

1 RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

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7 BOARD MEETING

8
9 Tucson, Arizona

10 July 25, 2017

11 1:00 p.m.

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14 REPORTED BY:

15 John Fahrenwald, RPR

16 Certified Reporter No. 50901

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APPEARANCES:

BOARD MEMBERS:

Fletcher McCusker, Chair

Chris Sheafe, Treasurer

Mark Irvin, Secretary

Jannie Cox

Edmund Marquez

Jeffrey Hill

ALSO PRESENT:

Mark Collins, Board Counsel

Brandi Haga-Blackman, Operations Administrator

* * * *

BE IT REMEMBERED that the meeting of the Board of Directors of the Rio Nuevo Multipurpose Facilities District was held at the Arizona State Building, Room 222, in the City of Tucson, State of Arizona, before JOHN FAHRENWALD, RPR, Certified Reporter No. 50901, on the 25th day of July, 2017, commencing at the hour of 1:02 p.m.

P R O C E E D I N G S

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(Meeting commenced at 1:02 p.m.)

CHAIRMAN McCUSKER: We'll call this meeting to order. It's 1:02 on the official Rio Nuevo clock.

Mr. Marquez, since you're late, you get to lead the pledge.

(Pledge of Allegiance recited.)

CHAIRMAN McCUSKER: Brandi, call the roll.

MS. HAGA-BLACKMAN: Edmund Marquez?

MR. MARQUEZ: Here.

MS. HAGA-BLACKMAN: Mark Irvin?

MR. IRVIN: Here.

MS. HAGA-BLACKMAN: Jeffrey Hill?

MR. HILL: Here.

MR. SHEAFE: I'm here.

CHAIRMAN McCUSKER: Just in time. He dodged not having to say the pledge.

Jannie is in Colorado; she's going to call in later.

We do have a quorum. You have the transcription from the June 12th and June 20th minutes.

Any changes? Comments? If not, make a motion to approve.

MR. IRVIN: So moved.

MR. MARQUEZ: Second.

1 CHAIRMAN McCUSKER: All in favor say "aye."

2 (Ayes.)

3 CHAIRMAN McCUSKER: This is the time for
4 Executive Session. We need a move to recess.

5 MR. IRVIN: So moved.

6 MR. MARQUEZ: Second. Aye.

7 CHAIRMAN McCUSKER: All in favor say "aye."

8 (Ayes.)

9 We'll see you all in about 44 minutes.

10 (Recess to Executive Session.)

11 (Meeting reconvenes at 2:15 p.m.)

12 CHAIRMAN McCUSKER: I need a motion to
13 reconvene.

14 MR. IRVIN: So moved.

15 CHAIRMAN McCUSKER: All in favor say "aye."

16 (Ayes.)

17 Thank you everyone. Thank you for your
18 patience. I'll tick through my remarks.

19 Dan's plane got cancelled in Seattle, so I
20 will read into the record the financial report and we'll
21 move on with the agenda.

22 If you have driven around downtown or
23 anywhere around downtown lately -- I was surprised when I
24 did the math -- but we actually have nine active projects
25 going on simultaneously, which is quite remarkable really

1 when you think about from where we've come.

2 Those include the Mercado Annex on the far
3 west side. It's currently fenced, but they've delivered the
4 containers.

5 Caterpillar headquarters, we've launched the
6 site prep. You've been by there lately, we will move
7 something in the neighborhood of 20,000 truckloads of trash
8 from that former landfill to deliver to Los Reales.

9 The Marist development is underway. If
10 you've been across the street lately, you've seen that
11 building come down literally in two days, I believe.

12 The Cathedral Square project across the
13 street along Ochoa. The cathedral's been redone. The
14 building's been torn down to make way for their new
15 convention center.

16 The AC Marriott opens up in August, maybe in
17 20 days.

18 MR. SHEAFE: Soft opening.

19 CHAIRMAN McCUSKER: Soft opening.

20 The 200 Block of Congress, which, of course,
21 includes the HUB and Playground. They actually overnight
22 relocated those restaurants into their former proper space
23 and they're undergoing renovation.

24 And finally after five years, we've launched
25 on the Scott Avenue streetscape project. So the memorandum

1 just went out to the merchants from Southwest Gas, and
2 hopefully that will be completed this year.

3 We probably have another couple of projects,
4 except some things have slowed down, which are on the
5 agenda.

6 We might actually add a couple of projects to
7 that based on what we're going to discuss later on in this
8 meeting.

9 So it's a remarkable time for Rio Nuevo. I
10 think we continue to demonstrate our capacity to get things
11 done with very little money.

12 Speaking of money, a note from Dan is that
13 our TIF income for July was just under \$1.1 million. That's
14 on budget.

15 The nice thing about that, remember, is we
16 have a debt holiday, so that money goes straight into the
17 bank.

18 And currently, Dan's report, which I'll --
19 Brandi, we can post later -- but cash on hand today is
20 \$8.9 million.

21 We have out of that committed about
22 \$5.3 million. That's exclusive, of course, of the
23 Caterpillar financing, which we'll talk about today and the
24 commitments that we've made to Caterpillar and others.

25 Some good news on the financial front as

1 well. The million dollars that we committed contingently to
2 the Marist, they've indicated to us they will not need that
3 money, so that million dollars stays in the bank. It was
4 earmarked for them.

5 We got a very nice note from the Foundation
6 for Senior Living that the project would not have happened
7 without Rio Nuevo. Because we committed a year ago, they
8 were able to launch the project, and then went back to HUD
9 this May, and they were awarded the additional million
10 dollar grant, that and the return of the \$800,000 we
11 committed to Peach Dabdoub for Brings will come back.

12 So some quick math, it's 1, 18th, \$2.9 million of
13 additional cash, Edmund, to hopefully reinvest that we
14 didn't have at the last meeting.

15 We continue to be interested in advancing what we can.
16 Obviously, with \$8 million, we're not going to change the
17 world, but we do intend to go to the legislature in the next
18 session for some either extension of time or economic
19 relief. In the meantime, we'll keep doing good work.

20 So the first item on the agenda, unless
21 anybody has any questions about finances or cash, is the
22 Caterpillar bonds. Mr. Collins -- so, to refresh everyone's
23 memory, we've committed to finance the Caterpillar
24 headquarters building. It's a \$43 million budget plus the
25 deal cost.

