

RIO NUEVO MULTIPURPOSE FACILITIES BOARD MEETING

Tucson, Arizona
June 29, 2012
1:05 p.m.

REPORTED BY:

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1 CHAIRMAN MOORE: Why don't we go ahead and start.

2 We have a couple of things to start with. I'm not
3 sure if we can readjust the minutes, if that's okay with
4 everybody. So we can open up the meeting. I guess it's
5 approximately 1:05. Everybody in their place?

6 Thank you.

7 Jeff, you want to --

8 MR. HILL: Sure.

9 CHAIRMAN MOORE: -- help us with the pledge of
10 allegiance, please?

11 MR. HILL: Please join me in the pledge of
12 allegiance.

13 (Pledge of Allegiance given)

14 CHAIRMAN MOORE: Okay. Let's have roll call.
15 Susan, do you want to do roll call for us?

16 SUSAN: Sure.

17 Cody Ritchie?

18 MR. RITCHIE: Here.

19 SUSAN: Jannie Cox?

20 MS. COX: Here.

21 SUSAN: Fletcher McCusker?

22 MR. McCUSKER: Here.

23 SUSAN: Alberto Moore?

24 CHAIRMAN MOORE: Present.

25 SUSAN: Jeff Hill?

1 MR. HILL: Here.

2 SUSAN: Mark Irvin?

3 MR. IRVIN: Here.

4 SUSAN: Chris Sheafe?

5 MR. SHEAFE: Here.

6 CHAIRMAN MOORE: All accounted for. Great.

7 Announcements.

8 I'd like, at this moment, to welcome Cody Ritchie
9 as one of our new board members. At the last meeting,
10 everyone had the opportunity to meet Chris Sheafe and
11 Fletcher McCusker. And we're really fortunate to have the
12 three of them joining our board. And I think that they're
13 going to provide a great asset in moving us forward in some
14 very constructive ways. So I don't know if -- Cody, do you
15 want to sort of introduce yourself and sort of give people
16 some of your background?

17 MR. RITCHIE: Okay. My name is Cody Ritchie. I'm
18 the managing partner of Crest Insurance Group based here in
19 Tucson. We have offices in Tempe also.

20 I'm pleased to be on this board. I volunteered
21 for this board on my own. I wasn't recruited by a single
22 person. I'm a concerned taxpayer. Like a lot of people in
23 town, I was disappointed in the progress that was being made
24 downtown, and it was absolutely a huge missed opportunity in
25 my mind -- and in a lot of people that I know -- that's, you

1 know, \$250 million has been spent down here.

2 My role in this is to let the auditors and the
3 people that are doing the investigation to continue to do
4 their investigation. Obviously, somebody -- or some people
5 mismanaged funds, because there's nothing to show for it.

6 That being said, I'm not a forensic accountant.
7 I'm an insurance broker; I'm a business person. And I think
8 I'm a person that has good common sense. To me, a lot of
9 the things that were going on down here made no common sense
10 -- some of the projects that had been discussed in the past
11 and the kinds of money that were spent. And also I felt
12 like all the money was going -- sorry. We have some fine
13 attorneys in this room. But all the money was going to
14 attorneys and consultants and nothing was going to bricks
15 and mortar.

16 So my role here is to find a solution to this,
17 help these fine people on this board. I know a few of them.
18 I had the opportunity in the past to serve on a couple of
19 boards with them. And I think that we'll be positive and
20 move in the right direction.

21 So I really have no agenda. But one of the things
22 that I see is that in the private sector, if these types of
23 mistakes had been made, somebody has to be, you know, held
24 accountable. And I'd like to see our partners, the City,
25 work a little better with this and see if we can't move this

1 thing forward.

2 CHAIRMAN MOORE: Thank you very much.

3 MR. RITCHIE: Thank you.

4 CHAIRMAN MOORE: Chris, would you like to say
5 anything? I know you made some comments at the first
6 meeting, but if you want to say anything more.

7 MR. SHEAFE: No. I haven't learned a thing.

8 CHAIRMAN MOORE: That's good. I'm glad we're
9 doing a good job.

10 Fletcher?

11 MR. McCUSKER: Ditto.

12 CHAIRMAN MOORE: Okay. I've got two sets of
13 minutes here. We didn't make enough copies for everybody.
14 But it's the May 10th meeting and the 23rd of May. The only
15 people that were really part of that is Jannie, Jeff, and
16 Mark. And I understand Mark made some changes.

17 MR. IRVIN: I reviewed.

18 CHAIRMAN MOORE: They were okay?

19 MR. IRVIN: Yeah.

20 CHAIRMAN MOORE: Okay. Because I believe
21 everybody else had agreed, but Mark had wanted to make some
22 notes and make some amendments.

23 Jannie, I don't know if you've seen these
24 amendments.

25 MS. COX: I have -- well, no, I have not seen the

1 amendments.

2 CHAIRMAN MOORE: My understanding --

3 MS. COX: Oh, you know, they came in the mail.

4 No, I did see that. I saw it. I thought you meant since
5 then. Sorry.

6 CHAIRMAN MOORE: So if I could have a motion from
7 somebody to approve the minutes of --

8 Do we do it one at a time or both?

9 MR. HILL: We could do it both.

10 CHAIRMAN MOORE: Okay.

11 MR. SHEAFE: Second.

12 CHAIRMAN MOORE: Give me a chance to say it.

13 -- May 10th and May 23rd, 2012 minutes be
14 approved.

15 (The board voted and motion was passed)

16 CHAIRMAN MOORE: You got it?

17 Thank you.

18 Now I'd like to take the opportunity to adjourn
19 this meeting and go into executive session. And we hope to
20 be able to get out of that within the next hour.

21 MR. McCUSKER: It probably needs a motion.

22 MR. IRVIN: Yes. It should be a motion.

23 MR. McCUSKER: So moved.

24 MR. SHEAFE: Second.

25 (The board voted and motion was passed)

1 CHAIRMAN MOORE: Yes, sir?

2 MR. COLLINS: Mr. Moore, before you go into
3 executive session, my understanding was you were going to
4 approve the minutes for May 10, May 23.

5 And did you also approve the minutes for June 12th
6 as well?

7 CHAIRMAN MOORE: No, we did not. Because I don't
8 know if anyone had the opportunity to -- it was a pretty
9 long set of minutes.

10 MR. COLLINS: Fair enough.

11 CHAIRMAN MOORE: And it involved a lot of reading,
12 so if they have, I'm perfectly happy to.

13 MS. COX: I've read them all.

14 CHAIRMAN MOORE: Okay.

15 MR. HILL: We're in executive session now.

16 CHAIRMAN MOORE: Okay. I'm sorry, we'll have to
17 come back to it.

18 MR. COLLINS: That's fine.

19 CHAIRMAN MOORE: All right. We have a second. We
20 have an all in favor?

21 (The board voted and motion was passed)

22 CHAIRMAN MOORE: We're going into executive
23 session in our office downstairs. We expect to be back here
24 by approximately 2 o'clock. So we wanted to sort or keep it
25 short and also provide some time for you all to take a break

1 and come back. So thank you.

2 Oh, yeah, the elevator's not working. There's
3 only one that's working so . . .

4 (Executive session off the record)

5 (Board reconvenes at 2:17 p.m.)

6 CHAIRMAN MOORE: I need someone to --

7 MR. HILL: I move we adjourn from the executive
8 session.

9 MR. RITCHIE: Second.

10 CHAIRMAN MOORE: All in favor?

11 (The board voted and motion was passed)

12 CHAIRMAN MOORE: Good. We're now reconvening at
13 approximately 2:15 our board meeting.

14 And first thing on the agenda for that is the
15 election of officers.

16 I'd like to take this opportunity because it's
17 been a real pleasure working with Fletcher McCusker and I'd
18 like to nominate him for Chairman. I think he's done an
19 excellent job in catching up as fast as he had in two weeks.
20 I'll tell you, it's amazing. I'm still trying to figure
21 this thing out, and I've been here almost two and a half
22 years. So God bless you.

23 MR. McCUSKER: Thank you.

24 MS. COX: Second.

25 CHAIRMAN MOORE: But I think it's going to be very

1 good for the board to have some fresh new faces, and we're
2 lucky to have the two additional new members to the board.
3 And I look forward to seeing that we can really start
4 developing some real projects for the community and help
5 stabilize the City in working with us and assure them that
6 we're good folk to work with.

7 So I've made a nomination for Fletcher to be our
8 chairman. And I don't know if anyone --

9 MS. COX: Second.

10 MR. HILL: Call for the question.

11 CHAIRMAN MOORE: Calling for the question. All in
12 favor?

13 (The board voted and motion was passed)

14 MR. McCUSKER: I abstain.

15 CHAIRMAN MOORE: Here's the gavel, my friend.
16 You're on board now.

17

18 CHAIRMAN McCUSKER: Alberto, thank you for your
19 kind words.

20 Part of me feels like I've been assigned to the
21 Titanic. But the other part of me, I think, remains very
22 optimistic about what we can accomplish together. And I'm
23 very hopeful, given even what I've seen in the last couple
24 of weeks.

25 We're going to try and move the agenda along. For

1 those of you interested in commenting, there will be two
2 opportunities for you to sign in. We are going to have a
3 specific public comment section as it relates to the budget.
4 We will be presenting and discussing -- hopefully to
5 approve -- the budget for the next fiscal year. We would
6 welcome your comments specifically on the budget, if you
7 want to sign up and just indicate on that card you want to
8 talk to us about the budget. And then we will have the
9 traditional call of the audience for anything that you would
10 like to discuss outside of the budget itself.

11 So again, here we go.

12 First thing that's up on the agenda is the status
13 of the audits.

14 Susan and David, will you give us an update on
15 both the Depot Plaza audit and the West Side audit?

16 MS. VOS: Good afternoon.

17 CHAIRMAN McCUSKER: And remind everybody who you
18 are and who you're with.

19 MS. VOS: I am Susan Vos from Regier Carr &
20 Monroe. We've been engaged by the District to perform --

21 CHAIRMAN McCUSKER: Talk into the mike.

22 MS. VOS: I'm Susan Vos from --

23 MR. MOORE: It's not loud enough. See the button
24 there?

25 MS. VOS: It's on.

1 CHAIRMAN McCUSKER: You just need to be closer to
2 it like you're a rock star.

3 MS. VOS: Okay. I'm Susan Vos. I'm from Regier
4 Carr & Monroe. We've been engaged by the District to
5 perform forensic examinations for the Depot Plaza Projects,
6 West Side of I-10 projects and also the TCC Hotel project.

7 As far as the Depot Plaza goes, an update on that,
8 I don't have a lot to report except that we have not
9 responded to the City of Tucson's response to that report
10 that we issued in March, and we've been waiting for
11 direction from the District to move forward with that.

12 Regarding the West Side forensic project, I have
13 been in touch with Kelly Gottschalk with the City of Tucson.
14 We had a phone conversation Monday and devised a plan. I
15 sent her a listing of requested items; those were identified
16 documents and information that was missing from the initial
17 request that we got from the City of Tucson.

18 I sent that to her on the 27th. And we have a
19 meeting scheduled on the 3rd of July to go over that request
20 and further plan how we're going to receive those documents.

21 MR. HILL: Mr. Chairman, at this point do you want
22 a motion on the Depot Plaza as suggested by Ms. Vos?

23 CHAIRMAN McCUSKER: You brought engagement letters
24 for us?

25 MS. VOS: Yes, we did. We prepared --

1 CHAIRMAN McCUSKER: Have they been distributed to
2 the board? Michelle, have we seen them?

3 MS. BETTINI: No.

4 CHAIRMAN McCUSKER: You're prepared to extend your
5 engagement to complete this deal with the Depot Plaza on it,
6 to deal with that on it?

7 MS. VOS: Yes. We have prepared a proposal
8 engagement letter for the Depot Plaza Project.

9 CHAIRMAN McCUSKER: Do you have enough to get
10 around?

11 MR. BARBER: I only brought, actually, just two
12 copies of each proposal.

13 CHAIRMAN McCUSKER: What we might want to do is
14 authorize the executive committee to complete the engagement
15 with you on the Depot Plaza . . .

16 MR. HILL: Withdraw the motion and wait for the
17 executive committee or . . .

18 CHAIRMAN McCUSKER: Somebody want to authorize us
19 to do that?

20 MR. IRVIN: I'd think like to get a little summary
21 of what that engagement level -- to get a better picture...

22 CHAIRMAN McCUSKER: Yeah. Go ahead and summarize
23 that engagement for us.

24 MS. VOS: Okay. That would include responding to
25 the City of Tucson's response to our report, going back to

1 the City for requested items for information that was
2 missing; and then updating our report that we issued in
3 March based on the information we obtain from the City.

4 CHAIRMAN McCUSKER: And the cost associated with
5 that?

6 MR. BARBER: We've estimated in the range of
7 between eleven and seventeen thousand dollars to --

8 CHAIRMAN McCUSKER: And how about timing?

9 MR. BARBER: Timing?

10 CHAIRMAN McCUSKER: Yeah.

11 MR. BARBER: We can get on that pretty fast. We
12 didn't put an estimated completion date in here. But we can
13 get started on it this month and probably get that turned
14 around fairly quickly, so within 30, 45 days.

15 MR. IRVIN: What does eleven to seventeen cover?

16 MR. BARBER: It covers -- what I put was that that
17 was the analysis and review of the final response to our
18 report, examination of additional documents provided by the
19 City of Tucson, preparation of a written report to update
20 our initial report, and then a meeting with the board and
21 going through that.

22 MR. IRVIN: Is this on both audits, one audit?

23 MR. BARBER: I did two separate letters, one for
24 the West Side and one for the Depot.

25 MR. IRVIN: Okay.

1 CHAIRMAN McCUSKER: This is the Depot Plaza we're
2 discussing?

3 MR. BARBER: We're talking about the Depot, yeah.
4 Right.

5 MR. IRVIN: And what would be the situation as far
6 as extending the engagement on the West Side? What does
7 that look like?

8 MR. BARBER: Well, on that one we've got a --
9 because there's much more data that we still have to go
10 through, we have got an estimated fee on that of between
11 fifty-five and sixty-five thousand dollars to do that
12 additional work. And that one will take a little more time
13 because there's more time and work involved with that.

14 CHAIRMAN McCUSKER: Any further questions for
15 Susan or David?

16 MS. VOS: I would like to add that the completion
17 of the projects also depend on the response time for the
18 City. Some of this information may be difficult for them to
19 obtain and may take some time, so we're dependent on them as
20 well as far as getting us the information.

21 CHAIRMAN McCUSKER: Okay.

22 MR. MOORE: Mr. Chair, I think it's appropriate
23 for the board to designate the executive committee to review
24 the documents and approve them and sign them, so if somebody
25 wants to make a motion for us to do that?

