

RIO NUEVO MULTIPURPOSE FACILITIES BOARD MEETING

Tucson, Arizona
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2:00 p.m.

REPORTED BY:

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1 (Meeting commenced at 2:01 p.m.)

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

4 Let me see.

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

6 TREASURER SHEAFE: All right.

7 (The Pledge of Allegiance was recited.)

8 CHAIRMAN McCUSKER: Michele, roll call, please.

9 MS. BETTINI: Jannie Cox?

10 MS. COX: Here.

11 MS. BETTINI: Jeff Hill?

12 MR. HILL: Here.

13 MS. BETTINI: Mark Irvin?

14 SECRETARY IRVIN: Here.

15 MS. BETTINI: Fletcher McCusker?

16 CHAIRMAN McCUSKER: Here.

17 MS. BETTINI: Chris Sheafe?

18 TREASURER SHEAFE: Here.

19 MS. BETTINI: Cody Ritchie?

20 MR. RITCHIE: Here.

21 MS. BETTINI: Alberto Moore?

22 MR. MOORE: Present.

23 CHAIRMAN McCUSKER: Did he say "here"?

24 MS. BETTINI: Present.

25 CHAIRMAN McCUSKER: So quiet. Thank you.

1 Seeing the transcripts from the June 24th meeting,
2 any comments, additions, changes?

3 If not, we need a motion to approve.

4 SECRETARY IRVIN: So moved.

5 TREASURER SHEAFE: Second.

6 CHAIRMAN McCUSKER: Any further discussion?

7 All in favor, say aye?

8 (Ayes.)

9 CHAIRMAN McCUSKER: Any opposed?

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

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

14 MR. HILL: So moved.

15 SECRETARY IRVIN: Second.

16 CHAIRMAN McCUSKER: Any conversation?

17 All in favor, say aye.

18 (Ayes.)

19 CHAIRMAN McCUSKER: Any opposed?

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

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

23 MS. COX: Oh.

24 CHAIRMAN McCUSKER: Okay. We are temporarily
25 adjourned -- recessed -- in Executive Session.

1 (The Board recessed to Executive Session
2 at 2:03 p.m.)

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

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

6 Can we have a motion to reconvene?

7 TREASURER SHEAFE: So moved.

8 MR. MOORE: Second.

9 MS. COX: Second.

10 CHAIRMAN McCUSKER: All in favor, say aye?

11 (Ayes.)

12 CHAIRMAN McCUSKER: Okay. We are back in session.

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

19 SECRETARY IRVIN: Thank you.

20 CHAIRMAN McCUSKER: There you go.

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

23 SECRETARY IRVIN: Okay. So our first discussion
24 up is Scott Stiteler. The District has been working for
25 some time, as everybody knows, on looking at hotel projects

1 downtown to see which might make some sense for us.

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

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

9 MR. STITELER: Sure.

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

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

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

20 As I've mentioned in the past, I believe that our
21 work -- at least our company's work -- is maybe 30 percent
22 finished. We're not at the halfway point. Although there
23 are many individual success stories in downtown Tucson and a
24 lot of very exciting -- exciting developments, it's now time
25 to connect all of those individual success stories with

1 larger projects, like the streetcar, which will be opening
2 next year; our coworking space that I presented and
3 discussed in the last presentation; the University of
4 Arizona's expanding footprint downtown; and now a hotel or
5 hotels.

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

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

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

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

25 Okay. The hotel would be located in the parking

1 lot behind the HUB building, or the 200 block. And if you
2 remember, we have Saint House opening in August here, the
3 District Tavern, the HUB, Pizzaria Bianco opening in
4 November -- we're starting construction next Monday --
5 Playground, Bar Cinema, and then The Roof.

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

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

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

24 On the corner is Proper, open for the last month
25 and a half or so, off to a very good start. A butcher --

1 the blue -- will open in January or February. This is
2 Diablo Burger. Yellow is another -- a secondary access up
3 to Connect. This is Good Oak Bar which is the owner of
4 Diablo Burger, all Arizona products.

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

8 One North Fifth, we've talked about in the past,
9 96 apartments. A very diverse group of people that live
10 there and a good story, after a sizable investment. And
11 then all of the retail that happened in 2009, which is now
12 full.