1 That lease was signed, knock on wood, about a
2 month ago. And we are launching the bonds associated with
3 that financing.

4 So, Mr. Collins, if you'll walk through for
5 everybody the next steps in that process.

6 MR. COLLINS: Yes, Mr. Chairman, Members of
7 the Board, the timetable for issuing the bonds, the
8 43 million, which really comes out to about \$45 million par
9 value of the bonds, it's on an aggressive schedule. The
10 current timetable calls for the closing of the issuance on
11 November 4th of this year.

12 The initial drafts of the documents have been
13 circulated for comment by all the parties, which includes
14 the District, Caterpillar, Piper Jaffray, Wells Fargo -- and
15 I'm going to mention that real briefly in a moment -- and
16 then the trustee, which is going to be Zions Bank. All of
17 those parties are commenting on the roughly 20 documents
18 that will have to be finalized to do this.

19 When we last talked about the financing, it
20 was Raymond James that was going to provide the funding.

21 Since that time, one of Caterpillar's
22 corporate lenders, Wells Fargo, matched Raymond James'
23 creative proposal, so this financing is going to be done by
24 Wells Fargo. They're aware of this timetable. As far as I
25 can tell from the email traffic, they're comfortable with

1 the timeframe.

2 And as I say, the first round of drafts are
3 scheduled to go out. By the end of this month, they're
4 already out. So that's where we are on the financing.

5 You will -- let me finish begin. Current
6 timetable calls for a board meeting in September to
7 approve -- to discuss and hopefully approve the resolution
8 that's going to be necessary to do this.

9 It's too early in the game to know for sure
10 whether we need to do it during the week of September 11th.
11 Depending upon how fast things move, it's possible that we
12 might be able to advance this during the August meeting.

13 But there's going to have to be a special
14 attention to this, whether it's a special meeting or an
15 agenda item further down the road. The documents need to be
16 further developed.

17 CHAIRMAN McCUSKER: Jannie, are you getting
18 all of this?

19 MS. COX: I am. Thank you. Nice and clear
20 today.

21 CHAIRMAN McCUSKER: Thank you.

22 Mr. Irvin.

23 MR. IRVIN: Counsel, just because we spent so
24 much time with Raymond James and we've had this change, I'd
25 like for the record just maybe reflect that change and how

1 that came about.

2 MR. COLLINS: Mr. Irvin, there were several
3 back-and-forth exchanges. Caterpillar asked for refinements
4 from Raymond James. Raymond James promptly responded to all
5 of that and did so in a yeoman's fashion, in my belief. And
6 ultimately, what I believe Caterpillar did was provide that
7 to Wells Fargo.

8 MR. IRVIN: And the ultimate call, based on
9 the agreement that we have with them, allowed a -- kind of a
10 30-day clause for them to try to find some additional
11 financing they want, because it really was their decision,
12 not ours.

13 MR. COLLINS: Correct.

14 MR. IRVIN: Thank you.

15 MR. COLLINS: It is -- it is your bond, but
16 they're going to be the ones paying the freight.

17 MR. SHEAFE: When you say "there," are you
18 talking about Caterpillar?

19 MR. COLLINS: Yes, I'm sorry.

20 MR. SHEAFE: I think Mark's position or the
21 point is we just want to thank Raymond James. Frankly, this
22 whole deal would not have gone together without them, and
23 they've been very helpful.

24 MR. COLLINS: I agree.

25 CHAIRMAN McCUSKER: The lease had a pretty

1 traditional 30-day shop. It's not unusual in the big
2 leagues that those get made within that window, and that's
3 what happened. Raymond James basically said thanks for the
4 opportunity and we'll find a way to work with you guys
5 again.

6 So stay tuned on the August meeting and
7 possibly a September special meeting.

8 MR. COLLINS: Correct, sir.

9 CHAIRMAN McCUSKER: Next item on the agenda,
10 we call it the Congress Street Club. It's our name, not
11 anybody else's.

12 But we're pleased to welcome Ray Flores to
13 Rio Nuevo. I don't know that we've had the pleasure of
14 seeing you at a Rio Nuevo meeting before. Of course,
15 everybody knows the Flores family and the legacy that your
16 family has created for Tucson's restaurant environment and,
17 of course, downtown.

18 Do we have a PowerPoint?

19 MR. FLORES: I do, yeah.

20 CHAIRMAN McCUSKER: As background for this
21 presentation, Ray came to us a few weeks ago with an
22 opportunity to look at the nightclub activity on and along
23 Congress, namely the H2O Club and Zen Rock, which if you
24 were around downtown in 2010, 2011, they had a lot to do
25 with springing our late night activity and activating

1 Congress Street.

2 They've fallen on hard times lately. H2O is,
3 in fact, closed, and Zen Rock's revenue is probably half of
4 what it used to be, and the property adjacent to Zen Rock is
5 vacant.

6 So Ray has negotiated an opportunity to
7 acquire the leasehold interests in those clubs and is
8 prepared to reactivate them in the Flores family way. And
9 we're exploring the opportunity for Rio Nuevo to help do
10 that.

11 Remember, our primary mission is TPT tax, and
12 food and beverage generates a lot of sales tax.

13 Could we not figure out the PowerPoint thing?

14 MR. FLORES: No, that device is not able.
15 She's going to find the Blackberry and get it over here.

16 CHAIRMAN McCUSKER: Just so I can start, do
17 we have some extra of these, if somebody wants to follow
18 along?

19 MR. SHEAFE: Is your PowerPoint pretty much
20 what we have --

21 MR. FLORES: It's the same, exactly.

22 CHAIRMAN McCUSKER: All right. So maybe just
23 sit those on the table. Somebody give one to Joe, for sure.

24 And state your name for the record.

25 MR. FLORES: Hello everyone. My name is

1 Raymond Flores. I represent the Flores Concepts Group.

2 If you'll see there on the first page, Flores
3 Concepts Group is basically our family of businesses that
4 have been in Tucson --

5 MS. COX: Excuse me, Ray.

6 MR. FLORES: Yes.

7 MS. COX: This is Jannie.

8 MR. FLORES: Hello.

9 MS. COX: May I ask you to speak closer to
10 the microphone? I'm not hearing you.

11 MR. FLORES: Sure.

12 MR. SHEAFE: Yeah, he said sure.

13 MR. FLORES: Hello again.

14 So the Flores Concept Group is our management
15 team that oversees all the operations that our family has a
16 majority or other role involved. For instance, Flores
17 Concept is the group that operates the El Charro Cafe in
18 Tucson. That's the oldest Mexican restaurant in the country
19 owned by the same family. It's our 95th year this year.
20 It's part of the downtown fabric for -- much before or much
21 of the downtown fabric that is now.

