

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON,
ARIZONA

**Minutes of the Special Meeting
of the Board of Directors**

January 15, 2015

3:00 P.M.

at the

Ward VI Council Offices - Community Room
3202 East First Street
Tucson, Arizona 85719

Present:

Board Members Gary Bachman
Evelia Martinez
Judy Clinco
Emily Nottingham
Adam Weinstein (arrived at 3:30 p.m.)

Staff Charles Lotzar, Lotzar Law Firm, PC
Gary Molenda, Business Development Finance Corporation
Karen Valdez, Business Development Finance Corporation

Guests Camila Martins-Bekat, City of Tucson
Swain Chapman - Pueblo Parking Systems, LLC
Sue Zimmerman - Pueblo Parking Systems, LLC

Absent Marilyn Robinson
Larry Lucero

The Special Meeting of the Board of Directors of The Industrial Development Authority of the City of Tucson, Arizona (the “**Authority**”) was held on **January 15, 2015**, at the Ward VI Council Office - East Conference Room, 3202 E. First Street, Tucson, Arizona. All Authority’s Board Members and the general public were duly notified of the meeting. C. Lotzar had informed the Authority’s Board of Directors that Arizona’s Open Meeting Laws allow for members of the Authority’s Board of Directors and legal counsel to appear and participate in the meeting telephonically so long as all participants in the meeting can hear and be heard.

ITEM	ACTION TAKEN/TO BE TAKEN
1. Call to Order The meeting was called to order by Gary Bachman, Vice- President, with a quorum present.	The meeting was called to order at 3:07 p.m.
2. Request for resolution to approve the minutes of the Regular Meeting of December 12, 2014.	A MOTION was made and seconded (E. Martinez / J. Clinco) to approve the meeting minutes of the

	<p>December 12, 2014 Regular Meeting as presented. Approved 4-0.</p>
<p>3. Request for resolution to approve the payment of invoices and the notification of items to be paid on the Authority's behalf by third parties.</p> <p>K. Valdez reviewed the list of items to be paid on the Authority's behalf.</p>	<p>A MOTION was made and seconded (E. Nottingham / E. Martinez) to approve payment of invoices and notification of items to be paid as presented. Approved 4-0.</p>
<p>4. Status report regarding the Block 175 and Stone/Council Lots and the recommendations for a January 1, 2015 to June 30, 2015 budget and request for resolution for any actions related thereto.</p> <p>K. Valdez stated that a 6 month budget, covering January 1, 2015 through June 30, 2015 was requested in lieu of a 12 month budget in order to get the 2 parking lot budgets in line with the Authority's fiscal year (July 1 through June 30).</p> <p>S. Chapman reviewed the proposed 6 month budgets for (a) Block 175 parking lot and (b) Stone/Council parking lot and included justifications per parking lot as outlined in the January 9, 2015 memorandum to the Authority. It was noted that the budgets do not call for any capital improvements, but do reflect general maintenance expenses.</p>	<p>A MOTION was made and seconded (E. Nottingham / E. Martinez) to approve the January 1, 2015 to June 30, 2015 budgets for the Block 175 parking lot and Stone / Council parking lot, as presented. Approved 4-0.</p>
<p>5. Status report from the Liaison to City of Tucson, Arizona City Manager's Office related to:</p> <p>C. Bekat provided the following updates:</p> <p>a) The City's Economic Development Prospect list.</p> <p>Project Transport - Home Goods announced relocation to Tucson, Arizona. This is a \$75,000,000 capital investment. The relocation will bring approximately 800 jobs to Tucson. Incentives received: Primary Jobs, Foreign Trade Zone, and Sign Tax Benefit.</p> <p>b) The City's use of the Tucson Community Development Loan Fund aka the HUD Section 108 Loan Program.</p> <p>Mayor & Council approved the amendment to the annual plan. No comments were received during the comment period. Finalizing the environmental review.</p> <p>c) The City's use of HOME Funds.</p> <p>Ms. Bekat provided a spreadsheet on use of HOME Funds through</p>	<p>No action taken.</p>

