RIO NUEVO MULTIPURPOSE FACILITIES BOARD MEETING

Tucson, Arizona
July 15, 2013
2:00 p.m.

REPORTED BY:

John Fahrenwald

KATHY FINK & ASSOCIATES

2819 East 22nd Street
Tucson, Arizona  85713
(520) 624-8644
(Meeting commenced at 2:01 p.m.)

CHAIRMAN McCUSKER: Okay. We're going to call this meeting to order. It is officially 2:01 p.m.

Let me see.

Mr. Sheafe, do you want to lead the pledge?

TREASURER SHEAFE: All right.

(The Pledge of Allegiance was recited.)

CHAIRMAN McCUSKER: Michele, roll call, please.

MS. BETTINI: Jannie Cox?

MS. COX: Here.

MS. BETTINI: Jeff Hill?

MR. HILL: Here.

MS. BETTINI: Mark Irvin?

SECRETARY IRVIN: Here.

MS. BETTINI: Fletcher McCusker?

CHAIRMAN McCUSKER: Here.

MS. BETTINI: Chris Sheafe?

TREASURER SHEAFE: Here.

MS. BETTINI: Cody Ritchie?

MR. RITCHIE: Here.

MS. BETTINI: Alberto Moore?

MR. MOORE: Present.

CHAIRMAN McCUSKER: Did he say "here"?

MS. BETTINI: Present.

CHAIRMAN McCUSKER: So quiet. Thank you.
Seeing the transcripts from the June 24th meeting, any comments, additions, changes?

If not, we need a motion to approve.

SECRETARY IRVIN: So moved.

TREASURER SHEAFE: Second.

CHAIRMAN McCUSKER: Any further discussion?

All in favor, say aye?

(Ayes.)

CHAIRMAN McCUSKER: Any opposed?

Okay. Those transcripts are approved, and they will be posted to the website.

We have Executive Session on the agenda. We need a motion to adjourn to Executive Session.

MR. HILL: So moved.

SECRETARY IRVIN: Second.

CHAIRMAN McCUSKER: Any conversation?

All in favor, say aye.

(Ayes.)

CHAIRMAN McCUSKER: Any opposed?

MS. COX: Are we going to have -- I thought we were going to do Jonathan.

CHAIRMAN McCUSKER: We're going to do him in Exec.

MS. COX: Oh.

CHAIRMAN McCUSKER: Okay. We are temporarily adjourned -- recessed -- in Executive Session.
(The Board recessed to Executive Session

2:03 p.m.)

(Meeting reconvened at 3:27 p.m.)

CHAIRMAN McCUSKER: Chris Sheafe is on his way back in.

Can we have a motion to reconvene?

TREASURER SHEAFE: So moved.

MR. MOORE: Second.

MS. COX: Second.

CHAIRMAN McCUSKER: All in favor, say aye?

(Ayes.)

CHAIRMAN McCUSKER: Okay. We are back in session.

We are going to take on the first agenda item, the Fifth and Congress agenda proposal. And Chris Sheafe and I are deemed conflicted on that project. We've not participated in the discussion, nor are we privy to the presentation and/or emails. So I will pass the gavel to Mr. Irvin.

SECRETARY IRVIN: Thank you.

CHAIRMAN McCUSKER: There you go.

(Mr. McCusker and Mr. Sheafe took a seat in the audience.)

SECRETARY IRVIN: Okay. So our first discussion up is Scott Stiteler. The District has been working for some time, as everybody knows, on looking at hotel projects
downtown to see which might make some sense for us.

We had initially had discussion with Scott about a
property that he controls in front of the MLK building.
That site has since shifted. And Scott can bring us up to
speed into that and introduce his team.

Scott, do you want to come up and give your
name for the record and where you're from and all that kind
of happy stuff?

MR. STITELER: Sure.

Good afternoon, Members of the Board. My name is
Scott Stiteler. My address is Two Golden Gate Avenue,
Belvedere, California 94920.

And I'm here to present the AC Hotel, AC Tucson by
Marriott, which would be located at the corner of Fifth and
Broadway -- the northwest corner behind the HUB
Restaurant -- and I will take about ten minutes.

And then I will introduce Scott McAllister from
Marriott, who will be presenting for about ten minutes as
well, and then be able to take questions.

As I've mentioned in the past, I believe that our
work -- at least our company's work -- is maybe 30 percent
finished. We're not at the halfway point. Although there
are many individual success stories in downtown Tucson and a
lot of very exciting -- exciting developments, it's now time
to connect all of those individual success stories with
larger projects, like the streetcar, which will be opening next year; our coworking space that I presented and discussed in the last presentation; the University of Arizona's expanding footprint downtown; and now a hotel or hotels.

So we're at a very exciting inflection point where we weave all of those restaurants and retail businesses, et cetera, together with more reasons for people to come downtown and to stay.

And that's the question when we sit in design meetings that we often ask ourselves is: We now have a very diverse part of our community coming downtown on a regular basis to check out downtown and enjoy many of the restaurants; what can we do now to give them reasons to arrive earlier and stay longer?

And expanding on that, what can we do to give companies and different businesses that may come here for a convention reasons to choose Tucson over all of the other options they have across the country.