22 The other complex that we're having, just
23 secured and purchased our USDA Commissary, which is one of
24 only three in the City of Tucson, at 18th and Euclid just
25 outside the District, unfortunately. But a 18,000 square

1 foot kitchen that sells food to our brand that we have in
2 the MGM, and even including brands that we will be opening
3 up on the east coast, west coast and other. It's a fully
4 functioned USDA kitchen, very different than the other two.
5 So the other two are the USDA plant that's at the University
6 of Arizona and then there's a plant at US Foods.

7 But that plant is our -- that infrastructure
8 is very unique in the food and beverage space in this
9 community. And we're very proud that we're one of the few
10 USDA companies in Arizona that we have located not too far
11 from downtown.

12 The membership that we have right now in our
13 company, we're growing close to 400 full-time employees. We
14 have catering services, we have bars and restaurant
15 services, of course I told you about earlier, the USDA
16 manufacturing.

17 We have a variety of brands. We've got
18 licensing with the likes of MGM, Shamrock Foods, Bashas'
19 grocery store and others. We are a fairly diverse and
20 experienced food and beverage company.

21 My background also includes experience in the
22 casino and entertainment industry, where I was a fairly
23 successful concert promoter. I did events with everything
24 from Toby Keith to Van Halen to whatever have you and
25 managed casino venues throughout the southwest, mostly

1 Native American and some in Las Vegas.

2 The opportunity on Congress is interesting to
3 our family, because we were approached by the owner who felt
4 that we were best suited to help him get out of his
5 obligations. He's a wealthy individual who has interests
6 all around the world, and he's just not that interested in
7 Tucson anymore. And he's looking to sell it, and we felt
8 that we wanted it to go to the right hand.

9 It's three significant addresses on Congress:
10 61, 121, and 15 East Congress. One of them, the 125 space,
11 has not been occupied for many, many years. It's a former
12 retail shop called the Betty Gay Space.

13 CHAIRMAN McCUSKER: You can click on the
14 slide show.

15 Brandi, you might have to help him advance that.

16 MR. FLORES: You'll see there those are some
17 of the brands that we currently manage and operate: El
18 Charro, we have several locations in Tucson. The Sir Veza's
19 brand, which is located here and in Phoenix.

20 Both El Charro and Sir Veza's will be opening
21 up in the Tucson National Airport here by the end of this
22 year, if not early in the next year. We were critical in
23 Tucson Airport actually in tracking a company to come bid on
24 this airport.

25 This is a side story to all this, but you

1 should know that Tucson airport had only two suitors bid on
2 the actual food and beverage concession.

3 The big guys, HMS Host, who we parted with in Sky
4 Harbor in Phoenix, SST and others chose to bypass Tucson.

5 We were the ones who actually secured the ^
6 creative foods. We brought them in and partnered with them
7 to do Tucson Airport so that we had a solution to the next
8 10-year food and beverage contract that was offered by TAA.
9 In doing that, I was the point person that assembled the
10 brands, including Beyond Bread, Double Hops.

11 And just recently through a change in the
12 program, we pulled a national franchise pizza company out of
13 Tucson Airport called High Five, and we just installed with
14 a group over at TAA Empire Pizza, which is a Congress-based
15 brand. So another downtown brand is going to be in Tucson
16 Airport as of today.

17 Needless to say, our hearts and minds are in
18 downtown Tucson, so that's why there's an interest because
19 there's three spaces that we fill a need for our hearts and
20 minds.

21 There's some background here on the clubs on
22 Congress and how we got here. There were a group of
23 businesses that were --

24 CHAIRMAN McCUSKER: Next slide, right?

25 MR. FLORES: There were a group of businesses

1 that basically were taken down all at one time by a local
2 guy -- I won't give his name here now -- but a local guy who
3 took several properties in Congress and did some very-long
4 term and aggressive leases.

5 Shortly thereafter, he found he was in
6 trouble. He had other financial partners, the one financial
7 partner basically grabbed all the properties in the money
8 transaction. And there were some leases that had been there
9 forever and had some very long terms on them.

10 And that's just a structure of why this is
11 important, because he's no longer interested in maintaining
12 them and wants to sell them.

13 We believe that we have the diversity and the
14 experience to make all three properties viable with the
15 mixed use of, yes, an eye for opportunity, but also some
16 entertainment venue that may include a sports bar concept
17 and a Latin -- more Latin feature, and then a retail concept
18 we're thinking about building that would be somewhat like a
19 bizarre of various types of vendors within a given space so
20 that there was diversity and small businesses coming and
21 actually all use it as a micro incubator to them so they
22 could launch other brands.

23 CHAIRMAN McCUSKER: 61 East is H2O, right?

24 MR. FLORES: 61 East is H2O.

25 CHAIRMAN McCUSKER: It's right across the

1 street from Bourn's Development.

2 MR. FLORES: Right.

3 CHAIRMAN McCUSKER: Adjacent to the surface
4 parking?

5 MR. FLORES: Correct.

6 CHAIRMAN McCUSKER: Zen Rock is 125 East?

7 MR. FLORES: Zen Rock is 121. And the former
8 Betty Gay, which was a brand in the 1950s that hasn't been
9 in use for many years is the 125.

10 CHAIRMAN McCUSKER: And that's east of Zen
11 Rock?

12 MR. FLORES: Correct.

13 CHAIRMAN McCUSKER: That's the building
14 immediately east?

15 MR. FLORES: I've included some pictures
16 here. And you'll see from the next slide, you can see from
17 the 125 space, it's been in decay for quite some time. The
18 front is -- the plaster is chipping. It hasn't been
19 repainted. The floor is wearing out. There's some old
20 terrazzo floor that could use a polish. And even Zen Rock,
21 which is a viable business, yet it's aging, of course, needs
22 some improvement on the front.

