



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

December 20, 2010

The Honorable Robert Burns, President
Arizona State Senate

The Honorable Kirk Adams, Speaker
Arizona House of Representatives

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor
State of Arizona

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

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

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

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

Sincerely,

A handwritten signature in black ink that reads "Debbie Davenport".

Debbie Davenport
Auditor General

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International
400 Las Colinas Boulevard East, Suite 200
Irving, Texas 75039-6292
Tel 214.574.1000
Fax 214.574.1002
www.crowehorwath.com

December 16, 2010

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

Ms. Davenport:

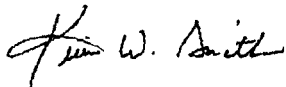
Crowe Horwath LLP is pleased that the Reconstituted District Board of the Rio Nuevo Multipurpose Facilities District substantially agrees with the Conclusions and Recommendations which comprise the findings ("Findings") contained in our October 2010 Performance Audit ("Audit") Report.

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

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

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

Sincerely,



Kevin W. Smith
Partner

December 13th, 2010

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

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

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

Dear Ms. Davenport:

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

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

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

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

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

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

Very Truly Yours,

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

Rio Nuevo Multipurpose Facilities District Board Members as of December 13th, 2010:

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

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

OVERVIEW

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

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

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

1. Completed Matters:

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

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

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

2. Matters Currently Being Addressed and Under Review:

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

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

3. Performance Audit Area of Correction:

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

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

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

DISTRICT RESPONSE TO FINDINGS

(page fifty-three of the Audit)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CONCLUSION

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

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

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

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

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

2. Issues not addressed by the Performance Audit:

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

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

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

Sincerely,

Jodi A. Bain, Chairperson

Rio Nuevo Multipurpose Facilities District Board Members as of December 13th, 2010:

Jodi A. Bain, Chairperson

Mark Irvin, Vice-Chairperson

Alberto Moore, Secretary

Dan Cavanagh

Jeff DiGregorio

Carlotta Flores

Rick Grinnell

David Jones

Anne-Marie Russell

Victor Soltero