

# Performance & Financial Analysis of the Rio Nuevo Multipurpose Facilities District



October 29, 2010



**Submitted to:**

Debbie Davenport, Auditor General  
Office of the Auditor General  
State of Arizona  
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AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

October 29, 2010

The Honorable Robert Burns, President  
Arizona State Senate

The Honorable Kirk Adams, Speaker  
Arizona House of Representatives

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor  
State of Arizona

Ms. Jodi A. Bain, Chairperson  
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 Crowe Horwath, LLP., 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 its Board of Directors within 45 days of the release of this report.

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

This report will be released to the public on October 29, 2010.

Sincerely,

Debbie Davenport  
Auditor General

Attachment



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October 29, 2010

Debbie Davenport, Auditor General  
Office of the Auditor General  
State of Arizona  
2910 North 44th Street  
Suite 410  
Phoenix, Arizona 85018

Rio Nuevo Multipurpose Facilities District

Ms. Davenport:

Transmitted herewith is a report of Crowe Horwath LLP, a performance and financial analysis of the Rio Nuevo Multipurpose Facilities District. This report is in response to the ARS §48-4231.01. The review commenced on July 14, 2010 and this report represents the results of our analysis as of October 28, 2010. The Rio Nuevo Multipurpose Facilities District (District) is responsible for holding a public hearing and providing its responses to the report within 45 days of this report's issuance.

We received valuable assistance from the District Board members, the Board's attorney's and the City of Tucson's accounting staff.

Crowe Horwath LLP will be pleased to discuss or clarify items in the report.

Sincerely,

Kevin W. Smith  
Partner

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# Performance & Financial Analysis of the Rio Nuevo Multipurpose Facilities District

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## Executive Summary

Pursuant to ARS §48-4231.01, the Arizona Auditor General contracted with Crowe Horwath LLP (“Crowe” or “we”) to conduct a financial and performance analysis of the Rio Nuevo Multipurpose Facilities District (the “District”) as a Multipurpose Facilities District (“MFD”) which provides the boundaries for a Tax Increment Financing (“TIF”) district. The District was created in 1999 with the passage of Proposition 400 as more fully described below. The original, pre-2010 District Board (“Pre-2010 District Board”) was comprised of four members as appointed and selected by the City of Tucson and the City of South Tucson with weighted voting applying to the City of Tucson appointments. It was later extended by amendment in 2006 and extensively reconstituted in 2009 by Senate Bill 1003. As of March 16, 2010, the new reconstituted District Board (“Reconstituted District Board”) was seated and met for the first time.

The objectives of the analysis were to evaluate the District’s:

- Compliance with significant statutory provisions regarding allowable expenditures of District revenues
- Intergovernmental agreement with the City of Tucson
- Policies and procedures for prioritizing and managing construction projects and financing activities
- Board of directors’ role and the City of Tucson’s role in prioritizing and managing construction projects and financing activities
- Solvency, including its ability to pay operating costs, meet its debt obligations and complete current projects
- Success at supporting and achieving its purposes, including analyzing infrastructure projects and funding for those projects
- Plans for using unexpended bond proceeds and whether these plans provide for the most effective use of the remaining proceeds
- Success at supporting and achieving its purposes through the expenditures made in fiscal year 2009-2010
- Financing and lease of the Tucson Convention Center (TCC)

The review commenced on July 14, 2010 and this report represents the results of our analysis.

## Results in Brief

The District was established in 1999 with the passage of Proposition 400 by the voters in the cities of Tucson and South Tucson. Under applicable Arizona Revised Statutes (“ARS”), this vote created a MFD in an area within the boundaries of the City of Tucson. This allows the District to keep one-half of the *incremental* growth in State transaction privilege tax revenue (sales tax or TIF revenue) on a 1999 base generated within the District boundaries and to use the funds for projects within that area to support a “primary component” of the District, which is the TCC and those other secondary projects that are “necessary or beneficial” to the support of this primary component. Since its inception, the District has received more than \$74 million in sales tax revenues and issued more than \$131.9 million in revenue bonds and certificates of participation (“COPS”).

## Performance & Financial Analysis of the Rio Nuevo Multipurpose Facilities District

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Although the District expenditures generally comply with most of the underlying statutory provisions, which are vague at times, the District has focused its spending more toward redeveloping its downtown area rather than funding projects directly benefiting and in support of its primary component, the TCC, that could have provided an economic catalyst to stimulate additional sales and other taxes, and leverage the tax increment financing (“TIF”) funds it receives from the State.

Under the operative Arizona Statutes, a MFD must have a primary component, which for the District is the TCC, to meet provisions that allow the redirection of the State’s portion of certain incremental sales taxes into the District. From the outset, project elements and visions set forth in the Proposition 400 voter pamphlet reflected that the expected use of TIF funds were divergent from the State’s legislative intent as outlined in the statutes. In fact, the TCC was mentioned only briefly in the voter information and no funds were earmarked for its purchase or improvement.

Despite the District’s purchase of the TCC in 2002 from the City of Tucson (the “City”), the vast majority of the more than \$74 million in TIF funds received over the eight years of eligibility has been spent broadly across the District through paying debt service on more than \$131.9 million in bonds and COPS, and directly funding projects such as building infrastructure, improving streetscape, renovating of historic theatres, planning or constructing parking garages, and widening underpasses. Although most of the projects are located within the District’s boundaries, many of these projects we do not believe directly relate to the primary component and certainly stretch the definition of being necessary or beneficial to the TCC. Yet the TCC, the primary component of the District, remains an outdated complex. Although modest improvements to the facility have been made, it still lacks sufficient and updated meeting and facility space and technological improvements, and a convention center hotel, a critical component to be competitive. Currently, the plans to expand the TCC and build a convention center style hotel and parking garage are in the final pre-construction stages. Given the costs to complete the facility and the District’s future funding challenges, it is arguably unable to fund such a large project on its own without a financial partner.

The District’s initial approach to spending its funds on citywide projects was holistic and inclusive; the Rio Nuevo Master Plan study, commissioned by the District considered renovation and regeneration of the entire downtown region, not just the TCC area and its contiguous environs. This Master Plan, adopted not only by the Board in 2001, but also the City included over \$757 million in projects with the District TIF revenue funding comprising approximately \$70 million of those endeavors, or less than 10 percent. It appears from the earliest meetings of the Pre-2010 District Board that no clear distinction existed between District projects and Rio Nuevo Master Plan projects. The Pre-2010 District Board minutes indicate that projects beyond the scope and intent of the Rio Nuevo Master Plan were discussed such as large residential developments for which District TIF funds cannot be used, and that decisions were made supporting the whole of the Rio Nuevo area. Further, the District embraced a multiple destination approach, rather than a focused and measured methodology to deliver the intended role and responsibilities of a multipurpose facility within the District.

As a result of this broad view perspective, the District has funded approximately \$121 million in land acquisitions, engineering, archeological and feasibility studies, parking garages,



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roundabouts, culverts, underpasses, and environmental remediation, in addition to purchasing the TCC for approximately \$35 million. However, there are few of the Proposition 400 and Master Plan projects completed. Yet, before the underlying statute was amended in 2006, the majority of the District project elements were to be completed within its initial 10-year life. By spending a significant portion of its funds on far ranging planning and public works-type projects - infrastructure, planning and feasibility projects - and not focusing on, and completing the few key components that would leverage these dollars into major incremental tax revenue generation, most of the projects on which District funds were expended remain unfinished and/or incomplete at the time this report was issued. Consequently, the residents of Tucson see little improvement to the area overall, a lack of generation of additional incremental sales tax revenues, few needed enhancements to the TCC (the primary component of the District), or the construction of a convention center hotel that would create destination interest for infusing the area with additional sales taxes and tourist dollars.

Specifically, our analysis reveals that the District:

- Focused far broader than the statutory defined primary multipurpose facility;
- Decisions suggest the District operated more like a redevelopment agency than a multipurpose facility district for much of its existence;
- Pre-2010 Board appears to have exercised only marginal control and management over TIF funds and District funded projects;
- Generated significant TIF funds, but mostly due to the issuance of debt and its spending was broad and without assurances of essential outside funding;
- Spread the funding thin and to public works-type projects that have not brought the District anticipated economic results;
- Had not developed the TCC as an adequate catalyst for increasing incremental sales taxes;
- Can meet its existing financial obligations, but its longer term decisions and challenges are significant; and
- Showed various compliance issues that indicate a weak internal control environment and structure.

In November 2009, Arizona House Bill 1003 revised the statutes pertaining to the District, which restructured the District Board with additional direction to the Board as to spending of TIF funds. The appointment of Board members is now within the control of State elected officials, rather than the local municipalities.

This newly Reconstituted District Board faces considerable structural and management challenges to address and remediate. Thus, although currently projected TIF funds appear to be sufficient to meet existing current obligations related to certain projects and to meet debt service requirements, the vast majority of District funds are spent or committed, thus for the near term, flexibility is limited and the Reconstituted Board must make difficult decisions. Nonetheless, the Reconstituted District Board has the opportunity to significantly improve its financial, operational and compliance responsibilities. In part, we recommend that the Reconstituted District Board consider the following recommendations.



## Performance & Financial Analysis of the Rio Nuevo Multipurpose Facilities District

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- Recover overpaid interest on the City's loan to the District—work with the City to determine the accurate loan period and assign to each period the appropriate interest rate for the balance outstanding. Our general calculation of the interest owed the District at approximately \$442,000.
- Assure that a new Intergovernmental Agreement with the City (and any associated Administrative Rules) conveys the appropriate powers and responsibilities of the District and fulfills the 2009 ARS mandates.
- Develop policies and procedures outlining the District's management and oversight of future projects, including funding decisions, debt issuance and statutory mandates.
- Analyze and more fully review and complete the Capital Improvement Plan document recently developed by the City for the District and include all projects that have District participation on-going or expected in the future and require that this report be updated and discussed on a regular basis, at least once a month, at a Board meeting.
- Develop a short-term strategy for the use of available funds, including remaining bond proceeds and tax increment revenues.
- Establish a District staffing plan to assure adequate support for the Board, including key positions of executive director, chair, treasurer and secretary. Under current statutes, City employees cannot be paid or reimbursed for any of these services.
- Establish a District Fund account with an approved bank or banks for the deposit of all revenues and expenditure of all funds. Assure that monthly reconciliations are conducted and reported to the Board.
- Ascertain the District's cash flow needs and arrange for investing available funds in investment vehicles with appropriate durations, safety, liquidity and yield.
- Create a District website that fulfills the official reporting requirements of the ARS mandates.
- Prepare, approve and submit District budgets annually to the Pima County Clerk containing all budget information required by ARS code sections.
- Engage an independent CPA to annually audit the District Fund and submit a certified copy of the audit report to the Auditor General within 120 days of the end of the fiscal year.

## Scope & Purpose

Crowe Horwath LLP and Sjoberg Evashenk Consulting have conducted a performance and financial analysis of the Rio Nuevo Multipurpose Facilities District (the “District”) that includes evaluations and certain required information described below. In order to conduct this analysis the engagement team performed the following tasks:

- Met with the Arizona Auditor General’s office to discuss and clarify the scope and period of the audit work to be completed and confirmed communication and reporting protocols.
- From the District and/or City, we obtained or requested relevant documents, including, but not limited to:
  - District formation documents
  - IGA executed between the City and the District
  - Strategic plans and other planning materials used to define projects and determine priorities
  - Where available, the individual project proposals, plans and materials with timeframes and cost projections
  - Annual approved budgets, and funding for each year since District formation
  - Organization charts and contacts for the District
  - Policies, procedures or other guidance or materials related to the District, its operations, projects, revenues, or expenditures
  - Any collateral materials, guidance, studies, reviews, or other reports relevant to the District or affiliated projects
  - District Board meeting minutes and associated documents
- We conducted interviews with City officials and managers (when available) and relevant District officials and managers, where available, to obtain an in-depth understanding of the environment, events, and activities that have occurred since the formation of the District. The new Reconstituted District Board has relied heavily on information maintained by the City due to the lack of separate management (as outlined in the IGA) and internal control prior to the reconstitution of the District Board which had its first meeting on March 16, 2010.
- Prepared fiscal and status information by individual project, i.e. schedules to determine where funding was appropriated, spent, and outstanding, and whether funds spent reasonably align with project progress.

Based upon the procedures enumerated above, we have evaluated the District’s compliance with significant statutory provisions including ARS §48-4204, which prescribes allowable expenditures of District revenues. (See **Compliance Issues** section)

We have also evaluated:

- The 1999 and 2000 Intergovernmental Agreement (“IGA”) between the District and the City to ensure that the agreement is consistent with State statutes and that both parties have complied with significant provision of the agreement.<sup>1</sup> (See **Rio Nuevo Overview** and **Compliance Issues** sections)

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<sup>1</sup> However, the compliance evaluation does not include a legal opinion or any other legal assurance of the District’s or the City’s compliance with the applicable State Statutes.

- The policies and procedures that have been in place by the District in managing construction projects and financing activities. (See ***District Funding and Projects Undertaken*** section)
- The Pre-2010 and Reconstituted District's board of directors' role and the City's role in prioritizing and managing construction projects and financing activities. (See ***District Funding and Projects Undertaken*** section)
- The District's solvency, including its ability to pay operating costs, meet its debt obligations and complete projects that are currently under construction. (See ***Financial Viability of the District*** Section)
- Whether the District's construction projects have been successful in supporting and achieving the District's purpose as legislated, including an analysis of infrastructure projects and whether those projects should have been paid for by the City rather than the District. (See ***Financial Viability of the District*** Section)
- The District's plans in place as of June 1, 2009 for using unexpended bond proceeds and determined whether these plans provide for the most effective use of the remaining proceeds. (See ***Financial Viability of the District*** Section)
- Whether the 2009-2010 District expenditures were successful in supporting and achieving the District's purposes. It should be noted that the new District Board was appointed and first met in March 2010 which was unable to fully function until Directors and Officer's insurance was obtained in late May 2010. (See ***Financial Viability of the District*** Section)

Additionally, this report includes the following schedules:

- The District's capital costs as of June 30, 2010, including the debt service, of the TCC and other assets of the District. (see ***Attachment A***)
- The level of the District's indebtedness, the amount of principal, interest and other debt service expenditures paid in fiscal year 2009-2010 and remaining term to maturity with respect to each. (See ***Attachment F***)
- The District's projects that are currently under construction and that are to be included in the District's plans for capital improvements and investments. This schedule includes costs-to-date and estimated costs-to-complete, as of June 30, 2010. (See ***Attachment D***)
- A description of the amount of municipal payments, pursuant to ARS §42-5031, subsection D during the fiscal year 2009-2010, the cumulative amount of those payments through the end of fiscal year 2009-2010, and the municipal payments that will be required by the City in the future, if any, based on the District's costs as of June 30, 2010. These municipal payments by the City represent the matching funds required to be made by the City. (See ***Attachment B***)

- Fiscal year 2009-2010 District expenditures that include the level of expenses for administration, planning, travel and entertainment. (See **Attachment A**)

Further, we have evaluated the financing and lease of the TCC. As discussed previously, the TCC is the District's primary multipurpose facility which was purchased from the City and qualified the District to receive the TIF sales tax funds from the State of Arizona. The City leases the facility from the District under a triple net lease and is responsible for managing and operating the facility. A triple net lease is a lease in which the lessee (City) pays rent to the lessor (District), as well as all taxes, insurance, and maintenance expenses that arise from the use of the property. Since this is a triple net lease, The City pays for the operation and maintenance of the TCC. Therefore, a schedule of the fiscal year 2009-2010 operation and maintenance costs of the TCC was not applicable to the District. We have evaluated whether the facility exceeds, meets, or fails to meet nationally recognized standards. In connection with this evaluation we have included the following schedule:

- Fiscal year 2009-2010 District revenues derived from each component of the TCC and other District revenues by source. (See **Attachment E**)
- The public use of each component of the TCC and any other multipurpose facility of the District. (See **Attachment I**)

Additionally, for evaluated the applicable of the following schedule, however due to the terms of the lease agreement with the City, this schedule was deemed not applicable to the District.

- Fiscal year 2009-2010 operation and maintenance costs of the TCC and other assets of the District incurred by the District. ***This schedule is not applicable to the District as the City pays all operation and maintenance costs related to the TCC.***

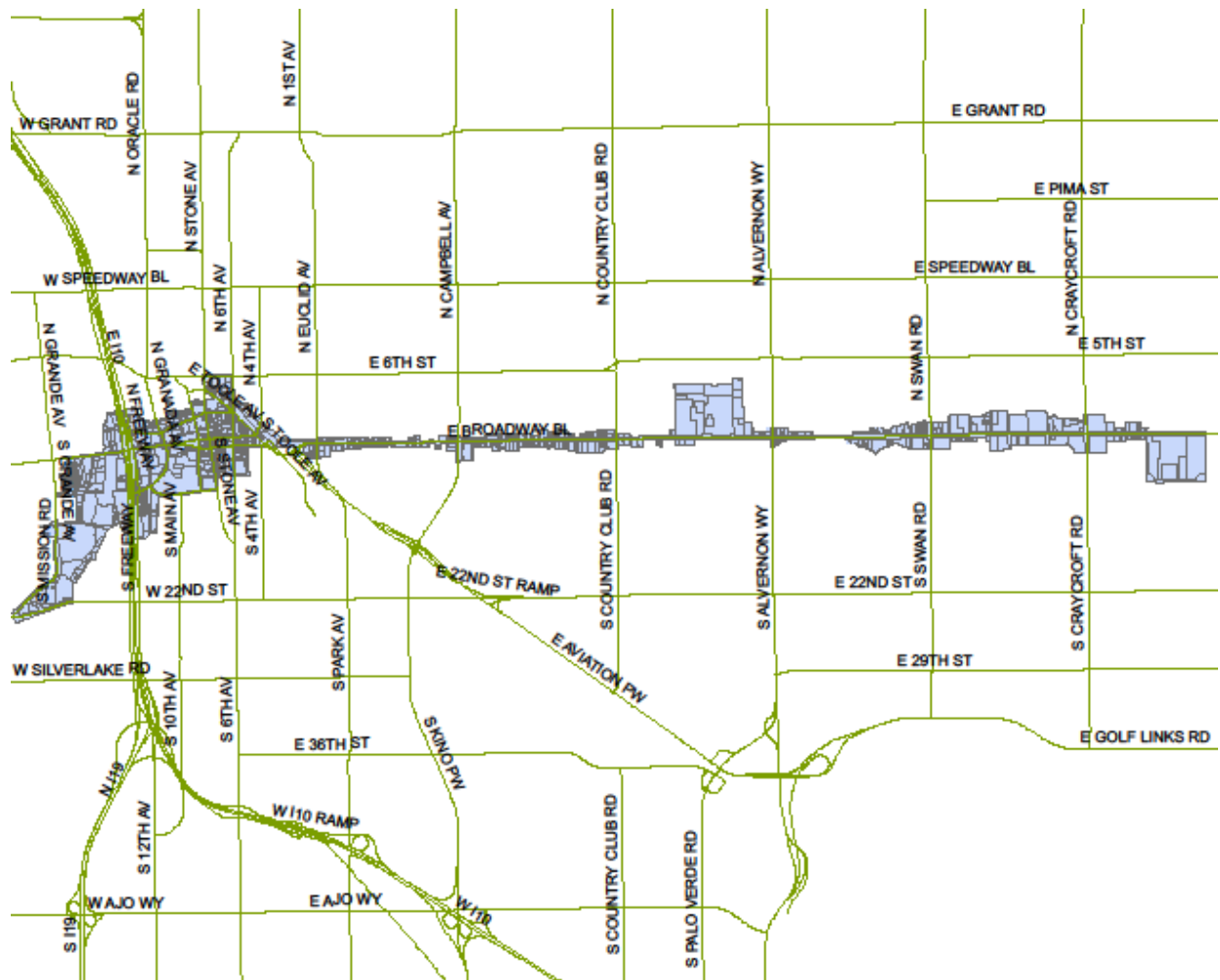
# Rio Nuevo Overview

## Introduction and Background

Under provisions of Arizona law, the District was formed in July 1999 through an IGA by and among the cities of Tucson and South Tucson and the Sahuarita Township with the purpose of seeking passage of Proposition 400 by the voters from within these three municipalities and the construction or acquisition of a qualifying primary component. Upon passage of this measure by each of the three municipalities and the construction or acquisition of a qualifying primary component, the District would be eligible to capture, for 10 years (original term of the TIF District, later extended to 25 years as discussed in this report), one-half of the State's share of incremental sales taxes generated within the stipulated boundaries of the District.

On November 1999, Proposition 400 was passed by the voters of only the cities of Tucson and South Tucson. With passage of the measure in these two cities, the District became a "tax levying public improvement district and political taxing subdivision of the State" and a legally separate entity from either City. As a result, the District was allowed to keep one-half of the incremental State sales tax or TIF revenue generated within the District's boundaries and to use the funds for projects within that area under provisions of ARS § 48-4202 and ARS § 42-5031.

Below is a map of the District:



## Original Enabling Statutes

The ARS outlines the type and range of projects for which a MFD can use its share of the incremental sales tax revenues generated from within its boundaries. At the time of the District's formation, ARS 42-5031 (F) 4 (a) and (b) categorized these projects in two ways – 1) the primary component, and 2) secondary components. However, along with the privilege of receiving the additional sales tax, the State of Arizona has imposed a set of mandates on MFDs as a condition of receiving the funds. Specifically, the statute provided that a multipurpose facility means any facility or facilities that include a primary component and secondary component(s) as described in the following.

### Primary Component

A primary component is located in the MFD on the multipurpose facility site and on lands that are adjacent to each other or separated by public rights-of-way, that the district owns or leases and that is used to accommodate sporting events and entertainment, cultural, civic, meeting, trade show or convention events or activities (ARS 42-5031(F)4(a)). Moreover, ARS §42-5031(C), in effect August 6, 1999, required that a MFD must construct or acquire the Primary Component within the first phase of the project.

### Secondary Components

Secondary components that are located in the MFD and that the board determines are **necessary or beneficial** (emphasis added) to the primary component, and are limited to the following:

- on-site infrastructure,
- artistic components,
- parking garages and lots, and
- public parks and plazas.

In addition, secondary components may include related commercial facilities that are located within the multipurpose facility site (which means the geographic area within the District which is depicted in the publicity pamphlet for an election held pursuant to section 48-4237), as per ARS 42-5031 (F) 4 (b).



## Provisions of Proposition 400

At the time of passage, the Rio Nuevo Project, as proposed in proposition 400 was a planned multi-faceted development project, including cultural and recreational amenities and improvements, unique historic re-creations, new and expanded museums, and mixed-use developments. The multipurpose facilities district project site included the existing TCC area, which was a necessary component of the District. The projects envisioned in the original 10-year District lifespan were estimated to cost \$320 million in total. Through the TIF funds, the District would contribute approximately \$60 million of the total with Tucson City sales tax generated within the Rio Nuevo District boundaries to match that amount and other public and private funds would contribute the remainder. Proposition 400 included the following project elements:

- **Historical:** The re-creation of the Mission San Agustin Cultural Center and Settlement Area. Located at the base of “A” Mountain and first inhabited during the Archaic Period (1000 BCE), this area includes the Convento, a chapel, a granary and the Carrillo House. To the west are Mission Gardens and Solomon Warner’s Mill. Calle del la Mission River, the first European road constructed in Tucson, will again be established to connect the two sides of the river. It was also to include a historically accurate acequia, or irrigation canal. Across the Santa Cruz River in downtown, the Tucson Presidio Historic Park, located at the corner of Church and Washington Streets, was to include portions of Tucson’s original Presidio Wall.
- **Cultural/Retail/Mixed-Use:** A mixture of carefully designed new construction. The area just south of Congress Street and west of the Santa Cruz River was to include mixed-use space, a community plaza and natural open space and a museum complex. For the area east of Interstate 10, the plans included an International Visitors & Trade Center, the Sonoran Sea Aquarium, a new hotel, and an IMAX theater. All new development was to reflect the historic and cultural foundation established for the project. Additionally, the plans called for several historic buildings in downtown Tucson to be improved, including the Carnegie Library building that now houses the Tucson Children’s Museum, the Tucson Museum of Art’s La Cas Cordova (Tucson’s oldest surviving structure), and the historic C.O. Brown House.
- **Environmental:** Significant improvements to the Santa Cruz River, including the re-vegetation and improved recreational pathways. Improved parking, pedestrian amenities and bike pathways were to be made, including new linkages under I-10 and over the Santa Cruz River. Rancho Chul-Shon, a 15-acre site immediately south of Mission Gardens, was to be re-created to reflect both the natural environment and cultural legacy of Tucson’s early inhabitants.