23 The street fronts are, at least of these
24 businesses, decayed. These folks had not maintained them.
25 They're not interested in maintaining them because they

1 really only operate a couple of nights a week. And in Zen
2 Rock's case, I think it has two nights a week and H2O has
3 not operated on a regular basis in over a year and a half
4 now. So they're basically paying rent, but they're not
5 doing much with them.

6 And there's a lot of square footage here, folks.
7 There's approximately 8,000 square feet at 121. There's a
8 lot of square footage at 61 East, with almost 6,000 square
9 feet including a roof deck.

10 There's plenty of room to do events. They
11 could cater to the hotel base in the network around here.
12 And we have the infrastructure that can bring in almost any
13 type of food and beverage to facilitate those needs.

14 We will engage in a full-on market research, of course,
15 which is ongoing now, doing a complete and full analysis in
16 determining what's best for the brands and those locations,
17 new interior and exterior treatments, brand-new signage.
18 We'll install our corporate and keep an event team. You
19 know, we also own and operate the Stillwell House in
20 downtown Tucson, as well as the new Charro Steak has been
21 open about a year and a half.

22 We have several really great chefs and
23 catering directors that would be implemented to these
24 projects to make sure that they're viewed more than just
25 Friday night after 2:00 o'clock and never after midnight,

1 that they will be used more frequently, thus generating more
2 sales and sales tax.

3 We'll establish launch dates around key
4 dates. We'll focus on business efforts on the growth and
5 sales, on innovation, safety compliance or local and state
6 laws and community standards. Nothing in our business
7 program do we ever want to jeopardize the family reputation
8 we built in the last 95 years, and we don't plan on doing
9 that in these businesses either.

10 We want to develop enduring brands that
11 create jobs and payment structure.

12 So I did a quick sales and sales tax review
13 on the three properties.

14 In 2014 -- you'll see that on the next slide,
15 there's a summary of 2014 to 2016, where in one year they've
16 generated about 132,000 plus in sales tax.

17 In the -- between the three properties,
18 you'll notice that 125 has not done any of that because it
19 has not been functioning.

20 And 2015, you'll see a slight drop down to
21 84,000, and you'll see the last year, 2016, down 50,000.
22 That represents a 62 percent decline in proximity in sales
23 tax, because, honestly, the owner is absent, and that's just
24 a state of business there. And it will be worse this year
25 because, honestly, 61 has barely been opened but a couple of

1 days of business this year.

2 MR. MARQUEZ: Ray, is that City and State
3 sales tax there?

4 MR. FLORES: That's what's off the financial
5 numbers, correct.

6 We believe that when we take over and reopen
7 and relaunch by 2018, we'll see a combined sales volume of
8 approximately \$2.5 million, with a combined sales tax of
9 215,000.

10 And again, we anticipate, based on downtown,
11 based on inflation and based on our price index we've
12 already had about a 12 percent growth per year. And that
13 should get our numbers up, according to the schedule here,
14 into 2019, where we're spending -- or paying for -- excuse
15 me, sales about 2.8 million, combined sales tax of close to
16 a quarter million, and then onward and upward from there.

17 There's a graph on the next page which shows
18 this in just the simplest terms that where they're headed
19 right now is in the wrong direction, and we believe that
20 with our abilities and our team's abilities that we'll put
21 them back in the right direction and put those three
22 properties in the correct order to represent all the hard
23 work that we've all put into downtown over these last few
24 years, because right now they are in decay.

25 So I appreciate your time, and I hope this

1 answers some of your questions.

2 CHAIRMAN McCUSKER: Let's talk about the deal
3 that you have. What are the economics? I'm assuming you're
4 okay going public with it, or can you discuss what you've
5 negotiated and what you would ask of us?

6 MR. FLORES: The economics of the deal. He's
7 asking us -- and he has it on the market for more, but
8 asking us for a half a million dollars to take over the
9 three businesses. That does not include furniture. That
10 does not include inventory, which we have yet to take charge
11 of. But we have it under contract for a half million
12 dollars, and we're looking for 50 percent support on that
13 effort.

14 CHAIRMAN McCUSKER: So you have all three
15 properties under contract?

16 MR. FLORES: Correct.

17 CHAIRMAN McCUSKER: For a half a million
18 dollar proposal to assume a leasehold interest of all three
19 properties?

20 MR. FLORES: Correct.

21 CHAIRMAN McCUSKER: And the remaining terms
22 on these leases, I think they are pretty long-term?

23 MR. FLORES: Yes. Zen Rock more specifically
24 is fairly long term. The other two have market rate
25 conditions coming up under renewals.

1 CHAIRMAN McCUSKER: And the liquor license?

2 MR. FLORES: The Betty Gay space doesn't have
3 a liquor license. Most likely that should be a retail space
4 and not another bar. I don't think there's a real need for
5 that right now on Congress after that.

6 MR. SHEAFE: Can I just ask a question
7 without trying to negotiate a deal here?

8 MR. FLORES: Sure.

9 MR. SHEAFE: I'm just wondering how the
10 negotiation went that you ended up with a number --

11 MR. FLORES: He has -- in Zen Rock alone, he
12 had about a million and a half dollars in sound and lighting
13 equipment in there. His liquor license on those two
14 properties are worth about \$50,000 each.

15 So it's really based on the FFE more than it
16 is on the sales, and the ability to get number 6 licenses,
17 which is a lot of your type of debt.

18 MR. SHEAFE: Does he --

19 MR. FLORES: I'm sorry.

20 MR. SHEAFE: Does he have a lot of
21 alternatives at this point?

22 MR. FLORES: Unfortunately, I think the
23 alternatives are probably people that wouldn't come to them
24 from Rio Nuevo.

25 CHAIRMAN McCUSKER: I think he has a lot of

1 interest in this some just because he just walked into a
2 lease that has long-term terms below the current market.

3 MR. FLORES: Correct.

4 CHAIRMAN McCUSKER: They have an intact
5 liquor license, and they've basically just been let go. So
6 the fact that Ray's been able to control those properties, I
7 think gives us the opportunity to put something up, maybe a
8 higher quality but more of a legacy of success. And, you
9 know, who knows who would end up with those.

