

MINUTES OF THE
MAG MANAGEMENT COMMITTEE MEETING
October 8, 2008
MAG Office Building - Saguaro Room
Phoenix, Arizona

MEMBERS ATTENDING

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| Charlie McClendon, Avondale, Chair | Darryl Crossman, Litchfield Park |
| Mark Pentz, Chandler, Vice Chair | Christopher Brady, Mesa |
| # Matt Busby for George Hoffman, Apache Junction | Jim Bacon, Paradise Valley |
| David Johnson for Jeanine Guy, Buckeye | Carl Swenson, Peoria |
| Jon Pearson, Carefree | Frank Fairbanks, Phoenix |
| * Usama Abujbarah, Cave Creek | * John Kross, Queen Creek |
| Spencer Isom for B.J. Cornwall, El Mirage | * Bryan Meyers, Salt River Pima-Maricopa Indian Community |
| Alfonso Rodriguez for Phil Dorchester, Fort McDowell Yavapai Nation | Brad Lundahl for John Little, Scottsdale |
| * Rick Davis, Fountain Hills | Randy Oliver, Surprise |
| * Gila Bend | Jeff Kulaga for Charlie Meyer, Tempe |
| * Joseph Manuel, Gila River Indian Community | Chris Hagen for Reyes Medrano, Tolleson |
| George Pettit, Gilbert | + Gary Edwards, Wickenburg |
| Jenna Goad for Ed Beasley, Glendale | * Lloyce Robinson, Youngtown |
| Romina Korke for John Fischbach, Goodyear | * Victor Mendez, ADOT |
| * RoseMary Arellano, Guadalupe | Kenny Harris for David Smith, Maricopa County |
| | Bryan Jungwirth for David Boggs, Valley Metro/RPTA |
- * Those members neither present nor represented by proxy.
Participated by telephone conference call.
+ Participated by videoconference call.

1. Call to Order

The meeting was called to order by Chair Charlie McClendon at 12:02 p.m.

2. Pledge of Allegiance

The Pledge of Allegiance was recited. It was noted that Gary Edwards joined the meeting by videoconference and Matt Busby joined the meeting by teleconference.

Chair McClendon introduced Randy Oliver, the new City Manager for Surprise, and welcomed him to the Committee.

Chair McClendon stated that the revised agenda and supporting materials for agenda items #5B and #5D and the revised 2008 Annual Report on the Status of Proposition 400 for agenda item #7 were at each place. The report was revised to make a correction on page S-2.

Chair McClendon announced that parking garage validation and transit tickets were available from Valley Metro/RPTA for those using transit to come to the meeting.

3. Call to the Audience

Chair McClendon stated that Call to the Audience provides an opportunity to the public to address the Management Committee on items that are not on the agenda that are within the jurisdiction of MAG, or non-action agenda items that are on the agenda for discussion or information only. Chair McClendon noted that those wishing to comment on agenda items posted for action will be provided the opportunity at the time the item is heard. Public comments have a three minute time limit and there is a timer to help the public with their presentations.

Chair McClendon noted that no public comment cards had been turned in.

4. Executive Director's Report

Dennis Smith, MAG Executive Director, reported the Don't Trash Arizona! anti-litter campaign had won the Public Relations Society of America 2008 Copper Anvil Award. Mr. Smith congratulated MAG's Communications Division and its manager, Kelly Taft, for their work on the campaign.

Mr. Smith stated that MAG was informed that the visualization techniques used for the Regional Transportation Plan and the Transportation Improvement Program in the MAG Public Participation Plan were listed as a notable practice by the Federal Highway Administration. He acknowledged the MAG Communications and Transportation Divisions for their efforts on this.

Mr. Smith announced that MAG will be utilizing a new service called GovDelivery, where interested stakeholders can sign up to receive updates to news and events, publications, and meeting minutes and agendas that are published on the MAG Web site. He noted that GovDelivery will provide more access to MAG information to the public and member agencies. Mr. Smith said that rollout is expected by October 31, 2008.

Mr. Smith stated that the Institute of Transportation Engineers awarded James Witowski its Best Paper Award for the Maricopa County Enhanced Parkway. He noted that this parkway concept, a diagram of which was displayed onscreen, is planned extensively in the MAG Interstate 10 - Hassayampa Valley Transportation Framework Study. Mr. Smith extended his appreciation to Dr. Robert Maki, City Engineer from the City of Surprise, who introduced MAG to this concept and added that the State of Michigan has used this type of parkway for the past 40 years. Chair McClendon thanked Mr. Smith for his report. No questions for Mr. Smith were noted.