Most of the maintenance and operational costs relating to completed projects were expected to be paid, either directly or indirectly, by tenants, owners and/or operators of the specific project elements (e.g. museums, retail, etc). Costs for the operation and maintenance of publicly owned and/or operated projects such as the proposed International Visitors Trade Center, was to be paid by the City and other tenants. The anticipated operating costs for such facilities were expected to be paid from the future collection of City sales and/or hotel occupancy taxes generated within the District boundaries and from other funds available to the City. Based upon estimates at the time proposition 400 was passed, the average annual amount of future City “sales” and hotel occupancy tax revenues, which were expected to be received by the City for the proposed improvements, was \$2 million per year.



Table 1 provides an analysis of the projects and estimated costs for those projects that were included in Proposition 400, as compared to the actual costs, and status of those projects at June 30, 2010.

**Table 1 - Proposition 400  
Status of Original Elements with Actual Costs from Inception Through June 30, 2010**

<b>Project</b>	<b>Estimated Cost</b>	<b>Actual Cost</b>	<b>Status</b>
Development of Mission San Agustin Cultural Center	\$ 9,500,000	\$ 18,219,648	Design Completed
Rio Nuevo preparatory site improvements	6,100,000	979,182	Partially Completed
Enhancements to multi-modal linkages & crossings	6,000,000	18,027,752	Partially Completed
Construction of Sonoran Sea Aquarium	10,000,000	-	Cancelled-infeasible
Construction of International Visitors and Trade Center	2,500,000	1,208	Cancelled-due to funding
Construction of new Convention Hotel*	8,000,000	10,050,380	In design
Construction of mixed-use residential/commercial developments	2,000,000	5,523,863	Some homes built-Mercado District; available financing holding
Development of Multi-Cultural Facilities	700,000	1,580	Part of Tucson Origins Heritage Park
Enhancements to Children's Museum	300,000	-	On Hold
Construction of New Museums:			
Arizona Historical Society	12,000,000	1,467,183	On Hold
Universe of Discovery and Others	10,000,000	-	On Hold
Completion of Santa Cruz River restoration	3,000,000	-	On Hold
Construction of Presidio Historic Park	3,000,000	4,375,370	Completed
Restoration of Fox Theatre	4,200,000	11,519,702	Completed
Enhancements to Tucson Museum of Art, El Centro Cultural & Others	2,000,000	-	On Hold
<b>Total Costs</b>	<b>\$ 79,300,000</b>	<b>\$ 70,165,868</b>	

Source - Proposition 400 and District's general ledger maintained by the City of Tucson.

\* - Estimated District costs for possible construction of public areas, parking and other public improvements.

## Intergovernmental Agreement Between the District and City of Tucson

In July 1999 and March 2000, the District adopted an IGA with the City for the purpose of developing a multipurpose facility as defined by ARS §48-4201.4. A key provision of the IGA required that District decisions regarding zoning, planning, intensity and density of development or with respect to facilities or sites must first be approved by the City's Mayor and Council and further stipulated that the District shall not own, operate, undertake, or take any formal action with regard to any project, facilities or site within the District boundaries, except with consent of the City. Provisions also envisioned establishing a Citizens Advisory Committee and included general provisions that the City would lend the District money until TIF funds became available and required the repayment of any such loans. In addition, the IGA in part stipulated:

- District shall construct the primary component of the Rio Nuevo Project during the first phase of the construction.
- City will provide payments to the District or expend monies for land, infrastructure or other improvements an amount equal to the amount the District receives by the end of 10 years as required by ARS §42-5031(D)<sup>2</sup>.
- District construction costs of all public and District owned components of the multipurpose facilities site is or will be not less than \$200 million, and the City will provide the District with a listing confirming this amount.
- Upon termination of the District, its assets (less indebtedness and contractual obligations) shall be distributed to the City of Tucson in proportion of the City's revenue contributions to the District.

The District also adopted on July 19, 1999, Rio Nuevo District Resolution #1999-001. This resolution formally adopted Administrative Rules, appointed officers, called for the special election to be held on November 2, 1999, and agreed to make certain payments to participating municipalities. Section 9 of Resolution #1999-001 describes contributions to participating municipalities, *subject to passage of the special election*, as follows:

- City of Tucson: Reimbursed for the actual cost of the special election.
- To the City of South Tucson: \$500,000 upon issuance of bonds for the Rio Nuevo Project; plus, an additional \$500,000 from revenues received by the District from developer or developers involved in Rio Nuevo Project.

On October 22, 2010, the Reconstituted Board of the Rio Nuevo Multi-purpose Facilities District adopted a new set of Administrative Rules to address the provisions of ARS §48-4203(A)(4) and (5). These new rules govern the administration and operation of the District. Among its articles are rules, procedures and processes addressing the following:

1. Name, Operation and Office
2. Organization and Termination
3. District Powers
4. Board of Directors
5. Voting
6. Officers and Staff
7. Indemnification and Liability Insurance
8. Conduct of Meetings
9. Contracts and Official Records
10. Amendments

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<sup>2</sup> In 2006, the period of time for the City of Tucson to complete the match of the District's expenditures was extended to 25 years by amendment to the Arizona Revised Statutes.

## Recent Legislative Changes Impacting the District (2006 and 2009)

House Bill 2702, enacted in 2006, included provisions that extended from 10 years to 25 years the term of the District to allow for the capture of the incremental sales tax generated in the District. Further, on November 23, 2009, the State Legislature passed Senate Bill 1003 which changed the configuration of the District Board but also added certain significant restrictions on the District's activities. Specifically, the new provisions expanded the District's Board of Directors from four members to nine members, requiring that five members are to be appointed by the Governor, at least three of whom must reside in Tucson and each of whom must have experience in Commercial Real Estate, Construction, Redevelopment, Real Estate Law, Architecture, Economic Development or Commercial or Public Finance. Further, two members are appointed by the President of the Senate, at least one of whom must reside in the City of Tucson and two members are appointed by the Speaker of the House of Representatives at least one of whom must reside in the City of Tucson. Each Board member serves at the pleasure of their appointer. The remaining Pre-2010 District Board members have been allowed to complete their terms, which expire in May 2011.

This new legislation set limitations as to the activities of the District in allocating or using TIF revenues as specified in ARS 48-4204 (B):

*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 component 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:*

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

In essence these provisions stipulate that no new projects be undertaken by the District Board until a notice to proceed is issued for a hotel and convention center. At the October 7, 2010 District Board meeting, the District passed a motion issuing a notice to proceed subject to specific parameters. The motion is composed of eight amendments and passed with a vote of 8-2 with one abstention. The District issued this notice to proceed to address the City's specific request regarding various term sheets prepared by the City for District reply, rebuttal and/or concurrence. The City represented to the District that a clear response was in order to move forward with the proposed project's many contracting requirements (preparation, negotiation and drafting of the design build agreement, room block agreement, hotel operating/flag agreement with owner, etc.) and to prepare for a bond issuance prior to end of year 2010 to take advantage of the Build America Bonds. The motion was later revised on October 20, 2010 to allow the (to be created) owning entity of the proposed hotel project to issue the Bonds.

## District Funding and Projects Undertaken

### District's Focus Far Broader than the Statutory Multipurpose Facility

From its inception through early 2009, it appears the District's priorities were to foster and improve the City's cultural, civic, artistic and related features to enhance downtown Tucson rather than concentrating on statutorily-intended catalyst projects that would spur economic growth, leverage private development dollars, and generate higher levels of sales and other tax revenues. Documents suggest that in establishing the District, the City was seeking to reenergize two decades of redevelopment efforts to restore historic neighborhoods, reestablish a retail core, emphasize downtown's role as the community governmental and cultural center, attract residential and mixed use development, improve transportation and parking, and preserve and celebrate Tucson's heritage. In fact, memoranda and notes from a number of discussions reveal that the District's formation would facilitate a new source of funds to the City, the State's portion of the incremental sales taxes (TIF), for downtown/Rio Nuevo South improvements that, without the approval of Proposition 400, such improvement projects would "stay in a plan on the shelf." The City's intent to use a MFD as a funding vehicle for downtown redevelopment is evident in the plans for the November 1999 election to decide Proposition 400, in the ballot measure language and pamphlet, and in subsequent actions taken by the Board.

We found no indication that the City recognized or viewed the broad-scoped redevelopment approach for the downtown and Rio Nuevo areas as contrary or in discordance with the State's statutory provisions. The City leadership encouraged a holistic and all-inclusive approach to using the TIF funds and the expectations were that these funds would be used for the direct benefit of all Tucsonans. The vision presented in the September 7, 1999 Mayor and Council Memorandum reflects Tucson's intent for these funds. This memorandum states in part:

*Ten community forums have been held to generate the plan and the specific projects to be accomplished through the use of Rio Nuevo Multipurpose Facilities District (RNMFD) funds....*

*With broad community input, the attached plan has been developed and includes a prioritized listing of projects to be funded through District revenues. The plan represents a consensus of the appropriate locations and priorities for entertainment venues, museums, retail establishments, residential opportunities, hotels, and key multi-modal transportation corridors within the Downtown and Rio Nuevo South....*

*It is important to note that some of the projects listed here may be eligible for State, Federal and foundation grant funds. Any obligations made by the District to fund these ventures would be available to apply as a match requirement under such a scenario. Therefore, this action plan seeks to not only leverage private investment in Downtown and Rio Nuevo, but also leverages grant monies that will be aggressively pursued.*

The Mayor and Council Memorandum set forth specific projects, classified them by nature of the project, and listed them in priority order, as follows:

- 🏛️ *Development of Mission San Agustin Cultural Center*
- ✂️ *Completion of Rio Nuevo South preparatory site improvements*
- ✂️ *Enhancements to multi-modal linkages and crossings*
- 🏛️ *Construction of the Sonoran Sea Aquarium*
- 🏛️ *Construction of the International Visitor's and Trade Center*
- 🏛️ *Construction of new convention hotel within one of the targeted locations*
- 🏛️ *Construction of residential units within the targeted locations...(mixed use)*
- 🏛️ *Development of multi-cultural facilities at southern end of Rio Nuevo*
- 🏛️ *Enhancements to the Children's Museum*
- 🏛️ *Construction of additional museums within Rio Nuevo South*
- ✂️ *Completion of Santa Cruz River restoration (...in collaboration with Pima County)*
- 🏛️ *Construction of Presidio Historic Park*
- 🏛️ *Restoration of Fox Theatre*
- 🏛️ *Enhancements to Tucson Museum of Art and El Centro Cultural*

As this Memorandum conveys through the priority and allocation of funds, the City's intent for the new TIF funds were fundamentally to provide to the residents of Tucson a redeveloped, beautified, and culturally rich living environment. While the plan included many tourist-friendly attractions, few of these elements would generate sales or use taxes (with the exception of the "convention hotel"—number 6 in priority of 14 listed items) and most would require significant additional funding to reach fruition and also necessitate ongoing public funds or philanthropic support for operations and maintenance. Important is the absence of discussion or inclusion of the purchase or improvements to the TCC—the stated primary component of the District.

**Table 2 – Proposed Rio Nuevo Projects**

City of Tucson Mayor and Council Memorandum Summary of TIF Allocation by Category Proposed Rio Nuevo Projects September 7, 1999	
	<i>In millions</i>
🏛️ New Museums and Aquarium	\$ 28 - 30
🏛️ Cultural	\$ 18 - 22
✂️ Infrastructure	\$ 15 - 17
🏛️ Commercial/Residential	<u>\$ 9 - 11</u>
<b>Total</b>	<b><u>\$ 70 - 80</u></b>

The ballot and required public information package to accompany the ballot measure generally reflect these 14 project elements stating, "The Rio Nuevo Project is a planned multi-faceted development project, including cultural and recreational amenities and improvements, unique historic re-creations, new and expanded museums, and mixed-use developments" and iterates that the "Project Site includes the existing TCC arena" stating it is a "necessary component of the project." The funding estimates provided within the ballot packet for the 14 project elements were consistent with the Mayor and Council Memorandum figures and established project-wide

anticipated costs of \$320 million with \$60 million generated from the TIF and another \$60 million



from the City by “Tucson City business privilege (“sales”) taxes generated within the Rio Nuevo Site” (the City considered this to be part of their match), with the remainder of the funding expected from other public and private sources. Also of note in the ballot package are comments about the “Project’s maintenance and operational costs” that were expected to be paid either directly or indirectly by tenants, owners, and operators of “specific Project elements (e.g. museums, retail, etc.)” and costs related to publicly owned facilities to be borne by the City and other tenants.

The visionary disconnect between the statutory intent of a MFD and the City’s regional redevelopment is further reflected in public forums and meetings that took place subsequent to the passage of Proposition 400, which were intended to solicit public views of how the District should use the TIF funds. In ranking the desires for using these funds, participants in the forums rated “no new Tucson Convention Center” at the top of the scale and ranked “motivate additional economic development” and “integrated convention center” at the bottom. Further, during public forums general vision statements were developed for project evaluation criteria in the areas of economic sustainability, being “Tucson Centric”—specifically, honor, interpret and restore Tucson’s history, environmental compatibility, and housing. While these elements are important aspects in evaluating potential Rio Nuevo projects, the absence of including TCC related projects or economic catalyst projects as key criteria reflects the discordant perspectives related to the District’s initial intent and subsequent decisions. In particular, the visions statement for “Economic Sustainability” includes “enhancing businesses/activities that provide appropriate compensation for employees, revitalize downtown, and motivate additional economic and social development” but makes no mention of creating projects to generate additional revenue from outside sources or leveraging TIF economic benefits.

Further, the District Board, prior to its recent reconstitution, embraced and supported the region-wide perspective that is evident in its approach and process for approving projects. One of the District Board’s earliest actions was approving a contract with Hunter Interests Incorporated to prepare a comprehensive Rio Nuevo Master Plan. Although stated within the text of Master Plan that the approach of the development process was to be such that it could “realistically be implemented during a 10-year period given the funding mechanism established with the tax increment district and the current economic realities of the metropolitan Tucson markets” and that the “planning objective from the start was always to include only those public and private development projects which could be realistically implemented during the next 10 years” the plan encompassed the entire Rio Nuevo and downtown areas, projects well beyond the assets to be allocated by the District, and timeframes that would not be reached during the 10 year funding window.

The \$600,000 Master Plan, funded by the District and completed in February 2001, provided a single document reflecting drawings and visions for the full project build-out, and was accompanied by 28 *Technical Memoranda* comprising 400 pages of details involving a variety of planning aspects including economic modeling, project phasing, and capital project cost estimates. Similar to the approach used in the ballot language, the Master Plan classified projects as cultural, residential, commercial, and infrastructure and clearly demonstrated the broad-scope approach embraced by the Board. The far reaching focus of the Board can be illustrated in the fact that the Master Plan sets forth 47 projects with a total cost of approximately \$757 million—only \$70 million, or just 10 percent, of this amount coming from projected TIF funds. This represented a \$437 million or 137% increase from the original plan outlined in Proposition 400 published only 15 months prior to this plan. Projects include wholly private sector developments, wholly public sector projects (all public sources of funds), and a number of others to be completed with public/private partnerships. Overall, under the Master Plan, 20 projects would be allocated the estimated \$70 million in TIF funds—18 projects classified as

cultural and one specifically designated as “infrastructure” (Santa Cruz River Restoration). The other project, deemed “commercial,” was the Conference Center/TCC Lobby/Parking project - \$14.5 million in costs to be funded with \$10 million in TIF funds and \$4.5 million in public funds. Both the Conference Center/TCC Lobby/Parking and the Santa Cruz River Restoration was included in the 32 Phase I projects.



## District Operated More Like a Redevelopment Agency/Department of the City

Both the Rio Nuevo Citizen's Advisory Committee and the District Board approved the Master Plan in 2001 as a general concept and design vision with the caveat that particular budgets and projects would be individually approved by District Board actions. Although the Board chose to deliberate projects and approve District funds accordingly, we did not locate within the Board's records any formal policies and procedures or criteria for selecting, prioritizing, or managing the capital projects to be funded with TIF funds. Within Citizens Advisory Committee records we found general guidelines that it developed for its deliberative processes but we did not identify that such principles were entertained or adopted by the District Board. Alternatively, it appears that projects were brought forth to the District Board through presentations, and approval and funding decisions were made as a result of subsequent discussions; these deliberations do not convey that Board members applied any certain set criteria or measures in approving a project, contract, agreement, or giving direction to City staff for action. As a result of recent legislation and the reconstituted District Board, actions now appear to follow much more structured processes.

The provisions of Proposition 400 set forth 14 project elements for funding with the voter approved reallocation of incremental sales taxes. Not included within these projects is the purchase of the TCC. Nonetheless, to fulfill the enabling state legislation facilitating the creation of the District and triggering the flow of TIF funds to the District, in September 2001, the District Board passed a resolution to acquire from the Business Finance Development Corporation (usually referred to as city-owned) the TCC. The District issued approximately \$33.6 million in Certificates of Participation (COPS) to pay for the required "primary component" and immediately leased the multipurpose facility back to the City in a "Triple Net Lease" at a rate equal to the District's debt service requirements on the COPS.

The Board's resolution stated that with its acquisition of the TCC, it would make improvements, renovations, and modifications to enhance its ability to function as a multipurpose facility. Nonetheless, little attention was given to the Convention Center for several years. Instead, the District focused on the Rio Nuevo region-wide initiatives with significant attention to the "Westside" and the cultural projects related to Tucson Origins Heritage Park and the related environmental remediation and infrastructure efforts, as well as the various museums and centers to populate the area; the "East End" including the significant renovation efforts related to the Rialto and Fox theatres, the Thrifty Block, Depot Plaza Garage (and associated housing and retail), various streetscape and infrastructure projects; and the excavation of Presidio and Heritage Park in the heart of downtown Tucson. The attention given to the TCC was focused on associated projects including allocating more than \$20 million to the University of Arizona Science Center and the planning of a civic center plaza and garage with the only significant attention to the TCC being the relocation of the ticket office, a change of carpeting, and improved signage.

**Table 3 – 2007 Use of District Funds**

Distribution Across Tucson of District Funds 2007

Prior Capital Project Costs and Allocations to Date

35.9%	West Side
19.6%	East Side
35.7%	Infrastructure
8.7%	Unallocated

Source – City Manager’s Report to the Rio Nuevo Citizen’s Advisory Committee, May 22, 2007.

Additionally, the District’s attention to citywide redevelopment is reflected in the information that supported the legislative efforts to extend the life of the District to 25 years. In the summer of 2006, the Arizona Governor signed the legislation that extended the TIF duration for the Rio Nuevo Multipurpose Facilities District from the initial 10 years to 25 years. At that time, the City Manager stated that without this additional revenue stream the “downtown revitalization efforts would be grossly undercapitalized.” What is more telling is that the intent of the local leaders was to use these funds to develop many diverse projects believing that “without which our overall multiple destinations strategy would

surely have failed.” Additionally, the City Manager’s comment that “it has always been my goal and that of the Mayor and Council Members, to provide an equitable distribution of Rio Nuevo funds” and he described the proposed allocation for the anticipated \$875 million in additional TIF funds would be generated during the fifteen year extension of the District throughout the area. Although he stated that “in today’s dollars this is approximately \$581 million,” he did not cite the underlying basis for such a significant increase in the related incremental sales tax revenue. Even considering the District’s increase in TIF revenues over the first several years of its existence, the future revenue projections appear overly ambitious and have not materialized to date and in fact have decreased since fiscal year 2007.

The City Manager also provided the statistics, referenced in Table 2, as evidence of the intent to equitably allocate TIF funds throughout Tucson. As of 2007, the District continued to target the major cultural attractions included in the voter approved ballot measure and Master Plan as well as the redevelopment of the entertainment districts. At this point, the City Manager also noted the “need to fund investments in parking facilities and infrastructure essential for the private sector to flourish.” Thus, he provided justification for the District Board’s intensive investment in infrastructure, environmental remediation, and parking lots rather than economic catalyst projects that would attract new sources of tax revenue.

During the mid-2000s, the District did periodically evaluate a variety of options to enhance the TCC including building a new arena and considering a convention center hotel. With the booming economy and related growth of the TIF revenue over the period, the concept of developing the primary component gradually garnered greater attention. In his May 22, 2007 presentation before the Rio Nuevo Citizens Advisory Committee, the former City Manager spoke of the City’s “series of investments in cultural and entertainment attractions that are expected to have spin-off economic benefits.” As an example, he cited the proposed new arena and convention center expansion and noted that together “such projects could bring nearly one million people downtown and have direct and indirect economic impacts of over \$275 million annually.” He spoke of these projects as catalysts for “major mixed-use, higher density urban scale redevelopment in and around the TCC area.” It should be noted that the plans of the City for an arena have been discontinued as of the date of this report.

## The District Assessed Its Progress at June 2009

Our review of financial data shows that over the 10 plus years of the District's existence, more than 50 projects were funded in total or in part with District resources. The priority of these projects appeared to have changed from both the provisions of Proposition 400 as well as the February 2001 Master Plan. As of 2009, records show that the District purchased property—10 separate transactions totaling nearly \$40 million. Included in these purchase is the District's acquisition of the TCC from the City which was immediately leased back to the city for the cost of the debt service on the \$33.6 million in 10-year COPS. Also funded in part or in total using TIF funds at this point in time were infrastructure improvements—20 projects costing more than \$47.8 million; three landfill and environmental projects supported with over \$3 million; approximately \$3.1 million spent on the TCC - at that point comprised primarily of the new ticket office and the planning of other stages; and historical and archaeological research and other historical-related initiatives undertaken for \$7.3 million. How the Board viewed that these projects were to come to full fruition and to fit into the "multi-destination" vision and still meet the intent of the MFD statute requiring that such projects were necessary or beneficial to the TCC or revenue generating is unclear. Also, unknown was how far along any of these projects were when discontinued and how much more funding would be needed for completion, and the sources of such funds.

In 2009, the District Board issued a *2009 Annual Report* that presented a brief update of the status of the "voter-approved Project Elements (with current status)" affording a comparison of what was first envisioned and presented to the voters and the results of the District's efforts at the end of nearly 10 years in existence. As Table 4 reveals, the District Board report links the 14 Proposition 400 project elements to outcomes almost 10 years later. Of note is that the original provisions of the District allowed only a 10-year window to collect the tax increment revenues and complete the projects; similar time frames were included in the Master Plan. Clearly, the broad approach taken by the District in funding this wide variety of disjointed projects proved to be unsuccessful. As a result of the changes in project priorities, broad redevelopment focus, and intensive investment in infrastructure and other public works type efforts, only two of the Proposition 400 projects are complete at mid-2009. The Annual Report shows that the remaining projects are in various stages, ranging from cancellation to being on hold or in some state of partial completion.

By-in-large, the District Board's *2009 Annual Report* provided general governance overviews, significant actions, and TIF revenue generation and spending information. However, not only did it provide a "Looking Back" overview, it also broadcasted its forward-looking initiatives noting the Pre-2010 District Board had approved an update of the hotel market and feasibility analysis to assess, in relation to the convention center and convention center hotel, the current market conditions and demands. While the stated purpose of the Annual Report was to comply with bond underwriter requirements for debt issuance, this study along with the related resolution reflects the Board's resolve to refocus its future efforts on the primary component of the MFD.

