Performance & Financial Analysis

Rio Nuevo Multipurpose Facilities District

SUBMITTED TO

Office of the Auditor General
State of Arizona

SUBMITTED BY

C.H. Johnson Consulting, Incorporated

October 25, 2013

JOHNSON CONSULTING

Experts in Convention, Hospitality, Sport and Real Estate Consulting.

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

October 29, 2013

The Honorable Janice K. Brewer, Governor
State of Arizona

The Honorable Andy Biggs, President
Arizona State Senate

The Honorable Andy Tobin, Speaker
Arizona House of Representatives

Mr. Fletcher McCusker, Chairman
Rio Nuevo Multipurpose Facilities District Board of Directors

Transmitted herewith is a report of the Auditor General, a performance and financial analysis of the Rio Nuevo Multipurpose Facilities District. This analysis was conducted by the consulting firm of Johnson Consulting under contract with the Auditor General and was in response to the requirements of A.R.S. §48-4231.01.

This analysis focused on evaluating (1) compliance with Arizona Revised Statutes and the District's intergovernmental agreement with the City of Tucson; (2) district policies and procedures for prioritizing and managing construction and financing activities; (3) the District's financial solvency; (4) the District's capital and operating costs; and (5) the District's multipurpose facility, the Tucson Convention Center. The District's response to the issues noted in this analysis must be adopted by the Board of Directors within 45 days of the release of this report.

My staff and I will be pleased to discuss or clarify the items in the report.

This report will be released to the public on October 29, 2013.

Sincerely,

Debbie Davenport
Auditor General

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TRANSMITTAL LETTER

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JOHNSON CONSULTING

October 25, 2013

Mr. Jay Zsorey
Financial Audit Director
Arizona Office of the Auditor General
2910 North 44th Street
Suite 410
Phoenix, Arizona 85018

Re: Rio Nuevo Multipurpose Facilities District Performance and Compliance Audit

Dear Mr. Zsorey:

Johnson Consulting and Keegan, Linscott & Kenon, PC (the consulting team) are pleased to submit this report to the Arizona Office of the Auditor General regarding a performance audit of the Rio Nuevo Multipurpose Facilities District as required by A.R.S. §48-4231.01. The performance review began May 15, 2013 and this report presents the findings of the consulting team's analysis as of August 31, 2013.

We received substantial support from the Rio Nuevo Multi-Purpose Facilities District, the City of Tucson and the competitive set convention facilities analyzed in this report. The consulting team has enjoyed serving you on this engagement and look forward to providing you with continuing service.

Sincerely,

C.H. JOHNSON CONSULTING, INC.

C.H. Johnson Consulting, Inc.

CHARLES H. JOHNSON IV, PRESIDENT

SECTION I

EXECUTIVE SUMMARY | DISTRICT MISSION & PURPOSE

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EXECUTIVE SUMMARY

There has been significant improvement in the performance of the Rio Nuevo District (the "District"), and it is now positioned to execute much-needed enhancements to the Tucson Convention Center ("TCC") and surrounding area. The current Board of Directors of the District has worked quickly to implement change and improvements in order to address compliance recommendations from the prior performance audit and settle significant legal disputes with the City and other parties.

While there are still some areas of non-compliance noted with regard to the applicable Arizona Revised Statutes, these issues are fairly minor compared to the findings from the previous performance audit report. From a financial compliance perspective, the District was largely inactive, and did not expend significant funds on capital projects during the performance audit period due to reorganization efforts by the District's leadership. Based on data and projections provided by the District, it is anticipated that the District will remain solvent in the short and long term.

Not compliance related, yet important for consideration, is the District's need to accurately monitor the tax revenue collections within the District, and to confirm that all eligible businesses within District boundaries are coding and filing tax returns properly. The District's current procedural inability to accurately monitor tax collections inhibits collection of all available revenue to support the District's mission. We believe this matter can be addressed administratively, but may possibly require a legislative modification.

A key component of the performance audit requires evaluation with regard to how the TCC compares to nationally competitive convention center and arena facilities. Among the facilities analyzed the TCC ranked either last or second to last in key performance metrics, including hotel room night generation, number of convention events, attendees, and the number of hotel rooms located within walking distance of the TCC. Management of the TCC is also challenged in terms of event tracking and analysis of vital data. Key areas of focus to improve the competitive position of the TCC include an improved operational structure and design and capital considerations that would bring the TCC up to nationally recognized standards.

We estimate that addressing needs at the TCC, plus incentives to adjacent hotels, will cost $100 million or more. The District does not currently have the projected resource base to address this capital requirement. In our report, we identify examples of activities and operational structures that peer facilities, comparable to the TCC, have used to achieve desired physical and operational improvements. As shown, sales and use taxes, like those utilized by the District, are common sources for cash investments in assets like the convention center.

In our report, we conclude that the District, as currently structured, cannot address the capital needs of the TCC. The District currently faces the challenge of selecting a strategic vision to move forward with. The District has the option to focus on keeping operational overhead low, and use the remaining life of the District and available asset base to make limited improvements to the TCC and supporting area. In contrast, the District may opt to develop a more comprehensive strategic plan, aimed at making required improvements to the TCC, and achieving nationally competitive status as an arena and convention facility. This more ambitious approach could position the TCC to serve as a catalyst for overall District success and downtown revitalization; however it will require significant capital commitments, continued operational improvements, possible lengthening of the life of the District, and supplemental funding sources.

MISSION AND PURPOSE

Johnson Consulting has been retained by the Arizona Auditor General to conduct a performance review of the Rio Nuevo Multipurpose Facilities District (the "District" or "Rio Nuevo") under the A.R.S. §48-4231.01. The performance review is intended to evaluate the Districts' operational and financial performance, as well as its effectiveness in carrying out its mission. To effectively complete this assignment, Johnson Consulting has utilized the services of Keegan, Linscott & Kenon, PC ("KLK") to address certain technical aspects of the required performance audit procedures.

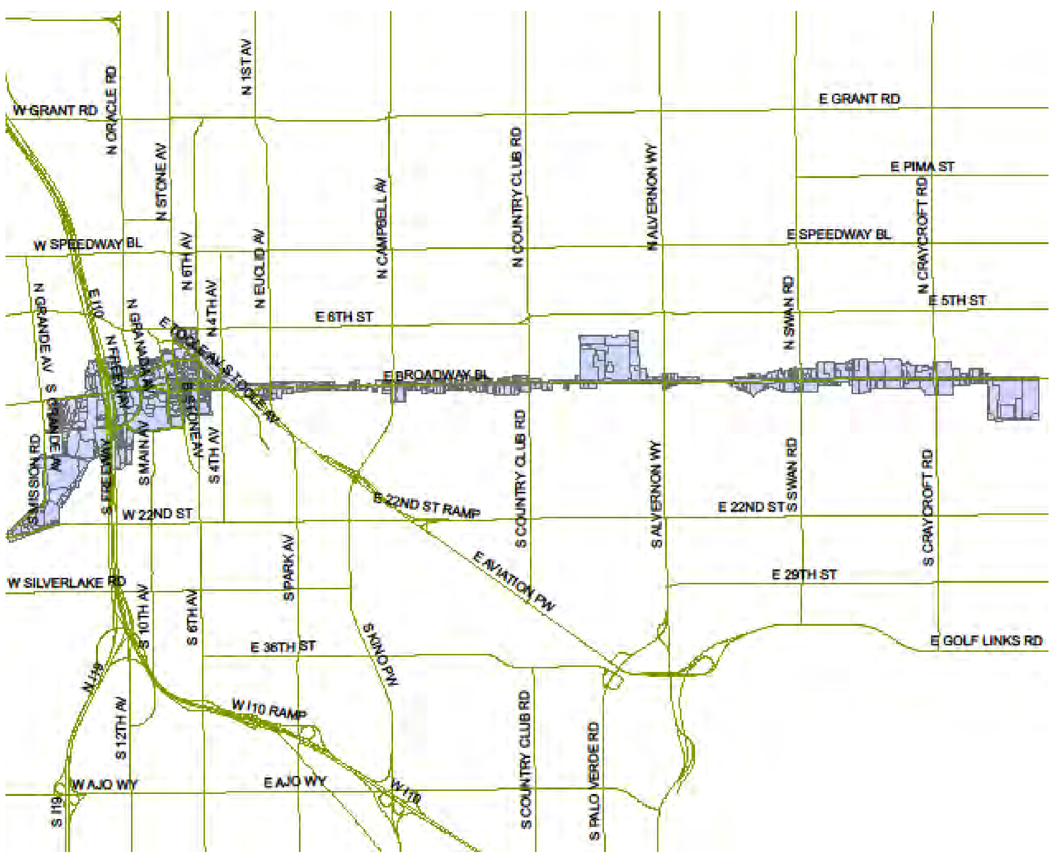
DISTRICT OVERVIEW

In 1999 voters approved the creation of the District through the passage of Proposition 400. The District is a municipal tax collection district, as well as a special taxing district. The voters authorized the District to receive an incremental portion of State-shared funds derived from sales taxes collected within the Tax Increment Financing ("TIF") District boundaries of the City of Tucson ("COT" or the "City"). TIF is a special finance mechanism utilized by the State of Arizona to fund municipal improvement projects at the State and City level. To the credit of the State and City, enlightened use of sales tax rather than property tax provides a stronger base to fund projects in the District since a sales tax TIF district generates a greater volume of revenue. In forming the District, the Tucson Convention Center was designated as the Primary Component (the "Primary Component" or "TCC") in the District, with the expectation that all efforts would end in a funding framework to enhance the TCC to nationally competitive levels.

The District is a State municipal district with the powers, privileges, and immunities granted to governmental, municipal corporations for District purposes. These powers enable the District to plan multi-faceted development projects, including cultural and recreational amenities and improvements, unique historic re-creations, mixed-use developments, and other projects that would enhance and support the TCC, and lead to the development of hotels within the District. Due to the fact that the TCC had not been enhanced to any significant degree since the inception of the District in 1999, the Arizona State Legislature reorganized the District in November of 2009 with Arizona House Bill 1003, and a reconstituted board was re-appointed in March of 2010. Expenditure of the TIF Funds collected is now managed by the reconstituted Rio Nuevo Multipurpose Facilities District Board of Directors, who as of 2010, are appointed by the State's Governor, President of the Senate, and Speaker of the House of Representatives. As of June 30, 2013, little has been spent to directly benefit and enhance the TCC, and as a result the District has limited resources and time to execute a program of redevelopment in order to make the TCC nationally competitive.

Downtown Tucson, within the District, is the primary beneficiary of strategic investments to stimulate the marketplace and support new private sector development. The District's TIF Funds are to be strategically invested in enhancing the TCC and adding adjacent hotel support, with the objective of creating a vibrant Tucson city center. This is to be achieved by leveraging downtown Tucson's unique competitive advantage as the region's urban and cultural center. The District is located in central Tucson and occupies a wide strip of land that extends west and east of downtown Tucson. East to west the District runs down Broadway Boulevard, starting at Park Place Mall near Wilmot and extending to a panhandle that exceeds just west of Interstate 10. See Figure 1 below for a map of the District.

Figure 1



Within the eastern part of the District (i.e., east of I-10) are three multi-purpose facilities, the Tucson Convention Center, Fox Theater, and Rialto Theater, all key drivers of visitation to the District and downtown Tucson. This area is also where existing historic buildings are located, such as the Carnegie Library building that currently houses the Tucson Children's Museum, the Tucson Museum of Art's La Casa Cordova (Tucson's oldest building), and the University of Arizona Campus.

Western Rio Nuevo (i.e., west of I-10) contains large parcels of undeveloped land, new mixed-use development projects with retail and housing components, and the terminus of the new light-rail system.

Administratively, the Arizona Department of Revenue ("ADOR") tracks sales tax collected within the Rio Nuevo District and the COT compares collections each month to sales taxes collected during the corresponding "base year" months of 1999. Rio Nuevo is then allotted the lesser of the incremental increase in sales taxes for the month in comparison to the base year, or 50% of the total sales tax collected in the District for the current month. It is the responsibility of the District and the COT to insure that businesses within the District are making the election on their sales tax forms that identifies them as belonging in the TIF district.

RIO NUEVO PERFORMANCE HISTORY AND PRIOR AUDIT FINDINGS

As previously noted, it was originally envisioned that downtown Tucson would be the beneficiary of strategic investments to stimulate the marketplace and support new private sector development. The additional TIF revenue generated as a result of this development would then be used to fund additional improvements within the District. The District's TIF Funds were to be strategically invested in public and public/private projects focused on developing a vibrant Tucson city center. This did not occur in the initial 10-years of the District, and the District was off mission by not focusing on improvements to the TCC as its priority. Additionally, the estimated cost of each project was significantly underestimated, which, in many cases resulted in the projects being cancelled or delayed.

Consequently, the residents of Tucson experienced little overall improvement to the area given the level of expenditure by the District during this period. Other adverse consequences included a general lack of significant growth related to incremental sales tax revenues, few needed enhancements to the Primary Component of the District, and no significant movement towards the construction of a convention center hotel to create destination interest for the area, and infuse the District with additional sales tax and tourist dollars.

With available funds severely depleted, the 2010 reconstituted District Board demonstrated the desire to remediate past problems by suspending project/capital expenditures until key issues could be resolved. Nonetheless, there was an opportunity for the reconstituted District Board to improve performance related to its financial, operational, and compliance responsibilities. In the prior performance audit report, Crowe Horwath offered recommendations focused on enhancing compliance with applicable regulatory provisions, as well as development of appropriate policies and financial oversight necessary for the District. Furthermore, recommendations from the prior performance audit report gave specific attention to the need for the District to develop a comprehensive strategy that addresses the use of available funds for development of the Primary Component and the District in accordance with statutory intent.

MAJOR ACTIVITIES SINCE THE LAST PERFORMANCE AUDIT

Members of the District Board have taken the findings of the Crowe Horwath performance audit seriously. The District has stabilized organizationally and has begun directing its energy and resources towards the fulfillment of its mission as a redevelopment authority. Key activities over the past three fiscal years (the performance audit period) are highlighted below:

- Starting with the reconstituted Board and continuing with the current Board, capital activity and significant project and redevelopment expenditures were halted, and the Board placed emphasis on fact finding and re-focusing the mission of the District on the Primary Component. No significant capital expenditures or new financing activities occurred during this performance audit period.

- The District has given focused attention to the financial oversight recommendations from the Crowe Horwath report, and received its first unqualified audit opinion for the fiscal year ending June 30, 2012. In addition, the District has hired a full-time Chief Financial Officer to oversee financial operations.

- The District has come to an agreement with the COT regarding past disputes and resolution of issues related to land ownership and other areas of contention. The Settlement Agreement ("Agreement"), executed February 7, 2013, includes the following key terms:

  - **Statutory Audits:** The Agreement settles and resolves all past disputes and both parties agree to cooperate in the performance of all required statutory audits.

  - **Tucson Convention Center:** The District agreed to expend not less than $6,000,000 on the renovation of the TCC.

  - **Compensation Claims and Land Ownership:** Seven compensation claims and land ownership disputes were resolved.

  - **Hotel:** The parties agreed that the development of a hotel, or hotels, is critical to the success of the downtown area and the Primary Component (the TCC).

  - **Streetscape Development:** The District agrees to expand not more than $750,000 on City approved streetscape improvements within the Downtown core of the District.

  - **Payment of Suspended Contracts:** COT received $2.18 million in unexpended 2008 revenue bond proceeds for the payment of outstanding invoices for various 2008 bond projects, with the balance of the $6.43 million in 2008 unexpended bond proceeds being allocated to the District for its use.

- **Pending Lawsuits and Mutual Release of Claims:** Two lawsuits between the District and COT were dismissed and the District agreed to indemnify and defend the COT in the third lawsuit.

- **Matching Funds:** COT agrees that it will make direct payments to the District from any lawful source, including municipal transaction privilege taxes, or to expend monies for land, infrastructure or other improvements directly related to the multi-purpose facility or the multi-purpose facility site. From time to time, the COT also agrees to provide the District with a report indicating the status of its performance with respect to this commitment but no less than semi-annually.

- It is the District Board's position that the executed Agreement confirms issuance of a notice to proceed for the TCC; however, as of the end of the performance audit period (June 30, 2013) a notice to proceed had not been issued in relation to a hotel within the District.

- Management of the TCC is under control of the COT. The City is currently pursuing private management of the TCC. If structured and administered properly, the use of private management in conjunction with City oversight can greatly benefit the future operation of the facility.

- The District Board has committed to $7.8 million in relation to upgrades to the TCC, and is working to develop a public/private partnership for a hotel in the District. Both actions are indicative of a re-focused and forward-looking strategy for the District.

- The District Board and Management have established a series of operating and financial policies, procedures and protocols, and continuous efforts are being made to expand formalize such policies.

SCOPE OF WORK FOR CURRENT PERFORMANCE AUDIT

In accordance with A.R.S. §48-4231.01, which includes evaluations and certain required information for the District, the analysis by Johnson Consulting and KLK included consideration of:

- Capital costs, including debt service, of the TCC and other assets of the District.

- The level of then District's indebtedness, the amount of principal, interest and other debt service expenses paid in the preceding fiscal year and the remaining term to maturity with respect to each outstanding bond issue.

- Operation and maintenance costs of the Multipurpose Facility and other assets of the District.

- The District's overall expenditures in the preceding fiscal year, including the success of those expenditures in supporting and achieving the District's purposes.
- A description of, and the amount of, municipal payments pursuant to A.R.S. § 42-5031, subsection D during the performance audit period, and the cumulative amount of those payments through the end of the preceding fiscal year.
- The public use of each component of the Multipurpose Facility.
- Revenues derived from each component of the Multipurpose Facility and other revenues of the District.
- District projects that are currently under construction and that are included in the District's plans for capital improvements and investment.

In order to execute the engagement and related analysis we performed the following tasks:

- Met with the Arizona Auditor General's office to discuss the engagement scope, communication and reporting.
- Met with District Management and personnel from the COT to discuss activities during the performance audit period, as well as statutory requirements and the terms of operative agreements in place or executed during the performance audit period (i.e., fiscal years 2011 – 2013).
- Held discussions with the District's Independent Auditor, and reviewed reports issued by the Independent Auditor that cover fiscal years 2011 and 2012 of the performance audit period.
- From the District and/or COT, we requested and obtained relevant information and documents, including, but not limited to:
    - Intergovernmental Agreement ("IGA") and Settlement Agreement executed between the District and the COT.
    - Financial statements, records, schedules and information related to District revenues, expenditures, assets and obligations during the performance audit period.
    - District budgets and projections related to future revenues and expenditures.
    - Policies and procedures related to the District.
    - District Board meeting minutes.

- Evaluated the District's compliance with significant statutory provisions, as well as the District's and the COT's compliance with operative IGA provisions.
- Evaluated the short-term solvency of the District, including its ability to cover operating costs, service debt obligations, and fund projects related to the Primary Component.
- Evaluated the long-term solvency of the District and the merits of proposed projects in relation to other national convention centers and hotel districts.
- Benchmarked TCC performance and design to determine its competitive position among national peer facilities.

This report identified findings and recommendations regarding the construction, financing, operation and maintenance of each component of the TCC, including whether the facility exceeds, meets or fails to meet nationally recognized design and performance standards.

In addition, this report includes the schedules covering the following topics:

- The District's projects currently under construction and that are to be included in the District's plans for capital improvements and investments. These schedules include costs of completed projects and assets owned by the District, and costs-to-date and estimated costs-to-complete for projects planned and currently under construction. The schedules identify capital activity during the performance audit period and as of June 30, 2013. (See Schedule A – Tables 1 and 2)
- The level of the District's indebtedness, the amount of principal, interest and other debt service expenditures paid during the performance audit period, and remaining term to maturity with respect to each. (See Schedule B – Tables 1 and 2)
- Revenues and operating expenses generated by the District during the performance audit period. (See Schedule C – Tables 1 and 2)
- A description of the amount of municipal payments made by the COT, pursuant to ARS §42-5031, subsection D, during the performance audit period, and the cumulative amount of those payments through the end of fiscal year 2013. These municipal payments represent the matching funds required to be committed by the COT. (See Schedule D)
- Solvency forecasts for the District that includes budget projections from District Management, planned capital expenditures, debt service costs, and known and projected sources of cash. (See Schedule E – Tables 1 and 2)

SECTION II

AUDIT FINDINGS

COMPLIANCE WITH STATUTORY AND INTERGOVERNMENTAL AGREEMENT PROVISIONS

The District is responsible for meeting the requirements of applicable provisions of the Arizona Revised Statutes ("A.R.S.") and the operative Intergovernmental Agreement ("IGA") with the City of Tucson ("COT"). We have reviewed applicable statutory and IGA provisions and evaluated compliance related to the District and the COT. In consideration of the issues identified in the previous performance audit report, we note significant improvement related to compliance during the current performance audit period (i.e., fiscal years 2011 – 2013). Following is a discussion of significant statutory and agreement provisions, as well as instances of non-compliance noted.