So again, today we will discuss the AC Hotel by Marriott. And I'll show you on the picture -- I'm going to spend two minutes going over the site plan to refamiliarize with what we have going on. And then I will have Scott McAllister come up and talk about AC.

Okay. The hotel would be located in the parking
lot behind the HUB building, or the 200 block. And if you remember, we have Saint House opening in August here, the District Tavern, the HUB, Pizzaria Bianco opening in November -- we're starting construction next Monday -- Playground, Bar Cinema, and then The Roof.

In the parking lot, south of this building, we own an L-shaped parcel. We have in escrow the balance of the block, which was important to have a better fingerprint, a more efficient fingerprint for parking, for room layout, et cetera. It also gives us a better streetscape downtown having the new building from Arizona Avenue to the corner, and allowed us to have retail on Fifth Avenue.

The idea there is whatever we can do to connect people from the streetcar experience on Congress and Broadway, north-south, in an interesting matter, is quite important. So we'll do the best job we can with that Fifth Avenue development.

Rialto block, quickly. The Connect is the yellow, that's coworking, which will begin construction at the end of this month, open by the end of the year. That is the space on the first floor and the entire second floor, 14,000 square feet. More reasons to come downtown, stay downtown, work downtown, et cetera, frequent the businesses.

On the corner is Proper, open for the last month and a half or so, off to a very good start. A butcher --
the blue -- will open in January or February. This is Diablo Burger. Yellow is another -- a secondary access up to Connect. This is Good Oak Bar which is the owner of Diablo Burger, all Arizona products.

And then we are in discussions right now with a business on this corner that I can't disclose at this point. It's 350 square feet, so something hopefully well-received.

One North Fifth, we've talked about in the past, 96 apartments. A very diverse group of people that live there and a good story, after a sizable investment. And then all of the retail that happened in 2009, which is now full.

The Depot II site, there are a few things that we think -- or we try to do well. One of those is to try and raise the bar downtown, you know, gently and keep testing, you know, what will be successful downtown. Sparkroot, Blue Bottle's a good example, Proper, HUB, et cetera, et cetera.

And at one point, we were very close to doing a property with another large hotel group -- or a hotel with another large hotel group here. We didn't announce it at that last meeting because we just had that small voice in the back of our head that maybe there was a better fit for downtown with the first hotel, which you'll hear about in the next few minutes.

So what do we do with this site? We've heard now
for years that there is a need for a gathering place that is not a park -- that is outdoor, very active, highly programmed. We have a list of 110 ideas now that are ideas that are coming from people saying: This is what we need downtown.

We've reduced that list to 25. We'll reduce it again to 15, and then figure out how we can layer those in this experience so that it's secure, active all the time, and really takes what Hotel Congress has done so well with -- with their courtyard, and expand it so that includes what the City of Tucson has done with their Depot building and then their investment, et cetera.

So we begin to connect again all these different businesses, different directions, and expand the footprint.

All right. So we will ask the Board today to hopefully give direction to your counsel to work with us on a parking garage at the hotel.

And we'll walk through the hotel quickly.

We can go to the next page.

I'm going to go floor by floor on the hotel.

This is parking. And what we are asking for is for the Rio Nuevo to build a parking -- four floors of parking out of an eight-story building -- own the parking, and then we will lease the parking from the Rio Nuevo at market with a long-term lease.
Back to the design. Subterranean, so one floor below ground.

You can go to the next floor, Miguel. Lobby. The darker blue is the lobby and entrance off of Broadway, different services of the hotel in the green. And then blue on the right, the retail along Fifth Avenue.

And then to the next floor. And the next three floors -- 2, 3 and 4 -- are additional aboveground parking.

Go ahead. We can go to the fifth floor now. Fifth floor, U-shaped pool facing south, between the streetcar line, between Broadway and Congress. And all of the rooms have some type of a view. It's above the surrounding buildings, which for obvious reasons is important. And another two floors, Floor 6 and Floor 7. Floor 6 and 7 are identical.

So again, 139 rooms. This is the view. And I saw this two days ago. So we are in the very early stages of design. And this will change. But this is today's version of what we would -- what we would have on the corner.

We're ready to go with this project. We are far along with the City of Tucson with what they can provide. Hopefully, we're able to get direction from the Rio Nuevo today to work with your staff and counsel to put together a transaction on the garage that will provide an asset that
you would own, and income on the asset as well.

And now I will introduce who's here with me today.

You've heard before, my partners on the ownership side are
the Chellgren family, my father-in-law, who is flying in
tonight; the Dabdoub family, Rudy and Tony, are here today;
and Christina Rosete, a partner in their firm; and
thankfully, the Marriott hotel, Scott McAllister and Tye
Turman, who are very senior in the Marriott company.
They've both been with the company over 20 years and will
present what AC is all about.

Thank you.

SECRETARY IRVIN: Thank you, Scott.

MR. MCALLISTER: Good afternoon, Board Members.

My name is Scott McAllister. I'm vice president of
development for Marriott Hotels. And as Scott Stiteler
pointed out, I've been with the company for over 20 years
and oversee development in the entire southwest United
States.

Let me turn this on here real quick.

SECRETARY IRVIN: Nice picture.

MR. MCALLISTER: Thank you.

My purpose for being here is kind of twofold.