5. Approval of Consent Agenda

Chair McClendon stated that agenda items #5A, #5B, #5C, #5D, and #5E were on the consent agenda. Chair McClendon reviewed the public comment guidelines for the consent agenda. He noted that no public comment cards had been received.

Chair McClendon asked if any member of the Committee had questions or a request to have a presentation on any consent agenda item. None were noted.

Mr. Crossman moved to recommend approval of consent agenda items #5A, #5B, #5C, #5D, and #5E. Mr. Swenson seconded, and the motion carried unanimously.

5A. Approval of September 10, 2008, Meeting Minutes

The Management Committee, by consent, approved the September 10, 2008, meeting minutes.

5B. Project Changes: Amendments and Administrative Modifications to the FY 2008-2012 MAG Transportation Improvement Program and the FY 2009 Arterial Life Cycle Program

The Management Committee, by consent, recommended approval of amendments and administrative modifications to the FY 2008-2012 Transportation Improvement Program, the FY 2009 Arterial Life Cycle Program, and as appropriate, to the Regional Transportation Plan 2007 Update, as shown in the attached table. The FY 2008-2012 MAG Transportation Improvement Program (TIP) was approved by the MAG Regional Council on July 25, 2007 and the FY 2009 Arterial Life Cycle Program (ALCP) was approved by the MAG Regional Council on June 25, 2008. Since that time, there have been requests from member agencies to modify projects in the programs. The proposed amendment includes three projects funded by the Federal Safe Routes to School Program in Avondale, Gilbert, and Phoenix and a Federal High Priority Project in Scottsdale. The requested project changes include funding and schedule changes to Arizona Department of Transportation projects on Loop 303. The amendment includes projects that may be categorized as exempt from a conformity determination and the administrative modification includes minor project revisions that do not require a conformity determination. The Transportation Review Committee recommended approval of the project changes on September 25, 2008. Since the mailout of the Management Committee agenda, three Scottsdale ALCP projects, SCT04-009, SCT08-928 and SCT09-924, were identified to modify the regional costs for project work. These changes do not cause a negative fiscal impact to the ALCP.

5C. ADOT Red Letter Process

The Regional Council approved the Red Letter Process in 1996 to provide early notification of potential development in planned freeway alignments. Development activities include actions on plans, zoning, and permits. Key elements of the process include: (1) Notifications; ADOT will periodically forward Red Letter notifications to MAG. Notifications will be placed on the consent agenda for information and discussion at the Transportation Review Committee, Management Committee, and Regional Council meetings. If a member wishes to take action on a notification, the item can be removed from the consent agenda for further discussion. The item could then be placed on the agenda of a subsequent meeting for action. (2) Advance

acquisitions; ADOT is authorized to proceed with advance right-of-way acquisitions up to \$2 million per year in funded corridors. Any change in the budgets for advance right-of-way acquisitions constitutes a material cost change as well as a change in freeway priorities and therefore, would have to be reviewed by MAG and would require Regional Council action. With the passage of Proposition 400 on November 2, 2004, the Regional Transportation Plan (RTP) includes funding for right-of-way acquisition as part of the funding for individual highway projects. This funding is spread over the four phases of the Plan. Funding for advance acquisitions may be made available on a case-by-case basis.

For information, the ADOT Advance Acquisition policy allows the expenditure of funds to obtain right-of-way where needed to address hardship cases (residential only), forestall development (typical Red Letter case), respond to advantageous offers or, with remaining funds, acquire properties in the construction sequence for which right-of-way acquisition has not already been funded. In addition to forestalling development within freeway corridors, ADOT, under the Red Letter Process, works with developers on projects adjacent to or close to existing and proposed routes that may have a potential impact on drainage, noise mitigation, and/or access. For this purpose, ADOT needs to be informed of all zoning and development activity within one-half mile of any existing and planned facility. Without ADOT input on development plans adjacent to or near existing and planned facilities, there is a potential for increased costs to the local jurisdiction, the region and/or ADOT. ADOT has forwarded a list of notifications from January 1, 2008, to June 30, 2008. Of the 435 notices received, 106 had an impact to the State Highway System. This item was on the agenda for information and discussion.