COT PAYMENTS

Through the operative IGA with the District, and in accordance with A.R.S. §42-5031 (D), the COT has agreed to make direct payments to the District from any lawful source, or to expend monies "for land, infrastructure or other improvements directly related to the multipurpose facility or the multipurpose facility site, in an aggregate amount equal to the amount received by the district pursuant to this section" (A.R.S. §42-5031). That is, the COT has agreed to make matching expenditures in an amount equal to the TIF revenue distributed to the District.

Per inspection of the Office of the Arizona State Treasurer website, aggregate sales tax distributions made to the District from inception through June 30, 2013 approximates $107 million. In response to our inquiries the COT provided the payment information presented in Schedule D after the end of the performance audit period, but prior to the issuance of this report. It is the position of the COT that they have made expenditures of approximately $253 million directly related to the multipurpose facility or the multipurpose facility site, which is in excess of the aggregate sales tax revenue distributed to the District (see **Schedule D**).

MONITORING OF TAX REVENUE COLLECTIONS

In accordance with A.R.S. §48-4203 (A) (3) the District and the COT entered into the operative IGA. Furthermore, the District has adopted Administrative Rules in operation during the performance audit period pursuant to A.R.S. §48-4203 (A) (4) and (5).

Article 4.3 of the operative IGA states that the COT "shall work with the Arizona Department of Revenue ("ADOR") and the District to facilitate ADOR's collection and remittance of the tax increment funds on behalf of the District, to include: monitoring of the collection of the tax by businesses located within the multipurpose facilities site; providing outreach and education within the multipurpose facilities site to promote and ensure proper collection of the tax; and otherwise assisting ADOR and the District with proper collection and accounting of the tax increment funds."

Through the performance audit we noted that the District's Management is currently performing outreach activities aimed at ensuring businesses within the District are appropriately remitting taxes. District Management also receives monthly summarized information from the COT regarding tax revenues remitted to the District; however, the information provided by the COT does not include detailed information identifying which specific businesses remitted taxes, or the associated amounts collected from these businesses. District Management has indicated that having access to this detailed information would allow the District to maximize its collections and would assist in its budgeting and cash flow projection efforts (see further discussion of budget projections in the Compliance with Financial Provisions section).

We also made inquiries of COT personnel regarding the City's efforts to monitor the collection and remittance of TIF revenue. We noted that the COT does perform some education and monitoring activities aimed at ensuring proper collection of tax increment funds from businesses within the District. We also noted that monitoring activities performed by the COT include review of detailed information provided by ADOR regarding taxes remitted by businesses within the District. COT personnel we spoke with indicated that ADOR had previously communicated to the COT that disclosure by the COT (to the District) of detailed information related to tax remitted by businesses within the District is prohibited per A.R.S. §42-2002 (titled Disclosure of confidential information prohibited). We reviewed correspondence between the District Board and ADOR and confirmed that it is the ADOR's position that said detailed information cannot be provided to the District in accordance with A.R.S. §42-2002.

However, we further reviewed the provisions of A.R.S. §42-2003, which addresses authorized disclosure of confidential information by ADOR. During our review we identified language in §42-2003 related to authorized disclosure of information, which may be applicable to the District. However, it is deemed outside the scope of this performance audit to definitively interpret this statutory language or determine its applicability to the District. Accordingly, we recommend that the District revisit the statute with ADOR to determine if detailed information can be provided to the District.

DATABASE OF EXPENDITURES ON THE OFFICIAL DISTRICT WEBSITE

A.R.S. §48-4231.02 requires the District to maintain an official website with a database of expenditures made by the District. The statute identifies specific expenditure information and functionality that should be part of the website database. Per review of the database and discussion with District Management, the database was not available on the District's official website for the entirety of the performance audit period. It was noted that during the most recent fiscal year covered by the performance audit (i.e., the year ended June 30, 2013), the current District Board and Management took steps to significantly improve the District's web presence and availability of expenditure information. However, continued improvements to the expenditure database are needed in order to address all of the information and functionality elements required by the applicable statute.

REQUIRED ANNUAL BUDGETS

Each fiscal year the District is required to submit an annual budget to the Clerk of the County Board of Supervisors. The provisions of A.R.S. §48-4232 identify specific elements and information to be included in annual budgets. Per review of the District's budgets prepared and submitted during the performance audit period it was noted that the budgets did not include all elements and information required by the statute. Elements required by the statute, and identified as missing from the submitted budgets, included detailed costs of maintaining, operating and managing the Primary Component, a complete asset and liability statement, and a statement of profit and loss from operations.

BOARD OF DIRECTORS MEMBERSHIP

A.R.S. §48-4202 establishes the composition of the Board of Directors for the District, and notes that the Board shall consist of nine (9) members based upon appointments to be made by the Governor, the President of the Senate, and the Speaker of the House of Representatives. There are currently only seven (7) members of the District Board.

COMPLIANCE WITH FINANCIAL PROVISIONS

As specified in A.R.S. §48-4204 (B) there are specific purposes for which taxes and charges raised by the District can be used.

From the taxes and charges levied or identified pursuant to section 48-4237 for use with respect to multipurpose facilities and from other monies lawfully available to the District, the District may acquire land and construct, finance, furnish, maintain, improve, operate, market and promote the use of multipurpose facilities and other structures, utilities, roads, parking areas or buildings necessary for full use of the multipurpose facilities and do all things necessary or convenient to accomplish those purposes. Public funds identified in section 48-4237, including funds distributed pursuant to section 42-5031, may only be used for the components for a multipurpose facility which are owned by the District or which are publicly owned, except that monies paid to the District pursuant to Section 42-5031 may only be used for the following purposes until a notice to proceed is issued for a hotel and convention center located on the multipurpose facility site:

1. *Debt service for bonds issued by the District before January 1, 2009.*
2. *Contractual obligations incurred by District before June 1, 2009.*
3. *Fiduciary, reasonable legal and administrative expenses of the District.*
4. *The design and construction of the hotel and convention center located on the multipurpose facility site.*

From the District's inception through 2009, many of the expenditures made by the District were for purposes and/or projects other than those statutorily required or intended. Specifically, many of the expenditures made during this time period failed to provide new or additional tax revenues, nor were they incurred in relation to the Primary Component (i.e., the TCC).

Per discussion with District Management and review of historical documentation it was noted that remediation of this compliance deficiency was a significant focus of the reconstituted District Board, and many related recommendations were put forth in the previous performance audit. Our examination of the following performance sections was based on the statutory requirements discussed above, and was influenced by our knowledge of the District's past performance.

CAPITAL EXPENDITURES

As a result of the District's organization restructuring and the legal disputes with the City and State, the reconstituted Rio Nuevo Board of Directors made the decision to significantly limit capital expenditure and construction activity. This policy of limited activity began in 2009 and was in place through the performance audit period. This policy is reflected in **Schedule A - Table 1** which shows capital expenditures of $38,068 in 2011, no expenditure in 2012, and capital expenditure of $163,539 in 2013. Expenditures were evaluated for proper initiation, approval, disbursement, and recording in accordance with applicable statutory and internal policy provisions.

In reviewing capital expenditures it was noted that those originating in fiscal year 2011 were not in support of the Primary Component. However, the District was committed to make capital expenditures related to these projects prior to the execution of the Settlement Agreement in February of 2013, and these projects were subsequently written off in accordance with the terms of the Settlement Agreement. All other capital expenditures during the performance audit period appeared reasonable and in accordance with statutory provisions. See further discussion of planned capital expenditures in *Expenditures in Support of the District's Purpose* to follow.

It should be noted that as a result of the executed Settlement Agreement, the majority of accumulated Construction in Progress ("CIP") was written off the District's books during the performance audit period. Of the $32.6 million in CIP as of June 30, 2011, $4.3 million was capitalized to Buildings and $28.3 million was written off or reclassified due to changes in ownership per the Settlement Agreement, cancelation of projects, or impairment of value (see **Schedule A – Table 2** for further notes regarding write-offs).

DEBT SERVICE EXPENDITURES

Throughout the life of the District a series of debt instruments have been issued/entered into to fund asset acquisition, design studies, infrastructure improvements, and the repayment of loans, with the expectation that these investments would generate future TIF revenues. During the performance audit period five unique debt obligations were in existence, three of which were paid or settled and two that remain outstanding as of June 30, 2013.

Through procedures performed it was noted that TIF revenues due to the District are deposited directly into Wells Fargo accounts by ADOR, and the required debt service payments are automatically made to the appropriate party. Any remaining TIF revenue is then provided to the District for use in carrying out its mission. Per inquiry of Management and observation of the debt service process, it appears that District Management plays an active role in monitoring the debt service payments and the activity within the Wells Fargo accounts. The debt balances at June 30, 2013 appeared to be accurate, current, and payments of principal in and interest were made in a timely manner during the performance audit period. See **Schedule B – Table 1** for debt service payments made during the performance audit period, and **Schedule B – Table 2** for debt service payments through 2025.

With regard to the debt obligations satisfied during the performance audit period, the final principal and interest payments on 2002 and 2005 series of Certificates of Participation ("COPs") were made in fiscal years 2012 and 2013, respectively. Additionally, prior to the creation of the reconstituted Board, the COT either created loans to the District or allocated funds of approximately $14 million to cover certain disputed project/development expenses incurred prior to the District receiving the TIF revenue stream, of which $1.716 million was outstanding at June 30, 2012. The interest rate charged on these loaned amounts, 4.5 percent, was at issue, as the original IGA dictates that interest should be based on short-term rates of the COT. It was reported in the October 2010 Performance Audit that the District overpaid approximately $450,000 in interest. Per Section 4(b) of the executed Settlement Agreement the District waived and released any and all claims regarding overcharged interest on the loans, and the COT waived and released any and all claims that it had or might have for payment of any outstanding balances on loans/advances to the District. As a result, $1.716 million was removed as a liability from the District's books during fiscal year 2013.

UNEXPENDED SERIES 2008 BOND PROCEEDS

Per section thirteen (13) of the executed Settlement Agreement, there remained approximately $6.429 million of unexpended 2008 Revenue bond proceeds ("Unexpended Proceeds"). From the Unexpended Proceeds, COT received $2.180 million as reimbursement for COT's payments previously made to satisfy outstanding invoices for those contracts relating to various 2008 bond projects (to include Depot Garage; Cushing St. Bridge; Origins Infrastructure). Consistent with the 2008 Revenue bond provisions, COT shall make the balance of the Unexpended Proceeds available to the District for its use. Per discussions with Rio Nuevo, the approximate $4.250 million of Unexpended Proceeds will be used toward the renovation of the TCC. As the TCC is the "Primary Component" per A.R.S. §42-5031, expenditures on the renovation of the TCC are considered to be an effective and beneficial use of the Unexpended Proceeds.

EXPENDITURES IN SUPPORT OF THE DISTRICT'S PURPOSE

In consideration of whether the District's expenditures for the period successfully supported and achieved the District's purposes, we note that legal and administrative expenses of the District appear reasonable in light of activities and circumstances (see **Schedule C – Table 1**). We also note that significant project expenditures were not made during the period (see **Schedule A**); and District efforts were focused on executing the Settlement Agreement and re-focusing District attention on the Primary Component.

Per inquiry with the District's Management and Board Chair, it is the District's position that a valid notice to proceed for the TCC was definitively confirmed via the Settlement Agreement executed between the District and the COT, dated February 7, 2013 (Agreements Section, paragraph 3 (a)). District Management and the Board Chair also indicated that subsequent to the performance audit period the District began examining the possibility of committing approximately $4.3 million towards the construction of a hotel within the District's boundaries (see Project Expenditures in **Schedule E**). Should the District execute a formal agreement to assist in funding the development of a downtown hotel, the District plans to issue a notice to proceed for the hotel at that time.

Also pursuant to the Settlement Agreement, the District has committed to fund certain projects, which include Mission Gardens, Downtown Streetscapes, and other smaller improvement projects (see Project Expenditures in **Schedule E**). The District has identified these planned expenditures in its most recent budget for fiscal year 2013-2014. Due to the fact that these expenditures were planned, but did not occur during the performance audit period, we have not assessed the expenditures in relation to the provisions of A.R.S. §48-4204 (B).

While significant infrastructure and development expenditures were not incurred during the performance audit period, it was evident that the District has not yet developed comprehensive policies for budgetary projections or capital improvement plans.

DISTRICT SOLVENCY

A core issue impacting the District's development of the TCC and its potential as a catalyst for growth in the downtown area, is the District's solvency and availability of residual cash flow for significant capital expenditures. Solvency of the District was considered in two different tiers:

- District's ability to pay operating and debt service obligations as they come due.
- After paying operating and debt service obligations, the District's ability to fund new capital projects or provide funds to spur commercial development in accordance with statutory provisions.

From the District's inception through 2009 over 50 percent of the District's revenues had been generated through debt and bond issuances. During the performance audit period (fiscal years 2011 -2013) no additional debt was issued. Throughout the performance audit period annual TIF revenues have approximated $11.8 million, and as such District Management conservatively anticipates FY 2014 TIF revenues of $11.1 million, with the expectation for future growth based upon increased development in the District and greater efforts in the monitoring and collection of TIF revenue.

While the District is currently reliant primarily on TIF revenues, the substantial amount of outstanding debt remains a major financial obligation of the District. Principal and interest payments on debt are approximately $9.5 million per year from 2014 – 2024, with a payment of $16.9 million due in 2025 (see Debt Service Schedule at **Schedule B – Table 2**). Additionally, to maintain operations the District expended an average of $973,000 per year during the performance audit period; a significant portion of which was for legal and accounting services in connection with the Settlement Agreement and related proceedings (see Operating Expenditures at **Schedule C – Table 1**). District Management anticipates a decreased but consistent level of operating expenditures throughout the life of the District.

To determine the District's solvency, we compiled and evaluated (i) a three-year solvency schedule for the District that reflects Management's estimated revenues and expenses (see **Schedule E – Table 1**), and (ii) a long-term solvency projection based on actual debt service requirements, historical revenues and expenses, and other items budgeted/projected by District Management (see **Schedule E – Table 2**).

Note: Excluded from the three year solvency projection is the amount of restricted cash that is the property of the District but that is currently held in accounts by Wells Fargo, the Fiscal Agent. These restricted funds are reserved for debt service requirements in the event of default. The District's restricted cash balances approximate $21.9 million at June 30, 2013. It can be expected that these funds will be automatically applied to final debt service payments, or will be released from restrictions and returned to the District upon the full payment of the associated debt (both of which would be expected to occur in close proximity to June 30, 2025).

THREE-YEAR SOLVENCY

Based upon our analysis and managements projections (see **Schedule E – Table 1**), the District appears to have the necessary funds to pay obligations including administrative costs, debt service expenses, and planned capital expense commitments through FY 2016. As illustrated in **Schedule E – Table 1**, it is estimated that as of June 30, 2016 the District will have accumulated unrestricted cash on hand of approximately $7.7 million, and total cash (restricted and unrestricted) of approximately $29.6 million. It appears as though this accumulated unrestricted cash would also be sufficient to cover unexpected decreases in revenue or increased capital outlays during the three year period ending June 30, 2016.

LONG-TERM SOLVENCY

To gauge the District's long-term solvency and ability to fund currently unbudgeted capital projects or provide funds to spur commercial development in accordance with statutory provisions, we compiled and assessed a schedule of expected cash flows from FY 2014-2025 (see **Schedule E – Table 2**). This projection was based on management's estimates, actual debt service requirements, historical revenues and expenses, and other items budgeted/projected by District Management.

Per evaluation of the long term solvency projection, it appears that the revenues expected to be collected throughout the remaining life of the District are sufficient to support the operations of the District, and fund all required debt service obligations and capital projects that are currently budgeted. As illustrated in **Schedule E – Table 2**, it is estimated that as of June 30, 2025 the District will have accumulated unrestricted cash on hand of approximately $54.2 million.

However, when considering the District's ability to undertake currently unbudgeted projects that would substantially impact the TCC and spur private investment (i.e., the full renovation of the TCC and construction of an adjacent hotel); it does not appear as though the District's financial position would be sufficient to maintain solvency and cover the costs of construction. See additional discussion in Section 3 - *Benchmark Analysis* to follow.

RECOMENDATIONS

Based on procedures performed related to compliance with statutory, intergovernmental, and financial provisions, the consulting team has developed the following recommendations:

- **Hotel Development and Notice to Proceed:** As the District continues to consider financial participation in the development of a hotel within the downtown boundaries of the District, Board members should consider statutory provisions related to the issuance of a "notice to proceed" for the hotel.
- **Monitoring of Tax Collections:** District Management and the Board should revisit A.R.S. §42-2002, as well as A.R.S. §42-2003 with regards to information that may be available from ADOR to assist in the monitoring of tax collections by the District. Upon review of the relevant statutory language, District Management and the Board should discuss the statutory language with the ADOR to determine if detailed information can be provided to the District.
- **Expenditure Database:** District Management and the Board should revisit A.R.S. §48-4231.02 to ensure the expenditure database on the District's official website addresses the requirements of the above mentioned statute.

- **District Budget Information:** District Management should revisit A.R.S. §48-4232 to ensure that budget information addresses the all requirements of that statute. In addition to meeting statutory requirements it is also recommended that the District develop budget projections that extended beyond the upcoming fiscal year. Management should consider developing three year, five year and life of District projections, each with varying degrees of detail depending upon the time period covered.
- **Formalization of Capital Planning:** The COT and the District had previously made progress on a capital improvement plan that would summarize and track all projects that involved District participation. Now that the COT is not directly involved in the capital plans of the District it is critical that the District Board and Management revisit their capital planning process and formalize the key components. A comprehensive capital improvement plan may consider the following:
    - Policies and procedures for the evaluation, planning, funding, approval, and execution of capital projects.
    - Financial evaluation tools such as long and short term cost budgets and revenue projections, return on investment calculations, and analysis of financing options (e.g., internally funded, private/public partnership, bond issuance, etc.).
    - Protocol for presenting new proposals to the public for comment.
    - Reporting and monitoring practices that will make data available related to the impact and performance of projects (i.e., costs, revenues, attendance, increase in property value, etc.).
- **Financial Oversight:** It is recommended that the District Board continue to allocate resources to the financial monitoring and management of the District. While improvements in fiduciary oversight and related corrections appear to have taken place over the last several years, the level of District activity during the performance audit period was minor, and the potential for a significant increase in activity is anticipated as the TCC and other potential projects are carried out in the following years.
- **General Communication:** The District Board and the City of Tucson should continue to work collectively to improve communication among all parties involved in development of the District.

SECTION III

DISTRICT BENCHMARK ANALYSIS

BENCHMARKING AND COMPARABLE ANALYSIS

One of the requirements of the performance audit is to evaluate the competitive position of the TCC among peer and national facilities. The specific requirements of A.R.S. §48-4231.01 state that the TCC facility needs to be evaluated to determine if it exceeds, meets or fails to meet nationally recognized design and performance standards. For the purpose of this analysis Johnson Consulting defines "design" as the overall quality of convention facilities and support environment in relation to the TCC's competitive set. "Performance" is defined by the quality of management, the level of demand, revenue and expenses profile, and hotel room night generation caused by the facility. The following benchmarking analysis compares specific organizational and operational factors of the TCC with a set of five peer facilities. The peer set comprises a mix of publically and privately managed facilities that exhibit either similar geographic, economic, and/or physical attributes to the TCC. All facilities within the peer set are publically owned at the City or County government level. Competitive set facilities include:

- Albuquerque, NM Convention Center
  - This facility was selected due to its role as a primary competitor of the TCC, current and planned upgrades to the facility, and its operating structure.
- Palm Springs, CA Convention Center
  - Palm Springs was chosen because it is a competitor for convention and tradeshow events, as well as the quality of its facilities, adjacent headquarters hotel and the overall quality of the destination.
- Spokane, WA Convention Center
  - Spokane is a best in class facility for the TCC to emulate given its program of spaces, ability to execute appropriate expansion and upgrades, and the recent public/private partnership to develop a large headquarters hotel. The oversight and management structure of the Spokane Public Facilities District is also a primary reason why this facility was chosen for analysis.
- Fort Worth, TX Convention Center
  - While larger than the TCC, this convention center has effectively upgraded a facility of the same generation as the TCC, and is well run by the City of Fort Worth. There are also plans for an expansion, if feasible.
- Phoenix, AZ Convention Center
  - The Phoenix Convention Center was included due to its presence in the same regional market as the TCC.