One, it is to expresses our great support of Scott Stiteler
and his team, and the project that they have proposed to you
and to the City.
I've been working with Scott and his group for probably a year and a half now on developing a hotel downtown. And we are very excited about what he's been able to do so far with the entire area in downtown along Congress and Broadway and Fifth.

We've been talking about several different hotels, and wanted to update you with a recent development with Marriott. About a month and a half, two months ago, Marriott announced -- what I'm going to say a new brand -- called AC Hotels.

Now, maybe you have heard of it because we have about 80 of them over in Europe. AC stands for Antonio Catalan. He was the founder of the hotel company back in about 1997. He progressively built more and more hotels, primarily in Spain, but some in Portugal, and Italy, and France, et cetera.

In 2011, Marriott saw the great success that AC Hotels was having Europe, and so Marriott brought the brand, bought the portfolio of hotels. They continue to do extremely well. And about a year ago, we started wondering if they're doing so well in Europe, why would they not do well here in the United States? And so we put a plan together to import the brand to the United States.

Like I said, we already had 80 hotels. So this would not be our first location, by any means. We announced
the brand at the beginning of May, and three days later we approved the first three hotels in the United States. And I think it's an important story to tell you because what we approved is exactly what we want to continue to accomplishing. The very first AC Hotel that we approved was in the Gas Lamp District in downtown San Diego.

If you're familiar with the Gas Lamp District -- all the retail, the restaurants, the nightlife, et cetera -- that is what the AC brand is about. It's -- the motto or tag line is: Feel the City.

And so we approved the hotel in the Gas Lamp District, we approved an AC Hotel in downtown Chicago, and we approved an AC Hotel in downtown Cincinnati. Our focus is to develop AC Hotels in Miami Beach, in Manhattan, in Washington, D.C. We're sticking to major urban markets. I was just last week with Tye Turman out in West Hollywood, Beverly Hills, Los Angeles, et cetera. That is where we're looking to build these hotels.

So that's kind of what brings us to Tucson. And if you've -- if you think of Feel the City and what Scott and his team have been developing from a restaurant standpoint and how they've revitalized downtown Tucson, that is what AC Hotels is about, is about feeling the city and having that nightlife, having amenities such as restaurants, retail, et cetera.
So I just wanted to take a moment and show you some pictures. You're going to see that there are no cookie-cutter hotels, meaning they're all the same. Every city that I show you is going to look different; it's going to feel different; it's going to -- you know, you can see the exterior of four different hotels right there. All four of those are in different cities and different looks and feels, much like what they just showed you in the rendering for here in Tucson is different than any of these.

The interior -- or the inside, the public space. You can see that it's very clean; it's crisp; it's modern. There is not a lot of art work but you might see sculptures. You're going to see hardwood flooring. You're going to see just nice design, clean, but fairly simple.

Lounge. Some people might call this food and beverage; we're calling this beverage and food. Because we don't want to be known as a restaurant. Think of all the restaurants that Scott just named with the HUB and Pizzaria Bianco, some of the others that are coming to town. The AC Hotel does not want to be another restaurant to offer food to all the public in the area.

We want our guests to go use or go frequent the restaurants that are in Tucson. And so we might have a lounge. You can see with the -- with the chairs, those are not dining chairs. There aren't restaurant tables. It's
something if you get in late in the evening and you want to have a drink, or you do want to grab a quick, you know, simple bite to eat, then you can do that in the lounge. But generally speaking, the hotel guests, we don't want them hanging out in the lounge to have dinner.

We're going to have a library. You could call this like a public meeting space. How often do you sit around and try and wrap up a day's work around -- you know, with three or four people? We'll have a table that's going to be part -- or set off the lobby in public space. You don't have to rent it. It's just free for anybody who wants to use that area to have a quick conversation or quick meeting.

There will be a paid breakfast buffet with all the hot items: eggs and bacon, sausage, et cetera. But I would just say look at the decor. Look at how clean, how modern, how contemporary the product is for the breakfast buffet.

Meeting room. We're going to probably have a little over a thousand square feet of meeting space. We're not going to have big conventions. We're not trying to have groups of 300 people. We're trying to have groups with 10 or 15 people that want to use a meeting room -- as you can see in the pictures -- for a day or two.

Then we get to the guest rooms, the European model AC Hotels. The rooms are only 250 square feet. That's not
very large by American standards. But in Europe, as you
know, everything is a just little bit smaller so we've
enlarged the rooms. The rooms will be a little over 300
square feet. But you can see, again, talking about the
decor -- the look, the feel, the cleanliness, et cetera --
that it is a great product.

I would also suggest or show you that the wood --
or the flooring -- is hardwood floor with maybe a throw rug
or something to soften maybe the echoes or whatever. But
it's a very different look and feel, very upscale, very
modern.

The bathrooms also are very nice. Sometimes we'll
have bowl sinks; sometimes we'll have glass countertops.
They're all very different. But it's about, again, the
lifestyle that people choose.

You can see the large size of the fitness facility
and just that that has become more and more important to our
travelers today. If you think of a hotel from 10 or 15
years ago, it might have had a very small fitness facility.
The AC will have a very nice fitness facility.