10 MR. SHEAFE: You know, I think our posture
11 has been under your leadership, Fletcher, to try and promote
12 these kinds of thing. And everything's attractive here.
13 I'm just wondering if there isn't a little negotiating room
14 in the package for your side which might lighten our load at
15 the same time if we were to step up and provide some kind of
16 a facility. It just looks to me from the surface and a few
17 other things I know that you've got a fair amount of room in
18 here.

19 MR. FLORES: I pushed him to this number. He
20 has a higher number out on the market. He had one offer for
21 one of the spaces, but he'd like to be out of all three.
22 He's not interested in maintaining that kind of position in
23 his life. He's a guy who does well in the medical space.
24 He lives a lot of time in Europe.

25 He just -- he doesn't want the 2 clock in the

1 morning phone call anymore, and I was the first who he came
2 to he would like for me to take them all three.

3 MR. MARQUEZ: When you say Zen Rock has a
4 long-term lease, can you give us a number? Like, what's
5 long term?

6 MR. FLORES: Anything over ten years. But he
7 has almost a 20-plus year lease on that deal.

8 MR. MARQUEZ: Oh, my gosh.

9 MR. FLORES: David Nichols did a lot of those
10 long-term leases back then. I don't know much about the
11 details between those. But when they were with Luke Cusack,
12 the former owner who put all this stuff together, he was
13 able to secure a lot of long-term stuff, because nothing was
14 coming on Congress back then, and they were in there for a
15 long -- they were in there for a long time.

16 In a similar fashion, that's what happened at
17 Junction recently. When that lease was terminated, John was
18 able to actually sell the building. But it wasn't until
19 that lease was terminated until it happened.

20 CHAIRMAN McCUSKER: When we moved downtown in
21 May of 2010, you could lease anything on Congress for six
22 dollars a square foot and you could sign 10, 15, 20 year
23 leases. They would be happy to put anything and anybody in
24 there.

25 So the founders of these clubs were kind of

1 the first movers long before Starbird and Janos and High
2 Five and anybody else. They basically established the
3 nightclub scene. And as things grew up around them, they've
4 drifted away and the owners lost interest. Then one of
5 them's been closed. You know, High Five, I think, is a
6 \$4 million a year venue. So, their patrons have moved
7 elsewhere. And we're losing some of the sales tax revenue.

8 So I understand your ask is a quarter of a
9 million dollars. We need to talk to you about the structure
10 of that for something that would produce a quarter of a
11 million dollars a year in sales tax. Now, we get half of
12 that, but basically you're talking about something with a
13 50 percent ROI.

14 MR. MARQUEZ: Normally -- as you're opening a
15 nightclub, retail, restaurant, normally in this just you put
16 the cash up yourself or you would go to a bank? I mean, is
17 the bank financing an option?

18 MR. FLORES: Right now we have private people
19 that will come in on the other part of it, because there's
20 going to be real motivation to turn these things around.
21 The Betty Gay space, while it's a really beautiful old
22 vintage looking turn of the century type of deal, it's a
23 very cool looking space, it needs help. The roof's been
24 damaged. There's no restrooms in it. To make it public,
25 there's going to be some significant expense attached to the

1 Betty Gay space.

2 But I think there's a need for some more
3 mixed use other than bars and restaurants downtown. I'm not
4 planning on just doing another bar and restaurant in
5 downtown Tucson.

6 MR. MARQUEZ: So you're talking in thousands
7 just to simply purchase the leases and then you have TI
8 expenses.

9 MR. FLORES: Yeah, we have TIs in repair and
10 expenses.

11 MR. MARQUEZ: It sounds it could be pretty
12 expensive.

13 MR. FLORES: Correct.

14 CHAIRMAN McCUSKER: And that's all on you?

15 MR. FLORES: Yep.

16 CHAIRMAN McCUSKER: What I know about the
17 commercial lenders right now, they wouldn't touch a
18 nightclub. So that's what I was getting at, yeah.

19 MR. MARQUEZ: I think this is the deal that's
20 going to happen. You need to have somebody with a lot of
21 excess cash capacity or just is stepping in and trying to
22 help.

23 MR. IRVIN: So, Ray, a question for you. So,
24 you know, if we figure out a way to do a quarter of a
25 million dollars, what does that look like to you? If we

1 make you a loan and storage, what are you thinking on term,
2 on any of that kind of stuff? I mean, where are you on some
3 of that?

4 MR. FLORES: I'm not really familiar with how
5 your structures work. I know we had a light discussion
6 about it. But I'd be looking for the board to tell me what
7 they think. Since I'm not familiar with that process, this
8 is something that is innovative for me because we've never
9 done it. We have been down here for a long time and have a
10 lot of investment in downtown Tucson, but I'd look more for
11 the board what they're comfortable with, and then see if it
12 makes sense to our structure.

13 CHAIRMAN McCUSKER: If we're interested in
14 advancing this, what we might do is just take the Board's
15 temperature and then maybe vote on our willingness to
16 participate and then allow the executive officers to
17 finalize something and cap it at that \$250,000.

18 But what we've done in other similar
19 situations is loan you the money, with some term and some
20 opportunities to offset some of that principal with
21 incremental sales tax.

22 So that's probably the structure I think that
23 we would look at. But this is, you know, very fresh,
24 developed clearly over a matter of days. You know, we told
25 Ray to make sure he had control of his properties before he

1 came to us, and he's done all that.

2 And so I tend to agree with Mark. I think
3 this is something we should seriously take a look at. It's
4 not a lot of money for a lot of sales tax return. And who
5 knows what would happen to these properties if we don't help
6 someone that we know and we respect that we know delivers a
7 quality product?

8 MR. IRVIN: Plus this is not only a good
9 operator, but if you kind of look at what's going on in the
10 neighborhood, this is the only properties that aren't going
11 on in the neighborhood. So it would be really nice to
12 figure out a way to get these properties back in the
13 neighborhood and generating sales tax revenue and bringing
14 people downtown and what have you.

15 CHAIRMAN McCUSKER: As a restaurateur
16 downtown, what's your sense about the restaurant business,
17 the food and beverage business? Are we saturated? Some
18 people say there are too many restaurants.