The attendance, demand and financial data presented in the table are from FY 2012 for all of the facilities, with the exception of event demand and attendance for Palm Springs, which is for FY 2013. A summary of key attributes of the facilities is provided in Table 3-1.

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Table 3-1

Key Characteristics of Comparable Facilities and Markets	Tucson Convention Center	Palm Springs Convention Center	Spokane Convention Center	Albuquerque Convention Center	Fort Worth Convention Center	Phoenix Convention Center
Location						
Location	Tucson, Arizona	Palm Springs, California	Spokane, Washington	Albuquerque, New Mexico	Ft. Worth, Texas	Phoenix, Arizona
Metropolitan Area	Tucson, AZ Metro	Riverside-San Berardino-Ontario, CA Metro	Spokane, WA Metro	Albuquerque, NM Metro	Dallas-Fort Worth-Arlington, TX Metro	Phoenix - Mesa - Glendale, AZ Metro
Demographic Characteristics (2012)						
Metropolitan Area Population	1,000,874	4,394,173	476,939	911,947	6,706,592	4,344,487
Median Household Income	$48,474	$56,944	$91,902	$49,533	$57,562	$54,546
Hotel						
# Guest Rooms Directly Adjacent	-	410	375	-	1,001	693
Meeting Space (SF)						
Exhibit Space	113,940	92,545	100,160	166,546	253,226	584,500
Ballroom	40,328	20,016	25,310	31,224	27,904	118,800
Meeting Room(s)	11,880	15,789	29,950	32,610	56,486	162,655
Other	Arena: 29,000 SF flat floor; 9,000 seats	$32 million expansion in 2005/Convention Center Only	HQ Hotel & Expansion; Arena & PAC	$20 million upgrade/Auditorium	Evaluating Expansion; Arena	Convention Center Only
Total Facility Space (SF)	**195,148**	**128,350**	**155,420**	**230,380**	**337,616**	**865,955**
Events and Attendance						
# of Convention Events (per annum)	242	106	462	272	488	387
Total Convention Attendance (per annum)	172,908	131,970	284,556	287,011	795,017	-
# of Arena Events (per annum)	320	-	563	-	-	-
Total Arena Attendance (per annum)	282,655	-	601,206	-	-	-
Facility Room Night Generation	35,000	36,259**	47,000	64,680	75,642	227,555
Revenue and Expenses						
Net Income (Loss) ($'000s) * - Most Recent Year	(1,917)	($1,811)	$920	($1,172)	($5,535)	-
Locational Attributes						
# Hotel Rooms Citywide	16,400	6,500	3,672	8,720	10,171	10,570
# Hotels within Walking Distance of Facility	0	8	16	7	10	10
# Hotel Rooms within Walking Distance of Facility	0	1,627	2,588	1,378	3,007	3,139
Air Service	1: Tucson International Airport (TUS)	1: Palm Springs International Airport	1: Spokane International Airport (GEG)	1: Albuquerque International Sunport (ABQ)	2: Dallas/Fort Worth International Airport (DFW) and Dallas Love Field (DAL)	2: Phoenix Sky Harbor International Airport (PHX) and Phoenix-Mesa Gateway (IWA)
Annual Passengers†	1,710,638	866,095	1,456,275	2,630,570	DWF: 28,022,877 DAL: 3,902,521	PHX: 19,556,189 IWA: 744,683
Convention and Visitor Bureau Budget	$7 million	$10.8 million	$4.2 million	$7 million	$7.1 million	$10 million

** Please see corresponding sheet for detailed revenue and expense information*
***Numbers caused directly by CVB sales staff. Does not include room niights directly sold by the convention center sales staff.*

(-) Indicates data was either unavailable or not provided

† Excludes arrival and through passengers.

Source: Relevant Facilities, Demographics Now

On its face, the table seems to indicate that the TCC is physically competitive size- wise, given the overall square footage of the convention center components of the competitive set. That is not the case. Having consulted on all off the convention facilities listed, we conclude that the physical state of the TCC and the physical organization of spaces is the worst among this set of competitors, even though its size is comparable.

Some facilities profiled are larger from both population and facility perspective and were included either due to strong facility performance and attributes (Fort Worth) or due to proximity to the TCC (Phoenix). Of the competitive set, Tucson ranks fourth out of six in population of the metropolitan area with 1 million residents, while Fort Worth ranked first (1st) with 6.7 million and Spokane ranked last with 477,000 residents. Palm Springs is part of a large metropolitan statistical area (MSA) but for practical purposes has a regional population that is significantly less given its remote location in the MSA. The majority of competitive set destinations have a similar range of median household income levels, ranging from $48,474 in Tucson to $57,562 in Fort Worth. Spokane has the highest median household income at $91,902.

One of the key components of the District is the development of hotel rooms in proximity to the TCC. A majority of the competitive set convention centers have a hotel directly connected or within a half block of the convention center. Tucson and Albuquerque do not have hotels within a half block of their facilities. However, Albuquerque does have a number of hotels within walking distance, whereas there are no quality hotel rooms within walking distance of the TCC, putting the TCC at a competitive disadvantage among all competitive set facilities.

The TCC has a variety of facilities in its portfolio, while some of the competitive facilities only offer a convention center component. Given this point, we have separated event demand and attendance into two categories, convention center specific demand and arena specific demand. The first category is convention center specific and the TCC ranked second to last in total events with 242. Palm Springs was last with 106 and Spokane was first with 462 events (Ft. Worth's data is an aggregate of both the convention center and arena; facility specific data was not available). Given the high economic impact of out of town convention attendees, a more important metric for the convention center comparison is total convention center attendance. Again the TCC ranked second to last with 172,908 convention attendees. The Albuquerque Convention Center ranked first out of the facilities that reported convention center attendance (Ft. Worth is an aggregate and Phoenix did not provide attendance data). Only Spokane and Tucson reported arena demand and attendance, with Spokane having significantly better performance in both categories.

The TCC generates an estimated 35,000 hotel room nights per year and is the lowest hotel room night generating convention complex for the reporting destinations. A primary competitor of the TCC is the Albuquerque Convention Center, which generated 29,600 more hotel room nights than the TCC. Due to the condition of the complex and lack of hotel rooms in direct proximity to the complex, the TCC has a local and regional attendee profile, resulting in a lower level of hotel room nights generated, meaning that attendees to a concert event are going to the event and then driving home. Arena type events are important but do not have the hotel room night generation potential of convention and tradeshow events that would utilize the convention facilities.

Not including the $3.8 million rent payment from the City of Tucson general fund to Rio Nuevo, the TCC had an operating deficit of $1.9 million in 2012, which is among the highest of competitive facilities analyzed. Regarding a comparison of Convention and Visitors Bureau (CVB) budgets, at $7 million, the Tucson CVB budget is in line with the competitive set.

The TCC does not collect, or did not provide, very detailed information about event attendance levels or detailed financial information for the facility. As a result there was less information available for direct analysis to the competitive set facilities.

TUCSON CONVENTION CENTER COMPLEX

TUCSON, AZ

LOCATION: Located in the downtown core of Tucson, the TCC was built in 1971 and includes the 195,000 square foot convention center, 9,000-seat arena and the 511 seat Leo Rich Theater.

OWNERSHIP/ MANAGEMENT: The TCC is owned by the District and is leased and operated by the COT. The District facilitates upgrades/expansion of the TCC and is investigating the development of a new hotel in the District and other improvements that support the convention center. COT is currently evaluating the merits of hiring a facility management company to operate the TCC complex.

VISION/ MISSION: The overall mission for the TCC is to be an economic driver for the community. No codified vision/mission statement was available from the COT at the time of this report regarding the facility. The mission of the District is "to facilitate and participate in the development of a vibrant downtown Tucson."

FACILITIES: The Arena, Convention Center, and Performing Arts Center are summarized as follows:

- **Arena:** A 9,000-seat multi-purpose arena, with a 29,000 square foot arena floor. The Arena is home to the Arizona Wildcats ice hockey program.
- **Leo Rich Theater:** An intimate 511-seat theater venue.
- **Tucson Convention Center:** The following table provides a breakdown of exhibit and meeting space at the venue.

Table 3-2

Tucson Convention Center Summary of Exhibit and Meeting Space	Size (SF)		Capacity (# of Persons)		
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet
Exhibit Hall		89,760	6,000	1,500	2,100
Hall A	29,920	-	2,000	500	700
Hall B	29,920	-	2,000	500	700
Hall C	29,920	-	2,000	500	700
North Exhibit Hall*	24,180	24,180	1,600	1,000	1,000
Subtotal Exhibit Hall SF		113,940			
Ballroom					
Turquoise Ballroom	5,041	-	400	200	250
Crystal Ballroom	5,041	-	400	200	250
Copper Ballroom	10,082	-	800	500	500
Grand Ballroom	20,164	-	1,600	900	1,200
Subtotal Ballroom SF		40,328			
Meeting Rooms					
Number of Rooms	11	5	-	-	-
Smallest Room	390	-	20	-	15
Largest Room	-	7,000	700	360	400
Subtotal Meeting Room SF		11,880			
Other					
Tucson Arena	-	29,520	8,962	-	-
Tucson Music Hall	-	-	2,289	-	-
Leo Rich Theater	-	-	511	-	-
Subtotal Other SF		-			
Total		**195,668**			

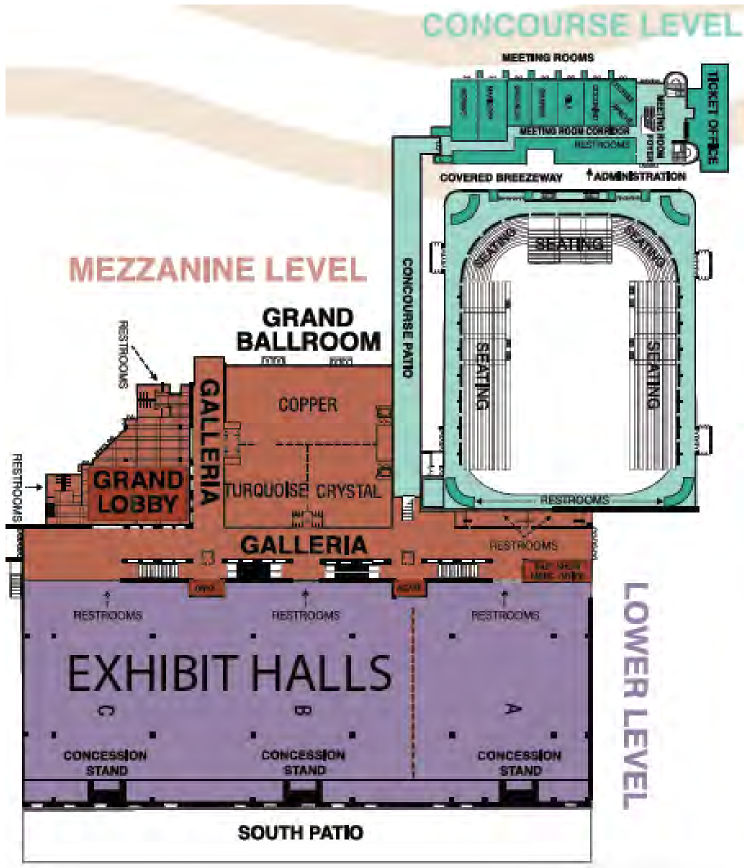
* North Exhibit Hall is not contiguous with Halls A-C

Source: TCC, Johnson Consulting

Given the age of the TCC and lack of investment in facility improvements, the quality of the overall convention complex is poor.

The following figure provides an overview of facilities at the Convention Center Campus.

Figure 3-1



It is also important to note that there are two additional public venue facilities in the District, the Fox Theater and Rialto Theater. Both of these facilities are entertainment venues.

DEMAND SCHEDULE: At the time of this report, 2013 event demand data for the TCC was not available. For the TCC complex as a whole there was a decrease in overall events by seven events primarily due to a reduction of events in the exhibit hall and ballroom. Even though there were fewer exhibit hall and ballroom events, convention attendance was up significantly in 2012 with an increase of 32,317 attendees in the exhibit halls and an increase of 890 attendees in the ballroom and meeting rooms. However, the overall attendance to the TCC complex decreased compared to 2011 with a total reduction of 30,755 attendees, largely attributable to the loss of 63,962 arena attendees. The significant room night generating events for the TCC are seven Jehovah's Witness gatherings and two to three of the sport events. It is projected that the TCC complex generates an average of between 35,000 hotel room nights on an annual basis.

Table 3-3

Tucson Convention Center										
2011 Event Demand & Attendance										
Event Type	**Arena**		**Exhibit Halls (A, B, C)**		**Grand Ballroom**		**Meeting Rooms (All)**		**TCC Total**	
	Events	**Attendance**	**Events**	**Attendance**	**Events**	**Attendance**	**Events**	**Attendance**	**Events**	**Attendance**
Concerts	7	-	1	-	-	-	-	-	8	-
Convention	16	-	19	-	34	-	40	-	109	-
Non-Profit Events	67	-	25	-	30	-	37	-	159	-
Reception/Party	1	-	-	-	22	-	9	-	32	-
Show	25	-	7	-	-	-	-	-	32	-
Sporting	205	-	23	-	-	-	1	-	229	-
TOTAL	**321**	**346,617**	**75**	**106,535**	**86**	**28,621**	**87**	**4,545**	**569**	**486,318**
2012 Event Demand & Attendance										
Concerts	8	-	3	-	-	-	-	-	11	-
Convention	16	-	20	-	19	-	47	-	102	-
Non-Profit Events	60	-	20	-	31	-	35	-	146	-
Reception/Party	-	-	-	-	27	-	14	-	41	-
Show	28	-	23	-	-	-	-	-	51	-
Sporting	208	-	1	-	-	-	2	-	211	-
TOTAL	**320**	**282,655**	**67**	**138,852**	**77**	**29,201**	**98**	**4,855**	**562**	**455,563**

Source: TCC

REVENUE AND EXPENSES

At the time of this report, 2013 revenue and expense data was not available. Additionally, the revenue and expense data is presented for the complex as a whole, including both the convention center and arena. Facility specific revenue and expense data was not available. In 2012, Revenues increased by $146,000 to $3.56 million with the top three revenue categories including Facilities Rental, $1.43 million, Parking, $950,000 and Catering and Concessions, $345,000. Total operating expenses in 2012 were $5.48 million, up $64,000 from 2011. The two main categories of expense are Personnel and Services which account for over 97 percent. The facility operates at a loss each year with 2011 and 2012 being just under $2 million. This does not include the $3.79 million rent payment to the District.

Table 3-4

Tucson Convention Center Revenue & Expense Statement (FY 2011 - 2012) ($'000s)		
	2011	**2012**
Operating Revenues		
Facilities Rental	$1,214	$1,429
Other Rentals/Leases	49	61
Box Office	136	123
Ticketmaster	145	116
Catering/Concessions	363	345
Novelty Sales	22	38
Miscellaneous	64	59
Commission	145	130
Facility User Fees	233	161
Arena User Fees	193	142
Industrial Insurance Refund	19	4
Parking	832	953
Total Operating Revenues	$3,415	$3,561
Operating Expenses		
Personnel	$2,342	$1,954
Services	$2,970	3,380
Supplies	102	144
Tota Operating Expenses	$5,414	$5,478
Net Operating Income (Deficit)	**($1,999)**	**($1,917)**
Rent Payment to Rio Nuevo	$3,789	$3,794

Source: TCC, Johnson Consulting

FUNDING: The COT funds any annual operating subsidy that the TCC needs as well as a lease payment to the District and the overall up keep of the facility. The District was designed to implement an expansion and improvements to the TCC complex and develop a headquarters hotel. Designs for the expanded TCC and hotel were developed but the project was not executed due to overall mismanagement of the District. Since that point in time the governance structure of the District has been reformatted to allow for improved oversight of the District. This has caused the District to settle past disputes and reorient its focus on its core mission of improving the TCC and bringing a hotel to the District.

OBSERVATIONS

Using the Tucson Gem and Mineral ("Gem") show as a prime example for the Tucson marketplace, the show has been at a point where it has needed better and larger facilities to maintain/grow its exhibitor and attendee base for a number of years. As there has been little effort to improve the TCC, the Gem show already utilizes a large popup tent to increase exhibitor capacity, and has plans to develop additional private space for its use. Plans to add facility inventory by the private sector and erecting costly popup facilities to satisfy existing demand is ineffective and shows that the City and District have not addressed market needs.

While there are some positives to developing private sector convention facilities, these facilities pose a serious threat to the existing demand profile of the TCC, if sales and marketing of both facilities are not coordinated jointly. As has happened in other national convention destinations when private, cost sensitive facilities are added, the new facilities have diminished demand at the existing facility by targeting the existing shows and events that need more or newer space. A privately developed and run facility in Tucson would likely erode significant existing demand, and the new private facility would not sufficiently address the real needs of the TCC and target conventions and tradeshows – better organized layout, more and better meeting space, and adjacent hotel rooms. An example of this phenomenon is how the new AVA Amphitheater has adversely affected arena attendance.

The planned $7.8 million improvements to the TCC complex are primarily focused on the arena and public areas of the complex and will not adequately address the need for the TCC to be a regionally and nationally competitive convention facility. The public/private partnership hotel development under consideration by the District will help significantly by adding much needed hotel rooms in the District, but is not in line with the scale of developments at other national comparable convention centers.

Due to the mismanagement of the District initially, the funding to support its mission of executing TCC improvements is still viable, but not at a scale that will greatly increase its competitive position among national facilities. As the following case studies will indicate, and current convention related developments nationally, other facilities are expanding and adding headquarters hotels that when combined require a financial commitment in excess of $100 million. The current condition of the overall complex is poor given the age of the facility and lack of investment in required maintenance and overall upkeep. There is also a lack of sophistication and detail regarding event data collection and the operations of the facility that has proved challenging in developing this report.

It can be a challenge for a municipality to directly operate a convention and arena facility. This has been the case in Tucson and the COT has realized this challenge and is considering having the facilities managed by a professional facilities management company. This would be a major improvement in a number of areas and could improve the overall experience of attendees when at the complex. This will allow for the COT to be in an oversight role and focus on the mission and purpose of the TCC rather that on day-to-day operation. It is our perception that there is a disconnect between the operations of the TCC complex and the District. While the District's focus is that of an economic development agency, it makes sense that an organization charged with improving a convention facility should have some interest in the performance of the facility to ensure that the intended impacts of the improvements it causes are realized. The District has no statutory or legal obligation to participate in oversight of the TCC, but as seen in other models nationally, this type of structure may serve the performance of the facility well.

If and when a management company is brought into the facility, the State, COT and the District may want to investigate the merits of creating a joint oversight authority for the complex or modifying the existing COT Tucson Convention Center Commission to enhance its current approach. This same authority could also serve as the vehicle for cooperation on future enhancements in the District and to the TCC. The advantage of this approach is that it would operate fairly insulated from the day-to-day decision-making that happens in city government. The COT does have a bond requirement to maintain operational oversight of the TCC and this needs to be factored into the structure of a future authority or commission, while still keeping the daily decision making focused on the best interests of TCC performance.

The following facilities, and their operating profile and management structure, will offer insight regarding performance of competitive facilities and the marketplace that the TCC competes in for convention and tradeshow events.

ALBUQUERQUE CONVENTION CENTER

ALBUQUERQUE, NM

LOCATION: Located in downtown Albuquerque, the Albuquerque Convention Center ("ACC") opened in 1972. ACC is undergoing renovations, with the $20 million Phase I of the renovations nearing completion. Phase I includes improvements to the ballrooms, overhaul of ACC's kitchen, and exterior improvements to the East Complex, and redesign of the loading dock. Phase II of the renovation project is estimated at $35 million and will commence in October 2014. Phase II includes remodeling the west building lower atrium and new additions including an entrance to the West Complex, an entertainment deck off the ballroom, and massive windows with panoramic views.

OWNERSHIP/ MANAGEMENT: The ACC is owned by the City of Albuquerque and operated by SMG.

VISION/ MISSION: Building on its unique location between the Rio Grande River and the Sandia Mountains in the heart of the Southwest, the ACC seeks to provide planners, exhibitors, and attendees with a "Uniquely Unconventional" experience.

FACILITIES: Facilities at the ACC include over 230,000 square feet of meeting space. The following table provides a breakdown of meeting and event space at the ACC.