Let me just skip through a couple. And I think
there are just a couple of other pictures that we can scan
through. If you look at each of the architectures, if you
look at each of the room designs, if you look at the lounge,
if you look at everything, all of them are very different.
But I would just remind you that the reason why we're interested in coming to Tucson is to feel the city. And what you see in this, with the upper-scale lifestyle type of motif, is exactly what Tucson is becoming and what the AC brand is about.

So I crammed a bunch of information to you; I showed you a lot of pictures. I'm happy to take any questions about the AC brand. But I would just reiterate our support -- Marriott's support -- of being here in Tucson with this hotel.

I was just saying that this is a hotel that we are only going to keep in urban markets. That will likely be the only AC Hotel in all of Tucson. We're not going to look to build an AC at the airport or at Williams Centre or anywhere else. We want to be in downtown Tucson as the only unique hotel to what Scott and his team have been developing.

Any questions that I can answer for you?

MR. MOORE: Thank you very much.

MR. MCALLISTER: Thank you.

SECRETARY IRVIN: Thank you.

So Scott, probably what might be helpful -- just so that everybody is on the same page -- is if you wouldn't mind restating your request of the District, what you'd like to see the District do.
MR. STITELER: I would be happy do so.

So this request is for the AC Hotel on the Fifth and Broadway site. The package I submitted earlier has other components to it. So I'm separating just the hotel component because I understand that's what was agendized. It is about a $27 million project, 139 rooms.

We are replacing about 80 parking spots that currently exist with about 215 parking spots, which allow us to replace the spots that are there that are already committed to the existing businesses and then provide the required parking for the hotel.

The pictures are impressive, but I do want to emphasize that the price point is based on an ADR, average daily rate, of about $145 per night. So it's important, I think, with hopefully the first hotel, that the price point is a -- is a good entry point for when we're entering the market and where we're entering the market.

As part of that $27 million project, parking is necessary. We would like the Rio Nuevo to pay for the parking. We believe the cost is $4.3 million to deliver four floors of parking: one underground, three aboveground.

Rio Nuevo would own the parking levels. I believe you would have to work with the City of Tucson to determine how that ownership structure is held, with GIPLET as part of this structure. But it's my understanding, as long as it's
in public hands with the economic benefit accruing to the Rio Nuevo, that that can be accomplished. We just came out of this meeting with the City of Tucson, had a discussion about this, a surface-level discussion.

And then our group would longterm lease our franchise agreement. And let me tell you what that is. We have formally submitted to Marriott for an AC Hotel at the end of June. And it will go before their board July the 31st. And we will likely find out the first week of August if we have been approved for an AC in downtown Tucson. And so far everything is going quite well so that we could start very soon.

We would longterm lease the spots, so you'll have one client for $80 per spot. It's my understanding the last lease was done at $74 at Plaza Centro, so I suggested $80. That lease needs to be at least 30 years to match our loan and our agreement with the Marriott.

Details like would we have options, et cetera, I'd like to work -- if the Board is comfortable -- with sending those to counsel and staff to move forward. I'd be happy to work those types of details out with counsel or staff.

I believe I've covered it. If you have any questions, I'd be happy to answer them.

SECRETARY IRVIN: Mark, do you want to chime in at all? I know I've talked to you before about the GIPLET
structure and how we can do it, and what have you. I know we still have a bunch of details to work out. But could you address those?

MR. COLLINS: Yeah. You would have a lot of -- what Mr. Stiteler has proposed is a very complicated situation. It's very doable; but it's complicated.

Yes, you are limited to spending your money on something or investing in something that is government-owned; and a GIPLET is one of those situations. The proposal that the District would own the parking lot itself -- of course, you are the government now. So you'd be able to do that.

Does that answer your question, sir?

SECRETARY IRVIN: Yeah. Thank you.

So subject, I guess, to a lot of additional details being worked out, you know, I guess the -- have a request in front of us for about 4.3 million on the 30-year lease with the group.

Any discussion? Motion?

MR. RITCHIE: Yeah.

Scott, you know, I applaud you once again. I've gone through your presentation. I think it's a fantastic concept. It's encouraging to hear that you have Marriott because last time we talked to you, you did not. I think you said you were in negotiations.
My question for you is: If we were to look at this, would you be able to guarantee, either personally or through a promissory note or something, the $4.3 million, if we were to loan you the money?

MR. STITELER: I haven't thought about it, Board Member Ritchie. It's something that I'd have to discuss with my partners.

Often, there are different types of guarantees on a structure like this. So I suppose the details will --

MR. RITCHIE: And just the reason why I'm asking --

MR. STITELER: -- the details.

MR. RITCHIE: -- is I'd like to make it a little -- I mean, if you believe in it, then we're going to believe in it. But I think for the public, I think it would be -- they would feel very comfortable with that. And I think it would be a win-win, and hopefully we'd never have to, you know, execute that. But you know, it's just a question I have.

MR. STITELER: It would be important to understand exactly what that means. Because my understanding is you will own the asset; and the asset has value. So I'd need to understand what terms that guarantee would have with regard to deficiency, et cetera, and then would work with counsel on that.
But what's most important to me is to present to you, after listening to Board Members, something that is clean, easy to understand, with an asset that you own that provides current income and allows us to build a hotel downtown soon. But I'm open to having that conversation.

MR. RITCHIE: Okay.