1 MS. COX: So moved.

2 MR. SHEAFE: I move that we have the executive
3 committee review this. And I would ask that we review it in
4 the light of what the value of the information will be at
5 the end of the day and have that done by the executive
6 committee.

7 MR. MOORE: You want me to second to that, Jannie?

8 MS. COX: I need you to repeat that. I'm not real
9 clear by what you meant by that.

10 MR. SHEAFE: All right. What I'm saying is that
11 it's one thing to review the cost; it's another thing to
12 review what -- assuming the audit is successful and the
13 information is generated, what is the value of that
14 information to the District.

15 And the executive committee should make its
16 decision based upon both the cost, the level of service, and
17 the value the District gets out of knowing what it is that
18 the audit will tell us.

19 MS. COX: Yes, I agree.

20 CHAIRMAN McCUSKER: That's a second?

21 MS. COX: Yes.

22 MR. MOORE: All in favor?

23 MS. COX: Aye.

24 CHAIRMAN McCUSKER: All in favor?

25 (The board voted and motion was passed)

1 MR. MOORE: Sorry.

2 CHAIRMAN McCUSKER: That's all right. I forgot my
3 role.

4 MS. COX: He was just being helpful.

5 MR. RITCHIE: This is to complete the audit?

6 CHAIRMAN McCUSKER: This is to authorize the
7 executive committee to review and engage the current firm to
8 complete the two audits: the Depot Plaza audit and the West
9 Side audit.

10 MR. HILL: Mr. Chairman, in light of the report of
11 the press, I wanted to clarify that these are accountants
12 auditors. They are not attorneys. Arizona Daily Star
13 slurred them and called them attorneys. In deference to my
14 colleagues over there at the table -- but they are auditors
15 and accountants, they are not attorneys. Attorneys do not
16 -- I'm guessing -- do not want to do audits. So I want to
17 -- hopefully the reporter from the Star has some semblance
18 that we're not hiring more lawyers; these are accountant
19 auditors.

20 Thank you, Mr. Chairman.

21 CHAIRMAN McCUSKER: All right. We have a motion
22 seconded on the table to authorize the executive
23 committee -- which for the record is myself, Alberto, and
24 Jeff Hill -- to review and sign the new engagements.

25 All in favor, say aye.

1 (The board voted and motion was passed)

2 CHAIRMAN McCUSKER: Anything else, Susan, you have
3 for us?

4 MS. VOS: I would just update you on the other
5 projects that we have been engaged by the District.

6 CHAIRMAN McCUSKER: Sure.

7 MS. VOS: The TCC Hotel. R&A CPAs had been
8 initially engaged to do that. I was previously employed by
9 R&A and worked on it when I was with them. I since have
10 moved to Regier Carr & Monroe and that project has been
11 transferred to Regier Carr & Monroe.

12 All the documents have been moved, but we've not
13 been instructed to go forward with that project and we're
14 waiting for --

15 CHAIRMAN McCUSKER: Do you have an engagement on
16 that one?

17 MS. VOS: We do. We have an engagement letter on
18 that one.

19 But we've been waiting for the board's direction
20 on that one, whether or not to proceed.

21 And then we also are engaged by the District to
22 perform general accounting services. It's just to help out
23 Michelle Bettini with her accounting. We're not in-house
24 accountants by any means; we're not doing the day-to-day
25 bookkeeping. But we're just offering general assistance, so

1 if there are any other accounting projects, anything that
2 comes up that you need assistance with, we have been engaged
3 to do that.

4 CHAIRMAN McCUSKER: Okay.

5 MS. VOS: And that's on an as-needed basis only.

6 CHAIRMAN McCUSKER: Thank you.

7 Any questions for Susan or David?

8 MR. HILL: Mr. Chairman.

9 So have you had -- the board -- have they
10 authorized you to do that third audit at all, or you have
11 not had any authorization at this point?

12 MS. VOS: Yes. We have been -- there's a signed
13 engagement letter and everything's put in place for us to do
14 that audit. But we've held off on that just -- you know,
15 knowing the transition of the board and everything that's
16 going on -- we don't want to put any time in it until you
17 decide that you actually want us to work on that.

18 MR. HILL: Okay. So Mr. Chairman, it's perhaps
19 another motion to give that to the executive committee since
20 it's already been approved by the board in the past? Or
21 would you prefer reauthorization by movement at this time?

22 CHAIRMAN McCUSKER: I think it has broader issues
23 as it relates to the lawsuit and settlement or litigation of
24 that. So it probably needs further conversation.

25 MR. HILL: I move that we authorize them to

1 continue that third audit on the whatever -- the hotel and
2 everything else.

3 MR. MOORE: I'll second that.

4 CHAIRMAN McCUSKER: We have a motion and a second
5 to authorize them to continue their work.

6 All in favor, say aye?

7 (The board voted and motion was passed)

8 MR. IRVIN: I'll have to abstain.

9 CHAIRMAN McCUSKER: Thank you. Okay.

10 MS. VOS: That's all I have.

11 CHAIRMAN McCUSKER: Thank you very much. Keep up
12 the work.

13 MR. HILL: Mr. Chairman, while we were on audits,
14 we were handed a sheet of paper here requiring performance
15 audits. The last bullet says we must engage an independent
16 CPA to annually audit the District fund and submit a
17 certified copy of the audit within 120 days at the end of
18 the fiscal year, which ends tomorrow.

19 Have we done that?

20 CHAIRMAN McCUSKER: BeachFleishman has done the
21 last two. I don't know that we have an engagement with them
22 to do the current year.

23 Counsel, do you mind? I think we would probably
24 have to invite them in if our intention is to continue with
25 them.

1 MR. COLLINS: Mr. Chair, members of the board, I
2 am unaware that there -- I do not believe Beach has been
3 engaged for yet another audit referred to by Mr. Hill, so I
4 think that is exactly what needs to happen.

5 MR. SHEAFE: May I ask a question? Is it the
6 practice of the District to request proposals for audits
7 from qualified firms prior to releasing these kinds of
8 contracts?

9 MR. IRVIN: We have done that in the past, that's
10 how we've selected.

11 MR. COLLINS: I agree with Mr. Irvin. What's
12 happened in the past is as there's been requests for
13 proposals -- I don't know if that it's absolutely necessary,
14 but that's certainly been what's happened in the past.

15 MR. HILL: Point of order: aren't we exempt from
16 the purchasing requirements, the requirement of
17 administration --

18 MR. COLLINS: Indeed you are.

19 MR. SHEAFE: Okay. Just from a good practices
20 position, it would seem to me to make sense that we
21 authorize Michelle to put a scope of services out -- I mean,
22 most accounting firms know what an audit is -- and simply
23 ask for the proposal and find out who is willing to do it at
24 what value.

25 MR. HILL: Mr. Chairman, if that's the will or the

1 decision of the board, 120 days is moving quickly on that
2 audit. So I would move that we issue RFPs as soon as
3 possible in order not to miss this deadline and look like
4 we're missing more deadlines, as the press likes to carry
5 on, and so that we get that going.

6 CHAIRMAN McCUSKER: Everybody understand Jeff's
7 motion? Anybody want to second that?

8 MS. COX: Second.

9 CHAIRMAN McCUSKER: Jannie seconded.

10 Anything further conversation? The motion is that
11 we issue a request for proposals for the annual audit for
12 the fiscal year that ends tomorrow, June 30, 2012.

13 MR. SHEAFE: Let's think that through, just in
14 case, Jeff.

15 What happens if she's able, within two weeks to,
16 say, get responses, which I think is more than likely. Now
17 how does the decision get made to select the firm to go
18 forward with the audit?

19 MR. IRVIN: You have to put them on the agenda for
20 him to talk to them.

21 CHAIRMAN McCUSKER: I would like that I think to
22 come back to the full board.

23 MR. SHEAFE: And that next board meeting is when?

24 CHAIRMAN McCUSKER: We haven't set one yet.

25 MR. SHEAFE: Well, let me add if I can to the

1 motion that we will extend the 120 days by the time
2 difference between the end of our fiscal year and when the
3 next board meeting is so we don't . . .

4 CHAIRMAN McCUSKER: That's statutory.

5 MR. IRVIN: We don't have any control over that.

6 MR. HILL: That's my sense of urgency,
7 Mr. Chairman.

8 CHAIRMAN McCUSKER: I do believe if we select an
9 auditor quickly and get them engaged, it shouldn't take four
10 to six weeks to complete it, so I think we can get it done
11 in the time frame.

12 MR. COLLINS: Mr. Chair, members of the board,
13 Susan was kind enough to mention to me that perhaps the
14 board engaged BeachFleishman for a three-year period. And I
15 frankly wasn't involved in that. I can look into it. If
16 we've engaged them for three years already, there's not
17 going to be a need for this process. But I just wanted to
18 point it out.

19 CHAIRMAN McCUSKER: That may make the motion moot,
20 but let's go ahead and have a plan in place in the event
21 that we haven't done that.

22 MR. COLLINS: I concur with that, Mr. Chairman.

23 CHAIRMAN McCUSKER: Michelle, you have the motion.
24 Can you summarize for it for us?

25 MS. BETTINI: Motion?

1 CHAIRMAN McCUSKER: No, you didn't. So who -- is
2 that Jeff's motion?

3 MR. HILL: Yes. I move that the District, as soon
4 as possible, put out requests for proposals to the usual
5 suspects to perform our audit as mandated by the statute to
6 the auditor general within 120 days of June 30th to be acted
7 upon by the board at the -- to be decided July meeting.

8 MS. COX: Second.

9 CHAIRMAN McCUSKER: Anything further question,
10 comment?

11 All in favor say aye?

12 (The board voted and motion was passed)

13 CHAIRMAN McCUSKER: All right. So we'll confirm
14 if Beach has an engagement or not. And if not, then we'll
15 advertise.

16 Report from counsel are three items that we had
17 asked, Mark, that you research for us.

18 MR. COLLINS: Mr. Chairman, members of the board,
19 and members of the public who's attending, there's really
20 only one thing I want to comment about. I'll answer any
21 questions that you might have about the budget issue. But
22 there's one thing I want to comment on.

23 As you know, the budget was posted yesterday and
24 then amended. I'm the one who --

25 CHAIRMAN McCUSKER: The agenda.

1 MR. COLLINS: Or excuse me. I'm sorry. The
2 agenda was posted yesterday and then amended. I'm the guy
3 that suggested and made the decision to amend it. The fact
4 that you folks are having to stay here until 5:00, if you're
5 upset with that, that's my doing.

6 I felt the original agenda, the language of the
7 original agenda was compliant. After we posted it, there
8 were some complaints that it didn't clearly indicate that
9 the board was going to listen to the public. Because we had
10 some time left, I went ahead and made the decision to do the
11 amended agenda. Again, I apologize to you folks, but I want
12 everybody to know that's on me. Buck stops here with that.
13 Otherwise, I'm happy to answer any questions that you might
14 have.

15 MR. SHEAFE: Well, I'll tell you what, Mark, there
16 isn't anybody on this board that I think thinks around 5:00
17 is quitting time, so you haven't offended anybody.

18 MR. COLLINS: Thank you, Mr. Sheafe. Because it
19 has been reported, I wanted to put it out there that if
20 anybody wants to point fingers, it's at me.

21 CHAIRMAN McCUSKER: Can you clarify our
22 obligations for public comment? My recollection of the open
23 meetings laws, we're not obligated to seek public comment.
24 We can do it voluntarily.

25 MR. COLLINS: Well, there's a statute which

1 requires you to hold a public hearing where the public can
2 comment on the budget. I believe it's 48-4232, if I'm not
3 mistaken. So I do think that public comment is appropriate
4 for this; and I think it's required.

5 And as I mentioned, there was public comment on
6 the original agenda. Chairman has the ability to move
7 the -- it's a prerogative to move agenda items around, and
8 we could have done just that. But again, I won't beat that
9 dead horse. That's what happened.

10 Anything else?

11 CHAIRMAN McCUSKER: We had asked the question on
12 the bonds last meeting.

13 MR. COLLINS: Oh, yes. There's an intervening
14 issue, but I'm happy to talk to you about the bonds.

15 As members of the board are aware, and some folks
16 here, at the last session, I was asked to investigate with
17 an attorney who is familiar with public finance as to
18 whether or not there was a deadline of June 30th, 2012, that
19 this board had to comply with with respect to expending
20 funds, and if there was, what, if anything, had to happen to
21 comply with that.

22 What I did was I called my partner, Scott Ruby,
23 and Scott did that analysis. He looked at -- and I'm
24 pointing this out for everybody's benefit -- there were
25 really two financing documents that he needed to look at for

1 that purpose. One of them was the 2008, \$80 million revenue
2 bonds that you've heard so much about, and the other one was
3 the 2009 \$12.56 million certificates of participation.

4 I'm putting my hands on these documents because
5 these are the things that drive those buses. Mr. Sheafe has
6 pointed out to me that some of them are even bigger than
7 this. But I'm here to tell you there's a lot of lawyer
8 stuff in there. The short answer is that there is no bond
9 requirement for June the 30th of 2012.

10 The 2009 certificates of participation do, in
11 fact, have a deadline of November of this year. And so to
12 the extent that there are funds remaining from that
13 particular financing, this board needs to be thinking about
14 how to deal with them in accordance with this bond document.

15 When looking at the \$80 million revenue bonds, the
16 2008 revenue bonds, there was a deadline for November of
17 2011 to -- to have expended all of the bond proceeds. What
18 that means is that if there is any -- or are any additional
19 proceeds, they need to be dealt with in accordance with this
20 particular document.

21 It's my opinion that what needs to happen is to --
22 for this board to work with the City, to determine whether
23 there are remaining funds and if so, what they are and how
24 to deal with them in accordance with these bond documents.
25 That's my report on bonds.

1 CHAIRMAN MOORE: Any questions for Mark?

2 Okay.

3 MR. RITCHIE: Mr. Chairman, I need to ask, you
4 just mentioned about 5:00 quitting time. I apologize. As
5 some people here know, I have a plane to catch.

6 When I volunteered for the board, I did not know
7 that the meeting was set for this date. So I apologize
8 profusely. I will -- if I can have permission to exit, I'll
9 catch up with everybody. And good luck.

10 Is that okay with you?

11 CHAIRMAN McCUSKER: Sneak away.

12 MR. RITCHIE: All right. Thank you.

13 MS. COX: Have a safe trip.

14 MR. COLLINS: Mr. Chair, there is one more comment
15 from counsel and that's regarding the audits. I frankly
16 think that the audits have been -- the status of the audits
17 have been explained. If you've got any questions about
18 them, please let me know.