5D. Conformity Consultation

The Maricopa Association of Governments is conducting consultation on a conformity assessment for an amendment and administrative modification to the FY 2008-2012 MAG Transportation Improvement Program. The proposed amendment includes three projects funded by the Federal Safe Routes to School Program in Avondale, Gilbert, and Phoenix and a Federal High Priority Project in Scottsdale. The proposed administrative modification includes funding and schedule changes to Arizona Department of Transportation projects on Loop 303. The amendment includes projects that may be categorized as exempt from a conformity determination and the administrative modification includes minor project revisions that do not require a conformity determination. Comments on the conformity assessment were requested by October 17, 2008. This item was on the agenda for consultation.

5E. Vendor Selection for Digital Aerial Photography

The Management Committee, by consent, recommended approval that Landiscor Aerial Information be selected to provide digital aerial photography in an amount of \$26,533.50. In May 2008, the MAG Regional Council approved the FY 2009 Unified Planning Work Program and Annual Budget, which included \$80,000 for digital aerial photography for use in planning activities by both MAG and its member agencies. As in past years, this photography has been made available at no charge to MAG member agencies. MAG issued an Invitation for Bids and received four bids. A multi jurisdictional evaluation team reviewed the bids, and recommended to MAG that the low bid of \$26,533.50 from Landiscor Aerial Information be selected. The

sample imagery and bid package submitted by Landiscor Aerial Information demonstrated the highest quality imagery product for the price.

8. Outdoor Light Pollution

This agenda item was taken out of order.

Buell Jannuzi, Director of Kitt Peak Observatory, reported on the importance of the astronomy community to the State of Arizona and on issues related to outdoor light pollution in Maricopa County and how it impacts astronomy. Mr. Jannuzi stated that Kitt Peak was selected as an astronomical site after an extensive search for sites in the late 1950s because of the clear and dark skies, good visibility, nearby necessary support from major universities and industry, and proximity to a major airport.

Mr. Jannuzi spoke about the new \$20 million Veritas observatory, and noted that a new telescope is being built in Happy Jack, Arizona. He advised that a recent study found that astronomy nets approximately \$250 million per year for the Arizona economy, which is not counting the secondary resources to entities. Mr. Jannuzi stated that the Gamma-Ray space telescope, which is operated by the Goddard Space Center, was assembled in Gilbert, Arizona. He added that Arizona State University was recently awarded a \$700 million grant by NASA to guide the study of the search for life.

Mr. Jannuzi stated that one of the recommendations of the aforementioned study is how the Arizona Legislature, counties, municipalities and Tribal Nations can keep astronomy sound in Arizona by reviewing their existing statutes and ordinances in an effort to reduce light pollution.

Mr. Jannuzi displayed a photo of North America taken from the international space station that showed light pollution at night. He then showed various pictures of nighttime light pollution affecting Kitt Peak Observatory and Mount Graham, even though the light sources could be more than 200 miles distant. Mr. Jannuzi commented that the light shining upward to space is not doing any good, but is just wasting energy.

Mr. Jannuzi encouraged incorporating lighting designs that make lighting more efficient. He commented that it is easier to be proactive on new installations than to go back and retrofit existing lighting. Mr. Jannuzi displayed photos of lit areas that showed light was directed where it was not needed. He commented that a lot of light did not necessarily make areas safer, it was more important to direct the light downward to provide the most efficient and effective coverage. Mr. Jannuzi stated that new technologies provide new opportunities and new challenges. He showed an example of a full cutoff lighting fixture with no direct upright and essentially no glare, where all light is used, not wasted.

Mr. Jannuzi also showed examples of top lit billboards that are more effective than bottom lit billboards. He urged that those who write codes be provided with information about quality lighting, in order to provide better visibility, save money, and protect dark skies. Mr. Jannuzi also noted that education is an important component in conveying the impacts of inefficient lighting and the value of dark skies. He said that the astronomy community is ready to assist jurisdictions, including speaking to the public. Mr. Jannuzi noted that a recent study showed the

energy cost savings that might be realized. He stated that the National Park Services is also active in promoting dark skies. Chair McClendon thanked Mr. Jannuzi for his report.