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

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

25 So what do we do with this site? We've heard now

1 for years that there is a need for a gathering place that is
2 not a park -- that is outdoor, very active, highly
3 programmed. We have a list of 110 ideas now that are ideas
4 that are coming from people saying: This is what we need
5 downtown.

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

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

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

18 And we'll walk through the hotel quickly.

19 We can go to the next page.

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

21 This is parking. And what we are asking for is
22 for the Rio Nuevo to build a parking -- four floors of
23 parking out of an eight-story building -- own the parking,
24 and then we will lease the parking from the Rio Nuevo at
25 market with a long-term lease.

1 Back to the design. Subterranean, so one floor
2 below ground.

3 You can go to the next floor, Miguel.

4 Lobby. The darker blue is the lobby and entrance
5 off of Broadway, different services of the hotel in the
6 green. And then blue on the right, the retail along Fifth
7 Avenue.

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

10 Go ahead. We can go to the fifth floor now.

11 Fifth floor, U-shaped pool facing south, between
12 the streetcar line, between Broadway and Congress. And all
13 of the rooms have some type of a view. It's above the
14 surrounding buildings, which for obvious reasons is
15 important. And another two floors, Floor 6 and Floor 7.
16 Floor 6 and 7 are identical.

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

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

1 you would own, and income on the asset as well.

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

3 You've heard before, my partners on the ownership side are

4 the Chellgren family, my father-in-law, who is flying in

5 tonight; the Dabdoub family, Rudy and Tony, are here today;

6 and Christina Rosete, a partner in their firm; and

7 thankfully, the Marriott hotel, Scott McAllister and Tye

8 Turman, who are very senior in the Marriott company.

9 They've both been with the company over 20 years and will
10 present what AC is all about.

11 Thank you.

12 SECRETARY IRVIN: Thank you, Scott.

13 MR. MCALLISTER: Good afternoon, Board Members.

14 My name is Scott McAllister. I'm vice president of

15 development for Marriott Hotels. And as Scott Stiteler

16 pointed out, I've been with the company for over 20 years

17 and oversee development in the entire southwest United

18 States.

19 Let me turn this on here real quick.

20 SECRETARY IRVIN: Nice picture.

21 MR. MCALLISTER: Thank you.

22 My purpose for being here is kind of twofold.

23 One, it is to express our great support of Scott Stiteler

24 and his team, and the project that they have proposed to you

25 and to the City.

1 I've been working with Scott and his group for
2 probably a year and a half now on developing a hotel
3 downtown. And we are very excited about what he's been able
4 to do so far with the entire area in downtown along Congress
5 and Broadway and Fifth.

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

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

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

24 Like I said, we already had 80 hotels. So this
25 would not be our first location, by any means. We announced

1 the brand at the beginning of May, and three days later we
2 approved the first three hotels in the United States. And I
3 think it's an important story to tell you because what we
4 approved is exactly what we want to continue to
5 accomplishing. The very first AC Hotel that we approved was
6 in the Gas Lamp District in downtown San Diego.

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

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

19 So that's kind of what brings us to Tucson. And
20 if you've -- if you think of Feel the City and what Scott
21 and his team have been developing from a restaurant
22 standpoint and how they've revitalized downtown Tucson, that
23 is what AC Hotels is about, is about feeling the city and
24 having that nightlife, having amenities such as restaurants,
25 retail, et cetera.

1 So I just wanted to take a moment and show you
2 some pictures. You're going to see that there are no
3 cookie-cutters hotels, meaning they're all the same. Every
4 city that I show you is going to look different; it's going
5 to feel different; it's going to -- you know, you can see
6 the exterior of four different hotels right there. All four
7 of those are in different cities and different looks and
8 feels, much like what they just showed you in the rendering
9 for here in Tucson is different than any of these.

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

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

22 We want our guests to go use or go frequent the
23 restaurants that are in Tucson. And so we might have a
24 lounge. You can see with the -- with the chairs, those are
25 not dining chairs. There aren't restaurant tables. It's

1 something if you get in late in the evening and you want to
2 have a drink, or you do want to grab a quick, you know,
3 simple bite to eat, then you can do that in the lounge. But
4 generally speaking, the hotel guests, we don't want them
5 hanging out in the lounge to have dinner.