19 CHAIRMAN McCUSKER: It was on the agenda, but I
20 think we're good.

21 MR. COLLINS: Yeah. Okay.

22 Thank you Mr. Chair, members of the board.

23 CHAIRMAN McCUSKER: Kelly Gottschalk is here. I
24 know we wanted her to respond to some of the issues and
25 questions we have.

1 I think, Alberto, you asked for a few minutes to
2 kind of preface the status of this and the necessity for
3 corporation.

4 MR. MOORE: Yes. Thank you very much. I have a
5 few comments to present to the board regarding the second
6 forensic audit report, but everyone can relax. We'll only
7 take a few minutes. However, like my remarks from the
8 previous board meeting, it will be forward to the governor.

9 The District has received the second forensic
10 audit report and it continues to uncover a disturbing
11 pattern of fiscal negligence, possible corruption, or a
12 combination of both by the City of Tucson, as was
13 demonstrated by the first forensic audit report.

14 Twelve Rio Nuevo Web site projects are included in
15 this second of three forensic studies requested by the
16 District. Though the report is 111 pages long, the results
17 can be seen on a single sheet of paper entitled Exhibit E.
18 Over 85 percent of the \$38.5 million spent to date on these
19 West Side Projects are questionable or unsupported by
20 documentation.

21 In the last week, Tucson City Councilman Steve
22 Kozachik stepped up to the plate and demanded that the city
23 finance director, Kelly Gottschalk, provide an accounting
24 for the expenditures of \$33.8 million noted as questionable
25 or unsupported by documentation in the second forensic

1 report.

2 The finance director indicated it would take six
3 weeks or longer to formulate a reply. Note she didn't say
4 it would take six weeks to deliver the complete records.

5 The reconstituted board waited for well over two
6 years for finance director Gottschalk, city attorney Michael
7 Rankin, and assistant city manager Richard Mirand, to
8 explain and account for where a quarter of a billion dollars
9 went under the City's stewardship of Rio Nuevo.

10 We needed to point out it is not Rio Nuevo's job
11 to pay to exonerate the City of Tucson when they had every
12 opportunity to provide the information requested over many
13 months. The city finance director blame game will not work.

14 In fact, the reconstituted board as chaired by
15 Jodi Bain did formally request the information and materials
16 for these forensic reports multiple times from the City.
17 The initial letters by the office of forensic auditors was
18 ignored.

19 A follow-up letter by district attorneys was sent
20 which was responded to with thousands of pages of documents.
21 Thereafter, emails were exchanged without much success at
22 obtaining more information. The reconstituted board did not
23 prevent correspond or communication with the City. The City
24 failed to respond to them. Once again, misinformation by
25 the Arizona Daily Star.

1 A final effort was made to confirm that the
2 forensic auditors had received and -- any and all
3 documentation from the City regarding the 12 projects in the
4 second forensic report. In late April 2012, the District's
5 attorney sent a follow-up request letter to the city finance
6 director. Again, the City did not respond.

7 Now, it appears that the City is going to make
8 information available. From where? And why now?

9 As we wait for the third forensic report on
10 Garfield/Traub, Turner/Sundt and Hotel Garage projects to be
11 completed, we are left with questions. These are questions
12 that the taxpayers deserve to have answers: questions on why
13 the City was not forthcoming with the documentation on the
14 various forensic examinations; and answers that the board
15 needs to know as we attempt to move ahead in a productive
16 manner.

17 One, why did -- why didn't City finance director
18 Kelly Gottschalk give the full financial accounting and
19 project records to the reinstated board when we first
20 requested them? Was she stalling? What else is out there
21 that we don't know what it's being used for?

22 Two, why didn't Kelly Gottschalk and city attorney
23 Michael Rankin realize that the accounting and record
24 keeping for Rio Nuevo funds distributed by the City was
25 apparently almost nonexistent? Why didn't they exercise

1 basic due diligence? One might wonder: Do all the
2 financial accounting and project records of the City of
3 Tucson need to be audited by the State of Arizona?

4 Three, why does it appear that the 2008 Rio Nuevo
5 revenue bonds proceeds have all been spent, and yet the City
6 claims to have remaining funds of over \$5 million?

7 Four, why do the sums that the City states it
8 received as total TIF monies since 2003 not always match by
9 month what the Arizona Department of Revenue records show
10 was sent?

11 Perhaps the City is now willing to cooperate with
12 the board by complying with our requests for information;
13 unless, of course, the City is hiding more than financial
14 negligence and incompetence, which is presumably why Arizona
15 assistant attorney general Michael Jette and the FBI are
16 looking into this situation. Though some feel that Jette's
17 friendship with Michael Rankin might cloud his judgment.

18 There is a final, very serious issue we must
19 address. It concerns the board itself.

20 I spoke yesterday with Nancy Eatros at Wells Fargo
21 to get the names of the persons authorized to discuss
22 financial issues of Rio Nuevo with the bank. She gave me
23 three names that had been authorized: Mark Irvin as vice
24 chairman, Alberto Moore as secretary, and Jodi Bain as
25 chair.

1 It is true according to a document provided by
2 Wells Fargo as of September 21st, 2010, that Mark Irvin had
3 authorization. However, I have a document from
4 September 28th, 2011, that clearly states that the
5 authorization had changed. As of that date, Mark Irvin's
6 authorization was removed and treasurer Jeff Hill was added
7 as an authorized board member to interact with Wells Fargo.
8 Mark Irvin no longer had any authority to discuss Rio Nuevo
9 issues with Wells Fargo.

10 Not only was Wells Fargo aware of that change in
11 authorization, but Mark Irvin was also aware he had -- no
12 longer had any authority to discuss or conduct any
13 transactions with Wells Fargo.

14 Yet on approximately June 26 or 27th of this year,
15 Mark Irvin apparently represented himself to Wells Fargo as
16 a signatory and that -- and that had the authority to tell
17 Wells Fargo to provide records to Michelle Bettini.

18 His exact words are: Please consider this as my
19 authorization for Wells Fargo to provide Michelle Bettini
20 with copies of monthly statements of the Rio Nuevo accounts
21 for which you are a trustee.

22 Mark Irvin had no authority to do anything. As a
23 real estate broker he should have known -- and should have
24 at least known he was expected to offer full disclosure of
25 this situation.

1 Therefore, I want our counsel, Sean Brearcliffe,
2 to investigate this matter because I believe this is a
3 serious violation of Rio Nuevo processes. We need to know
4 how this violation occurred and what motivated Mark Irvin to
5 represent himself as a signatory authorized to request
6 information from Wells Fargo, or to direct them to do
7 anything. Also, are there any other instances where
8 Mr. Irvin has misrepresented his authority? We need to know
9 if this misrepresentation to Wells Fargo requires the
10 removal of Mark Irvin from the board.

11 Thank you very much.

12 CHAIRMAN McCUSKER: We're going to table the Wells
13 Fargo issue.

14 Kelly, that's obviously none of your concern. But
15 please, if you can comment on the status of this and how
16 you're dealing with this and what your plan is for the
17 future.

18 MS. GOTTSCHALK: Mr. Chairman, members of the
19 board, I'm not going to address everything that Mr. Moore
20 said in his statement, and my lack of not addressing that
21 certainly doesn't mean I agree with most of those statements
22 in there. So I just want to clarify that.

23 I did want to just want to point out that on
24 September 9th of 2011, we received a letter from the board's
25 attorneys regarding these audits, asking for a lot of

1 information. One week later -- or nine days later, on
2 September 18th, we provided that information.

3 And in that was an email which is actually
4 included as part of the report that says in here: We gave
5 you everything out of the finance project manager files.
6 They were not reviewed for completeness. My assumption that
7 the information in those files, publicly available
8 information, other information that has been provided to
9 your firm, accountants, auditors, attorneys, and the
10 district board members over the time, probably can, you
11 know, address most of your issues.

12 If you are missing -- if you have specific
13 questions or are missing any specific information, we can --
14 contact us and we'll provide that information to you.

15 That's a letter that's included in the report
16 here. We never received any specific information from that
17 point forward. We did receive a blanket letter saying:
18 Give us everything you have in the entire City that ever
19 related to any of these projects.

20 We considered doing that. But frankly, we didn't
21 feel like that would be in your best interest because your
22 auditors would then have to take that huge data dump of ten
23 years of general ledger information and compare it with the
24 3,000 documents you already had, and that would have been a
25 waste of your time. So that's all of what I wanted to say

1 on that piece.

2 To where you we right now, I would agree
3 completely with everything that Susan said. We're working
4 together to accomplish this. There is a lot of information
5 here.

6 You know, the other point here that might have
7 missed your -- I guess if you don't think about it, you've
8 had this information since September 18th. And now, in a
9 week's time or two week's time, we're supposed to drop
10 everything and respond with a lot of information very
11 quickly.

12 We're going over multiple different accounting
13 systems. This will require pulling up documentations, cross
14 referencing reports, loading microfilm and microfiche to
15 find information from 2002 forward. It's very
16 time-consuming. I'm not sure there's a lot of value in it,
17 but we'll do it because you've asked for it. And there's
18 probably other reasons that we need do it anyway for
19 litigation. So we'll proceed with that. We're going to
20 work closely with Susan and hopefully they can provide some
21 staff resources to get that done as well.

22 CHAIRMAN McCUSKER: What's your sense about the
23 timing?

24 MS. GOTTSCHALK: The timing really just depends on
25 if they have any resources they can provide to us. The

1 reason I had originally said six weeks -- just to clarify
2 that piece -- is when I was asked that question in the
3 council aide's meeting -- actually a general review
4 committee meeting by one of the council aides -- the
5 six-week time frame was related to the council meetings. We
6 have one in July and we have one in August. And my thought
7 process is, I can get it to them for the August meeting. So
8 that was the six weeks; that's where that came from.

9 I would say we could probably get it done with --
10 at least with the documentation pulled -- within the next
11 four weeks or so. It's a lot of work. I mean, we'll put
12 staff on it. It is our year end. I have real live projects
13 going on right now, not old projects that are just history
14 lessons.

15 So it's a priority for our mayor and council.
16 It's a priority for you. So we're going to put staff to it,
17 as many staff as we can. We have one microfilm reader; we
18 have one microfiche reader, so we can work with what we have
19 there.

20 We'll get it as quickly as we can and then we'll
21 send it over to Susan. And then the work will begin with
22 Susan.

23 CHAIRMAN McCUSKER: Is the equipment an issue?
24 Because -- you know, we'd be happy to buy you a microfiche
25 reader. I don't know that that's going to -- is there

1 something we can do to accelerate this? Is it a personnel
2 issue? Is it equipment? Is it copying time? You know,
3 what can we do to assure that we're all moving quickly?

4 MS. GOTTSCHALK: That's the point of our
5 conversation on the 3rd that Susan and I have set up for
6 that day. We're taking a look at the information to see how
7 old is it, which accounting system is it in, what type of
8 transaction is it, because those are all going to determine
9 how we pull the data. And from there we'll decide how best
10 to do this. Can we -- you know, have an assembly line of
11 people working on it? So right now, I don't know what will
12 make it quickest.

13 To me, it's a staff issue. I mean, it's frankly a
14 staff issue. I lose accountants every day at the City of
15 Tucson. So staffing and how we can best accomplish it is
16 it.

17 CHAIRMAN McCUSKER: Thank you. And we're going to
18 hold you to that. I know that we've talked about this with
19 mayor and council, and I think everybody wants to move
20 swiftly.

21 We have you on the agenda too to talk about this
22 TIF compliance, merchant compliance. It's been a real
23 struggle for me in just a couple of weeks to try and
24 identify and track TIF revenue. I now understand that --
25 you know, our currency is the quarterly report that

1 merchants fill out and send to the State. I know it has to
2 be self-identified and coded.

3 So can you educate us, particularly the new board
4 members, Kelly, about what's going on in the City in terms
5 of merchant compliance, TIF tracking, maximizing the TIF
6 revenue?

7 MS. GOTTSCHALK: Sure. Just a way of background
8 for the new members on the board and for those of you who
9 haven't probably heard this for a while, what happens here,
10 the flow of funds with your tax increment finance revenue,
11 is that all of the businesses on a monthly basis -- usually
12 some them are quarterly but most of them are monthly -- they
13 fill out their tax return which goes to the State.

14 In the process of doing that, they have to write a
15 code in. Some of these come preprinted with the code, but a
16 lot of businesses have to handwrite a code, PAD. That means
17 it's Rio Nuevo TIF revenue.

18 When they send their tax return up to the State,
19 it gets entered. And it has that PAD code. The State then
20 takes, on a monthly basis, all those tax returns that are
21 remitted. And they run a report with all the money that
22 comes in under the PAD code.

23 From there, they take a report, generate this
24 report -- and it's by type of tax and that kind of thing --
25 and they send that down to the City. It's a PDF file.

1 We take the PDF file, we convert it to an Excel
2 file. It's, you know, hundreds of pages -- well, not
3 hundreds of pages. It's, you know, half-inch thick usually.
4 So we take all that information, put it in an Excel file,
5 sort it, add columns, do all kind of things. Because then
6 on a vendor-by-vendor basis, we have to go in and put what
7 the monthly base amount is, because it changes on a monthly
8 basis for every license holder, in another column.

9 We then do some other manipulations, such as there
10 are certain businesses for some reason in the City that
11 insist on putting that PAD code on there no matter how many
12 times we told them you are not in the District. So we have
13 to take out the businesses are remitting that shouldn't be
14 and add some businesses in there that should be.

15 And we basically balance that report, communicate
16 back with the State and say, we agree, this is the amount of
17 TIF revenue for the month.

18 The State then does some other manipulation to it.
19 I'm not entirely sure what that is, but it takes them a
20 little bit of time. And then they send a wire with the
21 monthly TIF amount to Wells Fargo Bank. Wells Fargo Bank
22 then follows the instructions in those documents right there
23 about how to basically capture the TIF revenue on a monthly
24 basis.

25 And what they do is -- and it gets confusing --

1 but they take one-tenth of your annual principal payment
2 each month out of the TIF and one-twelfth of your annual
3 debts -- or interest payment out of the TIF. And what's
4 left over, they send to the City on behalf of Rio Nuevo. It
5 should just go to Rio Nuevo once we get it set up. But the
6 City gets the remaining TIF. We call it excess TIF.

7 Some months, however, the TIF isn't sufficient to
8 cover what those documents need to have in there for that
9 month. So then they'll say, you need to wire us X amount of
10 dollars for this month, so we'll send a wire the other way.
11 And that's when have a TIF deficiency. But over time it
12 balances itself out. And since the beginning of time,
13 there's always been more TIF than there needed to be for
14 debt service. So that's sort of the monthly process that we
15 go through.