Table 3-5

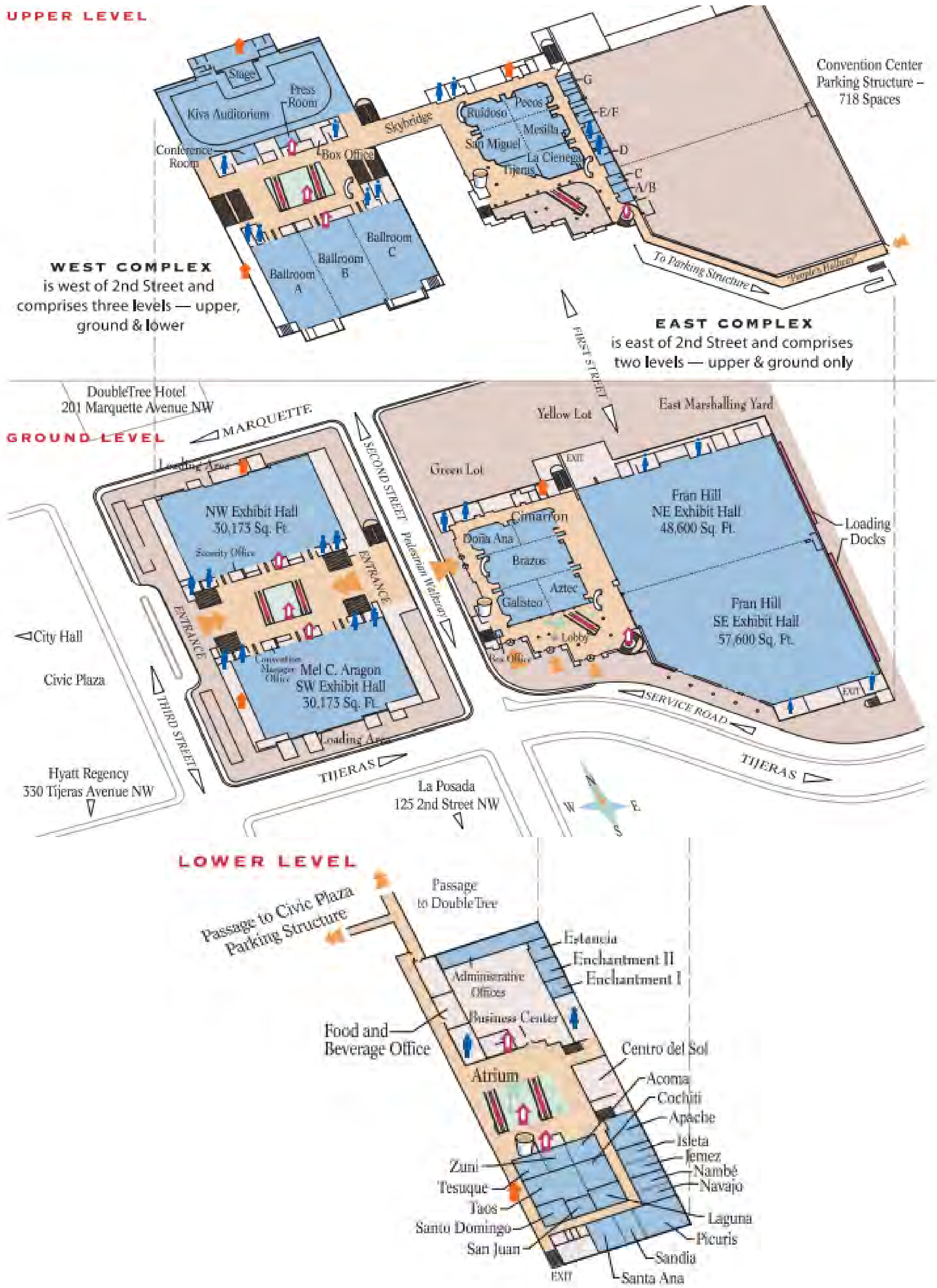
Albuquerque Convention Center Summary of Exhibit and Meeting Space					
	Size (SF)		Capacity (# of Persons)		
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet
Fran Hill Exhibit Hall					
NE Hall	48,600	-	3,262	1,842	3,080
SE Hall	57,600	-	5,170	2,604	2,450
Subtotal Fran Hill Ex Hall		106,200	9,048	4,566	7,178
NW/SW Exhibit Hall					
NW Hall	30,173	-	-	-	-
SW Hall	30,173	-	-	-	-
Subtotal NW/SW Ex Hall		60,346	9,048	4,566	7,178
Total Exhibit Hall SF		**166,546**	-	-	-
Ballroom					
A	9,996	-	642	408	460
B	8,880	-	300	320	300
C	12,348	-	801	544	550
Total Ballroom SF		31,224	-	-	-
Meeting Rooms					
Number of Rooms	22	14	-	-	-
Smallest Room	567	-	60	43	40
Largest Room	-	14,210	1,155	648	910
Subtotal Meeting Room SF		32,610			
Total		**230,380**			

Source: ACC, Johnson Consulting

The following figure provides the floorplan of the ACC.

JOHNSON CONSULTING

Figure 3-2



DEMAND SCHEDULE: In 2012, ACC hosted a total of 272 events, of which nearly 25 percent were Meetings and 20 percent were Banquets. Between FY 2009 and FY 2012, the total number of events held at the ACC contracted at an average annual rate of 7.4 percent, driven primarily by a decline in the number of Conventions (-21.8 percent per annum), Meetings (-16.5 percent), and Tradeshows (-16.4 percent). Over that period, all event types contracted except for Other events and Family Shows, which grew by 44.2 percent per annum and 10.1 percent per annum, respectively.

While the ACC hosted fewer events over the four-year period, the events garnered larger attendance. Over the same four-year period, the number of attendees grew by 1.7 percent per annum. Most notably, attendance to Other events increased by 76.0 percent per annum and attendance to Tradeshows increased by 57.6 percent per annum. In 2012, the ACC hosted over 287,000 attendees, down slightly from the nearly 290,000 recorded in 2011. Assemblies and Meetings recorded the most attendees, representing 17 percent and 12 percent, of total attendance in 2012.

Table 3-6

Albuquerque Convention Center
Number of Events by Event Type (2009-2012)

	2009	2010	2011	2012	CAGR*
Assemblies	35	30	30	34	(1.0%)
Banquets	67	36	37	55	(6.4%)
Consumer/Public	12	12	9	11	(2.9%)
Concerts	23	8	12	16	(11.4%)
Conventions	23	27	17	11	(21.8%)
Entertainment	25	23	25	18	(10.4%)
Family Shows	9	15	12	12	10.1%
Meetings	115	66	56	67	(16.5%)
Sporting Events	12	11	12	11	(2.9%)
Tradeshows	12	7	8	7	(16.4%)
Other	10	31	25	30	44.2%
Total	**343**	**266**	**243**	**272**	**(7.4%)**

* Compounded Annual Growth Rate

Source: Albuquerque Convention Center

Table 3-7

Albuquerque Convention Center
Total Attendance of Events by Event Type (2009-2012)

	2009	2010	2011	2012	CAGR*
Assemblies	41,780	35,770	36,665	47,697	4.5%
Banquets	27,808	14,046	16,124	24,147	(4.6%)
Consumer/Public	36,984	28,300	32,010	22,638	(15.1%)
Concerts	33,252	10,731	22,008	22,531	(12.2%)
Conventions	40,750	30,965	60,135	32,521	(7.2%)
Entertainment	22,265	16,503	16,730	22,361	0.1%
Family Shows	10,262	18,400	19,590	16,125	16.3%
Meetings	32,500	16,665	23,600	33,315	0.8%
Sporting Events	18,432	29,946	26,420	26,665	13.1%
Tradeshows	5,560	10,800	24,600	21,784	57.6%
Other	3,160	19,865	11,946	17,227	76.0%
Total	**272,753**	**231,991**	**289,828**	**287,011**	**1.7%**

* Compounded Annual Growth Rate
Source: Albuquerque Convention Center

REVENUE & EXPENSES: In 2012, the ACC generated $2.8 million in revenues, and incurred $4.0 million in expenses, resulting in a net operating deficit of $1.2 million. With slightly fewer attendees than 2011, the ACC recorded 15 percent less revenue and 5 percent less in expenses. Areas experiencing revenue declines include Rental Income, F & B Catering, Parking, Electrical Services, Audio Visual, and Other Income.

Table 3-8

Albuquerque Convention Center Revenue & Expense Statement (2011-2012) ($'000s)		
	2011	2012
Operating Revenue		
Rental Income	$1,000	$954
Service Revenue	184	186
Service Expense	(340)	(339)
F & B Concessions	291	391
F & B Catering	1,656	1,147
Novelty Sales	3	11
Parking	1	0
Electrical Services	191	169
Audio Visual	280	240
Internet Services	18	25
Advertising	2	23
Other Income	2	1
Total Revenue	$3,288	$2,809
Operating Expenses		
Salaries & Wages	$2,119	$2,003
Payroll Taxes & Benefits	506	472
Event Labor Costs	(560)	(534)
Contracted Services	260	260
General & Administrative	221	205
Operating	107	121
Repairs & Maintenance	170	302
Operational Supplies	208	187
Insurance	99	94
Utilities	772	801
Other	10	10
SMG Management Fee	300	208
Allocated Expenses	(34)	(147)
Total Expenses	$4,179	$3,982
Net Operating (Deficit)	**($891)**	**($1,173)**

Source: Albuquerque Convention Center

FUNDING: To fund Phase I of the ACC's renovation project, the City of Albuquerque issued $20 million in bonds, which effectively refinanced the existing $69.8 million debt on the ACC. The bonds are serviced through a 5 percent lodger's tax and a 1 percent hospitality tax from metro lodging establishments.

OBSERVATIONS: Albuquerque is a primary competitor of the TCC and an interesting paradigm has developed. Tucson is the nicer and more year-round destination but Albuquerque has the nicer convention center. The overall appeal of Tucson is great as a tourism destination but the quality of facilities and management of the TCC has hindered it from becoming a more sought after convention and top tier arena facility for entertainment and music acts.

Table 3-9

Comaprison of TCC & Albuquerque CC

	Tucson	Albuquerque
Convention Events	242	272
Convention Attendance	172,908	287,011
Arena Events	320	-
Arena Attendance	282,655	-
Net Operating Income	($1,917,000)	($1,172,000)
# Hotels within Walking Distance of Facility	0	7
# Hotel Rooms within Walking Distance of Facility	0	1,378
Convention and Visitor Bureau Budget	$7 million	$7 million

Source: Respective Facility, Johnson Consulting

Albuquerque had both greater event demand and attendance for the convention center, as well as a smaller operating subsidy requirement. Tucson is also at a disadvantage regarding hotels within walking distance. As the $20 million in facility upgrades at the ACC open, the TCC will face increasing competition from Albuquerque.

PALM SPRINGS CONVENTION CENTER

PALM SPRINGS, CA

LOCATION: Built in 1988, the Palm Springs Convention Center ("PSCC") is located in downtown Palm Springs, California. Originally sized at 111,000 square feet, the City of Palm Springs expanded the facility by 47,000 square feet in 1992. In the fall of 2005, the PSCC underwent a $32 million renovation and expansion to its current size of 261,000 gross square feet.

OWNERSHIP/ MANAGEMENT: The PSCC is owned by the City of Palm Springs and operated by SMG. The Palm Springs CVB has a significant role in booking events at the PSCC.

VISION/ MISSION: Built on the slogan "Like no place else" because of its temperate climate, scenic views, and relaxing and rejuvenating atmosphere, the PSCC strives to provide a memorable meeting venue.

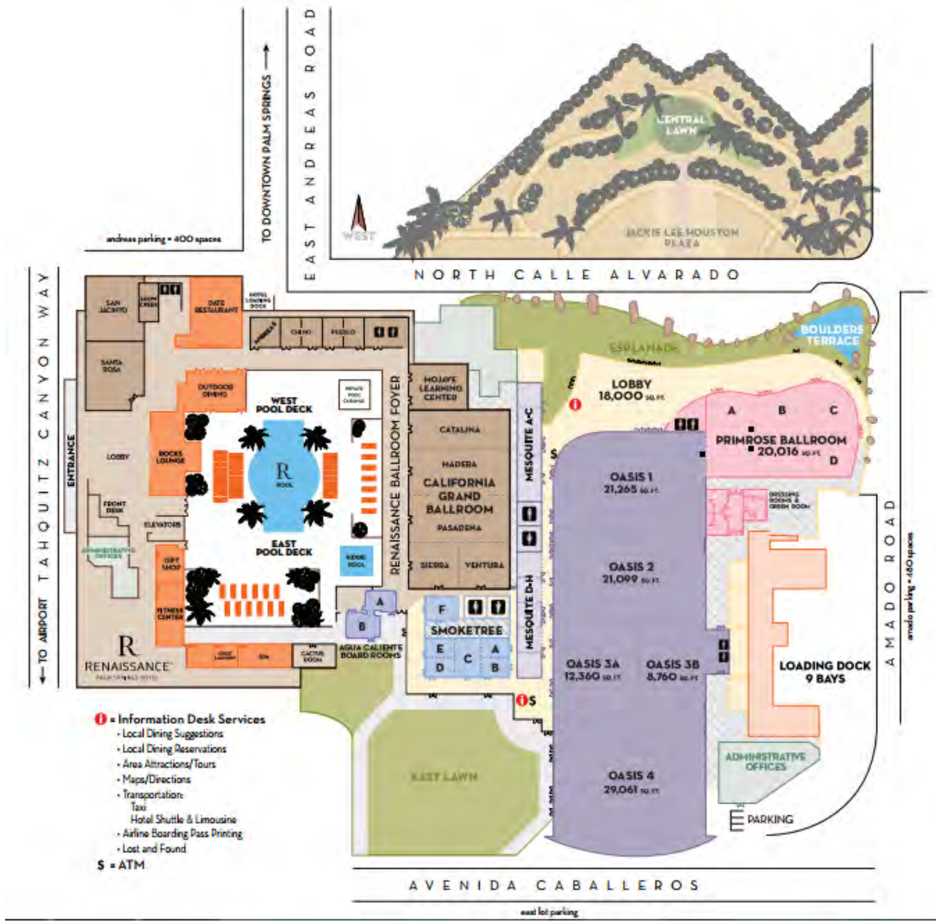
FACILITIES: Facilities at the PSCC include over 123,000 square feet of meeting space. The following table provides a breakdown of meeting and event space at the PSCC.

Table 3-10

Palm Springs Convention Center Summary of Exhibit and Meeting Space	Size (SF)		Capacity (# of Persons)		
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet
Oasis Halls					
Oasis Hall 1	21,265	-	2,126	1,417	1,180
Oasis Hall 2	21,099	-	2,110	1,407	1,170
Oasis Hall 3	21,120	-	2,112	1,408	1,170
Oasis Hall 4	29,061	-	2,906	1,937	1,610
Total Exhibit Hall SF		92,545	9,524	6,169	5,140
Primrose Ballroom					
A	6,337	-	528	352	350
B	7,669	-	639	426	420
C	2,825	-	235	157	160
D	3,185	-	265	177	180
Total Ballroom SF		20,016	1,668	1,112	1,110
Meeting Rooms					
Number of Rooms	16	4	-	-	-
Smallest Room	412	-	-	10	-
Largest Room	-	4,680	324	224	200
Subtotal Meeting Room SF		15,789			
Total		**128,350**			

Source: Palm Springs, Johnson Consulting

The following figure provides the floorplan of the PSCC.



DEMAND SCHEDULE: Table 3-11 summarizes event demand and attendance at the PSCC in FY 2013. The PSCC had a total of 106 events and 131,970 event attendees with the largest event categories being consumer shows, tradeshows and conventions.

Table 3-11

Palm Springs Convention Center
FY 2013 Summary of Event Demand & Attendance

	Banquet	Consumer	Concert	Convention	Meeting	Sporting	Tradeshow	YTD TOTAL
Number of Events	14	17	4	12	36	5	18	106
Attendance	6,590	46,175	7,500	17,659	9,146	9,850	35,050	131,970

Source: Palm Springs Convention Center, Johnson Consulting

REVENUE & EXPENSES: The PSCC registered $1.9 million in revenue and $3.8 million in expenses in 2012, resulting in a net operating deficit of $1.8 million. While total revenue grew by 1 percent from 2011, expenses also grew by 5 percent. The majority (95 percent) of PSCC's revenue stems from Rental Income, followed by Service Revenue, and Catering. In 2012, the SPCC recorded a slight decline in Rental Income (5 percent) and Catering (6 percent) and recorded an increase in Service Revenue (12 percent). Over half (57 percent) of PSCC's expenses relate to Employee Wages & Benefits, which grew by 7 percent from 2011 to 2012.

Table 3-12

Palm Springs Convention Center Revenue & Expense Statement (2011-2012) ($'000s)		
	2011	**2012**
Operating Revenue		
Rental Income	$867	$821
Service Revenue	470	525
Service Expense	(381)	(425)
A/V	89	128
Concessions & Bar	78	120
Catering	535	501
Parking	45	57
Other	76	53
Outside Catering	95	102
Other Income	50	60
Total Revenue	$1,924	$1,943
Operating Expenses		
Employee Wages & Benefits	1,998	2,137
Contracted Services	303	347
Operating Expenses	24	23
Repairs & Maintenance	127	103
Supplies	35	81
Insurance	42	50
Utilities	482	409
Marketing & Public Relations	177	198
Admin Expenses	129	140
SMG Management Fee	298	204
Depreciation	50	63
Total Expenses	$3,665	$3,755
Net Operating (Deficit)	**($1,741)**	**($1,812)**

Source: Palm Springs Convention Center

FUNDING: The facility's 1992 expansion was financed through $50.7 million in bond issuance by the City of Palm Springs. For PSCC's 2005 expansion, the City issued $62.4 million in bonds to support the project. To help service its debt, the voters in Palm Springs approved ballot measures to increase the City's transient occupancy tax rate in both November 2001 and November 2003. The City's current transit occupancy tax rate is 13.5 percent for Group Meeting hotels and 11.5 percent for all other hotels.

OBSERVATIONS: The Palm Springs Convention Center and the Palm Springs area have significant destination appeal and its proximity to Los Angeles is also material in its demand profile. If the TCC had higher quality facilities and hotel rooms in closer proximity it would be able to capture market share from Palm Springs.

Table 3-13

Comaprison of TCC & Palm Springs Convention Center

	Tucson	Palm Springs
Convention Events	242	106
Convention Attendance	172,908	131,970
Arena Events	320	-
Arena Attendance	282,655	-
Net Operating Income	($1,917,000)	($1,811,000)
# Hotels within Walking Distance of Facility	0	8
# Hotel Rooms within Walking Distance of Facility	0	1,627
Convention and Visitor Bureau Budget	$7 million	$10.8 million

Source: Respective Facility, Johnson Consulting

From a head to head perspective, TCC has more convention events and higher convention attendance, however the PSCC generates more room nights than the TCC, over 35,000 attributable to the CVB effort and in excess of another 10,000 attributable directly to the PSCC sales efforts. Annual operating deficits are comparable, with the PSCC having an annual deficit approximately $100,000 lower than the TCC. The Palm Springs CVB budget is significantly higher than the Tucson CVB and there are significantly more hotel rooms within close proximity to the PSCC.

SPOKANE ARENA AND CONVENTION CENTER CAMPUS

SPOKANE, WA

LOCATION: Located in downtown Spokane, the Spokane Arena opened in 1995 at a total cost of $62.6 million. The Arena was built on City-owned land to south of the original Coliseum. The Convention Center Campus, which includes Spokane Convention Center and the INB Performing Arts Center ("PAC"), is located to the south of the Arena, on the opposite side of Canada Island, adjacent to the Spokane River and 100-acre Riverfront

Park. The Convention Center Campus opened in 2006.

OWNERSHIP/ MANAGEMENT: The Arena, Convention Center and PAC are all owned and operated by the Spokane Public Facilities District ("SPFD"), which is a municipal corporation created in 1989 to "acquire, construct, own, and operate sports and entertainment facilities, with contiguous parking facilities".

A 5-member Board of Directors oversees the SPFD. Spokane City Council and the Board of Spokane County Commissioners are authorized to appoint 2 members each to the Board, and those 4 members are authorized to select 1 additional member. The legislation that created the Board specifies that 1 member must be a representative of the lodging industry within the County. A staff of 37 full-time employees is responsible for the day-to-day operation of the SPFD's facilities.

VISION/ MISSION: The SPFD's vision is to "create event experiences that make our guests say WOW!" Their mission statement is "to operate the finest public assembly facilities and provide the highest quality of Guest Services in a manner that ensure profitable operations and financial sustainability, returns value to the stakeholders, and maximizes economic impact to the Inland Northwest."