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

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

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

24 Then we get to the guest rooms, the European model
25 AC Hotels. The rooms are only 250 square feet. That's not

1 very large by American standards. But in Europe, as you
2 know, everything is a just little bit smaller so we've
3 enlarged the rooms. The rooms will be a little over 300
4 square feet. But you can see, again, talking about the
5 decor -- the look, the feel, the cleanliness, et cetera --
6 that it is a great product.

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

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

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

21 Let me just skip through a couple. And I think
22 there are just a couple of other pictures that we can scan
23 through. If you look at each of the architectures, if you
24 look at each of the room designs, if you look at the lounge,
25 if you look at everything, all of them are very different.

1 But I would just remind you that the reason why we're
2 interested in coming to Tucson is to feel the city. And
3 what you see in this, with the upper-scale lifestyle type of
4 motif, is exactly what Tucson is becoming and what the AC
5 brand is about.

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

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

18 Any questions that I can answer for you?

19 MR. MOORE: Thank you very much.

20 MR. MCALLISTER: Thank you.

21 SECRETARY IRVIN: Thank you.

22 So Scott, probably what might be helpful -- just
23 so that everybody is on the same page -- is if you wouldn't
24 mind restating your request of the District, what you'd like
25 to see the District do.

1 MR. STITELER: I would be happy do so.

2 So this request is for the AC Hotel on the Fifth
3 and Broadway site. The package I submitted earlier has
4 other components to it. So I'm separating just the hotel
5 component because I understand that's what was agendized.

6 It is about a \$27 million project, 139 rooms.

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

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

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

22 Rio Nuevo would own the parking levels. I believe
23 you would have to work with the City of Tucson to determine
24 how that ownership structure is held, with GIPLET as part of
25 this structure. But it's my understanding, as long as it's

1 in public hands with the economic benefit accruing to the
2 Rio Nuevo, that that can be accomplished. We just came out
3 of this meeting with the City of Tucson, had a discussion
4 about this, a surface-level discussion.

5 And then our group would longterm lease our
6 franchise agreement. And let me tell you what that is. We
7 have formally submitted to Marriott for an AC Hotel at the
8 end of June. And it will go before their board July the
9 31st. And we will likely find out the first week of August
10 if we have been approved for an AC in downtown Tucson. And
11 so far everything is going quite well so that we could start
12 very soon.

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

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

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

24 SECRETARY IRVIN: Mark, do you want to chime in at
25 all? I know I've talked to you before about the GIPLET

1 structure and how we can do it, and what have you. I know
2 we still have a bunch of details to work out. But could you
3 address those?

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

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

13 Does that answer your question, sir?

14 SECRETARY IRVIN: Yeah. Thank you.

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

19 Any discussion? Motion?

20 MR. RITCHIE: Yeah.

21 Scott, you know, I applaud you once again. I've
22 gone through your presentation. I think it's a fantastic
23 concept. It's encouraging to hear that you have Marriott
24 because last time we talked to you, you did not. I think
25 you said you were in negotiations.

1 My question for you is: If we were to look at
2 this, would you be able to guarantee, either personally or
3 through a promissory note or something, the \$4.3 million, if
4 we were to loan you the money?

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

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

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

12 MR. STITELER: -- the details.

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

20 MR. STITELER: It would be important to understand
21 exactly what that means. Because my understanding is you
22 will own the asset; and the asset has value. So I'd need to
23 understand what terms that guarantee would have with regard
24 to deficiency, et cetera, and then would work with counsel
25 on that.

1 But what's most important to me is to present to
2 you, after listening to Board Members, something that is
3 clean, easy to understand, with an asset that you own that
4 provides current income and allows us to build a hotel
5 downtown soon. But I'm open to having that conversation.

6 MR. RITCHIE: Okay.

7 SECRETARY IRVIN: Alberto?

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

11 MR. STITELER: Thank you.

12 MR. MOORE: I think one of my biggest concerns is
13 something that I talked to you about when last met.

14 And that is Rio Nuevo has limited funds. And I'm
15 concerned that, first, I think the Board needs to establish
16 some of the ground rules because -- in funding projects like
17 yours. Because we've got several people who have hotels on
18 their agenda.