**Table 4 - Proposition 400  
Status of Original Elements**

<b>Project</b>	<b>Status</b>
Development of Mission San Agustin Cultural Center	Design Completed
Rio Nuevo preparatory site improvements	Partially Completed
Enhancements to multi-modal linkages & crossings	Partially Completed
Construction of Sonoran Sea Aquarium	Cancelled-infeasible
Construction of International Visitors and Trade Center	Cancelled-due to funding
Construction of new Convention Hotel	In design
Construction of mixed-use residential/commercial developments	Some homes built-Mercado District; available financing holding
Development of Multi-Cultural Facilities	Part of Tucson Origins Heritage Park
Enhancements to Children's Museum	On Hold
Construction of new museums	On Hold
Completion of Santa Cruz River restoration	On Hold
Construction of Presidio Historic Park	Completed
Restoration of Fox Theatre	Completed
Enhancements to Tucson Museum of Art, El Centro Cultural & Others	On Hold

<sup>1</sup>A project in collaboration with Pima County.

Source: 2009 *Annual Report*, Rio Nuevo Multipurpose Facilities District, FY 08/09

## The District Board Exercised Only Marginal Control and Management Over TIF Funds or Related Projects

From the District's inception, TIF monies were to be earmarked for signature cultural and key projects; however, gradually this finite pool of additional TIF funds was diluted or redirected to support a wide array of projects, ranging from theatre renovations and cultural parks to a freeway underpass widening and parking garages. While some of these projects are integral to those originally earmarked, we found that the lack of strategic oversight and management of the TIF revenues by the District Board resulted in the disjointed use of these monies for subordinate projects or for funding non-sustainable major projects only tangentially related to the District's mandates. It appears that the Pre-2010 District Board lacked essential fiscal and project-specific management reports and relied heavily on oral reports from city staff to oversee and administer funds in which District had fiduciary responsibility.

As noted previously in this report, we did not locate or identify any formal or informal criteria or guidance adopted by the Board for prioritizing, approving or managing TIF funded projects. Board minutes convey that members deliberated and considered projects that were presented for approval or funding but find little documentation that suggests that the Board had set criteria to be considered. In addition, operationally and in terms of governance, with the intertwined relationship between the City and the District it is difficult to separate the functions and responsibilities of each, and actions and activities blended together.

While the 1999 IGA between the District and the City generally delineated respective roles and responsibilities, in practice, no clear boundaries and responsibilities were in place, other than all District decisions must ultimately be authorized by the City and/or the Mayor and Council before actions could be taken. With all Board project approvals requiring consent of the Mayor and Council, it is unclear what level of control over District funds and related projects the Board actually retained. Moreover, with the required approval of the Mayor and City Council on all projects and funding decisions and City staff providing the District's management, staffing and other support activities, as well as conducting accounting and contract management functions for Rio Nuevo projects, it appears that very little was done by the Board without direct or indirect City involvement. Given that the Board did not establish, require, or maintain its own critical fiscal records to allow members to track and monitor on an on-going basis funding allocations, contract or agreement approvals, costs incurred to projected allocation, and other key data, its ability to exercise control or management over the use of the funds must have been significantly hampered. In essence, the District was treated as an extension or department of the City.

Unlike operational budgets and funding cycles that are approved and expire within a set period, usually one fiscal year, the allocation and spending of District funds requires not only planning and deliberation, but comprehensive long-term project budgets that track obligations, project expenditures, funding amendments, project delays, and matches these dynamic activities against cash flows and funding capacities. Government entities involved in capital project initiatives typically develop and maintain formal budgeting and monitoring documents such as Capital Improvement Plans ("CIP") that are rolling planning tools that project out—usually over 5 years—the capital initiatives and are updated as decisions are made, but at a minimum annually. Based upon our interviews with key City and District Board members and intensive searches of the records, it appears that until the most recent two years, the Pre-2010 Board did not maintain nor require such tools for the District activities. As a result, it is likely that the District Board had only pieces of fiscal and project information related to the use of District funds and lacked solid, uniform, and complete data reflecting funds committed per project and subproject, expenses incurred to these elements, the needed funds to complete an initiative, and the amount of funding capacity remaining.



Instead, beginning with the ballot measure and further refined in the Master Plan, it appears that the Pre-2010 District Board allocated funds at very high or gross levels that earmarked large sums of money for general project elements. However, the stated policy of the Board was that projects must be considered and approved individually for funding. Our review of Board resolutions and minutes reflect inconsistent practices in those efforts—while we can find approvals for projects either at the project element level through board action, on a fiscal year appropriation basis as the project was included in the annual budget allocation, or included in official bond statement language, there does not appear to be uniform approval processes with documentation tracking these funding allocations back to actual expenditures or project amendments. Furthermore, it is unclear how or whether the Board was aware of the total amount of funds it committed over the period to these long-term capital projects. Overseeing these funds would be difficult under the most organized and rigorous processes due to the broad reaching vision of the use of the District funds and the literally dozens of contracts, agreements, and activities required to accomplish even small aspects of a major project.

Board records reflect its activities largely focused on considering and approving projects based on verbal presentations and initial project proposal packets and received only limited or sporadic project updates that did not always discuss funding or provide detailed cost elements. Only infrequently did we find evidence that the Pre-2010 District Board discussions included detailed financial data, and we found little mention of budget to actual comparisons. Additionally, it appears that District Board approvals varied at the level of detail and value of project and did not always include project costs. For example, while in February 2002 the District Board directed staff to procure a contract not to exceed \$358,000 toward the cost of stabilizing 196-200 N. Court Avenue, in the following month it approved the “acquisition of NE corner of Church Avenue and Council Street and NW corner of Stone Avenue and Council Street” with little other data and no cost figures included in the Board minutes or available documents. We did not find that detail regarding this transaction was subsequently attained and discussed by the Board. Reviews of the Board minutes show numerous approvals of contracts, development agreements, and intergovernmental agreements, but we find no monitoring or records that formally track these decisions back to general allocations for the large projects. With the nature of capital projects being long-term and long-tailed, it is difficult to know the status of District funds and its projects without matching the high-level project commitments back to the many subordinate agreements or contracts.

It appears, however, that general financial updates were prepared by the City from time to time and presented to the Mayor and Council, Citizens Advisory Committee, and the District Board. While we can locate within the Mayor and Council and Citizens Advisory Committee records these documents, we could not locate them within the District records although Board minutes suggest such documents were likely provided with the bulk of these discussions surrounding Rio Nuevo-wide project progress. The Mayor and Council records show a variety of reporting efforts over the years related to Rio Nuevo—considering TIF funds as well as other non-public funding sources.

In late 2003, it appears that the City Manager discussed instituting a “simple report” process to inform the District and the Mayor and Council of “where funds have been committed, how that corresponds with the Master Plan, and what non-Rio Nuevo leverage is occurring Downtown.” This chart of “Downtown Projects 2003” reflected 28 projects in the three regions—East End, Civic Plaza, and West Side—and showed commitments of \$33,207,802 in TIF funds to 7 projects. Records suggest that beginning in May or June 2004, these reports were provided to the Board and Citizen’s Advisory Committee. Nonetheless, in the months that follow, District records do not reflect consistent reporting but rather a variety of fiscal and project update

pieces—these reports were not uniform as not all schedules were always included in these packets. For example, these reports might include a:

- “commitments” report reflecting total dollar commitments to one of the project classifications updated to include a commitment made during the period;
- TIF revenues received to date by month; projected future TIF fund receipts; a District “Schedule of Revenues, Expenditures and Changes in Fund Balance” (summary financial statement) for the period ended;
- and/or a matrix of the status and progress of City Rio Nuevo projects.

For the most part, when the financial statements for the District were included, expenditure categories were limited and capital projects expenditures were a single line item. When annual budget allocations and actual expenditures were included, data was at a summary level and not detailed for any project or initiative.

We found that periodically, once or twice a year, the City provided a worksheet that reflected all Rio Nuevo projects (noted as Tucson Downtown Investments) and identified funds “committed” and “expended” by categories such as TIF or District funds, public funds, and private funds. The data presented in these schedules were abbreviated, incomplete and confusing and, other than generally using the same project names, the information did not track between one report and the next. For example, a late May 2004 worksheet shows only “committed funds” and reflects some expenditure data from TIF funds but in a similar document as of June 30, 2006, “committed funds” seem to represent promised but not started and unspent whereas “expended funds” appears to show amounts spent to date with no indication of how much more TIF funds are committed or needed in the future. The other fiscal schedules we found continue to show the same deficiency of detail and lack of continuity until August 2008 when more detailed useful information was included in the District Board records.

The set of information reviewed by the Board in August 2008 does include revenue and expenditure data from inception of the District through May 31, 2008. The packet also includes a “Comprehensive TIF Capital Funding Plan” that proposes District funding allocation through 2014 in anticipation of upcoming debt issuance in September 2008 for \$72.5 million (Actual amount of issuance was \$80 million), as well as considering second significant round of bond sales to take place in 2009. While the packet used by the District Board included important data, as we found in earlier fiscal Board reports, the information did not match expenditure data against prior commitments (prior allocations or commitments are not even included) nor was any data presented for the District Board to view outstanding liabilities on contracts and other agreements already in place and thus should be considered “spent”. Further, although one worksheet did add expenditures to proposed future allocations of District funds for certain projects, nowhere could we find discussions of each existing project status and stage, or estimates of costs to bring projects to completion. Without access to complete data that would provide the universe of projects underway, contracts and agreements in progress, resources necessary to bring each venture to a reasonable conclusion, and hard funding commitments already in place, decisions appear to have been made without full knowledge of conditions.

In addition, statutory provisions require the District Board to formally consider and approve an annual District budget and submit it to the Pima County Clerk. Within these budgets, was typically, but not always, some delineation of the allocation for the year of the capital projects funding. While annual funding appropriations are critical to sound fiscal control and fundamental to fund accounting, we found that the project descriptors were not tied to accounting project codes or descriptions to allow the tracking of spending approved to actual



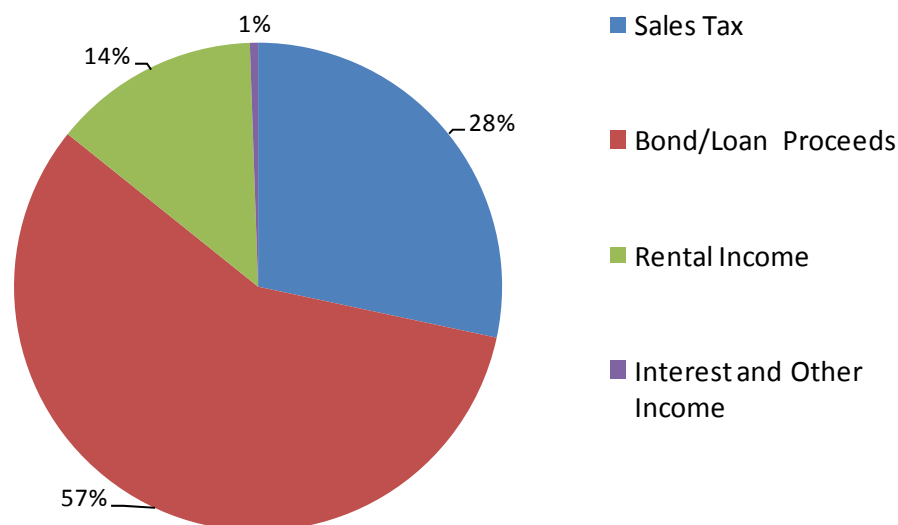
expenditures. Further, we found little relationship between annual appropriation amounts for projects to actual expenditures. In some annual budgets, capital project expenditures greatly exceeded amounts appropriated. More common, however, was significant capital project appropriations and far lower spending – from \$3.3 million left unspent to more than \$35 million. Given that the nature of capital projects are multi-year and subject to numerous factors such as planning, permits, designs, contracts and other agreements, and more – delays and long-tailed spending is expected. However, the District’s budget process should have included an in-depth discussion of allocations versus actual spending and appropriation amounts and have been matched to reasonable expectations, near-term projections and contract obligations. Moreover, this lack of synchronization of appropriations to spending demonstrates the need for not only a long-term capital planning tool such as a CIP but also demands that as each fiscal year closes, the year’s appropriations should have been compared to expected actual expenditures and adjustments made for the upcoming fiscal year.

## The District Generated Significant TIF Funds but Spending Was Broad and Without Assurances of Essential Outside Funding

Depending on the type of TIF District created, projects within a TIF district can be financed in a multitude of methods. The Rio Nuevo District was established as a multipurpose facility sales tax district and, as such, sales taxes were frozen to create a baseline in the year the District was created (i.e. 1999) and incremental sales taxes received on transactions in the TIF district would be deposited into the District to be used to finance future District projects. Another common mechanism utilized to fund District activity is through debt financing. In a MFD TIF district like the District, debt is issued to spur economic development either from financing TIF projects or via outside developers in the hopes that that the economic impact created by the project or development would produce an increase in TIF funds at a rate significant enough to allow the District to pay off the debt issued for that project. In addition to these funding sources generated by the District, the District also had a dollar-for-dollar match on TIF fund expenditures from the City.

Chart 1 represents the TIF revenues and other financing sources by source received by the District from inception to June 30, 2010.

**Chart 1 - District Revenue by Type**



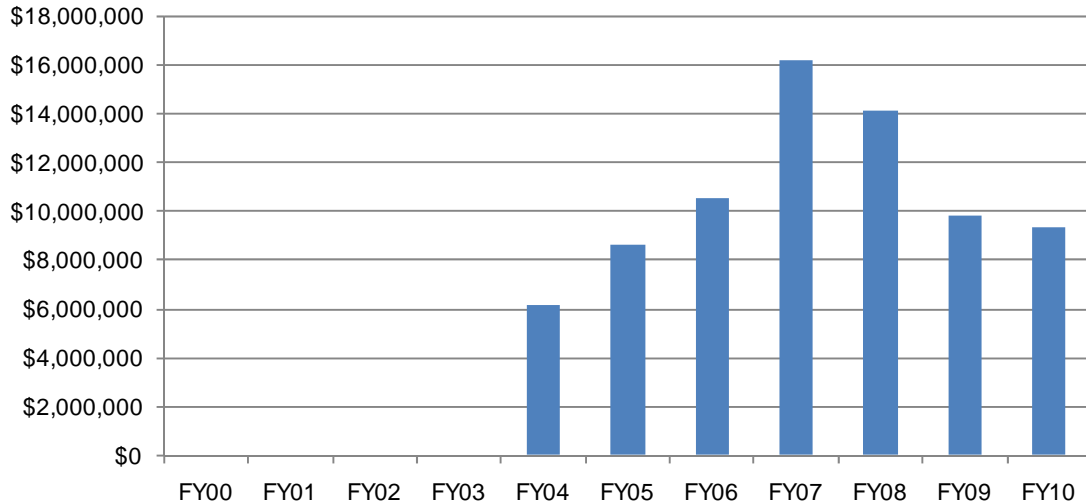
Source – The District’s general ledger, which is maintained by the City

As noted in Chart 1, 57% of District’s revenues/other sources have been derived from debt financing while only 28% of total District revenue was generated by incremental sales tax revenue. An additional 14% of District receipts were derived from rental income. The following is an analysis and breakdown of each of the three major District revenue sources.

### Incremental Sales Tax Revenues

Incremental sales tax revenue did not start flowing into the District until 2004. From 2004 through 2010, the District sales tax revenue generated ranged from \$6.2 million (fiscal year 2004) to \$16.2 million (fiscal year 2007).

## Chart 2 - Sales Tax Revenue by Fiscal Year



Source – The District's general ledger which is maintained by the City

As noted in Chart 2, sales tax revenue for the District peaked in fiscal year 2007 at just over \$16 million and has been declining since with just over \$9.3 being received in fiscal year 2010.

### Rental Income

The majority of the District's rental revenue, or more specifically \$34.9 million out of a total of \$35.2 million generated since its inception, is derived from the TCC. The District purchased the TCC from the City in the Fiscal Year 2002 for \$32.9 million. In order to purchase the TCC, the District issued Certificates of Participation (COPS) in the amount of \$33.6 million. The TCC was then leased back to the City in a triple net lease. The original lease term for this agreement was set to expire in 2012. The lease payments under the original arrangement were set to equal the debt payment schedule on the COPS. In addition, the City is responsible for the operation and maintenance costs of the TCC. Therefore, the original purchase of the TCC was a breakeven investment whereas the District is and will continue to receive payments from the City in the exact amount of the debt payments through the lease back through 2012 when the TCC debt is paid off. In other words, the revenue generated each year by the TCC equals the amount of expenses incurred each year and the TCC has no net income or loss through 2012.

In 2009, the lease term for the TCC was extended to 2025. This amendment to the lease term also included an amendment to the payment terms on the lease; starting 2013 the City is scheduled to pay between \$1.2 million and \$1.3 million to the District each year until 2025. Additionally, since the TCC debt will be paid off in 2012, these payments can be utilized by the District for other expenditures.

Another source of rental income is the Rialto Theatre. The Rialto Theatre project included the purchase of the theatre and a development agreement for restoration, operation and management of the theatre. The Theatre is operated by Congress Street Historic Theatre Foundation. The project was supported by the Rio Nuevo Citizens Advisory committee and was approved by the Rio Nuevo Multipurpose Facilities District Board on June 9, 2004 and then approved by the City of Tucson Mayor & Council on September 7, 2004. The Theatre Foundation is required to pay to the District \$3,690/month for operation of concessions. Though, these rental payments were not part of the scope of this engagement, the District should ensure that the Theatre management group is properly making these monthly payments.

### Bond/Loan Proceeds

The Bond/Loan Proceeds category is comprised of the following:

**Table 5 – Bond/Loan Proceeds by Category**

Description	Amount
2002 Series COPs	\$ 33,575,000
2006 Series Bonds	\$ 5,800,000
2008 Series Bonds	\$ 80,000,000
2009 Series COPs	\$ 12,560,000
Loan from the City of Tucson	\$ 14,577,549
Total Debt Financing	\$ 146,512,549

Source – The District's general ledger, which is maintained by the City

As discussed under the *rental income* section, the 2002 series COPS in the amount of approximately \$33.6 million were issued to purchase the TCC from the City. The 2006 Series Bonds in the amount of \$5.8 million were issued for the purchase and renovation of the Fox Theatre. The 2009 COPS were issued for design of a convention center hotel. Approximately \$8 million of the 2008 Series Bonds was put into a subordinate lien reserve account, approximately \$5 million into the capitalized interest subaccount and the remainder of the proceeds was to be spent as shown in Table 6.

**Table 6 - Series 2008 Revenue Bond Uses  
with Actual Expenditures Through June 30, 2010  
(\$ in thousands)**

Title	Estimated Amount	Actual Cost
Mission San Agustin Gardens Project	\$ 3,000	\$ 2,051
Mission Landfill	5,400	2,229
Civic Center Projects	10,000	8,623
Downtown Infrastructure Projects	6,000	8,670
Depot Plaza Parking Garage	11,600	13,213
Depot Plaza Public Improvements	1,400	208
UA Science Center/ AZ State Museum	2,000	-
Arizona History Museum	3,000	1,467
Tucson Children's Museum (Design)	1,200	-
Cushing Street Bridge & Roadways	1,600	1,237
Clark Street Underpass Repayment	9,000	9,000
Barrio Viejo	2,000	226
Barrio Sin Nombre	2,000	123
Partial Repayment of City Loan	6,800	6,800
Greenway Multiuse Path	-	200
<b>Total Estimated Cost</b>	<b>\$ 65,000</b>	<b>\$ 54,047</b>

Source - District general ledger maintained by the City of Tucson

Another revenue source for the District was a \$14.6 million loan from the City to fund operations and capital expenditures of the District for fiscal years 1999 through 2004. As stated, the incremental sales tax revenue did not start flowing into the TIF District until 2004; therefore the District did not have any significant sources of revenues (outside of debt issuances) since its inception until fiscal year 2004. The City of Tucson provided a schedule of District expenditures from its inception to June 30, 2010. The amount of the expenditures on this schedule from 1999 through 2004 equaled to the total amount of the loan and tied to the City's audited Comprehensive Annual Financial Report. The IGA between the District and the City does not include an amortization or repayment schedule for this loan. The IGA with the City simply states that the amount would be repaid when funds are available; however the City created a de facto amortization schedule as shown in Table 7.

**Table 7 - RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
GENERAL FUND LOAN - PAYBACK SCHEDULE  
AS OF 1/8/07**

Terms of Loan				
	<b>Principal</b>			14,577,549
	<b>Term in Years</b>			22
	<b>Interest</b>			4.50% *
<b>Year</b>	<b>Total Payment</b>	<b>Interest Expense</b>	<b>Standard Principal</b>	<b>Principal Balance</b>
2006	-		-	\$ 14,577,549
2007	\$ 3,125,535	\$ 2,623,960	\$ 501,575	14,075,974 (a)
2008	1,157,565	633,419	524,146	13,551,828
2009	1,157,565	609,833	547,732	13,004,096
2010	1,157,565	585,185	572,380	12,431,716
2011	1,157,565	559,428	598,137	11,833,579
2012	1,157,565	532,512	625,053	11,208,526
2013	1,157,565	504,384	653,181	10,555,345
2014	1,157,565	474,991	682,574	9,872,771
2015	1,157,565	444,275	713,290	9,159,481
2016	1,157,565	412,177	745,388	8,414,093
2017	1,157,565	378,635	778,930	7,635,163
2018	1,157,565	343,583	813,982	6,821,181
2019	1,157,565	306,954	850,611	5,970,570
2020	1,157,565	268,676	888,889	5,081,681
2021	1,157,565	228,676	928,889	4,152,792
2022	1,157,565	186,876	970,689	3,182,103
2023	1,157,565	143,195	1,014,370	2,167,733
2024	1,157,565	97,549	1,060,016	1,107,717
2025	1,157,565	49,848	1,107,717	-
<b>Total</b>	<b>\$ 23,961,705</b>	<b>\$ 9,384,156</b>	<b>\$ 14,577,549</b>	

\*Provided by the Treasury Division (10 Yr Treasury Rate on 12/2/05).

(a) The interest for 2007 is a catchup amount as determined by management.

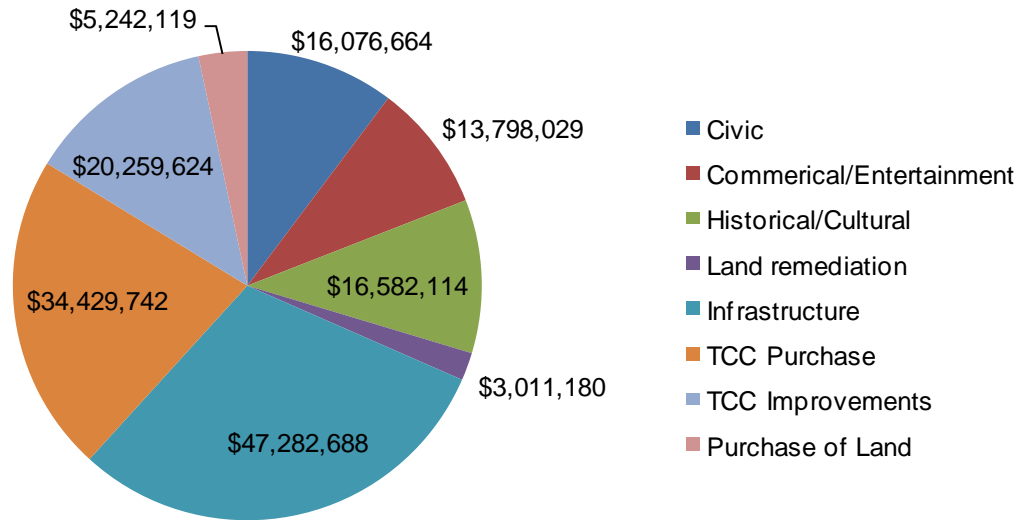
Source – City, Finance Department

As reflected in Table 7, the City expected the District to make a \$3.1 million payment in fiscal year 2007 and payments each subsequent fiscal year in the amount of \$1.2 million until the loan was fully paid in 2025. Additionally, it should be noted that it was not clear for many years whether the City intended to use these amounts as a part of the City's match or would seek reimbursement. The District made the 2007 and 2008 payments as shown in the payment schedule above however, in fiscal year 2009 and 2010, the City began drawing additional funds from the District accounts to repay this loan. Specifically, the City made withdrawals of \$7.3 and \$5.2 million in fiscal year 2009 and 2010, respectively. The fiscal year 2009 payment included a \$6.8 million anticipated principal payment from the series 2008 bonds that were issued by the District (as reflected in table 6). In fiscal year 2010, the City began withdrawing approximately \$500,000 per month to pay the loan until the Re-Constituted District Board discovered this was occurring and requested that the City stop withdrawing funds in April 2010. As of June 30, 2010, the District had repaid \$12.8 million of principal on this loan. We were told that these \$500,000 monthly payments were included in the adopted annual budget of the District. However, based upon the lack of detail included in the budget document it is difficult to ascertain whether the District truly understood this transaction. Additionally, it would appear that not only are these amounts in excess of the previously disclosed amortization schedule it considering the financial condition of the District likely does not meet the definition included in the IGA which states loans would be repaid "from the first moneys otherwise available to the District for such purpose".