<p>December 31, 2014.</p> <p>d) The City’s use of its 21 Economic Development tools.</p> <p>One site specific sales tax incentive application has been received. This should go before Mayor & Council for approval on February 4, 2015.</p> <p>e) Current items of interest - No report</p>	
<p>6. Status report related to 450 N. Main Avenue related to a Sale & Development Agreement with the City of Tucson, Arizona and request for resolution for any actions related thereto.</p> <p>G. Molenda reported that under the Sale & Development Agreement with the City of Tucson (“COT”), there is a 60 day due diligence period that expires January 18, 2015. The Authority retained Ninyo & Moore to complete a Phase 1 Environmental to include the surplus property. The report has been completed and per the executive summary:</p> <ul style="list-style-type: none"> ➤ “...assessment has revealed no evidence of recognized environmental conditions in connection with the property” and ➤ “Based on the findings of this Phase I ESA, Ninyo & Moore does not recommend additional assessment of the Site” <p>It was noted that a notice accepting the property, pursuant to the requirements of the Sale & Development Agreement, will be provided to the COT by Friday, January 16, 2015. Mr. Molenda recommends that the Authority proceed with the transaction as contemplated and to authorize the President or any other Officer of the Authority to execute any documents necessary to close the transaction within the next month. Mr. Molenda also recommends that the documents, including the Title Report and the 2 Easements that will need to be recorded, be reviewed by the Lotzar Law Firm, PC prior to closing.</p>	<p>A MOTION was made and seconded (E. Nottingham / E. Martinez) to approve the Environmental Phase 1 Report as prepared and submitted by Ninyo & Moore; approve the acceptance of the Sale & Development Agreement with the City of Tucson, Arizona; authorize review of the Title Report by the Lotzar Law Firm, PC., and authorize the President or any other Officer of the Authority to execute any documents necessary to close the transaction. Approved 5-0.</p>
<p>7. Status report related to \$15,000,000 The Industrial Development Authority of The County of Pima and The Industrial Development Authority of The City of Tucson, Arizona Revolving Taxable Single Family Mortgage Loan Program of 2012 (Pima Tucson Homebuyer’s Solution) - Program and request for resolution authorizing the Assignment Assumption & Consent Agreement for the purpose of transferring all rights, powers, duties and obligations from GKB Mortgage Markets, LLC (the “Assignor”), as assignor to George K. Baum & Company, Inc. (the “Assignee”).</p> <p>C. Lotzar reported that the Agreement is pretty straight forward and attempts to follow changes in the view of regulations of securities Broker Dealers. When the process to establish a program was first started the regulators asked that everything go through a separate company, instead of</p>	<p>A MOTION was made and seconded (E. Martinez / E. Nottingham) to approve the Assignment Assumption & Consent Agreement for the purpose of transferring all rights, powers, duties and obligations to George K. Baum & Company, Inc. Approved 5-0.</p>

<p>George K Baum & Company, Inc. However, the bulk of the activity is in the nature of programs such as and including the Pima Tucson Homebuyer’s Solution (“PTHS”) program involves the hedging and sale of mortgage-backed securities. As a result, the regulators are asking that everything be moved back into George K Baum & Company, Inc., the Broker Dealer.</p> <p>Mr. Lotzar stated that next month the Authority will be reviewing the idea of expanding the scope of the PTHS with more of a wide offering of mortgage products and forms of mortgage-backed securities similar to what would have been done in a single family mortgage revenue bond program.</p>	
<p>8. Status report related to potential settlement with Bank of America, N.A. and / or Countrywide Home Loans, Inc. related to prior Single Family Mortgage Revenue Bonds programs issued in 2006 and 2007 and request for resolution related thereto. Pursuant to Arizona Revised Statutes Section 38-431.03(A)(1)(3) and/or (4), the Board may vote to recess and meet in executive session for the purpose of discussion or consultation with and to provide direction to the Board’s legal counsel in connection with this item. Any action taken by the Board regarding this matter will be taken in open meeting session (either at this meeting or at a later date) after the adjournment of the executive session.</p> <p>C. Lotzar reported that stated that simple summaries of what has been involved in the Authority’s programs was received from Bank of America (“BofA”) as the Master Servicer, and distributed to the Authority for review.</p> <p>Mr. Lotzar stated that requests have been made to BofA for reasonable assurances that BofA is doing everything appropriately with the servicing of the second loans. There have been a number of conversations held with representatives at BofA. It was noted that there have been no additional delinquencies occurring after the conversations began. BofA representatives stated that they do not have the authority to deal with problems in the event there is a short sale or work out, etc. As a result, BofA is requesting authority to deal with such matters.</p> <p>Discussion ensued regarding parity testing provided by George K. Baum & Company, Inc. (“GKB”) and it was noted that the Authority’s programs are well over collateralized. Due to this over collateralization it is the consensus of the Authority to give direction to BofA authorizing the following limited authority related to the 2nd mortgage loans associated with the 2006 and 2007 programs:</p> <ol style="list-style-type: none"> 1. Grant BofA the power to restructure and extend terms of troubled 2nd mortgage loans. 2. Grant BofA the power to reduce interest rate on the troubled 2nd mortgage loans to as low as 3.5%. 	<p>A MOTION was made and seconded (E. Nottingham / J. Clinco) to authorize Bank of America, N. A. the power to deal with troubled 2nd mortgage loans associated with in 2006 and 2007 programs, including:</p> <ol style="list-style-type: none"> 1. To restructure and extend term of troubled 2nd mortgage loans. 2. To reduce the mortgage loan interest rate to as low as 3.5%. 3. To respond to short sale opportunities, by agreeing to accept as low as 50% of the outstanding principal loan balance owed. <p>Approved 4 - 0 (1 Abstention: E. Martinez)</p>