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

25 As far as supporting the project and, you know,

1 trying to be there, I think it's terrific. But I -- my
2 concern is: I don't know how much money we have, but it's
3 not a lot. And there's about three or four people that want
4 to build hotels. So that's my biggest concern.

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

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

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

24 SECRETARY IRVIN: Mark, did you want to chime in
25 on something?

1 MR. COLLINS: Real briefly, what's agendized is
2 for pretty much what Scott has asked you for. And that is
3 for direction to -- I guess, me, my office -- to start
4 drafting and working with his folks. That agreement would
5 come back to you folks. I mean, you wouldn't be bound by
6 anything until -- you wouldn't be bound to do the
7 \$4 million. Or you wouldn't be bound to do it without a
8 personal guarantee until that agreement was put together and
9 approved by you.

10 SECRETARY IRVIN: Thank you.

11 MR. COLLINS: Sure.

12 SECRETARY IRVIN: Jannie?

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

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

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

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

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

23 MR. COLLINS: To pursue the -- just as a point of
24 clarification -- to pursue -- explore this, begin to prepare
25 the documents to accomplish what Scott has just presented to

1 you?

2 MS. COX: And bring those back to the Board for us
3 to consider -- thank you. Yes, that is my motion.

4 MR. RITCHIE: I second.

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

7 Any further discussion?

8 Call for the question.

9 All in favor?

10 (Ayes.)

11 SECRETARY IRVIN: Anybody opposed?

12 MR. MOORE: Opposed. I'm opposed.

13 SECRETARY IRVIN: One opposed.

14 MR. MOORE: To the --

15 SECRETARY IRVIN: The ayes --

16 MR. MOORE: -- as I mentioned.

17 SECRETARY IRVIN: The ayes carry. Thank you.

18 Fletcher, you can come back and have your gavel.

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

21 (Mr. Ritchie left the proceedings.)

22 CHAIRMAN McCUSKER: For the record, Scott and I
23 are deemed partners because in Christmas of 2010, he and I
24 personally guaranteed the Rialto Theatre debt, which
25 probably saved the Rialto Theatre. I came to know him then

1 as someone -- even though he lives in San Francisco -- who
2 is unbelievably passionate about Tucson and committing
3 unbelievable financial resources to help revitalize our
4 downtown.

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

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

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

21 In terms of its precedent, I think it's very
22 consistent to how we've had conversation with other
23 developers. I think we see the Rio Nuevo opportunity now as
24 someone to help a developer develop, not necessarily
25 develop, own, and operate hotels, but to do infrastructure

1 work, site improvement, excavation, watershed, sewer,
2 streetscape, and parking.

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

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

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

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

22 Bill, I stole some of your thunder. But if you
23 would give us just a quick update of where we are
24 financially, I think also we have some things we have to
25 wrap up.

1 MR. ALLEN: Good afternoon.

2 Can you hear me? Hello?

3 CHAIRMAN McCUSKER: Yeah.

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

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

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

16 The -- this -- what happened this month that was
17 unique is that we received, back on the Fox Theatre, the
18 \$1,000 of reserve that I mentioned in the previous --

19 CHAIRMAN McCUSKER: \$1 million.

20 MR. ALLEN: I'm sorry. I apologize. A million
21 dollars -- \$1 million and \$100,000 total -- which pushed up
22 the account by almost a million dollars for the month.
23 There was some expenditures that the account has every
24 month. We have payroll costs. We have legal costs. We
25 have marketing costs. We've had a few bills that have been

1 paid on the TCC, small, related to the bond money. But the
2 net accounts went up by about \$930,000.

3 Is there any questions on the report?

4 CHAIRMAN McCUSKER: Go ahead.

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

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

18 MS. COX: So moved.

19 CHAIRMAN McCUSKER: So if someone will second?

20 SECRETARY IRVIN: Second.

21 CHAIRMAN McCUSKER: Any other conversation?

22 Questions?

23 All in favor say aye?

24 (Ayes.)