In addition, we analyzed all projects financed by the District from inception in 1999 through June 30, 2010. Charts 3 and 4 provide a graphical representation of dollars spent by the District over the period by type of project. Chart 3 includes the purchase of the TCC (approximately \$35 million) from the City, while in Chart 4, we remove this significant transaction.

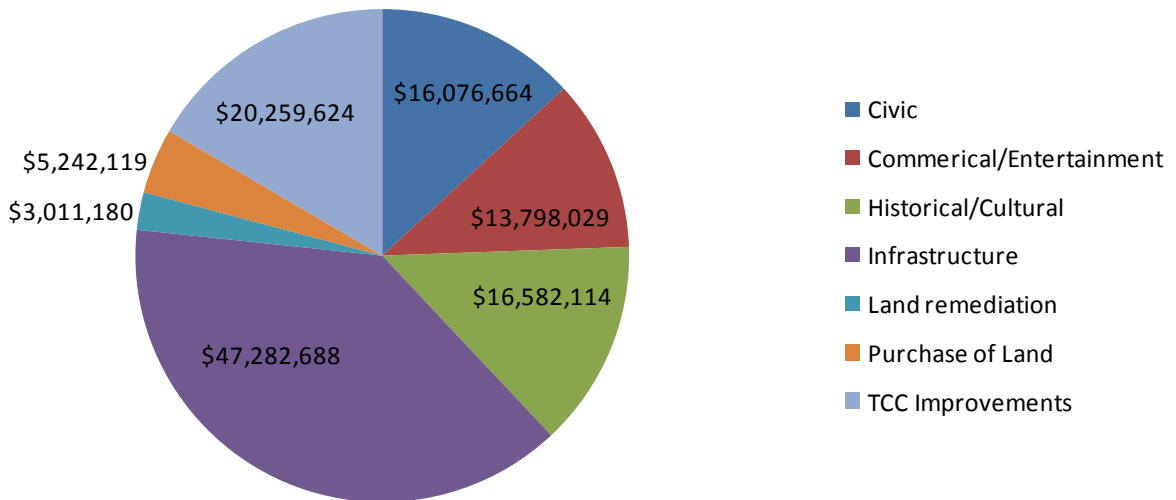
In Charts 3 and 4, items marked Purchase of Land are instances where the District purchased land for future development, but no such development had occurred as of June 30, 2010. Civic projects are related to improvements to improve the capacity of the downtown Tucson area and include such structures as parking garages. Commercial/Entertainment projects include concert venues and other mixed-use developments as an example the purchase and renovation of the Fox Theatre. Historical/Cultural projects were related to promoting the proud history and culture of Tucson through museums and exhibits such as The Mission Gardens. Land Remediation projects prepared previously unusable land for use by the district on future projects, such as the Mission Landfill. Infrastructure projects include roadway construction, streetscapes and other improvements to building sites for the benefit of Rio Nuevo developments like the Cushing Street Bridge project. Convention Center Projects include the purchase of the TCC and other improvements to that facility.

**Chart 3 - Project Expenditures by Project Type**  
 (\$156.7 Million Inception through June 30, 2010  
 Including TCC Purchase)



Source – Attachment H – Project Status Matrix

**Chart 4 - Project Expenditures by Project Type**  
 (\$122.2 Million Inception through June 30, 2010  
 Excluding TCC Purchase)



Source – Attachment H – Project Status Matrix



Based on our analysis, infrastructure projects resulted in the highest and most significant level of District expenditures with the amounts incurred exceeding \$47 million, or just over 30% of the total capital expenditures. Further, expenditure figures reveal that Civic and Historical/Cultural projects comprise another 21% or \$32.5 million of the District's spending and projects classified as Commercial/Entertainment comprise only 9%, or just under \$14 million of District funds. Additionally, improvements to the TCC comprise 13%, or just over \$20 million of total expenditures to date.

Charts 3 and 4 show that the majority of District project expenditures (\$47.3 million) were for infrastructure type projects and Historical/Cultural projects incurred another \$16.6 million of District expenditures. Whether these types of projects should have been funded by the City as oppose to the District is a difficult question to answer as the majority of the projects were compliant with the ARS except for the projects noted in the **Compliance Issues** section of this report. However, it can be stated that the majority of these projects did not directly generate sales tax which is a key factor to ensuring the viability of a MFD. Another factor that plays into this analysis is the City's dollar for dollar required match. **Attachment B** of this report provides a listing of all projects completed by the City from the inception of the District to June 30, 2010 in which they are considering matching funds. As of June 30, 2010, the City is stating that they spent just over \$163 million in matching funds for the District. However, the majority of the projects the City is claiming as their match were also Infrastructure or Civic related projects which again do not directly generate sales tax. In this type of arrangement, whereas a MFD and a municipality are splitting the costs to redevelop an area, we would most likely see the municipality cover the majority of the infrastructure and civic type projects and the MFD fund commercial or entertainment type projects that would directly spur economic development or generate sales tax. Whereas, in the case of the District and the City, both parties appear to have spent the majority of the funds on Infrastructure, Civic and other Historical/Cultural type projects.

Additionally, we reviewed the projects funding during Fiscal Year 2007-2008 when the District Board did not meet. Our review found that while District funds were used on a number of projects, some commencing during that period, all had been previously approved by the Board with the exception of the Downtown Infrastructure Improvement project (DIIP). The DIIP was not approved by the District Board until July 30, 2008 and the Mayor and Council did not approve the project until December 19, 2008. Accounting records for the District for the Fiscal Year 2007-2008 reflect \$338,477 in expenditures related to that project.

Another area of focus was on ownership of the assets resulting from investing in these capital projects. Based on our review of contracts, agreements, financial statements and other supporting documentation, we attempted to determine the assets the District owned. We found that various properties or projects that were acquired or utilized District funds with the intent by motion or resolution for the District to own such assets are not owned by the District at this time as the title is in the City's name. Additionally, this task to assign ownership of assets proved quite difficult as development agreements with the City were poorly written and either were silent as to ownership or the ownership terms were ambiguous. For example, Section 2.18 – City/District Parking Garage of the 1<sup>st</sup> Amendment to the Tucson Development Agreement references “The City **and/or** District shall own, operate, and maintain the Garage.” This section is in reference to the Depot parking garage and the City and District are still working to determine ownership, responsibility for maintenance and the revenue allocation for this structure.

Nevertheless, we examined each project at the individual project level and reviewed supporting documents and agreements to ascertain if ownership could be definitively determined.

Generally, projects for infrastructure are deemed owned by the City regardless whether they were funded by the District or City. Additionally, various properties or projects which were acquired with or utilized District funds with the intent (by motion or resolution) that the District would hold title to such assets are not currently owned by the District. While we found that the TCC and all related building improvements are owned by the District, other capital investments result in mixed ownership – District, City, Pima County, University of Arizona, and are detailed in ***Attachment H.***

## Spreading the Funding Thin and to Public Works Type Projects Has Not Brought the District Anticipated Results

At the time of the passage of Proposition 400, the Rio Nuevo Project was a planned, multi-faceted development project that would include cultural and recreational amenities and improvements, unique historic re-creations, new and expanded museums, and mixed-use developments. The multipurpose facilities district project included the existing TCC area, which was a necessary component of the project. Proposition 400 estimated the total cost for the public and private portions of Rio Nuevo Project was estimated to be \$320 million. The publicly financed portions of the Project were to consist primarily of the Mission San Agustin Cultural Center and area, the International Visitors and Trade Center, and infrastructure and supporting facilities associated with or related to the Project. Most of the projects had little direct connection to the primary component the TCC. The City was responsible for a \$60 million dollar for dollar match to the District of which \$24 million was suppose to go directly into the specified projects listed in prop 400. Additionally, \$60 million was to be contributed from the District through the incremental sales tax revenues comprising, less than 20% of the overall cost of the various projects. Together, the District and the City would provide approximately \$84 million of the total, or just over a quarter of the needed funding for full implementation of the plan, the success of the initiative depended significantly on the attraction of third-party investment. It should be noted that this strategy was consistent with the overall approach discussed in the original Proposition 400, although such a plan is inconsistent with most successful Tax Increment Financing Districts throughout the United States that have focused on the primary component.

However, over the course of the life of the District, these original plans changed and decisions were ultimately made that further diluted the District's investments spreading the funding over a number of projects, including infrastructure, project and feasibility plans, and others that ultimately did not increase the incremental tax base and many of these projects were left incomplete (See **Many Projects Incomplete** Section). Ultimately it cannot be determined if the recent national recession or the overall approach led to the lack of third-party investment. However, it is clear that this approach had significant third-party risk that was not proactively managed, monitored or mitigated by the Pre-2010 Board.

As of June 30, 2010, the implementation of the Rio Nuevo plan has not produced the results that were envisioned by the Pre-2010 District. We found that the majority of the District expenditures and projects were deemed to be generally compliant with the Arizona Revised Statute based upon the technical wording of the Statute, if not the intent of the statute. However, we noted several projects that may be considered non-compliant. The first category of potential non-compliance relates to expenditures being required to be spent within the Rio Nuevo boundaries. We noted three projects where work was done outside District boundaries and could therefore be considered non-compliant.

**Roundabout at Grande Clearwater/Cushing** – This Roundabout is located at the intersection of Grande Avenue and Clearwater. The Roundabout at Grande & Clearwater/Cushing is a project requested by the Menlo Park neighborhood. The citizens of the neighborhood requested the roundabout for safety reasons and to encourage traffic to use Clearwater once a planned bridge over the Santa Cruz River was built. District Board minutes indicate the project was also viewed as an opportunity to create a gateway at the western entrance to the Tucson Origins Heritage Park and museum complex. *The West half of the roundabout falls outside of the boundaries of the District.* (Project expenses through June 30, 2010 of approximately \$953,000).

**Barrio Viejo** – This project consists of streetscaping and infrastructure in the Barrio Viejo neighborhood. The boundaries of the project extend from I-10 Frontage Road on the west to Stone Avenue to the east and from Cushing Street to the north to 18th Street on the south end, which is outside of the District. This project was a part of the City’s Downtown Infrastructure Improvement Project. (Project expenses through June 30, 2010 of approximately \$226,000).

**Barrio Sin Nombre** – During the planning for Tucson Origins, drainage issues around Barrio Sin Nombre were discovered. The Origins project affects drainage through the neighborhood and drainage from the neighborhood has a negative affect on the Origins/Cultural Plaza areas. The Barrio Sin Nombre Streetscape project was created to alleviate these drainage issues for the benefit of future Rio Nuevo Projects and the neighborhood affected. The project boundaries are Grande Avenue on the West, Clearwater Drive to the North, Melwood Avenue to the East and Mission Lane to the south—which is just to the west of the boundaries of the District. This project was also a part of the City’s Downtown Infrastructure Improvement Project (Project expenses through June 30, 2010 of approximately \$122,000).

ARS 48-4201 states Tax Increment Funds may only be spent on “a primary component that is located on the multipurpose facility site” or “secondary components that are located in the district.” These three projects are either located completely or partially outside of legal boundaries established for the District. Thus, it would appear that the monies spent on these projects would be in direct violation of the statutes.

In regards to spending outside of District boundaries, in 2006 the City Mayor & Council requested that a legal opinion on whether District TIF funds could be spent on facilities located outside of the district boundaries. The City’s outside legal counsel rendered an opinion on October 13, 2006, that cited ARS 48-4204 which states “the district may 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” suggesting that such projects would comply with statute. Even though we noted these three projects to be located partially or completely outside of the District and could be considered non-compliant, the District appears to have relied upon the advice of counsel in approving these projects in essence concluding that they were necessary for the full use of the multipurpose facilities and appear to have acted in good faith. However, we noted no direct link to the primary component, the TCC and thus the question remains if the projects financed by the District outside of its boundaries are necessary for full use of the multipurpose facility.

The second category of potential non-compliance is related to expenditures being potentially used for purposes not contemplated within the state statute. We noted two projects that appear questionable in terms of District’s statutory intent.

One potential non-compliance issue is the **Thrifty Block**, a mixed-use development project, which commenced with a property purchase within the district. Early in the life of the District, it purchased from the U.S. General Services Administration, lots 26-76 of East Congress Street for \$36,000. The District incurred approximately \$885,000 in project costs (demolition, surveying and other costs to prepare the property for the Post Development Project) prior to the sale of the property to the Developer. After incurring these costs, the District sold the property to the developer, BP Post Investors, for \$100 and, as a part of the agreement signed in 2006, BP Post Investors would develop mixed-use projects within the District. Included in the project were retail space and 40 residential units that, under the development agreement, must include 3 to 4 units to be sold as affordable housing. These set-aside housing units were to be sold to households making 80% of the area median income. While affordable housing is an important public goal, we do not believe that the development of a housing project conforms to ARS § 48-

4204. Additionally, it should be noted that the mixed-use residential project has not been completed as of June 30, 2010, due to feasibility issues, and current discussions for this property include the potential of a hotel. Although considered complete as it relates to District involvement, nearly \$900,000 of District funds was spent to support the project with little or no benefit to the District.

A second example related to parcels referred to as “**lots at Church and Stone.**” In 2002, the District, after the City’s authorization, acquired surface parking lots from the Arizona Department of Transportation (“ADOT”). The parcels totaled 35,840 square feet and were purchased by the District for \$750,000 (the northwest lots of Church and Stone and the northeast lots of Stone and Council). Adjacent to these parcels, the City had previously purchased a 17,169 square foot parking lot from a third-party limited partnership in November 1997. The City received fee title to the property under an exchange agreement wherein the City agreed to identify a property of “equivalent value” within five years to be transferred to the third-party to complete the exchange. The City’s five-year deadline to obtain an acceptable exchange property was to expire in November 2002, approximately three months after the District’s purchase of the adjoining parcels. Prior to the District’s purchase of these lots in 2002, the Board was presented a memorandum from the City, describing the background of the acquisition and “motivating factors” behind the purchase at its March 2002 meeting. In this memo, the City representative states, “A portion of the properties now sought to be acquired by the District along the north side of Council from Stone to Church provide an excellent opportunity to consummate the pending obligations of the City.” The obligation referenced is the City’s pending exchange agreement with the third-party.

In his July 1, 2002, *Mayor and Council Communication*, the then City Manager describes that the District’s purchase will be used to satisfy the City’s exchange agreement with the third-party and that the “Proceeds of the sale will flow from the Arizona Department of Transportation (ADOT) to the Pima Association of Governments (PAG)”. The “proceeds” mentioned in his communication are the District’s \$750,000 payment acquiring the adjacent properties. The then City Manager concludes by stating, “The revenues received by PAG will be redistributed to the region, including the City, according to the allocation procedure agreed upon by the PAG Regional Council.” Although the City and District can justify the purchase on the basis that the site is in conformance with the Rio Nuevo Master Plan for structured parking facilities, the decision making process supporting of the District’s purchase, including fulfilling the City’s exchange obligation just prior to its expiration and providing potential future City revenue from PAG, complicate a full understanding of the District’s underlying motivation. Additionally, it is a further example of the “intertwined” nature of the District and the City during the first eight years of the District’s history.

The third category of areas of potential non-compliance relates to questionable expenditures in regards to reimbursements to the **University of Arizona** in connection with the construction of the **Flandrau Science Center**. Specifically, the Science Center museum was planned to be constructed on the west side of I-10 near the proposed History Museum, and connected to the east side of I-10 by the Bridge of Knowledge (ultimately each of these projects have been canceled or placed on hold). The issues stem from District funds being used to purchase items such as computers, iPhones and travel to Italy for employees of the University. Per ARS § 48-4201, TIF funds spent on secondary components must be “necessary or beneficial to the primary component, limited to on-site infrastructure, artistic components, parking garages and lots and public parks and plazas.”

The expenditures noted do not appear to fit into any of the allowable categories outlined by ARS § 48-4201. Additionally, it should be noted that the City’s accounting staff also noted these

questionable expenses during 2008; in correspondence, it was stated that the University was “charging expenditures that the City does not allow on other District projects.” City staff noted in June and July of 2008 that of the \$692,239.09 in invoices received by the district, \$186,415.24 were attributed to University of Arizona personnel costs, computers, phone service, food, professional memberships, subscriptions, conferences, and professional ads to hire the Development Director position. Ultimately, City management authorized the reimbursement of these expenditures as they did not believe they were prohibited by the signed IGA.

Thus we believe that the “holistic and all-inclusive approach to using the TIF monies and the expectations were that these funds would be used for the direct benefit of all Tucsonans” approach utilized by the District along with the clear lack of decision making criteria resulted in an approach that allowed for the potential non-compliance noted above, a lack of sustainable projects and ultimately a plan that has not had the desired impact as of the date of this report.



## Financial Viability of the District

### Rio Nuevo District has not developed the Tucson Convention Center as an Adequate Catalyst for Increasing Sales Taxes

Catalyst convention center projects are widely recognized as essential to generating tourist, conventioner and local resident traffic and increasing sales tax revenues. Over the years, the Arizona Legislature has approved legislation that would allow municipalities' broad authority to establish multipurpose facility districts to obtain authority to receive a portion of the State's sales tax revenues or TIF revenue. As it relates to the District, Arizona law recognizes two types of catalyst projects to qualify for limited term tax increment funds: stadiums and multipurpose facilities such to accommodate sporting events and entertainment, cultural, civic, meeting, trade show or convention events or activities. The state views these two types of districts as worthy catalysts for redevelopment for good cause as they are intended to provide an anchor project to leverage public funds to stimulate private development, commerce, and tourism. Cities throughout the nation have recognized that multipurpose facilities such as convention centers are most successful when coupled with a related hotel. Examples of successful sales tax generation centered on these types of projects include San Diego, Baltimore, Portland, and Los Angeles.

As mentioned previously, from the outset the TCC was not the focus of the District's attention or project funding. In 2001, during the District's Master Planning process and before the District purchased the TCC designating it as its primary component, significant deficiencies were cited in the TCC facility in order for it to serve as a catalyst project and be an effective "primary component". At the time, it was found that the TCC generated fewer and smaller conventions and conferences than would be expected for a facility of its size. This was found to be due in part to the lack of a convention hotel and a "serious deficiency" in hotel rooms in walking distance to the convention center.

According to Master Plan documents, the TCC did not meet the criteria of a modern, competitive convention center. The TCC lacked sufficiently large contiguous floor space to bring in large national conventions and the available space was a hybrid of an arena and convention center which not only impacted scheduling, but did not fully meet the needs of either user. Further, its meeting rooms were antiquated and could not meet the high-tech needs of modern users and, importantly, it lacked not only a "headquarters hotel" but sufficient hotel rooms within walking distance to both convince large conventions to come to Tucson and to keep conventioners in town and spending money in Tucson businesses. In fact, the TCC was not designed as a true convention center in the first place. Rather, constructed in 1971, the TCC was billed as a "Community Center for the Citizens of Tucson." With expansions and alterations through the ensuing years, the TCC gradually evolved into more of a multipurpose facility with basic features for civic and convention users.

The 2001 Master Plan identified critical elements required to be addressed for the multipurpose facility to be considered a competitive and potentially successful convention center and allow the site to attract large, multi-day, conventions that would bring in a critical mass of individuals from not only outside Tucson, but also outside the State. In light of this, the 2001 Rio Nuevo Master Plan also recommended a series of phased improvements to the TCC to help accomplish objectives of increasing convention and conference business in Tucson. These included:

- Constructing a "Headquarters Hotel" with a minimum of 300-400 rooms, that would be functionally integrated with the TCC building and would have the capability to be expanded to 1,100-1,200 rooms in the future as demand increased. The plan also

expected the expansion of other hotels in the immediate vicinity of the TCC, with an ultimate capacity of approximately 2,200-2,900 rooms.

- Increasing the size of the Exhibit Hall in phases by initially building new east and west wings of a new exhibit hall to increase the total contiguous exhibit space from 90,000 to 210,000 square feet, a 130 percent increase in prime convention space, with the potential of future phases reaching as much as 385,000 square feet of contiguous exhibit space. The plan cited that successful convention centers require large exhibit halls to accommodate large conventions, rather than “several small exhibit halls that are scattered around the building, on different levels, and not directly accessible”. At 90,000 square feet the TCC’s largest exhibit hall was noted as being “quite small by most standards”.
- Constructing a 30,000-60,000 square foot high-tech “Conference Center” to replace the existing meeting rooms in the North Exhibit Hall – deemed a critical step to transform the TCC from a civic center to a true convention center.
- Constructing a new arena fit for sporting events, concerts, and other large events, a facility that will not only expand the capacity of the multipurpose facility but will allow the District to convert the existing arena space into fully-dedicated, and much needed, exhibit space.

“Headquarters” hotels, those attached or directly adjacent to convention centers or multipurpose facilities, are widely recognized a crucial component to the success of such a facility and to fully complete a catalyst project. Headquarters hotels serve two purposes: first, their convenience is appealing to conventioners, and thus make convention centers with such hotels a more desirable destination, and second they help to keep visitors walking—to and from venues and hotels and keep them in the immediate area to frequent restaurants, shops, and other various attractions, all the while passing storefront after storefront. This increased foot traffic, spurs commerce, and provides an incentive for private investment in the immediate area. The focus is on the “immediate area” surrounding the convention center, not scattered development where distances preclude casual walking.

The economic impact of multipurpose facilities extends beyond the direct impact on local businesses and residents—successfully transitioning the TCC to a competitive convention and conference center should be intended to increase tax revenue that will benefit the entire Tucson region. Successfully attracting convention-goers to Tucson contributes to business growth in the area and corresponding increases in retail activity and property values, contributing to increases in property taxes and sales taxes. In addition to increased sales tax and property tax revenues, municipalities typically observe significant revenues from transient occupancy taxes (taxes on hotel room rentals) and parking occupancy taxes tied directly to the number of visitors drawn to the City. Without a competitive convention center and multipurpose facility, the District could exhaust current and future TIF revenues without producing the type of economic catalyst envisioned by the Arizona State Legislature.

Even though the District purchased the TCC in 2002 from the City, it appears that this purchase was to meet the statutory provisions to commence the 10-year life of the TIF collection. As previously stated, the District issued \$33.6 million in COPS to acquire the TCC from the Business Finance Development Corporation, known as the BFDC and referred to as “the City”. We were unable to locate records and documents that would detail this transaction or the deliberation around the sale. Therefore could not determine how the value of the TCC was determined and who was involved in the valuation and negotiations it does appear that values were based upon the amount of debt outstanding on the TCC at that time as the COPS were used to pay-off existing debt of the City. However, we found that during 2002-2003, the District also instituted modest capital improvements to the TCC costing approximately \$784,000, most notably a new ticket office. The new 1,572 square foot ticket office is located on the east side of

the Convention Center facing Church Avenue, and included reserved parking for ticket buyers. The new office offers 10 full service windows, all ADA accessible, and added an electronic marquee and video display to promote coming events at the TCC and around Downtown. This project did not impact or resolve the deficiencies in exhibition floor space, high-technology conference rooms, or nearby hotel rooms, as identified during the District's master planning process.

