



The Industrial Development Authority
of the City of Tucson



**THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF TUCSON, ARIZONA**

Regular Meeting

Thursday, October 17, 2019
2:30 p.m.

Tucson Metropolitan Chamber of Commerce
212 E. Broadway
Tucson, Arizona 85701

Minutes

Present: Board Members

Larry Lucero
Neal Eckel
Sandra Barton
Patricia Schwabe
Mimi Noshay-Petro
Meredith Aronson – arrived 3:00 p.m.

Advisors

Charles Lotzar, Lotzar Law Firm, PC
Karen Valdez, BDFC Advisor Services, LLC
Gabriel Gomez, BDFC Advisor Services, LLC

Absent

Judy Clinco

Guests

Kevin Burke, City of Tucson
Mike Czechowski, City of Tucson
John Fetherston, Veridus
Jay Kaprosy, Veridus
Terry McNellis, Catalina Village
Scott Riffle, Stifel Public Finance
Jeff Sandquist, Veridus

The Regular Meeting of the Board of Directors of The Industrial Development Authority of the City of Tucson, Arizona (the “**Authority**”) was held on **October 17, 2019**, at the Tucson Metropolitan Chamber of Commerce, 212 E. Broadway, Tucson, Arizona 85701. 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 at 2:30 p.m.
2. Request for resolution to approve the Minutes of the Regular Meeting of September 19, 2019.	A MOTION was made and seconded (N. Eckel/S. Barton) to approve the September 19, 2019 Regular Meeting Minutes as presented. Approved 5-0.

<p>3. Request for resolution to approve the payment of invoices and the notification of to be paid on the Authority’s behalf by third parties.</p>	<p>A MOTION was made and seconded (S. Barton / M. Petro) to approve payment of invoices, as presented. Approved 5-0</p>
<p>4. Status report from the Liaison to City of Tucson, Arizona City Manager’s Office related to:</p> <p>M. Czechowski provided status on the following:</p> <p>a. The City’s Economic Development Prospect list.</p> <p>Frontage Road Hotel Revitalization:</p> <p>Hotels along the frontage road are going through revitalization include: Hotel McCoy, Regal Inn, etc. The Government Property Lease Excise Tax (“GPLET”) application process will begin for each of these hotels.</p> <p>Redevelopment of these hotels will include the addition of a couple thousand square feet of conference space. Some of these Hotels, such as the Hotel McCoy will be looking for additional funding for other improvements such as sidewalks, sprinkler systems, etc ...</p> <p>Mr. Czechowski asked if this is something that the Authority and/or Business Development Finance Corporation (“BDFC”) could finance with the existing loan program.</p> <p>L. Lucero asked that the Borrower contact G. Gomez at BDFC to get the process started for a participation loan with the Authority.</p> <p>b. The City’s use of Economic Development tools.</p> <p>To be reviewed by Mayor & Council for GPLET, Site Specific Sales Tax Incentive (“Site Specific”), and Planned Area Development (“PAD”):</p> <ul style="list-style-type: none"> • GPLET: 127 South 5th Avenue – demolishing former Codac building will be replaced by a 7- story residential project. Construction to begin within a couple of months. • GPLET and Site Specific: HSL Hotel, adjacent to the Flinn. Construction will begin within next couple of months. Target completion by Gem Show 2021. • PAD: Welcome Broadway (former Broadway Volvo site) – mixed - use project to include Welcome Diner, hotel, retail, public plaza amenities, etc. <p>The parcel goes south 2 to 3 blocks deep off of Broadway with only the northern portion of the parcel within the Rio Nuevo District (the “District”). Rio Nuevo is supporting this project, focusing on the area within the District.</p> <p>d. Opportunity Zones.</p> <p>The October 10, 2019 – Opportunity Zone Familiarization Tour was well attended and has received positive feedback.</p> <p>e. Current items of interest.</p> <p>Overlay Zone:</p> <p>Public Private Spaces (“PPS”). A Consultant working with Rio Nuevo is starting the process of an overlay zone. PPS is also working with Rio Nuevo on</p>	<p>No action taken.</p>