<p>3. If a short sale is presented in connection with a troubled 2nd mortgage loan, then grant BofA the power to accept as low as 50% of the outstanding principal balance owed.</p>	
<p>9. Request for resolution approving the Authority’s management financial statements for the fiscal year ended June 30, 2014 as compiled by Mr. Kovar on the Authority’s behalf.</p> <p>Mr. Molenda stated that management financial statements are compiled by Mr. Kovar on the Authority’s behalf and provided to the Auditors for audit.</p>	<p>A MOTION was made and seconded (A. Weinstein / E. Martinez) to approve the Authority’s management financial statements for the fiscal year ended June 30, 2014 as compiled by Mr. Kovar. Approved 5-0.</p>
<p>10. Request for resolution approving the Authority’s audited financial statements for the fiscal year ended June 30, 2014 as prepared by the Authority’s auditors, Roberts & Associates, PLLC.</p> <p>Mr. Molenda stated that the information is presented in a format familiar to the Authority noting that the first 2 pages is the Management Letter to the Authority. The letter states no material problems or challenges with the audit material and therefore no significant audit findings. The audit documents contain the Independent Auditor Report (first 2 pages), management discussion that communicates more directly to a reader, and financial documents with notes. It was noted that the auditor issued a clean Opinion.</p> <p>Mr. Molenda reviewed the financial statements including the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position. Discussion ensued regarding the restatement of prior period 2013 net position to properly reflect program advances made under the 2012 Pima Tucson Homebuyer’s Solution (“PTHS”) Program and the associated income earned. All of the correction relates to the year ended June 30, 2013. It was noted that at the onset of the PTHS program, funds advanced for the PTHS program were expensed as a conservative measure due to the uncertainty of a new program. The restatement reverses this expense to restate the income earned on the PTHS program.</p>	<p>A MOTION was made and seconded (A. Weinstein / E. Martinez) to approve the audited financial statements for the fiscal year ended June 30, 2014 as prepared by Roberts & Associates, PLLC. Approved 5-0.</p>
<p>11. Status report related to proposed interpretations and/or amendments to Arizona’s Industrial Development Financing Act, Allocation of Private Activity Bonding Act, or other state legislation affecting the Authority’s affair and request for resolution related thereto.</p> <p>Mr. Lotzar stated that last legislative year it was the ambition of the Phoenix IDA to have the power to issue taxable bonds outside the State of Arizona and without the approval of its Governing Body. Mr. Lotzar noted that he did not see that as something the Authority would want to do or that the City of Tucson would be in favor of having the Authority support. The</p>	<p>No action taken.</p>

<p>Authority took a neutral position on the Phoenix IDA’s legislation. Mr. Lotzar stated that the Phoenix IDA will be running their Bill again this legislative year. It was noted that next Thursday, the House Finance Committee will have an IDA 101 presentation and will attend as an observer only. It was the general consensus of the Authority that Mr. Lotzar should continue to monitor the Phoenix IDA’s proposed legislation.</p> <p>Mr. Lotzar commented the State of the State address by the new Governor was very aggressive and noted that there will only be 4 cabinet members retained and does not include the Director of the Arizona Department of Housing, Mr. Traylor.</p>	
<p>12. Request for resolution authorizing either renewal of the Authority’s Public Officials’ & Officers’ liability insurance or the acquisition of similar coverage from another carrier.</p> <p>Mr. Lotzar reported that at the time the Authority was renewing its liability insurance, there were a lot of changes in the insurance industry especially as it relates to bond issuers. The quotes for coverage received had no Securities Acts coverage and at that time the Authority authorized Mr. Lotzar to continue to try to get improved coverage. An improvement was received by way on Endorsement for up to \$250,000 coverage against any claim.</p> <p>Mr. Lotzar noted that as volunteers, there is no need to take on personal risk especially when it comes to the historic primary function of the Authority and therefore he has continued to ask the Broker to provide additional quotes for insurance with Securities Acts coverage. The insurance premium may increase quite a bit, but should be less than \$18,000. It was emphasized by Mr. Lotzar that the Authority will make the business decision of whether or not obtain the more expensive coverage. Mr. Lotzar stated that the Authority should aim for a coverage amount of \$2,000,000 with a low deductible and is advocating continuing to solicit quotes for coverage.</p> <p>It was the consensus of the Board to authorize Mr. Lotzar to continue to solicit quotes for insurance coverage as suggested.</p>	<p>No action was taken.</p>
<p>13. Staff Reports:</p> <p>K. Valdez provided status on the following:</p> <p>Monthly Staff Report for the month ending December 31, 2014</p> <p style="padding-left: 40px;">a. General Operations of the Authority:</p> <p style="padding-left: 80px;">i. Parking Lot Financial Statements prepared by Pueblo Parking Systems, LLC (“PPS”).</p> <p style="padding-left: 80px;">Reviewed reports as prepared by PPS.</p>	<p>No action taken.</p>