SECRETARY IRVIN: Alberto?

MR. MOORE: Yeah. Scott, I too am really impressed with your presentation. And I think that's great and I like the location very much.

MR. STITELER: Thank you.

MR. MOORE: I think one of my biggest concerns is something that I talked to you about when last met. And that is Rio Nuevo has limited funds. And I'm concerned that, first, I think the Board needs to establish some of the ground rules because -- in funding projects like yours. Because we've got several people who have hotels on their agenda.

And once we start going down this path and we give you X amount of dollars -- however it's structured -- we're going to have to create a similar situation for somebody else who comes in with a similar request. And I just don't know how far we can really extend ourselves to that. And that's my biggest concern.

As far as supporting the project and, you know,
trying to be there, I think it's terrific. But I -- my concern is: I don't know how much money we have, but it's not a lot. And there's about three or four people that want to build hotels. So that's my biggest concern.

MR. STITELER: And I think about those things as well. I can only offer that this project is projected to generate, in direct tax, $23 million for the City and Rio Nuevo, of which, north of $10 million -- or two and a half times the cost of a garage -- that you will own and receive current income from. And I'll go back to trying to make this as simple as possible and straightforward so that we can build a hotel in this community.

And it's not just a hotel. It's a hotel that Marriott is entertaining interest from serious hotel developers across the world, including the United States. They recently had three developers in a large city provide an application for only one AC.

So I'm thrilled that we're sitting here with this senior vice president of Marriott Hotels for Western North America for five different brands and their willingness to commit to Tucson and to our group and build a hotel that will raise the bar in this community and, I think, be a decision that we can all be proud of.

SECRETARY IRVIN: Mark, did you want to chime in on something?
MR. COLLINS: Real briefly, what's agendized is for pretty much what Scott has asked you for. And that is for direction to -- I guess, me, my office -- to start drafting and working with his folks. That agreement would come back to you folks. I mean, you wouldn't be bound by anything until -- you wouldn't be bound to do the $4 million. Or you wouldn't be bound to do it without a personal guarantee until that agreement was put together and approved by you.

SECRETARY IRVIN: Thank you.

MR. COLLINS: Sure.

SECRETARY IRVIN: Jannie?

MS. COX: Mr. Chairman, I would move that we, as the Rio Nuevo District Board, allocate $4.3 million toward the building of this parking structure, including the long-term lease of parking spaces at market rate.

MR. RITCHIE: The movement is to allocate or to pursue the allocation of it?

MR. COLLINS: I'd ask -- yeah.

Jannie, my -- my -- the agenda says --

MS. COX: Yes. And that was my intent: to pursue the allocation just as you just described.

MR. COLLINS: To pursue the -- just as a point of clarification -- to pursue -- explore this, begin to prepare the documents to accomplish what Scott has just presented to
MS. COX: And bring those back to the Board for us to consider -- thank you. Yes, that is my motion.

MR. RITCHIE: I second.

SECRETARY IRVIN: Okay. We've got a first and a second.

Any further discussion?

Call for the question.

All in favor?

(Ayes.)

SECRETARY IRVIN: Anybody opposed?

MR. MOORE: Opposed. I'm opposed.

SECRETARY IRVIN: One opposed.

MR. MOORE: To the --

SECRETARY IRVIN: The ayes --

MR. MOORE: -- as I mentioned.

SECRETARY IRVIN: The ayes carry. Thank you.

Fletcher, you can come back and have your gavel.

(Mr. McCusker and Mr. Sheafe returned to the Board table.)

(Mr. Ritchie left the proceedings.)

CHAIRMAN McCUSKER: For the record, Scott and I are deemed partners because in Christmas of 2010, he and I personally guaranteed the Rialto Theatre debt, which probably saved the Rialto Theatre. I came to know him then
as someone -- even though he lives in San Francisco -- who
is unbelievably passionate about Tucson and committing
unbelievable financial resources to help revitalize our
downtown.

I've never seen that as a conflict. That note was
long since paid off. But our attorney's have deemed us
conflicted. So I have not -- this is the first time I've
seen this presentation. I think it's remarkable, not only
in terms of the opportunity it creates for Tucson, but, to
me, the AC brand, it would be an extraordinary opportunity
for Tucson.

As it relates to other projects, let me just touch
on a couple of things that were mentioned as we begin to
think about other hotel development.

The District finances. Currently today, we have
about 13 and a half million dollars available to spend.
Seven and change of that is committed to the Tucson Arena.
So we have approximately $6 million. So in committing to
this project, you indeed would use the substantial majority
of Rio Nuevo availability.

In terms of its precedent, I think it's very
consistent to how we've had conversation with other
developers. I think we see the Rio Nuevo opportunity now as
someone to help a developer develop, not necessarily
develop, own, and operate hotels, but to do infrastructure
work, site improvement, excavation, watershed, sewer, streetscape, and parking.

So I think, you know, this could evolve -- and, Alberto, I think that's the important step for us -- is to maybe, between now and the time we see a specific agreement, is to lay some ground rules as to how this project would foot into a set of incentives, if you will, that we would make available to any developer that was interested in developing a hotel.

And then the question of resources is: How do you allocate that around? And we'll see when we go through the agenda today, we do have opportunities to develop maybe three, possibly four, hotels.

