PERFORMANCE AUDIT & FINANCIAL ANALYSIS
RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
TUCSON, ARIZONA

SUBMITTED TO
The Office of the Auditor General for the State of Arizona

SUBMITTED BY
Johnson Consulting

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November 27, 2019

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

Re: DRAFT Rio Nuevo Multipurpose Facilities District Performance Audit & Financial Analysis

Johnson Consulting and Keegan, Linscott & Kenon, PC (the Consulting Team) are pleased to submit this report to the Arizona Office of the Auditor General regarding a performance audit of the Rio Nuevo Multipurpose Facilities District as required by A.R.S. §48-4231.01. This report presents the findings of the consulting team's analysis as of November 27, 2019.

We received substantial support from the Rio Nuevo Multi-Purpose Facilities District, the City of Tucson and from the competitive set convention facilities analyzed in this report. The consulting team has enjoyed serving you on this engagement and look forward to providing you with continuing service.

Sincerely,

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SECTION I

INTRODUCTION & EXECUTIVE SUMMARY

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INTRODUCTION

Johnson Consulting was retained by the Arizona Auditor General to conduct a performance audit of the Rio Nuevo Multipurpose Facilities District (the "District" or "Rio Nuevo") under the A.R.S. §48-4231.01. The performance audit is intended to evaluate the Districts' operational and financial performance, as well as its effectiveness in carrying out its mission. To effectively complete this assignment, Johnson Consulting has utilized the services of Keegan, Linscott & Kenon, PC ("KLK") to address certain technical aspects of the required performance audit procedures.

DISTRICT OVERVIEW

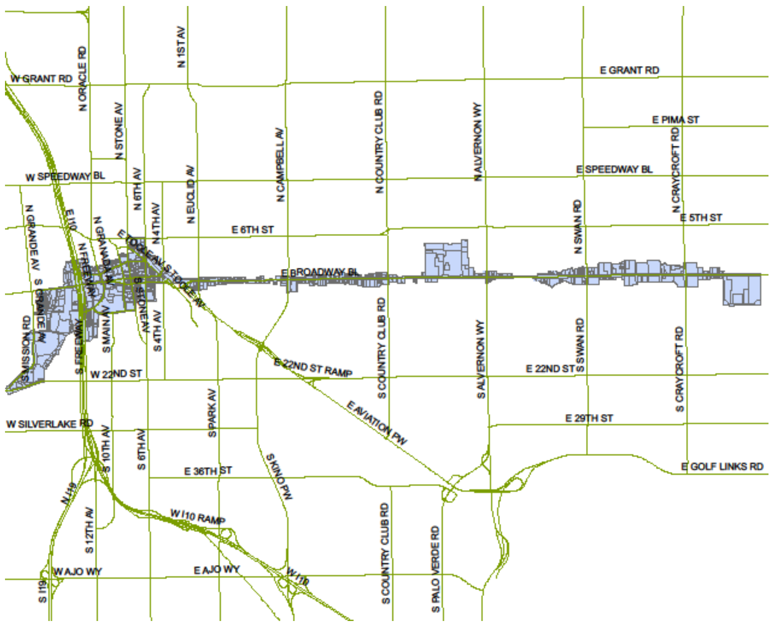
In 1999 voters approved the creation of the District through the passage of Proposition 400. The District is a municipal tax collection district, as well as a special taxing district. The voters authorized the District to receive an incremental portion of State-shared funds derived from sales taxes collected within the Tax Increment Financing ("TIF") District boundaries of the City of Tucson ("COT" or the "City"). TIF is a special finance mechanism utilized by the State of Arizona to fund municipal improvement projects. Use of sales tax rather than property tax provides a stronger base to fund projects in the District since a sales tax TIF district generates a greater volume of revenue. In forming the District, the Tucson Convention Center was designated as the Primary Component (the "Primary Component" or "TCC") in the District, with the expectation that all efforts would end in a funding framework to enhance the TCC to nationally competitive levels.

The District is a State municipal district with the powers, privileges, and immunities granted to governmental, municipal corporations for District purposes. These powers enable the District to plan multi-faceted development projects, including cultural and recreational amenities and improvements, unique historic re-creations, mixed-use developments, and other projects that would enhance and support the TCC, and lead to the development of hotels within the District. Due to the fact that the TCC had not been enhanced to any significant degree since the inception of the District in 1999, the Arizona State Legislature reorganized the District in November of 2009 with Arizona House Bill 1003, and a reconstituted board was re-appointed in March of 2010. Expenditure of the TIF Funds collected is now managed by the reconstituted Rio Nuevo Multipurpose Facilities District Board of Directors, who as of 2010, are appointed by the State's Governor, President of the Senate, and Speaker of the House of Representatives. At the time of the prior performance audit, little had been spent to directly benefit and enhance the TCC, and as a result the District had limited resources and time to execute a program of redevelopment in order to make the TCC nationally competitive. Since that time the District has been quite active in projects in the District that will lay the foundation for future improved positioning of the TCC.

Downtown Tucson, within the District, is the primary beneficiary of strategic investments to stimulate the marketplace and support new private sector development. The District's TIF Funds are to be strategically invested in enhancing the TCC and adding adjacent hotel support, with the objective of creating a vibrant

Tucson city center. This is to be achieved by leveraging downtown Tucson's unique competitive advantage as the region's urban and cultural center. The District is located in central Tucson and occupies a wide strip of land that extends west and east of downtown Tucson. East to west the District runs down Broadway Boulevard, starting at Park Place Mall near Wilmot and extending to a panhandle that exceeds just west of Interstate 10. See Figure 1-1 below for a map of the District.

Figure 1-1



Within the eastern part of the District (i.e., east of I-10) are three multi-purpose facilities, the Tucson Convention Center, including the Tucson Arena, Leo Rich Theater, and the Tucson Music Hall; Fox Theater; and Rialto Theater, all key drivers of visitation to the District and downtown Tucson. This area is also where existing historic buildings are located, such as the Carnegie Library building that currently houses the Tucson Children's Museum, the Tucson Museum of Art's La Casa Cordova (Tucson's oldest building), and the University of Arizona Campus.

Western Rio Nuevo (i.e., west of I-10) contains large parcels of undeveloped land, new mixed-use development projects with retail and housing components, and the terminus of the new light-rail system.

Administratively, the Arizona Department of Revenue ("ADOR") tracks sales tax collected within the Rio Nuevo District and the COT compares collections each month to sales taxes collected during the corresponding "base year" months of 1999. Rio Nuevo is then allotted the lesser of the incremental increase in sales taxes for the month in comparison to the base year, or 50% of the total sales tax collected in the District for the current month. It is the responsibility of the District and the COT to ensure that businesses within the District are making the election on their sales tax forms that identifies them as belonging in the TIF district.

RIO NUEVO PERFORMANCE HISTORY & PRIOR AUDIT FINDINGS

As previously noted, it was originally envisioned that downtown Tucson would be the beneficiary of strategic investments to stimulate the marketplace and support new private sector development. The additional TIF revenue generated as a result of this development would then be used to fund additional improvements within the District. The District's TIF Funds were to be strategically invested in public and public/private projects focused on developing a vibrant Tucson city center. This did not occur in the initial 10-years of the District, and the District was off mission by not focusing on improvements to the TCC as its priority. Additionally, the estimated cost of each project was significantly underestimated, which, in many cases resulted in the projects being cancelled or delayed.

Consequently, the residents of Tucson experienced little overall improvement to the area given the level of expenditure by the District during this period. Other adverse consequences included a general lack of significant growth related to incremental sales tax revenues, few needed enhancements to the Primary Component of the District, and no significant movement towards the construction of a convention center hotel to create destination interest for the area, and infuse the District with additional sales tax and tourist dollars.

With available funds severely depleted, the 2010 reconstituted District Board demonstrated the desire to remediate past problems by suspending project/capital expenditures until key issues could be resolved. Nonetheless, there was an opportunity for the reconstituted District Board to improve performance related to its financial, operational, and compliance responsibilities. In the 2010 performance audit report, Crowe Horwath offered recommendations focused on enhancing compliance with applicable regulatory provisions, as well as development of appropriate policies and financial oversight necessary for the District. Furthermore, recommendations from the 2010 and 2013 performance audit reports gave specific attention to the need for the District to develop a comprehensive strategy that addresses the use of available funds. Specific recommendations from the 2016 report are summarized as follows:

SHORT-TERM STRATEGY

- Continue to push SMG (the management entity of Tucson's multipurpose facilities) and the Tucson Convention and Visitors Bureau (CVB) in developing both local and out of town events. SMG's annual reports should report prior year performance and set goals for future demand by event type, revenue enhancements and expense reductions. Critical to their annual reporting should be a capital budgeting request rated by essential/ life safety, important and non-essential.

- SMG should provide analysis and strategies and targets to continue to improve demand and attendance by event category and for each venue so that it is clear what components of the campus are responsible for specific revenue and expense generation.

- Continue tracking attendance for each of the event categories for the arena and the convention center. This will allow management, COT and the District to understand what events are having the most significant impact on tax revenue generation and hotel room night demand. It will also provide direction in terms of a more robust sales and marketing plan to target underperforming event categories.

- Both SMG and Visit Tucson should continue to perform satisfaction surveys and track lost business, by reason, and by event type, and incorporate this information in their annual reporting. This will continue to highlight strengths and weaknesses of management, the building and the market. These factors can then be assessed and prioritized by the COT and the District.

- Develop a masterplan and budget to identify and evaluate the most critical improvement needs for the TCC.

LONG-TERM STRATEGY

- Pursue a stewardship model where there is an oversight authority with dedicated funding to protect the asset and purpose of the venue, and a private management company running direct operations.

GENERAL RIO NUEVO RECOMMENDATIONS

- Develop a longer-term strategic and capital spending plan that considers revenue of all types, expenses, and multiple scenarios. This generally exists but is not as formalized as needed.

- Develop a thoughtful District Plan, which should address SMG's recommended 10-year capital budget for the TCC, a TCC sub district master plan, a sources and uses funding plan and spending schedule, and a vision for the future.

MAJOR ACTIVITIES IN RECENT YEARS

Members of the District Board have taken the findings of the previous performance audits seriously. The District has stabilized organizationally and has fully directed its energy and resources towards the fulfillment of its mission as a redevelopment authority, which has been successful in achieving its mission and purpose. The District has received three unmodified audit opinions for the fiscal years ending June 30, 2017, 2018, and 2019. Recent commitments by Rio Nuevo total over $123 million and support total project costs that exceed $563 million. Public/Private commitments total over $58 million and support total project costs of nearly $499 million. These commitments are summarized in Figure 1-2.

Figure 1-2

Rio Nuevo Multipurpose Facilities District Recent Commitments					
Project	Land Use	Size	Project Cost	Rio Nuevo Commitment	Completion
Completed Public/Private Projects					
AC Marriott Hotel	Hotel, Retail, Parking	7 stories 136 hotel rooms 200 parking spaces	$38,000,000	$7,750,000	2017
Brings Building	Office & Retail	13,845 square feet	$2,500,000	$1,860,000	2018
Caterpillar's Tucson Mining Center	Office & Parking	150,000 square feet 3 stories 500 parking spaces	$49,000,000	$5,600,000	2019
Greyhound	Transportation	1 story	$2,475,000	$1,875,000	2017
Marist College Complex	Mixed-Use	7-stories (new) 3 stories (renovated)	$24,000,000	$350,000	2019
Ochoa Streetscape	Streetscape, Retail, Event Space	1 block	$20,000,000	$1,000,000	2019
Scott Avenue Streetscape	Streetscape	1 block	$750,000	$750,000	2017
Total Completed Public/Private Projects:			**$136,725,000**	**$19,185,000**	
Committed Public/Private Projects					
123 S. Stone Avenue	Restaurant	2 stories	$4,000,000	$2,050,000	TBD
44 E. Broadway	Retail & Office	105,597 square feet	$38,000,000	$4,500,000	2020
75 E. Broadway	Retail, Office, Parking	12 stories 150,000 square feet 350 parking spaces	$75,000,000	$3,000,000	TBD
City Park	Office & Retail	5 stories	$20,000,000	$2,600,000	2020
Congress Street Block	Retail & Restaurant	2 stories	$12,000,000	$200,000	TBD
DoubleTree Hotel at the Tucson Convention Center	Hotel	170 hotel rooms	$38,000,000	$2,500,000	2021
Hilton Dual-Brand Hotel at Cathedral Square	Hotel	6 stories 198 hotel rooms	$44,500,000	$6,975,000	2020
Julian Drew Lofts	Residential & Retail	5 stories 3,350 square feet (retail) 44 units	$9,000,000	$1,750,000	2021
MSA Festival Garden	Retail, Restaurant, & Event Space	13 establishments	$12,000,000	$3,420,000	2018
Monier Project	Retail & Residential	4 stories 12,975 square feet (retail) 122 apartments	$34,000,000	$2,400,000	2020
Presidio Duplex	Resturant & Event Space	1 story	$450,000	$450,000	TBD
Rocco's Chicago Style Pizza	Restaurant	6,000 square feet	$1,000,000	$500,000	2020
The Bautista	Mixed-Use	16,500 square feet (retail) 252 residential units Restaurant	$72,000,000	$1,800,000	TBD
Toole & 7th Avenue	Retail & Restaurant	13,400 square feet	$2,000,000	$2,000,000	TBD
Sunshine Mile	TBD	1 mile	TBD	$3,000,000	TBD
Volvo Site	TBD	TBD	$24,000,000	$2,100,000	TBD
Total Committed Public/Private Projects:			**$361,950,000**	**$39,245,000**	
Total Public/Private Commitments:			**$498,675,000**	**$58,430,000**	
Public Projects:					
Tucson Convention Center	Convention Center	18,000 SF TCC expansion 845 parking spaces TCC Renovation Leo Rich Theater Renovation Tucson Music Hall Renovation Ice Plant/Ice Floor Replacement	$65,000,000	$65,000,000	TBD
Total Commitments:			**$563,675,000**	**$123,430,000**	

Source: RNMFD, Johnson Consulting

SCOPE OF WORK FOR CURRENT PERFORMANCE AUDIT

In accordance with A.R.S. §48-4231.01, which includes evaluations and certain required information for the District for Fiscal Years Ending 2017 – 2019, the analysis by Johnson Consulting and KLK included consideration of:

- Capital costs, including debt service, of the Multipurpose Facility and other assets of the District.
- The level of the District's indebtedness, the amount of principal, interest and other debt service expenses paid in the preceding fiscal year and the remaining term to maturity with respect to each outstanding bond issue.
- Operation and maintenance costs of the Multipurpose Facility and other assets of the District.
- The District's overall expenditures in the preceding fiscal year, including the level of expenses for administration, planning, travel, and entertainment, and the success of those expenditures in supporting and achieving the District's purposes.
- A description of, and the amount of, municipal payments pursuant to A.R.S. § 42-5031, subsection D during the performance audit period, and the cumulative amount of those payments through the end of the preceding fiscal year.
- The public use of each component of the Multipurpose Facility.
- Revenues derived from each component of the Multipurpose Facility and other revenues of the District.
- District projects that are currently under construction and that are included in the District's plans for capital improvements and investment.