ii. Bond Borrower's payment of Administrative Fees.

All are current with the exception of FHR multifamily housing project that will be paying off early **2015**. The Trustee has been contacted regarding amounts due.

iii. Cash Management - Reviewed interest bearing and non-interest bearing accounts; reviewed account balances less existing commitments and recommended reserves for an estimate of funds available.

iv. Loan Servicing - All loans current with the exception of **1** on non-accrual status. Requests for annual financial statements have been made to: Toole Shed Studios, LLC and to Arizona Media Arts Center. All insurance certificates are current.

v. Loan Origination - A preliminary inquiry was received on behalf of the Loft Cinema, an Arizona non-profit corporation.

vi. 450 N. Main Street - Phase 1 Environmental Assessment is complete. Notice accepting property to be sent to City of Tucson Friday, **January 16, 2015**. Closing should occur within the next **30 days**.

b. Updates:

i. Federal legislation

ii. Arizona legislation

c. Outstanding Single Family Programs:

i. Mortgage Revenue Programs that have completed the Origination Period:

A. Series 2006 (Joint) - \$30,475,000- 1st Mortgage Loan Interest Rate 5.97% - Final Redemption of Senior Bonds July 28, 2014 - CUSIP No. 89873QAB5 Subordinate (approximately \$259,800 - 7% 2nd Mortgage Loans are tied to the Subordinate Bonds of approximately \$80,000) .

B. Series 2007A (Joint) - \$23,400,000- 1st

Mortgage Loan Interest Rate 5.69% - Final Redemption of Senior Bonds July 28, 2014 CUSIP No. 89873QAE9 Subordinate (approximately \$285,000 - 7% 2nd Mortgage Loans are tied to Subordinate Bonds of approximately \$170,000).

C. Series 2008 (Joint) - \$30,000,000- Mortgage Loan Interest Rate 5.89% - Term Bonds CUSIP Nos. 898700FH7, 898700FJ3, 898700FK0 and PAC Bonds CUSIP No. 898700FL8 (approximately \$7,805,000 outstanding).

D. Restructuring Opportunities and past results.

ii. 2011 Carry Forward Allocation in the original amount of \$29,999,999 expires on December 31, 2014 for which \$24,999,999 remains available for use.

iii. Mortgage Credit Certificate Program that is in the Origination Period – 2014 in the amount of \$5,000,000 formed on January 2, 2014 - Origination Period expired December 31, 2016.

K. Valdez reviewed the 2014 MCC Summary Report noting 12 MCCs issued to date with 2 pending.

iv. \$15,000,000 The Industrial Development Authority of The County of Pima and The Industrial Development Authority of The City of Tucson, Arizona Revolving Taxable Single Family Mortgage Loan Program of 2012 (Pima Tucson Homebuyers Solution) – Program commenced on December 17, 2012 and unless extended expires on December 31, 2016 - over \$90,762,000 in mortgage-backed securities sold with over \$3,630,000 of down payment assistance granted to homebuyers.

K. Valdez reviewed the PTHS Monthly update through **December 31, 2014** noting a loan count of **1,126** and loan amount of **\$135,423,131.99**. Discussion ensued regarding inclusion of a conventional product in the program and therefore a good time to have a Press Release to introduce the new product. It was noted that coordination of a press release will be discussed with Pima County IDA and GKB.