In 2004, the District commissioned an update to the 2001 Rio Nuevo Master Plan. The resulting update conducted by Planner's Ink mentions a renovated TCC and headquarters hotel in its discussion of the "Civic Plaza Experience" that is primarily focused on a central civic plaza that would become "Tucson's new Town Square" and include cultural, retail, restaurant, and underground parking facilities and would be linked to the University of Arizona's Science Center and the new arena. The discussions at this time indicated that a new arena would, according to the District Executive Director at that time "pave the way for a much needed expansion of the TCC". The plan was to convert the old TCC arena into "badly needed additional meeting rooms". Within this updated master plan, the arena was to be designed, constructed and operated by the private sector. Of note, the District invested nearly \$880,000 in exploring and supporting design services for a new arena during fiscal years 2008 through 2010.

It was not until later in 2006, half way through the original lifespan of the District, that the TCC garnered the District's attention. The District commissioned a feasibility analysis of expansion scenarios to improve the TCC's competitive position as well as considering the new arena, headquarter hotel, and the mixed use redevelopment of surface parking lots around the TCC expansion, hotel and arena developments. In a May 22, 2007, Mayor & Council Memorandum, the City noted that:

*Although the Mayor & Council in April granted preliminary funding approval for an expansion of the convention center and construction of a new arena (and participation in concept in a hotel development project), it is important to again highlight the significance of that action. Those public facility projects have the singular importance of improving the business position of the Tucson Convention Center (TCC). They also are estimated to contribute over \$275 million annually in direct and indirect economic impacts, and, improve financial performance assumptions for a new hotel project. Of equal if not greater importance is their ability to be a catalyst for major mixed-use, higher density urban scale redevelopment in and around the TCC area. ...*

Furthermore, District Board and Advisory Council minutes reviewed show development and economic scenarios for a new arena and revamped convention center. As Table 8 indicates, the expected overall annual economic impact of the two major projects combined was \$178 million. Around this same time, the City issued a request for qualifications for a Convention Center Headquarters Hotel developer offering city land adjacent to Interstate 10 in downtown Tucson for the site. The intent was to ascertain a short list of qualified firms to work with the hotel partner who would operate the hotel.

**Table 8 – Tucson Arena and Convention Center  
2007 Scenarios**

<b>Facility</b>	<b>Cost</b>	<b>Economic Impact</b>	
<b>Arena</b>	\$130 million	State Sales Tax	\$2.3 million
		City Sales Tax	\$0.8 million
		Hotel Tax	\$0.122 million
		Annual Economic Impact	\$75 million
<b>Convention Center</b>	\$63.1 million	State Sales Tax	\$6.5 million
<b>Phase I</b>		City Sales Tax	\$2.3 million
Meeting Room and Lobby, East meeting rooms, Arena area converted to Exhibit Hall		Hotel Tax	\$1.3 million
		Annual Economic Impact	\$103 million
		City Sales Tax	\$2.3 million
		Hotel Tax	\$1.3 million
		Annual Economic Impact	\$103 million
<b>Phase II</b>	\$60 million		
North Ballroom and Lobby, Renovate entire facility			

*Source: Board records: Tucson Arena and Convention Center Analysis  
prepared by District Staff, April 2007*

In 2008 the District explored financing the headquarters hotel, estimated at a cost of approximately \$130 million, and the TCC renovation and new arena at lower projected costs of \$160 million combined. While we cannot determine the assumptions included in either the cost or debt service calculations, figures indicate approximately \$33.8 million in debt service per year for the first 15 years paid for with TIF and other taxes and fees generated by the completed projects. By May 2008, the arena project was officially cancelled by the City, but the City and the District had chosen Garfield Traub Development for the headquarters hotel and was working with Starwood Hotels (Sheraton Hotels) to ascertain the optimal configuration of the facility. Additionally, during 2009, the District Board evaluated the issuance of \$250 million in excise tax bonds or certificates of participation to fund improvements to the TCC and the adjacent hotel. While the District did not execute the \$250 million in debt financing, in 2009 it did authorize \$15 million in certificates of participation to construct and equip certain TCC Improvements. With the proceeds of these funds, the District commenced the following:

- A new Convention Center East Entrance — to design, sign and construct a new entrance on the east side of the TCC Including 5,000 square feet of registration/lobby area; 3,300 square feet to enclose and renovate existing east exit galleria; the addition of two escalators and an elevator adjacent to the existing galleria exit stairs; and a new 4,890 sq. ft. exterior. The project was recently completed with a cost of \$4.61 million.
- Expansion of the TCC — Design and construct an expansion of the TCC to include a 35,000 sq. ft. exhibit hall addition and a 25,000 sq. ft. meeting rooms addition along with HVAC and safety improvements—total additions to 118,000 gross square feet. Expenditures to date on this project are \$2.228 million and projections indicate the full cost to be \$35.78 million.
- Convention Center Hotel – Design and construct a 525-room Sheraton branded full service Convention Headquarters Hotel with approximately 50,000 sq. ft. of meeting rooms, fitness center, pool, spa, bar, café, restaurant and business center, totaling 442,000 gross square feet. Expenditures to date on this aspect are approximately \$10.05 million, with the total cost of the project estimated at \$168 million.

- Convention Center Parking Garage — Design and construct a 975-space (640 minimum) garage to be built south and adjacent to the Hotel, west and adjacent to the proposed expansion of the Convention Center, along Cushing Street. Expenditures from inception total \$1.62 million and project total costs are \$33.69 million.

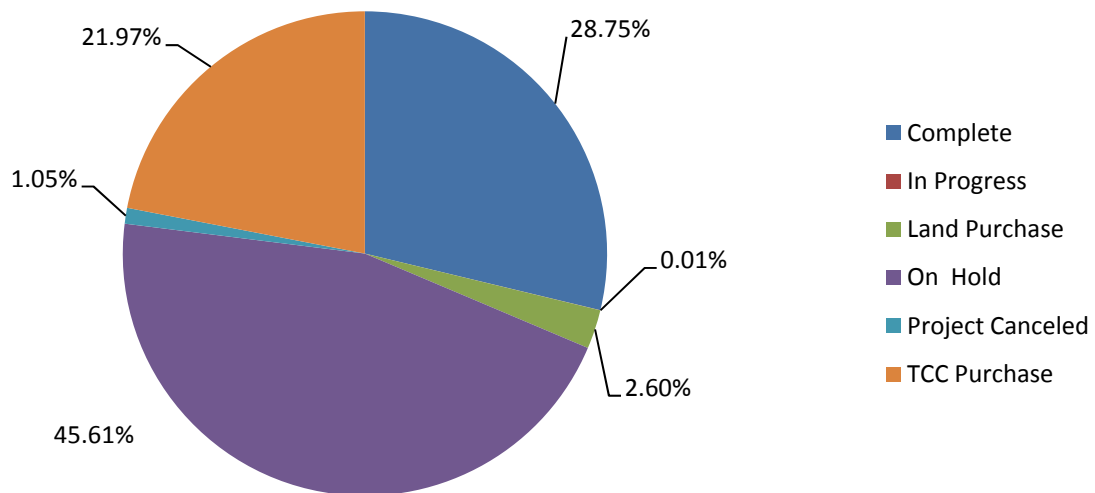
Certainly, the District demonstrates a focus on the TCC as a catalyst beginning as early as 2007 and with concerted efforts happening 2009 and 2010 – consistent with the Arizona State Legislature’s 2009 action requiring that the District focus its full attention on the TCC and a convention hotel. However, with these projects needing more than \$224 million in additional funding, the District faces significant challenges in bringing these projects to fruition.

Ultimately, it appears that the District’s multi-destination strategy resulted in funds being spread too widely and too thin and missed the economic leveraging tools to bring in not only tourist dollars but a significant anchor to attract development dollars that follow. As a result, 10 years later, the City is left still without an economic catalyst that is designed to bring in outsiders, in a way to inject the historic core of Tucson with new money, with new out-of-town dollars. Consequently, the incentive that the TCC would have created has been missed by the District.

## Many projects incomplete

One of the main measures to determine the overall success of the District is to analyze the status and completion of major projects undertaken by the MFD. Chart 5 provides a graphic depiction of all capital expenditures of the District since its inception, classified by the status of the related capital project. The project status is divided into categories, Complete, In Progress, Land Purchase, On Hold, Cancelled and TCC Purchase. For the purposes of this analysis, "On Hold" means the project is being analyzed by the Reconstituted District Board to determine if it should be completed or cancelled. Projects classified as "Land Purchase" comprise projects where the District purchased a parcel of land for future development or paid for costs related to a potential or actual acquisition; however, no development had occurred on that land as of June 30, 2010. The "TCC Purchase" category comprises the original purchase of the TCC from the City. All TCC improvements made after the original purchase are classified in one of the other five categories, based on the status of those projects.

### Chart 5 - Status of TIF Projects



Source – Attachment H – Status of District Projects

As noted on Chart 5, of the \$156 million dollars of expenditures on capital projects since the inception of the District, approximately \$71.5 million or 45.8% was spent on projects currently "On Hold". In addition, another \$1.6 million was spent on projects that have been cancelled by the District.

We found that approximately \$45.1 million in projects are complete in terms of the District's involvement. Of this total we highlight the following building projects:

- \$11.520 million was invested in the renovation of the Fox Theatre. This property is owned by the District.
- \$2.268 million was spent on the Rialto Theater project which is also owned by the District.
- \$794,000 was spent to move and rebuilt the TCC Ticket Office and another \$4.608 million was spent to design and construct a new TCC East Entrance.



The nearly \$45.1 million in completed projects also include approximately:

- \$3 million spent for landfill and environmental remediation for three projects, Congreso Landfill, Mission Landfill, and Rio Nuevo Landfill Stabilization.
- \$17.0 million in infrastructure projects are considered complete including the widening of I-10 underpass at a District cost of \$9.0 million, \$5.524 million for Mercado Avenue and \$952,500 for the Clearwater/Cushing Roundabout.

However, completed projects also include a number of projects where the District contributed to the effort and its involvement is complete but the projects remain on-going or in progress.

Included in the “Land Purchase” category are \$4.1 million considered as property purchases; many are not owned by the District. These purchases include:

- \$751,900—Northwest Lots (Church and Stone) used in a property exchange. Now owned by the City.
- \$128,800—151 North Stone for property related to relocating Café Poca Cosa. Now owned by the City.
- \$3.165 million for purchasing the Citizen Auto Exchange – owned by the District.
- \$886,900 related to purchase and site work for the Thrifty Block – owned by BP Post.

Of note, also included in “Land Purchases” are several transactions that relate to a property but do not involve an acquisition. In particular:

- \$2,800 for an appraisal report for 332 South Freeway to determine the value of the Teresa Lee Clinic. Property owned by Pima County.
- \$8,800 for surveying and environmental work on a private lot considered for a new arena.
- \$25,600 to demolish a warehouse on Simpson Street; property owned by the City.
- \$244,200 to remove drill tracks for Southwest Drill Track improvements for the City.

When viewed from a value-added perspective the current outcomes are unsatisfactory. In particular, removing the purchase of the TCC from the total shows a total of \$122.3 million has been spent. Of this, only a small number of other projects – the two theaters, underpass, roundabout and the two TCC projects – are tangible, complete, and recognized as such. Another \$73.1 million, or over 59.8%, are on-hold or were cancelled. Considering that the recent legislation directs the District to invest only in the primary component, the status of these incomplete projects are at question and furthermore, since the District funded a substantial number of public works projects anticipating third party investment, it is uncertain whether these projects will ultimately prove viable and contribute to Tucson’s redevelopment results. And as discussed in later sections of this report the District will likely not have funds to complete all of the “on-hold” projects.

## The District's Can Meet its Existing Financial Obligations, but its Longer-Term Decisions and Challenges are Significant

As we noted in the ***District Funding and Projects Undertaken*** section of this report, 57% of the District's revenues were from debt, including the issuance of bonds and loans. Also noted in that section, 30% of District revenues, or \$48 million, was spent on infrastructure projects or projects that do not directly generate sales tax revenue. This raises the question of the District's solvency or liquidity to pay on-going operating costs and the ability of the District to fund new capital projects or provide funds to spur commercial development.

One major factor that needs to be considered in this analysis is the effect of the economy on the District and, more broadly, the City. The economic downturn that hit our country in 2008 resulted in an unemployment rate that increased in Arizona from 4.1% in November 2007 to 7% in November 2008, 9.6% in November 2009, to 10%<sup>3</sup> as of July 2010. This increase in unemployment had a negative impact on the amount of sales tax collected in the State and the reasons are two-fold. First, as unemployment rates rose, overall discretionary spending decreased. Secondly, the downturn also caused some businesses to close and thus the District lost any sales tax that would be generated by those businesses. Specifically, sales taxes of the District decreased by 13% in fiscal year 2008, with an additional 31% decrease in fiscal year 2009, as shown in the Table 9.

**Table 9 - TIF Sales Tax Revenue  
Fiscal Year 2007 - 2010**

FY07	FY08	FY09	YTD FY10
\$16,188,386.18	\$14,091,610.33	\$9,791,087.75	\$9,322,246
	(13%)	(31%)	(5%)

Source –The District's general ledger, which is maintained by the City

This decrease in sales tax revenue had a dramatic impact on the District's ability to fund current and future projects especially since District redevelopment plans predicted increases in sales tax revenue. Thus, a decrease in sales tax revenue would have required a pro-active plan to re-assess the viability of current and future projects. No such re-assessment was noted by the Pre-2010 District Board. Additionally, as stated in this report, many of the projects undertaken by the District were funded using debt financing and were not projects that directly created additional sales tax revenue for the District. These factors raise questions as to the solvency of the District.

To determine the District's solvency, we prepared a three-year cash flow schedule for the District. (See **Attachment C**) The schedule reflects estimated revenues and obligations. Based upon our analysis, the District has operating funds necessary to pay obligations including administrative costs, debt service expenses, and capital expense commitments through 2013, assuming no new debt is issued or new projects started (outside current obligations). The District's current debt schedules for the 2008 bonds and 2009 COPS have balloon payments. The 2008 bonds have consistent debt service payments each year through fiscal year 2026. In 2026, The City is required to make a lump sum principal payment of \$14.695 million. The 2009 COPS principal payments commence in fiscal year 2014 result in approximately \$1.2 million of debt service payments from fiscal year 2014 through fiscal year 2025. The back-loaded debt

<sup>3</sup> Data obtained from the Census.gov website

payments on the 2009 COPS and 2008 bonds could cause cash flow issues for the District in 2026 should increases in the incremental sales tax revenue not occur. However, the District does have an \$8 million reserve fund for the 2008 bonds that is currently being held in escrow. Since these funds are in escrow, they are not on the District's financial records and thus were not factored into our analysis. These funds can be used to assist with the payments of the 2008 bonds.

In addition, the District has a long-term receivable from the Fox Theatre Management group in the amount of \$7.5 Million. This receivable is the result of the District performing various renovation projects to the Fox Theater on behalf of the Fox Theatre Management group with the intent that these funds would be paid back to the District. The collection of this receivable would greatly assist the District in meeting its cash flows over the next 6 years. However, management has not determined the collectability of this receivable. As part of its fiscal oversight, the District Board should work with the Fox Theatre Management group to determine the collectability of this receivable.

## Compliance Issues

### While Minor Individually, Various Compliance Issues Indicate a Weak Structure and Control Environment

As mentioned in the **Introduction and Background** section and in various other examples in the report, the District is responsible for meeting the mandates and requirements of specific MFD provisions of the Arizona Revised Statutes, its Intergovernmental Agreements (“IGA”) between the District and the City, and the Administrative Rules it has established. We assessed these provisions, and while we noted only minor compliance issues, however when viewed together, these exceptions indicate a lack of an appropriate set of policies and procedures, sound controls, and a structure of oversight and management of the District by its Board.

The District is subject to a number of provisions. In all, these directives cover a wide range of financial and administrative operations, including:

- Types of projects and location where TIF funds can be spent
- Financial reporting and audit requirements
- Budget preparation and submission to Pima County Clerk
- Interest rates on loans and advances from the City
- Holding of District Board meetings
- Proposition 400 voter pamphlet requirements
- Contents of the District’s official website
- Appointment of the District Treasurer

Following is a discussion of each area in which the District was not in compliance with either the pertinent Arizona Revised Statutes, its IGA with the City or Administrative Rules it adopted. Although individually these do not appear to be significant – other than the approximately \$450,000 of interest overcharges by the City on its loans and advances to the District – in total they demonstrate that the District’s board was not vigilant in assuring that all decisions it made were compliant with mandates under which it was to operate or that when it delegated certain administrative functions to the City, the board did not assure these provisions were carried out appropriately.

Operationally, the City and District generally complied with provisions of the IGA and State statutes. However, we identified seven areas where non-compliance occurred.

- **Annual Audit of the District Fund and Submission to the Auditor General:** Although the District prior to the 2009 Arizona House Bill 1003 was considered a Component Unit of the City subject to such tests by the City’s independent auditor, a separate audit of the District’s fund has not been conducted as statutorily required. The extent of audit testing conducted on the District as the City’s component unit may also have varied since the District was formed. Specifically, current auditing standards allow materiality of component units to be established with or without considering other opinion units and procedures applied may differ from prior periods in that the District is no longer the City’s only component unit – consequently, the level of audit work required on the District’s stand-alone financial activities may have been reduced over past two years and potentially not have been sufficient to have met the legislative intent.

Furthermore, a certified copy of the annual audit has not been submitted to the Auditor General within 120 days of the end of the fiscal year as required. (The City is not required to submit its audit to the Auditor General).

- **Required Annual Budget:** The District is required to submit an annual budget each fiscal year to the Pima County Clerk’s Office. ARS § 48-4232 requires that the budget contain:
  - Receipts during the past fiscal year
  - Expenditures during the past fiscal year
  - Estimates of amounts necessary for expenses during the following fiscal year, including amounts proposed for:
    - Costs of maintaining, operating and managing the primary component
    - Promotional and marketing expenses of the district for the following year.
  - Anticipated revenue to the district in the following fiscal year
  - A complete asset and liability statement
  - A statement of profit or loss from operations
  - Cash on hand as of the date the budget is adopted and the anticipated balance at the end of the current fiscal year
  - An itemized statement of commitments, reserves and anticipated obligations for the following fiscal year.

Our review of 11 District budgets (FY 2000-01 through FY 2010-11) revealed that eight had been submitted to the Pima County Clerk. Additionally, each year’s budget document was missing from three to seven of the required elements, until improved compliance occurred in FY 2010-11.

- **Interest Rate Charged on the City’s Loans and Advances:** IGA Article 5.1 states that the District shall repay city loans and advances with interest “based on short term rates of the City”.

However, we found that the City has been charging the District a 4.5 percent rate of interest on its outstanding loan balances with the District, rather than the rate earned from time to time on short term investments (less than 90 days) of the City of Tucson as specified by the IGA. As of December 2, 2005, the rate the 3 month treasury rate was 3.99%. Using this rate, the amount of interest overcharges to the District were approximately \$442,000. This overcharge is broken down as follows:

Year	Interest Difference
FY04-FY07	\$297,383
FY 2008	72,815
FY 2009	53,768
FY 2010	18,411
	\$442,378

Though, our calculation used a fixed 3 month rate at December 2, 2005, the IGA states that the rate earned from time to time should be used. Though “from time to time” is defined in the IGA, this would imply a variable rate. As of June 20, 2010, the 3 month treasury rate was under 1%. Considering the overall decrease in interest rates between

2005 and the present, if this calculation was completed utilizing a variable 3 month rate, the amount overcharged could have been substantially higher. Additionally, the loan was initially intended to be match funding, however the City Manager decided to collect on funds advanced from FY00-FY03.

- **Required Annual Board Meetings:** The IGA requires the District Board to meet at least twice during each fiscal year. Our review of District Board minutes reveals that the Board did not meet the required two times during fiscal year 2007-08.

In appears, the Board did not meet officially at all during the period from July 1, 2007 through June 30, 2008. A board meeting was attempted in August 2007; however, it was cancelled due to a lack of a quorum.

- **District Voter Pamphlet Requirements:** ARS § 48-4236 (F), in effect August 6, 1999, outlines the required contents of a voter pamphlet that must be sent to registered voter households at least 10 days prior to the election for approving the MFD. The pamphlet shall contain the following:
  - Date of the election
  - Polling places and time the polling places will be open
  - A true copy of the title and text of the resolution proposing the tax
  - The estimated revenue needs for the described purpose
  - An estimate of the annual amount of revenues to be raised from the proposed tax
  - Arguments for and against the proposed tax levy

The Proposition 400 voter pamphlet did not contain arguments for and against the proposed tax levy.

- **Official Website of District Containing Expenditure Database:** ARS § 48-4231.02 requires the District's website to contain a database of expenditures covering all of the District's aggregated payments by 1) payee; 2) project; and, 3) year. The expenditure listing shall include:
  - Date and amount of payment
  - Project for which the payment was made
  - Purpose for which the payment was made

Finally, the District shall maintain on its website its annual financial reports and a listing and sum of payments made pursuant to ARS § 42-5031.

We found that the current District website is a part of the City's website and although it does contain a range of expenditure information, it does not contain all of the required expenditure elements described in ARS § 49-4231.02, specifically, the purpose for which the payment was made, or the payee receiving the payment.

- **Appointment of a District Treasurer:** Pursuant to ARS § 48-4203 D (1) [as amended by SB 1009 in 2009], the District may appoint the chief financial officer of the county as the district treasurer, and in the absence of an appointment, the county treasurer is designated "ex officio" as the treasurer. However, this section further states that the District shall designate a member of the Board with financial management or accounting experience or a person with whom the Board has contracted for financial management as treasurer of the District. We cannot determine which provision would prevail without obtaining a legal opinion.



The District's designated and selected Board member to act as treasurer resigned on August 10, 2010 from the Board. This member was a Governor's appointment with a financial management background. Until a new appointment is made by the Governor, the District does not have a sitting treasurer which may require the county treasurer to act "ex officio" in that capacity.

District Expenditures on projects beyond the Scope of the MFD Statutes:

- **Projects where work was done outside of the TIF:**
  - **Roundabout at Grande Clearwater/Cushing** – This Roundabout is located at the intersection of Grande Avenue and Clearwater. The Roundabout at Grande & Clearwater/Cushing is a project requested by the Menlo Park neighborhood. The citizens of the neighborhood requested the roundabout for safety reasons and to encourage traffic to use Clearwater once a planned bridge over the Santa Cruz River was built. District Board minutes indicate the project was also viewed as an opportunity to create a gateway at the western entrance to the Tucson Origins Heritage Park and museum complex. *The West half of the roundabout falls outside of the boundaries of the District.* (Project expenses through June 30, 2010 of approximately \$953 thousand).
  - **Barrio Viejo** – This project consists of streetscaping and infrastructure in the Barrio Viejo neighborhood. The boundaries of the project extend from I-10 Frontage Road on the west to Stone Avenue to the east and from Cushing Street to the north to 18th Street on the south end, which is outside of the District. This project was a part of the City's Downtown Infrastructure Improvement Project. (Project expenses through June 30, 2010 of approximately \$226 thousand).
  - **Barrio Sin Nombre** – During the planning for Tucson Origins, drainage issues around Barrio Sin Nombre were discovered. The Origins project affects drainage through the neighborhood and drainage from the neighborhood has a negative affect on the Origins/Cultural Plaza areas. The Barrio Sin Nombre Streetscape project was created to alleviate these drainage issues for the benefit of existing Rio Nuevo Projects and the neighborhood affected. The project boundaries are Grande Avenue on the West, Clearwater Drive to the North, Melwood Avenue to the East and Mission Lane to the south—which is just to the west of the boundaries of the District. This project was also a part of the City's Downtown Infrastructure Improvement Project (Project expenses through June 30, 2010 of approximately \$122 thousand).
- **Thrifty Block (The Post) – TIF funds potentially used for housing**
  - One potential non-compliance issue is the Thrifty Block as originally envisioned with a residential component, as a mixed-use development project, which commenced with a property purchase within the district. Early in the life of the District, it purchased from the U.S. General Services Administration, lots 26-76 of East Congress Street for \$36,000. The District incurred approximately \$885,000 in project costs (demolition, surveying and other costs to prepare the property for the Post Development Project) prior to the sale to the Developer. After incurring these costs, the District sold the property to the developer, BP Post Investors, for \$100 and, as a part of the development agreement

negotiated by the City and signed in 2006, BP Post Investors would develop mixed-use projects within the District. Included in the project were retail space and 40 residential units that, under the development agreement, must include 3 to 4 units to be sold as affordable housing. These set-aside housing units were to be sold to households making 80% of the area median income. While affordable housing is an important public goal, we do not believe that the development of a housing project conforms to ARS § 48-4204. Additionally, it should be noted that the mixed-use residential project has not been completed as of June 30, 2010, due to feasibility issues, and current discussions for this property include the potential of a hotel. Although considered complete as it relates to District involvement, nearly \$900,000 of District funds was spent to support the project with little or no benefit to the District.