In order to execute the engagement and related analysis we performed the following tasks:

- Met with the Arizona Auditor General's office to discuss the engagement scope, communication and reporting.
- Met with District Management and personnel from the COT to discuss activities during the performance audit period, as well as statutory requirements and the terms of operative agreements in place or executed during the performance audit period (i.e., fiscal years 2017 – 2019).
- Held discussions with the District's Independent Auditor, and reviewed reports issued by the Independent Auditor that cover fiscal years 2017, 2018, and 2019 of the performance audit period.

- From the District and/or COT, we requested and obtained relevant information and documents, including, but not limited to:
  - Intergovernmental Agreement ("IGA") and Settlement Agreement executed between the District and the COT.
  - Financial statements, records, schedules and information related to District revenues, expenditures, assets and obligations during the performance audit period.
  - District budgets and projections related to future revenues and expenditures.
  - Policies and procedures related to the District.
  - District Board meeting minutes.
- Evaluated the District's compliance with significant statutory provisions, as well as the District's and the COT's compliance with operative IGA provisions.
- Benchmarked TCC performance and design to determine its competitive position among national peer facilities.

This report identifies findings and recommendations regarding the construction, financing, operation and maintenance of each component of the TCC, including whether the facility exceeds, meets or fails to meet nationally recognized design and performance standards.

In addition, this report includes the schedules covering the following topics:

- The District's projects currently under construction and that are to be included in the District's plans for capital improvements and investments. These schedules include costs of completed projects and assets owned by the District, and costs-to-date and estimated costs-to-complete for projects planned and currently under construction. The schedules identify capital activity during the performance audit period and as of June 30, 2019. (See **Appendix Schedule A – Tables 1 and 2**)
- The level of the District's indebtedness, the amount of principal, interest and other debt service expenditures paid during the performance audit period, and remaining term to maturity with respect to each. (See **Appendix Schedule B – Tables 1 and 2**)
- Revenues and operating expenses generated by the District during the performance audit period. (See **Appendix Schedule C – Tables 1 and 2**)

- A description of the amount of municipal payments made by the COT, pursuant to ARS §42-5031, subsection D, during the performance audit period, and the cumulative amount of those payments through the end of fiscal year 2019. These municipal payments represent the matching funds required to be committed by the COT. (See **Appendix Schedule D**)

EXECUTIVE SUMMARY

As with the last performance audit in 2016, there has been continued improvement in the performance of the Rio Nuevo District (the "District) through Fiscal Year 2019. In fact, the accomplishments of the District in the latest performance audit period are truly exceptional as a number of actions taken by the District have allowed for major projects to advance in the District and have also improved the long term outlook for the Tucson Convention Center (TCC). Among the aforementioned investments by Rio Nuevo that support the district's mission, Rio Nuevo also approved a $65 million investment in its multipurpose facilities directly, including:

- Replacement of Ice Plant and Arena Ice Floor: $3.2 million
- 300-space Parking Garage in Lot A: $45,000
- Renovation of TCC Convention Spaces & Meeting Rooms: $7.6 million
- Tucson Arena Lighting Upgrades: $220,000
- Site Streetscape and Connections: $2.5 million
- Eckbo Historic Landscape Restoration: $8 million
- Technology Enhancements and High-Speed Data Infrastructure: $2.5 million
- 18,000 Square Foot Meeting Room Expansion at the TCC: $9.2 million
- 500-space Parking Garage in Lot C: $11.4 million
- Renovation and Upgrades to Tucson Music Hall: $7.4 million
- Renovation to Leo Rich Theater: $2 million

The District has also worked towards addressing the key recommendations outlined in the 2016 performance audit. From a financial compliance perspective, the District was very active, and expended significant funds on capital projects during the performance audit period under the District's leadership. Based on data and projections provided by the District, it is anticipated that the District will remain solvent in the short and long term.

Not compliance related, yet important for consideration, is the District's improved monitoring of the tax revenue collections within the District. Under a Disclosure Agreement with the Arizona Department of Revenue ("ADOR"), dated October 23, 2014, detailed information about taxpayers is now being confidentially shared with the District and utilized by District Management to identify anomalies, which are communicated with ADOR and the City of Tucson. This communication provides the basis for follow up activities with taxpayers, performed by the two taxing authorities, and has resulted in increased tax revenues during the performance audit period.

A key component of the performance audit requires evaluation with regard to how the TCC compares to nationally competitive convention center and arena facilities in terms of design and performance. This section takes a new approach compared to previous audits by encapsulating the broader offering of facilities that are operated in conjunction with the primary convention center facilities, such as arenas and performing arts centers. This approach seeks to give Rio Nuevo a new perspective rather than just reiterating the findings of previous audits. This audit uses the same set of five comparable case studies used in previous audits, and also adds four additional aspirational case studies that are in larger markets. In previous reports, the TCC ranked last or second to last in many performance measures.

This audit found that the Tucson facilities have ascended to the middle of the pack among the comparable case studies by a number of measures, including the number of events, number of event-days, event attendance, and operating revenue and expenses. While the Tucson facilities still fall short in comparison to many of the aspirational case studies, these insights provide a sense of what Tucson can strive for in the future in terms of the performance of its facilities. In terms of market, Tucson has benefitted from a rapidly growing population across its metropolitan area compared to its competitive and aspirational markets. Tucson still, however, can improve upon its urbanity adjacent to its multipurpose facilities. Out of 10 total case studies, Tucson ranks 7th in population within ½ mile, 8th in daytime population within ½ mile, 10th in hotel rooms within ½ mile, and 9th in retail and nightlife sales volume within ½ mile. Attracting residents, visitors, and businesses to Tucson and the Rio Nuevo District will foster the development of additional hotels and amenities in the District, which illustrates how continued economic development is 100 percent on mission for Rio Nuevo.

SMG was brought in relatively soon after the 2013 performance audit, which has helped improve the data and event tracking to industry standards and is helping remedy the reputation of the TCC from the perspective of event and meeting planners. The arena improvements helped attract an AHL team affiliate of the Phoenix Coyotes as an anchor tenant to the arena. This has helped to increase the overall attendance and revenue profile of the TCC and provide an increase in activity in the District from the increased visitors to the arena. The relocation of the Greyhound Bus Terminal paved the way for the 136-room AC Hotel by Marriott to be developed in close proximity to TCC, the first hotel in downtown for many decades. Its proximity to the TCC and the increase in hotel room supply has helped the TCC be more competitive when targeting events that require a larger hotel room block size. This will also be helped by the development of the 170-room DoubleTree Hotel and the 198-room Hilton Dual-Brand Hotel that are currently in the pipeline, as well as the prospective $45 million redevelopment of the 296-room Hyatt Regency (formerly Hotel Arizona).

These events emphasize how important the District is in improving the competitive position of the TCC, and its adjacent support environment, when its resource base is used appropriately. Additional hotel supply and improvements to the TCC are still needed and must be a priority. As in 2016, Johnson Consulting estimates that addressing needs at the TCC, plus incentives to adjacent hotels, will cost $100 million or more. The District does not currently have the projected resource base to address this capital requirement. In our report, we identify examples of activities and operational structures that peer facilities, comparable to the TCC, have used to achieve desired physical and operational improvements. As shown, sales and use taxes, like those utilized by the District, are common sources for cash investments in assets like the convention center and complimentary developments in support of enhancing the design and performance of the TCC.

The success of the District over the past few years indicates that there is merit in its existence and efforts to cause improvements in the District in support of the TCC. It was concluded in both the 2013 and 2016 performance audits that the District does not have enough resources to address the capital needs of the TCC. This is again confirmed in this report. A comprehensive plan should be developed outlining the most critical improvements needed for a successful TCC, and the associated costs, so a long-term plan of action can be developed and implemented. This approach could position the TCC to continue to serve as a catalyst for overall District success and downtown revitalization; however, it will require significant capital commitments, continued operational improvements, lengthening of the life of the District, and supplemental funding sources.

SECTION II

AUDIT FINDINGS

AUDIT FINDINGS

STATUTORY & INTERGOVERNMENTAL AGREEMENT PROVISION COMPLIANCE

The District is responsible for meeting the requirements of applicable provisions of the Arizona Revised Statutes ("A.R.S.") and the operative Intergovernmental Agreement ("IGA") with the City of Tucson ("COT"). We have reviewed applicable statutory and IGA provisions and evaluated compliance related to the District and the COT. In consideration of issues identified in previous performance audits, we note continuous improvement related to transparency and compliance during the current performance audit period (i.e., fiscal years 2017 – 2019). Following is a discussion of significant statutory and agreement provisions, as well as any instances of non-compliance noted.

COT PAYMENTS

COT's records indicate that it has made expenditures of approximately $681.6 million related to the multipurpose facility or the site (see Schedule D), which exceeds the approximate $179 million in aggregate TIF revenue distributed to the District since inception through June 30, 2019, according to the Arizona State Treasurer website. Therefore, the COT's matching expenditures have exceeded the distributed TIF revenue by just over $500 million. The COT has agreed to make matching expenditures in an amount equal to the TIF revenue distributed to the District as directed through its operative IGA with the District and in accordance with A.R.S. §42-5031 (D). Through the agreement and statute, the COT has agreed to make direct payment to the District from any lawful source, or to expend monies "for land, infrastructure or other improvements directly related to the multipurpose facility or the multipurpose facility site, in an aggregate amount equal to the amount received by the district pursuant to this section" (A.R.S.§42-5031).

Per inspection of the Office of the Arizona State Treasurer website, aggregate sales tax distributions made to the District from inception through June 30, 2019 approximates $179 million. In response to our inquiries the COT provided the payment information presented in **Schedule D** after the end of the performance audit period, but prior to the issuance of this report. It is the position of the COT that they have made expenditures of approximately $681.6 million directly related to the multipurpose facility or the multipurpose facility site, which exceeds the match requirement as it is in excess of the aggregate sales tax revenue distributed to the District (see **Schedule D**).

MONITORING OF TAX REVENUE COLLECTIONS

In accordance with A.R.S. §48-4203 (A) (3) the District and the COT entered into the operative IGA. Furthermore, the District has adopted Administrative Rules in operation during the performance audit period pursuant to A.R.S. §48-4203 (A) (4) and (5).

Article 4.3 of the operative IGA states that the COT "shall work with the Arizona Department of Revenue ("ADOR") and the District to facilitate ADOR's collection and remittance of the tax increment funds on behalf of the District, to include: monitoring of the collection of the tax by businesses located within the multipurpose facilities site; providing outreach and education within the multipurpose facilities site to promote and ensure proper collection of the tax; and otherwise assisting ADOR and the District with proper collection and accounting of the tax increment funds."

Through the performance audit we noted that the District's Management continues to perform outreach activities aimed at education of the benefits of the District as well as ensuring businesses within the District are appropriately remitting taxes. District Management also receives monthly detailed information related to taxpayer filings directly from the ADOR, under a Disclosure Agreement, dated October 23, 2014. The detailed information is input into a database and filings are tracked by District Management in order to identify anomalies and trends. Any anomalies are communicated with the City of Tucson and ADOR and these tax authorities follow up with the taxpayers.

We also made inquiries of District Management regarding the City's efforts to stimulate filling out required tax forms and monitor the collection and remittance of TIF revenue. We noted the COT does perform monitoring activities aimed at ensuring proper collection of tax increment funds from businesses within the District. Monitoring activities performed by the COT typically include review of detailed information provided by ADOR regarding taxes remitted by businesses within the District and identification of anomalies. COT personnel are also able to locate businesses within the District by generating a list by address, which is utilized to facilitate further communication with businesses to help ensure further compliance.

DATABASE OF EXPENDITURES ON THE OFFICIAL DISTRICT WEBSITE

A.R.S. §48-4231.02 requires the District to maintain an official website with a database of expenditures made by the District. The statute identifies specific expenditure information and functionality that should be part of the website database. Per discussion with District Management, the database was available on the District's official website beginning in October 2013. Per review of the website during the period, it was noted that the database was fully functional and contained all the information and functionality elements required by the applicable statute.

REQUIRED ANNUAL BUDGETS

Each fiscal year the District is required to submit an annual budget to the Clerk of the County Board of Supervisors. The provisions of A.R.S. §48-4232 identify specific elements and information to be included in annual budgets. Per review of the District's budgets prepared and submitted during the performance audit period it was noted the budgets included all elements and information required by the statute and all were submitted to the Clerk of the County Board of Supervisors in a timely manner.

BOARD OF DIRECTORS MEMBERSHIP

A.R.S. §48-4202 establishes the composition of the Board of Directors for the District, and notes that the Board shall consist of nine (9) members based upon appointments to be made by the Governor, the President of the Senate, and the Speaker of the House of Representatives. There are currently only six (6) members of the District Board. The remaining appointments are the responsibility of the Governor and Speaker of the House of Representatives.

COMPLIANCE WITH FINANCIAL PROVISIONS

As specified in A.R.S. §48-4204 (B) there are specific purposes for which taxes and charges raised by the District can be used.

From the taxes and charges levied or identified pursuant to section 48-4237 for use with respect to multipurpose facilities and from other monies lawfully available to the District, the District may acquire land and construct, finance, furnish, maintain, improve, operate, market and promote the use of multipurpose facilities and other structures, utilities, roads, parking areas or buildings necessary for full use of the multipurpose facilities and do all things necessary or convenient to accomplish those purposes. Public funds identified in section 48-4237, including funds distributed pursuant to section 42-5031, may only be used for the components for a multipurpose facility which are owned by the District or which are publicly owned, or for the following purposes:

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

From the District's inception through 2009, many of the expenditures made by the District were for purposes and/or projects other than those statutorily required or intended. Specifically, many of the expenditures made during this time period failed to provide new or additional tax revenues, nor were they incurred in relation to the Primary Component (i.e., the Tucson Convention Center "TCC").

Per discussion with District Management and review of historical documentation it was noted that remediation of this compliance deficiency was a significant focus of the reconstituted District Board, and many related recommendations were put forth in the previous performance audits. Our examination of the following performance sections was based on the statutory requirements discussed above and was influenced by our knowledge of the District's past performance.

CAPITAL EXPENDITURES

As a result of the District's completion of restructuring activities and settlements of the legal disputes with the City and State, the Rio Nuevo Board of Directors significantly increased capital expenditure and construction activity during the performance audit period. This policy is reflected in **Schedule A - Table 1** which shows capital expenditures and assets placed in service of $15,783,053 in 2017, $19,756,970 in 2018, and $28,622,081 in 2019. Expenditures were evaluated for proper initiation, approval, disbursement, and recording in accordance with applicable statutory and internal policy provisions.