6. Transportation Planning Update

Eric Anderson, MAG Transportation Director, shared perspectives with the Management Committee on the economy, the half-cent sales tax for transportation, and cost challenges being experienced in regard to projects in Proposition 400. He commented that the economy is in a downturn and cities are dealing with budget issues.

Mr. Anderson displayed a chart that showed Proposition 400 sales tax revenues and noted that 11 of the last 12 months have seen negative growth. He reported that transportation sales tax revenues fell by 3.2 percent in fiscal year 2008. Mr. Anderson said that ADOT researched the sales tax base back to 1960 and indicated it had never declined in 47 years. He added that in the first two months of fiscal year 2009 the revenue from the transportation sales tax decreased 10.2 percent.

Mr. Anderson stated that three factors were affecting the sales tax revenue situation. (1) The energy crisis, which is taking money out of people's pockets to pay for gasoline and as a result, they cannot spend money on other things. He added that this represents a negative impact of about \$350 million on the state sales tax. (2) The implementation of E-verify has affected the population base, although the exact impact on the sales tax revenue is unknown. (3) The housing market, which is the largest impact.

Mr. Anderson displayed a map that showed homes with negative equity in the metro area. He said that 51 percent of the housing bought in the last five years has a negative equity. Mr. Anderson noted that housing equity is a source of personal and household wealth and has a direct correlation to household spending, especially big ticket items. He commented that currently, consumer confidence is low. Mr. Anderson said that when he participated in an expert panel at ADOT in August 2008, there was a sense that relief in the housing market may occur in 2010, but no one really knows for sure.

Mr. Anderson stated that the impact of the housing market on sales tax revenue and the ability to obtain financing is a serious concern. Mr. Anderson commented that the ability of cities to issue bonds is highly problematic right now. He advised that \$12 billion in municipal bonds since September 15, 2008, were not issued because there is no market. He reported that the interest rate for a recent bond issued in Long Island for the power authority was about two percentage points higher than it would have been in August 2008. Mr. Anderson stated that there are serious financial issues and that is even if you can find someone to buy the bonds. He noted that the State of California needs short-term financing to get the state through to Spring when the tax revenue will begin to flow.

Mr. Anderson displayed a chart that showed that in the second quarter of 2008, about 52 percent of homes sold in the metro area were sold at a loss, and 38 percent of homes sold were foreclosures. He commented that foreclosures will increase. Mr. Anderson stated that this is an unprecedented time, and what will happen with the bailout plan is unknown. He added that the international credit markets are essentially shut down right now. Mr. Anderson displayed a map,

which showed that home values experienced an unprecedented decrease of an average of 22 percent in one year.

Mr. Anderson stated that the FY 2007 transportation sales tax revenue came in under projections, and the fiscal year 2008 collection came in just under \$380 million, about \$30 million under projection. He said that ADOT is in the process of revising the revenue forecast to 2025. Mr. Anderson indicated that the revised revenue projections from ADOT could be between \$500 million and \$1 billion lower than previous forecasts and noted that the impact to the highway program could be \$570 million and to transit could be \$300 million.

Mr. Anderson said that he had spoken to a person who had looked at a portfolio of shopping centers in Phoenix, Flagstaff, and Tucson. The person reported that for calendar year 2007, retail sales were down 11 percent to 12 percent, and so far this year were down another 10 percent, for a combined loss of about 23 percent over the past one and one-half years.

Mr. Anderson stated that the ADOT forecast is expected to be released in one week or thereabouts. He indicated that lower revenue means there is less ability to issue bonds to keep the freeway program on track. Mr. Anderson noted that the transit program is examining the transit life cycle program aspect. He noted that setting priorities in the freeway program is MAG's responsibility, and a serious discussion on managing the program is needed.

Mr. Anderson stated that over the past five years, since the Regional Transportation Plan was adopted in late 2003, the cost of highway and street construction has increased 77 percent, which is about four times the rate of general inflation. He said that the prices for concrete, steel, and asphalt have risen significantly, but the biggest impact resulted from the increase in oil prices, which affects all aspects of construction. Mr. Anderson indicated that the ADOT expert panel saw some moderation, especially in concrete prices, but commodity prices are still at the mercy of the global oil market. He noted that the price of asphalt already has increased eight-fold and is expected to increase another 50 percent to 75 percent. Mr. Anderson stated that availability will continue to be an issue because manufacturers are choosing to make higher value products from the same material that is used to make asphalt. Mr. Anderson pointed out that in the past year, diesel fuel, which is important in highway construction, increased 78 percent.