And it's unfortunate that we find ourselves today so limited in resources. Because I think had this been the strategy of the original Rio Nuevo Board -- that is, to leverage its money into private sector partnerships -- we'd have a billion dollars worth of development downtown today.

We're committed to do as much as we can with the limited resources that we have. And this seems like a project that fits very nicely with what we're doing.

Bill, I stole some of your thunder. But if you would give us just a quick update of where we are financially, I think also we have some things we have to wrap up.
MR. ALLEN: Good afternoon.

Can you hear me? Hello?

CHAIRMAN McCUSKER: Yeah.

MR. ALLEN: Okay. I'm not hearing it for some reason.

The first thing that's being passed down is the cash report for the month of July -- or mid-July -- that reflects the $13.3 million that is presently held by Rio Nuevo, 4.3 of it being bond money that's held by the City of Tucson that's for the use of the work on the TCC. Total held, 13.3, the balance being funds held by Rio Nuevo.

You'll see that Alliance has the ICS sweep account that has now earned just shy of $2,000 in interest. It's earning -- I think last month it earned about $700 of interest on the $5 million for the month.

The -- this -- what happened this month that was unique is that we received, back on the Fox Theatre, the $1,000 of reserve that I mentioned in the previous --

CHAIRMAN McCUSKER: $1 million.

MR. ALLEN: I'm sorry. I apologize. A million dollars -- $1 million and $100,000 total -- which pushed up the account by almost a million dollars for the month.

There was some expenditures that the account has every month. We have payroll costs. We have legal costs. We have marketing costs. We've had a few bills that have been
paid on the TCC, small, related to the bond money. But the
net accounts went up by about $930,000.

Is there any questions on the report?

CHAIRMAN McCUSKER: Go ahead.

MR. ALLEN: All right. The next document is the
discretionary cash transactions under $5,000, of which there
have been four since the last meeting. The ones listed for
Michele Bettini are for just office supply related stuff.
And Victory Marketing had some training. And they were
phasing out with Rio Nuevo. And so we paid our items on the
website for $1,000. And then the new website is being
hosted by Great Scott Design, and their $450 was for the
setup for the website.

CHAIRMAN McCUSKER: And our procedures provide
that the Chairman and Treasurer have discretion for these
kind of items, but it’s subject to your ratification. So I
would need a motion to wrap up --

MS. COX: So moved.

CHAIRMAN McCUSKER: So if someone will second?

SECRETARY IRVIN: Second.

CHAIRMAN McCUSKER: Any other conversation?

Questions?

All in favor say aye?

(Ayes.)

CHAIRMAN McCUSKER: Any other questions for Bill
while he's up there?

Bill, thanks again.

MR. ALLEN: Thank you.

CHAIRMAN McCUSKER: Next item on the agenda is the Arena Site.

Mr. Collins, you want to give us a quick update where we are with that problem.

MR. COLLINS: Just to review for the Board and for the public, the Board elected to take title to the property and requested that a Phase 1 be conducted. We are in the process of securing that Phase 1.

The closing date on this property -- by the terms of the settlement agreement, we have to close by October 22nd. We're moving with diligence forward on accomplishing that.

We have been in discussions with various individuals and entities about trying to resolve warts -- as I call them -- against the property.

Any questions?

CHAIRMAN McCUSKER: Hearing none, thank you very much.

Item 9, Nor-Gen. We discussed this at our last meeting. Subject to us taking title to the Arena Lot, we're working on a joint development with the property immediately west of that. That could include some infrastructure
support and parking, not unlike you discussed with Scott's proposal. We will continue to nurture that along subject to us closing the Arena Site.

Mark, is that kind of exactly what has to happen?

MR. COLLINS: Right. Yes. I mean, it has been -- in my view -- we have to hold -- we, the District, has to hold title to the property before we can enter into any -- or ought to enter into any binding agreement.

TREASURER SHEAFE: However, we are taking steps to clear up problems that would forestall our being able to do that negotiation. So we are actually doing the work that we can do whether we were in title or not, right?

MR. COLLINS: True, Mr. Sheafe.

My office is in the process of identifying the issues that would need to be addressed to accomplish the things that are in the letters of intent that was made public last time. There are lots of details that would have to be addressed, some of which are those warts, some of which are other things.

So does that answer your question?

CHAIRMAN McCUSKER: Any questions about the -- Item 9 on the agenda? Quickly, items --

I'm sorry. Go ahead, Mr. Moore.

MR. MOORE: Excuse me. Mark, excuse me. Do you think that we can clear these -- as you call them -- warts
and so forth off the Arena property by October?

MR. COLLINS: I don't see that there's going to be any problem that would prevent the transfer of title by October. There's going to be postclosing issues that you folks as developers know about. But I don't anticipate any problems to prevent the passage of title by that deadline. I don't have a crystal ball, but that's my best estimate.

CHAIRMAN McCUSKER: Item 10. If you needed any additional affirmation that downtown Tucson has become hot, we continue to engage in conversations with a very large real estate investment bank that had initially proposed, to the District, a hundred million dollars development fund. The model for these funds is they typically put up 85 percent of the money and then look to the government jurisdictions to help create a matching fund. They remain interested in doing that. We've talked to them about scale. And I'm pleased to report that they've indicated they would consider a fund as small as 25 to $30 million, which would pro-rata reduce the match required.