In reviewing capital expenditures, it was noted that of the approximately $64 million of total expenditures, roughly $47.5 million was spent on construction of the Caterpillar Surface Mining Complex. Additionally, due to the phase II work on the Primary Component being substantially complete as of the beginning of the performance period, $32,910 of additional costs were expended on the TCC and $668,934 of previous construction in progress relating to the Primary Component were placed into service. The remaining outlays were expended on other projects within the District, including Gadsden (retail, restaurant and entertainment space), and the relocation of the Greyhound Terminal, which provides benefit to the District. All capital expenditures during the performance audit period appeared reasonable and in accordance with statutory provisions.

Additionally, effective August 3, 2018, A.R.S. §48-4203 (E) requires the District to present to the Joint Committee on Capital Review any construction project (or other improvement to real property) with a cost of more than $500,000. From the effective date until April 25, 2019, the District's Board of Directors approved and executed development agreements for 3 projects exceeding $500,000 totaling $12,400,000. We obtained a letter from the Joint Committee on Capital Review giving a favorable review of the District's presentation of these projects. Therefore, the district appears to be in accordance with this statutory provision. See further discussion of planned capital expenditures in *Expenditures in Support of the District's Purpose* to follow.

DEBT SERVICE EXPENDITURES

Throughout the life of the District a series of debt instruments have been issued/entered into to fund asset acquisition, design studies, infrastructure improvements, and the repayment of loans, with the expectation that these investments would generate future TIF revenues. During the performance audit period, four unique debt obligations were in existence and remain outstanding as of June 30, 2019.

Through procedures performed it was noted that TIF revenues due to the District are deposited directly into certain bank accounts by ADOR, and the required debt service payments are automatically made to the appropriate party. Any remaining TIF revenue is then provided to the District for use in carrying out its mission. Per inquiry of Management and observation of the debt service process, it appears that District Management plays an active role in monitoring the debt service payments and the activity within the bank accounts. The debt balances at June 30, 2019 appeared to be accurate, current, and payments of principal and interest were made in a timely manner during the performance audit period. See **Schedule B – Table 1** for debt service payments made during the performance audit period, and **Schedule B – Table 2** for debt service payments through 2034.

EXPENDITURES IN SUPPORT OF THE DISTRICT'S PURPOSE

In consideration of whether the District's expenditures for the period successfully supported and achieved the District's purposes, we note that legal and administrative expenses of the District appear reasonable considering the nature of the District's activities (see **Schedule C – Table 1**).

The District has committed to continually fund projects through public/private development partnerships, which have included the AC Marriott Hotel, the Caterpillar Surface Mining Complex, Gadsden, and the City Park projects. We also note that significant project expenditures were made during the period (see **Schedule A**) and these capital expenditures appeared reasonable and in accordance with statutory provisions of A.R.S. §48-4204 (B).

SECTION III

PERFORMANCE BENCHMARKING

PERFORMANCE & BENCHMARKING ANALYSIS

The specific requirements of A.R.S. §48-4231.01 state that the TCC facility needs to be evaluated to determine if it exceeds, meets or fails to meet nationally recognized design and performance standards. For the purpose of this analysis Johnson Consulting defines "design" as the overall quality of convention facilities and support environment in relation to the TCC's benchmarking set. "Performance" is defined by the quality of management, the level of demand, revenue and expenses profile, and hotel room night generation by the facility.

These requirements will be addressed in the following performance and benchmarking analysis. This section takes a new approach by encapsulating the broader offering of facilities that are operated in conjunction with the primary convention center facilities, such as arenas and performing arts centers. This approach seeks to give Rio Nuevo a new perspective rather than just reiterating the findings of previous audits. For each statistic, this section will present a detailed analysis of the Tucson facilities' performance, followed by a high-level benchmark against the benchmarking set, as available, for the most recent year.

The benchmarking set consists of the five case studies used in Johnson Consulting's 2013 and 2016 audits, along with an additional four case studies that Johnson Consulting believes to be relevant in the context of this new, more holistic approach. The benchmarking set comprises a mix of publicly and privately managed facilities that exhibit either similar geographic, economic, and/or physical attributes to the TCC or Tucson facilities as a whole. All facilities within the set are publicly owned at the City or County government level. The benchmarking set has been broken down into two categories, based on the attributes mentioned above, and color-coded throughout the remainder of this section as follows:

- **Comparable**: Tucson is currently comparable to and competitive with these case studies
  - Palm Springs, CA
  - Spokane, WA
  - Albuquerque, NM
  - El Paso, TX
  - Reno, NV
- **Aspirational**: Tucson has potential to be comparable to and competitive with these case studies in the future if the progress that has been made heretofore continues
  - Fort Worth, TX
  - Phoenix, AZ
  - Long Beach, CA
  - San Jose, CA

Figure 3-1 presents a summary of the benchmarking analysis, including indicators related to the destination and market, facilities, event demand and attendance, and operating revenue and expenses.

Figure 3-1

Tucson, AZ Facilities
Benchmarking Analysis Summary

	Tucson, AZ	Palm Springs, CA	Spokane, WA	Albuquerque, NM	El Paso, TX	Reno, NV	Fort Worth, TX	Phoenix, AZ	Long Beach, CA	San Jose, CA
Location										
Metropolitan Area	Tucson, AZ	Riverside-San Berardino-Ontario, CA	Spokane, WA	Albuquerque, NM	El Paso, TX	Reno-Sparks, NV	Dallas-Fort Worth-Arlington, TX	Phoenix - Mesa - Glendale, AZ	Los Angeles - Long Beach - Anaheim, CA	San Jose - Sunnyvale - Santa Clara, CA
Destination and Market										
Metropolitan Area Population	1,039,768	4,597,980	573,328	931,402	874,325	475,680	7,516,037	4,814,090	13,542,894	2,020,112
Population within 1/2 Mile	2,745	1,753	1,801	3,074	3,931	3,179	1,074	3,095	11,631	8,255
Daytime Population within 1/2 Mile	15,758	4,824	21,293	28,363	21,011	6,763	27,717	56,406	34,511	27,143
Hotel Rooms within 1/2 Mile	419	1,664	2,501	919	1,113	1,000	2,444	3,775	2,132	2,626
Retail, Restaurant, & Bar Sales within 1/2 Mile	$64,084,509	$47,455,610	$422,273,819	$137,282,352	$213,959,647	$463,798,883	$175,139,336	$344,081,358	$356,584,898	$211,675,329
Total Tax on Hotel Rooms	12.05%	12.50%	12.00%	13.31%	17.50%	13.50%	15.00%	12.57%	15.00%	14.00%
Facilities										
	Tucson CC Tucson Arena Tucson Music Hall Leo Rich Theater	Palm Springs CC	Spokane CC Spokane Arena INB PAC	Albuquerque CC Kiva Auditorium	El Paso CC Chavez Theater Plaza Theater Amphitheater	Reno-Sparks CC	Fort Worth CC Arena	Phoenix CC Symphony Hall Orpheum Theater	Long Beach CC Long Beach Arena Terrace Theater O'Neill Theater	San Jose CC California Theater San Jose PAC Montgomery Theater San Jose Civic South Hall
Facilities Overview										
Exhibit Space (SF)	143,460	92,545	120,000	166,546	80,000	373,512	253,226	584,500	270,000	223,000
Ballroom Space (SF)	20,164	20,016	50,564	31,164	-	29,716	27,904	118,800	39,973	50,711
Meeting Space (SF)	10,640	15,789	32,500	47,478	14,900	84,104	56,486	162,655	38,757	50,765
Total Event Space (SF)	**174,264**	**128,350**	**203,064**	**245,188**	**99,400**	**487,332**	**337,616**	**865,955**	**348,730**	**324,476**
Arena Facility Seating	8,962	-	11,736	-	-	-	11,200	-	13,500	3,036
Theater Facility Seating	2,800	-	2,953	2,300	4,750	-	-	3,868	3,877	4,274
Events and Attendance										
# of Events (most recent year)	435	100	-	328	309	98	484	369	69	-
Attendance (most recent year)	553,132	134,668	1,227,714	267,019	437,593	344,927	624,611	825,994	1,408,816	1,302,509
# of Event Days (most recent year)	1,076	-	1,323	607	426	234	-	1,009	-	-
Revenue and Expenses										
Operating Revenue (most recent year)	$7,296,281	$3,220,954	$11,537,940	$4,050,408	$6,658,858	$2,673,000	$7,445,290	$44,743,000	$12,470,000	$44,029,415
Operating Expenses (most recent year)	$9,684,320	$4,575,718	$13,157,206	$5,239,828	$11,548,967	$3,784,000	$7,183,320	$50,808,000	$12,233,000	$49,355,799
Net Operating Income (most recent year)	($2,388,039)	($1,354,764)	($1,619,266)	($1,189,420)	($4,890,109)	($1,111,000)	$261,969	($6,065,000)	$237,000	($5,326,384)

Source: Relevant Facilities, Smith Travel Research, Esri, Johnson Consulting

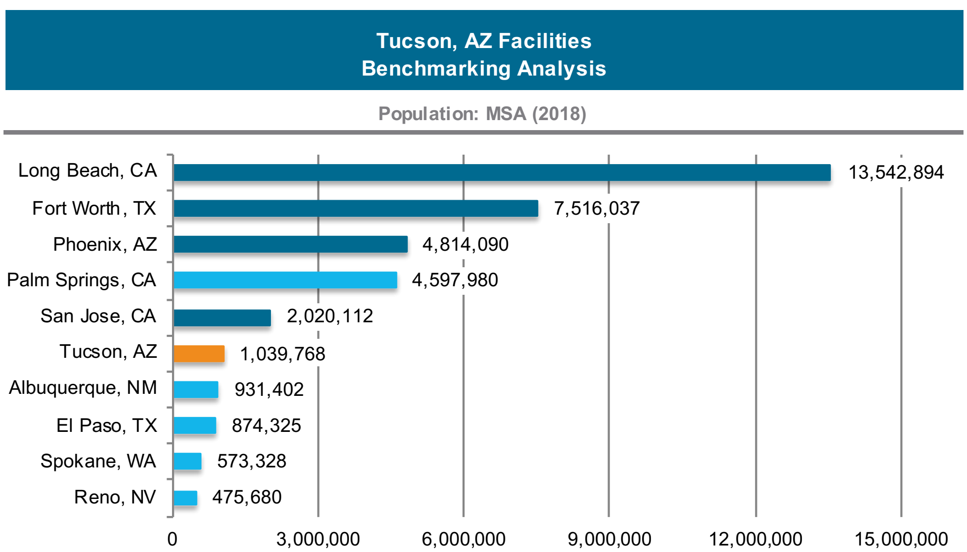
DESTINATION AND MARKET

In order to contextualize the facilities in each of the benchmarking case studies, the following subsections will analyze a variety of destination and market characteristics. These statistics provide insight into the destination's ability to support these public facilities by attracting events and attendees.

METROPOLITAN AREA POPULATION

With nearly 1.04 million residents, Tucson ranks sixth among the ten benchmarking case studies in terms of the population of the metropolitan area. Long Beach and Fort Worth are the two largest by this measure, although they are skewed by the presence of their larger primary cities – Los Angeles and Dallas, respectively. Although they are not primary cities like the other case studies, they are still able to draw upon the resources that accompany being located in a larger metro area. They also, however, have more competition from other facilities that exist within their markets. Figure 3-2 presents this statistic for all ten case studies in the benchmarking set.

Figure 3-2



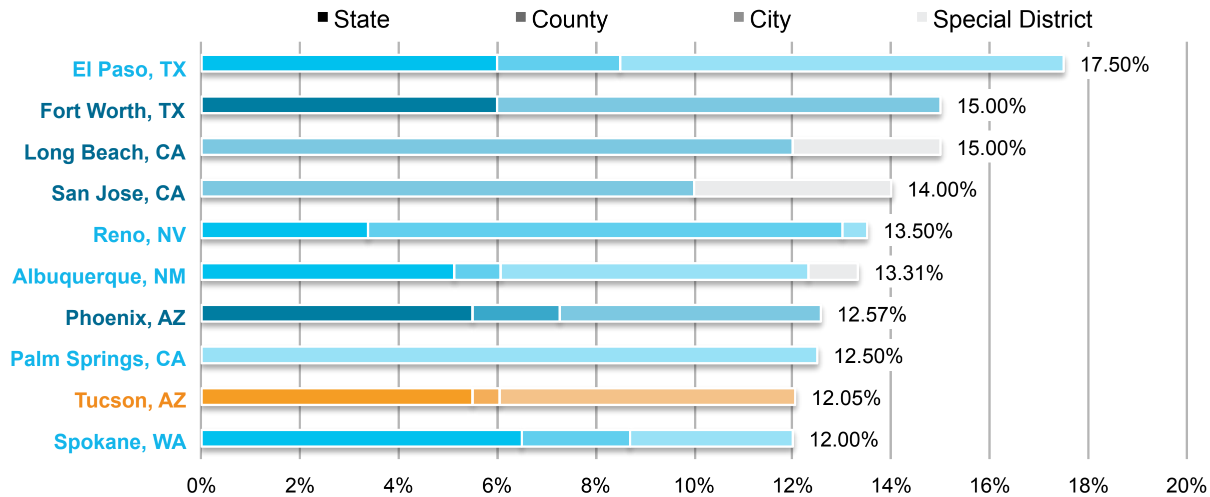
Sources: Esri, United States Census Bureau, Johnson Consulting

HOTEL TAX

Another market characteristic that is important in this industry is the total tax on hotel rooms. Hotel taxes are often used as a source of funding for public event facilities, and they can also have an impact on the affordability of hotel accommodations and room blocks for events. Destinations with high hotel taxes risk being seen as unaffordable, and destinations with low hotel taxes will have less tax revenue available to support their event facilities. Figure 3-3 presents the total tax on hotel rooms for the benchmarking set. As shown, Tucson ranks second lowest with a total hotel tax of 12.05%, with 5.5% going to the state, 0.55% going to the County, and 6% going to the City.