- **Parcels referred to as “lots at Church and Stone.”**

- A second example related to parcels referred to as “lots at Church and Stone.” In 2002, the District, after the City’s authorization, acquired surface parking lots from the Arizona Department of Transportation (“ADOT”). The parcels totaled 35,840 square feet and were purchased by the District for \$750,000 (the northwest lots of Church and Stone and the northeast lots of Stone and Council). Title to this property remains with the City. Adjacent to these parcels, the City had previously purchased a 17,169 square foot parking lot from a third-party limited partnership in November 1997. The City received fee title to the property under an exchange agreement wherein the City agreed to identify a property of “equivalent value” within five years to be transferred to the third-party to complete the exchange. The City’s five-year deadline to obtain an acceptable exchange property was to expire in November 2002, approximately three months after the District’s purchase of the adjoining parcels. Prior to the District’s purchase of these lots in 2002, the Board was presented a memorandum from the City, describing the background of the acquisition and “motivating factors” behind the purchase at its March 2002 meeting. In this memo, the City representative states, “A portion of the properties now sought to be acquired by the District along the north side of Council from Stone to Church provide an excellent opportunity to consummate the pending obligations of the City.” The obligation referenced is the City’s pending exchange agreement with the third-party.

## Conclusion and Recommendations

Up until the legislative changes affecting the District in 2009, the Pre-2010 District Board essentially operated as one of the City's redevelopment funding sources whereas funding focused on Civic and infrastructure type projects as oppose to projects that created a direct economic return. Although the Pre-2010 District Board formally provided project approvals and funding decisions that may generally meet the "letter" of the applicable State statutes, numerous projects we identified demonstrate that the underlying "intent" of the State laws were not achieved – specifically, to create an economic catalyst for the District by developing a focused multipurpose facility, namely the TCC and an adjoining hotel. In fact, the vast majority of the projects that were funded do not provide any sales tax revenues at all, but rather, were intended to improve the historic, cultural and overall ambiance of the downtown Tucson and West side areas. Unfortunately, few of these projects are even completed despite the passage of more than 10 years and the capital expenditure of almost \$157 million, which is due in part to the unfocused broad approach in funding projects that was taken by the Pre-2010 District board.

The newly Reconstituted District Board is demonstrating the desire to remediate past problems and to put the District on a new course for the future. However, we found that the funds available to them are severely limited due to existing contractual and debt obligations. Moreover, the Legislature's passage of Senate Bill 1003 in 2009 constrained the Reconstituted District Board by limiting its new project expenditures until the hotel and convention center had received a "notice to proceed". On October 7, 2010, the Reconstituted District Board issued a notice to proceed on the hotel and convention center which was later amended on October 20, 2010.

With the vast majority of District funds spent or committed and the District currently assessing its capacity to issue further debt, the Reconstituted District Board faces significant funding challenges and difficult decisions.

Nonetheless, the Reconstituted District Board has the opportunity to significantly improve its financial, operational and compliance responsibilities. The District Board should consider the following recommendations.

## Recommendations

We recommend that the Rio Nuevo Multipurpose Facilities District Board of Directors take the following actions:

- Recover overpaid interest on the City's loan to the District—work with the City to determine the accurate loan period and assign to each period the appropriate interest rate for the balance outstanding. Our general calculation of the interest owed the District at approximately \$442,000.
- Assure that a new Intergovernmental Agreement with the City (and any associated Administrative Rules) conveys the appropriate powers and responsibilities of the District and fulfills the 2009 ARS mandates.
- Develop policies and procedures outlining the District's management and oversight of future projects, including funding decisions, debt issuance and statutory mandates.
- More fully complete the Capital Improvement Plan document recently developed by the City for the District and include all projects that have District participation on-going or expected in the future and require that this report be updated and discussed on a regular basis, at least once a month, at a Board meeting.
- Develop a short-term strategy for the use of available funds, including remaining bond proceeds and tax increment revenues.
- Establish a District staffing plan to assure adequate support for the Board, including key positions of executive director, chair, treasurer and secretary. Under current statutes, City employees cannot be paid or reimbursed for any of these services.
- Establish a District Fund account with an approved bank or banks for the deposit of all revenues and expenditure of all funds. Assure that monthly reconciliations are conducted and reported to the Board.
- Ascertain the District's cash flow needs and arrange for investing available funds in investment vehicles with appropriate durations, safety, liquidity and yield.
- Create a District website that fulfills the official reporting requirements of the ARS mandates.
- Prepare, approve and submit District budgets annually to the Pima County Clerk containing all budget information required by ARS code sections.
- Engage an independent CPA to annually audit the District Fund and submit a certified copy of the audit report to the Auditor General within 120 days of the end of the fiscal year.

# Attachment A

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
SCHEDULE OF OPERATING EXPENDITURES  
For the Fiscal Year Ending June 30, 2010

ATTACHMENT A

Travel	\$	1,267
Professional Services		240,374
Insurance		43,041
Repair & Maintenance		4,876
Utilities		3,020
Rent		4,075
License and Permits		158
Fiscal Agent Fees		11,088
Total	\$	<u>307,899</u>

**Source** - District general ledger maintained by the City of Tucson



# Attachment B

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
 SCHEDULE OF MUNICIPAL PAYMENTS (CITY MATCH)  
 For the Fiscal Year Ending June 30, 2010

ATTACHMENT B

<b>District Location Projects</b>	<b>Amount</b>
Modern Streetcar Planning - X085	\$ 117,288
Modern Streetcar	3,664,250
Barraza/Aviation Phase 1	3,000,730
Barraza: 6th Av/18th St/Stone	58,976
Broadway: Euclid to Country Club	<u>2,114,862</u>
	<u>8,956,106</u>
<b>Downtown District Location Projects</b>	
Clean Renewable Energy Bonds Solar Panels	252,273
Central Plant Expansion	115,386
Firestation 1 Relocation	5,234,254
MLK Amenities	2,804,234
Mercado District Rentals-El Portal	54,863
Ronstadt Transit Center	48,042
City Staff Time spent on Capital Projects	117,129
Armory Park Pedestrian Enhancements	53,588
Barraza Aviation Downtown Links, Phase 1	4,667,158
S Stone Ave. & Cushing St. Hawk	2,203
El Paso & Southwestern Greenway	160,416
Water Review Developer Financed Proj	1,502
System Enhancements	21,129
Water Maintenance East Area	<u>618</u>
	<u>13,532,795</u>
<b>Total</b>	<b><u>\$ 22,488,901</u></b>

Source - City of Tucson, Finance Department

(Continued)

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
 SCHEDULE OF MUNICIPAL PAYMENTS (CITY MATCH)  
 Inception-to-Date as of June 30, 2010

ATTACHMENT B

<b>District Location Projects</b>	<b>Amount</b>
Barraza/Aviation Phase 1	\$ 44,166,915
Modern Streetcar	11,682,800
Arroyo Chico Drainage Improv	6,945,273
Diamond Snake Bridge	2,374,825
Broadway: Euclid to Country Club	2,359,600
Broadway/Euclid/Camp	1,606,517
Stone Ave Corridor Phase II	443,890
Broadway Turn Lane @ El Con	384,550
Broadway/Alvernon Intersection	11,305
Country Club: Broadway to 22nd	9,928
Euclid Ave - Broadway to Grant D	8,123
Broadway-Tucson/Country Club	1,986
	<hr/>
	69,995,711
<b>Downtown District Location Projects</b>	
Firestation 1 Relocation	36,323,036
City Hall Annex Parking Garage	12,018,038
Central Energy District Heating and Cooling Loop	9,122,482
Barraza-Avaiaition Parkway - Downtown	7,737,733
Transit Headquarters Build Improvements	6,250,816
Downtown Intermodal	5,728,687
MLK Amenitites	3,396,547
MacArthur Building Acquisition	2,394,350
Court Sturctural Improvements	1,747,634
TCC Facility Improvements	1,166,814
Fox Theatre Special	1,000,000
Depot Tenant Improvements	976,498
El Paso and Southwestern Greenway	610,994
Mercado District Rentals - EL Portal	562,914
Rio Nuevo Housing Site	554,594
Water Review Developer Financed Projects	551,352
City Staff Time Spent on Capital Projects	511,772
City/State Parking Garage Improvements	329,022
City Hall Annex Communications	301,126
Pedestrian Impl Plan	288,647
Clean Renewable Energy Bonds Solar Panels	276,243
Police Headquarters Expansion	223,341
Broadway and 5th Parking Structure	140,803
6th Street Improvements	121,216
Downtown Wayfinding Improvements	119,906
Central Plant Expansion	115,386
S Stone Ave and Cushing St. Hawk	95,095
Main Library Parking Garage Improvements	83,747
Main Library Plaza	72,685
Armory Park Pedestrian Enhancements	67,298
TCC Box Office	59,763
Congress Improvements	57,394
Ronstadt Transit Center	48,042
Jacome Plaza Historical Marker	38,057
B2B Mayor - Rialto Marque	21,000
Building Main & Improvements	20,260
Depot Plaza	15,000
Council Chambers	12,936
Misc Street & Spot Improvements	5,013
	<hr/>
	93,166,241
<b>Total</b>	<b>\$ 163,161,952</b>

# Attachment C

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
SOLVENCY SCHEDULE - DISTRICT OPERATING ACCOUNT  
For the Fiscal Year Ended 2010 and  
Projections For FY 2011 - FY 2013

ATTACHMENT C

	<u>FY 2010</u>	<u>Projected FY 2011</u>	<u>Projected FY 2012</u>	<u>Projected FY 2013</u>
<b>Beginning Cash</b>	\$ 5,088,023	\$ 2,695,217	\$ 5,571,242	\$ 5,957,145
<b>Cash Inflows:</b>				
<b>Revenues</b>				
TIF Revenue	9,322,246	9,066,390	9,247,718	9,432,672
Tucson Convention Center Rental Income	3,703,610	172,125	3,620,250	3,613,125
Other Rental Income	32,652	32,652	32,652	32,652
Investment Earnings	23,976	16,520	16,520	16,520
Total Revenues	<u>13,082,484</u>	<u>9,287,687</u>	<u>12,917,140</u>	<u>13,094,969</u>
<b>Total Cash Inflows</b>	13,082,484	9,287,687	12,917,140	13,094,969
<b>Cash Outflows:</b>				
<b>Operating Expenditures</b>				
Services (legal, rent, utilities, insurance, etc)	296,811	935,400	200,000	200,000
Fiscal Agent Fees	11,088	-	-	-
Total Operating Expenditures	<u>307,899</u>	<u>935,400</u>	<u>200,000</u>	<u>200,000</u>
<b>Debt Service Payments</b>				
City of Tucson Loan:				
Principal	5,035,334	-	-	-
Interest	152,816	-	-	-
COPs Series 2002 Convention Center Financing:				
Principal	3,200,000	-	3,360,000	3,525,000
Interest	504,250	172,125	260,250	88,125
Fox Revenue Bonds (2005):				
Principal	600,000	-	630,000	670,000
Interest	214,313	89,906	161,306	122,700
2008 Revenue Bonds:				
Principal	-	-	2,490,000	2,620,000
Interest	4,993,262	4,793,531	4,731,281	4,603,531
COPs Series 2009 Hotel Projects Financing:				
Principal	-	-	-	-
Interest	343,255	260,700	521,400	521,400
Total Debt Service Payments	<u>15,043,229</u>	<u>5,316,262</u>	<u>12,154,238</u>	<u>12,150,756</u>
<b>Project Expenditures</b>				
Origins Infrastructure	120,087	160,000	177,000	-
Cultural Plaza and Parking Garage	2,145	-	-	-
Mission Gardens	1,930	-	-	-
Total Project Expenditures	<u>124,162</u>	<u>160,000</u>	<u>177,000</u>	<u>-</u>
<b>Total Cash Outflows</b>	<u>15,475,290</u>	<u>6,411,662</u>	<u>12,531,238</u>	<u>12,350,756</u>
<b>Ending Cash</b>	<u>\$ 2,695,217</u>	<u>\$ 5,571,242</u>	<u>\$ 5,957,145</u>	<u>\$ 6,701,358</u>

**Source** - District general ledger maintained by the City of Tucson, District 2011 budget.

# Attachment D

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
CITY OF TUCSON - FUND 055  
RECONCILIATION OF CONSTRUCTION IN PROGRESS  
As of June 30, 2010

ATTACHMENT D

Project Description	<u>Beginning Balance</u>	<u>Additions</u>	<u>Capitalized FY2010</u>	<u>Ending Balance</u>	<u>Estimated Costs to Complete</u>	<u>Budget</u>	<u>Status</u>
<b>Rio Nuevo:</b>							
Presidio Stabilization & Heritage Park (Museum)	\$ 4,198,931	\$ -	\$ (4,198,931)	\$ -	\$ -	N/A	Complete
Mission Site/Origins Park (Film)	-	807,575	-	807,575	N/A	N/A	In Progress
Citizen Auto Exchange Property	110,928	-	(110,928)	-	-	N/A	Complete
Civic Center: Convention Center Hotel	1,621,555	8,322,935	-	9,944,489	158,105,311	168,049,800	On Hold
Depot Garage	10,328,011	3,982,143	-	14,310,154	1,618,346	15,928,500	In Progress
Rialto Theater	736,849	-	(736,849)	-	-	N/A	Complete
Civic Center: Convention Center Expansion	327,604	1,900,742	-	2,228,346	33,554,954	35,783,300	On Hold
Civic Center: Convention Center East Entrance	179,194	4,428,676	-	4,607,870	-	N/A	Complete
Civic Center: Convention Center Parking Garage	320,160	1,295,645	-	1,615,804	31,571,196	33,187,000	On Hold
Totals	<u>17,823,233</u>	<u>20,737,715</u>	<u>(5,046,708)</u>	<u>33,514,239</u>	<u>224,849,805</u>	<u>252,948,600</u>	
<b>Contributions to the City of Tucson:</b>							
Mission Site/Origins Park & Landfill & Infrastructure	12,842,337	-	(12,842,337)	-	53,700,000	53,700,000	On Hold
Merc/Avenida del Convento	5,523,613	-	(5,523,613)	-	-	N/A	Complete
Cushing Street Bridge	1,234,251	575,498	-	1,809,749	363,051	2,172,800	In Progress
Depot Public Plaza (Az Ave, ONF)	75,244	132,475	-	207,719	692,281	900,000	In Progress
DIIP-Scott Avenue and Public Art	7,058,837	564,010	(7,076,728)	546,119	N/A	9,311,000	Complete
Mission Gardens (County Land)	1,953,932	99,003	-	2,052,936	62,564	2,115,500	On Hold
Civic Center: Central Energy Plant	-	78,240	-	78,240	2,321,760	2,400,000	In Planning
Greenway Drainage - Fire Central City Asset F913	200,000	-	(200,000)	-	-	N/A	Complete
Barrio Viejo	39,872	186,089	-	225,961	774,039	1,000,000	Suspended
Barrio Sin Nombre	89,165	33,809	-	122,974	877,026	1,000,000	Suspended
Totals	<u>29,017,251</u>	<u>1,669,125</u>	<u>(25,642,679)</u>	<u>5,043,697</u>	<u>58,790,722</u>	<u>72,599,300</u>	
<b>Contributions to Other Agencies:</b>							
U of A Science Center	7,642,843	-	-	7,642,843	122,357,157	130,000,000	On Hold
Arizona History Museum	1,425,455	41,728	-	1,467,183	43,532,817	45,000,000	On Hold
Totals	<u>9,068,298</u>	<u>41,728</u>	<u>-</u>	<u>9,110,026</u>	<u>165,889,974</u>	<u>175,000,000</u>	
Total of all Construction in Progress	<u>\$ 55,908,781</u>	<u>\$ 22,448,567</u>	<u>\$ (30,689,387)</u>	<u>\$ 47,667,962</u>	<u>\$ 449,530,501</u>	<u>\$ 500,547,900</u>	

**Sources** - City of Tucson fiscal year 2009 Consolidated Annual Financial Report, District general ledger maintained by the City of Tucson, City of Tucson project budget system and District Board minutes  
N/A - Information not available.



# Attachment E

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
SCHEDULE OF REVENUES  
For the Fiscal Year Ended June 30, 2010

ATTACHMENT E

<b>Revenue Source</b>	<b>Amount</b>
State Sales Tax	\$ 9,322,246
Tucson Convention Center Rental Income	3,703,610
Other Rental Income	32,652
Interest Earnings	23,976
Bond Fund Interest	7,555
Unrealized Gain/Loss on Investments	8,997
Total	<u>\$ 13,099,036</u>

Source - District general ledger maintained by the City of Tucson, TCC Lease Agreement and Wells Fargo Trustee statements.

# Attachment F

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
DEBT SERVICE COSTS  
As of June 30, 2010

ATTACHMENT F

	<u>FY02</u>	<u>FY03</u>	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>Inception-to-Date</u>
Debt Service Payments:										
City of Tucson Loan:										
Principal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 501,575	\$ 524,146	\$ 6,800,000	\$ 5,035,334	\$ 12,861,055
Interest	-	-	-	-	-	2,623,960	633,419	456,832	152,816	3,867,027
COPs Series 2002 Convention Center Financing:										
Principal	2,845,000	3,275,000	3,405,000	2,540,000	2,665,000	2,800,000	2,915,000	3,045,000	3,200,000	26,690,000
Interest	354,954	1,463,775	1,332,775	1,163,725	1,038,675	908,175	785,300	656,500	504,250	8,208,129
Fox Revenue Bonds:										
Principal	-	-	-	-	580,000	510,000	535,000	565,000	600,000	2,790,000
Interest	-	-	-	-	218,196	301,625	274,850	246,094	214,313	1,255,078
2008 Revenue Bonds:										
Principal	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	2,396,766	4,993,262	7,390,027
COPs Series 2009 Hotel Projects Financing:										
Principal	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	343,255	343,255
<b>Total Debt Service</b>	<b><u>\$ 3,199,954</u></b>	<b><u>\$ 4,738,775</u></b>	<b><u>\$ 4,737,775</u></b>	<b><u>\$ 3,703,725</u></b>	<b><u>\$ 4,501,871</u></b>	<b><u>\$ 7,645,335</u></b>	<b><u>\$ 5,667,715</u></b>	<b><u>\$ 14,166,191</u></b>	<b><u>\$ 15,043,229</u></b>	<b><u>\$ 63,404,572</u></b>
										Total Principal paid to date: \$ 42,341,055
										Total Interest paid to date: \$ 21,063,517

*Source* - District general ledger maintained by the City of Tucson

(Continued)

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
DEBT SERVICE SCHEDULE  
For the Fiscal Years Ending June 30

ATTACHMENT F

Date	Series 2002		Series 2005		Series 2008		Series 2009		Total	Fiscal Year Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
7/15/2010						\$ 2,396,766			2,396,766	
1/1/2011		\$ 172,125		\$ 89,906			\$ 260,700		522,731	
1/15/2011						2,396,766			2,396,766	\$ 5,316,263 FY11
7/1/2011	\$ 3,360,000	172,125	\$ 630,000	89,906			260,700		4,512,731	
7/15/2011					\$ 2,490,000	2,396,766			4,886,766	
1/1/2012		88,125		71,400			260,700		420,225	
1/15/2012						2,334,516			2,334,516	12,154,238 FY12
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	
1/15/2013						2,269,016			2,269,016	12,150,756 FY13
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	
1/15/2014						2,174,909			2,174,909	11,060,225 FY14
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	
1/15/2015						2,068,484			2,068,484	9,383,256 FY15
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	
1/15/2016						1,967,984			1,967,984	9,321,394 FY16
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	
1/15/2017						1,856,947			1,856,947	9,321,756 FY17
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	
1/15/2018						1,734,159			1,734,159	9,323,431 FY18
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	
1/15/2019						1,598,316			1,598,316	9,319,000 FY19
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	
1/15/2020						1,448,016			1,448,016	9,320,063 FY20
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	
1/15/2021						1,288,416			1,288,416	9,319,531 FY21
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	
1/15/2022						1,111,697			1,111,697	9,314,644 FY22
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	
1/15/2023						918,697			918,697	9,313,206 FY23
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	
1/15/2024						709,722			709,722	9,316,731 FY24
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	
1/15/2025						486,772			486,772	9,313,056 FY25
7/1/2025							1,225,000	27,563	1,252,563	
7/15/2025					14,695,000	486,772			15,181,772	16,434,334 FY26
	\$ 10,085,000	\$ 772,625	\$ 3,610,000	\$ 532,339	\$ 80,000,000	\$ 51,125,597	\$ 12,560,000	\$ 5,416,275	\$ 164,101,836	\$ 159,681,885

**Sources:**

Certificates of Participation, Series 2002, Tax Revenue Bonds, Series 2005, Tax Revenue Bonds, Taxable Series 2008, Certificates of Participation, Series 2009 Closing Letters

**Note:** July 1, 2010 debt payments were made in fiscal year 2010.

# Attachment G

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
CAPITAL COSTS  
From Inception to June 30, 2010

ATTACHMENT G

<b>Project Description</b>	<b>June 30, 2010</b>
<b>Rio Nuevo owned Projects:</b>	
Purchase of TCC for Multi-purpose district	\$ 34,429,742
Property purchase 501 S Sentinel Ave.	27,888
TCC Box Office	793,716
Presidio Stabilization & Heritage Park	4,375,370
Property Purchase Citizen Auto Exchange	3,165,194
Fox Theatre	11,519,702
Civic Center: Convention Center Hotel	10,050,380
Southwest Drill Track Improvements	244,217
Depot Plaza: Parking Garage	14,450,957
Northwest Lots: Church - Stone	751,907
Rialto Theater	2,267,770
Civic Center: Convention Center Expansion	2,228,346
Civic Center: Convention Center East Entrance	4,607,870
Civic Center: Convention Center Parking Garage	1,615,804
	<hr style="border-top: 1px solid black;"/>
	90,528,864
 <b>City of Tucson owned Projects funded by Rio Nuevo:</b>	
South Drill Track Improvement	15,497
Westside Project	925
Archaeology and Historical Research	979,182
Rio Nuevo Landfill Stabilization Project	243,524
Congress Landfill	127,906
Public Infrastructure Improvements	552,832
Rio Nuevo potholing	3,211
Bonita Ave & Congress	77,615
Greyhound Bus Relocation	13,952
Property 151 N Stone Ave.	128,802
Roundabout at Grande & Clearwater/Cushing	952,529
Greenway Multiuse Path	200,000
Barrio Viejo	225,961
Barrio Sin Nombre	122,974
Simpson Street Warehouse Demolition	25,628
Mission Site/Origins Park	18,219,648
Mercado Avenue	5,523,863
Civic Center: New Arena	885,266
Mission Landfill	2,639,750
Origins Infrastructure	539,406
Civic Plaza	757,045
Cultural Plaza and Parking Garage	429,833
Civic Parking Garage	657,104
Congress Streetscape	338,802
Cushing Street Bridge	1,809,749
Depot Plaza: Public Improvements	207,719
Downtown Infrastructure Improvements (DIIP phase 2)	9,027,752
Civic Center: Central Energy Plant	78,240
	<hr style="border-top: 1px solid black;"/>
	44,784,713