<p>K. Valdez stated that a distribution of \$100,000 each to the Authority and the Pima IDA from the Fiscal Agent Community Investment Corporation occurred on December 23, 2014.</p> <p>Mr. Lotzar stated that the program will be reviewed on a quarterly basis to determine an appropriate amount for a semi-annual distribution and still maintain the required amount of funds after expanding the program to include the FNMA/Freddie MAC products. Mr. Lotzar noted that US Bank as Master Servicer is reluctant to include the FNMA/Freddie MAC Product in the program.</p> <p>Mr. Lotzar reviewed the President’s initiative to reduce the FHA annual insurance premiums new borrowers will pay by half of a percent. Mr. Lotzar mentioned that there may be other potential products entering the market such as the Sapphire Grant Program currently offered in California.</p> <p>Mr. Lotzar reviewed parity tests of the 2008 JSFMRB Program noting that parity is at 101.73% putting the program above parity. Mr. Lotzar stated that the lifetime program prepayment speed was 276%. In order to get to the 10% of the original outstanding amount another \$4,565,000 needs to pay off; which is possible given the fact that the mortgages themselves have a 5.89% rate.</p>	
<p>14. Status Report related to development of the Request for Qualifications/Request for Proposal (“RFQ/RFP”) or other process related to the potential development of Block 174 and/or Block 175 and request for resolution for any actions related thereto.</p> <p>G. Molenda began discussion with review of sample draft RFPs with 2 versions: Option No. 1 is a “one-phase” RFP, and</p> <p>Option 2 is a “two-phase” RFP with Phase 1 for “Statement of Qualifications” and Phase 2 for “detailed project proposal”.</p> <p>Discussion centered on Block 175 due to the zoning issues. With regard to the RFP options, the consensus of the Authority is as follows:</p> <ul style="list-style-type: none"> ➤ Preference is for Option 2: two-phase RFP ➤ The Authority should not take the lead (pursuant to discussion regarding EPNA,IID, and Platform Site) ➤ Encourage mixed use and affordable housing (when talking about affordable, need to say 80% of AMI) ➤ Use the word "Encourage" versus "Required" <p>Discussion items:</p>	<p>No action taken</p>

<ul style="list-style-type: none"> ➤ How does the Authority communicate financial position in the process? The Authority is not giving the property away for free or for \$1.00. Could say: "accepting proposals for purchase or lease at market value TBD". ➤ The "gift clause" of the Arizona State Constitution is applicable. ➤ Value of ground lease is negotiable (parameters: 6% to 10%). ➤ The Authority is not bound by the Arizona Procurement Code, but could effectively bind itself by not giving itself latitude in the RFP issued. ➤ How will the Authority still get what it needs financially? It was suggested that language be incorporated in the document stating that over the next the 10 years the Authority would not want to see a dollar amount less than what it is currently receiving; can be in the form of an annual payment (equivalent to current revenue) or a ground lease (parameters: 6% to 10%). ➤ How can the Authority stay in the deal? What options are available? It was suggested that language could be incorporated stating the Authority is looking for a partner to develop the property (Note: the Authority would be taking on development risk). ➤ The goal of the Authority was to not require public parking although the Authority does not want to give anything away unnecessarily. ➤ Risk associated with giving people the wrong message (pursuant to discussion regarding affordable housing versus public parking). ➤ Amount of time to respond to RFQ/RFP? Does not want it to be too quick; perhaps 120 days? ➤ Challenge: do not try to burden the project. ➤ It would be inappropriate to not include affordable housing as it is included in the Authority's Mission and Goals. <p>Discussions concluded that there is a consensus of the Authority to not take a position on IID zoning heights as previously discussed at prior meetings. The timing on getting the RFQ/RFP out was briefly touched on although not expected in the first quarter of 2015.</p>	
<p>15. President's Report: Brief Summary of current events, including items brought to the Presidents attention or matters that required handling by the president since the last meeting.</p>	<p>No action taken - continued to next meeting</p>

<ul style="list-style-type: none"> • Opinion article for the Arizona Daily Star • Status of match contributions related to Christopher Franklin Carroll Centennial Park 	
<p>16. Call to the audience</p> <p>There was no one in the audience who wished to address the Authority.</p>	<p>No action taken</p>
<p>17. Adjourn</p>	<p>A MOTION was made and seconded (E. Martinez / A. Weinstein) to adjourn meeting. Approved 5-0. Meeting was adjourned at 5:10 p.m.</p>

Submitted by:

Approved by:

Karen J. Valdez
Business Development Finance Corporation

Marilyn Robinson, President
The Industrial Development Authority of
the City of Tucson, Arizona