Figure 3-3

Tucson, AZ Facilities
Benchmarking Analysis
Total Tax on Hotel Rooms



DATA	State	County	City	Special District	Total Tax on Hotel Rooms
El Paso, TX	6.00%	2.50%	9.00%	-	17.50%
Fort Worth, TX	6.00%	-	9.00%	-	15.00%
Long Beach, CA	-	-	12.00%	3.00%	15.00%
San Jose, CA	-	-	10.00%	4.00%	14.00%
Reno, NV	3.38%	9.63%	0.50%	-	13.50%
Albuquerque, NM	5.13%	0.94%	6.25%	1.00%	13.31%
Phoenix, AZ	5.50%	1.77%	5.30%	-	12.57%
Palm Springs, CA	-	-	12.50%	-	12.50%
Tucson, AZ	5.50%	0.55%	6.00%	-	12.05%
Spokane, WA	6.50%	2.20%	3.30%	-	12.00%

Source: Respective Facilities, Johnson Consulting

The following subsections pertain specifically to the areas immediately surrounding the primary convention center facility for each of the case studies. This area is crucial in accomplishing two of this industry's primary objectives: 1) maximizing economic and fiscal impact and 2) providing the best event experience possible. The vibrancy of the adjacent area depends on the presence of a concentration of people, which represents a concentration of money, which supports a concentration of places to spend that money, and the cyclical relationship continues. Beginning with the concentration of people, there are three types of people that must be considered: 1) residents of the area, 2) workers in the area, and 3) visitors to the area.

ADJACENT POPULATION

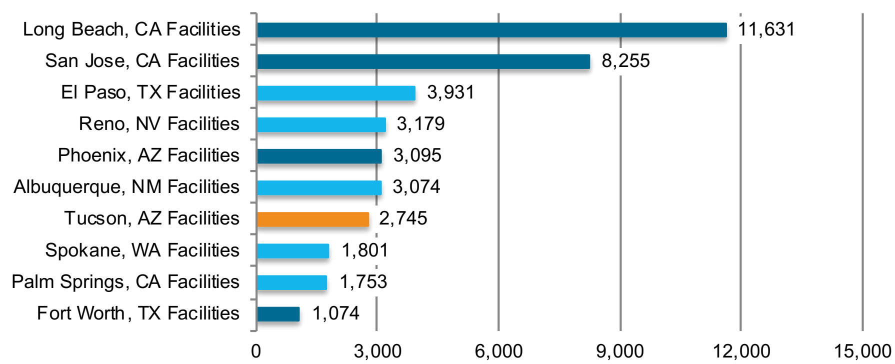
Residents of the area are accounted for by measuring the area's population. Figure 3-4 presents the population of the ½ mile radius for the benchmarking set. As shown, Tucson ranks seventh with just over

2,700 people residing within this area. Long Beach and San Jose are the top two case studies by this measure by a significant margin, with over 11,600 and 8,200 adjacent residents, respectively. Higher adjacent populations in the vicinity of the event facility makes the area feel vibrant during all hours of the day and all days of the week. These residents also play a crucial role in supporting retail, nightlife, entertainment, and other activities in these areas, which can elevate the experience of the event attendee and therefore make the facility more attractive to event planners. Cities around the country are recognizing the importance of boosting the density of residential development in their cores, and have acted to foster it over the past few decades. Tucson would be well-advised to continue this effort.

Figure 3-4

Tucson, AZ Facilities
Benchmarking Analysis

Population within 1/2 Mile (2018)

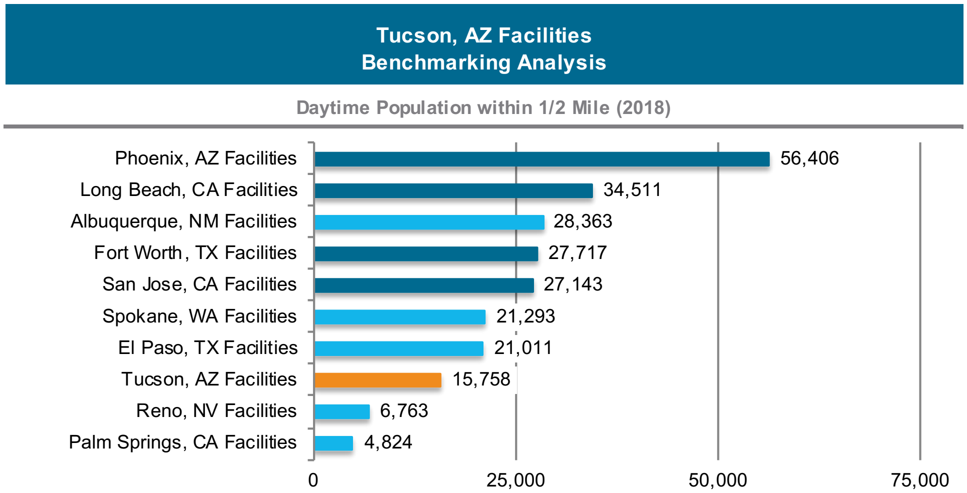


Sources: Esri, United States Census Bureau, Johnson Consulting

ADJACENT DAYTIME POPULATION

Workers that are employed by businesses in the area are accounted for by analyzing daytime population figures. These workers commute into the city and return to their homes outside the city's core after business hours, but often venture out of their work buildings for lunch, meetings, errands, walks, or after-work activities. These workers are frequent patrons of retail, cafes, restaurants, and other business and amenities in these areas. Although this activity is typically limited to weekdays and business hours, this is when many convention center events occur. Figure 3-5 presents this analysis for the benchmarking set. As shown, Tucson ranks eighth with an adjacent daytime population of over 15,700.

Figure 3-5

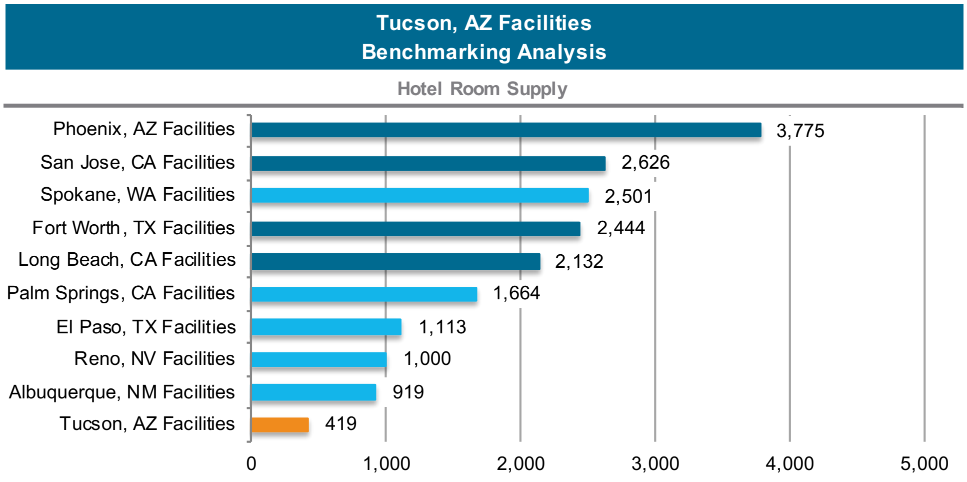


Sources: Esri, United States Census Bureau, Johnson Consulting

ADJACENT HOTELS

Visitors to the area can be accounted for by analyzing the volume of hotel rooms. These numbers are indicative of not only the strength of the hotel markets overall, but also of the strategic location of the event facility relative to the concentration of transient visitors in each destination. This is one of the most important market characteristics for event planners, as it serves as an indicator of the market's ability to have adequate room blocks available within a close proximity to the event facility. Figure 3-6 presents the total number of hotel rooms for the benchmarking set. Tucson ranks tenth by this measure with just 419 rooms – less than half that Albuquerque, the next lowest and one of Tucson's primary competitors. Tucson, however, has two new hotels currently under construction within ½ mile – the 170-room DoubleTree at the TCC and the 198-room dual-brand Hilton at Cathedral Square. Also in the works is the redevelopment of the old Hotel Arizona building, which is located just north of the TCC campus, as a 292-room Hyatt Regency. This proposal is still undergoing an economic impact study.

Figure 3-6

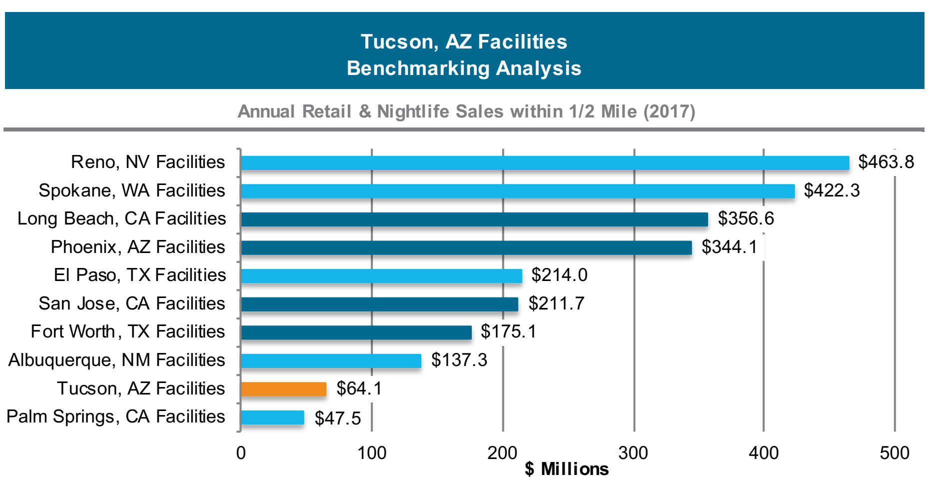


Source: Smith Travel Research, Johnson Consulting

ADJACENT RETAIL & NIGHTLIFE

The effect of the concentration of people living in the area, working in the area, and visiting the area is evidenced in Figure 3-7, which shows the total annual sales at retail and nightlife establishments within the ½ mile radius. As shown, Tucson ranks ninth by this measure, with total annual sales of $64.1 million. This is a result of the lack of population, daytime population, and hotel rooms in the adjacent area. Not only does this hinder the ability of Tucson to fully capture the spending of event attendees, but it can have a negative effect on the experience of the attendee and therefore lead to negative perceptions of Tucson.

Figure 3-7



Sources: Esri, Infogroup, United States Census Bureau, United States Bureau of Labor Statistics, Johnson Consulting

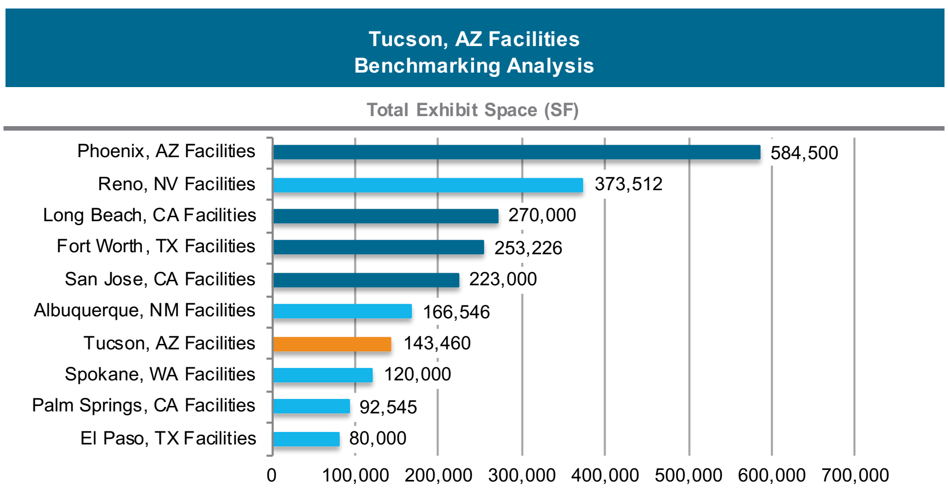
These indicators illustrate that attracting supplemental residential and commercial development should be one of Rio Nuevo's top priorities.

FACILITIES

EXHIBIT SPACE

Figure 3-8 presents the total square footage of exhibit space for the benchmarking set. With 143,460 total square feet, the Tucson facilities rank seventh among the benchmarking set. Phoenix and Reno facilities stand out with the largest exhibit spaces, while Palm Springs and El Paso have the smallest exhibit spaces to offer. Arena floors were also included as exhibit space in these calculations, as long as the arena is located within the same building as the primary exhibit hall space. This is the case for Tucson, Long Beach, and Fort Worth. An attached arena is advantageous for assembly and religious events, event flexibility, and scalability.

Figure 3-8

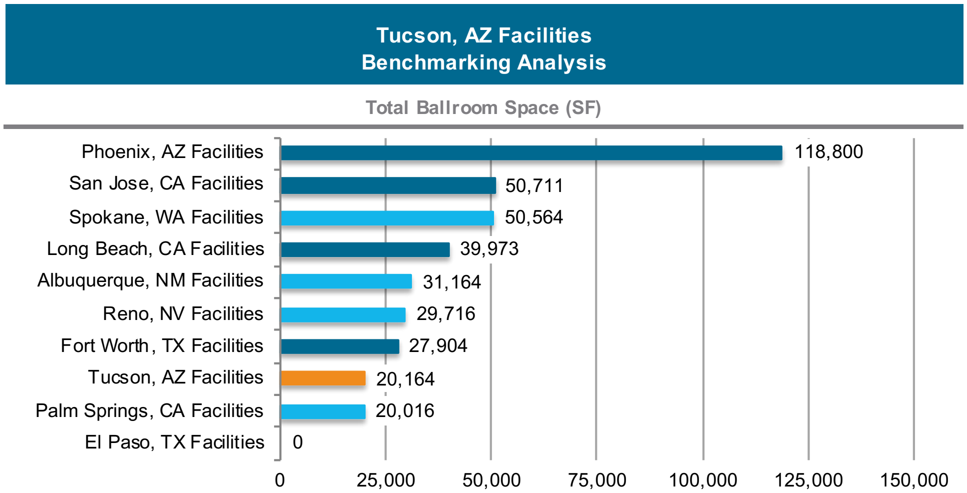


Source: Respective Facilities, Johnson Consulting

BALLROOM SPACE

As shown in Figure 3-9, the Tucson facilities rank eighth with respect to ballroom space, with 20,164 square feet. Phoenix has the largest offering of ballroom space by far with 118,800 total square feet, more than double the next largest total ballroom square footage. Notably, El Paso does not have a ballroom space. Although this function can be achieved with some of its larger meeting rooms or by sectioning-off portions of the exhibit hall, this is not ideal for acoustical and aesthetic purposes.