I think we've got to deal with this in the context of the conversation and approval you just made, in terms of how best to utilize the resources available to the District. This would be a situation that other TIFs have used very successfully to create substantial leverage of our money,
five or six times our money.

So we're in conversations only. I don't think we need to take any action; in fact, we can't take any action. But Mark and I will continue to -- Mark and I will continue to discuss this and report back to the board.

Item No. 11. We do have a proposal from Mr. Jonathan Paton to continue to serve as the legislative liaison to the Rio Nuevo District. We've reviewed that in Executive Session. We can discuss it here or move to proceed.

It's a two-phase proposal, is that he would monitor legislative activity, not unlike he did in the last session, for the same cost, the $25,000; or indeed, if the District was interested in a proactive legislative agenda, that he would be willing to help us actually promote and possibility draft legislation. The market rate for that kind of representation is about $65,000 a year.

MR. MOORE: Mr. Chairman?

CHAIRMAN McCUSKER: Mr. Moore?

MR. MOORE: I'd like to make a motion that we approve Jonathan Paton's efforts for Rio Nuevo at $65,000.

SECRETARY IRVIN: I'll second.

MS. COX: Second.

CHAIRMAN McCUSKER: I have a motion, Mr. Moore; seconded by Mr. Irvin.
Any other questions or comments?

All in favor, say aye?

(Ayes.)

CHAIRMAN McCUSKER: Any opposed, nay.

All right. We'll communicate that to Jonathan.

Thank you very much.

The Thrifty Block, Mark, do you want to update us on where we are with the settlement conversations with the three parties?

MR. COLLINS: Mr. Chairman and the Board, as you all know, you approved a restated development agreement for the Thrifty Block subject to approval by the lenders of the developer and the mayor and council. The lenders of the developer have approved. Mayor and council had it on the agenda and actually did consider it at their last meeting. But they put it off, in part, because it was roughly 32 pages long and many of them hadn't had a chance to review it.

There were -- there had been some concerns expressed by certain counsel members. We've addressed some of those concerns with the developer's attorneys. And frankly, I don't anticipate any particular problems. But we don't have a final agreement yet.

CHAIRMAN McCUSKER: I believe the developer has signed off. So the District's signed off; the developer's
sign off; and it's just the City now that we've got to deal
with.

MR. COLLINS: Mr. Chair, as a practical matter, that's true. As a precise matter, there's been no
signatures yet. But there have been approvals by everybody but the mayor and council.

CHAIRMAN McCUSKER: Stay up there. While you're up there, go ahead and update us on the Garfield Traub
lawsuit. We're trying to get you out of the lawsuit business.

MR. COLLINS: I'm not in that lawsuit, thankfully. But I'd love to be out of the lawsuit business.

Garfield Traub. The District filed three motions to dispose of all of the claims in that lawsuit. Three of
those claims had already been dismissed once. But the Court allowed the plaintiff to amend, and they did that.

Three motions for summary judgment had been filed to make the entire case go away. As a result of those three things being filed, we are in the process of negotiating or working to try and have a mediation with the plaintiffs to see if we can't resolve that and solve one more of the District's lawsuit.

CHAIRMAN McCUSKER: And for those of you who can't follow our code, the Garfield Traub lawsuit is the result of the TCC east entrance.
MR. COLLINS: Right.

CHAIRMAN McCUSKER: And disagreements about the payments and the condition of the construction.

MR. COLLINS: Yeah.

CHAIRMAN McCUSKER: So all that would have to be settled as part of this case.

MR. COLLINS: Right. The Garfield Traub suit, the District, including its two members -- two of its Board Members. And then there was a counterclaim.

CHAIRMAN McCUSKER: Stay up there. I want to talk about the procurement code.

MR. COLLINS: Oh, yeah.

CHAIRMAN McCUSKER: Last month we did adopt a far-reaching procurement code. We also established an authority matrix as it relates specifically to the TCC. This Board discussed and asked counsel if we could maintain, as part of that code, the $5,000 discretionary limit that the Treasurer and Chairman continue to enjoy. So they prepared an amendment that basically continues our current policy. That is, the Chairman and the Treasurer together would have $5,000 of discretionary authority. Those items would have to come to the full Board to be ratified.

MR. COLLINS: Mr. Chairman, let me point out to the Members of the Board, the particular resolution is 2.13;
it's in your book. And it does precisely what the Chairman indicates. It requires -- allows that expenditure. And it requires the reporting of that to -- to the Board on a monthly basis. It doesn't require ratification. It requires reporting. Those lines -- it has to be within the line items of your budget, because your budget controls all that -- but that's exactly what it does.

SECRETARY IRVIN: So do we need a motion?
CHAIRMAN McCUSKER: We need a motion on -- to adopt the resolution as has been drafted by counsel.
MR. COLLINS: I would suggest that -- if you were so inclined -- that someone move to adopt resolution 2.13, which is in your book.
CHAIRMAN McCUSKER: Should we read that into the record, or is that too lengthy?
MR. COLLINS: It's two pages long.
CHAIRMAN McCUSKER: So we can just adopt as drafted.
MR. COLLINS: And we can post it on the -- if you adopt it, you can post it on the website so that the public knows. But I will assert to you that it says what you have described.
TREASURER SHEAFÉ: I propose that we adopt resolution 2.13 as drafted by counsel.
MR. MOORE: I'll second that.
CHAIRMAN McCUSKER: We have a motion to draft the resolution and a second.

