



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

March 17, 2026

The Honorable Warren Petersen, President
Arizona State Senate

The Honorable Steve Montenegro, Speaker
Arizona House of Representatives

The Honorable Katie Hobbs, Governor
State of Arizona

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

On November 18, 2025, we issued the *Performance Audit & Financial Analysis, Rio Nuevo Multipurpose Facilities District* report. Johnson Consulting conducted the audit under contract with our Office and in response to the requirements of Arizona Revised Statutes (A.R.S.) §48-4231.01.

A.R.S. §48-4231.01(E) requires the District's response to the reported findings and recommendations be adopted by the District's Board of Directors (Board) within 45 days of the report's release, or January 2, 2026. Transmitted herewith is the revised response the Board adopted on February 24, 2026. This superseded the initial response the Board adopted on December 16, 2025.

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

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Arizona Auditor General
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Re: Rio Nuevo Response to Auditor General Audit 2025

After the reconstitution of the failed Rio Nuevo Tax District in 2010 the State of Arizona took control of the District and initiated several changes to provide more accountability and transparency in the operation of the State's only tax incentive district. The board is now appointed by the Governor, The Speaker of the House and the President of the Senate. District leaders must present project expenditures annually to the Arizona Legislature's Joint Committee on Capital Review. The District must submit to the state an annual, independent audit and every three years the Arizona Auditor General is obliged to review and report on the District's performance, as provided by Arizona Revised Statute 48-4231-01.

It is our honor to serve, and we are pleased to provide the following response to the 2025 audit.

A handwritten signature in black ink, appearing to read "Fletcher McCusker", written over a horizontal line.

Fletcher McCusker
Chairman

OVERALL FINDINGS

For the first time in the history of Rio Neuvo the District is in 100% compliance with the statutes and mandates that provide for access to state sales tax dollars to be invested in economic development in downtown Tucson. That is an accomplishment the current board is proud of, especially given the limited resources available to the incentive district. Rio Nuevo receives 50% of the incremental sales tax created above the base established in the year 2000. Through the first thirteen years of prior leadership there were no new tax dollars created from Rio Nuevo projects. Starting in 2013 every year has seen an increase in sales tax and Incremental tax in 2025 was almost \$60,000,000, with the District receiving just under \$20,000,000 for its share of new tax dollars. The State and the City of Tucson (COT) receive a similar share. The audit identifies the leverage the District creates by using state money as seed funds for developers and commercial lenders, resulting in over \$400,000,000 dollars invested in Tucson's core over the last three years, utilizing just under \$42,000,000 of state money. Rio Nuevo is identified as the most successful tax incentive district in the US in terms of attracting nontax dollar private investments.

The auditors made a series of recommendations on how to continue to improve the District results for the remaining nine years left before Rio Nuevo sunsets. It is important for the reader to appreciate that as this response is being written, Rio Nuevo has just under \$5,000,000 available for 2026 projects and is saddled with nearly \$100,000,000 of debt remaining from the original COT run version of Rio Nuevo. Many, if not all the Auditor General’s recommendations, will require some sort of additional funding.

Finally, the auditors encouraged Rio Nuevo to add new hotel capacity downtown to make Tucson a more competitive convention market.

“Hotel supply is a critical metric to use in evaluating a convention destination. This number is indicative of not only the strength of the hotel market overall, but also of the strategic location of the event facility relative to the concentration of transient visitors in each destination. This is one of the most important market characteristics for event planners as it serves as an indicator of the market's ability to have adequate room blocks available within a close proximity to the event facility. Tucson ranks 11th (last) by this measure with just 993 proximate rooms. Additional hotel development adjacent to the TCC ought to be a priority for Tucson, particularly if major expansion is considered.” (Arizona Auditor General Audit 2025).

The District has been hyper focused on bringing Class A hotel properties to downtown Tucson. Every hotel added over the last ten years has been enabled by Rio Nuevo and we have no intention of slowing down. However, given the finance and equity markets we have had to utilize tens of millions of dollars in incentives and subsidies and can’t maintain our pace without additional financial resources.

RECOMMENDATION #1: Attract more citywide events.

“Major conventions and trade shows, often referred to as citywide events, tend to attract the largest numbers of out-of-town and overnight visitors. These visitors have a higher propensity to spend on hotels, dining, retail, and entertainment, and as such citywide events typically create the most economic and fiscal impact for a community. Tucson's growing hotel supply and attractive downtown, as well as the improvements made to the TCC, have positioned the community well for hosting more of these events. However, TCC management indicates that citywide events remain a very limited component of the demand calendar. This is corroborated by the TCC’s operating data, which indicates that while

convention/trade show events and attendance were at 10-year highs in FY2025, average attendance per event was below pre-pandemic levels, indicating a preponderance of smaller, lower-impact events filling the calendar. Targeting larger, high-impact events would help drive additional impact and benefit the District and the Tucson community. Note that this recommendation is not within the district's control, as the TCC is managed by the COT and Legends. However, it is an important outcome of this performance's audit benchmarking analysis and thus has been included as context."

THE DISTRICT'S RESPONSE:

Ten years ago, the aging Tucson Convention Center was obsolete. The new Rio Nuevo has spent nearly \$100,000,000 to improve and upgrade our primary component. Attendance has gone from 122,000 annual visitors to 616,000 in 2025. The Auditors noted in the report that Rio Nuevo has nothing to do with the calendar of events. However, we can and will help coordinate COT planning by engaging with the Mayor, COT staff, and Visit Tucson, along with the Pima County Board of Supervisors and staff to discuss and collaborate on citywide events.

RECOMMENDATION #2: Develop an updated master plan for the TCC.