<p>the Presidio.</p> <p>Planned Community Development:</p> <p>M. Czechowski stated that there is close to 3,000 acres of Arizona State Trust land that went to the Zoning Examiner a few weeks ago to be entitled. It was noted that the Houghton Area Master Plan was brought forward with entitlements, known as a Planned Community Development (“PCD”). This process entitles the State land so that it can be auctioned; which will bring revenue back to Tucson area schools K through 12 and the University of Arizona.</p> <p>Vice Mayor Scott has been working on this project for the bulk of her 24 year career. Approval of the PCD will be considered at Vice Mayor Scott’s last meeting in November 2019.</p>	
<p>5. President’s Report: Summary of current events, including items brought to the President’s attention or matters that required handling by the President since the last meeting:</p> <p>L. Lucero provided updates on the following:</p> <ul style="list-style-type: none"> a. Mayor Rothschild’s Affordable Housing Last Chance Lecture The event is today and will begin at 5:30 p.m. at the Carriage House. b. 2020 National Interagency Reinvestment Conference – March 9-12, 2020 – Denver, CO c. Catalina Village Assisted Living Open House – November 13, 2019 11:00 a.m. to 2:00 p.m. to celebrate winning the National Bronze Award for Quality. Members of the Authority are encouraged to attend. d. Inquiry from Rio Nuevo – working with Project for Public Spaces and holding several focus groups on November 7, 8, and 9. The members of the Authority have been invited to participate in workshops and focus groups that will be held to plan to the El Presidio Historic District near El Presidio Museum and the Tucson Museum of Art. 	<p>No action taken.</p>
<p>6. Status report and review of website development and request for resolution for any actions related thereto.</p> <p>L. Lucero reviewed the website landing page shown on a screen. It was noted that the website is still under development and is approximately 60% to 75% complete. C. Lotzar will be assisting with the bond financing page. The launch of the website is anticipated to occur by yearend.</p>	<p>No action taken.</p>
<p>7. Status report concerning recommendation from the Loan Review Committee related to the terms and conditions associated with:</p> <p>S. Barton provided updates on the following loans approved at the September 19, 2019:</p> <ul style="list-style-type: none"> c. Participation in a loan with Business Development Finance Corporation (“BDFC”) in an amount not to exceed \$130,000 related to BDFC’s loan to David Smith, LLC, The commercial property building to be purchased is currently 	<p>No action taken.</p>