Any further conversation?

All in favor, say aye.

(Ayes.)

CHAIRMAN McCUSKER: Any opposed?

That passed unanimously. Thank you very much.

The last item on the agenda before a call to the audience -- you'll remember at the last meeting where we approved the budget, we deferred any action on employees' salaries to get some additional research and information to the Board.

We also have to deal with the employees' health benefits.

That would require action by this board.

TREASURER SHEAFE: There's two points here.

First, I think we ought to deal with the health benefits. Or do you want to --

CHAIRMAN McCUSKER: You can do that; that's fine.

That's kind of routine.

TREASURER SHEAFE: I think it's absolutely important that the employees of Rio Nuevo understand that we are providing health insurance as part of their employment package. And I would move that we assure that through negotiations for the best package that we can possibly find
and make sure that the staff understands that their insurance will continue.

MS. COX: Second.

CHAIRMAN McCUSKER: Everybody got the -- got the motion?

All in favor, say aye.

(Ayes.)

CHAIRMAN McCUSKER: Any opposed?

Thank you.

And then as to salary.

TREASURER SHEAFE: Well, you know, the State employees just got a 5-percent increase in salary.

We have, for our employees, really put some requirements on them that are broadening what we're asking of them.

We're asking one person to take over all public relations, which will be a net savings. We have, in our financial management, finally straightened out our financial books. It's not been easy. It is, frankly, a rather big task. And we have one person doing everything, so -- rather than a team of people.

And I would strongly put forth the motion that we at least match the State increase, which is, I believe 5 percent.

CHAIRMAN McCUSKER: That's not an entirely clear
TREASURER SHEAFE: You want to help me on that?

SECRETARY IRVIN: You're making a motion that we increase staff salary 5 percent?

TREASURER SHEAFE: Yes.

CHAIRMAN McCUSKER: Would you restate your motion, please.

TREASURER SHEAFE: My motion is that we match the State increase and increase staff salary 5 percent.

ALBERTO MOORE: That's crystal clear.

MS. COX: Second.

CHAIRMAN McCUSKER: I have a motion and a second.

MR. MOORE?

MR. MOORE: I have a question. I thought that that 5 percent was representative through the State employees over the last five years that they haven't been given any bonuses.

Is that -- Mark, I think you mentioned that.

SECRETARY IRVIN: I think -- I think it's probably been two and a half or three years -- as I understood it -- since they hadn't gotten anything.

MR. MOORE: Right. So I'm just thinking that maybe we should adjust that.

TREASURER SHEAFE: Well, I don't want to be cute here, but, you know, we didn't give these guys a raise for
the last five years either.

MR. MOORE: Well, I've never gotten a raise, and
I've been here for --

TREASURER SHEAFE: And that's -- I'm really going
to the total. And the 5 percent is not so much based on the
State as -- to me, that's rather minimal.

CHAIRMAN McCUSKER: Any other questions?

Conversation?

We have a motion and a second to increase the
staff's salaries by 5 percent. I assume that's annually.

Michele, call the roll.

MS. BETTINI: Alberto Moore?

MR. MOORE: You're going to put me really on the
spot. Ah, shoot.

MS. BETTINI: Do you want me to start again?

Jannie Cox?

MS. COX: Yes.

MS. BETTINI: Jeff Hill.

MR. HILL: Mr. Chairman, I will explain my vote.

That 5 percent, the reason for it and then to back off on
it, is linking it to the State pay increase, I think is
redundant, or certainly not appropriate.

I think we're overstaffed now that we've concluded
the audits. We've done the performance audit that's coming
up. And I think we should have a complete review of our
staffing costs. And just add 5 percent, to me, is not a wise decision. So I vote "no."

MS. BETTINI: Mark Irvin?
SECRETARY IRVIN: Yes.
MS. BETTINI: Fletcher McCusker?
CHAIRMAN McCUSKER: Aye.
MS. BETTINI: Chris Sheafe?
TREASURER SHEAFE: Yes.
MS. BETTINI: Alberto Moore?
MR. MOORE: No.
CHAIRMAN McCUSKER: Four to two is my count. The motion passes.

I think -- to Mr. Hill's point -- I would like to, at a future date, kind of go back through where we are, our staffing, our staffing model. You know, we're getting ourselves into the development business. We're issuing checks and invoices. And we might be policing the garage. So you know, I think it's worth that conversation.

So, Jeff, I assure you, we'll have that as kind of a separate -- separate item.

MR. HILL: Very good.
CHAIRMAN McCUSKER: And Michele, any cards from the audience?

All right. We have no call from the audience.
I'd entertain a motion to adjourn.
SECRETARY IRVIN: So moved.

MR. MOORE: Second.

CHAIRMAN McCUSKER: All in favor, say aye.

(Ayes.)

CHAIRMAN McCUSKER: We stand adjourned. Thank you very much.

(Meeting concluded at 4:21 p.m.)

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C E R T I F I C A T E

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

_________________________
John Fahrenwald