Mr. Anderson stated that the program includes about \$15 billion in freeway projects and has about \$11 billion in resources. He remarked that due to the downturn in the economy, this is a good opportunity to take advantage and get projects out the door, assuming the bonds can be sold. Mr. Anderson stated that the freeway program in the 1990s had issues in one aspect or another, but today's program has issues across the board – revenue, financing and cost.

Mr. Anderson then reviewed the next steps. He said that ADOT is expected to revise the revenue projections by mid-October; the bond program in light of revised revenues and financial markets will need to be studied; future right-of-way and construction cost inflation will continue to be analyzed; project options such as interim, staging, or reducing scopes to provide basic mobility and preserve right-of-way within the budget will be analyzed; and policy discussion and guidance will continue. Mr. Anderson stated that the TPC will begin policy discussion at the October and November 2008 meetings and provide guidance on what options they want to look

at in terms of balancing the program. Mr. Anderson stated that staff will take the guidance and develop some options for the TPC's consideration after the first of the year.

Mr. Anderson explained that when Proposition 400 was put together, they took the strategy to preserve the full footprint of a corridor even though the freeway would not be built immediately to capacity. He stated that one policy discussion is do we want to purchase right-of-way for the full footprint or just purchase right-of-way for what we are able to build? The implication is that we will never go back and buy the right-of-way for the full footprint because development will have occurred and the land will be too expensive. Mr. Anderson stated that another option is to protect the long range right-of-way to add capacity in the future. He noted that in some cases, the cost of right-of-way protection is a billion dollars. Mr. Anderson stated that another policy discussion is whether to continue to build freeways or go with a strategy of interim parkways until we have more money to build a full freeway. He said that each has short- and long-term costs and benefits, and we need to take care of what we have today, but also not preempt future options. Mr. Anderson stated that we have confidence in our elected officials to give good direction and guidance and staff will take that direction and guidance and develop options for solutions.

Chair McClendon asked the timeframe for action on policies. Mr. Anderson replied that the TPC will begin discussion at the October 15, 2008, meeting. He added that updates will be given to the Management Committee on a regular basis. Mr. Anderson commented that overall, they would like to have a revised plan in March or April to incorporate into the annual update of the RTP. He noted that Arizona state law requires that program costs and revenue be in balance. In addition, the performance audit is due in 2010 and the auditors will ask the Legislature to ask MAG if there is enough money to finish Proposition 400. Mr. Anderson commented that it is incumbent upon MAG to deal with this issue promptly. He noted that some other options might preserve the intent of the program, for example, extending the schedule. Mr. Anderson said that in addition, other revenue sources might become available, including a possible reauthorization of the federal transportation act or from setting up a freight trust fund, which is being considered. He commented that I-10 is a highway of national importance, and there could be a joint effort regionally and statewide to improve I-10 with federal funds and take the pressure off regional funds. Mr. Anderson stated that a federal strategy needs to be a part and ensure Arizona gets its fair share of federal transportation funds.

Mr. Fairbanks stated that the same factors that impact the freeway program have also impacted building and maintaining streets in Phoenix. He asked if the situation was common in the region and the state. Mr. Anderson replied that the situation was prevalent across all jurisdictions, even nationally. He mentioned that the last gas tax increase in Arizona was in 1991. This tax represents about one-half of the Highway User Revenue Fund (HURF), which is the source for street needs at the local level. Mr. Anderson stated that the HURF issue needs to be addressed from the state perspective. Mr. Anderson commented that because arterial and local streets carry 60 percent to two-thirds of the traffic, it is important to have a good system that is well maintained.

Mr. Fairbanks indicated that he keeps hearing rumors that there is some intent of doing state funding for highways and roads. He said that from his perspective, if there is a new initiative to fund highways and roads across the state, he did not know how it would be successful without

addressing the cities' obligation for streets and roads, and without addressing the huge shortfall in Proposition 400. Mr. Fairbanks asked if we are going to look at new funding, should we not make good on the promises made to voters in Proposition 400?