FACILITIES: The Arena, Convention Center, and Performing Arts Center are summarized as follows:

- **Spokane Arena:** An 11,661-seat multi-purpose arena, with a 17,000 square foot arena floor that can be increased to 32,000 square feet when retractable seating is removed. One configuration of the Arena creates the 5,900-seat Star Theatre. The Arena is home to the Spokane Chiefs of the Western Hockey League, and the Spokane Shock of the Arena Football League.

- **Spokane Convention Center:** The following table provides a breakdown of exhibit and meeting space at the venue.

Table 3-14

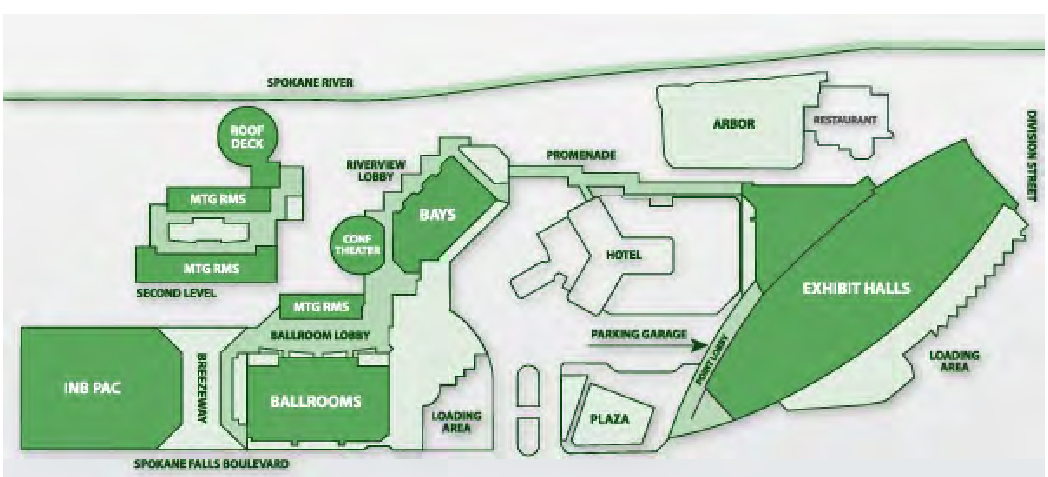
Spokane Convention Center and INB Performing Arts Center Summary of Exhibit and Meeting Space					
	Size (SF)		Capacity (# of Persons)		
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet
Exhibit Hall					
Hall A	33,470	-	2,781	1,900	2,150
Hall B	21,790	-	2,160	1,200	1,400
Hall C	27,510	-	2,750	1,600	1,800
Riverside	17,390	-	2,316	900	1,000
Subtotal Exhibit Hall SF		100,160			
Ballroom					
100A	8,370	-	840	456	530
100B	8,570	-	900	520	570
100C	8,370	-	830	456	530
Subtotal Exhibit Hall SF		25,310			
Meeting Rooms					
Number of Rooms	22	10	-	-	-
Smallest Room	550	-	50	32	40
Largest Room	-	13,730	1,320	752	896
Subtotal Meeting Room SF		29,950			
Other					
Conference Theater	5,782	-	270		
Subtotal Other SF		5,782			
INB Performing Arts Center					
Theater	-	-	2,700		
Subtotal Theater SF		-			
Total		**161,202**			

Source: SPFD, Johnson Consulting"

- **INB Performing Arts Center:** A 2,700-seat performing arts venue.

The following figure provides an overview of facilities at the Convention Center Campus.

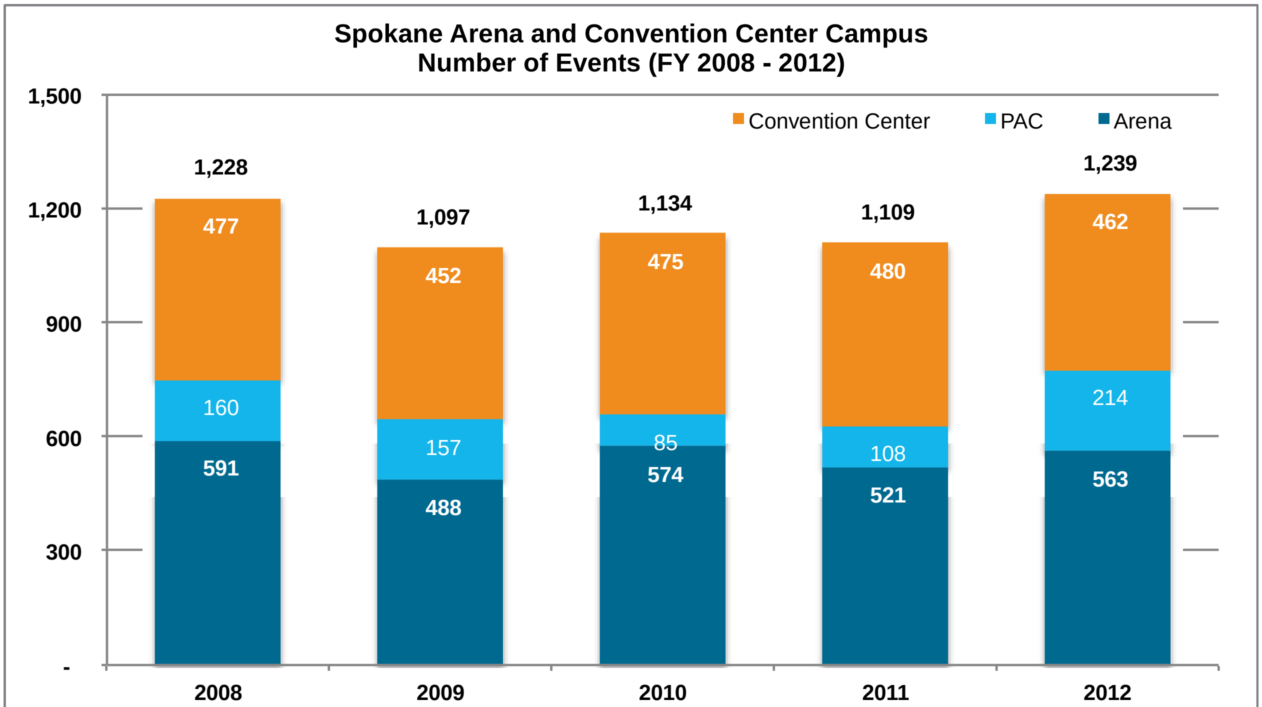
Figure 3-3



Plans to expand the Convention Center are currently underway, having reached the halfway point in June 2013. The proposed $55 million expansion will add 90,000 square feet exhibit hall, meeting room and support space. Construction commenced in late Summer 2013. As of September 2013, the SPFD approved a final sale and transfer of district owned property to a local development group to build a convention center hotel. The hotel will have 721 rooms, 900 parking spaces and a 19,000 square foot ballroom with a variety of breakout spaces. The structure of the deal also provides several benefits to the public, including a condominium interest in the parking garage, an annual payment to the SPFD of $400,000 with future escalation, and the new hotel will maximize the impact of the expanded convention center.

DEMAND SCHEDULE: In 2012, the Spokane Arena and Convention Center Campus hosted a total of 1,239 events, of which 45.4 percent were held at the Arena, 37.3 percent were held at the Convention Center, and 17.3 percent were held at the PAC. Between FY 2008 and FY 2012, the total number of events held at the Campus increased at an average annual rate of 0.2 percent, with positive growth recorded in the number of events held at the PAC (7.5 percent per annum), while events at the Arena and Convention Center declined at average annual rates of -1.2 percent and -0.8 percent, respectively. The following figure provides a breakdown of events by facility between FY 2008 and FY 2012.

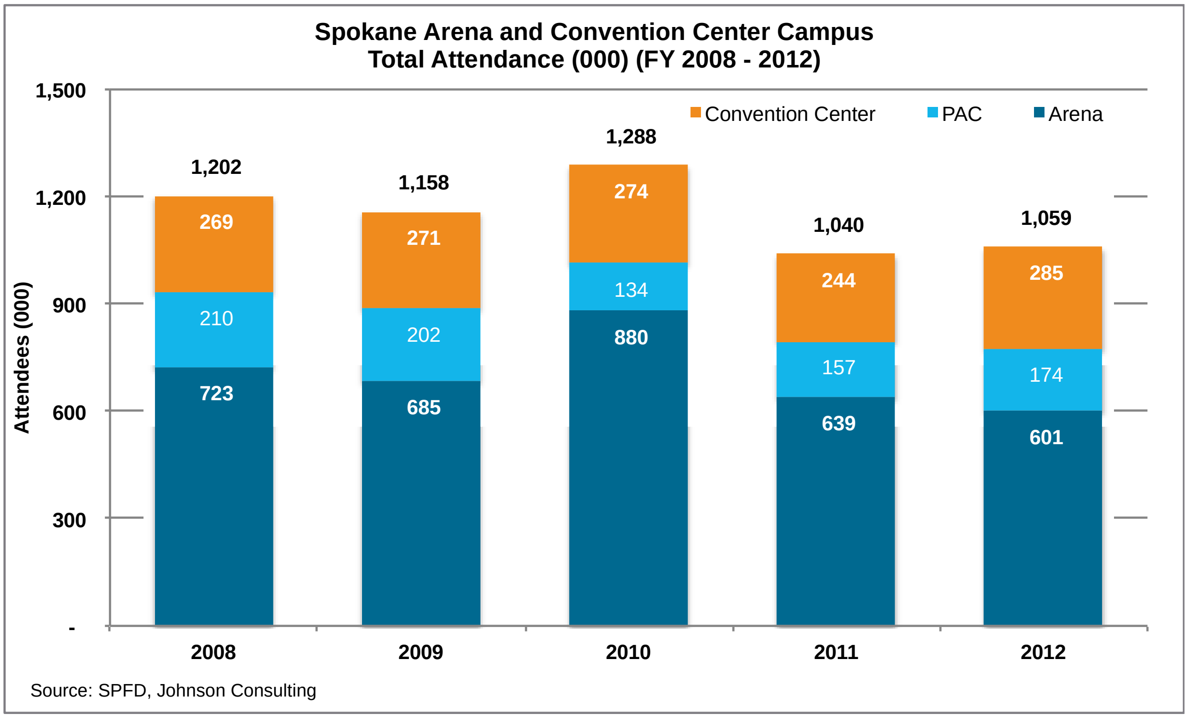
Figure 3-4



Source: SPFD, Johnson Consulting

In FY 2012, the Campus attracted a total of 1,059,329 attendees, representing a slight increase over the previous year of 1.9 percent. Notwithstanding this, total attendance at the Campus fell at an average annual rate of -3.1 percent between FY 2008 and FY 2012, driven by decreases in attendance at the Arena (-4.5 percent per annum) and PAC (-4.6 percent), while attendance at the Convention Center increased slightly by 1.4 percent per annum. The following figure provides a breakdown of total attendance by facility between FY 2008 and FY 2012.

Figure 3-5



In FY 2012, the predominant event type, as measured by total attendance, was Sports events, attracting a total of 425,617 attendees, followed by Community Events (174,092 attendees), and Conventions and Trade Shows (174,092 attendees). The following table provides a breakdown of total attendance, by event type, for FY 2012.

Table 3-15

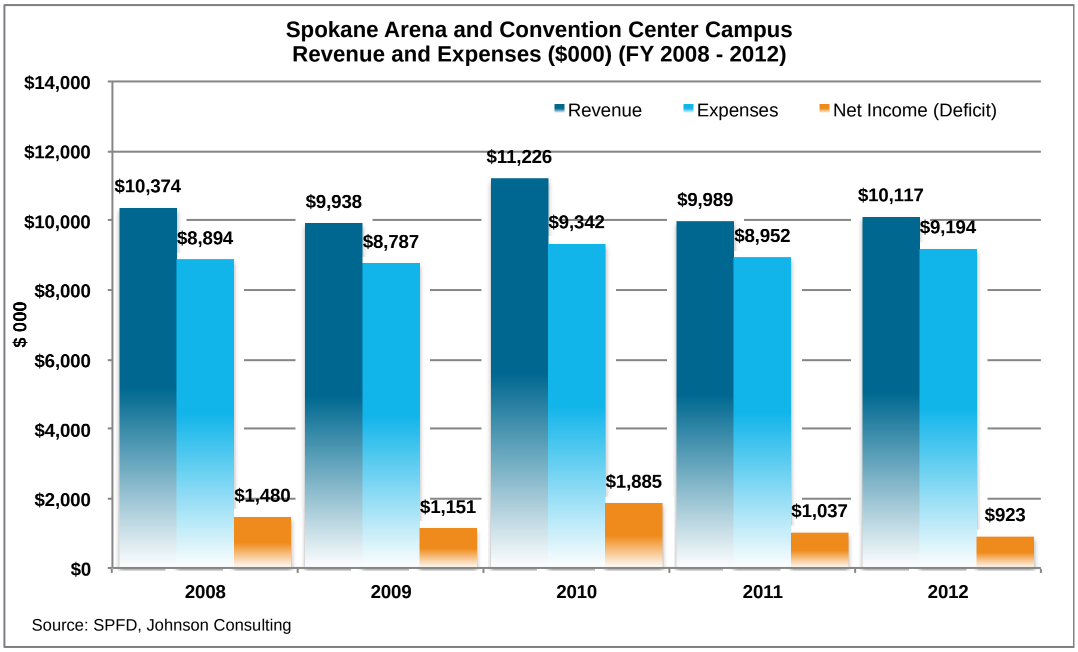
Spokane Arena and Convention Center Campus
Total Attendance by Event Type (FY 2012)

Event Type	Arena	PAC	Convention Center	TOTAL	
				# Attendees	% Attendees
Sports	396,555	0	29,062	425,617	40.2%
Community Events	62,531	56,162	55,399	174,092	16.4%
Conventions & Trade Shows	0	33,874	96,653	130,527	12.3%
Consumer Shows	0	0	82,570	82,570	7.8%
Family Shows	70,792	0	0	70,792	6.7%
Concerts	67,486	0	0	67,486	6.4%
Broadway Shows	0	59,988	0	59,988	5.7%
Other	3,842	23,543	0	27,385	2.6%
Meetings	0	0	20,872	20,872	2.0%
TOTAL	**601,206**	**173,567**	**284,556**	**1,059,329**	**100.0%**

Source: SPFD, Johnson Consulting

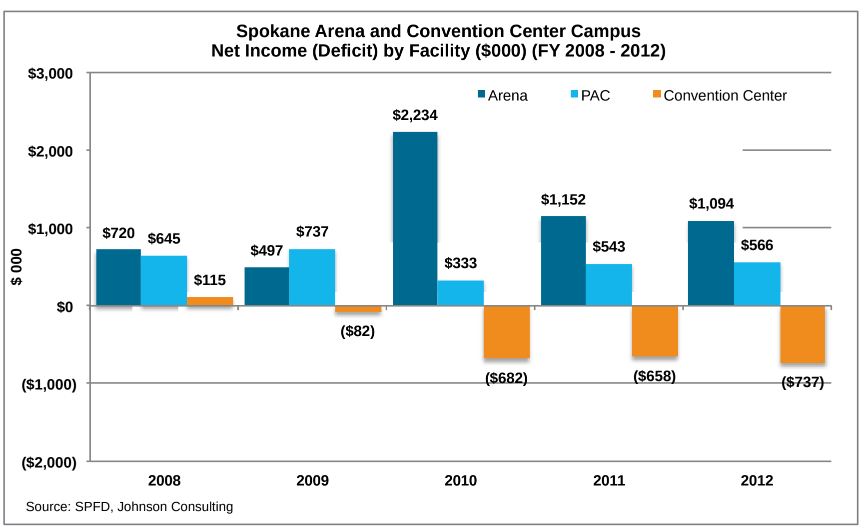
REVENUE AND EXPENSES: In FY 2012, the Spokane Arena and Convention Center Campus generated $10.1 million in revenues, and incurred $9.2 million in expenses, resulting in a net profit of $923,114. This continues the downward trend observed in net income since a peak of $1.9 million in FY 2010, reflecting a contraction of revenues (-5.1 percent per annum) at a faster pace than the contraction of expenses (-0.8 percent per annum) during the FY 2010 – FY 2012 period. The following figure shows revenues, expenses, and the resulting net income (deficit) at the Campus between FY 2008 and FY 2012.

Figure 3-6



At the facility level, the highest revenue generator at the Campus has consistently been the Arena, with total revenue of $5.1 million in FY 2012, compared to $3.5 million at the Convention Center, and $1.4 million at the PAC. The Arena has historically incurred the greatest expenses, although in FY 2012 the Convention Center recorded slightly higher expenses, of $4.3 million, compared to $4.0 million at the Arena, and $881,776 at the PAC. Both the Arena and the PAC achieved net profits in FY 2012 of $1.9 million and $565,821, respectively, while the Convention Center incurred a net deficit of $737,147. The following figure provides a breakdown of net income and deficits, by facility, between FY 2008 and FY 2012.

Figure 3-7



The following table provides a detailed breakdown of revenues and expenses at the Spokane Arena and Convention Center Campus in FY 2012.

Table 3-16

Spokane Arena and Convention Center Campus Revenue & Expense Statement (FY 2012) ($'000s)				
	Arena	PAC	Convention Center	TOTAL
Revenues				
Facilities Rental	$826	$333	$936	$2,095
Concessions/ Catering	1,097	71	587	1,755
Event Parking	517	104	17	621
Merchanidise	89	31	0	119
Event Miscellaneous	224	23	729	977
Advertising - Building	478	153	0	632
Suite Income	537	0	0	537
Club/ Membership	496	0	0	496
Box Office	266	130	4	399
Daily/ Pass Parking	158	383	17	558
Miscellaneous	13	2	8	22
Admission Tax	421	215	9	645
Lodging Tax	0	0	1,258	1,258
Forfeited Deposits/ Liquidated Damages	0	0	1	1
Total Revenues	$5,122	$1,445	$3,564	$10,114
Expenses				
Salaries & Benefits	$1,053	$326	$1,487	$2,866
Supplies	111	53	98	262
Contractual Services	945	242	1,658	2,844
Commissions	218	0	0	218
Hockey/ Football/ Co-Promotes	453	0	0	453
Utilities	569	92	547	1,208
Insurance	29	13	44	86
Advertising/ Marketing	104	6	38	148
Repairs & Maintenance	152	60	172	385
Suite & Club Tickets	197	0	0	197
Other Services & Charges	125	75	209	409
Taxes	72	15	31	118
Total Expenses	$4,028	$882	$4,284	$9,194
Net Income (Deficit)	**$1,095**	**$563**	**($721)**	**$920**

Source: SPFD, Johnson Consulting

As shown, the largest revenue generators across all three facilities are Facilities Rental, totaling $2.1 million in FY 2012, and Concessions/ Catering, totaling $1.8 million, which are typically the major revenue generators for facilities of this nature. A portion of Spokane County's 2 percent hotel/ motel tax supports Convention Center operations, accounting for $1.3 million in revenues in FY 2012. The largest expenses incurred by all three facilities relate to Salaries and Benefits, totaling $2.9 million in FY 2012, Contractual Services, totaling $2.8 million, and Utilities, totaling $1.2 million, which is consistent with the major expense items of similar facilities.

Not included in Table 3-16 are the direct administrative operating costs and expenditures of maintaining the SPFD. In 2012 administrative expenses of the SPFD amounted to $846,000, which is inline with the expenses of the District.

FUNDING: The construction and ongoing operation of the Spokane Arena and Convention Center Campus received funding from numerous sources, as follows:

- In 1990, Spokane County passed a 2 percent hotel/ motel tax on properties of 40 or more units to validate the SPFD. This tax still supports Convention Center operations, as discussed above.
- The City of Spokane and the County each issued $15.4 million in bonds in 1990 to preserve the tax-exempt status of the SPFD.
- One-tenth of 1 percent of sales tax was implemented in 1992 to complete financing for the Arena. The SPFD, City and County issued an aggregate total of $44.8 million in tax-exempt bonds.
- In 1995 the City issued $7.7 million in lease revenue bonds to fund demolition of the Coliseum and pay off a line of credit that was established to fund the City's acquisition of the Arena site.
- $77 million in SPFD bonds issued for the construction of the Convention Center are being retired through an extension of the hotel/ motel taxes approved in 1992, and through the State's contribution of a 0.33 percent tax rebate made available for SPFD projects.
- In 2012/2013, $55 million expansion funded by SPFD and public/private partnership for HQ Hotel.
- The SPFD continues to receive excess sales tax revenue, which is utilizes to improve the Arena and Convention Center Campus facilities.