16 I have staff members that work on Rio Nuevo. I
17 only have six auditors in the City -- the entire City, six
18 auditors -- which isn't a lot of audit staff. But we do
19 have -- we do dedicate a lot of effort to making sure the
20 TIF revenue for Rio Nuevo is as high as possible. And we do
21 that because we would much rather have that money down here,
22 down in Tucson, than up in Phoenix. So the City backs the
23 bonds, so I want to make dang sure that all of that TIF
24 revenue is getting in here.

25 So we go through on a monthly basis and say, what

1 looks like it's missing here; what businesses were here last
2 year that may have fallen off? And try to identify
3 businesses that might be -- maybe they changed their
4 accountant and they're no longer putting the PAD code on
5 there because they didn't know what it meant, or it's a new
6 business or a business relocated, or whatever.

7 So we'll find those. We work with the business to
8 get it corrected, have them file amended returns, and then
9 get the money from the State. Or we do sales tax audits,
10 and if they happen to have a location in the District or
11 it's clearly just a District business, then we do that.

12 So it's a ongoing process that we're always
13 looking for businesses.

14 CHAIRMAN McCUSKER: How many merchants, roughly,
15 are there in the TIF?

16 MS. GOTTSCHALK: There's more than a thousand. I
17 don't know how many, but I know there's more than a thousand
18 because I've tried to do analytics on the amount, the TIF
19 revenue, to try to get some better way to project the TIF
20 revenue. If you've seen the charts -- and actually I have a
21 few copies here -- it's a tough number to project.

22 And part of it is, for example, this month the
23 State has only one person that works on this. They've lost
24 people.

25 CHAIRMAN McCUSKER: Do you want to give those to

1 us?

2 MS. GOTTSCHALK: Yeah.

3 So the State has lost people --

4 CHAIRMAN McCUSKER: Are there some for the public
5 too, Sarah?

6 UNIDENTIFIED SPEAKER: I have one they could use.

7 MS. GOTTSCHALK: So what happens is, if this one
8 person happens to be on vacation like she was this month,
9 your TIF revenue can be delayed. And we go through this
10 process when we're doing corrections that the State has to
11 agree to this and send us -- and say, yes, we do agree that
12 this is a correction or an audit and we'll give you the
13 money.

14 So this month alone, there was a business that our
15 people went back and they basically amended all of their tax
16 returns from 2005 forward, and that will result in an extra
17 \$2.2 million for the District just this month, just for this
18 one business. So we do things like that. I mean, that was
19 a big find. That was probably the biggest find that we've
20 had this month.

21 CHAIRMAN McCUSKER: Can you say what store that
22 is, or is all that confidential?

23 MS. GOTTSCHALK: That's all confidential.

24 CHAIRMAN McCUSKER: It's all confidential. It
25 could be a business, one business?

1 MS. GOTTSCHALK: It's one retail business, yes.

2 And it's -- and it doesn't -- and it would be -- you would
3 have no idea what business this is if you saw it. You would
4 think that they didn't have that volume of business.

5 So it's that kind of work where we tried to get
6 them to be in compliance-compliance-compliance; and they
7 refused to basically cooperate for whatever reason. It's
8 not an out-of-pocket, but some people don't cooperate.

9 So my staff went in and they did amended tax
10 returns for this business from, you know, the beginning of
11 time to get that revenue in. So your revenue -- which we
12 were hoping to get before the end of June for this month --
13 is \$2.7 million. Your highest TIF -- that is your highest
14 TIF revenue for any month so far, since the beginning of
15 time. So that will help your numbers greatly.

16 But it's tough as you can see. I don't know how
17 you project on this. This is pretty tough. I know there's
18 been some concern that the TIF revenue has been down. The
19 TIF revenue -- is down. Last year the audits and
20 corrections in total resulted in \$5.7 million worth of
21 revenue that came to you because of my staff doing their
22 work. That was an usual year. Prior to that -- well, prior
23 to that they weren't -- it was before my time and they
24 weren't tracking it.

25 When I first looked at this and I tried to

1 project, I'm like, I know need to know what these swings are
2 for. and I realized what the audits and corrections were.
3 So I started to try to scrub those out. So from November of
4 2009 -- yeah, November 2009 forward, they started scrubbing
5 out the audits and corrections so we have that.

6 And it was about a million and a half dollars that
7 year; 5.7 last year; and so far this year, with the 2.2
8 million, it's about 3 and a half million. So we haven't
9 backed off. We're still doing the things that we need to do
10 and sometimes you get lucky and find something, and
11 sometimes you plonk along, you know, and do whatever.

12 CHAIRMAN McCUSKER: The State has no enforcement
13 or education of this, this is all at the City level?

14 MS. GOTTSCHALK: It is. And to the State's -- the
15 State doesn't really want us. They're not motivated to find
16 these for us because if we don't find them, they keep the
17 money. Luckily the one person that we're working with at
18 the State -- it's unfortunate it's just one -- but she's
19 great and she fights for us. So she's wonderful.

20 CHAIRMAN McCUSKER: This is the form you were
21 talking about. One of the things Alberto and I talked about
22 this -- is that can we simply just preprint "PAD" and
23 distribute these to all the merchants so that it's done for
24 them in advance.

25 MS. GOTTSCHALK: It doesn't work that way,

1 unfortunately. But sometimes -- actually some of the forms
2 come preprinted with PAD and some of them don't.

3 But what happens, if you have a business -- let's
4 say you have a business down here in the TIF district and
5 you also -- now, I just opened another sandwich shop up in
6 Marana -- when they get their state tax return, it's going
7 to have a PAD code on it, or they write it in, and it's
8 going to have Marana. So they get a new tax return on a
9 monthly basis, so unfortunately we can't do that. It's an
10 education thing.

11 The City is actually embarking on this great new
12 technology tool. It's going to help the City's tax
13 collection. Right now we have haven't talked about it yet
14 out in public because we're just starting the process. That
15 will help you immensely as we move forward too.

16 MR. SHEAFE: Is there a large delay in this new
17 wonderful tool?

18 MS. GOTTSCHALK: Well, I just signed the contract
19 two days ago, so yes. We have to implement the software and
20 that kind of thing. I'm thinking we'll start seeing --
21 we'll start using it in three to four months. And then the
22 delay will be getting the collections out of the businesses.
23 But I think we're doing a great job at this point.

24 MS. COX: Is there anything you see that we could
25 be doing to assist you in this merchant education?

1 I mean, is that something you need from us, you
2 want from us, or do you feel like you have a handle on it,
3 and it's all going to be resolved?

4 MS. GOTTSCHALK: Well, actually I think that -- I
5 appreciate that question. There are some things we can do
6 once we move into this.

7 I don't know what information I can get out of my
8 tax system. But if, for example, I could get business names
9 and addresses, maybe the board could do a mailing to those
10 businesses and just say, you know, we're glad you're in the
11 District. It would be helpful if you make sure you always
12 do this.

13 Or when you find out there's businesses coming in,
14 shoot somebody an email and say, hey, check this business
15 out, make sure they're licensed, that kind of thing.

16 The other thing, you get TIF revenue off of
17 construction projects, and you've got some big construction
18 projects in the TIF District this year, so your TIF revenue
19 next year should look great.

20 CHAIRMAN McCUSKER: Are you working with the
21 merchant associations, or are we educating them kind of in
22 mass that this is a self-reporting obligation of the
23 downtown merchants, the Park Place merchants? Have we done
24 anything to kind of coordinate with them and put some of
25 them on the ground?

1 It seems like a lot of it is education. And if
2 could improve their knowledge of it, it will improve the
3 return, which is easier, probably, than enforcement, than
4 auditing backwards.

5 MS. GOTTSCHALK: It definitely is.

6 No, we haven't being doing that as far as I know.
7 My staff drives around and -- and I'm surprised they don't
8 get in accidents, because every time they're going up and
9 down Broadway, they're noticing new businesses. And then
10 they get back to the office and . . .

11 CHAIRMAN McCUSKER: We did talk to the state
12 treasurer about this particular issue and if there's a
13 merchant compliance problem. And they have indicated to us
14 they're willing to go back as much as three years if we can
15 identify for them that they probably have a merchant
16 compliance problem. So they've asked us to submit a
17 sampling of merchants and then they will do a test of those
18 merchants. And if indeed they show compliance issues, they
19 are prepared to go back two or three years to try and
20 identify.

21 So that would require us to literally identify
22 every merchant in the TIF and supply that information to the
23 Department of Revenue. But they did offer us to also go
24 back.

25 MS. GOTTSCHALK: We do go back -- this one that I

1 found recently, since it isn't an audit, per se -- the City
2 can only go back three years on an audit.

3 But the State will allow us -- and I honestly
4 think it's a lot to do with this lady that's working with
5 us -- is they will allow us to go back and -- I don't know
6 how far we can go back -- but the one we just found, we went
7 back to 2005, and they said, okay. So we said, thank you.

8 MR. SHEAFE: Kelly, if you just -- I'm trying to
9 understand. I know that in employment numbers, there's a
10 similar -- Marshall has talked to me about the difficulty of
11 companies that operate in Phoenix and Tucson and Flagstaff.
12 And when they have reductions in employment, they're not
13 sure because they don't report them that way, they report
14 them -- you know, just -- and you sort of referenced the
15 same thing -- that these things can be combined.

16 However, for every business that's located with
17 multiple outlets in the state where they're operating with
18 different jurisdictions -- Glendale, Phoenix, Tucson,
19 Scottsdale, whoever -- there is a responsibility, and I
20 believe, in the reporting process, to automatically identify
21 which district you're in.

22 So those numbers are not combined; is that
23 correct?

24 MS. GOTTSCHALK: That is correct.

25 MR. SHEAFE: They're always broken out by

1 district -- excuse me -- by jurisdiction.

2 In the setting up of the District, was there not
3 then a delineation that went further to where if you have a
4 business that's located inside the District and another
5 outlet just outside the District, you're still in the City
6 of Tucson, you're not breaking those two numbers out.

7 Did I understand that correctly?

8 MS. GOTTSCHALK: They should be breaking them out.
9 And that's part of the problem is sometimes they don't. And
10 then we'll go in and say, okay, you have three locations and
11 this one's in the District and these two aren't.

12 And we will prepare amended returns for them and
13 then have the business sign them. Because what's their
14 motivation to go back and redo it? They're not going to do
15 that.

16 MR. SHEAFE: Well, just as an editorial comment,
17 their motivation is those dollars are reinvested here in our
18 community to a higher proportion. And those benefits, since
19 they're already in the District and would be applicable to
20 an increasing activity level right around their business,
21 therefore, they should be getting more business.

22 MS. GOTTSCHALK: Well, I completely agree with
23 that, but a lot of small businesses are just trying to get
24 the work done on a day-to-day basis and, you know, don't
25 have time do redo this. So we do it for them and then just

1 all they have to do is sign it and we're good to go. We try
2 to be helpful.

3 MR. SHEAFE: Well, let me compliment on you on
4 that. If you are doing it for them, I think that's really
5 appreciated.

6 But think Jannie's question is an awfully good one
7 too. Sometimes looking at this and trying to figure out if
8 we need to reach out a little bit, there might be some value
9 in really doing that. We certainly know the businesses that
10 are in the District, although it's hard for me to keep up
11 with the businesses in certain commercial centers. And
12 those are rather small units compared to what you're dealing
13 with and the size of the District so I understand what
14 you're saying.

15 CHAIRMAN McCUSKER: We've also talked to Chris
16 about using interns or -- it would be a great project for
17 Eller, you know, if somebody really wants to understand
18 municipal revenue, you know, if we could put some people on
19 the street to educate the merchants in following along with
20 your accounting and auditing. You know, out of a thousand
21 merchants, it would be interesting for me to guess how many
22 don't comply. But I expect it's probably a huge number.

23 MR. SHEAFE: Well, as an example, you know -- not
24 to keep jumping in -- but I can tell you, each of the
25 brokerages houses in town know every property that's here,

1 and they have interns working for them inventorying this
2 stuff because they want to know when every lease is going to
3 expire. And they walk around and talk to each business and
4 they say, when's your lease going to expire?

5 And they do a -- they try and get a copy of the
6 lease or something. And they try and put all that
7 information in so they can go back to those businesses at a
8 critical moment and say, let us help you relocate or let us
9 help you renegotiate.

10 So that information is out there. And maybe we're
11 not reaching all together to the right parties.

12 MS. GOTTSCHALK: And I know that the dollar amount
13 of tax collected from individual businesses is confidential;
14 but I believe I could give you a list of the businesses.
15 And at least -- I mean, with your knowledge of the District,
16 you can start there and say, hey, I'm missing this or that.

17 CHAIRMAN McCUSKER: Could we get a list that
18 indicates whether or not they've complied with the
19 self-identification, or no? That's probably -- the only
20 thing we can get is a name and an address of current
21 merchants?

22 MS. GOTTSCHALK: Yes.

23 CHAIRMAN McCUSKER: Do you have that?

24 MS. GOTTSCHALK: I can give it to you from even
25 the last report that I have. So the report that I have --

1 when I looked at it actually earlier today -- I don't know,
2 it's probably a 20-page report -- once we go through and do
3 our stuff on the spreadsheet part of it -- and 3 of the
4 pages are people that have -- were in the District before.
5 So they actually have paid taxes this current month, and
6 they have a base -- 3 pages.

7 The rest of the pages are a list, a list, a list,
8 of people that weren't in the District before, and they're
9 new and have made a payment.

10 And the other is a list of people who have a base
11 and aren't paying. Some of those are out of business. Some
12 just happened to miss that month. So we go through those
13 and look at that also. But I could certainly give you that
14 and say, this is what we think.

15 And it changes -- I mean, the tenants at the mall
16 change on a weekly basis. And we monitor that. And we
17 monitor as much as we can. And sometimes just because
18 they're licensed with the City, we think we're getting it.
19 And then you say, hey, wait a minute; I'm not getting this
20 one from this business right here.

21 CHAIRMAN McCUSKER: I do agree with Chris. I
22 think if we could -- that the motto here is to be good to
23 your community, make sure that we're complying, this is
24 money that's coming back to revitalize downtown, engage the
25 downtown partnership, engage the merchants, hire some

1 interns. Maybe there is something, Jannie, that we can do
2 to -- at the front end of this so then we're not arguing at
3 the back end.

4 MR. SHEAFE: So I guess what we're saying, Kelly,
5 is we appreciate your comments and particularly appreciate
6 the difficulty. So no one's downplaying that.

7 But if you would give it just a little thought,
8 since you're probably going to be working with our auditors
9 anyway about where we might be missing a bet,
10 particularly -- and just sitting here, I'm thinking if we
11 could get those lists and ask some of the brokerage houses
12 in town to double check those lists for us, because I can
13 guarantee you the retail brokers absolutely know where every
14 business is out there, including the ones that own their own
15 buildings and there aren't very many of those.