19 Obviously, you still see room in the market
20 because you're opening new venues with the hotels coming.
21 Just overall, how do you view -- you know, you're going to
22 spend a lot more money than we're spending to stay in the
23 food and beverage business?

24 MR. FLORES: Well, I'm a realist. I'm not a
25 celebrity chef. I don't have that kind of background. My

1 mom's that person. My role -- and I have a good team of
2 people that do that kind of work. I look at these things,
3 and I don't like to overspend on them because it is a market
4 that I've seen that done, and I've seen how quickly it can
5 swallow you.

6 I think right now there's a need --
7 obviously, these hotels they're critical, we need revolving
8 doors downtown with convention business and travelers to
9 really make these restaurants and bars work.

10 We're fortunate that we have brands that have
11 stayed the course. But, you know, I would say right now
12 that there probably are a few too many seats. We need more
13 hotels, we need more rooms to generate. I don't know what's
14 going on -- I know there was a conversation earlier -- I
15 kind of eavesdropped in on the Hotel Arizona.

16 But those kind of things are important. And,
17 you know, you've got to build it before they will come. And
18 I know that you all have been doing a wonderful job
19 encouraging that.

20 My gut reaction right now is -- and, look,
21 I'm friends and partnered with Don Bourn in other projects
22 I've done before. And I've given him my advice and counsel
23 on the City Park project to make it a more realistic end
24 result, because I think as from an operator standpoint,
25 there was things that needed to be addressed, and I had

1 helped him get to a better product, because I want to see
2 all downtown work.

3 I sat at stakeholder meetings long before
4 they were Rio Nuevo. And we talked about a master plan for
5 downtown. And it always involved in getting other people to
6 stay down here overnight, not just driving once in a while.
7 And I think the hotel side is critical to the bars and
8 restaurants and any other retail that want to be down here.

9 I hope that that's something that happens and
10 I hope we're there to be part of it.

11 MR. MARQUEZ: So typically when we've done
12 these deals with Don Bourn -- Mr. Bourn is currently owning
13 the property. This is a lease.

14 I completely agree that your family is nationally
15 renowned and your restaurants are amazing. I love eating
16 there.

17 I like the idea of a loan. I like the idea of kind of
18 kicking it to the executive.

19 But I'd like to see a loan -- a favorable
20 market rate interest rate. I think if you look at the sales
21 tax numbers, it's taken two to three years to get our monies
22 back. You know, there's funds that are either created by --
23 directly from sales tax and there's funds that are created
24 from projects that we're involved in. But still the premise
25 of a lot of dollars obviously come from TIF and are

1 generated from sales tax.

2 I would like to see some sort of guarantee
3 for at least two to three years, two and a half to three
4 years, at least we can make sure the monies are returned
5 appropriately since we are dealing with TIF income
6 origination.

7 MR. SHEAFE: I think it's important to add
8 that if we are able to work something out, we draw from a
9 very tight amount of money. I mean, because this is not the
10 typical TIF revenue. We're required to loan the things that
11 we invest in. So consequently, this would come from aside
12 money that we generate from, like, parking revenues and
13 things that are not TIF-generated.

14 And we don't have a big pot for that. So we
15 take that money and we invest it in something, we're really
16 kind of almost dumping all of our resources into something
17 and then -- and that's why -- you know, Edmund is saying we
18 need to work it out to where we can get that money back,
19 because our whole game is to try and incentivize and create
20 more of these sort of commerce generators that build our
21 downtown.

22 CHAIRMAN McCUSKER: What's your timing?
23 Could we spend a month with you between now and our August
24 meeting? Do you need to do something more quickly than that
25 and get back with these guys?

1 MR. FLORES: We have a contract with
2 contingencies. I'd have to go back and discuss that with
3 him. I know he's very motivated and I know he has other
4 suitors.

5 CHAIRMAN McCUSKER: What's the current window
6 on your current agreement?

7 MR. FLORES: Really, post this meeting we
8 were --

9 CHAIRMAN McCUSKER: So he's expecting here an
10 answer?

11 MR. FLORES: And to be honest with you,
12 there's -- you know, the incentive for me on this and for
13 our group when this came about was -- and I think I
14 mentioned this to you -- this is a big undertaking with
15 three addresses that are -- you know, two of them are
16 basically in default, if you want to call it that, from
17 performing as businesses. So I think he's probably in that
18 similar boat.

19 He may want to run from those right away
20 and -- I don't know, to be honest. I can't speak for him,
21 but I will definitely address this, of course.

22 CHAIRMAN McCUSKER: Thanks, Ray.

23 What's the Board's pleasure?

24 MR. IRVIN: I'd like to see -- you know,
25 candidly as an executive officer, I certainly would not like

1 to make the motion, but I'd like to see somebody else, some
2 executive officer make the motion that would encompass some
3 of those concerns that you talked about, like, you know,
4 guarantees this, that and the other. And I'm punting it to
5 another executive officer if you want to do that. I'd like
6 to see Jeff or somebody else do that.

7 CHAIRMAN McCUSKER: Is anybody having any
8 heartburn over the amount, I guess that's the place to
9 start?

10 So I agree with Mark. You know, if we want
11 to advance this, let's get a motion and a vote on record
12 that we're interested in supporting you to the tune of
13 \$250,000, and allow the executive officers with corporate
14 counsel to negotiate that agreement, because it sounds like
15 we need to do something between now and the August meeting.

16 MR. MARQUEZ: I'd like to make a motion to
17 authorize the executive officers to negotiate with Flores
18 Concepts a loan up to \$250,000 within the parameters of a
19 favorable market rate interest rate three years of guarantee
20 and -- yeah, pay back guarantee.

21 Am I forgetting anything? That's it.

22 MR. HILL: Second.

23 CHAIRMAN McCUSKER: Okay. We have a motion
24 and a second.

25 Anybody need any further explanation on this

1 motion?

2 MS. COX: I would just like to hear the last
3 sentence of that motion. Again, I missed the very end of
4 it.

5 CHAIRMAN McCUSKER: We're going to read it
6 back, Jannie. You may not hear.

7 (The court reporter reads back Mr. Marquez'
8 motion.)