"We believe the TCC would benefit from a comprehensive master plan to evaluate the degree to which the recent expansion and upgrades have been absorbed within the regional and national market, as well as to set goals for how best to advance the facility as the industry and market continues to shift. Additionally, such a plan could be considered a more formalized expo center opportunity to better accommodate the gem show and other similar events. Analyze the hotel market supportiveness of the TCC's activities, including rate, room block availability, inventory quality, etc., and include an assessment of the facility's future capital needs and a plan to address them. Periodic master plan updates are a standard industry practice, but the TCC has not seen a comprehensive master planning effort since the 2001 Rio Nuevo Master Plan, which was to guide the original iteration of the district. We note this recommendation as industry experts and reiterate that it aligns with industry best practices. These types of planning efforts are crucial to understanding operational and physical performance and setting long-term goals, as well as to assessing capital needs and developing funding strategies to meet those needs. However, given the funding and ownership structure of the TCC, recognize the complexity of the district executing on this goal. The district does not manage the TCC, so any master planning effort would have to be in collaboration with the COT and Legends. Though note that as the

TCC's owner and funder, the district would have a significant role to play in such an effort. The TCC is acknowledged in the district's 2024 master plan, but is only a minor component, reflecting the reality that Rio Nuevo has many ongoing priorities and projects.”

THE DISTRICT’S RESPONSE:

Again, we have a recommendation that requires multi-jurisdictional collaboration and, moreover, funding. Rio Nuevo will lead the effort to generate a multijurisdictional Master Plan.

RECOMMENDATION #3: Rio Nuevo Multipurpose Facilities District formalize the capital planning process.

“As this report documents, Rio Nuevo's public-private capital projects have been successful in recent years. With \$41.9 million of district investment since the last performance audit leading to nearly \$304.4 million of private investment. To carry on this success, the district would benefit from formally documenting and codifying their criteria and procedures employed to determine whether to invest in a project and, if so, to what degree. District management's primary criterion for a project is whether it will generate incremental revenue, and the district utilizes an independent third-party evaluator to determine whether any given project is in the best interest of the taxpayers. District management has indicated strategy beyond this imperative, including urban design considerations and investments in public infrastructure which does not directly create incremental sales tax revenue. Documenting these criteria and procedures would have the benefit of reducing risk for Rio Nuevo such that it isn't reliant on institutional knowledge to successfully execute on projects. Doing so and publicizing the documentation on the district's website would also create greater transparency for the private market. Giving proposers a better understanding of the project elements and criteria needed for a partnership to make sense for the district.”

THE DISTRICT’S RESPONSE:

We have always taken the view that no two projects or financial support requests are alike. We have a large variety of programs to enable economic development, and we try to match our programs to the gaps in the developers’ plans and maximize our limited cash. We do agree and can implement a more standardized application and due diligence process.

RECOMMENDATION #4: Monitor the adequacy of finance staff.

“As the district is continuously growing in terms of its impact and footprint, management should monitor adequacy of staffing size and consider adding at least a part-time accounting and or finance staff during high demand in order to maintain the high level of reporting and transparency required of the district while also serving the requirements of the day-to-day operations. Per inquiry of district management, finance staff size is deemed sufficient throughout the performance period, a finding which is consistent with that of the consulting team. However, one of the district's long-time staff members will be moving on at the end of October 2025 just following the finalization of this performance audit. And district management has indicated that a staffer may be brought on in addition to her replacement in order to ensure continued high-level performance. The district has brought in a consulting firm to evaluate staffing needs following this staffer's resignation, and this firm will also be helping with the search for her replacement. This recommendation aligns with the district's January 2024 to December 2035 master plan, goal number 12. Staff objective, increase Rio Nuevo staff, which includes exploring the cost benefit of restructuring to add a CEO role, considering consultants, e.g. an architect or contractor for project site visits, and maintaining a project manager for the TCC. Adding finance staff would be a natural extension of this goal, supporting both operational capacity and long-term sustainability, and the merits of doing so should continue to be monitored. District budget information, repeat. While the district is in compliance with the statutory requirements of ARS.”

THE DISTRICT’S RESPONSE:

All the accomplishments of Rio Nuevo have been managed with just two full-time staff and a very active volunteer board that has preferred to put state dollars into projects as opposed to staff. Given the departure of a key staff member and this audit recommendation, the District has retained the staffing consulting firm HRS of Chicago, who will present their recommendations in early 2026.

RECOMMENDATION #5: We recommend the district develop more formal budget projections that extend beyond the upcoming fiscal year.

“While the district is in compliance with the statutory requirements of ARS. Section 48-4232 in relation to annual budgets, we recommend the district develop more formal budget projections that extend beyond the upcoming fiscal year. Management should consider

developing five-year budget projections. However, at a minimum, should consider developing three-year budget projections. This will help in developing and achieving long-term strategic goals. Alternatively, rather than focusing solely on projecting future dollar amounts, the district could consider budgeting around how resources will be deployed for specific projects. This approach would provide a more practical framework for aligning financial planning with long-term strategic priorities and project execution.”

THE DISTRICT’S RESPONSE:

Rio Nuevo will work with the Joint Legislative Budget Committee to develop a three-year forecast.

IN SUMMARY

There is not a more productive, transparent, and accountable organization in all of Arizona government. We have demonstrated the value of public/private partnerships when it comes to economic development. We are grateful to the audit team for recognizing our success and we take the recommendations seriously.

Rio Nuevo is seriously challenged to live up to competitiveness as a convention market envisioned by the Auditor General without some additional resources. We pledge to work with our appointees and stakeholders to maximize this opportunity.

(Signed by all board members)