16 MS. GOTTSCHALK: Well, this project that I'm
17 working on will help a lot in that. And it goes to sort of
18 what you were talking about, is using data that's out there
19 in other places to compare with what we're seeing and
20 finding businesses that way.

21 CHAIRMAN McCUSKER: Kelly, thank you. We are
22 looking for some new psychology between us and the City so
23 that the next memo that Alberto writes is not so sour.

24 MS. GOTTSCHALK: Can I just give you a brief
25 update of where I think your TIF numbers are?

1 CHAIRMAN McCUSKER: Sure.

2 MS. GOTTSCHALK: And you may have this in your
3 budget. But as of today, on a cash basis -- and this goes
4 to one of the comments that Mr. Moore stated -- that what we
5 show as TIF doesn't always match what the auditors have, and
6 it's -- the difference is between cash and accrual basis in
7 accounting.

8 But on a cash basis for your TIF revenue -- which
9 includes ten months basically -- it's just over \$9 million
10 dollars. What we expect and hope to receive before the end
11 of today actually was another \$2.7 million. Of that 2.7,
12 the 2.2 was that correction that we found.

13 So just without your last month of the year, on a
14 cash basis, you have \$11.7 million; on an accrual basis, the
15 TIF revenue is very delayed.

16 CHAIRMAN McCUSKER: We've seen it about three
17 month's delayed.

18 MS. GOTTSCHALK: It's three months because you
19 have the retail sale, they have a month to remit it, it goes
20 to the State, it goes through that whole thing. So it's
21 about three month's delay. On an accrual basis right now,
22 you're at 6.6 million collected, you'll have another 2.7,
23 puts you at 9.3 million. And then you'll have three months
24 more revenue to add to that.

25 So the fears that you're not going to have enough

1 TIF revenue for your debt service, you shouldn't worry
2 about that; you're fine. And next year, because of a lot of
3 these construction projects and other businesses, big
4 businesses that are being built right now in the District,
5 you'll be fine for your debt service.

6 CHAIRMAN McCUSKER: Any questions for Kelly?

7 Thank you. See you next time.

8 All right. The next item on the agenda is really
9 mine. And I think -- Michelle, I have a handout. I don't
10 know if those got around the table.

11 We're going to adjourn here in a minute and
12 convene at 5:00 for the budget hearing. We can talk, if we
13 want to maybe try and do call the audience generally before
14 that, since we're ahead of schedule.

15 But there's been a lot of noise about the intent
16 of the District, the change of the members, where we might
17 go, where we might not go. And I think, just on behalf of
18 all of us. And clearly my marching orders from the
19 president of the Senate, are to try and create some balance
20 in our agenda. I think we've demonstrated that in just a
21 few weeks that the new members have been here.

22 We need to, and will continue, this forensic work.
23 It's very important for us to be able to identify the issues
24 with the City, with the accounting, with the authorization
25 of these prior projects. And none of us -- I think I speak

1 for all of us on the board currently -- have any desire to
2 slow that down or stall that out to any degree.

3 But the president made it very clear to me, and I
4 think to Chris, and I think the speaker has to Cody, that
5 they want to see some economic development. The point of
6 the TIF, the point of its history is to invest. That's a
7 very carefully chosen word. I think historically, this TIF
8 has spent rather than invest.

9 If you look at successful TIFs around the country,
10 for every dollar of TIF money that's invested in a
11 community, \$5, \$6 or \$7 are returned on that from private
12 sector and other partners.

13 This TIF, for whatever reason, historically
14 believed that they could do it all themselves. So the
15 \$230 million that we argue often about, from my perspective,
16 is really a billion dollars of lost opportunities. And if
17 you could imagine our downtown today with a billion dollars
18 invested in it, we would have a world-class downtown capable
19 of competing with anyone in the West.

20 So when I look at TIF and investments, I
21 appreciate the fact that what we do going forward should
22 leverage. And I think, first of all, we don't have the
23 resources that the TIF did. I don't think any of us are
24 interested in going into debt to increase TIF revenues. So
25 we have a little amount of money.

1 And when you see us go through the budget this
2 afternoon, you'll see that we think we do have some
3 resources that -- somewhere between 10 and \$13 million. And
4 again, if the TIF is growing, that's additional money. But
5 you know, that's not going to build an arena. That's not
6 going to build a hotel. But it could create some excitement
7 and energy about projects that we partner with, partner with
8 the City, partner with the County, partner with developers,
9 partner with tribal government, or partner with all of
10 those.

11 So yeah, we're going to talk about investment.
12 You're going to hear that pretty much on every agenda going
13 forward. Now are we in a position to invest? Absolutely
14 not. I cannot assure you today that we're going to be any
15 better at investing TIF money than the prior board was.

16 We don't have the policies and procedures in place
17 to do due diligence on a project. We don't have the
18 personnel or talent to identify contractually of what would
19 have to happen, the benchmarks that would be required of a
20 private sector developer. We don't have any way to track
21 the money. If we're going to separate ourselves from the
22 City, we have no choice but to try to develop some of those
23 resources ourself.

24 I think we believe we should be independent of the
25 City. So that means if we're going to invest, we have to

1 have some procedures in place to -- policies in place that
2 do that and do that transparently and do that accountably.

3 I've done a lot of traveling to look at other TIFs
4 and how they do that transparently. And every single
5 contract, every single dollar, every single bank account, is
6 public. And I think that's part of how we deal with this
7 going forward is even though we don't have \$200 million --
8 we have might have a tenth of that, or 5 percent of that --
9 I think we can create some opportunities still downtown.

10 That's why I'm on the board. I think that's why
11 Chris and Cody have joined the board. And we would like to
12 move forward with that kind of discipline.

13 The things that I've handed to our board, which
14 are not action items for today but kind of some of the
15 things that I've read and want to share, speak to mission of
16 the TIF.

17 And a lot of this is not news to any of us. But
18 it might be a refresher to us and to the public in terms of
19 how we view our opportunities going forward.

20 The first document is the recommendations from the
21 Crowe Horwath audit that was issued in the end of 2010.
22 There were a number of things in there that describe how
23 they view a TIF's mission, from investing available funds,
24 to establishing a plan, to how you account for money. So I
25 think it's important for all of us at the board to revisit

1 that audit and commit ourselves to adhering to those
2 principles.

3 The other thing that we don't have to reinvent
4 what's in the packet -- and I'm interested not only in board
5 comments but public comments -- is a best practices guide.
6 We're not the only TIF in the world. A lot of TIFs have
7 struggled as you read through this with the same kind of
8 things that this TIF has historically struggled with.

9 And there are three things that they come away
10 with in terms of best practices: Number one, due diligence;
11 two, transparency; three, accountability. There's only
12 three items that I think if we can identify and hold
13 ourselves to, and I would ask the board to read these.

14 And then maybe in a future meeting, we might
15 actually consider adopting these kind of standards in terms
16 of how the TIF is disciplined on a go-forward basis. I
17 think if something like this had been in place 12 years ago,
18 13 years ago, you would have a very different conversation
19 today.

20 The other, just because I read a lot, is a really
21 neat little article on the ten secrets of downtown success.
22 This is done by a firm that consults with organizations like
23 ours on how to collectively revitalize the downtown,
24 particularly in economically challenging times.

25 And if -- you know, they call them secrets; we've

1 got plenty of secrets around here, so that's a bad choice of
2 words. But you know, if you read this, just going forward,
3 it's: form partnerships, know your vision, be market driven,
4 be strategic, dare to be different, focus, return to
5 old-fashioned values, be self-sufficient.

6 Now, we are entangled with the City. The bond
7 documents probably prevent us from untangling much of that
8 relationship. But there are ways we can be self-sufficient
9 and still hold them accountable to how they manage our
10 money.

11 Be pro-business, pro-quality.

12 So I think there's a lot of things that we can do
13 as a board that kind of -- if we intend to -- and I believe
14 you will hear from us -- begin to talk about how we go
15 forward and identify projects.

16 From my perspective, I will tell you, we are not
17 project-ready. I don't know of anything that's
18 shovel-ready, to use the term today, that we could go out
19 tomorrow and spend money on that's going to increase sales
20 revenue into the TIF. Part of what I'm interested in -- in
21 looking at are projects that leverage, that create
22 additional sales tax revenue.

23 Most of the projects that are in the TIF, they
24 don't create or leverage sales tax. So the way for a TIF to
25 be successful is to invest in businesses that are organic,

1 that grow themselves, that continue to produce spin-off
2 business and increase, ultimately, sales tax revenue.

3 The president of the Senate's made it very clear
4 to me that we have a very limited amount of time to
5 demonstrate our capabilities in this area. The end of the
6 day, we are indeed an economic development organization.
7 And even with limited resources, I think we can demonstrate
8 that we can make an impact on downtown.

9 So I'm very interested in your feedback on that,
10 interested in any public comment. Or if you want to email
11 us regarding this, I think we'd be very interested in how
12 you view this balanced agenda, which is account-for,
13 examine, hold accountable, but at the same time, try and
14 find a way to move the organization forward.

15 And with that, let me just touch on the Wells
16 Fargo issue, Albert, since you've kind of made that a public
17 concern.

18 In trying to identify resources and develop a
19 budget, I picked up from the budget that was initially
20 drafted by Jodi and others. And a big piece of what we're
21 going to present at 5:00 is cash.

22 And in order to identify cash, in my experience,
23 the easiest way to do that is just to go to the bank. So
24 you know, as simple as me asking of Michelle, do you have
25 the Wells' statements? No, I don't. How do we get them?

1 Call the bank.

2 That's how I get bank statements. We did that.
3 They suggested that it had to be a signer. They said there
4 are three signers: Jodi, Alberto, Mark. She asked Mark to
5 inquire of the bank.

6 So I think these are kind of internal issues I
7 know that we struggle with, in terms of who has authority,
8 who can make requests on behalf of the board. From my
9 perspective, there wasn't anything sinister about that.

10 You will see at 5:00 when we present the budget,
11 that we have unbelievable detail today on where our money
12 is, how we can create additional transparency I think, and
13 some of the work we want to do in doing that.

14 So at the risk of creating an issue with you, most
15 of that I think is my fault because I just simply asked
16 Michelle if she could call the bank and find out where our
17 bank statements were. And you'll get to see some of that at
18 5:00 when we come back to the budget.

19 So we can take a break. We're scheduled for the
20 budget hearing at 5:00. We can take -- call the audience of
21 general matters since a lot of people have been sitting
22 around.

23 What's your pleasure?

24 MR. SHEAFE: Call the audience.

25 MR. MOORE: Call the audience and see if there's

1 any cards out there.

2 CHAIRMAN McCUSKER: Okay.

3 Michelle, these are for general call of the
4 audience issues.

5 And if you want to wait until you do that at the
6 budget, we're happy to do that as well. Okay.

7 So the other cards are for budget questions?

8 MR. MOORE: No, there's nothing else.

9 CHAIRMAN McCUSKER: There's nothing else?
10 Keith? Please come up.

11 ATTENDEE: Hello. My name is Keith VanHeyningen.
12 I'm a Tucson resident. I've only been here since the
13 beginning of '99. I used to be a crew chief for various
14 Landsman companies here in town. And personally, I don't
15 hold as much against you guys as I do the City. Kelly will
16 tell you. I'm a regular fixture there because I can't stand
17 government waste.

18 This project, the trolley, the new City/County
19 Courthouse, is for one group of people and one group of
20 people only: that's people who work downtown. That's a
21 crime. You're stealing from the rest of us to pretty up
22 downtown for state, local, and federal workers.

23 Now, you guys are going to go through it. We're
24 all going to suffer. The City is going to try and raise our
25 taxes again on our properties to fix the roads they've

1 neglected over the years. We need more than the elections.
2 We need something more than just Democrat control over this
3 City.

4 I mean, myself, I'm semiretired now. I can move
5 to Maui whenever I want. The only reason I stay here is
6 because of my wife and her family.

7 So really, I hope Rio Nuevo does get killed off in
8 the spring by the State because it's been a huge boondoggle,
9 waste of money. The only good thing about it is it does
10 show the level of corruption in this City by people who
11 think they run the City.

12 The nepotism of certain families within the City
13 and County government is ludicrous. And just to give you a
14 hint, the ten years I lived my life before I came to Tucson
15 was in Chicago, and they were never this bad. Hard to
16 believe, but it's true.

17 Have a good day.

18 CHAIRMAN McCUSKER: Okay. Thank you for your
19 comments.

20 So if someone will move, we'll stand adjourned
21 temporarily till 5:00.

22 MR. SHEAFE: You don't need a motion.

23 CHAIRMAN McCUSKER: I can just do that?

24 All right. We're adjourned until 5:00.

25 MR. SHEAFE: Recess.

1 CHAIRMAN McCUSKER: Recess. I'm sorry. Recess
2 till 5 o'clock.

3 Thank you.

4 (Recess taken at 3:33 p.m.)

5 (Board reconvenes at 5:03 p.m.)

6 CHAIRMAN McCUSKER: Good afternoon, everyone.
7 We're going to call the Rio Nuevo District budget hearing in
8 order. We do have a quorum, I believe, but if you'll call
9 the roll, Michelle, or Sarah.

10 MS. BETTINI: Jannie Cox?

11 MS. COX: Here.

12 MS. BETTINI: Fletcher McCusker?

13 CHAIRMAN McCUSKER: Here.

14 MS. BETTINI: Alberto Moore?

15 MR. MOORE: Present.

16 MS. BETTINI: Mark Irvin?

17 MR. IRVIN: Here.

18 MS. BETTINI: Chris Sheafe?

19 MR. SHEAFE: Here.

20 MS. BETTINI: Jeff Bell?

21 MR. MOORE: He's not here.

22 CHAIRMAN McCUSKER: And Cody Ritchie is excused.

23 MS. BETTINI: Okay.

24 CHAIRMAN McCUSKER: And just a quick reminder.

25 This is a public hearing. We're encouraging public comment.

1 If you want to speak to us before we approve the budget,
2 please fill out a card and hand it to Michelle. We welcome
3 and encourage your feedback as part of this process.

4 You have a couple of things before you.

5 The packet that's in the audience is the same one
6 that we're looking at here as the board. And it's the kind
7 of historical presentation that the District has made in
8 terms of budgeting for the year starting July 1st.

9 On a high level, let me address a couple of
10 things, and then we're going to open it up for board
11 conversation and input.

12 Given the disruption of members a couple weeks
13 ago, Michelle and I kind of picked up the budget ball and
14 started with the draft that Jodi had begun to prepare.
15 You'll see that in the notes referenced as the original
16 budget.

17 And the second draft there, which Michelle's
18 called "second," is basically the draft that Michelle and I
19 had done in an effort to present budget proposals to the
20 full District board. And we'll touch on kind of what's in
21 there.