9 MS. COX: Thank you.

10 CHAIRMAN McCUSKER: You kind of trailed off
11 at the end of your motion, so you might just want to restate
12 it.

13 Here you go, Jannie. Stand by.

14 MR. MARQUEZ: I would like to make a motion
15 to authorize the executive officers to negotiate a deal with
16 Flores Concepts for a loan up to \$250,000 with at least a
17 three-year guarantee and a pay-back guarantee.

18 I don't know why you're asking for a pay
19 back.

20 Am I right, Collins? Am I missing anything?

21 MS. COX: And a favorable market rate.

22 MR. MARQUEZ: Yeah, and a favorable market
23 rate, that's true.

24 CHAIRMAN McCUSKER: And Mr. Hill seconded
25 that.

1 So what I understand that to be is you're
2 giving us the authority to negotiate a deal with Ray's group
3 for up to \$250,000, and that would be designed to repay that
4 amount in three years.

5 Is that what you're saying?

6 MR. MARQUEZ: No. You can negotiate the
7 term, but at least a three-year guarantee.

8 CHAIRMAN McCUSKER: Three-year guarantee of
9 the payments of the loan.

10 MR. MARQUEZ: I don't want to put in the
11 words "personal guarantee." But I'd like a guarantee on
12 funds, whether that's through the company or whether that's
13 through you personally. A guarantee on the funds for three
14 years and you guys can negotiate the term, whether it's a
15 five-year term --

16 MR. IRVIN: You don't care about the
17 amortization schedule?

18 MR. MARQUEZ: I don't care about
19 amortization. I don't have a problem with that.

20 MR. IRVIN: We'll back into that.

21 CHAIRMAN McCUSKER: What kind of a motion?
22 Mr. Hill.

23 MR. HILL: The motion to start with, I'd like
24 to -- I'd like to make or I would wish to make -- he's
25 making a motion. I don't think he has to ask us permission.

1 I was a little thinking about the use of available preface.

2 Can we strike that?

3 CHAIRMAN McCUSKER: Was the second one more
4 of a motion than a wish?

5 MR. MARQUEZ: Can you tell I don't make
6 motions a lot.

7 MR. COLLINS: Well, since we don't have
8 Robert's Rules of Order adopted here -- and I think Mr. Hill
9 is correct on general form -- I don't think there's any
10 misunderstanding of the principal terms that are part of
11 your motion.

12 Your motion is to authorize the executive
13 officers to negotiate a loan up to \$250,000 to Flores
14 Concepts to be repaid with a favorable interest rate with
15 some guarantees on the payment for at least the first three
16 years.

17 MR. MARQUEZ: So moved.

18 CHAIRMAN McCUSKER: Well said.

19 MR. HILL: I'll certainly second that.

20 CHAIRMAN McCUSKER: Okay. We got that?
21 Brandi, call the roll.

22 MS. HAGA-BLACKMAN: Edmund Marquez?

23 MR. MARQUEZ: Aye.

24 MS. HAGA-BLACKMAN: Chris Sheafe?

25 MR. SHEAFE: Aye.

1 MS. HAGA-BLACKMAN: Mark Irvin?

2 MR. IRVIN: Aye.

3 MS. HAGA-BLACKMAN: Jeff Hill?

4 MR. HILL: Aye.

5 MS. HAGA-BLACKMAN: Jannie Cox?

6 MS. COX: Aye.

7 MS. HAGA-BLACKMAN: Fletcher McCusker?

8 CHAIRMAN McCUSKER: Aye.

9 (The Board voted and motion carried 6-0.)

10 So by a vote of 6-0, it looks like we're
11 headed to be in business with the Flores family, and we are
12 indeed honored. The devil is in the details. We'll get
13 with you right away.

14 MR. FLORES: Thank you, Your Honor. Thank
15 you, Jannie. Thank you.

16 CHAIRMAN McCUSKER: Thank you very much.

17 Item No. 9. I understand Mr. Collins and
18 Mr. Irvin that you're going to table?

19 SECRETARY IRVIN: Yes, it will be a tabled
20 item until next month.

21 CHAIRMAN McCUSKER: And No. 10. Okay. So
22 we're going to table the presentation associated with item
23 10.

24 Let me just give the public some background
25 as to what we're looking on and what we hope maybe to bring

1 back in August.

2 But as everyone knows -- you know, if you've
3 attended any of these meetings, we've constantly expressed
4 an interest subject to our capabilities of the renovation in
5 and around the TCC: the Music Hall, Leo Rich, the Eckbo
6 Fountains, the Plaza, the Exhibition Hall and remaining
7 bathrooms, et cetera.

8 SMG, who manages the venue, the friends of
9 the TCC, who have been instrumental in private sector
10 support for the Eckbo Plaza and the City are working on
11 presenting a proposal to us to restore to the original
12 concept the so-called upper plaza of the Eckbo Plaza; that
13 would be the Leo Rich theater south, basically to the box
14 office.

15 What was in the original Eckbo design was a
16 splash pad where that kind of goofy statute is currently
17 located by the box office; an outdoor amphitheater that
18 could be ticketed and/or a free event, I think concerts, the
19 band shell, Shakespeare in the Park; an outdoor food and
20 beverage venue; outdoor liquor license. So these are all
21 great ideas.

22 My instructions to them all along have been
23 we're interested. We have a lot of competing interests. We
24 would like to see obviously some incremental revenue.

25 We're not at a point today to discuss the

1 revenue side of that equation.

2 One of the other things that came out of
3 this, which you can opt to advance if you want, or you can
4 wait until you see the whole proposal, is we have been
5 approached by a group of local sculptors who are interested
6 in what I call a sculpture garden. It's basically an area
7 along the eastern edge of this that would display large
8 internationally-known sculptures for sale. Not just to
9 gander or to look at, but actually to consign and sell.

10 That would obviously create sales tax revenue
11 to the District. That's only an \$80,000 project. And as
12 one sale, could return that money, from what I gather. That
13 we can advance that, or you can authorize the executive
14 committee to advance that. You can wait until you see the
15 whole thing in August.

16 In context of everything, I just wanted to
17 let everybody know that we are working, and unfortunately
18 we're not ready today to launch.

19 MS. COX: I would just like to ask one
20 question.

21 Fletcher, do you think we can hear from Carla
22 that one of the concerns and relative to philanthropy for
23 that project is that they don't have an answer from the City
24 about whether they can offer naming rights for a major gift
25 on that site just because it's part of the bond.