<p>undergoing renovations. Funding will occur upon completion of these renovations. It is estimated that closing will occur by yearend.</p> <p>d. Participation in a loan with BDFC in an amount not to exceed \$135,000 related to BDFC’s loan to Yellow Brick Coffee, LLC, and</p> <p>This loan is for the expansion at the former Benedictine Convent at 800 North Country Club Road.</p> <p>The proposed interest rate was 10%, however, based off of the feedback from the Authority BDFC has dropped the interest rate to 8.75%.</p> <p>The Borrower has accepted the letter of intent; which is to be provided to the Landlord. Anticipated completion is end of 2020 or in 2021. Therefore, there is at least a year before funds are needed. The loan approval can be used to negotiate with the landlord.</p> <p>e. Participation in a loan with BDFC in an amount not to exceed \$238,000 related to BDFC’s loan to Tucson Historic Preservation Foundation, Inc.</p> <p>This loan was to be used to purchase a property; however, BDFC has been informed by the Borrower that the Borrower has been able to obtain alternative funding with better terms.</p>	
<p>8. Status report concerning recommendation from the Loan Review Committee concerning a request from Business Development Finance Corporation (“BDFC”) for participation in a loan modification with BDFC in an amount not to exceed \$37,500 related to BDFC’s loan to Ermanos Craft Beer Depot, LLC for its business to be operated at 220 N. Fourth Avenue, Tucson, Arizona and request for resolution for all actions related thereto.</p> <p>S. Barton reported that a request was received from BDFC for an increase of \$37,500 to the loan amount previously approved for the participation loan with BDFCs to Ermanos Craft Beer Depot, LLC.</p> <p>The Authority originally approved an amount not to exceed \$125,000; an increase of \$37,500 will bring the Authority’s portion of the loan to \$162,500.</p> <p>Ms. Barton noted that the reason for the increase is due to a funding shortfall primarily because: (1) certain design elements were not included in the City of Tucson approved drawings that were provided to the General Contractor to initially bids on the work, and (2) the complexity of the parametric ceiling’s curved design.</p> <p>Based on the Borrower’s projections in 2020 going forward, assuming \$630,000 in principal borrowed, the free and clear cash flow available to above debt service would be \$150,000 which includes the increase in the Debt Service (“DS”) of the \$37,500.</p> <p>The projected debt service coverage ratio would be 3.94x and the risk rating is 2.3; which remains within the low risk rating according to the policy.</p> <p>Discussion ensued regarding collateral after which it was the consensus of the Authority to approve the requested increase amount not to exceed \$37,500.</p>	<p>A MOTION was made and seconded (S. Barton / M. Petro) to approve participation in a loan modification with BDFC in an amount not to exceed \$37,500 related to BDFC’s loan to Ermanos Craft Beer Depot, LLC. Approved 6-0</p>
<p>9. Status report concerning \$650,000 The Industrial Development Authority of the City of Tucson, Arizona Subordinate Multifamily Housing Revenue Bonds (Catalina Village Assisted Living Apartments Project), Series 2000B and request for resolution to approve a Subordination and Standstill Agreement among the Authority, Copper Health Holdings, L.P., an Arizona limited partnership the Senior Lender, and the holders of the Bonds.</p>	<p>A MOTION was made and seconded (N. Eckel / S. Barton) to approve request from Catalina Village Assisted Living Apartments project for Subordination and Standstill</p>

<p>L. Lucero introduced Terry McNellis, representing Catalina Village. Mr. McNellis has spent 3 decades working on the Project, starting on as the Investment Banker and later becoming the General Partner.</p> <p>Background information was presented, and it was noted that the Project has never been in better shape. Today's request will enable the Project to be on long-term sound financial and physical condition.</p> <p>Mr. McNellis strongly encouraged all to attend the ceremony to be held on November 13, 2019 and thanked that Authority for their support throughout the decades of the Project.</p> <p>C. Lotzar stated that this item is requesting approval of a Subordination and Standstill Agreement and therefore he did not feel it was appropriate to consider it as a ministerial act, even though this action is part of a multi-step refinancing process.</p> <p>Mr. Lotzar recommends approval of this request.</p> <p>It was the consensus of the Authority to accept the recommendation and approve request.</p>	<p>Agreement as presented. Approved 6-0</p>
<p>10. Status Report related to the potential sale, development, construction, equipping and /or operation of a project on (a) 450 N. Main, (b) Block 174, and (c) Block 175, and request for resolution related thereto; which may include formally ratifying the direction previously given to legal counsel. Pursuant to Arizona Revised Statutes Section 38-431.03(A)(1)(3) and/or (4), the Authority may vote to recess and meet in Executive Session for discussion or consultation with and to provide direction to the Authority's legal counsel about this item. Any action taken by the Authority regarding this matter will be taken in open meeting session (either at this meeting or later) after the adjournment of the Executive Session.</p> <p>450 N. Main:</p> <p>The property is currently being used as a staging area, to park excavation equipment and other vehicles. Fugel is the company that is subcontracting with Southwest Gas. Fugel executed a monthly Licensing Agreement which includes insurance and temporary fencing to secure the equipment.</p> <p>The Pre-school next door still has their parking under their month to month Licensing Agreement and the Pre-school is paying as agreed.</p> <p>C. Lotzar stated that there have been some past issues with the Mears Group, who were trespassing. It was noted that the City of Tucson and Cox Communications have been very helpful in trying to keep the Mears Group focused and not causing any more issues.</p> <p>L. Lucero reported that he and Mr. Lotzar have been in contact with Pueblo Parking Systems to see if the 450 N. Main can be lightly graded and made available for some function during the Gem and Mineral show. Landscape maintenance is needed to raise the canopy of the trees.</p> <p>Block 175:</p> <p>No further info has been received from the Presenters at the May 23, 2019 Regular Meeting. Mr. Darren Hicks is still working with the El Presidio Neighborhood to complete the site concept; however, there is no concrete timeline as to when he might be ready to present something to the Authority.</p> <p>Block 174:</p>	<p>No action taken.</p>