OBSERVATIONS: Spokane offers a glimpse of what Tucson could have executed if the District had operated properly from the start of the District's life. The table below provides a side by side comparison of the destinations.

Table 3-17

Comaprison of TCC & Spokane Convention Complex	Tucson	Spokane
Convention Events	242	462
Convention Attendance	172,908	284,556
Arena Events	320	563
Arena Attendance	282,655	601,206
Net Operating Income	($1,917,000)	$920,000
# Hotels within Walking Distance of Facility	0	16
# Hotel Rooms within Walking Distance of Facility	0	2,588
Convention and Visitor Bureau Budget	$7 million	$4.2 million

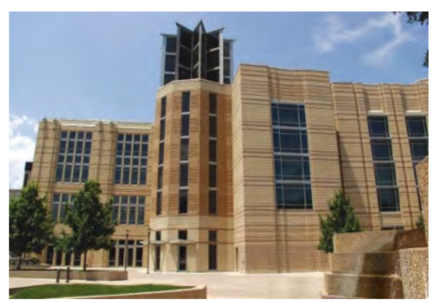
Source: Respective Facility, Johnson Consulting

Spokane has more than double the volume of convention events and significantly higher convention attendance, arena events and attendance. Spokane also makes a profit of over $900,000 given the positive cash flows from the Arena and PAC, while the TCC lost more than $1.9 million in 2012. The hotel supply within walking distance of the Spokane facility is significantly better than in Tucson. The Tucson CVB budget is $2.8 million greater than Spokane's CVB budget.

The management, oversight and thoughtfulness of the SPFD is a good example for the TCC, COT and the District as the TCC management structure is thought about and also provides a sense of scale required to execute a first class convention center and hotel project.

FORT WORTH CONVENTION CENTER

FORT WORTH, TX



LOCATION: Located in downtown Fort Worth, the Fort Worth Convention Center ("FWCC") opened in 1968. The City of Fort Worth purchased the FWCC from Tarrant County in 1997 and subsequently renovated and expanded it in 2002-03, at a total cost of $75.0 million.

OWNERSHIP/ MANAGEMENT: The FWCC is owned by the City of Fort Worth and operated by the City's Public Events Department, which also oversees operations at the Will Rogers Memorial Center in the Cultural District of downtown Fort Worth. The FWCC has no Board oversight, with the staff of 59 full-time employees reporting directly to the City Manager's office.

VISION/ MISSION: With a convenient downtown location within close proximity to hotels, restaurants and entertainment, and a wealth of state-of-the-art business technologies, the FWCC seeks to provide successful meetings.

FACILITIES: Facilities at the FWCC include over 270,000 square feet of exhibit, ballroom, and meeting space, along with an 11,200-seat arena. The following table provides a breakdown of meeting and event space at the FWCC.

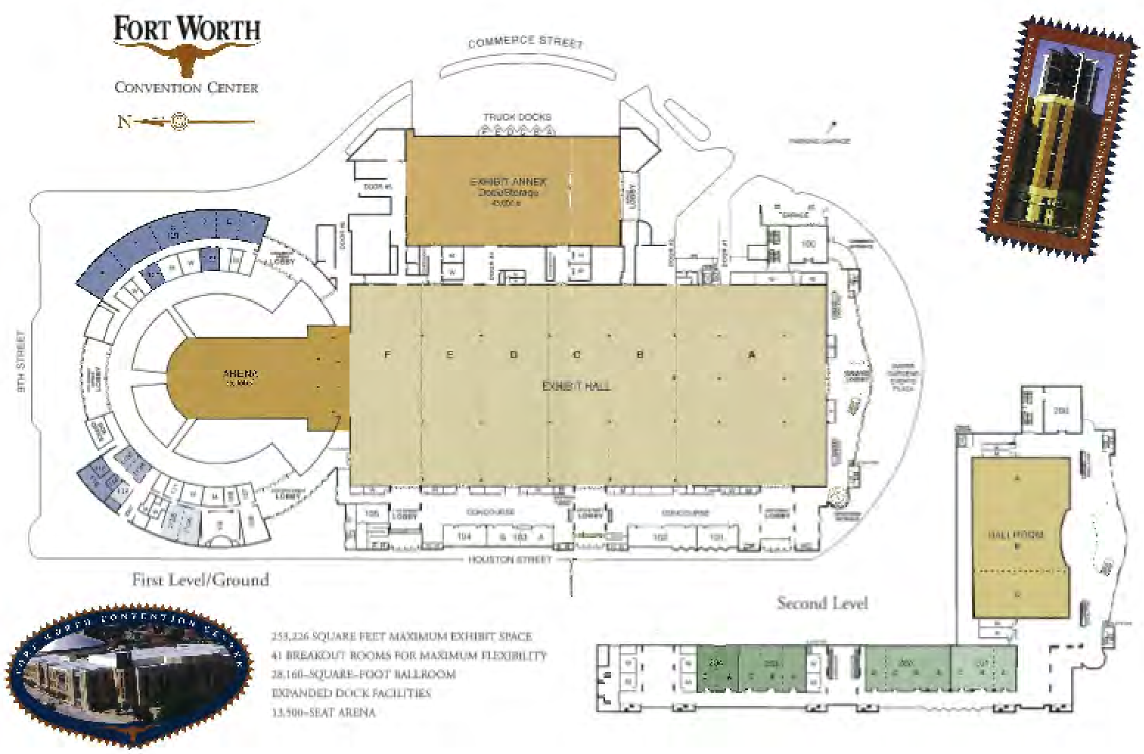
Table 3-18

Fort Worth Convention Center Summary of Exhibit and Meeting Space						
	Size (SF)		Capacity (# of Persons)			
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet	# Booths
Exhibit Hall						
Hall A	56,508	-	5,600	4,000	3,288	280
Hall B	27,700	-	2,500	1,784	1,464	124
Hall C	22,160	-	2,500	1,784	1,464	124
Hall D	27,700	-	2,500	1,784	1,464	124
Hall E	22,160	-	2,500	1,784	1,464	124
Hall F	26,038	-	2,500	1,784	1,464	124
Subtotal Exhibit Hall SF		182,266				
Exhibit Hall Annex						
Hall A	12,900	-	1,290	920	752	60
Hall B	12,000	-	-	-	-	-
Hall C	7,350	-	-	-	-	-
Hall D	12,750	-	-	-	-	-
Subtotal Exhibit Hall SF		45,000				
Arena						
Arena		-	11,200	-	-	-
Arena Floor	25,960	-	2,596	1,476	1,336	125
Subtotal Arena Floor SF		25,960				
Ballroom						
Ballroom A	8,192	-	930	504	480	45
Ballroom B	11,520	-	1,378	752	720	60
Ballroom C	8,192	-	930	528	480	45
Subtotal Ballroom SF		27,904				
Meeting Rooms						
Number of Rooms	41	25	-	-	-	-
Smallest Room	483	-	44	24	24	-
Largest Room	-	6,670	667	416	400	-
Subtotal Meeting Room SF		56,486				
Total		**337,616**				

Source: FWCC, Johnson Consulting

The following figure provides the floor plan of the FWCC.

Figure 3-8



It is understood that the City imminently plans to explore the feasibility of removing the arena to allow for the additional meeting space, as well as the possibility of a headquarters hotel.

DEMAND SCHEDULE: In 2012, FWCC hosted a total of 488 events, of which the vast majority (87.1 percent) were Meetings, Banquets, or Receptions. Between FY 2009 and FY 2012, the total number of events held at the FWCC increased slightly at an average annual rate of 0.1 percent, while total attendance fell by 9.0 percent. The following table provides a breakdown of events and attendance, by event type, between FY 2009 and FY 2012.

Table 3-19

Fort Worth Convention Center Number of Events by Event Type (FY 2009-2012)					
Event Type	**2009**	**2010**	**2011**	**2012**	**CAGR***
Conventions	39	45	43	43	3.3%
Concerts	4	5	3	3	(9.1%)
Conferences	9	7	6	6	(12.6%)
Consumer Shows	8	9	5	8	0.0%
Family Events	4	4	3	3	(9.1%)
Meetings, Banquets, Receptions	423	442	455	425	0.2%
Total	**487**	**512**	**515**	**488**	**0.1%**

** Compounded Annual Growth Rate*
Source: FWCC, Johnson Consulting

Fort Worth Convention Center Total Attendance by Event Type (FY 2009-2012)					
Event Type	**2009**	**2010**	**2011**	**2012**	**CAGR***
Conventions	383,163	277,412	237,887	453,074	5.7%
Concerts	19,844	16,129	19,832	9,584	(21.5%)
Conferences	2,514	6,696	3,797	6,526	37.4%
Consumer Shows	205,604	231,550	205,818	69,433	(30.4%)
Family Events	30,568	65,607	47,539	49,390	17.3%
Meetings, Banquets, Receptions	411,893	378,251	472,002	207,010	(20.5%)
Total	**1,053,586**	**975,645**	**986,875**	**795,017**	**(9.0%)**

** Compounded Annual Growth Rate*
Source: FWCC, Johnson Consulting

REVENUE & EXPENSES: In FY 2012, the FWCC generated $4.3 million in revenues, and incurred $9.9 million in expenses, resulting in a net operating deficit of $5.5 million. This represents a slight improvement over FY 2011, when the FWCC incurred a net operating deficit of $6.0 million. The following table provides a detailed breakdown of revenues and expenses at the FWCC for FY 2011-2012.

Table 3-20

Fort Worth Convention Center Revenue & Expense Statement (FY 2011 - 2012) ($'000s)		
	2011	**2012**
Operating Revenues		
Commercial Exhibit Building	$2,131	$2,099
Concessions	442	296
Recovery of Labor	134	144
Miscellaneous	565	696
Equipment Rental	33	33
Merchandise Commission	13	6
Catering	1,314	1,050
Total Operating Revenues	$4,631	$4,325
Operating Expenses		
Personnel	$3,690	$4,043
Supplies	299	383
Contractual	6,422	5,435
Capital Outlay	197	0
Tota Operating Expenses	$10,608	$9,860
Net Operating Income (Deficit)	**($5,976)**	**($5,535)**

Source: FWCC, Johnson Consulting

As shown, the largest revenue generator at the FWCC is building rent (Commercial Exhibit Building), totaling $2.1 million in FY 2012, followed by Catering, totaling $1.0 million, which are typically the major revenue generators for facilities of this nature.

FUNDING: The FWCC is supported by the City's Culture and Tourism Fund, which "promotes increased economic activity through visitor spending generated by events held at the FWCC and the Will Rogers Memorial Center." The Fund receives financing from two primary revenue sources – 1) Hotel/motel occupancy tax, and 2) Dallas/ Fort Worth car rental revenue share. In FY 2012, the Fund received $24.8 million in revenues from these two sources, and allocated $36.0 million to its events and facilities.

OBSERVATIONS: The City of Ft. Worth has a well run convention complex and has higher total attendance compared to the TCC but fewer total events, indicating the quality of event is greater in Ft. Worth. The operating deficit in Ft. Worth is significantly higher than in Tucson but when the $3.7 million rent payment is factored in, the TCC subsidy requirement is comparable to the total obligation of each city.

Table 3-21

Comaprison of TCC & Ft. Worth Convention Complex		
	Tucson	**Ft. Worth**
Total Events	562	488
Total Attendance	455,563	795,017
Net Operating Income	($1,917,000)	($5,535,000)
# Hotels within Walking Distance of Facility	0	10
# Hotel Rooms within Walking Distance of Facility	0	3,007
Convention and Visitor Bureau Budget	$7 million	$7.1 million

Source: Respective Facility, Johnson Consulting

The FWCC has significantly more annual attendance and a significant competitive advantage in hotel supply within proximity to the convention center.

PHOENIX CONVENTION CENTER

PHOENIX, AZ

LOCATION: Located in downtown Phoenix, the Phoenix Convention Center ("PCC") opened in 1972. It has tripled in size since undergoing multiple renovations, including a multi-phased $600 million expansion project that was completed in 2008. The design of the convention center was inspired by the Arizona landscape.

OWNERSHIP/ MANAGEMENT: The PCC is owned by the City of Phoenix operated by the Phoenix Convention Center Department. The City of Phoenix and the State of Arizona split the $600 million cost of the complex with the State share expected to be paid back through an increase in collected tax revenues from the expanded facility.

VISION/ MISSION: The Convention Center is the centerpiece of a Downtown Phoenix revitalization project and aims to bring new life and economic activity to the Downtown area.

FACILITIES: Facilities at the PCC include over 900,000 square feet of meeting and pre-function space. The following table provides a breakdown of meeting and event space at the PCC.

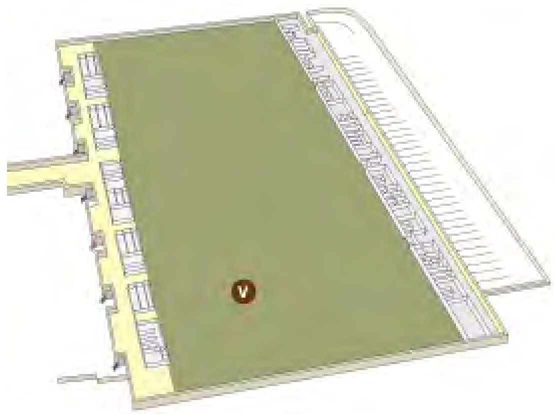
Table 3-22

Phoenix Convention Center Summary of Exhibit and Meeting Space	Size (SF)		Capacity (# of Persons)		
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet
North Building Ex Hall 300 Level					
Hall A	48,600	-	3,960	2,672	1,890
Hall B	27,900	-	1,000	1,000	1,000
Hall C	27,900	-	1,000	1,000	1,000
Hall D	27,900	-	1,000	1,000	1,000
Hall E	57,700	-	4,000	3,325	2,410
Subtotal Ex Hall 300 Level	-	190,000	10,960	8,997	7,300
North Building Ex Hall Lower Level					
Hall 1	43,000	-	-	-	-
Hall 2	21,600	-	-	-	-
Hall 3	21,600	-	-	-	-
Hall 4	123,500	-	-	-	-
Hall 5	33,500	-	-	-	-
Hall6	69,300	-	-	-	-
Subtotal Ex Hall Lower Level	-	312,500	-	-	-
South Building Ex Hall 100 Level					
Hall F	48,000	-	4,200	3,000	2,700
Hall G	34,000	-	3,800	2,800	1,900
Subtotal Ex Hall South Building	-	82,000	8,000	5,800	4,600
Total Exhibit Hall SF		**584,500**	**-**	**-**	**-**
North Ballroom					
A	15,000	-	4,200	2,750	2,470
B	7,800	-	740	450	380
C	7,800	-	740	450	380
D	15,000	-	4,200	2,750	2,470
Subtotal North Ballroom	-	45,600	9,880	6,400	5,700
South Ballroom					
South Ballroom	28,000	-	2,989	2,112	1,700
Subtotal South Ballroom	-	28,000	-	-	-
West Ballroom					
A	14,800	-	1,464	876	700
B	5,000	-	384	324	220
C	10,000	-	942	577	450
D	15,400	-	1,504	884	700
Subtotal West Ballroom	-	45,200	4,294	2,661	2,070
Total Ballroom SF		**118,800**	-	-	-
Meeting Rooms					
Number of Rooms	105	42	-	-	-
Smallest Room	277	-	-	-	-
Largest Room	-	17,000	2,230	1,282	1,020
Subtotal Meeting Room SF		162,655			
Total		**865,955**			

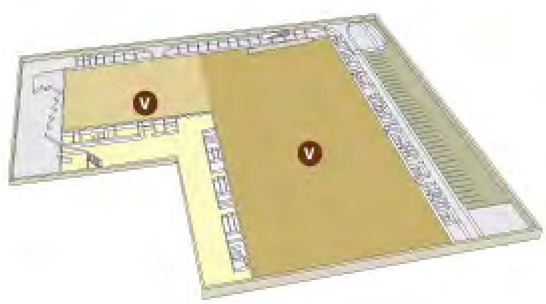
Source: PCC, Johnson Consulting

The following figures provide the floor plan of the multiple buildings that makeup the PCC.

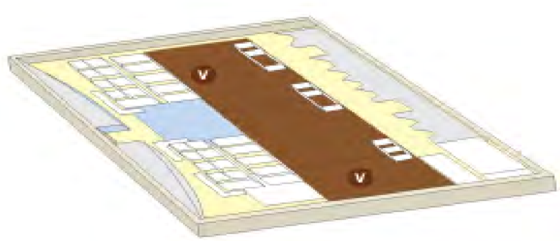
North Building Hall Level 300



North Building Hall Lower Level



South Building Hall 100



DEMAND SCHEDULE: In 2012, PCC hosted a total of 387 events, of which over 32 percent were Meetings and 7 percent were Banquets. Between FY 2008 and FY 2012, the total number of events held at the PCC contracted at an average annual rate of 3.6 percent, driven primarily by a decline in the number of Special Events (-18.9 percent per annum), Meetings (-6.7 percent), and Consumer Shows (-7.9 percent). Over that period, 8 of the 18 event types expanded, including Local Trade Shows that grew at 28.2 percent and Banquets by 10.2 percent.

Table 3-23

Phoenix Convention Center
Number of Events by Event Type (FY 2008-2012)

Event Type	2008	2009	2010	2011	2012	CAGR**
Banquet	19	20	24	20	28	10.2%
Competition	10	13	16	14	16	12.5%
Concert	52	65	40	45	41	-5.8%
Conference	1	1	3	0	4	41.4%
Consumer Show	25	24	25	19	18	-7.9%
Convention	9	12	9	10	14	11.7%
Convention with Exhibits	48	49	32	41	42	-3.3%
Dance	4	11	4	3	2	-15.9%
Graduations	21	25	23	17	18	-3.8%
Job fairs	3	2	1	1	2	-9.6%
Local Trade Show	10	33	23	29	27	28.2%
Meeting	165	153	164	164	125	-6.7%
Reception	6	13	8	9	8	7.5%
Special Event	30	8	14	12	13	-18.9%
Stage Production	35	35	39	28	29	-4.6%
Trade Show	11	0	2	0	0	-100.0%
TOTAL	**449**	**464**	**427**	**412**	**387**	**-3.6%**

*** Compounded Annual Growth Rate*
Source: FWCC, Johnson Consulting

FUNDING: The $600 million renovation project was funded by the City of Phoenix and the State of Arizona, with both entities contributing $300 million to the project. As previously stated, the State of Arizona is anticipating having its share of the cost paid back through increased tax revenue collections.

OBSERVATIONS: The Phoenix Convention Center expanded to one of the 25 largest convention venues in North America and includes the largest ballroom in Arizona. Its stacked floor plans allow for a wide variety of meeting/ breakout rooms and central location places it within walking distance of several hotels, as well as shopping, entertainment and sports venues. As the center of a Downtown revitalization, the PCC will have to turn around the decline in events it has experienced over the last five years in order to drive economic activity in Downtown Phoenix and serve in the capacity it was intended to.

BENCHMARK CONCLUSIONS

As the case studies indicate, the TCC performs poorly in terms of design and performance in comparison to its national competitors. By default, the TCC has historically generated fairly competitive event demand in the past due to the lack of alternative meeting facilities present in the market, with this demand skewing towards more local and regional demand in comparison with attendee origin of the competitive set, as is indicated the overall room night generation of the TCC. The three primary factors inhibiting the enhanced performance of the TCC are the current operational structure of the facility, the quality of the facilities, and the lack of hotel rooms to support the facilities.

OPERATIONAL STRUCTURE

The benchmark analysis specifically highlights the deficiencies related to the current management of the TCC. The inability of convention facility management to gather, summarize and analyze data regarding event attendance, demand, and detailed revenues and expenses indicates that the facility is not currently managed at nationally acceptable standards. Although the TCC was a primary focus of our analysis, it was the last facility/personnel group to provide operating information. This was not due to intent to withhold information, but instead due to the relative unavailability of data at a level of specificity normally seen within the industry and at comparable facilities. This general unavailability of detailed data inhibits targeted marketing efforts employed by other facilities in order to secure a significant share of the available convention and tradeshow market and drive revenue generation.

In consideration of the analyses performed related to Spokane, Ft. Worth and Palm Springs, there are three primary operating models that could be applied to the TCC to foster performance improvement.

1. In Spokane, the facilities are operated by a public facilities district, which is overseen by a five-member board of directors that has representation from the city, county and the hospitality industry. This approach has removed direct involvement from the city or county in the operations of the facility, and has also added the insight of the hospitality community to the board of directors. Accordingly, the approach successfully blends perspectives of the community directly impacted by the facility, as well as hospitality professionals with requisite industry knowledge.