22 The other packet -- which if you don't have,
23 please get one -- this is the backup material for the budget
24 presentation itself. So let me just kind of walk you
25 through it, and then we'll ask other members for question or

1 comment.

2 The first item there, of course, is the current
3 fiscal year receipts. You'll see in your packet, supporting
4 documents from the Department of Treasury. It looks like
5 this. It says, "Treasury, Office of the Arizona State
6 Treasurer." This is the actual website that is available if
7 you follow that and click to and follow these same kind of
8 instructions. You can pull up the TIF revenue by month.
9 And we've just included, for reference, the last three
10 years, I believe, should be in the packet.

11 Is that right, Michelle, the last three are in
12 there?

13 MS. BETTINI: Yes, the last three.

14 CHAIRMAN McCUSKER: If you look at the most recent
15 year, the year just ending, you'll see that we've collected
16 through May about \$9 million of TIF revenue. We can confirm
17 as Kelly indicated earlier that that hits the District's
18 accounts about two or three months after it is in fact
19 identified by the Department of Revenue.

20 The assumption that I made regarding next year
21 revenue was basically that it would be the same. Since we
22 didn't have June revenue, we looked at the last couple
23 year's of June and they've been about \$800,000; so we
24 assumed that this June would be about \$800,000 to give you
25 about \$9.8 million of TIF revenue.

1 As we heard from Kelly earlier today, the June TIF
2 income will actually be more like \$2.7 million, which will
3 give you year ending revenue -- TIF revenue of almost
4 12 million -- \$11.8 million, because of the unbelievable
5 June TIF income, which as we now know is related primarily
6 to the audit of a single customer.

7 So what we did, assuming the revenue going
8 forward, was that the TIF would be about the same. We
9 didn't have any real basis to increase it nor decrease it,
10 so we pretty much suggested that for budgeting purposes we
11 leave it the same.

12 Now, obviously, a point of conversation today is,
13 given the TIF revenue's closer to 12 million, would you want
14 to do anything regarding the assumptions of next year's
15 revenue?

16 The next item there is expenditures. These are
17 basically administrative expenses. You will see the
18 breakout on the following section, both in terms of budgeted
19 versus actual. These are the costs that the board approves
20 in order to operate the Rio Nuevo District.

21 The miscellaneous -- I don't like the term
22 "miscellaneous," but that appears to be the way the budget
23 has historically been developed -- that is primarily
24 representative of lease income. The major piece of that, of
25 course, is the TCC lease. You also have the Rialto lease

1 and some other parking lot leases in there.

2 Michelle and I have assumed, for budgeting
3 purposes, that we can earn some interest on much of the
4 money that is currently not invested. And we've used a
5 1.1 percent rate regarding that.

6 We have done some research on permitted
7 investments. I know there's been some questions in the past
8 as to whether or not TIF money or bond money can be
9 invested. And counsel has forwarded us a myriad of
10 opportunities that would allow us to earn at least that kind
11 of yield, maybe more. But they include things like mortgage
12 bonds, certificates of deposits, short-term bank
13 obligations, insured bank accounts, commercial paper, money
14 market funds, municipal obligations, State obligations,
15 special revenue bonds, etc.

16 So there clearly is an opportunity to invest
17 District funds, and to maybe encourage the City to better
18 invest the money they hold on our behalf. So that's clearly
19 something we want to discuss. And I think that's an
20 assumption on our part regarding the opportunity to create
21 yield on our current cash.

22 The administrative expense, that forecast follows
23 the second forecast. I'll walk you through that in a
24 minute.

25 The assets and liabilities are as audited by

1 BeachFleischman.

2 And the cash on hand, I'll discuss with you as we
3 go through the notes. The good news there is we do have
4 32 million and change currently in the District accounts. I
5 will tell you that two-thirds of that is reserved primarily
6 for debt and bond reserve kind of things.

7 So if you look at the second page as it relates to
8 the admin budget -- and you'll see the changes that we've
9 suggested from the original budget to the forecast today --
10 I am asking for substantial increase in the auditing and
11 banking services area. You heard Susan and David earlier
12 today talk about the extensive work that will be required to
13 finish primarily the Depot and West Side audits. We pretty
14 much moved across everything else from the original budget.

15 Legal, we hope, is coming down. You see the
16 actual legal expenses for the current year are at \$572,000.
17 We're forecasting that at \$300,000. We have about four,
18 possibly five lawsuits and claims in action. And obviously
19 that needs to be lawyered, so we anticipate some continued
20 high level of legal expenses.

21 The original budget had a staff position in it
22 that we've eliminated for discussion purposes. We've also
23 suggested that the District could benefit from a chief
24 financial officer, and you'll see that position in our
25 forecast, the last line, \$150,000.

1 The detail under the Note 7 there is the debt
2 service. There are huge swings currently for the TIF as it
3 relates to debt service. And in your backup packet, you'll
4 see a bond debt schedule that I was very pleased to see and
5 pass on to you. Looks like this.

6 And you know, you have the City of Tucson
7 prepared -- it's also an exhibit in our audit -- the use of
8 proceeds of the historical TIF money. There are four debt
9 instruments that the District has entered into over the last
10 10 years. The good news is the Tucson Convention Center
11 certificates of participation -- the first column there, the
12 series 2002 COPS -- we made, about a week ago, the final
13 \$3.7 million payment on that initial bond. So those have
14 been retired. And we're no longer obligated to that debt.

15 Now, both of the items on the left side here, the
16 certificates of participation, for those of you to
17 understand how that works, that is backed up by a lease
18 obligation. So unfortunately we don't gain anything from
19 the retirement of that debt because the City's lease also
20 drops down to cover the new debt service which is basically
21 \$1,281,000. So the lease was structured and amended in '09,
22 I believe, to track the debt, basically.

23 On the right side of the column, those are revenue
24 bonds. The 2005 series is the Fox debt, \$5.8 million. The
25 payments on that are 814 -- or 812 a month -- I'm sorry. A

1 year. And that also gets paid off this year. You'll notice
2 the final payment's 1,812,000. And if you look at your cash
3 schedule on the back, you'll see that there's a \$1 million
4 reserve for that. So our debt service obligations remain
5 the same because the final payment will come out of that
6 reserve account.

7 And then the \$80 million bonds remain with us
8 until 2025. And they do jump up in the current year from
9 7.2 million to 8.1 million. If you look at the debt service
10 note, we should have captured all of those changes for you:
11 COPS, revenue bonds, and the Fox revenue bonds.

12 The only other debt that we can find, if you look
13 at Exhibit D on the back up, you will notice in 2004,
14 there's an item called "Loan from the City of Tucson" for
15 \$14,577,000. And then below that, in the payments, you'll
16 see that the City has repaid a substantial portion of that,
17 \$12.8 million, leaving some balance due on that debt.
18 There's no payments on that debt. I think it's subject to
19 the conversations and negotiations and mediation with the
20 City.

21 But those are your five items of debt that the
22 District remains responsible for.

23 And then cash. This was probably the most
24 challenging thing for us to get our arms around. There are
25 12 Wells Fargo accounts. The City advanced the District

1 \$10 million the end of last year. That has been banked with
2 Alliance and the Bank of Tucson. Those two accounts are
3 totally under District control.

4 The other accounts there that you see starting
5 with the acquisition account, these are all accounts at
6 Wells Fargo subject to bond -- or COPS agreements where
7 Wells Fargo is acting as the trustee for these funds. So
8 for the most part, this is untouchable money.

9 It is conceivable that the interest that's earned,
10 and however they invest their instruments, might be
11 transferable or due to the District. But I can't tell you
12 today for sure how that works.

13 We can tell you, based on tracking TIF revenue,
14 the exact amount, to the penny, comes from the Department of
15 Revenue and goes into the account called "Tax revenue
16 bonds," and you'll see that has a zero balance. So money
17 hits that account and then is transferred from that account
18 to the service excise tax account immediately below that.
19 And then that money is collected and then used to pay the
20 debt service twice a year.

21 The other accounts that are primarily reserve
22 accounts, you have a year's worth of lien reserve and you
23 have the last payment currently reserved for the Fox
24 Theatre.

25 The Alliance Bank, the Bank of Tucson accounts,

1 neither of those are interest-bearing checking accounts.
2 And we assume that we can -- given what counsel has told us,
3 we assume that those are investable as well.

4 Was that too fast? Is everybody tracking?

5 MR. SHEAFE: Fletcher, is the 10 million advanced
6 by the City to be paid back?

7 CHAIRMAN McCUSKER: My understanding of that --
8 and Alberto, Jeff can correct me -- that was an advance
9 against excess TIF revenues that we had identified, subject
10 to a final reconciliation.

11 Chris, if you go to the -- there's two pages in
12 the backup documents that are the income statements from the
13 BeachFleischman audits. And if you look at the June 30,
14 2010, it's a little weird how they record it governmentally
15 in terms of what you and I are used to looking at, they
16 start out with expenses, \$9.6 million of expenses. They
17 deduct or adjust for revenue, that's the TCC lease. And
18 they show net program expense. And then they show the
19 income. But what you can gather from that is in 2010 the
20 District had \$3.6 million of, quote, profit, excess revenue.

21 MR. SHEAFE: Mr. Chairman, excuse me.

22 Michelle, can you bring a copy of the financial
23 statements you just dropped off with -- for Jeff? He
24 doesn't have it.

25 CHAIRMAN McCUSKER: Yeah. Jeff's missing that

1 packet.

2 MR. COLLINS: And Mr. Chairman, you probably ought
3 to make a record that Mr. Hill has now joined us.

4 CHAIRMAN McCUSKER: We did that probably too
5 quietly. But okay, at 5:00 -- call it 5:15 -- Jeff joined
6 the board.

7 MR. HILL: Mr. Chairman, I don't believe we knew
8 that was TIF money, the 10 million.

9 CHAIRMAN McCUSKER: I don't think we know what any
10 of it is.

11 MR. HILL: Okay. We didn't at that time either.

12 CHAIRMAN McCUSKER: Right.

13 MR. HILL: It was just kind of --

14 CHAIRMAN McCUSKER: And then if you look at
15 June 11, similarly, you have expenses, lease revenue --
16 lease payment revenue in 2011, the TIF was profitable by
17 \$9.3 million. If you just do the quick math on those two
18 things, in '10 and '11, the TIF made \$13 million. That
19 money would be sitting in some account under the City of
20 Tucson's control.

21 In addition to that, we know that there are some
22 bond proceeds over there. So I think in an effort to try
23 and reconcile and separate cash from the City -- and Kelly's
24 here, she can address this if I'm mistaken -- the City
25 advanced \$10 million subject to a final reconciliation. And

1 Jeff's right, they didn't really identify whether it was TIF
2 money or bond money, subject to a final reconciliation.

3 Based upon what Kelly has reported to us, the one
4 account that we have to rely on the City is the last account
5 there under cash, the construction account, there's
6 \$5.8 million at the City of Tucson identified as Rio Nuevo
7 District funds. That, again, is subject to final
8 reconciliation.

9 And that kind of just squares with me, Chris, in
10 terms of, you know, profits made, money distributed, money
11 in the bank, you know something in the neighborhood of
12 \$13 million.

13 MR. SHEAFE: Well, if you take the roughly
14 13 million that you've referenced as excess cash over the
15 last two years, is that money held in the accounts here
16 shown in yellow, or is that money somewhere else?

17 CHAIRMAN McCUSKER: 10 million of that is now --
18 well, it was originally 10 -- but the Alliance and the Bank
19 of Tucson are accounts totally under the District's control.

20 MR. SHEAFE: Right. So that money is actually
21 there. But if you say the City added 10 million and then
22 there was another 10 million --

23 CHAIRMAN McCUSKER: That's the same -- that's the
24 same 10 million.

25 MR. SHEAFE: Am I counting this twice?

1 CHAIRMAN McCUSKER: Yes, it's the same 10 million.
2 The money that's in Alliance and the Bank of Tucson is the
3 balance left of the \$10 million remittance.

4 MR. SHEAFE: So the reason that there was a
5 \$13 million cash flow gain was -- part of it was because
6 there was a \$10 million infusion from the City?

7 CHAIRMAN McCUSKER: No. I think the cash stayed
8 over in the City's accounts, but the earnings, I would hope,
9 are appropriately reflected in the BeachFleischman audits.
10 So I think that's the beginning of the City's attempt to
11 forward to our control our own cash.

12 MR. SHEAFE: Okay. Let me make sure I understand,
13 then. I'm sorry to hang you up on this point, but I'm still
14 a little confused.

15 The City transfers 10 million to us, it was
16 transferred into our accounts, and we end up with money in
17 Alliance Bank and the Bank of Tucson; is that right?

18 MR. HILL: Yes.

19 MR. SHEAFE: All right.

20 CHAIRMAN McCUSKER: Those accounts did not exist
21 until the end of the year.

22 MR. SHEAFE: All right.

23 CHAIRMAN McCUSKER: And they were opened in order
24 to receive this advance.

25 MR. SHEAFE: All right. And the change in net

1 assets that happened in June of 2010, and again, 2011, which
2 totals \$13 million of gain in cash, that is also --

3 CHAIRMAN McCUSKER: Now, that could include
4 properties. That's straight from the balance sheet, so that
5 could include property and other assets.

6 MR. SHEAFE: Okay. So it's not necessarily excess
7 cash. That was what threw me.

8 CHAIRMAN McCUSKER: That's my understanding.

9 MR. SHEAFE: All right. Do we know for sure?
10 Because I'm trying to figure out if -- you know, the essence
11 of my question -- and maybe it isn't a question that can be
12 answered right now. I'm trying to figure out if the money
13 that we're referring to here is being all contained within
14 the accounts controlled by the District or elsewhere with
15 the exception of the 5.783 million that's in the City of
16 Tucson's accounts.

17 Do we have all the other revenue here, or is some
18 of that revenue partly somewhere else?

19 CHAIRMAN McCUSKER: All of our income, I
20 believe -- and Kelly can confirm this -- goes into Wells
21 accounts, including the lease, which ultimately pays the
22 COPS. So there's no income to the District other than what
23 the City would distribute to us.

24 MR. SHEAFE: All right.

25 MR. COLLINS: Chair, There are a few lease

1 payments -- some of those that we've recently been receiving
2 on the parking lots and so forth, but that's rather a small
3 amount. But I want to mention that to you.

4 CHAIRMAN McCUSKER: Do you want to take public
5 comment? Do you have any questions? Do you want to --
6 Kelly's here if you have any questions specifically for her
7 on the City accounts.