Figure 3-9

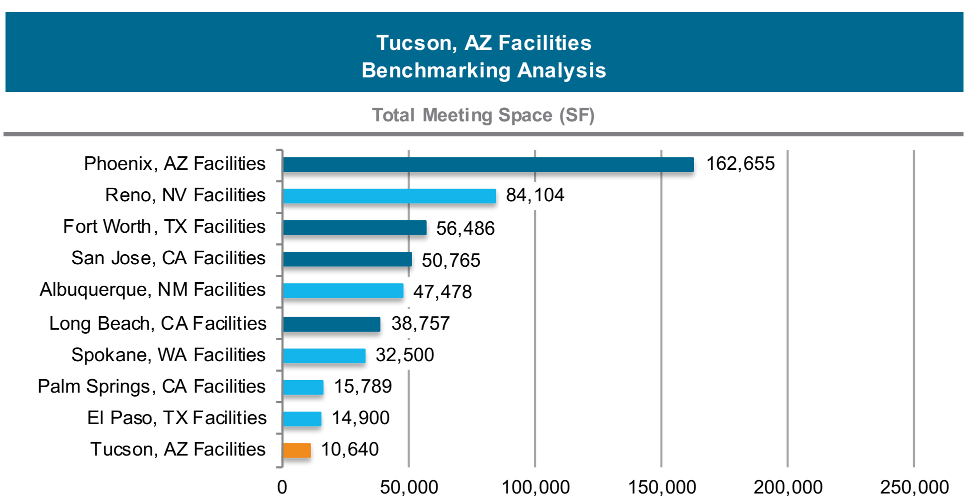


Source: Respective Facilities, Johnson Consulting

MEETING SPACE

The most significant shortfall of the Tucson facilities from a space perspective is the amount of meeting space available. With 10,640 square feet among 8 total meeting rooms, Tucson ranks 10th in the benchmarking set. Phoenix again has the largest total square footage of space in this category by far, with over 162,000 square feet among 105 meeting rooms. Figure 3-10 summarizes the total square footage of meeting space for the benchmarking set.

Figure 3-10



Source: Respective Facilities, Johnson Consulting

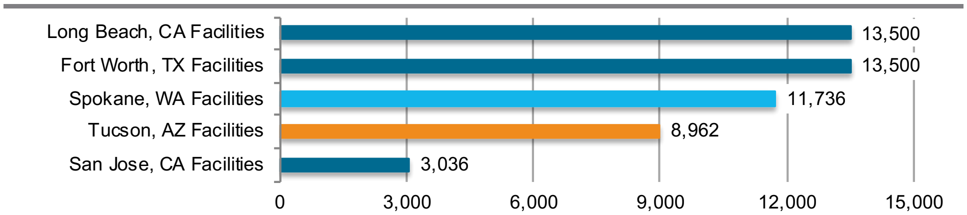
ARENA

Five of the ten case studies in the benchmarking set have an arena-type facility. Tucson, Long Beach, and Fort Worth have Arena facilities that are attached to their convention center facility, while the Spokane and San Jose arenas are off-site. Of the five case studies with arenas, Tucson's arena has the fourth highest capacity, with 8,962 seats. Long Beach and Fort Worth have the largest arenas with capacities of 13,500. These capacities will vary to some degree depending on the event configuration. Although Tucson Arena is the fourth smallest in the benchmarking set, it still provides a significant advantage over the five facilities that do not have arenas that are managed in conjunction with their other public facilities. Arenas allow facilities to host a greater variety of events that might otherwise not be accommodated, such as sporting events, large concerts and performances, and other events that require the congregation of large groups of guests in a single venue.

Figure 3-11

Tucson, AZ Facilities
Benchmarking Analysis

Total Arena Capacity

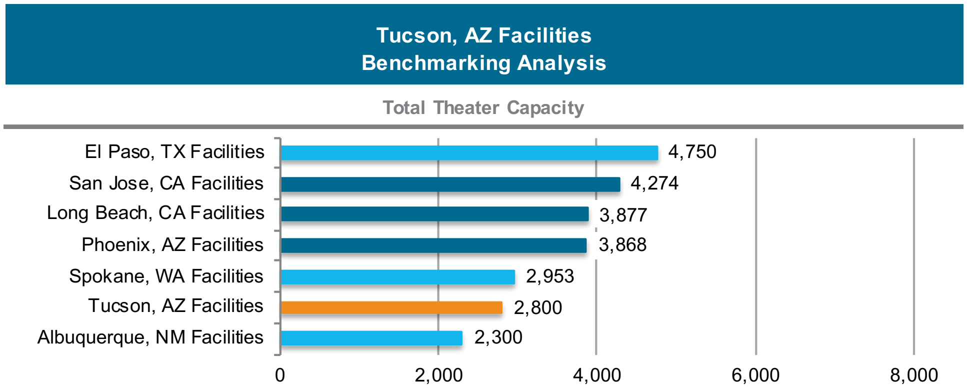


Source: Respective Facilities, Johnson Consulting

THEATER

Seven of the ten benchmarking facilities offer theater-type facilities in conjunction with their convention center. Tucson offers the 2,289-seat Music Hall and the 511-seat Leo Rich Theater, which are not connected to the TCC but are located within walking distance on the TCC campus. Combined, these two facilities total 2,800 seats, which ranks sixth among the benchmarking set. The El Paso facilities have the largest combined theater capacity (4,750), which includes three theaters. San Jose also offers three theaters with a combined capacity of 4,274. Long Beach and Phoenix each offer two theaters with combined capacities of 3,877 and 3,868, respectively. Spokane's INB Performing Arts Center has a seating capacity of 2,953, and Albuquerque's Kiva Auditorium seats 2,300. Theater-type facilities allow for the ability to host events with a performance or presentation component, events that require good acoustics, and events that desire a finer, more intimate setting.

Figure 3-12



Source: Respective Facilities, Johnson Consulting

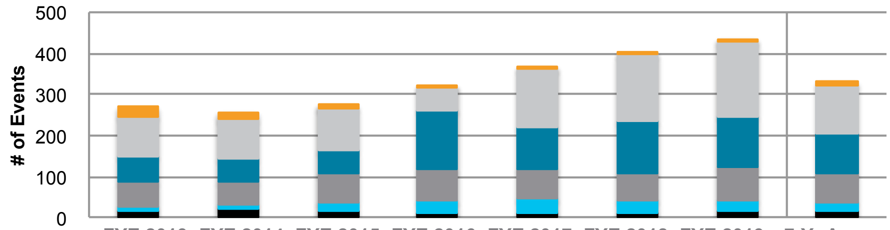
EVENTS & ATTENDANCE

EVENTS

The number of events hosted at the Tucson facilities has increased significantly in recent years. Figure 3-13 presents the historical event demand by event type for the Tucson facilities – showing that the total number of events per year has increased from 270 in FYE 2013 to 435 in FYE 2019, equating to a compounded annual growth rate (CAGR) of 8.3%. The event types that have been the most significant drivers of this growth are Consumer / Public / Family Shows, Sporting Events, and Meetings / Banquets / Assemblies, which saw annual growth of 15.8%, 11.8%, and 10.8% respectively. Concert / Performing Arts events have increased by 5.1% CAGR, annually. On the other hand, Convention events have experienced a slight decline as they have been inhibited by small amounts of meeting space, a small ballroom, and poor adjacent hotel supply. Further, the event category of "Other" have experienced a more notable decline (at minus 15.5% CAGR, annually), bringing down the total's growth to the aforementioned 8.3% CAGR, annually.

Figure 3-13

Tucson, AZ Facilities
Historical Event Demand (FYE 2013 - FYE 2019)



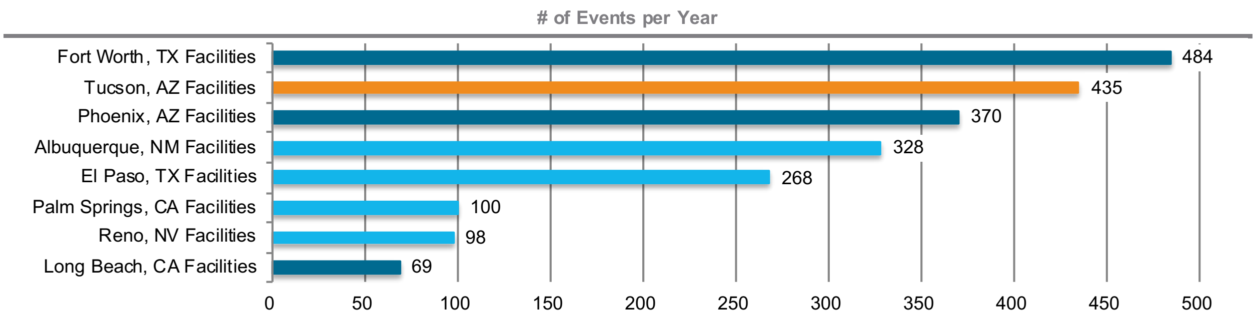
# of Events	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018	FYE 2019	7-Yr Avrg	CAGR***
Convention / Tradeshow	17	23	17	12	15	15	16	16	(1.0%)
Consumer / Public / Family Shows	12	11	20	29	32	30	29	23	15.8%
Concert / Performing Arts*	58	55	71	76	72	65	78	68	5.1%
Sporting Events**	64	55	55	145	100	125	125	96	11.8%
Meeting / Banquet / Assembly	97	95	104	55	142	161	179	119	10.8%
Other	22	19	9	3	6	3	8	10	(15.5%)
Total	**270**	**258**	**276**	**320**	**367**	**399**	**435**	**332**	**8.3%**

** Includes Tucson Symphony Orchestra and Arizona Friends of Chamber Music events*
*** Includes Tucson Roadrunners and UA Hockey events*
**** CAGR = Compounded Annual Growth Rate from end of FYE 2013 thru FYE 2019*
Source: Tucson, AZ Facilities, Johnson Consulting

Upon comparing the total number of events at the Tucson facilities to that of the benchmarking set, it is revealed that the Tucson facilities hosted the second highest number of events per year. Figure 3-14 presents this comparison, as available, for the most recent year available, showing that the number of events at these facilities ranged from just 69 at the Long Beach facilities to 484 at the Ft. Worth facilities. There are several factors that influence these numbers, such as the type of event, type of facility, number of facilities, and size of the facility. Oftentimes, larger facilities will have fewer events per year, but those events will take place over a larger number of days and draw a larger number of attendees, therefore generating more hotel room nights and a larger economic impact.

Figure 3-14

Tucson, AZ Facilities
Benchmarking Analysis



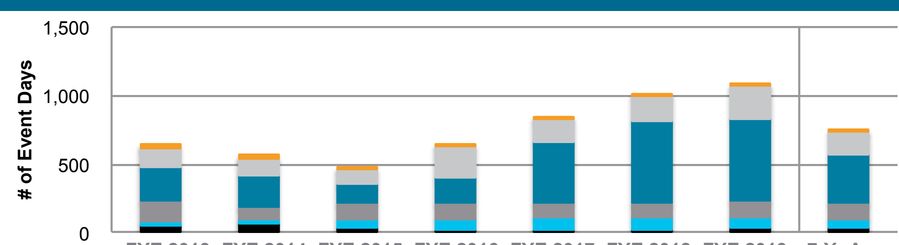
Source: Respective Facilities, Johnson Consulting

EVENT-DAYS

The event activity at the Tucson facilities has also increased significantly in terms of the number of event-days. Figure 3-13 presents the historical event-days by event type for the Tucson facilities – showing that the total number of event-days per year has increased from 646 in FYE 2013 to 1,076 in FYE 2019, equating to a compounded annual grown rate (CAGR) of 8.9%. The event types that have been the most significant drivers of this growth are Consumer / Public / Family Shows, Sporting Events, and Meetings / Banquets / Assemblies, which saw annual growth of 14.8%, 15.4%, and 10.0% respectively.

Figure 3-15

Tucson, AZ Facilities
Historical Event-Days (FYE 2013 - FYE 2019)

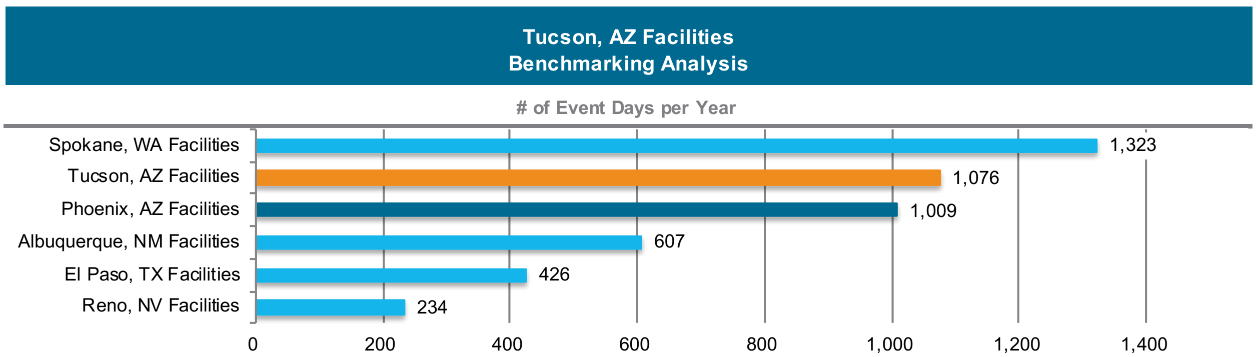


# of Event-Days	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018	FYE 2019	7-Yr Avrg	CAGR***
Convention / Tradeshow	47	63	41	21	25	27	32	37	(6.2%)
Consumer / Public / Family Shows	35	35	61	84	86	80	80	66	14.8%
Concert / Performing Arts*	148	93	113	115	112	110	125	117	(2.8%)
Sporting Events**	253	233	136	179	438	591	599	347	15.4%
Meeting / Banquet / Assembly	130	116	109	229	171	186	230	167	10.0%
Other	33	28	14	5	8	5	10	15	(18.0%)
Total	**646**	**568**	**474**	**633**	**840**	**999**	**1,076**	**748**	**8.9%**

** Includes Tucson Symphony Orchestra and Arizona Friends of Chamber Music events*
*** Includes Tucson Roadrunners and UA Hockey events*
**** CAGR = Compounded Annual Growth Rate from end of FYE 2013 thru FYE 2019*
Source: Tucson, AZ Facilities, Johnson Consulting

When compared to the number of event days for the benchmarking facilities for which this data is available, Tucson again ranks second highest for the most recent year. Figure 3-16 presents this comparison.

Figure 3-16



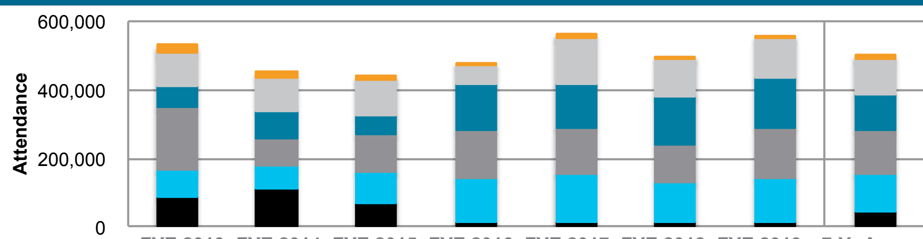
Source: Respective Facilities, Johnson Consulting

ATTENDANCE

In terms of attendance, activity at the Tucson facilities has grown, but has not kept pace with the growth in events and event days. Figure 3-17 presents the historical attendance statistics for events at the Tucson facilities, by event type. As shown, total attendance increased from 530,280 in FYE 2013 to 553,132 in FYE 2019 (0.7% compounded annual growth rate), although the 7-year average during this timeframe was 501,005, due to a few years in between when attendance was significantly lower. The most significant factor contributing to this attendance plateau is the decrease in Convention / Tradeshow activity, which decreased by 23.9% during this time period. These events tend to occur over more days and draw larger attendances than other event types, so the loss of even one or two events can have a large impact on total attendance.