2. Ft. Worth offers an example of a well-run facility that is directly operated by a City. As described earlier, Ft Worth has achieved status as a professionally run facility by forming a management team that has significant industry experience with facility operations, sales and marketing, food service and additional areas that contribute to operational success.

3. A final example of successful facility operations for consideration can be found in Palm Springs and Albuquerque where the City owns the facility and has contracted with a private management company to oversee and execute day-to-day operations. This approach accesses the industry expertise related to facility operations provided by the management company, but still requires consistent and active participation by the City to ensure the facility is meeting its sales and attendance thresholds to achieve professional status and market competitiveness.

   A variation of the City oversight/private management model, as found in Palm Springs and Albuquerque, and not included in the Benchmark Analysis but important for consideration, is the authority structure that oversees McCormick Place in Chicago, IL. The Metropolitan Pier and Exposition Authority (MPEA) owns and provides oversight of the McCormick Place complex and Navy Pier. It is comprised of both City of Chicago and State of Illinois board members. In order to carry out its general responsibilities for both facilities, the MPEA is empowered to execute labor and management contracts, possess and acquire facilities, lease out the facilities-including occupancy and concession agreements, and fix and collect rental rates for use of the facilities. It just privatized operations of McCormick Place to SMG, with the MPEA now acting in a more focused oversight role, where previously it was responsible for daily operation of McCormick Place. Prior to this transition, MPEA was mired in dealing with Labor disputes and other challenges arising from operation of the convention center that prevented it from focusing on broader strategic objectives. Now the MPEA is free to focus on the strategic objectives of the facility and to establish the operating benchmarks that the private management company is obligated to meet. Since the MPEA has transferred operation to SMG, the MPEA has revamped its efforts to execute a significant real estate strategy and is seeking to build a new 12,000-seat arena, new 1,200-room hotel and an entertainment district in the Motor Row neighborhood adjacent to McCormick Place. This type of authority configuration merits investigation by the District, COT and the State of Arizona as an alternative to the current structure regarding oversight of the facility.

DESIGN AND CAPITAL CONSIDERATIONS

As indicated in the analysis of the Ft. Worth Convention Center, older convention facilities can be revitalized and achieve success in the current marketplace. The TCC faces challenges not only related to its age, but also as a result of inadequate investment and facilities upgrades over the years. It is outside of the scope of our services to provide a specific cost estimate for the needed improvements to the TCC; however consideration should be given to the fact that a comparable facility such as the Ft. Worth Convention Center was expanded and upgraded in 2002-2003 for a cost of $75 million. Furthermore, the current Spokane Convention Center expansion is projected to be $55 million, and can also be reviewed on a comparative basis to assess the potential capital required to sufficiently upgrade the TCC.

Unlike the TCC, both the Spokane Convention Center and the Ft. Worth Convention Center provide for adjacent hotel facilities and/or hotel facilities within walking distance (see Table 3-1 - # Guest Rooms Directly Adjacent). Johnson Consulting has worked on a number of convention center hotel projects for nationally leading convention centers, and we believe a cost estimate for a 1st class convention center headquarters hotel is between $200,000 and $300,000 per room key. These figures include the entire cost of the hotel, including lobby space, restaurant, meeting space and all other support spaces. For markets of similar size to Tucson, a dedicated hotel could range in size from 300 to 500 rooms. This would result in a project cost for the hotel ranging from $60 million to $150 million, depending on size and quality level. Given the high cost of hotel construction, private developers often partner with the host municipality to develop the hotel. The significant costs associated with much needed hotel development to support the TCC should also be given thought by the District when considering an estimate for capital improvement requirements for the TCC. In addition to the need for supporting hotel facilities, the following items/issues should be given consideration by the District when developing a strategic vision and cost estimates related to the future of the TCC:

- The age of the TCC facilities and deferred maintenance issues currently existing.
- The current discrepancy in the number of annual convention events at the TCC in relation to comparative facilities like those in Spokane and Ft. Worth (see Table 3-1). Significant investment and improvement to the facilities is necessary to enhance regional competitiveness and attract more exhibitors and events.
- The need for significant additions and enhancements to exhibit space in order to meet the current and growing demands of the Gem show, which serves as a primary revenue source and tourist draw.
- The need to remain competitive with gaming facilities (casinos) in the greater Tucson area. These gaming facilities have made significant investments in hotel and event/arena development in recent years, thus providing new options to exhibitors and arena-style events visiting Tucson.

Given the expansion and upgrade costs of comparative facilities ($75 million - Ft. Worth Convention Center and $55 million - Spokane Convention Center), and in consideration of the unique issues noted above, it is reasonable to conclude that the total project costs to appropriately enhance the competitive standing of the TCC could exceed $100 million. Although any significant commitment of funds to the TCC is of assistance, investment in excess of $100 million is likely necessary to bring the facilities to a level that exceeds recognized design and performance standards, and achieves national competitiveness.

SECTION IV

RECOMMENDATIONS & LONG TERM STRATEGY

RIO NUEVO GOING FORWARD

It is clear that the TCC does not currently meet or exceed nationally recognized performance and design standards. This is due to the lack of a well-defined operational structure of the TCC, and the lack of significant capital investment needed to make the TCC competitive. The performance and operation of the TCC needs to be reformatted so that it is in line with national performance standards, including more detailed tracking of event demand, revenues and expenses, and a more sophisticated sales and marketing strategy. A longer-term strategy that addresses day-to-day management and long-term oversight of the TCC as a community asset is called for. It is also clear that the District's available resources are insufficient to fund capital improvements that would make the TCC and its surrounding hotel environment nationally competitive. Section 2 of this report identified accumulated cash on hand as of June 30, 2025 of approximately $54.2 million. As outlined in Section 3 of this report, it is our opinion that the investment requirement to make the TCC competitive is in excess of $100 million. This results in a minimum gap of approximately $46 million between estimated available cash and estimated required capital. This estimated shortfall seriously threatens the District's ability to make the TCC a nationally competitive facility.

TCC PERFORMANCE STRATEGY

Short-Term Strategy

In the immediate future, management of the TCC should consider the following recommendations:

- Improve demand, attendance and financial reporting for each venue so that it is clear what components of the campus are responsible for specific revenue and expense generation. Doing this will allow for more detailed comparison to the competitive set, including identification of specific revenue or expense line items that are inconsistent with comparable levels. It will also enable management to identify events or conventions that cost the facility significant money when they are held, and determine if the public benefit of the events outweigh their financial cost. This data does not exist today and the COT has limited ability to react to competitive changes, communicate the market's needs and opportunities, or operate the facility like a business.

- Track attendance for each of the event categories for the arena and the convention center. This will allow management, COT and the District to understand what events are having the most significant impact on tax revenue generation and hotel room night demand. It will also provide direction in terms of a more robust sales and marketing plan to target underperforming event categories.

- Fast track selection of a private management company. A private management company will help address the above two points and get the TCC caught up from an information-reporting standpoint. The magnitude of challenges related to improving the operations of the TCC, as a COT run enterprise, are too great given the lack of technical experience available to advise on day to day operations, as well as management standards and practices of nationally leading convention facilities. Management on site at the TCC is doing the best they can, but there is no framework for best practices for management, marketing and financial reporting.

Long-Term Strategy

A new operating approach should be considered for the TCC. Having one jurisdiction responsible for operations of the TCC (i.e., City of Tucson), while another is responsible for capital improvements (i.e., Rio Nuevo), disconnects the operations from capital improvement needs, and doesn't ensure that improvements made to the TCC are advancing its competitive position and causing the intended impacts in downtown Tucson. Different styles and quality of stewardship can, and have, evolved as administrations change, and the TCC has not been a priority in past administrations.

Right now, the COT has efforts in place to modify management at the TCC and has a good team overseeing this process. These efforts are subject to COT administrative policy. Good stewardship of the TCC is not institutionalized, and is subject to changing administration priorities.

The District should have participation in oversight of TCC operations to ensure it is properly managed and that the capital improvements made are serving the intended purpose. This mechanism needs to be further considered by the State, District and COT, with the assumption that a private management company will be brought in to run and operate the facility on a day-to-day basis. Having a private management company responsible for daily operations will help ensure that the facility is operating closer to national performance standards, and will supply the management information needed to make business decisions.

One would hope the District, or an alternative or supplemental tool be structured that puts the TCC as its purpose, has the capacity to execute the required operational and physical improvements, and then keep the venue in a nationally competitive status physically and operationally. This focus should include adjacent improvements, such as parking, hotel inducement, adjacent parks and sidewalks and other amenities, with the intent of making the TCC a better performing asset.

As discussed in the benchmarking section, there are stewardship models in place that accomplish the intent of the District better, notably the Spokane PFD, and the MPEA in Chicago. We would recommend an operating model similar to the MPEA where there is an oversight authority to protect the asset and purpose of the venue, and a private management company running direct operations. As it is beyond the scope of this performance audit, we have not formulated specific concepts on how to improve oversight of the TCC and monitoring of associated impacts from capital improvements, but intend for the examples in Section 3 of this report to serve as the starting point for this conversation.

GENERAL RIO NUEVO RECOMMENDATIONS

In regards to the design/capital requirements for the TCC we note that success of the TCC is key to the overall success of the District. Given the projected capital improvement gap of $46 million or more to make the TCC competitive from a design perspective, we provide the following observations and recommendations for consideration by the District as it works to achieve core objectives.

Long-Term Strategic and Capital Plan for the District

Given the challenges the District had to overcome over the past decade, we agree with the approach they took in focusing on solving outstanding issues before addressing new development projects. Now that the District has refocused its efforts, it is time to plan for the balance of the District's activities and we suggest developing a long-term strategic and capital spending plan that considers the following points:

- Revenues of all types (e.g., TIF, AC Hotel, Rent, etc., including incremental growth projections as the District is developed)
- Expenses (e.g., Operations and capital spending for the Primary Component and any secondary projects)
- Consider multiple scenarios (e.g., best case if District gets full funding from alternative sources vs. what the District would do if it only generates and receives the current projected revenues)

A formalized plan will give additional focus, and will identify the costs and potential revenues from District projects. It is also recommended that the District continue to pursue public/private partnership development opportunities, therefore leveraging private investment dollars to help significantly enhance the impact of the District.

District Revenue Collection and Monitoring

We recommend enhancing District monitoring activities in order to maximize TIF collections within the District, since TIF revenues are the core-funding source for the District and its projects. This would include the following:

- Accessing the most detailed collection information available, and identifying and analyzing trends to improve the accuracy of the budgeting and outreach processes.
- Enhancing communication between the ADOR, COT and the District.

- Continued outreach activities with businesses within the district.

A More Focused Approach

The concept behind the District was sound and still is of benefit to downtown Tucson, even though its first phase of life was not conducted as intended. The strategic focus of the District should be very simple and very clear: Make the TCC nationally competitive both physically and operationally in order to generate as much sales tax revenue in the District as possible. Historically, Rio Nuevo has been permitted to delve into areas much broader than the Primary Component, the TCC, which has depleted significant amounts of available funds and allowed the TCC to continuously decline in quality and competitive stature. A tighter reporting requirement for the District should be considered, thus requiring the District to continually justify its expenditures on improvements to the TCC and hotel development projects, based on criteria such as increased attendance, room night generation or sales tax collection potential.

A Thoughtful TIF District Tourism Plan

We see a vital neighborhood surrounding the convention center emerging. With more robust TCC facilities, we would also expect that demand would be more in line with the better performing convention and arena facilities, with the level of demand at the convention center generating more room night production and improved entertainment demand at the Arena. Right now, no specific business planning, projections or expectations for the Convention Center and Arena sectors have been developed by Rio Nuevo or the City, nor have hotel room targets or retail sales volume targets been set. Now that many of the deficiencies of the organization have been identified and addressed from the reorganization of the District in 2009, we would hope thoughtful benchmarks and targets would be established and serve as guides for the organization. They should be set, monitored, and adjusted annually based upon market realities.

If the above strategies are implemented, we believe the District can continue the recent positive momentum, and that Tucson may realize the benefits of an improved convention center and tourism future, spearheaded in part by the effective use of the District as a redevelopment tool.

THE FUTURE

With the above notions stated, there are core issues that threaten the key role of the District in bringing the TCC to required standards and revitalizing the downtown Tucson area. As the District is currently structured, neither the amount of time remaining in the District's legal life, nor the amount of estimated funding available at the District sufficiently support the required efforts that will make the TCC nationally competitive.

One strategic option available to the District at this time is to continue on the current path, simply keep operational overhead exceedingly low, and use the remaining life (through FY 2025) and potential unrestricted asset base (projected at $54.2 million) to make limited improvements to the TCC and strategic investments in the District. This approach may be a valid consideration if there are not legislative changes made to lengthen the life of the District or enhance the capacity for TIF collection procedures.

A second option may be to consider lengthening the life of the District and considering future alternative and supplemental funding sources (such as additional bonds) to improve the TCC and hotel supply, enhance collection capabilities and focus the District's mission as outlined above.

Regardless of which strategic option is selected for the District, the concept of the District is sound, and the District still provides potential for significant downtown Tucson revitalization and growth. If the District gives consideration to the issues and recommendations outlined above, and develops a robust strategic plan to execute required improvements, the TCC can achieve nationally competitive status and serve as a catalyst for overall District success.

APPENDIX

SUPPORT SCHEDULES

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Construction in Progress and Depreciable Assets - Schedule A (Table 1)
For the Period July 1, 2010 to June 30, 2013

	2010	Increases	Decreases	2011	Increases	Decreases	2012	Increases	Decreases	2013
Construction in Progress										
Mission Site/Origins Park	$ 806,399	$ 14,069	$ -	$ 820,468	$ -	$ (820,468)	$ -	$ -	$ -	$ -
Depot Garage	14,310,154	23,999	(631,767)	13,702,386	-	(13,702,386)	-	-	-	-
Civic Center: TCC Hotel	9,944,489	-	-	9,944,489	-	(9,944,489)	-	-	-	-
Civic Center: TCC Expansion	2,228,346	-	-	2,228,346	-	(2,228,346)	-	-	-	-
Civic Center: TCC East Entrance	4,607,870	-	(275,750)	4,332,120	-	(4,332,120)	-	-	-	-
Civic Center: TCC Parking Garage	1,615,804	-	-	1,615,804	-	(1,615,804)	-	-	-	-
Tucson Convention Center	-	-	-	-	-	-	-	101,547	-	101,547
Westside & Arena Lot	-	-	-	-	-	-	-	43,374	-	43,374
	33,513,062	38,068	(907,517)	32,643,613	-	(32,643,613)	-	144,921	-	144,921
Land	9,248,894	-	-	9,248,894	-	(1,162,022)	8,086,872	18,618	-	8,105,490
Buildings	30,330,689	-	-	30,330,689	4,332,120	-	34,662,809	-	-	34,662,809
Improvements	4,442,676	-	-	4,442,676	-	(4,442,676)	-	-	-	-
Equipment	31,493	-	-	31,493	-	(25,693)	5,800	-	-	5,800
	77,566,814	38,068	(907,517)	76,697,365	4,332,120	(38,274,004)	42,755,481	163,539	-	42,919,021
Less: Accumulated Depreciation	(6,312,348)	(1,010,438)	-	(7,322,786)	(883,648)	459,595	(7,746,839)	(883,404)	-	(8,630,243)
Total Capital Assets	$ 71,254,466	$ (972,370)	$ (907,517)	$ 69,374,579	$ 3,448,472	$ (37,814,409)	$ 35,008,642	$ (719,865)	$ -	$ 34,288,777

Source - Rio Nuevo general ledger, Settlement Agreement, fiscal year 2011 and 2012 audited financial statements.

Note - As of the date of this performance audit report, the fiscal year 2013 financial statement audit report had not been completed and issued.

JOHNSON CONSULTING

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Status of Construction in Progress - Schedule A (Table 2)
As of June 30, 2013

Project	June 30, 2010	Additions	Capitalized FY 2013	Releases & Restatements	June 30, 2013	Budget	Estimated Costs to Complete	Status	Notes
Mission Site/Origins Park (Film)	$ 806,399	$ 14,069	$ -	$ (820,468)	$ -	N/A	N/A	Canceled	Written off: The asset and land were titled to the City of Tucson ("COT") and as a result all costs incurred were written off.
Depot Garage	14,310,154	23,999	-	(14,334,153)	-	N/A	N/A	Canceled	Reclassified as a Due from City of Tucson: Per Section 5 of the Settlement Agreement, the COT was to retain ownership of the Depot Garage; and in recognition of the monies expended by Rio Nuevo ("RN") for the construction of the garage and RN's share of the garage revenues, the COT was to pay a monthly fee to Rio Nuevo.
Civic Center: Hotel	9,944,489	-	-	(9,944,489)	-	N/A	N/A	Canceled	Written off due to impairment: Costs incurred were primarily for design work which has no current value.
Civic Center: Expansion	2,228,346	-	-	(2,228,346)	-	N/A	N/A	Canceled	Written off due to impairment: Costs incurred were primarily for design work which has no current value.
Civic Center: East Entrance	4,607,870	-	(4,332,120)	(275,750)	-	N/A	N/A	Canceled	$4,332, 210 was reclassified to Buildings & Improvements. The remaining accumulated costs with no anticipated future value were written off.
Civic Center: Parking Garage	1,615,804	-	-	(1,615,804)	-	N/A	N/A	Canceled	Written off due to impairment: Costs incurred were primarily for design work which has no current value.
Tucson Convention Center Renovation	-	101,547	-	-	101,547	$ 7,840,673	$ 7,739,126	In Process	The TCC Renovation and budget have been approved. Initial costs are associated with architectural and engineering assessment and modeling. The majority of renovation activities are planned to be completed in Fiscal year 2014.
Arena and Westside Lot	-	43,374	-	-	43,374	TBD	TBD	In Planning	In anticipation of future development of the Arena and Westside lots, several infrastructure improvement projects are being executed. Fiscal year 2013 expenditures consist primarily of storm drain improvements, which will remediate flooding and storm runoff from the TCC lot into the Arena and Westside lots. Future improvements and development remain in the planning process.
Totals	$ 33,513,062	$ 182,989	$ (4,332,120)	$ (29,219,010)	$ 144,921				

Sources - Rio Nuevo general ledger, Settlement Agreement, fiscal year 2011 and 2012 Audited Financial Statements.

Note - As of the date of this performance audit report, the fiscal year 2013 financial statement audit report had not been completed and issued.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Debt Service Payments - Schedule B (Table 1)
For the Period from Inception to June 30, 2013

	Inception to June 30, 2010	FY11	FY12	FY13	Inception to June 30, 2013
COPs, Series 2009:					
Principal	$ -	$ -	$ -	$ 760,000	$ 760,000
Interest	343,255	521,400	521,400	521,400	1,907,455
Revenue Bonds, Series 2008:					
Principal	-	2,490,000	2,620,000	3,585,000	8,695,000
Interest	7,390,027	4,793,531	4,674,219	4,538,032	21,395,809
Revenue Bonds, Series 2005:					
Principal	2,790,000	630,000	670,000	1,710,000	5,800,000
Interest	1,255,078	179,813	142,800	102,600	1,680,291
COPs, Series 2002:					
Principal	26,690,000	3,360,000	3,525,000	-	33,575,000
Interest	8,208,129	344,250	176,250	-	8,728,629
**City of Tucson Loan:					
Principal	12,861,055	-	-	-	12,861,055
Interest	3,867,027	-	-	-	3,867,027
Total Principal Paid	42,341,055	6,480,000	6,815,000	6,055,000	61,691,055
Total Interest Paid	21,063,516	5,838,994	5,514,669	5,162,032	37,579,211
Total Debt Service Payments	$ 63,404,571	$ 12,318,994	$ 12,329,669	$ 11,217,032	$ 99,270,266

Source - Rio Nuevo general ledger.

Note - As of the date of this performance audit report, the fiscal year 2013 financial statement audit report had not been completed and issued.