8 MR. HILL: When I look at the statement of
9 activities, going to what Chris had said, it would have been
10 more simple for us to probably understand if we had a
11 statement of cash flow and we didn't have the depreciation
12 and amortization -- which governments really don't care
13 about -- and we would therefore have strictly those changes
14 from one year to the next would affect cash. And we still
15 may not know the source necessarily of cash or if it's
16 encumbered, but it would be a lot clearer than the statement
17 of activities. Do those reports have statement of cash
18 flow?

19 CHAIRMAN McCUSKER: The audits are online and
20 they're government audits, so they're little presented a
21 little differently. I'm not sure that there is a statement
22 of cash.

23 MR. HILL: Okay. Trying to make it simpler to
24 understand for myself and Chris. Okay.

25 CHAIRMAN McCUSKER: The other point I would like

1 to make -- the budget as I understand it is amendable. If
2 we identify data post today, that could affect the budget
3 and if we have good cause that we want to amend the budget,
4 we can also do that at the District board level.

5 But we wanted to try and give you enough data to
6 generally understand how the money flows and what
7 administrative budget you might want to approve for the
8 upcoming fiscal year.

9 MR. SHEAFE: Well, I think, you know, the
10 administrative budget is something we probably ought to get
11 approved so that there isn't any question if we're
12 authorized to operate.

13 Another question I might have -- and, you know,
14 it's a little unfair here, Fletcher, because you put in an
15 enormous amount of volunteer time and organized what must
16 have been a rather complex picture into a very clear picture
17 as much as can be done. So let me just say that any
18 question I ask comes wrapped in the admiration I feel for
19 the work that you've done.

20 But I notice -- and you're the one that pointed it
21 out in an earlier comment -- that the TCC was purchased by
22 the District for a rather large amount of money in 2002.
23 And now the District is renting it to the City for debt
24 service. And as the debt service goes down, the yield on
25 the District goes down, so that there's no real cash gain

1 there.

2 And I don't know if it's an appropriate thing, but
3 I think it's worth mentioning. And the first is that, how
4 is the District supposed to invest anything in its asset if
5 it doesn't have the revenue source to do that; and secondly,
6 is that lease something that's fixed in concrete, or can it
7 rightfully be looked at to try and make it a little more
8 equitable? Because it looks to me that the District put out
9 a great deal of money and gets no return for it except a
10 continuing liability.

11 CHAIRMAN McCUSKER: Mark, do you want to address
12 that? The lease, Chris, was amended when the 2009 series
13 was permitted. And it was kind of ripe as the screen door
14 was hitting the old board in the butt, and they had an
15 opportunity to, you know, issue some debt. And the lease
16 was amended at that time to just pass on the straight debt
17 service.

18 So you're absolutely right. There's no gain to
19 the District for retiring this debt.

20 MR. COLLINS: Mr. Chairman --

21 CHAIRMAN McCUSKER: The amendment does not --

22 MR. COLLINS: Well, the lease is the lease. And I
23 think -- and I defer to Mr. Irvin who has looked at this a
24 lot; but I believe the lease extends through 2025. So I
25 don't think that -- absent some renegotiation with the City,

1 the lease is the lease. And that's what the District has;
2 that's what the City has.

3 MR. SHEAFE: So both parties agree it could be
4 changed.

5 MR. COLLINS: Oh, yes, sir.

6 CHAIRMAN McCUSKER: Do you have a question for me,
7 Alberto?

8 MR. MOORE: Yeah. It's my understanding also when
9 they had that amendment that they didn't give us any credit
10 or any funds for the properties that initially went with TCC
11 for excess parking, and that seemed to be removed from the
12 amended lease, specifically talking about the fire station
13 property that was part of our initial ownership within the
14 TCC project.

15 So I don't know how that was compensated for. We
16 never got any money for it, and they just took the land. So
17 I'm concerned about that.

18 MR. COLLINS: Well, Mr. Moore, my only comment on
19 that is that seems to be one of the many issues that the
20 District and the City will need to address because the lease
21 that exists is what we're now living with.

22 CHAIRMAN McCUSKER: Chris, that issue specifically
23 is, right around that timeframe, the District quitclaim deed
24 the property that the current fire station sits on to the
25 City. And many of us that have looked at that transaction

1 can't find any consideration for that, or necessarily maybe
2 even the appropriate approvals.

3 MR. SHEAFE: When you quitclaim something, is
4 there somebody that signs that?

5 CHAIRMAN McCUSKER: Yes.

6 MR. COLLINS: Yes.

7 MR. SHEAFE: So I'm raising something that we
8 probably ought to raise in another venue.

9 But let's go back, Mr. Chairman, to the process of
10 making sure that we have a working capability going forward.
11 The question on the table that you raised was whether or not
12 we should approve the administrative budget. Because if we
13 do that, then we can at least operate.

14 And I would like, if it's appropriate -- at least
15 correct me if it's not -- to suggest that we approve the
16 administrative budget -- which is the second budget listed
17 there totaling 831,000 -- as the approved administrative
18 budget for the coming year.

19 CHAIRMAN McCUSKER: And I think I would like to
20 have public comment on that before we actually vote.

21 MR. SHEAFE: All right.

22 MR. IRVIN: Fletcher, if I could ask a question.

23 MS. COX: You'll need a second on that.

24 CHAIRMAN McCUSKER: So let's just hang on to that.
25 Mark, am I correct in that?

1 MR. COLLINS: I concur, Mr. Chairman.

2 MR. IRVIN: I just want to ask a question because
3 I want to make sure I understand this.

4 From the last time that we looked at this, unless
5 I'm missing something, there's a \$4 million swing. The
6 revenues are up almost 2.4 million, and our debt service is
7 down 1.6. I just want to know -- I know you spent a lot of
8 time on this, but I'd just ask that you touch on that
9 briefly.

10 CHAIRMAN McCUSKER: The reduction in debt service,
11 the revenue also reduces in an equal amount because the
12 lease drops dramatically. So if the lease was not amended
13 to reduce, yeah, the debt service would have come down, the
14 revenue would have stayed up. But because the lease also
15 adjusts the -- you'll notice the TCC lease in those notes,
16 Mark, is now, 1.281 million?

17 MR. COLLINS: Right.

18 CHAIRMAN McCUSKER: Last year the TCC lease was
19 almost \$4 million. So that's the primary loss of revenue,
20 and it corresponds primarily to the reduction in debt
21 service.

22 MR. IRVIN: Thanks.

23 CHAIRMAN McCUSKER: And just -- in defense of
24 Jodi's budget, I have to assume that this was a work in
25 progress; that, you know, there are a lot of things -- as we

1 know from developing our budget -- that were moving around
2 in that original forecast. And it took some time to really
3 identify that these adjustments occur in the current fiscal
4 year.

5 The \$3.6 million COPS was paid -- and Kelly can
6 confirm -- I believe in June.

7 Any questions for Miss Gottschalk while we have
8 her here as it relates to the City's accounts or how they
9 work or the reconciliation of the cash?

10 MS. GOTTSCHALK: Could I clarify the lease?

11 CHAIRMAN McCUSKER: Sure, come on up.

12 MS. GOTTSCHALK: Thank you. The issue with the
13 TCC lease is, to be able to trigger the TIF collections, the
14 District needed to have the Multipurpose Facilities District
15 in its ownership, so the City owned the TCC.

16 The City gave the asset, the TCC, to the District
17 at a nominal cost, I think a hundred dollars or something
18 like that. The debt that was issued -- both series of COPS
19 on that. So the whole -- whatever it was -- \$32 million or
20 whatever it was -- the City pays 100 percent of that debt
21 service for it.

22 So the conversation about, well, the Rio Nuevo
23 owns this and they're only paying us the COPS amount, well,
24 that's how it was designed. And the reason we transferred
25 it was to trigger the TIF so you would get the TIF revenue.

1 And it was always set up -- the first COPS issue
2 with that lease and then the new COPS issue -- it was always
3 that the lease payment on the COPS would exactly match the
4 revenue on the lease. And it was really just to acknowledge
5 the fact we gave you the asset. There was no investment of
6 Rio Nuevo into that asset. So I just wanted to clarify
7 that. It wasn't that there was something changed after the
8 fact on the second lease. So I just wanted to make that
9 clear.

10 Oh, and I'm sorry. The other point that I just
11 want to -- since I'm here -- bring up -- and this is for
12 Mr. Collins if you care to follow up on this. I know your
13 motion was only on the administrative budget.

14 I would be concerned without reading the documents
15 that you might be in default of your bonds if you don't
16 appropriate for those before the end of the year. So that
17 was just a comment.

18 CHAIRMAN McCUSKER: Kelly, on the -- I believe
19 that this is the City documents, now, exhibit in our audit.
20 The use of proceeds in fiscal year 2002, it says: the
21 purchase of the TCC, \$34,429,741.

22 So I'm assuming that we acquired that for that
23 amount of money, and that money did, in fact, go to the
24 City.

25 MS. GOTTSCHALK: You acquired that through the

1 issuance of the certificates of participation, the 2002
2 COPS.

3 CHAIRMAN McCUSKER: Right.

4 MS. GOTTSCHALK: So the proceeds of that issuance
5 is the \$34 million that you paid for that. And now the City
6 is paying the debt service on that.

7 CHAIRMAN McCUSKER: Right.

8 MS. GOTTSCHALK: So . . .

9 MR. SHEAFE: But we still own the property?

10 MS. GOTTSCHALK: You do because that was --

11 CHAIRMAN McCUSKER: We acquired -- we would have
12 acquired that probably in exchange for bond proceeds.

13 MS. GOTTSCHALK: You've acquired it with basically
14 the City's money. We did the transfer; we're paying the
15 debt on it is how it works. There wasn't any Rio Nuevo
16 money into that. And if you look further on the sheet -- I
17 don't have it in front of you -- you can see the sources in,
18 there's COPS proceeds that probably reflect that.

19 CHAIRMAN McCUSKER: Right. And it shows the COPS
20 proceeds at 34.5. And then purchase of the TCC, 34.4.

21 MS. GOTTSCHALK: Right.

22 MR. SHEAFE: So if I give you an asset and then
23 borrow against that asset and take the money, then in
24 effect, you really don't have an investment if I pay that
25 asset back.

1 That's essentially what you're saying, right?

2 MS. GOTTSCHALK: Right. Right.

3 MR. SHEAFE: Because the City's saying, well, we
4 gave you that in the first place.

5 All right. If I did that, would it be appropriate
6 for me to maintain that property, or would you maintain it
7 since you don't have anything in it?

8 MS. GOTTSCHALK: Well, that's subject to the big,
9 thick document there. And there's different interpretations
10 of that. The City is supposed to maintain it. Where it
11 gets into question is, who is supposed to improve it in
12 capital improvements and that kind of thing. And I'm not
13 sure that's even -- that's not really addressed in there.

14 MR. SHEAFE: Yeah. And I don't mean to get off in
15 that.

16 MS. GOTTSCHALK: Right.

17 MR. SHEAFE: But I can see where the logic of this
18 is. At least you explained that.

19 CHAIRMAN McCUSKER: The triggering point that
20 Kelly mentioned is when the TIF was designed, it had to
21 acquire the multipurpose facility. So it was owned by the
22 City. The District had to acquire it, and they used those
23 COPS as the funds to do it. That's what kind of started the
24 whole thing.

25 MR. SHEAFE: Yeah. I know that -- you know, I'm

1 sort of reeling a little bit having looked at all this
2 because I'm remembering my conversations back at that time
3 when I was dealing with the advisory committee. And it was
4 described rather differently in those days. And that's not
5 your fault or anybody else's fault here, but I can tell you
6 it was a much different story.

7 So I kind of almost had the feeling that the story
8 maybe has been developed after the fact. And probably the
9 story you have is the story that was rightfully given to
10 you, but I'm not sure that's what the thinking was from the
11 beginning because it just was different from what we were
12 being told back in those days.

13 MS. GOTTSCHALK: Well, the story matches the legal
14 documents.

15 MR. SHEAFE: And that's a great response. And I
16 have no, you know, comment back. But it doesn't matter
17 because the reality is there's so much money that we've got
18 to generate here, and then we got to figure out how we're
19 going to invest it.

20 MR. MOORE: Chris, can you explain what you had
21 understood back then?

22 MR. SHEAFE: Oh, gosh, I don't know if it's
23 useful, Alberto. But just quickly, the idea of the whole
24 TIF district was that the public buildings in the TIF
25 district were part of the District. And everything that the

1 District generated was to improve those buildings. And the
2 community center was the original asset around which
3 Prop 400 was built.

4 And if you go get the original brochures on that,
5 it was very clear. I absolutely think that Kelly is correct
6 that the legal documents probably describe it slightly
7 different. But the way it was marketed was a certain
8 impression that most people at that time -- and it's
9 interesting because I'll just go ahead and editorialize a
10 little bit -- there was actually anger against that because
11 there was this sort of gentrifications feeling that, hey, if
12 they come in and do all of these improvements, it's going to
13 affect the neighboring areas. And too much was being loaded
14 on the east side. That's really why the west side was
15 emphasized in those early days.

16 And so, you know, whatever has transpired in the
17 meantime and going through these numbers and trying to
18 analyze them, I can understand exactly how that flow went
19 now. It's just different than I would have described it had
20 you said, describe what's going to happen in the next few
21 years based on what you know in the 2002 or '001.

22 CHAIRMAN McCUSKER: Thank you.

23 Are you ready for calls from the audience?

24 Rick Grinnell? Come on up, Rick.

25 ATTENDEE: Good afternoon. My name is Rick

1 Grinnell. I reside at 2720 North Swan. First of all, I
2 want to say this before we get into this whole budget issue.

3 It was an honor and a privilege to serve on this
4 committee. And speaking for myself, I did so with integrity
5 and respect as commanded by the responsibility. I have no
6 regrets on the decisions I made particularly when it comes
7 to this budget. And I'd like to point out a couple of
8 things to you that are probably important for you all to
9 know.

10 Number one, this board had to file, for two
11 consecutive years, a qualified financial statement, which,
12 if this issue with the bonds is not clarified this year, and
13 reasonably soon -- and this is something that Jodi and I
14 have spent hours and hours and hours trying to clarify so we
15 knew exactly how much we've got from the bonds, how much we
16 money we were getting from the TIF, and what we could
17 allocate to whatever resource.

18 And with bonds, you have to pay. When they do
19 bonds down, there was assignment of projects. What we
20 couldn't get our hands wrapped around is what those projects
21 were and how much money had already been expended.

22 Kelly and I can debate this all day long, but the
23 documents that I received as acting treasurer and working
24 with Jeff and with Jodi and the accountants and the
25 auditors, nothing matched up. And it made it very, very

1 hard to produce a document that was going to be acceptable
2 to be able to allocate taxpayer money.

3 And I think the process that you're going to
4 engage in is going to be even far more arduous than what we
5 were dealing with because we were actually closer to the end
6 than we thought. We really were being able to extrapolate a
7 lot of information.