Mr. Anderson stated that because of the high fuel prices, a decline in vehicle miles traveled has shown up dramatically. He said that one half of the HURF is the fuel tax and one-quarter is the vehicle license tax. Mr. Anderson commented that car sales have decreased, so the tax base is declining. Mr. Anderson stated that cities are under stress on the state program already. When ADOT releases the HURF projections, he thought the amount would be down because of the declines in driving and in the vehicle license tax.

Mr. Bacon expressed his concern about the consequences to the tourism industry. Mr. Bacon said that he had seen a report on the significant impact to Sky Harbor Airport of perhaps 800,000 to one million passengers. He commented that if the trend continues, it will affect resort properties and soften the commercial market quickly. Mr. Bacon expressed appreciation for the points about financing becoming more difficult to obtain, but he has heard from colleagues that they think they will be unable to obtain financing at all. He said that he hoped the discussion deals with getting financing at any cost rather than discussion about a higher rate. Mr. Bacon commented that the experiences on projects in his community going to bid are different than the numbers in the presentation. He reported that the day before the Management Committee meeting, the low bidder on a utility project was less than 50 percent of the engineer's estimate. Mr. Bacon said that this is in addition to two significant public facility bids that were also under the bid estimate.

Mr. Smith stated that this might be the time to pursue one of the recommendations from the 1991 performance audit that was not approved. He asked Mr. Anderson to explain the recommendation to the Committee. Mr. Anderson stated that the first performance audit was done in 1991 in response to many of the cost and revenue issues being faced today. He said that all of the recommendations from the audit were implemented, with the exception of before and after appraisals. Mr. Anderson explained that before and after appraisals means that the appraisal process on a piece of land can recognize the enhanced value of the balance of the parcel once the freeway is completed. He said that the Arizona appraisal process cannot recognize that enhanced value is basically double-dipping; a seller gets fair market value and if it is not a total take, the value of the leftover property also is enhanced by the facility. Mr. Anderson commented that it may be time to revisit that concept, and there could be substantial cost savings on right-of-way to the program. He added that this does not apply to residential, but to large, vacant or partially developed parcels.

7. 2008 Annual Report on the Status of the Implementation of Proposition 400

Roger Herzog, MAG Senior Project Manager, stated that Arizona Revised Statute 28-6354 requires that MAG issue an annual report on the status of projects funded by the half-cent sales tax authorized by Proposition 400. He said that the 2008 Annual Report is the fourth report in this series. Mr. Herzog stated that a public hearing on the report is scheduled for November 2008. He added that the summary of findings was included in the agenda packet and the complete report is posted on the MAG Web site.

Mr. Herzog addressed the key findings of the Annual Report. For the category of regional revenues, he noted that fiscal year 2008 half-cent sales tax receipts were three percent lower than the receipts from FY 2007. He advised that this is the first decline in the half-cent sales tax since it began in 1985. Mr. Herzog stated that for July and August 2008, receipts were down 11.2 percent and 9.1 percent, respectively, and revenue from the gas tax was down about 2.9 percent.

Mr. Herzog stated that revenue projections are being updated, and will likely result in lower long-range forecasts. He noted that the federal transportation funding act expires in FY 2009, and its structure represents a major uncertainty.

Mr. Herzog stated that for FY 2009-2026, the estimated future costs of \$6.312 billion for the Transit Life Cycle Program are currently in balance with projected revenues of approximately \$6.315 billion. Mr. Herzog noted that these figures are through 2008, but will be changing. He stated that costs are continuing to rise faster than anticipated, especially in the bus program, and revenues are not expected to keep pace, at least in the short term. Mr. Herzog stated that if revenues continue to decline, new bus service implementation included in the RTP may be impacted in the future. He added that bus services that have been implemented previously will be reviewed to ensure that productivity goals are met.

Mr. Herzog stated that during FY 2009, RPTA will be examining closely the assumptions used in estimating both revenues and expenditures for the Transit Life Cycle Program, and making adjustments as may be necessary.

Mr. Herzog stated that for FY 2009-2026, the total estimated future regional reimbursements of \$1.703 billion for projects in the Arterial Street Life Cycle Program are in balance with projected revenues of \$1.864 billion. He said that project costs are increasing and local governments have had to make up the difference. Mr. Herzog stated that the inability to provide matching funds, and other scheduling and resource issues, have resulted in the deferral of a number of arterial projects by implementing agencies. Due to this, lead agencies have deferred the use of \$46 million in federal and regional funding from FY 2008 to later years. Mr. Herzog stated that it is anticipated that project scope changes and rescheduling may continue to occur in the future, as local jurisdictions continue to face a variety of fiscal issues.