** Per section 4(b) of the executed settlement agreement, the City has waived and released Rio Nuevo from any claims to the "City of Tucson Loans"; and in return Rio Nuevo has waived and released the City from it's claim of approximately $450,000 in disputed interest charges.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Debt Service Schedule - Schedule B (Table 2)
For the Fiscal Years ending June 30

	Series 2002		Series 2005		Series 2008		Series 2009			Fiscal Year	
Date	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total	Total	
7/1/2012	$ 3,525,000	$ 88,125	$ 670,000	$ 71,400	$ -	$ -	$ -	$ 260,700	$ 4,615,225		
7/15/2012					2,620,000	2,334,516			4,954,516		
1/1/2013				51,300				260,700	312,000	$ 11,217,032	FY 13
1/15/2013						2,269,016			2,269,016		
7/1/2013			1,710,000	51,300			760,000	260,700	2,782,000		
7/15/2013					3,585,000	2,269,016			5,854,016		
1/1/2014								249,300	249,300	$ 9,503,418	FY 14
1/15/2014						2,174,909			2,174,909		
7/1/2014							785,000	249,300	1,034,300		
7/15/2014					3,870,000	2,174,909			6,044,909		
1/1/2015								235,563	235,563	$ 9,438,094	FY 15
1/15/2015						2,068,484			2,068,484		
7/1/2015							810,000	235,563	1,045,563		
7/15/2015					4,020,000	2,068,484			6,088,484		
1/1/2016								219,363	219,363	$ 9,449,694	FY 16
1/15/2016						1,967,984			1,967,984		
7/1/2016							845,000	219,363	1,064,363		
7/15/2016					4,230,000	1,967,984			6,197,984		
1/1/2017								202,463	202,463	$ 9,463,820	FY 17
1/15/2017						1,856,947			1,856,947		
7/1/2017							880,000	202,463	1,082,463		
7/15/2017					4,465,000	1,856,947			6,321,947		
1/1/2018								184,863	184,863	$ 9,473,044	FY 18
1/15/2018						1,734,159			1,734,159		
7/1/2018							910,000	184,863	1,094,863		
7/15/2018					4,725,000	1,734,159			6,459,159		
1/1/2019								166,663	166,663	$ 9,489,958	FY 19
1/15/2019						1,598,316			1,598,316		
7/1/2019							950,000	166,663	1,116,663		
7/15/2019					5,010,000	1,598,316			6,608,316		
1/1/2020								147,069	147,069	$ 9,500,170	FY 20
1/15/2020						1,448,016			1,448,016		
7/1/2020							990,000	147,069	1,137,069		
7/15/2020					5,320,000	1,448,016			6,768,016		
1/1/2021								126,031	126,031	$ 9,513,894	FY 21
1/15/2021						1,288,416			1,288,416		
7/1/2021							1,030,000	126,031	1,156,031		
7/15/2021					5,655,000	1,288,416			6,943,416		
1/1/2022								103,500	103,500	$ 9,530,394	FY 22
1/15/2022						1,111,697			1,111,697		
7/1/2022							1,075,000	103,500	1,178,500		
7/15/2022					6,025,000	1,111,697			7,136,697		
1/1/2023								79,313	79,313	$ 9,551,020	FY 23
1/15/2023						918,697			918,697		
7/1/2023							1,125,000	79,313	1,204,313		
7/15/2023					6,430,000	918,697			7,348,697		
1/1/2024								54,000	54,000	$ 9,562,444	FY 24
1/15/2024						709,722			709,722		
7/1/2024							1,175,000	54,000	1,229,000		
7/15/2024					6,860,000	709,722			7,569,722		
1/1/2025								27,563	27,563	$ 16,948,670	FY 25
1/15/2025						486,772			486,772		
7/1/2025							1,225,000	27,563	1,252,563		
7/15/2025					14,695,000	486,772			15,181,772		
	$ 3,525,000	$ 88,125	$ 2,380,000	$ 174,000	$ 77,510,000	$ 41,600,786	$ 12,560,000	$ 4,373,482	$ 142,211,393		

Sources - 1) Rio Nuevo general ledger, 2) Certificates of Participation - Series 2002, 3) Junior Lien Excise Tax Revenue Bonds - Series 2005, 4) Subordinate Lien Excise Tax Revenue Bonds - 2008, 5) Certificates of Participation - Series 2009

Note 1 - For purposes of financial reporting, debt service payments made within close proximity to year end are deemed to have been made in the recently ended fiscal year (e.g., debt service payments made July 1st through 15th of 2013 (FY 2014) are considered to be FY 2013 debt service costs.

Note 2 - As of the date of this performance audit report, the fiscal year 2013 financial statement audit report had not been completed and issued.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Schedule of Operating Expenditures - Schedule C (Table 1)
For the Fiscal Years Ending June 30

	2011	2012	2013
Professional Services			
Legal	$ 370,950	$ 642,272	$ 583,073
Audit & Accounting	400,569	149,513	124,010
Consulting & Engineering	-	63,069	27,355
Other professional services	854	5,319	23,453
Total Professional Services	772,373	860,173	757,891
Administration Expenses			
Fiscal Agent Fees	12,205	9,000	5,500
Payroll and benefits	-	12,711	139,046
Rent	-	14,635	15,060
Office expense	1,591	35,623	20,502
Insurance	51,792	48,421	69,680
Repair & Maintenance	9,579	-	-
Travel	1,714	-	225
Public Relations	-	-	65,029
Licenses, Permits & Fees	2,688	6,242	8,133
Total Administrative Expenses	79,569	126,632	323,175
Total Operating Expenses	$ 851,942	$ 986,805	$ 1,081,066

Source - Rio Nuevo general ledger.

Note 1- Rio Nuevo general ledger is maintained on the accrual basis of accounting, and as such, expenses are recorded when incurred not when cash is disbursed.

Note 2 - As of the date of this performance audit report, the fiscal year 2013 financial statement audit report had not been completed and issued.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Schedule of Revenues - Schedule C (Table 2)
For the Fiscal Years Ending June 30

	2011	2012	2013
Sales taxes	$ 13,244,773	$ 12,170,533	$ 10,097,168
Rentals and leases	3,831,073	3,822,536	1,377,255
Interest income	151,090	-	25,717
Investment earnings	44,675	21,382	-
Other	-	41,488	1,080
Total Revenues	$ 17,271,611	$ 16,055,939	$ 11,501,220

Source - Rio Nuevo general ledger.

Note 1- Rio Nuevo general ledger is maintained on the accrual basis of accounting, and as such, revenues are recorded when earned, not when cash is received.

Note 2 - As of the date of this performance audit report, the fiscal year 2013 financial statement audit report had not been completed and issued.

Note 3 - For the Rentals and leases line item, the TCC rent payment from the COT to the District was approximately $3.8 million in both 2011 and 2012, as well as preceding years. This rent payment is based upon the payment schedule of the Certificates of Participation (Series 2002 and 2009) associated with the TCC. As the 2002 series was paid off in 2012, future rent payments will be reflective of only the 2009 series and will approximate $1.3 million

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Schedule of Municipal Payments (City Match) - Schedule D
Inception-to-Date as of June 30, 2013

	As of June 30, 2010	Performance Period	As of June 30, 2013
Multipurpose Facility Projects			
TCC Elevator and Escalator Repair/Replacement	$ -	$ 3,561,753	$ 3,561,753
TCC Solar Panels	-	2,605,114	2,605,114
TCC Facility Improvements	1,166,814	-	1,166,814
TCC Arena Bleachers	-	1,054,097	1,054,097
TCC Roof Improvements	-	572,984	572,984
TCC Box Office	59,763	-	59,763
	1,226,577	7,793,948	9,020,525
Multipurpose Facility Site Projects			
Modern Streetcar	11,682,800	58,867,663	70,550,463
Firestation 1 Relocation	36,323,036	281,313	36,604,349
City Hall Annex Parking Garage	12,018,038	-	12,018,038
Central Energy District Heating and Cooling Loop	9,122,482	-	9,122,482
Central Plant Expansion	115,386	8,697,615	8,813,001
Water Review Developer Financed Projects	551,352	8,009,038	8,560,390
Barraza-Aviation Parkway - Downtown	7,737,733	-	7,737,733
Plaza Centro Garage	-	6,580,359	6,580,359
Transit Headquarters Build Improvements	6,250,816	-	6,250,816
Downtown Intermodal	5,728,687	-	5,728,687
MLK Amenities	3,396,547	(3,520)	3,393,027
MacArthur Building Acquisition	2,394,350	-	2,394,350
Diamond Snake Bridge	2,374,825	-	2,374,825
Broadway: Euclid to Country Club	2,359,600	-	2,359,600
Court Structural Improvements	1,747,634	-	1,747,634
Broadway/Euclid/Camp	1,606,517	-	1,606,517
Fox Theatre Special	1,000,000	-	1,000,000
Depot Tenant Improvements	976,498	-	976,498
EI Paso and Southwestern Greenway	610,994	6,336	617,330
Mercado District Rentals - EL Portal	562,914	-	562,914
Rio Nuevo Housing Site	554,594	-	554,594
City Staff Time Spent on Capital Projects	511,772	-	511,772
Stone Ave Corridor Phase II	443,890	-	443,890
Broadway Turn Lane @ EI Con	384,550	-	384,550
City/State Parking Garage Improvements	329,022	-	329,022
City Hall Annex Communications	301,126	-	301,126
Pedestrian Impl Plan	288,647	-	288,647
Clean Renewable Energy Bonds Solar Panels	276,243	-	276,243
Police Headquarters Expansion	223,341	-	223,341
Broadway and 5th Parking Structure	140,803	-	140,803
Armory Park Pedestrian Enhancements	67,298	59,579	126,877
6th Street Improvements	121,216	-	121,216
Downtown Wayfinding Improvements	119,906	-	119,906
S Stone Ave and Cushing st. Hawk	95,095	-	95,095
Main Library Parking Garage Improvements	83,747	-	83,747
Main Library Plaza	72,685	-	72,685
Congress Improvements	57,394	-	57,394
Ronstadt Transit Center	48,042	1,144	49,186
Jacome Plaza Historical Marker	38,057	-	38,057
B2B Mayor - Rialto Marque	21,000	-	21,000
Building Main & Improvements	20,260	-	20,260
Depot Plaza	15,000	-	15,000
Council Chambers	12,936	-	12,936
Broadway/Alvernon Intersection	11,305	-	11,305
Miscellaneous projects under $10,000	25,050	-	25,050
	110,823,188	82,499,527	193,322,715
Projects Partly In Site, In District			
Barraza/Aviation Phase 1	44,166,915	-	44,166,915
Arroyo Chico Drainage Improv	6,945,273	-	6,945,273
	51,112,188	-	51,112,188
Total Municipal Payments	$ 163,161,953	$ 90,293,475	$ 253,455,428

Source - City of Tucson, Finance Department (not subject to audit procedures under this performance audit).

Note - The website for the Office of the Arizona State Treasurer identifies sales tax distributions made by the State Treasurer to the District. Aggregate distributions of sales tax made to the District from inception through June 30, 2013 is identified as $106,703,529 on the State Treasurer website.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Three Year Solvency Schedule - Schedule E (Table 1)
Projections for the Fiscal Years Ending June 30

	2014	2015	2016
Cash Inflows:			
TIF Revenue	$ 11,100,000	$ 12,049,161	$ 12,166,761
City of Tucson Lease payments (TCC)	1,283,600	1,283,600	1,283,600
Other Rental Income	83,333	83,333	83,333
Investment Earnings	20,000	20,000	20,000
Depot Garage	106,000	183,000	285,000
Total Cash Inflows	12,592,933	13,619,094	13,838,694
Cash Outflows:			
Operating Expenditures	952,000	952,000	952,000
Debt Service Payments			
COPs Series 2009 Hotel Projects Financing:			
Principal	785,000	810,000	845,000
Interest	498,600	471,126	438,726
2008 Revenue Bonds:			
Principal	3,870,000	4,020,000	4,230,000
Interest	4,349,818	4,136,968	3,935,968
Total Debt Service Payments	9,503,418	9,438,094	9,449,694
Project Expenditures			
TCC Renovation	4,739,126	3,000,000	-
Downtown Hotel	1,800,000	2,500,000	-
Mission Gardens	250,000	250,000	250,000
Downtown streetscapes	187,500	187,500	187,500
Downtown infrastructure improvements projects	25,000	25,000	25,000
Other fixed assets	10,000	-	-
Total Project Expenditures	7,011,626	5,962,500	462,500
Total Cash Outflows	17,467,044	16,352,594	10,864,194
Net Increase (Decrease) in Unrestricted Cash	(4,874,111)	(2,733,500)	2,974,500
Beginning Unrestricted Cash	12,305,051	7,430,940	4,697,440
Ending Unrestricted Cash	**$ 7,430,940**	**$ 4,697,440**	**$ 7,671,940**

Source - Rio Nuevo general ledger, Rio Nuevo approved 2013-2014 budget, Rio Nuevo supplemental projection of available cash for added projects through 2025.

Note - Excluded from Unrestricted Cash are the cash balances held in accounts by Wells Fargo, the Fiscal Agent, that are restricted for debt service requirements. The District's restricted cash balances approximate $21.9 million at June 30, 2013.It can be expected that these funds will be automatically applied to final debt service payments, or will be released from restrictions and returned to the District upon the full payment of the associated debt.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Long Term Solvency Schedule - Schedule E (Table 2)
Projections for the Fiscal Years Ending June 30

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Cash Inflows:												
TIF Revenue	$ 11,100,000	$ 12,049,161	$ 12,166,761	$ 12,237,887	$ 12,259,111	$ 12,278,025	$ 12,311,237	$ 12,337,961	$ 12,368,461	$ 12,403,087	$ 12,429,511	$ 12,459,511
City of Tucson Lease payments (TCC)	1,283,600	1,283,600	1,283,600	1,283,600	1,283,600	1,283,600	1,283,600	1,283,600	1,283,600	1,283,600	1,283,600	1,283,600
Other Rental Income	83,333	83,333	83,333	83,333	83,333	83,333	83,333	83,333	83,333	83,333	83,333	83,333
Investment Earnings	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Depot Garage	106,000	183,000	285,000	296,400	308,256	320,586	333,410	346,746	360,616	375,041	390,042	405,644
Funds Released from Restriction	-	-	-	-	-	-	-	-	-	-	-	21,888,113
Total Cash Inflows	12,592,933	13,619,094	13,838,694	13,921,220	13,954,300	13,985,544	14,031,580	14,071,640	14,116,010	14,165,061	14,206,486	36,140,201
Cash Outflows:												
Operating Expenditures	952,000	952,000	952,000	952,000	952,000	952,000	952,000	952,000	952,000	952,000	952,000	1,000,000
Debt Service Payments												
COPs Series 2009 Hotel Projects Financing:												
Principal	785,000	810,000	845,000	880,000	910,000	950,000	990,000	1,030,000	1,075,000	1,125,000	1,175,000	1,225,000
Interest	498,600	471,126	438,726	404,926	369,726	333,326	294,138	252,062	207,000	158,626	108,000	55,126
2008 Revenue Bonds:												
Principal	3,870,000	4,020,000	4,230,000	4,465,000	4,725,000	5,010,000	5,320,000	5,655,000	6,025,000	6,430,000	6,860,000	14,695,000
Interest	4,349,818	4,136,968	3,935,968	3,713,894	3,468,318	3,196,632	2,896,032	2,576,832	2,223,394	1,837,394	1,419,444	973,544
Fox Revenue Bonds (2005):												
Principal	-	-	-									
Interest	-	-	-									
Total Debt Service Payments	9,503,418	9,438,094	9,449,694	9,463,820	9,473,044	9,489,958	9,500,170	9,513,894	9,530,394	9,551,020	9,562,444	16,948,670
Project Expenditures												
TCC Renovation	4,739,126	3,000,000	-	-	-	-	-	-	-	-	-	-
Arena and westside lots	-	-	-	-	-	-	-	-	-	-	-	-
Downtown Hotel	1,800,000	2,500,000	-	-	-	-	-	-	-	-	-	-
Mission Gardens	250,000	250,000	250,000	250,000	-	-	-	-	-	-	-	-
Downtown streetscapes	187,500	187,500	187,500	187,500	-	-	-	-	-	-	-	-
Downtown infrastructure improvements projects	25,000	25,000	25,000	25,000	-	-	-	-	-	-	-	-
Other fixed assets	10,000	-	-	-	-	-	-	-	-	-	-	-
Total Project Expenditures	7,011,626	5,962,500	462,500	462,500	-	-	-	-	-	-	-	-
Total Cash Outflows	17,467,044	16,352,594	10,864,194	10,878,320	10,425,044	10,441,958	10,452,170	10,465,894	10,482,394	10,503,020	10,514,444	17,948,670
Net Increase (Decrease) in Unrestricted Cash	(4,874,111)	(2,733,500)	2,974,500	3,042,900	3,529,256	3,543,586	3,579,410	3,605,746	3,633,616	3,662,041	3,692,042	18,191,531
Beginning Unrestricted Cash	12,305,051	7,430,940	4,697,440	7,671,940	10,714,840	14,244,096	17,787,682	21,367,092	24,972,838	28,606,454	32,268,494	35,960,537
Ending Unrestricted Cash	**$ 7,430,940**	**$ 4,697,440**	**$ 7,671,940**	**$ 10,714,840**	**$ 14,244,096**	**$ 17,787,682**	**$ 21,367,092**	**$ 24,972,838**	**$ 28,606,454**	**$ 32,268,494**	**$ 35,960,537**	**$ 54,152,068**

Source - Rio Nuevo general ledger, Rio Nuevo approved 2013-2014 budget, Rio Nuevo supplemental projection of available cash for added projects through 2025, Rio Nuevo Debt Service Schedule (Schedule B - Table 2)

Note - Unrestricted Cash as of June 30, 2025 includes cash of approximately $21.9 million that is currently restricted as of June 30, 2013, and is held in accounts by Wells Fargo, the Fiscal Agent. It is expected that these funds will be released from restrictions and returned to the District at then end of the 2025 fiscal year.

Mr. Jay Zsorey
Office of the Auditor General
State of Arizona
2910 N 44th Street
Phoenix, Arizona 85018

RE: Rio Nuevo Response to Tri Annual Audit

October 25, 2013

Dear Mr. Zsorey:

We are in receipt of the tri-annual performance and financial audit performed over the summer by Johnson Consulting and have prepared the following remarks as our official response to the audit.

On behalf of the Rio Nuevo board we are extremely pleased to be recognized for turning this troubled organization around, getting our financial house in order, producing unqualified audit results and working our way through numerous lawsuits with settlements that greatly benefited the district and state taxpayers.

We are grateful that the team recognized our return to the primary mission of maintaining a convention center complex and helping to launch downtown area hotels. The mission of Rio Nuevo today has never been so clear and precisely followed even though the previous legacy of the District has not described an organization with clearly stated goals and objectives. The lack of transparency and accountability from 1999 to 2009 nearly terminated the Tax Incentive District and our collective appointers, the President of the Senate, the Speaker of the House and the Governor, have made it clear to each and every current board member that if the District can't move forward with the legislature's intent when forming this district the TIF funding will be terminated.

As a result we are today project oriented, having launched a major remodel of the aging Tucson Convention Center and initiating planning and engineering on adjacent parcels that could someday create a world class convention center and tourist destination. We have opportunities to partner with private sector developers to launch as many as three downtown area hotels, the second component of our legislative mandate.

Our financial records are open to the public and expenses are posted real time to the District website. The compliance issue identified by the auditors related to our website was the absence of a search feature that would allow the viewer to search expenses by type, payee or project. Those features are now live, launched subsequently to the audit. Consequently we can report that the district is in full compliance with all the legislative requirements. The only other compliance area identified by the auditor was the lack of asset and liability information in our annual budget. That item, omitted in past years due to the lack of audited financial statements, too was remedied after the audit was completed.

The auditors have identified some opportunities to better cooperate with the Department of Revenue to track and monitor taxpayer adherence to the self-coding requirement that identifies a TIF merchant. We look forward to working with the state on remedies that provide we can be more aware of organizations that are not properly coding the transaction privilege tax form. It costs the taxpayer nothing in addition but if not properly coded Rio Nuevo does not receive its allocation. We agree a permanent remedy may require a legislative solution.

Probably the most significant finding from the current audit is that Tucson's convention center complex is not competitive to other evolving regional venues and would require $40,000,000 to $100,000,000 in order to create a world class destination. We agree whole heartedly and are committed to look to ways to finance those kinds of improvements. We believe it will require a partnership involving the private sector, state, county and city jurisdictions along with a creative structure not unlike the ASU stadium district plan around its new football stadium. Any improvements should be self-sustaining.

Downtown Tucson has seen a significant resurgence in the past several months and it is important for the state and region that Tucson’s downtown be competitive and as much a destination as other regional downtowns. The original Rio Nuevo failed because it was a single jurisdiction’s attempt to create a flourishing inner city, but with little discipline, no regional buy-in and no accountability the old Rio Nuevo was doomed. We now have a chance to finish the job as a fully transparent public/private partnership where every stakeholder understands and appreciates the value a vibrant downtown and a thriving convention center bring not only to southern Arizona but to the entire state.

We remain committed to make Rio Nuevo an appropriate example of tax incentive based revitalization.

Sincerely,

Rio Nuevo Multipurpose Faculties District