Figure 3-17

Tucson, AZ Facilities
Historical Attendance (FYE 2013 - FYE 2019)

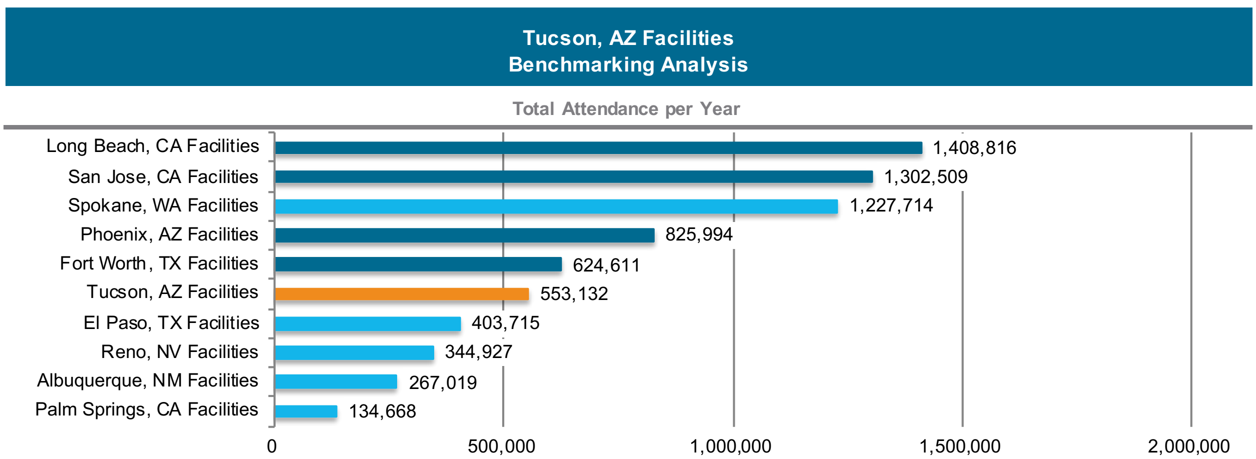


# of Events	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018	FYE 2019	7-Yr Avrg	CAGR***
Convention / Tradeshow	85,206	114,158	71,435	13,900	16,100	13,450	16,513	47,252	(23.9%)
Consumer / Public / Family Shows	81,587	62,636	90,296	127,331	139,208	118,218	124,271	106,221	7.3%
Concert / Performing Arts*	181,109	84,288	107,754	140,463	133,781	105,912	147,596	128,700	(3.4%)
Sporting Events**	65,060	77,442	53,203	133,102	126,843	141,935	145,824	106,201	14.4%
Meeting / Banquet / Assembly	92,390	95,201	105,414	56,071	134,560	111,567	114,278	101,354	3.6%
Other	24,928	20,218	14,385	2,250	11,700	800	4,650	11,276	(24.4%)
Total	**530,280**	**453,943**	**442,487**	**473,117**	**562,192**	**491,882**	**553,132**	**501,005**	**0.7%**

** Includes Tucson Symphony Orchestra and Arizona Friends of Chamber Music events*
*** Includes Tucson Roadrunners and UA Hockey events*
**** CAGR = Compounded Annual Growth Rate from end of FYE 2013 thru FYE 2019*
Source: Tucson, AZ Facilities, Johnson Consulting

Although growth has plateaued, the Tucson facilities still performed relatively well in terms of total attendance compared to the benchmarking set. As shown in Figure 3-18, Tucson ranks sixth out of the ten benchmarks, although when aspirational benchmarks are ignored, Tucson ranks second among the comparable benchmarks. All figures presented in this section are for the most recent year available (FYE 2019 in Tucson's case). Total attendance ranged from just 134,668 at the Palm Springs facilities to over 1.4 million at the Long Beach facilities, which demonstrates the degree to which these larger Convention / Tradeshow events can boost overall attendance numbers. Spokane, the highest ranked comparable benchmark, attracted over 1.2 million attendees per year to its facilities, although over 675,000 of this attendance is accounted for by the Spokane Arena.

Figure 3-18



Source: Respective Facilities, Johnson Consulting

REVENUE & EXPENSES

Figure 3-19 presents the statement of revenue and expenditures for the Tucson facilities for FYE 2016 through FYE 2019, as provided by SMG. As shown, these facilities generated nearly $7.3 million in operating revenue and nearly $9.7 million in operating expenses in FYE 2019, equating to a net operating loss of nearly $2.4 million. Between FYE 2016 and FYE 2019, total operating revenues have increased at a compounded annual growth rate of 10.3% while total operating expenses have increased at a rate of 9.7%, although this still resulted in an increase in net operating loss from $2.3 million in FYE 2016 to $2.4 million in FYE 2019 (or 1.7% compounded annual growth rate, annually).

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Figure 3-19

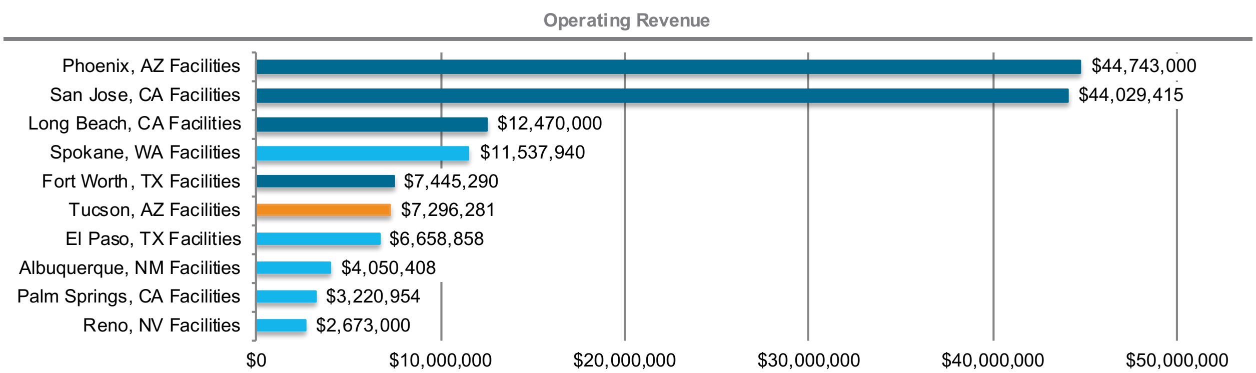
Tucson, AZ Facilities Statement of Revenue & Expenditures	FYE 2016	FYE 2017	FYE 2018	FYE 2019	CAGR*
Direct Event Revenue					
Rental Income	$1,281,666	$1,802,788	$1,874,840	$1,800,825	
Service Revenue	1,082,915	941,872	1,010,476	1,375,874	
Subtotal	**$2,364,581**	**$2,744,660**	**$2,885,316**	**$3,176,699**	**10.3%**
Ancillary Revenue					
F&B Concessions	$636,610	$838,674	$921,578	$1,254,025	
F&B Catering	439,056	508,022	594,326	807,803	
Novelty Sales	38,929	23,478	16,120	27,489	
Parking	814,361	847,722	770,469	837,477	
Telephone	1,630	240	0	0	
Electrical Services	76,918	79,081	87,113	110,505	
Audio Visual	14,263	153,935	46,111	26,347	
Internet Services	51,761	51,869	34,437	44,914	
Equipment Rental	33,059	62,815	79,237	146,912	
Other Ancillary	5,916	5,165	283	0	
Subtotal	**$2,112,503**	**$2,571,001**	**$2,549,674**	**$3,255,472**	**15.5%**
Other Event Revenue					
Ticket Rebates	$139,595	$232,496	$212,999	$311,948	
Facility Fees	325,852	316,948	310,860	392,304	
Subtotal	**$465,447**	**$549,444**	**$523,859**	**$704,252**	**14.8%**
Other Operating Revenue					
Non-Operating Parking	$43,937	$33,031	$34,728	$45,368	
Other Revenue	73,985	135,958	77,561	114,490	
Subtotal	**$117,922**	**$168,989**	**$112,289**	**$159,858**	**10.7%**
Total Revenue	**$5,060,453**	**$6,034,094**	**$6,071,138**	**$7,296,281**	**13.0%**
Salaries & Wages					
Salaries & Wages	$2,581,526	$2,975,161	$3,425,370	$3,860,967	
Payroll Taxes & Benefits	520,267	628,772	729,675	784,475	
Labor Allocations to Events	(721,985)	(1,052,765)	(1,350,923)	(1,512,924)	
Subtotal	**$2,379,808**	**$2,551,168**	**$2,804,122**	**$3,132,518**	**9.6%**
Indirect Expenses					
Service Expenses	$1,791,313	$2,184,301	$1,967,865	$2,252,049	
Contracted Services	255,344	$99,007	$105,204	$112,388	
General & Administrative	303,851	347,069	363,021	471,983	
Operating	222,172	333,858	357,217	422,029	
Repairs & Maintenance	468,032	663,125	580,479	860,563	
Operational Supplies	20,123	38,272	51,730	77,164	
Insurance	105,111	188,877	178,172	149,830	
Utilities	1,576,130	1,653,074	1,767,282	1,856,255	
SMG Management Fee	211,470	315,050	326,546	349,541	
Subtotal	**$4,953,546**	**$5,822,633**	**$5,697,516**	**$6,551,802**	**9.8%**
Total Expenses	**$7,333,354**	**$8,373,801**	**$8,501,638**	**$9,684,320**	**9.7%**
Net Operating Income (Loss)	**($2,272,901)**	**($2,339,707)**	**($2,430,500)**	**($2,388,039)**	**1.7%**
Capital Expenditures	$594,747	$752,380	$482,001	$215,102	
Net Income (Loss)	**($2,867,648)**	**($3,092,087)**	**($2,912,501)**	**($2,603,141)**	**(3.2%)**

** CAGR = Compounded Annual Growth Rate from end of FYE 2016 thru FYE 2019*
Source: TCC, Johnson Consulting

Comparison of the Tucson facilities' revenue and expenses to the benchmarking set reveals that, while the overall volume varies, the proportionality of these numbers to the facilities (considering the number, type, and size) that exist in each market are on par. Figure 3-20 presents the total operating revenue for the benchmarking set, showing that Tucson ranks sixth out of ten by this measure. All figures presented in this section are for the most recent year available (FYE 2019 in Tucson's case). Unsurprisingly, the two benchmarks that stand out are Phoenix and San Jose, each with over $44 million in operating revenue. Phoenix has the largest convention center of any of the benchmarks by far, with nearly double the square footage of the next largest convention center. San Jose benefits from being located in Silicon Valley, resulting in higher demand and higher prices in general, and also has the largest number of facilities of any of the benchmarks. Tucson ranks second highest among comparable benchmarks, again with the Spokane facilities generating the highest operating revenue of this subset.

Figure 3-20

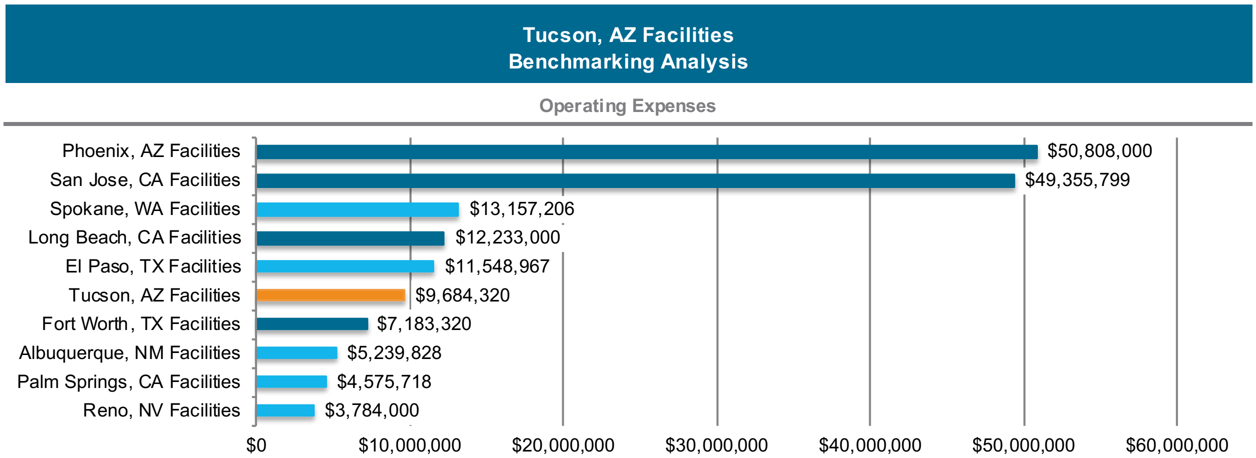
Tucson, AZ Facilities
Benchmarking Analysis



Source: Respective Facilities, Johnson Consulting

The trend is similar in terms of operating expenses. Phoenix and San Jose again have the highest operating expenses by far, with over $50.8 million and over $49.3 million, respectively. Tucson, with total operating expenses of nearly $9.7 million, ranks sixth overall and third among comparable benchmarks. This comparison is presented in Figure 3-21.

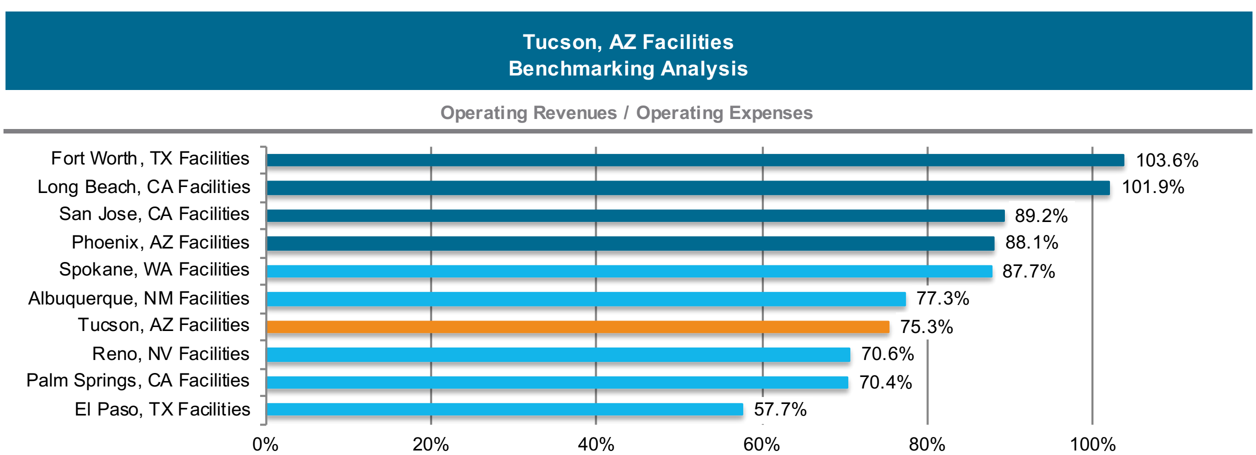
Figure 3-21



Source: Respective Facilities, Johnson Consulting

As a function of the previous two metrics, Figure 3-22 presents operating revenues as a percentage of operating expenses, revealing how much of each benchmark's expenses are covered by revenues generated at the facilities versus how much is subsidized by tax revenue or other public funds. As shown, this value ranges from 57.7% in El Paso to 103.6% in Fort Worth. All four aspirational benchmarks are ranked atop this list. Tucson, with a value of 75.3%, ranks seventh overall and third among comparable benchmarks.

