in a Series 2023 Bond ("Beneficial Owner") is in turn to be recorded on the Direct Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of beneficial ownership interests in the Series 2023 Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2023 Bonds, except in the event that use of the book-entry system for the Series 2023 Bonds is discontinued.

To facilitate subsequent transfers, all 2023 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2023 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2023 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2023 Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2023 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2023 Bonds such as redemptions, defaults, and proposed amendments to the Senior Bond Resolution. For example, Beneficial Owners of Series 2023 Bonds may wish to ascertain that the nominee holding the Series 2023 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2023 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series 2023 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will, if applicable, consent or vote with respect to the Series 2023 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2023 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments represented by the Series 2023 Bonds will be made by the Bond Registrar and Paying Agent to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Board or the Bond Registrar and Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar and Paying Agent, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Registrar and Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct Participants and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2023 Bonds purchased or tendered, through its Participant, to the Bond Registrar and Paying Agent, and shall effect delivery of such Series 2023 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2023 Bonds, on DTC's records, to the Bond Registrar and Paying Agent. The requirement for physical delivery of Series 2023 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2023 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2023 Bonds to the Bond Registrar and Paying Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Series 2023 Bonds at any time by giving reasonable notice to the Bond Registrar and Paying Agent or the Board. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2023 Bonds are required to be printed and delivered. The Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2023 Bonds will be printed and delivered.

NONE OF THE BOARD, THE DEPARTMENT, THE BOND REGISTRAR AND PAYING AGENT WILL HAVE RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS OR TO INDIRECT PARTICIPANTS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (2) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2023 BONDS UNDER THE SENIOR BOND RESOLUTION; (3) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2023

BONDS; (4) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE SERIES 2023 BONDS; (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF SERIES 2023 BONDS; OR (6) ANY OTHER MATTERS.

So long as Cede & Co. is the registered Owner of the Series 2023 Bonds, as nominee for DTC, references herein to “Owner” or registered owners of the Series 2023 Bonds (other than under the caption “TAX MATTERS”) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such Series 2023 Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Board or the Paying Agent to DTC only.

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## APPENDIX E

### SUMMARY OF THE TENDERED 2020 BONDS

<b>CUSIP<sup>(a)</sup> (040654)</b>	<b>Maturity (July 1)</b>	<b>Interest Rate</b>	<b>Outstanding Principal Amount</b>	<b>Notional Tendered</b>	<b>Notional Accepted</b>
XU4	2024	1.958%	\$76,370,000	\$28,495,000	\$28,495,000
XV2	2025	2.058	67,860,000	28,350,000	28,350,000
XW0	2026	2.174	53,435,000	8,035,000	8,035,000
XX8	2027	2.224	34,785,000	1,905,000	1,905,000
XY6	2028	2.362	35,555,000	1,000,000	1,000,000
XZ3	2029	2.412	36,400,000	4,180,000	4,180,000
YA7	2030	2.462	37,280,000	6,250,000	6,250,000
YB5	2032	2.662	3,045,000	-	-
YC3	2035	2.912	16,940,000	900,000	900,000
YD1	2038	3.166	53,980,000	3,930,000	3,930,000

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