1 And I'm wondering if there's some way -- I think it's
2 been months that they've been waiting for a resolution on
3 this issue. And I'm wondering if there's any way that you,
4 Fletcher, or we, as a Board, can get a definitive answer on
5 that thing, because it could make a big difference to their
6 potential in terms of philanthropy.

7 CHAIRMAN McCUSKER: We're researching that,
8 Jannie. You may remember that we made a similar commitment
9 to the Coyotes when we signed the lease to the Roadrunners.
10 They wanted to have the naming rights for the arena and
11 other interior portions related to hockey.

12 It's a very limited amount of money. I will
13 tell you, it's a small fraction of the costs of renovating
14 anything over there because of the private inurement issues.

15 My recollection is it's limited to 10 percent
16 of the bond annual payment. And I think we currently are in
17 the nines, Jannie, so we literally have very little room.
18 And to the extent the Coyotes come up with someone that
19 wants to brand the arena, they could suck up all the
20 availability.

21 So we're going to get the exact numbers.
22 There's not a lot of upside based on what I know today in
23 opportunities to brand anything in the plaza.

24 MS. COX: Okay.

25 CHAIRMAN McCUSKER: You want to just wait and

1 see everything in August and get a collective nod?

2 (yeeses.)

3 Okay. Item No. 11. We're going to table
4 this today. We were discussing how we approach this
5 investment with the City of Tucson and the Catholic Diocese
6 on the Cathedral Square on Ochoa Street. That takes us to
7 the Broadway lot.

8 To put everyone in the right geography, this
9 is the lot -- the County-owned parking lot across the street
10 from Tucson Electric Power. As you know, we've negotiated
11 some options to ground lease that lot and develop it.

12 We've also had some conversations with the
13 County about the possibility of acquiring that lot. We
14 believe it's in everyone's best interest that we issue a
15 competitive request for proposals and solicit ideas from
16 other developers about how to create the highest and best
17 use of that parcel.

18 So what we're asking you today is to simply
19 authorize us to draft and release an RFP, which would not
20 obligate us to do anything. We could throw the whole thing
21 out. But it would also allow us to evaluate and score in
22 the full light of day under full disclosure what might be
23 the most competitive use of that parcel.

24 MR. SHEAFE: So moved that we authorize the
25 drafting and finalization of the RFP.

1 MS. COX: Second.

2 CHAIRMAN McCUSKER: Any further discussion?

3 Comments?

4 Brandi, call the roll.

5 MS. HAGA-BLACKMAN: Edmund Marquez?

6 MR. MARQUEZ: Aye.

7 MS. HAGA-BLACKMAN: Chris Sheafe?

8 MR. SHEAFE: Aye.

9 MS. HAGA-BLACKMAN: Mark Irvin?

10 MR. IRVIN: Aye.

11 MS. HAGA-BLACKMAN: Jeff Hill?

12 MR. HILL: Aye.

13 MS. HAGA-BLACKMAN: Jannie Cox?

14 MS. COX: Aye.

15 MS. HAGA-BLACKMAN: Fletcher McCusker?

16 CHAIRMAN McCUSKER: Aye.

17 (The Board voted and motion carried 6-0.)

18 So by 6-0, we're going to authorize counsel

19 to draft and release an RFP and all the things that

20 typically accompany a competitive procurement.

21 Item 13 is the Caliber TCC Hotel which we've

22 previously offered to help. We've agreed on a site, the

23 southern eastern section of the TCC.

24 And when we bumped into some planned area of

25 development issues from the old Rio Nuevo PAD created in

1 2009, which placed the hotel on the east side of the TCC --
2 west side -- I'm sorry, west side of TCC. The City has
3 taken a very narrow view of that PAD, and basically would
4 require us to issue an amended planned area of development.

5 What we're asking you to do is authorize us
6 to do that and authorize us to ask the City of Tucson to
7 expedite such a requested PAD. And I can tell you that the
8 developer is hanging in there with us and still wants to
9 move ahead with the hotel.

10 They were a little taken aback about the PAD
11 issues, but so far so good. I think if we get this moving
12 quickly and we get the City's cooperation, we still have a
13 chance to move that project forward.

14 MR. SHEAFE: I propose that we authorize the
15 appropriate parties to move ahead on expanding the City's
16 view and we come up with a revised PAD for the overall site,
17 which allows the hotel to be placed where Caliber would most
18 like to place it.

19 MR. MARQUEZ: Second.

20 CHAIRMAN McCUSKER: Any conversation?

21 Brandi, call the roll.

22 MS. HAGA-BLACKMAN: Edmund Marquez?

23 MR. MARQUEZ: Aye.

24 MS. HAGA-BLACKMAN: Chris Sheafe?

25 MR. SHEAFE: Aye.

1 MS. HAGA-BLACKMAN: Mark Irvin?

2 MR. IRVIN: Aye.

3 MS. HAGA-BLACKMAN: Jeff Hill?

4 MR. HILL: Aye.

5 MS. HAGA-BLACKMAN: Jannie Cox?

6 MS. COX: Aye.

7 MS. HAGA-BLACKMAN: Fletcher McCusker?

8 CHAIRMAN McCUSKER: Aye.

9 (The Board voted and motion carried 6-0.)

10 So by a vote of 6-0, we also advance the new
11 PAD for the TCC hotel.

12 This is the time we set aside for the call of
13 the audience.

14 Brandi, do we have any questions?

15 Okay. We'll entertain a motion to adjourn.

16 MR. IRVIN: So moved.

17 CHAIRMAN McCUSKER: Second, please.

18 MR. MARQUEZ: Second.

19 CHAIRMAN McCUSKER: All in favor say "aye."

20 (Ayes.)

21 CHAIRMAN McCUSKER: See you in August. Thank
22 you, Jannie.

23 MS. COX: All right. Thank you.

24 (3:09 p.m.)

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C E R T I F I C A T E

I, John Fahrenwald, certify
that I took the shorthand notes in the foregoing
matter; that the same was transcribed under my
direction; that the preceding pages of typewritten
matter are a true, accurate, and complete transcript
of all the matters adduced to the best of my skill
and ability.

John Fahrenwald, RPR