Figure 3-22



Source: Respective Facilities, Johnson Consulting

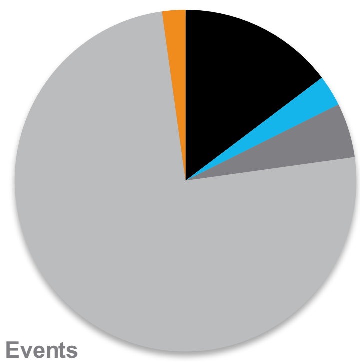
LOST BUSINESS

Lost business can serve as a metric of evaluating the degree to which these benchmarks, as well as other facilities, have been successful in competing with the Tucson facilities.

Figure 3-23 presents the number of lost events by event type and reason for lost business occurring in fiscal years 2017 – 2019. As shown, there were 136 total events lost – the vast majority of which (102) were meetings / banquets /assemblies, as well as 20 conventions/ tradeshows. The reason for the lost business varied – 57 events involved another venue being chosen, 43 events simply did not confirm, and 14 were due to the lack of available hotel rooms.

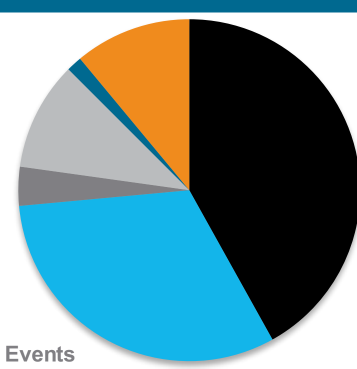
Figure 3-23

Tucson, AZ Facilities
Lost Events by Type (FYE 2017 - FYE 2019)



	# of Events
Convention / Tradeshow	20
Consumer / Public / Family Shows	4
Concert / Performing Arts	7
Meeting / Banquet / Assembly	102
Other	3
Total	**136**

Tucson, AZ Facilities
Lost Events by Reason (FYE 2017 - FYE 2019)



	# of Events
Chose Alternate Venue	57
Did Not Confirm	43
Funding	5
Hotel Rooms Not Available	14
Selected New Date	2
Unknown	15
Total	**136**

Source: Tucson, AZ Facilities, Johnson Consulting

SECTION IV

STRATEGIC RECOMMENDATIONS

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STRATEGIC RECOMMENDATIONS

It is still clear that the TCC does not currently meet nationally recognized performance and design standards. Hiring SMG and making incremental improvements in the arena have been great strides forward, and the current renovation and expansion plans for the TCC complex and the promising hotel development pipeline are encouraging signs that this success will continue. Operationally, no major issues exist, and this is commendable, as operations were one of the biggest liabilities in the past. The City, Rio Nuevo, the Convention and Visitors Bureau and SMG are communicating and have developed a positive spirit regarding the TCC.

It is still our considered opinion that the investment requirement to make the TCC competitive is in excess of $100 million to address long term capital needs of the convention center and attracting additional hotel supply to support the TCC. Stimulation of a substantially improved hotel and entertainment offering around the TCC campus must now be the priority. The lack of these offerings in the immediate vicinity is a liability.

As has been the case, The District can continue to make smaller investments, making the TCC better and making the broader downtown a better environment, as it is doing quite successfully. These investments alone make Tucson more competitive, but until the two biggest issues facing the District are addressed – the absence of a competitive hotel supply and competitive design standards – market penetration of the convention and tradeshow market will continue to be hampered.

TUCSON CONVENTION CENTER COMPLEX

SHORT-TERM

In the immediate future, management of the TCC should consider the following recommendations:

- Continue to push SMG and the CVB in developing both local and out of town events. SMG's annual reports should report prior year performance and set goals for future demand by event type, revenue enhancements and expense reductions. As noted above, critical to their annual reporting should be a capital budgeting request rated by essential/ life safety, important and non-essential.

- SMG should provide analysis and strategies and targets to continue to improve demand and attendance by event category and for each venue so that it is clear what components of the campus are responsible for specific revenue and expense generation.

- Continue tracking attendance for each of the event categories for the arena and the convention center. This will allow management, COT and the District to understand what events are having the most significant impact on tax revenue generation and hotel room night demand. It will also provide direction in terms of a more robust sales and marketing plan to target underperforming event categories.

- Both SMG and Visit Tucson should continue to perform satisfaction surveys and track lost business, by reason event type, and incorporate this information in their annual reporting. The lost business tracking should be a priority – the lost business data that was provided for this report contained a significant number of events that were lost due to reasons like "Chose Alternate Venue" and "Did Not Confirm." Although the total number of events provides insight into the total volume of lost business, the purpose of lost business data is to understand *why* these event planners chose another venue or did not confirm. Every effort should be made to reach out to these contacts and understand the factors in their decision-making process that led them to take their business elsewhere. This will continue to highlight strengths and weaknesses of management, the facilities, and the market. These factors can then be assessed and prioritized by the COT and the District.

- Rio Nuevo management has been hesitant to take on additional staff and spend funds not essential to its mandate. In our judgment, they have become too conservative with expenses and would benefit from additional capacity and investment in research, project management, and urban planning. To that end, an updated masterplan and budget are required to identify and evaluate the most critical improvement needs for the TCC complex, as well as to establish a plan for attracting adjacent hotel supply and supplemental real estate development. While the expansion and renovation plans that have been set forth address many of the most important needs, it's important to prioritize and be strategic with these major investments to ensure that funds are being allocated as effectively as possible. A masterplan is the industry's best practice in accomplishing this.

LONG-TERM

The COT and the TCC, via SMG and the City's contract administrator, currently have a good team overseeing TCC operations. These efforts are still subject to COT administrative policy and while good stewardship of the TCC is currently in place, it is still subject to changing administrations and COT priorities. If a recession comes or a less inclined City administration evolves, the TCC could once again be at risk, putting the District at risk by consuming resources too great for its capacity or required investment balance among all its responsibilities. As discussed in our prior analysis, there are stewardship models in place that accomplish the intent of the District better, notably the Spokane PFD, the Metropolitan Pier and Exposition Authority (MPEA) in Chicago and the Convention Center Authority in Erie, PA. We continue to advocate for an operating model similar to the MPEA in Chicago or in Erie, PA., where there is an oversight authority with dedicated funding to protect the asset and purpose of the venue.

RIO NUEVO

The Consulting Team sets forth the following recommendations that aim to continue the momentum that has occurred in recent years and to guide Rio Nuevo forward in achieving the future that is envisioned.

- **District Master Plan**: in our prior reports, it was recommended that the District develop a longer-term, strategic master plan. This generally exists, but still is not as formalized as needed. There is still need for a specific plan to be developed in order to foster the visualization of the future of the TCC District. This plan should address expansion, headquarters hotel(s), adjacent edges, and land assemblage.

- **Required Board of Director Membership:** A.R.S. §48-4202 establishes the composition of the Board of Directors for the District and requires that the Board consist of nine (9) members. We noted that as of June 30, 2019 there were only six (6) members appointed. Therefore, our recommendation would be to notify the Governor and Speaker of the House that additional members should be added to the Board in order to be in compliance with the statute.

- **Finance Department Staffing:** As the District is continuously growing in terms of its impact and footprint, management should consider adding at least a part time accounting and/or finance staff during high demand in order to maintain the high level of reporting and transparency required of the District while also serving the requirements of the day-to-day operations.

- **District Budget Information:** While the District is in compliance with the statutory requirements of A.R.S. §48-4232 in relation to annual budgets, we recommend the District develop more formal budget projections that extended beyond the upcoming fiscal year. Management should consider developing five-year budget projects; however, at a minimum should consider developing three-year budget projections. This will help in developing and achieving long-term strategic goals.

- **Formalization of Capital Planning:** In achieving the long-term strategic goals of the District and evaluating the success of the projects previously implemented, it is critical that the District Board and Management revisit their capital planning process and formalize key components. A comprehensive capital improvement plan may consider the following:

    - Policies and procedures for the evaluation, planning, funding, approval, and execution of capital projects. This should include development of policies and procedures for potential projects that are three to five years out that are not currently being evaluated/considered.

    - Financial evaluation tools such as long- and short-term cost budgets and revenue projections, return on investment calculations, and analysis of financing options (e.g., internally funded, private/public partnership, bond issuance, etc.).

    - Reporting and monitoring practices that will make data available related to the impact and performance of projects (i.e., costs, revenues, attendance, increase in property value, etc.).

APPENDIX

SUPPORT SCHEDULES

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RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Capital Costs & Construction in Progress - Schedule A (Table 1)
As of June 30,

	2016	Increases	Decreases	Transfers	2017	Increases	Decreases	Transfers	2018	Increases	Decreases	Transfers	2019
Construction in Progress													
Tucson Convention Center	$ 751,932	$ -	$ -	$ (668,934)	$ 82,998	$ -	$ -	$ -	$ 82,998	$ 32,910	$ -	$ -	$ 115,908
CAT	-	1,642,092	-	-	1,642,092	19,690,420	-	-	21,332,512	26,199,165	-	(47,531,677)	-
Gadsen	-	2,202,777	-	(2,202,777)	-	-	-	-	-	-	-	-	-
Greyhound	113,235	-	-	(113,235)	-	-	-	-	-	-	-	-	-
AC Marriott	10,000	-	-	(10,000)	-	-	-	-	-	-	-	-	-
	875,167	3,844,869	-	(2,994,946)	1,725,090	19,690,420	-	-	21,415,510	26,232,075	-	(47,531,677)	115,908
Land	7,654,417	7,558,109	-	2,202,777	17,415,303	29,000	-	-	17,444,303	182,000	-	-	17,626,303
Land Improvements	-	-	-	-	-	-	-	-	-	443,554	-	-	443,554
Buildings	40,687,548	4,284,075	-	792,169	45,763,792	37,550	-	-	45,801,342	1,524,309	-	47,531,677	94,857,328
Equipment	911,120	96,000	-	-	1,007,120	-	-	-	1,007,120	240,143	-	-	1,247,263
	50,128,252	15,783,053	-	-	65,911,305	19,756,970	-	-	85,668,275	28,622,081	-	-	114,290,356
Less: Accumulated Depreciation	(11,803,489)	(1,615,878)	-	-	(13,419,367)	(1,726,978)	-	-	(15,146,345)	(2,586,574)	-	-	(17,732,919)
Total Capital Assets	$ 38,324,763	$ 14,167,175	$ -	$ -	$ 52,491,938	$ 18,029,992	$ -	$ -	$ 70,521,930	$ 26,035,507	$ -	$ -	$ 96,557,437

Source - Rio Nuevo general ledger, fiscal year 2017-2019 audited financial statements.

Note - As of the date of this performance audit report, the fiscal year 2019 financial statement audit had not yet been issued.

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RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Status of Construction in Progress - Schedule A (Table 2)
As of June 30, 2019

Project	June 30, 2016	Additions	Capitalized FY 2017, 2018 & 2019	Sales of Property	June 30, 2019	Budget	Estimated Costs to Complete	Status	Notes
Tucson Convention Center Renovations	751,932	32,910	(668,934)	-	115,908	$ 11,700,802	$ 10,800,052	Complete	Phase II is complete, which includes renovations to the hockey facilities. Further renovations are being done to the overall Tucson Convention Center campus. $70 million of financing was obtained for the renovations and improvements.
CAT	-	47,531,677	(47,531,677)	-		52,000,000	47,531,677	Complete	Caterpillar has moved in and the project is wrapped up. The District has a few invoices to pay, including retention to Sundt.
Westside	-	-	-	-	-	TBD	TBD	In Planning	The District invested $2.4 million in the form of a note receivable to help finance the Monier Apartments.
Greyhound	113,235	-	(113,235)	-	-	1,900,000	-	Complete	Project completed and financing in place as of May 2017.
AC Marriott Hotel	10,000	-	(10,000)	-	-	4,300,000	4,300,000	Complete	Funds refunded. Project will be financed via rebates.
City Park	-	-	-	-	-	2,600,000	2,600,000	In Planning	Money is set aside in a "restricted" account. Bourne is looking at options on what to do with the space.
Gadsden	-	2,202,777	(2,202,777)	-	-	2,200,000	$ -	Purchased	The land was purchased in September of 2016 and is now leased with retail, restaurants and an entertainment venue. Additional projects are in process.
Totals	$ 875,167	$ 49,767,364	$ (50,526,623)	$ -	$ 115,908				

Source - Rio Nuevo general ledger, fiscal year 2019 draft audited financial statements, fiscal year 2017 and 2018 audited financial statements.

Note - As of the date of this performance audit report, the fiscal year 2019 financial statement audit had not yet been issued.

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RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Debt Service Payments - Schedule B (Table 1)
For the Period from Inception to June 30, 2019

	Inception to June 30, 2016	FY17	FY18	FY19	Inception to June 30, 2019
Revenue Bonds Refunded, Series 2016					
Principal	$ 2,835,000	$ 6,060,000	$ 6,240,000	$ 6,425,000	$ 21,560,000
Interest	480,836	1,844,530	1,676,062	1,502,590	5,504,018
Revenue Bonds Refunded, Series 2017					
Principal	-	-	160,000	185,000	345,000
Interest	-	-	94,372	80,110	174,482
COPs, Series 2009:					
Principal	3,200,000	880,000	910,000	7,570,000	12,560,000
Interest	3,315,905	404,925	369,725	509,379	4,599,934
Construction Loan Payable					
Principle	-	-	-	381,070	381,070
Interest	-	-	-	295,630	295,630
Revenue Bonds, Series 2008:					
Principal	80,000,000	-	-	-	80,000,000
Interest	32,842,949	-	-	-	32,842,949
Total Principal Paid	86,035,000	6,940,000	7,310,000	14,561,070	114,846,070
Total Interest Paid	36,639,690	2,249,455	2,140,159	2,387,709	43,417,013
Total Debt Service Payments	$ 122,674,690	$ 9,189,455	$ 9,450,159	$ 16,948,779	$ 158,263,083

Source - Rio Nuevo general ledger, fiscal year 2019 draft audited financial statements, fiscal year 2017 and 2018 audited financial statements.