No report.	
<p>11. Status report related to potential Arizona legislation regarding the Industrial Development Financing Act and Private Activity Bonding Allocation Act and request for resolution related thereto. Pursuant to Arizona Revised Statutes Section 38-431.03(A)(1)(3) and/or (4), the Authority may vote to recess and meet in Executive Session for discussion or consultation with and to provide direction to the Authority's legal counsel about this item. Any action taken by the Authority regarding this matter will be taken in open meeting session (either at this meeting or later) after the adjournment of the Executive Session.</p> <p>L. Lucero introduced the Veridus Team present: Jeff Sandquist, Kay Kaprosy, and John Fetherston</p> <p>Mr. Sandquist thanked the Authority, on behalf of the Veridus Team, for the opportunity to represent the Authority at the State Capitol. The following was discussed:</p> <ul style="list-style-type: none"> • The State of Arizona adopted an \$11.8 Billion budget which is the largest budget in history; which includes the following takeaways: <ul style="list-style-type: none"> ➤ \$500 Million the State's "Rainy Day Fund"; which now stands at \$1 Billion. ➤ The State conformed tax laws to reflect the federal changes in the corporate income tax in particular and income tax changes at the federal level with the President's tax cuts. ➤ Paid down \$200 million in debt. ➤ Adopted language to conform to the United States Supreme Court's <u>Wayfair</u> decision, in terms taxing online purchases. ➤ Continue funding the Governor's "20 by 2020 Plan", including teachers' pay increases. ➤ Veridus was able to keep much of any negative discussion at bay and has opened up a very clear conversation with all of the other parties regarding the Authority's jurisdiction. ➤ Veridus will keep lines of communication open. • Political Landscape going into next session from a "Big Picture" prospective: <ul style="list-style-type: none"> ➤ Veridus will continue to assist the Authority in "Playing Defense" next session. ➤ The Governor, the leadership of the State House and Senate have already been meeting to put together the Budget. • Kutak Rock LLP represents the Phoenix IDA on the lobbying side and does a good deal of legal work for the Arizona IDA. • The Arizona IDA does not have a Lobbyist. • Kutak Rock LLP will be looking at bring forth a bill that they will continue to refer to as a cleanup Bill. • L. Lucero stated the importance of "having boots on the ground" in order to protect the Authority at the legislature; once the bill is in the legislature things happen very quickly. 	No action taken.

<p>Other topics discussed:</p> <ul style="list-style-type: none"> ➤ Bonding districts. ➤ Tax Increment Financing (“TIF”) districts; are unlikely to be authorized. ➤ Sin tax (i.e. alcohol, tobacco, etc.) revenue already spoken for and unlikely to be modified for benefit of the Authority. ➤ Federal tax revenue is down. ➤ State tax revenue is up. Increased revenue coming from individual income tax. 	
<p>12. Staff Reports: Monthly Staff Report for the month ending September 30, 2019</p> <p>K. Valdez reviewed the following:</p> <p>a. General Operations of the Authority:</p> <ul style="list-style-type: none"> i. Parking Lot Financial Statements prepared by Pueblo Parking Systems, LLC (“PPS”). Report provided as prepared by PPS. ii. Bond Borrower’s payment of Administrative Fees. Annual assessment fees are all current. iii. Cash Management. Cash and cash equivalent accounts were reviewed. Estimated funds available at September 30, 2019, less existing commitments and recommended reserves is: \$4,124,276 iv. Loan Servicing. <p>Thunder Canyon Brewery - Continues to pay based on a payment plan to bring account current.</p> <p>Seoul Kitchen - 30 days past due</p> v. Loan Origination. Loan modification for Ermanos Craft Beer Depot, LLC was reviewed and approved today. <p>b. Outstanding Single-Family Programs:</p> <ul style="list-style-type: none"> i. \$40,000,000 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 (the “Pima/Tucson Homebuyers Solution Program” or “PTHS Program”) - commenced on December 17, 2012 and unless extended expires on December 31, 2020 – more than \$598,098,000 in mortgage-backed securities sold with more than \$26,000,000 of down payment assistance granted to homebuyers. <ul style="list-style-type: none"> • The PTHS Program loan count from inception through September 30, 2019 is 4,254, with an aggregate loan amount of approximately \$610,617,352. • S. Riffle reported that the PTHS Program is 	<p>No action taken.</p>