(Continued)



RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
CAPITAL COSTS  
From Inception to June 30, 2010

ATTACHMENT G

Project Description	June 30, 2010
<b>Pima County owned Projects funded by Rio Nuevo:</b>	
Property at 332 S Freeway	\$ 2,800
Mission Gardens	2,052,936
	<u>2,055,736</u>
<b>State of Arizona owned Projects funded by Rio Nuevo:</b>	
I-10 Deck Park	209,978
I-10 Underpass Widening/Clark Street	9,000,000
	<u>9,209,978</u>
<b>University of Arizona owned Project funded by Rio Nuevo:</b>	
Science Center & Historical Museums	<u>7,706,235</u>
<b>Projects owned by Various Agencies and funded by Rio Nuevo:</b>	
Plaza Del Centro	10,557
Gadsden Development	20,422
Tucson Regional Visitors Center	1,208
Arizona History Museum	1,467,183
Thrifty Block	886,853
Purchase Property New Arena	8,831
Presidio Terrace	1,580
	<u>2,396,634</u>
<b>Total of all Project Capital Costs</b>	<u><u>\$ 156,682,160</u></u>

**Source** - District general ledger maintained by the City of Tucson

# Attachment H

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
CAPITAL PROJECT STATUS MATRIX  
As of June 30, 2010

ATTACHMENT H

Project Title		Ownership	Project Description	Expenditures Through Fiscal year 2010	Project Status
<b>CIVIC PROJECTS</b>					
J025	Depot Plaza: Parking Garage	TBD	City owned, Parkwise operated underground parking garage on 5th Ave between Congress and Toole. Garage includes foundation elements for construction of New MLK Tower over the west side of garage.	\$ 14,450,957	Construction almost complete, operating under a Temporary Certificate of Occupancy while final non-safety items are being completed. COT is making payments on behalf of the Board at this time. Total project cost \$15.9 million
J036	Civic Parking Garage	TBD	Civic Plaza Master Plan for a parking garage and a plaza over it.	\$ 657,104	Project canceled
J033	Civic Plaza	COT	Master planning/programming for the civic/cultural plaza and parking project.	\$ 757,045	Project canceled
OPR	I-10 Deck Park	State of Arizona	HDR Engineering - Feasibility Evaluation	\$ 209,978	Evaluation complete, Project canceled
J042	Presidio Terrace	Presidio Terrace LLC	Rio Nuevo to financing a portion of the parking structure required to replace parking for TMA and public use. This garage will support housing and limited commercial space.	\$ 1,580	Project canceled
<b>Civic Projects -- Total</b>				<b>\$ 16,076,664</b>	
<b>HISTORICAL PROJECTS</b>					
OPR	Archaeology and Historical Research	COT & RN	Desert Archaeology expensed in operating for the Rio Nuevo Archaeology and Historic Research	\$ 979,182	Complete
J050	Mission Gardens	PIMA	Design and construction of replica of historic Mission Gardens, with historically accurate sizing of adobe walls, and interior spaces designed to have plantings representing several eras of Tucson agriculture, from ancient to modern. Site infrastructure designed to include irrigation, electrical needs, and currently contains raised bed cedar planters in "modern" portion of the 4 acre area.	\$ 2,052,936	On Hold - Design is complete as well as the construction of the exterior adobe wall. RN Board suspended work and funding on this project. Project total estimated at \$2.116 million
J003	Presidio Stabilization & Heritage Park	RN	Conduct an archaeological study, stabilize historic adobe structures and develop an interpretive center for the Heritage Park.	\$ 4,375,370	Complete
J021	Arizona History Museum	HISTORIC SOCIETY	Design and develop a building program, site plans, and cost estimate to relocate the Arizona Historical Society exhibit halls to the cultural plaza that will be located on the west side of the Santa Cruz River.	\$ 1,467,183	Design Complete. In 2008 the District anticipated its participation at \$45 million
J007	Science Center & Historical Museums	Univ. of Arizona	Design element for the University of Arizona Science Center and the Arizona State Museum. The City of Tucson entered into an IGA for the combined amount of \$130 million that would fund in part the design of these cultural attractions and take part in the financing and construction of them.	\$ 7,706,235	On Hold
J002	Tucson Regional Visitors Center	UNKNOWN		\$ 1,208	Project canceled
<b>HISTORICAL PROJECTS -- Total</b>				<b>\$ 16,582,114</b>	

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
CAPITAL PROJECT STATUS MATRIX  
As of June 30, 2010

ATTACHMENT H

Project Title		Ownership	Project Description	Expenditures Through Fiscal year 2010	Project Status
<b>COMMERCIAL/ENTERTAINMENT PROJECTS</b>					
J006	Fox Theatre	RN	Restore the historic Fox Theatre on Congress Street to its 1930 condition. The 1,300 seat theatre will be used to host live performances and exhibit films. The theatre will be owned by the Rio Nuevo Multipurpose District and leased back to the Fox Theatre Foundation.	\$ 11,519,702	Complete
J032	Rialto Theater	RN	The Congress Street Historic Theatres Foundation (CSHTF) and Congress Street Investors, LLC (CSI) requested \$1.890 million to purchase and improve the Rialto Theatre. CSI to assign the purchase/ownership of the Theatre to the District. Under the Development Agreement, the District will contract with the Foundation to renovate, operate and manage the Theatre. Additional \$385,250.00 for HVAC design and installation.	\$ 2,267,770	Complete
JA01	Plaza Del Centro	DA, NO ASSET	Engineering and Environmental, Transwest Geochem, Inc and Toole soil samples expenses	\$ 10,557	Project canceled
<b>Commerical/Entertainment Projects -- Total</b>				<b>\$ 13,798,029</b>	
<b>CONVENTION CENTER</b>					
J001	TCC Box Office	RN	The new 1,572 sq. ft. ticket office will be located on the east side of the Convention Center facing Church Avenue, with reserved parking for ticket buyers. The office will include 10 full service windows, all ADA accessible. An electronic marquee and video display are also planned to promote coming events at the TCC and around Downtown.	\$ 793,716	Complete
J053	Civic Center: Central Energy Plant	COT	Replace aging plant equipment and infrastructure to provide continuity of service to Police Headquarters, Fire Headquarters and the TCC Complex.	\$ 78,240	Design accomodates Convention Center Projects, but equipment purchase and installation await final approval and funding. Total budget 8.8 million/ RNMFDD portion estimated at 2.4 million
J049	Civic Center: Convention Center East Entrance	RN	Design and construct a new entrance on the east side of the Tucson Convention Center. The work includes 5,000 sq. ft. registration area/lobby, 3,300 sq. ft. enclosure and renovation of existing east exit galleria, addition of two escalators and an elevator adjacent to the existing galleria exit stairs, with new 4,890 sq. ft. exterior.	\$ 4,607,870	Complete - Punch list resolution being managed by RND Board members.
J046	Civic Center: Convention Center Expansion	RN	Design and construct an expansion of the Tucson Convention Center. The expansion includes a 35,000 sq. ft. exhibit hall addition and a 25,000 sq. ft. meeting rooms addition along with HVAC and life safety improvements--total additions to 118,000 gross square feet.	\$ 2,228,346	On Hold - Waiting for the final GMP and final approval on Hotel Projects. Total cost estimated for expansion: \$35.78 million
J017	Civic Center: Convention Center Hotel	TBD	Design and construct a 525 room Sheraton branded full service Convention Headquarters Hotel with approximately 50,000 sq. ft. of meeting rooms, fitness center, pool, spa, bar, café, restaurant and business center, totaling 442,000 gross square feet.	\$ 10,050,380	On Hold - Waiting for the final GMP and final approval on Hotel Projects. Total cost estimated for Hotel: \$168 million

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
CAPITAL PROJECT STATUS MATRIX  
As of June 30, 2010

ATTACHMENT H

Project Title		Ownership	Project Description	Expenditures Through Fiscal year 2010	Project Status
J052	Civic Center: Convention Center Parking Garage	TBD	Design and construct a 975 space (640 minimum) garage to be built south and adjacent to the Hotel, west and adjacent to the proposed expansion of the Convention Center, along Cushing Street.	\$ 1,615,804	On Hold - Waiting for the final GMP and final approval on Hotel Projects. Total estimated cost for garage: \$33.69 million
J026	Civic Center: New Arena	COT Land	Conceptual Design & Location Planning for New Arena.	\$ 885,266	On Hold - Design 99.1% complete
<b>CONVENTION CENTER PROJECTS--Total</b>				<b>\$ 20,259,624</b>	
<b>INFRASTRUCTURE</b>					
JA06	Barrio Sin Nombre or Mission San Agustin	COT	Neighborhood Improvements to addresses lighting, sidewalks, and drainage needs within the area. Scope limited to available budget.	\$ 122,974	Suspended by RN Board, work and funding. Design 75% complete. Total budget: \$1.0 million
JA05	Barrio Viejo	COT	Neighborhood Improvements to addresses lighting, sidewalks, and drainage needs within the area. Scope limited to available budget.	\$ 225,961	Suspended by RN Board, work and funding. Preliminary design complete. Total budget: \$1.0 million
OPR	Bonita Ave & Congress	COT	SO AZ Paving for debris removal and parking lot grading	\$ 77,615	Complete
J038	Congress Streetscape	COT	Wheat Scharf Associates to prepare a Congress Street Master Plan and Streetscape Design.	\$ 338,802	Plan completed but not approved for implementation.
J035	Cultural Plaza and Parking Garage	TBD	Reconstruct the Mission San Agustin, Mission Gardens, the Carrillo House, and S-cuk as part of Tucson Origins Heritage Park. This includes the construction of a underground parking structure, an adobe wall, a cultural plaza and open festival space for community use. Improvements to infrastructure, archaeology work and flood and landfill mitigation must be done before the projects can be started.	\$ 429,833	On hold - 100 % Schematic Design. Funding not allocated.
J044	Cushing Street Bridge	COT	Design a bridge over the Santa Cruz River, linking the east and west sides of downtown. Key features include vehicular, bicycle, pedestrian and streetcar modality; public art; and indigenous landscape. Bridge construction costs expected to be federally funded.	\$ 1,809,749	Rio Nuevo Board has suspended TIF funding on the project. Project must continue, in conjunction with other COT Projects; COT is making payments on behalf of the Board at this time. Budget reflects total of \$2.173 million
J045	Depot Plaza: Public Improvements	COT	Provide improvements to public areas around the entire depot plaza projects site including Arizona Ave, 5th Ave, and Congress St sidewalks, lighting, and landscaping as well as a new Public Pedestrian Plaza between the New MLK Tower and the future privately developed tower.	\$ 207,719	Rio Nuevo Board has suspended TIF funding on the project. Project must continue, in conjunction with other COT Projects; COT is making payments on behalf of the Board at this time. Total budget reflected as \$900,000

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
CAPITAL PROJECT STATUS MATRIX  
As of June 30, 2010

ATTACHMENT H

Project Title		Ownership	Project Description	Expenditures Through Fiscal year 2010	Project Status
J048	Downtown Infrastructure Improvements (DIIP phase 2)	COT	Provide design and construction of new street scape and related utilities/infrastructure work throughout Scott, Congress, Broadway, Arizona Ave, Granada, and Cushing St (extended to Westside) between Toole on the east, Granada on the west, and Cushing extended south and west.	\$ 9,027,752	Design and Construction of Scott Ave has been completed. Congress, Broadway and Arizona Avenue are in planning/design. RN Board suspended TIF Funding for these projects. Required landscape Stabilization now being funded by COT. Total budget reflected at \$9.311 million
JA03	Gadsden Development	GADSDEN	Planned development includes 125 room boutique hotel, 400 residential units (of which 17.5% will be offered to households at or below 80% of Area Medium Income (AMI) and 17.5% will be offered to households between 80% and 125% of AMI) Additional development include office space, market, restaurant, and other commercial uses.	\$ 20,422	RND paid for a monitoring well relocation. Project is being platted with construction on one parcel to begin in about a year.
JA04	Greenway Multiuse Path	COT	Rio Nuevo to pay \$200k on the Greenway Drainage Project in conjunction with the construction of Fire Central. Drainage benefits the neighborhood.	\$ 200,000	Complete
OPR	Greyhound Bus Relocation	COT	Cultural resources testing for the site of the relocated Greyhound Bus Station.	\$ 13,952	Complete
J047	I-10 Underpass Widening/Clark Street	State of Arizona	Design and construct the widening of the underpass at Clark Street. In conjunction I-10 widening project, District paid Arizona Department of Transportation to widen underpass to enhance downtown east-west connectivity for bicyclists, pedestrians and vehicles, and to accomodate new trolley tracks.	\$ 9,000,000	Complete
J013	Mercado Avenue	COT	Design and construct roadway improvements, drainage enhancements, and bridges necessary for the development of the cultural plaza and the civic plaza.	\$ 5,523,863	Complete
J004	Mission Site/Origins Park	COT & RN	Conduct an archaeological study, design and reconstruct the Mission San Agustin complex, which includes the Convento, chapel, and mission gardens, as it was in the 17th century. Archaeology, flood and landfill mitigation work must be done before the project can be started.	\$ 18,219,648	Landfill Remediation efforts were curtailed and large portions of area still requires landfill removal. Archaeology being paid from J031. Tucson Origins Heritage Film was competed FY 2011 and will be added as an asset. Total project (including infrastructure "J031" estimated at \$53.7 million
J031	Origins Infrastructure	COT	Reconstruct the Mission San Agustin, Mission Gardens, the Carrillo House, and S-cuk as part of Tucson Origins Heritage Park. Improvements to infrastructure, archaeology work and flood and landfill mitigation must be done before the projects can be started.	\$ 539,406	Rio Nuevo Board has suspended TIF funding on the project. Archeological work must continue; COT is making payments on behalf of the Board at this time. Project total--see "J004" above
OPR	Public Infrastructure Improvements	COT	Tetra Tech expenses in operating for the Rio Nuevo Landfill Stabilization Project	\$ 552,832	Complete
OPR	Rio Nuevo potholing	COT	Potholing for design work on Rio Nuevo Project.	\$ 3,211	Complete
JA02	Roundabout at Grande & Clearwater/Cushing	COT	The Menlo Park neighborhood requested Rio Nuevo to construct a Roundabout (traffic circle) at the intersection of Grande Ave and Clearwater Dr in the Avenida del Convento/Clearwater Drive project and offers an entrance to the Origins Heritage Park and the museum complex.	\$ 952,529	Complete
OPR	South Drill Track Improvement	RN, COT Land	Engineering Design Services related to the railroad track removal and roadway reconstruction project.	\$ 15,497	Complete
OPR	Westside Project	RN & CITY	CFPO Habitat Suitability Study .	\$ 925	Complete
<b>INFRASTRUCTURE PROJECTS--Total</b>				<b>\$ 47,282,688</b>	

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
CAPITAL PROJECT STATUS MATRIX  
As of June 30, 2010

ATTACHMENT H

Project Title		Ownership	Project Description	Expenditures Through Fiscal year 2010	Project Status
<b>LANDFILL AND ENVIRONMENTAL</b>					
OPR	Congress Landfill	RN	Hydro GEO Chem; Design, Permitting, Work Plan, and Well Installation.	\$ 127,906	Complete
J030	Mission Landfill	COT & RN	Mitigation work to prepare the site to reconstruct the Mission San Agustin, Mission Gardens, the Carrillo House, and S-cuk as part of Tucson Origins Heritage Park.	\$ 2,639,750	Complete
OPR	Rio Nuevo Landfill Stabilization Project	COT & RN	Hydro GEO Chem expenses in operating for the Rio Nuevo Landfill Stabilization Project	\$ 243,524	Complete
<b>Landfill &amp; Environmental--Total</b>				<b>\$ 3,011,180</b>	
<b>PROPERTY PURCHASES</b>					
J027	Northwest Lots: Church - Stone	COT	The acquisition of the property for potential future museum improvements celebrating the corner of the Persidio Wall, which lies beneath the parcel.	\$ 751,907	Complete
OPR	Property 151 N Stone Ave.	COT	Chapman Lindsay services rendered for Café Poca Cosa	\$ 128,802	Complete
OPR	Property at 332 S Freeway	PIMA	Appraisal report for market value of the Theresa Lee Clinic, a medical building.	\$ 2,800	Complete
OPR	Property purchase 501 S Sentinel Ave.	RN	Purchase of Lot 22, Block 5 Cottonwood for Rio Nuevo Project.	\$ 27,888	Complete
J005	Property Purchase Citizen Auto Exchange	RN	Acquire the Citizen Auto Stage Bus site, and construct a replacement facility on a parcel owned by the Rio Nuevo Multipurpose Facilities District.	\$ 3,165,194	Complete
OPR	Purchase of TCC for Multi-purpose district	RN	Acquisition of TCC from the Business Development Finance Corporation as the primary component of the District	\$ 34,429,742	Complete
J034	Purchase Property New Arena	NORVILLE	Property purchase to use for Civic Plaza including new arena. Property owner is Norville. Surveying and environmental work.	\$ 8,831	Purchase fell through. District funded surveying and preparation work.
JA07	Simpson Street Warehouse Demolition	COT	Demolition of several dilapidated metal warehouses due to safety concerns.	\$ 25,628	Complete
J024	Southwest Drill Track Improvements	COT	Track removal.	\$ 244,217	Complete
J023	Thrifty Block	BP POST	Acquire property within the district to develop mixed use projects associated with the commercial components of downtown development, including plazas and parking garages.	\$ 886,853	Complete
<b>Property Purchase Total</b>				<b>\$ 39,671,861</b>	
<b>Other</b>					
J051	Mission Complex Drainage Swale	VARIOUS	Construction of Storm Drainage Swale across the A Mountain Landfill to the Santa Cruz River. Historic drainage patterns have been impacted by current construction activities. Swale will prevent flooding and damage to the Mission Complex.	No district funds spent	The Drainage Swale was canceled and TDOT Drainage bond monies was used to complete the necessary drainage work.
<b>TOTAL FUNDS EXPENDED</b>				<b>\$ 156,682,160</b>	

Source - District general ledger and project files maintained by the City of Tucson,

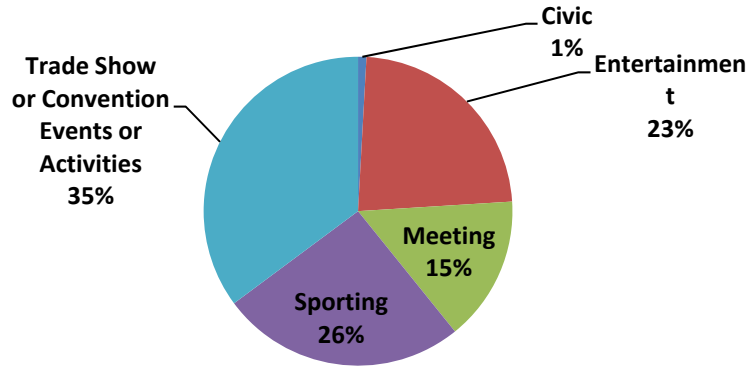


# Attachment I

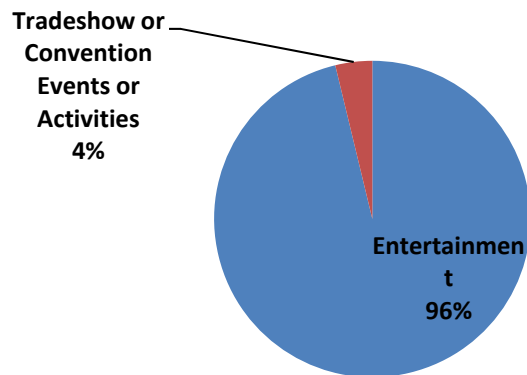
RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT  
SCHEDULE OF MULTIPURPOSE FACILITIES EVENTS  
For the Fiscal Year Ended June30, 2010

ATTACHMENT I

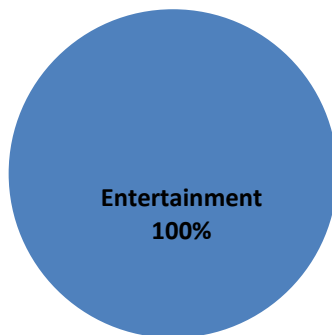
**TCC Usage**



**Fox Theatre Usage**



**Rialto Theatre Usage**





**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

December 20, 2010

The Honorable Robert Burns, President  
Arizona State Senate

The Honorable Kirk Adams, Speaker  
Arizona House of Representatives

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor  
State of Arizona

Ms. Jodi A. Bain, Chairperson  
Rio Nuevo Multipurpose Facilities  
District Board of Directors

On October 29, 2010, the Office of the Auditor General issued the performance and financial analysis of the Rio Nuevo Multipurpose Facilities District. This analysis was conducted by the consulting firm of Crowe Horwath, LLP., under contract with the Auditor General and was in response to the requirements of A.R.S. §48-4231.01. Statute allowed the District's Board of Directors 45 days from the release of the report to adopt a response to the recommendations noted in the analysis. Transmitted herewith is the response adopted by the District's Board of Directors and comments issued by Crowe Horwath concerning the District's response.

My staff and I will be pleased to discuss or clarify items in the performance and financial analysis.

The District's response will be released to the public on December 21, 2010.

Sincerely,

Debbie Davenport  
Auditor General



**Crowe Horwath LLP**

Independent Member Crowe Horwath International  
400 Las Colinas Boulevard East, Suite 200  
Irving, Texas 75039-6292  
Tel 214.574.1000  
Fax 214.574.1002  
[www.crowehorwath.com](http://www.crowehorwath.com)

December 16, 2010

Debbie Davenport, Auditor General  
Office of the Auditor General  
State of Arizona  
2910 North 44th Street  
Suite 410  
Phoenix, Arizona 85018

Ms. Davenport:

Crowe Horwath LLP is pleased that the Reconstituted District Board of the Rio Nuevo Multipurpose Facilities District substantially agrees with the Conclusions and Recommendations which comprise the findings ("Findings") contained in our October 2010 Performance Audit ("Audit") Report.

As noted in our report and the Board's official responses that the project reviewed a sampling of Rio Nuevo activities since 1999 and was based upon a system and analysis of samplings and is not a complete review of all issues and projects and was in accordance with statement of work. We do agree with the refined definition of TIF revenues included as No. 3 in the Board's responses; this definition is consistent with our understanding of the TIF revenues and is a better way of defining said revenues. This change has no impact on any of our recommendations and or conclusions.

Additionally, we concur with the Board that certain issues may require further analysis by the Board and or its designees, however, these items were not included in the scope of our project.

Crowe Horwath would like to again thank both the Reconstituted District Board and the Auditor General for their support of this project. If you have further questions please do not hesitate to call me at 214.574.1008.

Sincerely,

Kevin W. Smith  
Partner

December 13<sup>th</sup>, 2010

Ms. Debra K. Davenport, CPA  
Auditor General  
Office of the Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Via email: ddavenport@azauditor.gov  
With a Copy to: jzsorey@azauditor.gov  
kevin.w.smith@crowehorwath.com

**RE: Rio Nuevo Multipurpose Facilities District Response to Auditor General's Performance Audit as Contracted with Crowe Horwath.**

Dear Ms. Davenport:

The Reconstituted Rio Nuevo Multipurpose Facilities District ("Reconstituted District") Board ("Reconstituted District Board"), as prescribed in Senate Bill number 1003 and seated March 16, 2010, has completed its findings and review of the Performance Audit as required by Arizona Revised Statutes ("ARS") § 48-4231.01. The Performance Audit was prepared by Crowe Horwath who was selected by the Office of the Auditor General.

In addition, as also required by ARS § 48-4231.01(E)(1), a public hearing on the Performance Audit was held November 29, 2010 at the Tucson Convention Center. The hearing was properly noticed, received considerable advance publicity, and began at 6:00 pm and continued for approximately one and one-half hours until all those who requested to speak were given that opportunity.