Mr. Herzog stated that for FY 2009-2026, the unadjusted future costs of \$10.008 billion for the Freeway/Highway Life Cycle Program are currently in balance with projected revenues of \$10.273 billion. He advised that the impacts of construction cost increases and project scope changes on the Freeway/Highway Life Cycle Program are being evaluated, and noted that the new preliminary estimated program cost totals \$14.9 billion, significantly more than past estimates.

Mr. Herzog provided a breakdown of the \$14.9 billion cost estimate. He stated that the 2003 base planning estimate was \$8.5 billion. Mr. Herzog stated that the original inflation allowance was \$1.4 billion, and there is an additional \$2.3 billion price inflation, for a total of \$3.7 billion. He said that scope changes total \$2.7 billion and include \$1.3 billion of original contingency allowance and \$1.4 billion in additional scope changes.

Mr. Herzog stated that there is a gap of approximately \$3.3 billion between the updated cost estimate of \$14.9 billion and available funding of \$11.6 billion. He commented that this difference could be subject to future increases, depending on the outlook for inflation, facility design contingencies, further cost estimate refinements, and updated revenue forecasts. Mr. Herzog stated that given the potential deficit of approximately \$3.3 billion, a major effort to achieve a balance between future program costs and available revenues will be required. Potential approaches to achieving a program balance could include enhanced financing methods, project phasing, extension of the programming period, and adjustment of project schedules.

Chair McClendon asked for clarification of scope changes. Mr. Herzog replied that scope changes include various components, such as additional traffic interchanges, upgraded system level interchanges to provide local access, additional through-lanes, and funding for the renewal of the quiet pavement program. He stated that some local governments are working with ADOT on the design factor process, and noted that looking at the design features and possible tradeoffs will be part of the process to be undertaken to keep the program balanced.

Chair McClendon asked how the decisions for scope changes are made if they do not come back through the MAG process. Mr. Herzog replied that one process for adding the scope changes is through the review of the update of the TIP and through the life cycle program, which is part of the RTP. He said that a lot of the scope changes have not shown up directly in the project cost to this point, but there is the potential for them to be included in future TIP and life cycle program updates.

Mr. Smith stated that MAG develops and approves the RTP, which is then sent to ADOT for implementation. He explained that ADOT engineers then draft a design concept report (DCR), where they analyze current traffic forecasts and do projections of the number of lanes that would be required for future needs. For example, the RTP includes six lanes for a freeway but the DCR indicates ten lanes would be required to accommodate future traffic. Mr. Smith stated that this might be called scope creep, but it could also be called good engineering because we are planning a freeway for the future. He stated that this DCR information has not been brought back through the MAG process.

Mr. Anderson provided some examples of scope changes. He said that two lanes are planned to be added to Loop 101 – one lane in the median and one lane on the outside. However, ADOT has adopted a strategy to build the original six lanes on the outside and new lanes in the median because then certain structures will not have to be moved. Mr. Anderson noted that this option is more expensive because more concrete is used. He said that another example is utility relocation. Mr. Anderson noted that when a plan estimate is done, they realize there may be miscellaneous items requiring changes, which show up as a result of the DCR and, in some cases, may be significant, such as moving transmission lines. Mr. Anderson commented that there are some changes that save money down the road, and there are some changes that might be nice to do, but we would be unable to pursue due to financial constraints. He stated that currently MAG staff track scope changes, but the DCRs go forward without a policy review. Mr. Anderson commented that he thought the DCRs should come back through the MAG process and the policymakers would know and understand what the engineering side in the process recommended. Mr. Anderson stated that once the DCR is completed, the direction of the scope and the final design process are set.

Mr. Smith stated that another component to be looked at to keep costs in line is value engineering, which ADOT currently utilizes.

9. Comments from the Committee

An opportunity will be provided for Management Committee members to present a brief summary of current events. The Management Committee is not allowed to propose, discuss, deliberate or take action at the meeting on any matter in the summary, unless the specific matter is properly noticed for legal action.

No comments from the Committee were noted.

There being no further business, the meeting adjourned at 1:10 p.m.

Secretary

Chairman