Note - As of the date of this performance audit report, the fiscal year 2019 financial statement audit had not yet been issued.

JOHNSON CONSULTING

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Debt Service Schedule - Schedule B (Table 2)
For the Fiscal Years ending June 30,

	Series 2016		Series 2017		Construction loan payable		Fiscal Year
Date	Principal	Interest	Principal	Interest	Principal	Interest	Total
FY 2020	6,615,000	1,323,975	190,000	70,920	2,263,567	1,131,284	11,594,746
FY 2021	6,815,000	1,140,078	195,000	64,080	2,279,702	1,115,149	11,609,009
FY 2022	7,020,000	950,621	205,000	57,060	2,349,041	1,045,810	11,627,532
FY 2023	7,230,000	755,466	210,000	49,680	2,420,489	974,362	11,639,997
FY 2024	7,445,000	554,470	220,000	42,120	2,494,111	900,740	11,656,441
FY 2025-2030	12,500,000	347,500	950,000	86,940	13,655,678	3,318,576	30,858,694
FY 2030-2034	-	-	-	-	15,011,829	1,113,712	16,125,541
	$ 47,625,000	$ 5,072,110	$ 1,970,000	$ 370,800	$ 40,474,417	$ 9,599,633	$ 105,111,960

Sources - 1) Rio Nuevo general ledger, 2) Certificates of Participation - Series 2009, 3) Subordinate Lien Excise Tax Revenue Refunding Bonds, Series 2016A and 2016B, 4) Subordinate Lien Excise Tax Revenue Refunding Bonds, Series 2017A and 2017B, 5) Construction loan payable amortization schedule

Note 1 - For purposes of financial reporting, debt service payments made within close proximity to year end are deemed to have been made in the recently ended fiscal year (e.g., debt service payments made July 1st through 15th of 2019 (FY 2020) are

Note 2 - As of the date of this performance audit report, the fiscal year 2019 financial statement audit had not yet been issued.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Schedule of Operating Expenditures - Schedule C (Table 1)
For the Fiscal Years Ending June 30,

	2017	2018	2019
Professional Services			
Legal	$ 965,841	$ 592,603	$ 716,574
Audit & Accounting	106,859	27,500	27,000
Consulting & Engineering	141,151	141,652	141,876
Other Professional Services	170,246	654,052	(9,022)
Total Professional Services	1,384,097	1,415,807	876,428
Administration Expenses			
Fiscal Agent Fees	6,500	18,000	8,000
Payroll & Benefits	70,607	66,737	70,082
Rent	12,037	20,546	16,710
Office Expense	12,785	5,205	6,692
Insurance	50,004	50,320	49,278
Business Improvement District Tax	188,549	188,477	188,714
Other Taxes	(4,359)	-	1,595
Advertising & Marketing	610,931	622,894	801,936
Licenses, Permits & Fees	1,177	1,369	102,520
Total Administrative Expenses	948,231	973,548	1,245,527
Total Operating Expenses	$ 2,332,328	$ 2,389,355	$ 2,121,955

Source - Rio Nuevo general ledger.

Note 1- Rio Nuevo general ledger is maintained on the accrual basis of accounting and as such, expenses are recorded when incurred not when cash is disbursed.

Note 2 - As of the date of this performance audit report, the fiscal year 2019 financial statement audit had not yet been issued.

Note 3 - Tucson Convention Center expenditures are not recorded in Rio Nuevo's general ledger, as the TCC is managed by an outside entity, SMG.

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RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Schedule of Revenues - Schedule C (Table 2)
For the Fiscal Years Ending June 30,

	2017	2018	2019
TIF Revenue			
TCC Related			
SMG	$ 385,168	$ 314,558	$ 482,215
Events	1,752,153	1,502,856	1,636,599
Other	32,642,597	34,417,265	37,695,489
Less, baseline amounts	(22,714,566)	(23,694,931)	(24,351,942)
Total TIF Revenue	12,065,352	12,539,748	15,462,361
Rent			
TCC	1,284,925	1,279,725	1,288,492
Other	115,919	101,917	697,163
Total Rent	1,400,844	1,381,642	1,985,655
Other			
Tucson roadrunners surcharge	193,520	231,988	213,258
Miscellaneous	-	-	4,625
Total Other	193,520	231,988	217,883
Interest & investment income	45,013	99,540	321,910
Total District Revenues	$ 13,704,729	$ 14,252,918	$ 17,987,809

Source - Rio Nuevo general ledger.

Note 1- Rio Nuevo general ledger is maintained on the accrual basis of accounting, and as such revenues are recorded when earned, not when cash is received.

Note 2 - As of the date of this performance audit report, the fiscal year 2019 financial statement audit had not yet been issued.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Schedule of Municipal Payments (City Match) - Schedule D
Inception-to-Date as of June 30, 2019

	As of June 30, 2016	Performance Period	As of June 30, 2019
Multipurpose Facility Projects			
TCC Elevator and Escalator Repair/Replacement	$ 3,561,753	$ -	$ 3,561,753
TCC Solar Panels	2,605,114	-	2,605,114
TCC Facility Improvements	2,013,560	-	2,013,560
TCC Arena Bleachers	1,054,097	-	1,054,097
TCC Roof Improvements	572,984	-	572,984
TCC Box Office	59,763	-	59,763
TCC Banquet Chairs	-	165,567	165,567
TCC Zamboni and Arena Door Modifications	-	141,944	141,944
TCC Security Cameras	-	100,000	100,000
TCC Kitchen Equipment	-	66,123	66,123
TCC Dance Floor Replacement	-	38,966	38,966
TCC Music Hall Elevator	-	215,051	215,051
TCC Music Hall Dimmer System	-	87,820	87,820
TCC Music Hall Curtain	-	49,230	49,230
TCC Music Hall Flyrail Project	-	32,951	32,951
TCC Music Hall Portable Bar Carts	-	18,134	18,134
TCC Arena Forklifts (2)	-	72,177	72,177
TCC Arena Ice Rink Compressor	-	46,338	46,338
TCC Arena Power Scrubber	-	24,800	24,800
TCC Storage Room	-	37,375	37,375
TCC Arena Turf Storage Racks	-	35,000	35,000
TCC Arena Metal Detectors	-	32,258	32,258
TCC Arena Point of Sale Tem1inals	-	18,975	18,975
TCC Arena Readyspace Extractor	-	12,639	12,639
TCC Club Car Golf Carts (2)	-	11,756	11,756
TCC Arena Model 6100 Sweeper	-	11,471	11,471
TCC Parking Lot Traffic Spikes	-	6,905	6,905
TCC Eckbo Plaza Lighting	-	26,075	26,075
	$ 9,867,271	$ 1,251,555	$ 11,118,826
Multipurpose Facility Site Projects			
Modern Streetcar	$ 95,142,162	$ 68,563,814	$ 163,705,976
Firestation 1 Relocation	36,604,349	-	36,604,349
City Hall Annex Parking Garage	12,018,038	-	12,018,038
Central Energy District Heating and Cooling Loop	9,122,482	-	9,122,482
Central Plant Expansion	8,813,001	-	8,813,001
Water Review Developer Financed Projects	9,218,372	-	9,218,372
Barraza-Aviation Parkway - Downtown	26,579,803	-	26,579,803
Plaza Centro Garage	6,580,359	-	6,580,359
Transit Headquarters Build Improvements	6,250,816	-	6,250,816
Downtown Intermodal	5,728,687	-	5,728,687
MLK Amenities	3,393,027	-	3,393,027
MacArthur Building Acquisition	2,394,350	-	2,394,350
Diamond Snake Bridge	2,374,825	-	2,374,825
Broadway: Euclid to Country Club	7,549,598	-	7,549,598
Court Structural Improvements	1,747,634	-	1,747,634
Broadway/Euclid/Camp	1,606,517	-	1,606,517
Fox Theatre Special	1,000,000	-	1,000,000
Depot Tenant Improvements	976,498	-	976,498
El Paso and Southwestern Greenway	961,787	-	961,787
Mercado District Rentals - EL Portal	562,914	-	562,914
Rio Nuevo Housing Site	554,594	-	554,594
City Staff Time Spent on Capital Projects	511,772	-	511,772
Stone Ave Corridor Phase II	443,890	-	443,890
Broadway Turn Lane @El Con	384,550	-	384,550
City/State Parking Garage Improvements	329,022	-	329,022
City Hall Annex Communications	301,126	-	301,126
Pedestrian Impl Plan	288,647	-	288,647
Clean Renewable Energy Bonds Solar Panels	276,243	-	276,243
Police Headquarters Expansion	223,341	-	223,341

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT
Schedule of Municipal Payments (City Match) - Schedule D
Inception-to-Date as of June 30, 2019

Multipurpose Facility Site Projects (continued)	As of June 30, 2016	Performance Period	As of June 30, 2019
Broadway and 5th Parking Structure	140,803	-	140,803
Armory Park Pedestrian Enhancements	126,877	-	126,877
6th Street Improvements	121,216	-	121,216
Downtown Wayfinding Improvements	119,906	-	119,906
WWII Downtown Memorial	105,300	-	105,300
S Stone Ave and Cushing st. Hawk	95,095	-	95,095
Main Library Parking Garage Improvements	83,747	-	83,747
Main Library Plaza	72,685	-	72,685
Congress Improvements	57,394	-	57,394
Ronstadt Transit Center	49,186	-	49,186
Jacome Plaza Historical Marker	38,057	-	38,057
B2B Mayor - Rialto Marque	21,000	-	21,000
Building Main & Improvements	20,260	-	20,260
Depot Plaza	15,000	-	15,000
Council Chambers	12,936	-	12,936
Broadway/Alvernon Intersection	11,305	-	11,305
Country Club: Broadway to 22nd	9,928	-	9,928
Euclid Ave - Broadway to Grant D	8,123	-	8,123
Misc Street & Spot Improvements	5,013	-	5,013
Broadway-Tucson/Country Club	1,986	-	1,986
Data Center Storage/Server Infrastructure	-	1,903,447	1,903,447
Court Building Remodel	-	3,929,644	3,929,644
Police Headquarters Video Surveillance System	-	133,459	133,459
Historic Train Depot RoofReplacement	-	578,357	578,357
Public Works Building Remodel	-	628,575	628,575
Greyhound Transit Center	-	2,894,341	2,894,341
SunLink Maintenance Storage Facility	20,145,484	-	20,145,484
Reid Park Solar Charging Station for Golf Carts	-	128,458	128,458
Congress Landfill Remediation	-	6,526,405	6,526,405
	$ 263,199,705	$ 85,286,500	$ 348,486,205
Private Sector District Site Projects			
I E Congress St. Tenant Improvements	$ -	$ 70,000	$ 70,000
I S Church Ave. Tenant Improvements	-	1,091,475	1,091,475
I W Broadway Tenant Improvements	-	330,373	330,373
IO E Broadway Facade Improvements	-	2,700,000	2,700,000
100 N. Stone Ave. Tenant Improvements	-	1,084,000	1,084,000
I 00 S. Church Ave. Office	-	248,700	248,700
110 E. Congress St. Restaurant	-	120,000	120,000
I 10 S. Church Ave. Apartment Building	-	49,647,800	49,647,800
111 S. Church Ave. 7 Story Housing & Garage	-	12,674,645	12,674,645
145 S. 6th Ave. Salon	-	750,000	750,000
160 S. Avenida Del Convento Apartment Building	-	20,908,673	20,908,673
166 W. Alameda St. Remodel/Auditorium	-	1,000,000	1,000,000
177 N. Church Ave. Office Renovation	-	625,000	625,000
178 E. Broadway Tenant In1provements	-	216,000	216,000
181 W. Broadway Pham1acy	-	215,000	215,000
192 S. Stone Ave. Office Building	-	9,821,131	9,821,131
1935 E. Broadway Automotive Repair	-	324,648	324,648
2 E. Congress St. Apartments	-	762,000	762,000
20 E. Broadway Apartment Building	-	8,485,969	8,485,969
20 E. Congress St. Tenant In1provements	-	433,000	433,000
20 S. Stone Ave. New Apartment Building	-	19,870,883	19,870,883
231 S. Avenicla del Palo Fierro Duplex	-	335,429	335,429
235 S. Church Ave. Renovation	-	1,800,000	1,800,000
266 E. Congress St. Restaurant	-	212,000	212,000
267 S. Avenida del Convento Entertainment Complex	-	1,699,635	1,699,635
278 E. Congress St. Tl's & Playground Remodel	-	900,000	900,000
2936 E. Broadway Restaurant Tenant Improvements	-	300,000	300,000
3699 E. Broadway Retail Renovation	-	1,100,000	1,100,000
37 E. Pennington Charter School	-	381,000	381,000
40 E. Congress St. New Shell & Improvements	-	12,165,160	12,165,160
415 N. 6th Ave. Office	-	2,800,000	2,800,000
450 W. Paseo Redondo Tenant Improvements	-	350,000	350,000
4575 E. Broadway Hospital Improvements	-	4,445,300	4,445,300
4722 E. Broadway Shell/Gym Improvements	-	1,317,500	1,317,500
5049 E. Broadway Tenant Improvements	-	281,000	281,000
5151 E. Broadway Office Renovations	-	1,442,000	1,442,000
5255 E. Williams Office Tenant Improvements	-	450,000	450,000
5420 E. Broadway Bakery Tenant Improvements	-	231,000	231,000
5460 E. Broadway Salon Tenant Improvements	-	350,000	350,000
5470 E. Broadway Office Tenant Improvements	-	329,625	329,625
55 N. Park Ave. New Apt. Building	-	53,450,130	53,450,130
5721 E. Broadway Restaurant	-	399,270	399,270
5870 E. Broadway Retail/Theatre Tenant Improvements	-	4,460,000	4,460,000
5950 E. Broadway Retail Tenant Improvements	-	2,203,713	2,203,713
63 E. Congress St. Arcade & Bar	-	245,000	245,000
855 W. Congress St. Apt. Building	-	12,293,637	12,293,637
875 W. Cushing St. Caterpillar HQ	-	34,704,787	34,704,787
88 E. Broadway Restaurant Tenant [mprovements	-	425,685	425,685
999 E. Broadway Pool	-	420,880	420,880
	$ -	$270,872,048	$ 270,872,048
Projects Partly In Site, In District			
Barraza/Aviation Phase 1	$ 44,166,915	$ -	$ 44,166,915
Arroyo Chico Drainage Improv	6,945,273	-	6,945,273
	$ 51,112,188	$ -	$ 51,112,188
Total	$ 324,179,164	$ 357,410,103	$ 681,589,267

Source - City of Tucson, Finance & Planning & Development Departments

Note - The website for the Office of the Arizona State Treasurer identifies sales tax distributions made by the State Treasurer to the District. Aggregate sales tax distributions made to the District from inception through June 30, 2019 is identified as $179,050,733 on the State Treasurer website.