With the Legislature's passage of Senate Bill 1003 in November 2009, the District, and the District Board in particular, was reconstituted and restructured. It is important to recall that the Reconstituted District Board is now appointed by efforts of the State of Arizona through the office of the Governor, Senate President and the Speaker of the House. Based upon the past eight months of diligent Reconstituted District Board meetings, the review of the status of the district assets (performing and non-performing) as of March 16, 2010 and the results of the Performance Audit, the District Board looks forward to establishing best practices, processes and protocols, to effectively manage the TIF District and its assets. We also recognize the importance of community input to successfully collaborate and expand private sector and public/private partnership efforts.

The Reconstituted District Board would like to thank the Office of the Governor, the Honorable Governor Jan Brewer and the Legislature for both their support of this Audit and the confidence they bestowed in the Reconstituted District Board. Similarly, we appreciate the ongoing support of the Legislature for this opportunity to serve southern Arizona and the Tucson Region and we look forward to effectively managing the District moving forward. Furthermore, the Reconstituted District Board would like to thank you and your office and staff for their professionalism and assistance throughout the Performance Audit process.

If you have additional questions, please feel free to contact me on Behalf of the Reconstituted Rio Nuevo Multipurpose Facilities District Board at 520.382.6772 or jodibain@hotmail.com.

Respectfully Submitted on Behalf of the Reconstituted Rio Nuevo Multipurpose Facilities District Board.

Very Truly Yours,

Jodi A. Bain, Chairperson  
Reconstituted Rio Nuevo Multipurpose Facilities District Board

Rio Nuevo Multipurpose Facilities District Board Members as of December 13<sup>th</sup>, 2010:

Mark Irvin, Vice-Chairperson	Jodi A. Bain, Chairperson	Alberto Moore, Secretary
Dan Cavanagh	Jeff DiGregorio	Carlotta Flores
Rick Grinnell	David Jones	Anne-Marie Russell
		Victor Soltero

**Rio Nuevo Multipurpose Facilities District  
Response to Auditor General's Performance Audit  
(performed by Crowe Horwath)**

**OVERVIEW**

This Performance Audit response is completed by the Reconstituted Rio Nuevo Multipurpose Facilities District ("Reconstituted District") Board as seated March 16, 2010 and as prescribed in Senate Bill number 1003. The Performance Audit was released late October 2010 (as also prescribed in Senate Bill number 1003) at the direction of the Office of the Auditor General.

The Reconstituted District Board substantially agrees with the Conclusions and Recommendations which are the findings ("Findings") contained in the October 2010 Performance Audit ("Audit"). Note that the Audit reviewed a sampling of Rio Nuevo activities since 1999. It is based upon a system and analysis of samplings and is not a complete review of all issues and projects. For example, the Audit does not address or analyze the proposed hotel, Tucson Convention Center expansion and garage project which financial backstop was rejected by the City Mayor and Counsel on October 26, 2010. Additional issues not addressed are set forth in the Conclusion section of this Audit response letter for your further consideration.

Additionally, since some of the Conclusions and Recommendations were obvious to the Reconstituted District Board, even prior to the commencement and the release of the Audit, the Reconstituted District Board has either already addressed or is in the process of addressing certain matters, and there are certain issues that necessitate clarification and/or correction. These matters are listed below:

1. Completed Matters:

- a. Providing for an open bid process and obtaining Public Officials Directors and Officers Insurance for the first time for District as obtained on May 19, 2010.
- b. Election of Officers for Executive Board on June 2, 2010.
- c. Completed a decision on the proposed hotel, Tucson convention center and garage project ("Proposed Hotel Project") (including a Guaranteed Maximum Price ("GMP") review, analysis and attempted negotiation of a reduced and value engineered GMP) in October 2010.
- d. District Administrative Rules drafted and completed as restated and amended to comport with State law as approved by Resolution on October 22, 2010.
- e. Contracted for and funded the statutorily required Performance Audit which was released on October 29, 2010.
- f. Re-negotiated various aspects the Rialto Theater IGA lease to provide a more effective management of this asset as finalize on December 3, 2010.
- g. Established control and management of District non-performing or non-income producing assets. One non-income producing asset was the Rialto Theatre, which had been overseen by the City. As of December 3, 2010 the Lease IGA with the Rialto Theater was amended which resulted in and provides for the payment of rent by the Rialto Foundation commencing in September 2010.
- h. Terminated the lease for the District office which was not being used by the District.
- i. Stopped payment on projects to which the District was either not a contractual party or where the projects were located outside the District.
- j. Reconstituted District Board now meets regularly at appropriately noticed times and locations and has met for well over 110 hours in 29 public meetings between March 16, 2010 and December 8, 2010. Many public meetings lasted over four hours per meeting which conservatively reflects at approximately one hundred and sixteen meeting hours)
- k. Established protocols for invoice approvals and payments within our new Administrative Rules referenced above. In summary, overall project costs are approved by a majority of the Reconstituted District Board then seated over a threshold of \$150,000.00. Project costs below this threshold are either approved by: (i) at least two of the Reconstituted District Executive Board members at all times; or (ii) a majority vote cast by the Board Members eligible to vote constituting a quorum at a public meeting (at any meeting at which a quorum is present) depending on the issue or project specifics as determined by

the Executive Board for specific action taken by the Reconstituted District Board for a particular project. Lastly, any and all consultant services invoices are approved by at least two of the Reconstituted District Executive Board members at all times.

- l. Obtained Insurance for various District real estate assets not previously insured.
- m. Held a Town Hall and provided an opportunity for the community to voice their thoughts and concerns on the proposed District Budget and the proposed Hotel, Tucson Convention Center expansion and garage project and a Public Hearing on the Performance Audit.

2. Matters Currently Being Addressed and Under Review:

- a. Compiling information and analyzing information as provided for ten year history of Rio Nuevo projects, expenditures, as well as, actual and possible assets (Where were the funds spent?)
- b. Negotiating Intergovernmental Agreements (each an "IGA") with the City and/or the City of South Tucson:
  - i. Governance IGA (with the City of Tucson and/or City of South Tucson).
  - ii. Global Settlement IGA (with the City of Tucson) which assets currently discussed under the ongoing negotiations include:
    1. The review of the Depot Garage project resulted in the suspension of payments from the 2008 Bond Proceeds of approximately \$2.2 Million pending a resolution of issues. To allow the commencement of operations of the Depot Garage the Reconstituted District Board approved a temporary agreement with the City whereby the City pays a payment of \$10,000.00 per month to the District commencing October 1, 2010 through December 2010 recognizing the District's right to share in the revenues of the Depot Garage. The Depot Garage is currently under consideration for transfer of title to the District and/or receipt of its revenues which would allow the District to recoup at least a portion of District monies expended for the project.
    2. The parcel known as the "Arena" site parcel and a determination of the District investment of approximately \$894,000.00 in this parcel. Tentatively reached an agreement with the City of Tucson for the repayment of the \$894,000.00 investment from the anticipated sale of this parcel.
    3. The finding of two parking lots as assets of the District upon review. This resulted in the City of Tucson agreeing to transfer one of these parking lots to the District upon a Global Settlement IGA which is in progress and the other property explained as being swapped with the IDA for the land upon which the El Presidio San Agustin del Tucson was constructed. These issues remain a part of the ongoing negotiations of the Global Settlement IGA with the City.
- c. Executive Director position defined and posted for acceptance of candidates through December 15, 2010 (as may be extended).
- d. Completing Financial Audit for fiscal year 2010.
- e. Proposed Hotel Project Close-out: Examination and approval of the final payment applications for the east entrance project under the Proposed Hotel Project (at the request of the City) including: close-out and completion of punch list items and the potential review and analysis of two new change order requests that total approximately \$951,000.00 which were not previously made known or anticipated nor have been approved.
- f. The "Presidio Terrace" project which resulted in the discovery that the District had been named as a defendant in a lawsuit filed by a former developer of this project. Action has been taken to release the District from this litigation.
- g. Consideration when negotiating IGAs and new contracts for generating District TIF revenues and other funding sources through management of current and future assets.
- h. The District Board is in the process of considering the addition of a press and media relations task force and/or consultant to assist the Reconstituted District Board.
- i. District has begun preliminary discussions with the management of the Fox Theatre in anticipation of an approximately \$1.5 Million lump sum payment due by the Fox to the District in September 2011 which is unlikely to be fully funded.
- j. Contacted the developer of the "Post" project which has a District investment of approximately \$900,000.00 and which is non-performing. The developer has proposed a hotel project in lieu of the



original residential condominium project. Note, the originally approved Post project did not comply with Rio Nuevo guidelines since it involved residential development and would not have been authorized by the Reconstituted District Board.

3. Performance Audit Area of Correction:

Please note, the audit may not accurately define and describe the calculation of the TIF funds. This was addressed with the Crowe Horwath on November 29, 2010. For clarification purposes the TIF incremental funds are calculated as follows:

1. The amount of the TIF is the LESSER of 50% of all the state sales taxes collected within the District or the full increment above the 1999 base year (current year over the base year which is 1999); and
2. District can never receive more than 50% of the total state sales tax collected within the District; and you can never receive the full 50% if that number is larger than the increment. So until collections in the District exceed \$48 million, the District will always receive the increment above the 1999 base year.

The Audit gives both the City and the State an excellent blue print to the past of this TIF District and should be reviewed closely by all parties. Lastly, please recognize that the Reconstituted District Board is comprised of experienced and dedicated volunteer community business members who volunteer their time to the District. From time to time we may respectfully request the assistance of the Office of the Governor, Auditor General, the Attorney General, the Legislature and the taxpayers as the activities and statutes governing the District continue to be reviewed and the interpreted.

**DISTRICT RESPONSE TO FINDINGS**

(page fifty-three of the Audit)

**Finding #1:** Recover overpaid interest on the City’s loan to the District—work with the City to determine the accurate loan period and assign to each period the appropriate interest rate for the balance outstanding. Our general calculation of the interest owed the District at approximately \$442,000.

**District Response:** The District discussed this matter post Audit with Crowe Horwath and understands the \$442,000 is not a specific number but rather an approximate sum and the range of possible overcharge sum exceeds the \$442,000. Furthermore, the District began negotiations with the City of Tucson regarding the validity and legality of the underlying loan with an alleged \$1.7 million remaining due. This issue is still outstanding and is anticipated to be addressed in a Global Settlement IGA. The District made a motion on April 8, 2010 to freeze any further payments which motion was tabled and later taken off the table on June 2, 2010 and passed by a 6-0 vote to freeze any further payments. Note, however, no payments were extracted subsequent to April 8, 2010.

**Finding #2:** Assure that a new Intergovernmental Agreement with the City (and any associated Administrative Rules) conveys the appropriate powers and responsibilities of the District and fulfills the 2009 ARS mandates.

**District Response:** As stated above, the restated and amended Administrative Rules were approved by motion on October 22, 2010. There remain two key IGA’s under negotiation at this time. One, the Governance IGA (“Governance IGA”) which is approximately 95% complete. The Governance IGA is designed to set forth the basic parameters and structure for continued collaboration on future project oversight and decision-making between the District and the City of Tucson Government (“City”). Secondly, there is the Global Settlement Resolution IGA (“Global IGA”) whereby the District issued to the City its position on this IGA as early as May 2010. The Global IGA is being negotiated and deliberated upon with the utmost integrity at this time. The District recognizes that the City would prefer to jointly approve the Global IGA and the Governance IGA concurrently however, finalization of these two important foundational IGAs may not coincide as the Reconstituted District Board has materially completed the Governance IGA and continues to formulate the Global IGA structure and terms at this time.

**Finding #3:** Develop policies and procedures outlining the District’s management and oversight of future projects, including funding decisions, debt issuance and statutory mandates.

**District Response:** The District agrees with the Auditors' Findings that there was a lack of protocol and process for control of Rio Nuevo activities. The Reconstituted District is in the process of putting into place a protocol and procedure for the following: (i) for obtaining use of copy written materials; and (ii) for selection of District appointment of board member(s) to both the Rialto Theater and the Fox Theater which the District through various IGAs has the authority to appoint. Further, the District has posted a specific job description and request for resumes/qualifications for an Executive Director which will allow for significantly more arms length oversight of future projects and funding decisions and tracking. As for its assets, compliance with statutory mandates and review of significant established projects (which predate the Reconstituted District Board), the Reconstituted District Board engaged local legal counsel as general counsel for statutory compliance matters and special counsel for real estate and construction matters. Lastly, the District is exploring the concept of beginning an internship program to liaison with the University of Arizona, the Eller School and the College of Law and others, to facilitate community education and student involvement.

**Finding #4:** More fully complete the Capital Improvement Plan document recently developed by the City for the District and include all projects that have District participation on-going or expected in the future and require that this report be updated and discussed on a regular basis, at least once a month, at a Board meeting.

**District Response:** As of December 6, 2010, the District Board had not been presented with the Capital Improvement Plan ("CIP"). On December 7, 2010 the District Chair was forwarded an approximately 3 page spreadsheet delineated as the Capital Improvement Plan which has not been formally presented to the District or explained by the City staff to date. The CIP was described as the 'master plan' for redevelopment in downtown Tucson but is in actuality a spread sheet tracking current projects. We anticipate requesting the City to present the CIP in first fiscal quarter 2011. We plan to seek clarification on whether the Auditor's reference to the CIP is in the spreadsheet provided by the City.

**Finding #5:** Develop a short-term strategy for the use of available funds, including remaining bond proceeds and tax increment revenues.

**District Response:** The District Board recognizes that the Audit clearly calls for the residual Bond and COPS proceeds to be utilized for the revitalization of the primary component which is the Tucson Convention Center ("TCC"). There are discussions to include an allocation of the remaining 2008 Bond proceeds to the TCC through the Global Settlement IGA. The Reconstituted District Board recognizes it is directed to focus on the TCC before other expenditures.

**Finding #6:** Establish a District staffing plan to assure adequate support for the Board, including key positions of executive director, chair, treasurer and secretary. Under current statutes, City employees cannot be paid or reimbursed for any of these services.

**District Response:** The Reconstituted District Board posted an advertisement for an Executive Director and is accepting applications through December 15, 2010 (as may be extended) to establish the key staff support person. The current Budget will be reviewed and possibly revised to add adequate compensation for such an Executive Director as may be necessary.

As for the open Treasurer position, the statutes reference that the Treasurer of the District is to have financial management or accounting experience and/or be outsourced to a financial management firm. This is a skill set that the District Board hopes a new appointment to the Reconstituted District Board would assist in filling.

In July and August 2010 the Reconstituted District Board explored with accounting firms and a local Merrill Lynch representative possible options. Merrill Lynch suggested that the existing reserve funds and other District monies should be reviewed by an independent financial analyst to establish a baseline. There was also discussion regarding whether the District is bound by the City or the State of Arizona investment protocols. Based upon the Performance Audit and the Financial Audit (which is being finalized) the District, as reconstituted, is defined as a component unit of the State of Arizona and shall be reported in this manner. Further, the Reconstituted District Board seeks to establish through the Global IGA a distinct and specific revenue and asset base to generate income and from which to responsibly leverage to allow for future downtown Tucson revitalization and development. Note, the statutes prohibit the District from paying the City of Tucson for services provided to it by the City. It should be noted there remains some question if this statute would preclude the District from contracting with the City for services. In order to

prevent extensive legal costs on this matter for research and a private sector opinion, the District anticipates it will directly request an on point opinion from the Office of the Attorney General which regulates statutory compliance. An Executive Director is anticipated to also assist in the day-to-day administrative and oversight procedures, as well as, to alleviate some of the legal costs associated with exploration of issues on behalf of the District Board and their impact on the board and the community.

**Finding #7:** Establish a District Fund account with an approved bank or banks for the deposit of all revenues and expenditure of all funds. Assure that monthly reconciliations are conducted and reported to the Board.

**District Response:** See District Response for #6. The District is working toward designating a board member as Treasurer. Please note, at the time of the preparation of this response a board member with direct capacity and background to act as the actual Treasurer in compliance with the statutes is unavailable. The District Board is considering selecting a board member to act as Treasurer and liaison with an appropriate financial service accounting entity in order to be in compliance with statute. Additionally, the Reconstituted District Board is in the process of decoupling District funds and sub-accounts from the City of Tucson finance and accounting departments which has provided such services for District funds since Rio Nuevo's inception in 1999 and transferring funds to District accounts for full control over these assets. Note, the City of Tucson Government has provided and is amenable to continue to provide the invaluable service of 'educating' the businesses and tracking the TIF fund collections within the boundaries of the District of the correct manner to report the TIF tax.

**Finding #8:** Ascertain the District's cash flow needs and arrange for investing available funds in investment vehicles with appropriate durations, safety, liquidity and yield.

**District Response:** See District Response for #6. Additionally, the funds are currently invested with the Wells Fargo Trustee as the District completes its first stand alone Financial Audit. It is hoped this Financial Audit as required by both ARS 48-4232 and the requirements of the issued Bond Indentures creates a baseline of the District's financial and fixed asset position. Thereafter, the District is considering enlisting the assistance of an independent financial advisor to review the investment plan; noting, however, a proper Treasurer and financial service provider will be required to be obtained first.

**Finding #9:** Create a District website that fulfills the official reporting requirements of the ARS mandates.

**District Response:** The District website is currently a link on the City of Tucson Government's website. Late summer the City turned over the rights to the web address and website content to the District.

The District is looking at potential options to move the website to its own district controlled domain and has the website [www.rionevotucson.com](http://www.rionevotucson.com) registered. It is anticipated that a decision on the issue will be made in February 2011. Note, the meeting agendas and minutes postings remain posted by the City liaison assigned to assist the District during this transition period. The concept of a webmaster internship is also being explored and discussed. Similarly, the District is in the process of considering the addition of a press and media relations task force and/or consultant to assist the Reconstituted District Board. An Executive Director will be integral to assisting with the website and will also be able to help with administrative issues, monitoring and reviewing compliance with ARS mandates, as well as, assisting the Board in implementing a District mission statement and action plan to maximize current and future assets and revitalization efforts of the Reconstituted District.

**Finding #10:** Prepare, approve and submit District budgets annually to the Pima County Clerk containing all budget information required by ARS code sections.

**District Response:** The Reconstituted District Board is in the final days of its required annual Financial Audit. As a result, the District will obtain a set of 'stand alone' financial statements for the first time since its inception. Prior to its reconstitution, Rio Nuevo was considered a discrete component unit of the City of Tucson Government CAFR and did not have its own 'stand alone' financial statements. This baseline set of financial statements and the financial auditor's opinion/management letter, as applicable, will assist in proper reporting. Further, the selection of an Executive Director and other support staff (as may be needed) will assist in statutory compliance. To date, the Reconstituted District Board remains a volunteer board with no staff other than legal counsel and City of Tucson Government support services. The Budget for fiscal year 2011 was successfully submitted after an opportunity for the community to provide input at a District meeting and Town Hall on June 24, 2010.

**Finding #11:** Engage an independent CPA to annually audit the District Fund and submit a certified copy of the audit report to the Auditor General within 120 days of the end of the fiscal year.

**District Response:** As stated in District Response #10. Additionally, the Reconstituted District Board engaged Beach Fleischman PC as its Financial Auditor for a two year term. Beach Fleischman is in the final days of the District's first self-governing Financial Audit. The Tucson based independent accounting firm of Beach Fleischman PC was selected through an open bid process and engaged by the Reconstituted District Board as financial auditor for a two year engagement to encompass both fiscal year 2010 (in progress) and 2011. Beach Fleischman has been very helpful in preparing stand alone financial statements and reconciling a decade of projects and fund allocation to assets owned and un-owned by the District.

## CONCLUSION

In conclusion, the Reconstituted District Board substantially agrees with the findings of Crowe Horwath that revisions and significant changes are required to achieve desired goals, transparent accountability of assets and expenditures and to insure a variety of best practices are followed. Although community volunteers, this Reconstituted District Board continues the process to manage and restructure the District as prescribed by Senate Bill number 1003.

Specifically, *the Audit sets forth an excellent blue print to the past of this TIF District for the City and the State and should be reviewed closely by all parties.* In furtherance of this, the Reconstituted District Board has begun to establish a variety of protocols and processes and will continue to do so during this fiscal year. We are committed to finalizing a mission statement and developing a reasonable and thoughtful action plan to fulfill the goals of the District. Transparency, accurate record creation and maintenance are top priorities for this District. Please note a ten year institutional culture was in place when the Reconstituted District Board took office in March 2010.

To date, the City of Tucson (Mayor & Council and Staff) and the Reconstituted District Board have worked to shift the institutional culture to offer the District independence and autonomy in light of the November 2009 statutory changes per Senate Bill number 1003.

Please note there are areas the Audit did not address, although requested by the Reconstituted District Board, and issues that the Reconstituted District Board is concerned were not sufficiently addressed in the Audit;

### 1. Issues and questions not sufficiently addressed or included in the Performance Audit:

- a. There is reference to a disconnect between the goals of the City and the State for the District and what the physical boundaries are for where District funds may be appropriately spent. The Reconstituted District Board would like to understand this issue better for future compliance purposes and explore the possible revision of the statutes for clarification purposes.
- b. How are City matching funds to be calculated (as set forth in Exhibit B to the Audit) and when are the matching funds required to be due by the City? The referenced Exhibit B to the Audit includes mid-town street improvements, relocation of existing downtown fire department building (\$36 million), and the renovation of City Council Chambers (\$13,000.00). What are allowable sources of matching funds?
- c. There is a reference to approximately \$230 million spent by Rio Nuevo. Board members would like a specific comprehensive accounting including (i) the hard capital expenditures, (ii) the soft costs associated with the projects and (iii) the administrative costs funded or reimbursed with District funding sources.
- d. The Reconstituted District Board would like a list of all expenditures, projects and assets regardless of ownership versus total cost to the District for these matters and what is the difference between this and Exhibit G of the Audit as provided by the City reflecting fund expenditures.
- e. What is the goal or expectation to be obtained from working to fully complete the CIP document developed by the City for the District and what is the CIP document referenced in the Audit? The CIP spreadsheet emailed to District counsel on December 6, 2010 and referenced by the City as the CIP from the Audit does not appear to be what is described in the Audit. The District also needs to not only review, but potentially amend, the CIP as discussed by the Audit to ensure it fits with the direction prescribed to the Reconstituted District Board of to focus on the primary component (TCC) and to ensure it reflects projects that will add to the TIF revenues.

2. Issues not addressed by the Performance Audit:

- a. 2008 Bond Fund allocations, uses and expenditures.
- b. Proposed Hotel, TCC Expansion and Parking Garage Project (including a review of the East Entrance GMP and payment applications). The Auditors were approached many times to review the proposed Hotel, TCC expansion and garage project and assist in determining if the correct GMP was utilized for the payment of the pay applications and if the GMP was exceeded by the developer on this project related to the primary asset: the TCC.
- c. The Audit mentions the City conducted the District business as though it was a City department or agency. A District Board Member requested if the Auditors knew if District expenditures had been calculated as a City department or agency, would the City have violated its constitutional spending or capacity limit?
- d. How and why certain invoices and expenditures were paid and approved when reportedly the District was not a legal party to such contract. This issue is the primary reason that several projects have been rejected for continued funding by the Reconstituted District Board.

The Reconstituted District Board continues to manage the District as directed by statute and understands the importance of managing the TIF District as an asset with respect, responsibility and integrity. We worked diligently as a Board to prepare this response and look forward to developing a disciplined and successful relationship with the City leadership while maintaining responsible stewardship of the TIF District Funds and future development of downtown Tucson as a state related entity.

Respectfully Submitted on Behalf of the Reconstituted Rio Nuevo Multipurpose Facilities District Board.

Sincerely,

Jodi A. Bain, Chairperson

Rio Nuevo Multipurpose Facilities District Board Members as of December 13<sup>th</sup>, 2010:

Jodi A. Bain, Chairperson

Mark Irvin, Vice-Chairperson

Alberto Moore, Secretary

Dan Cavanagh

Jeff DiGregorio

Carlotta Flores

Rick Grinnell

David Jones

Anne-Marie Russell

Victor Soltero