doing well even as the Government Sponsored Enterprise (“GSE”) Fannie Mae and Freddie Mac make it more difficult resulting in an increase in FHA loans. Homebuyers are still able to take advantage of conventional loans.

FHA Refinance is available, to non - PTHS borrowers, at a low rate of **3.25%**.

It was noted that the Loan Officer will make less money with this product; which is why the rate is so low.

ii. The Industrial Development Authority of the City of Tucson, Arizona The Industrial Development Authority of the County of Pima Tucson P2P Program (the “Tucson P2P Program”) – Phase II commenced on August 1, 2018 and unless extended expires on December 31, 2020 – more than \$324,000,000 in mortgage-backed securities sold (1st sales in October 2016) with more than \$31,000,000 of down payment assistance granted to homebuyers and over \$6,200,000 deposited into the Tucson Rapid Rehousing Fund.

- The Tucson P2P Program loan count from the first phase commencement through **September 30, 2019** is **2,253**, with an aggregate loan amount of approximately **\$335,623,650**.
- As of **September 30, 2019**, there has been approximately **\$6,104,879** made available for the Tucson Pima Rapid Rehousing Program.
- The Tucson P2P Program will be winding down.
- S. Riffle stated that Stifel is prepared to manage the pipeline with regard to cancellations.

iii. \$9,375,000 The Industrial Development Authority of the City of Tucson, Arizona Single Family Mortgage Credit Certificate Program of 2017- January 3, 2017 – Origination Period expires December 31, 2019 more than 52 issued aggregating to over \$7,948,063.

- **52** Mortgage Credit Certificates (“MCCs”) have been issued as of **September 30, 2019**.
- Percentage of MCCs at or below **80%** AMI: **67.31%**.
- Average income: **\$42,266**
- Average purchase price: **\$164,042**
- The MCC Program has slowed significantly due to an inventory problem, with regard to affordable housing.

iv. The 7% 2nd Mortgage Loans originated in connection with:

- A. Series 2006 (Joint) - \$30,475,000 – 1st**

<p style="text-align: center;">Mortgage Loan Interest Rate 5.97% - 2016 Final Redemption of all Bonds - approximately \$150,800 in 2nd Mortgage Loans are outstanding).</p> <p style="text-align: center;">B. Series 2007A (Joint) - \$23,400,000 - 1st Mortgage Loan Interest Rate 5.69% - 2016 Final Redemption of all Bonds - approximately \$182,400 in 2nd Mortgage Loans are outstanding).</p> <p>Discussion ensued regarding:</p> <ul style="list-style-type: none"> • The Authority’s ability to purchase homes, rehab them and restrict purchase to low-to-moderate income individuals. • Pima County Community Land Trust (“PCCLT”) – creation of PCCLT and its purpose. • Land Trust model. • Alliance Bank and the Federal Home Loan Bank of San Francisco • The Authority’s special status which enables them to by Housing and Urban Development (“HUD”) homes. • Next Strategic Planning Meeting is scheduled on Monday, November 4, 2019. 	
<p>14. Call to the Public</p>	<p>No action taken.</p>
<p>15. Adjourn</p>	<p>A MOTION was made and seconded (N. Eckel / S. Barton) to adjourn the meeting at 4:30 p.m. Approved 6-0</p>

Submitted by:

Approved by:

Karen J. Valdez
BDFC Advisor Services, LLC

Larry Lucero, President
The Industrial Development Authority of the
City of Tucson, Arizona