8 And there's a real question whether or not the
9 bonds have already been spent out. So that means the rest
10 of the money is TIF, or there still may be 6 million in
11 bonds and the rest of it's TIF.

12 So you got to be real careful. And if you send
13 that money back to the bonds and -- you run into a real
14 clarification that: Does Wells Fargo want you to give them
15 back those bond monies?

16 So these are things that you're going to have to
17 really clarify, verify, with bond counsel and with your
18 auditors and the exact detail of these dollars and cents.
19 Because I would highly recommend before you spend any money
20 on any future projects other than operating, you know
21 exactly how much you got because, I'm telling you, this was
22 a nightmare to go through.

23 There's also two outstanding potential liabilities
24 that was going to be injected into this budget. One is
25 \$7 million for the University of Arizona. Now, the West

1 Side audit, there's a question about whether or not that was
2 really a liability. Does U of A owe the District? Does it
3 owe the City? Or do we, in fact, owe them?

4 I presented, in March of 2010, a file of about
5 that thick of the original science project, along with the
6 amended agreements in 2007 that basically says this.

7 The University of Arizona financed all the up to
8 \$15.3 million of all the plans and all the development
9 agreements and everything else to get this project up before
10 it was suspended. Half of that money was repaid between the
11 District and the City, because in this particular agreement,
12 the City and the District are partners. They are not seen
13 as two separate entities. They are actually seen as one
14 with the other partner being the University of Arizona,
15 according to the documentation. Bob Gugino received that
16 whole file incomplete.

17 The other part of that issue was, once the bonds
18 were triggered to begin to build the science project the
19 other \$7.2 million -- whatever it was -- the difference was
20 supposed to be reimbursed to University of Arizona. So as
21 this final audit came out, I did not have a chance to get
22 that part of the information into the audit because
23 obviously everything else was going crazy.

24 There's another debt -- and Fletcher's aware of
25 this -- and just for information if nothing else. There's a

1 \$65,000 accounts receivable discussion that occurred with
2 legal fees from the Fox Foundation to this District board.
3 It was referred to counsel. To my knowledge, that issue has
4 not be satisfied one way or the other. And I think it needs
5 to be reflected, if nothing else, as a footnote or an
6 accounts receivable and because that would definitely be a
7 cash payment to the actual amount of cash you have on hand.

8 The process that you're going through -- and are
9 going to be going through in the next several months over
10 this budget -- I wish you all luck.

11 Because you have another financial audit that's
12 going to be due. And last year we had -- because of the
13 confusion of documents, we were into February before we
14 could actually produce something and it still had to be
15 qualified.

16 If, in fact, BeachFleischman has to do a third,
17 that basically disqualifies the whole thing. And this body,
18 theoretically, would be out of business. So there's a lot
19 of stuff that you really have to -- and set aside the
20 politics for whatever you want to.

21 I served in this committee for 25 years, thousands
22 of hours, and I don't ask for anything. All I want is that
23 what was right. And to Jodi Bain's defense -- whether you
24 agree or disagree with Jodi Bain on the issues -- this
25 person invested thousands of hours in trying to extrapolate

1 and do what was right.

2 Whether we agree or disagree is irrelevant. But I
3 have to tell you that no time did either one of us gain
4 financially, personally, professionally. As a matter fact,
5 it probably cost me money. It cost me an election for sure,
6 I can guarantee it.

7 But my real point here is that you're going to
8 have a lot more work in this budget as ahead of you. And
9 Kelly and I will argument all day long about what they gave
10 us or what they didn't give us and everything else, but I've
11 got files and files and files that I turned over to
12 everybody and anybody, including the auditors and Bob Gugino
13 -- particularly with the science project, and I went and
14 researched that myself.

15 The other part of the TCC on maintenance too, one
16 thing the City has not talked about is that they swept the
17 maintenance funds from the TCC to backfill some of their
18 general funds. The shortfall was not due to the lack of
19 investment by the board even prior to us being involved.
20 Those monies were swept by the City to offset expenditures
21 and losses in the TCC. I personally went and raised \$5,000
22 for the 2010 Gem Show so they could have wi-fi. That's how
23 desperate that maintenance fund was swept.

24 So you have to look at the whole process. And
25 when we stand up over here, it's a lot better way to look at

1 things instead of trying to get into -- but as you get into
2 the minutiae of this budget, and there's plenty of it,
3 you've got a lot of work on your hands. I wish you all the
4 best. I really do.

5 And I really hope that this thing can be resolved
6 financially so that this board and this budget is presented
7 to the auditor general and to the secretary of the
8 department of the state treasurer and to Pima County, that
9 there's a real reflection of what reality is.

10 Because looking at this right now, I'm a little
11 concerned that you're going to have to come back here
12 probably within the next 30 to 60 days and amend this
13 budget. You still have plenty of operating capital, so
14 you're not going to go out of business. But you're going to
15 spend a lot of time and energy making sure that the numbers
16 are correct.

17 Because one thing for sure, the integrity of this
18 process is bigger than the amount of money you have. And
19 the taxpayers want to know that what you have and what
20 you're responsible for is going to be done right this time.

21 God bless you. Thank you.

22 CHAIRMAN McCUSKER: Rick, thank you very much.

23 And Ralph Kayser. Is that Kaiser or Kayser?

24 ATTENDEE: Kayser.

25 CHAIRMAN McCUSKER: Thank you.

1 ATTENDEE: Good afternoon, board members. My name
2 is Ralph Kayser. I'm primary organizer of the Tucson Tea
3 Party. And forgive me if I stand before you somewhat like a
4 jilted spouse -- jilted husband whose spouse has cheated on
5 him for ten years running and is once again being told a
6 promise: I won't cheat on you again. I want to believe.

7 And these budget numbers, I hope and pray that
8 they're generally solid numbers because I want to believe.
9 I would like to -- you know, one thing that jumps out at me
10 looking at the budget, and I'll leave it to others who are
11 much more knowledgeable than I am to tear apart the numbers
12 -- but what jumps out at me as perhaps being the single most
13 important line item on these four pages, is the line item
14 that budgets for CFO.

15 And I'd like to read you a short list of names if
16 you'll indulge me. Steven Lash, FPA Medical Management;
17 Donna Richardson, Craig Consumer Electronics; Jay
18 Gilbertson, McKesson Corporation; Malcolm McVay,
19 HealthSouth; Steven Allan, Media Vision; Joseph Shew,
20 Homestore; Peter Bromberg, Motorcar Parts and Accessories,
21 and the list goes on and on. And I'll end with the name
22 Andrew Fastow.

23 And all of these names are names of CFOs who were
24 convicted of racketeering; embezzlement; accessory to fraud;
25 bank, mail, wire, and securities fraud. And having stolen

1 untold millions of dollars from shareholders and owners of
2 businesses. And I can't think of a -- you know, I tell you,
3 there's part of me says, that's a wise idea to hire a CFO to
4 assist you with a job that's very challenging. But I'm
5 going to -- you know, I hope that you're transparent about
6 that.

7 The last time I appeared in front of you, not all
8 that long ago, it was with anger and frustration that you
9 had planned a meeting on election day. Not a great start
10 for a reconstituted board who might want to impress and
11 rebuild some faith and trust in the community that you're
12 being transparent and you're above board and you're going to
13 make things right. Not a great start.

14 So let me step back and look at -- we want to look
15 closely at the process by which you hire that single-most
16 important position, a CFO. And I'm going to hope and pray
17 that it's an intelligent, experienced individual whose
18 record and character is, without question, impeccable. And
19 it's the best possible CFO, the most experienced and
20 knowledgeable that you can hire for that budgeted \$150,000.

21 And I will hope and plead and implore you that it
22 not be somebody who's a friend of a friend, a business
23 associate, a crony, a political ally who fills that roll. I
24 hope -- and we're anxious to see that transparent,
25 aboveboard process that you're going to go through to

1 interview, screen, and get us the -- and get the Rio Nuevo
2 board the best possible CFO -- I can't think of a more
3 important and timely line item than that one line item to
4 rebuild the faith and trust that this community might have
5 in the Rio Nuevo board.

6 As the primary organizer of the Tucson Tea Party,
7 our role, as we see it past this November election cycle, is
8 going to be along the lines of Andrew Breitbart, citizen
9 journalists. And we're working now with seven to nine
10 diligent, intelligent individuals who can maybe be citizen
11 watchdogs in this community along the lines of Loretta
12 Hunnicutt and others like her. We're going to be watching
13 this process. We're not going away. We're going to be back
14 here. We're going to be back here again. And we're just
15 going to ask that you be transparent, above board, and do
16 the right thing.

17 So thank you very much.

18 CHAIRMAN McCUSKER: Ralph, thank you. Thank you
19 for your passion.

20 A couple of comments. And Mark, I'm not sure of
21 the latest on this, but I don't know that the Fox issue was
22 ever finally resolved. I'm technically recused.

23 MR. COLLINS: I understand.

24 But I'm just reporting facts. It was not finally
25 resolved. As I reported to this board prior to your being

1 seated on it -- if you were in the audience at the time --
2 we were perilously close to a resolution, and then we
3 learned that the National Trust Foundation was throwing a
4 monkey wrench into it at rather the last minute. And we
5 haven't resolved that issue yet.

6 CHAIRMAN McCUSKER: And there is a legal fee pick
7 up in there.

8 MR. COLLINS: There is, in fact, a legal fee pick
9 up in the agreement that has not yet been signed, but it is
10 certainly in there. And that was part of the agreed upon --
11 we had a significant letter of intent that dealt exactly
12 with that. And the remaining issue was having all of the
13 Fox entities sign off. And as Chair knows, we went back and
14 forth on that somewhat. And then the National Trust chimed
15 in and that is where the negotiations are.

16 CHAIRMAN McCUSKER: Thank you.

17 Okay. And Chris, back to you.

18 MR. SHEAFE: Back to me?

19 CHAIRMAN McCUSKER: Yeah. Anything that you heard
20 or any conversation you might --

21 MR. SHEAFE: Oh, okay. Back to my motion?

22 CHAIRMAN McCUSKER: Yeah.

23 MR. SHEAFE: All right. Do you want me to restate
24 it or do you . . . ?

25 CHAIRMAN McCUSKER: Unless you've changed your

1 mind.

2 MR. SHEAFE: I have not changed my mind.

3 CHAIRMAN McCUSKER: Fire away.

4 MR. SHEAFE: So I'm recommending that we approve
5 the administrative budget.

6 CHAIRMAN McCUSKER: And I think, just in deference
7 to the process, we can do these separately.

8 MR. SHEAFE: Yes.

9 CHAIRMAN McCUSKER: But we do have to approve the
10 entire budget presentation.

11 MR. COLLINS: Yes. I concur with Kelly's
12 assessment. You need to approve the entire budget at this
13 point. Whether you do it in pieces --

14 CHAIRMAN McCUSKER: It is amendable.

15 MR. COLLINS: It is amendable upon good cause.

16 CHAIRMAN McCUSKER: All right.

17 MR. COLLINS: You can do it in pieces, Mr. Sheafe,
18 but --

19 MR. SHEAFE: That's okay. I'll just move to
20 approve the entire budget with specific approval for the
21 administrative costs as outlined in this budget in order to
22 allow, administratively, the District to operate and meet
23 whatever demands it has on it in accordance with the budget
24 line items as stated. And the total of the administrative
25 portion of the budget is 831,000.

1 And by the way, the concept of a CFO may include
2 breaking that up and using other services and whatnot to
3 fulfill that roll, it may be all in one person. We will
4 study that. And through an executive committee, openly and
5 available to anybody to see how the process works, we're
6 going to make the best choice to make the best progress for
7 the District.

8 So that's my motion.

9 CHAIRMAN McCUSKER: That is the longest motion
10 I've ever heard.

11 To paraphrase, I believe he moved to approve the
12 budget with some flexibility as to how we manage the CFO
13 line item.

14 MR. IRVIN: I'll second that.

15 CHAIRMAN McCUSKER: Hope it's properly
16 paraphrased. Any further discussion?

17 All in favor say aye?

18 (The board voted and motion was passed)

19 CHAIRMAN McCUSKER: The ayes have it. The budget
20 is approved.

21 Michelle, we need to present this to the County;
22 they're expecting it. And go ahead and post it online with
23 the backup documents.

24 And given that, I would entertain a motion to
25 adjourn.

1 MR. SHEAFE: Are we going to have a discussion
2 about meetings?

3 MS. COX: Can we to talk about meetings first?

4 CHAIRMAN McCUSKER: Oh, yeah. Let's talk about
5 the date. There is a date scheduled for July 26th --
6 Thursday, July 26th, if you're so inclined to want to keep
7 that.

8 MR. SHEAFE: That date it is --

9 MS. COX: Yes. Yes.

10 CHAIRMAN McCUSKER: Two o'clock, July 26th.

11 MS. COX: Two o'clock or one o'clock?

12 CHAIRMAN McCUSKER: We don't need to start that
13 early, do we?

14 MR. SHEAFE: No.

15 CHAIRMAN McCUSKER: Two o'clock.

16 MS. COX: Two o'clock.

17 What about -- could we talk about August too? Can
18 we just keep the meeting that's on the books already for
19 August?

20 CHAIRMAN McCUSKER: What date's that one, Jannie?

21 MS. COX: That would be the Thursday the 23rd, I
22 believe.

23 MR. SHEAFE: Could I -- I have to check a
24 schedule. I don't have it with me.

25 CHAIRMAN McCUSKER: I think August is going to be

1 tough for everyone. Maybe let's just do the July meeting.

2 MR. SHEAFE: Yeah.

3 CHAIRMAN McCUSKER: And then people will check
4 schedules in terms of the people that are around in August.

5 MS. COX: I would just request, Mr. Chair --

6 CHAIRMAN McCUSKER: Let's do that quickly.

7 MS. COX: -- that we do that soon, please.

8 CHAIRMAN McCUSKER: Okay.

9 MS. COX: Thank you.

10 MR. SHEAFE: Is there any reason why we couldn't
11 do that by telephone and then establish the date and then we
12 can confirm it at the next meeting?

13 CHAIRMAN McCUSKER: We'll get Michelle to kind of
14 check people's vacation schedules.

15 MR. COLLINS: The concern I have about that is
16 quorum and open meeting laws. So Michelle can coordinate
17 with individuals.

18 CHAIRMAN McCUSKER: All right. Somebody want to
19 move to adjourn?

20 MS. COX: So moved.

21 MR. SHEAFE: So moved.

22 CHAIRMAN McCUSKER: All in favor, say aye.

23 (The board voted and motion was passed.)

24 CHAIRMAN McCUSKER: Thank you very much.

25 (Board adjourns at 6:02 p.m.)