25 CHAIRMAN McCUSKER: Any other questions for Bill

1 while he's up there?

2 Bill, thanks again.

3 MR. ALLEN: Thank you.

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

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

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

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

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

19 Any questions?

20 CHAIRMAN McCUSKER: Hearing none, thank you very
21 much.

22 Item 9, Nor-Gen. We discussed this at our last
23 meeting. Subject to us taking title to the Arena Lot, we're
24 working on a joint development with the property immediately
25 west of that. That could include some infrastructure

1 support and parking, not unlike you discussed with Scott's
2 proposal. We will continue to nurture that along subject to
3 us closing the Arena Site.

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

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

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

13 MR. COLLINS: True, Mr. Sheafe.

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

20 So does that answer your question?

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

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

24 MR. MOORE: Excuse me. Mark, excuse me. Do you
25 think that we can clear these -- as you call them -- warts

1 and so forth off the Arena property by October?

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

8 CHAIRMAN McCUSKER: Item 10. If you needed any
9 additional affirmation that downtown Tucson has become hot,
10 we continue to engage in conversations with a very large
11 real estate investment bank that had initially proposed, to
12 the District, a hundred million dollars development fund.
13 The model for these funds is they typically put up
14 85 percent of the money and then look to the government
15 jurisdictions to help create a matching fund.

16 They remain interested in doing that. We've
17 talked to them about scale. And I'm pleased to report that
18 they've indicated they would consider a fund as small as 25
19 to \$30 million, which would pro-rata reduce the match
20 required.

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

1 five or six times our money.

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

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

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

18 MR. MOORE: Mr. Chairman?

19 CHAIRMAN McCUSKER: Mr. Moore?

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

22 SECRETARY IRVIN: I'll second.

23 MS. COX: Second.

24 CHAIRMAN McCUSKER: I have a motion, Mr. Moore;
25 seconded by Mr. Irvin.

1 Any other questions or comments?

2 All in favor, say aye?

3 (Ayes.)

4 CHAIRMAN McCUSKER: Any opposed, nay.

5 All right. We'll communicate that to Jonathan.

6 Thank you very much.

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

10 MR. COLLINS: Mr. Chairman and the Board, as you
11 all know, you approved a restated development agreement for
12 the Thrifty Block subject to approval by the lenders of the
13 developer and the mayor and council. The lenders of the
14 developer have approved. Mayor and council had it on the
15 agenda and actually did consider it at their last meeting.
16 But they put it off, in part, because it was roughly
17 32 pages long and many of them hadn't had a chance to review
18 it.

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

24 CHAIRMAN McCUSKER: I believe the developer has
25 signed off. So the District's signed off; the developer's

1 sign off; and it's just the City now that we've got to deal
2 with.

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

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

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

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

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

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

1 MR. COLLINS: Right.

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

4 MR. COLLINS: Yeah.

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

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

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

12 MR. COLLINS: Oh, yeah.

13 CHAIRMAN McCUSKER: Last month we did adopt a
14 far-reaching procurement code. We also established an
15 authority matrix as it relates specifically to the TCC.

16 This Board discussed and asked counsel if we could
17 maintain, as part of that code, the \$5,000 discretionary
18 limit that the Treasurer and Chairman continue to enjoy. So
19 they prepared an amendment that basically continues our
20 current policy. That is, the Chairman and the Treasurer
21 together would have \$5,000 of discretionary authority.
22 Those items would have to come to the full Board to be
23 ratified.

24 MR. COLLINS: Mr. Chairman, let me point out to
25 the Members of the Board, the particular resolution is 2.13;

1 it's in your book. And it does precisely what the Chairman
2 indicates. It requires -- allows that expenditure. And it
3 requires the reporting of that to -- to the Board on a
4 monthly basis. It doesn't require ratification. It
5 requires reporting. Those lines -- it has to be within the
6 line items of your budget, because your budget controls all
7 that -- but that's exactly what it does.

8 SECRETARY IRVIN: So do we need a motion?

9 CHAIRMAN McCUSKER: We need a motion on -- to
10 adopt the resolution as has been drafted by counsel.

11 MR. COLLINS: I would suggest that -- if you were
12 so inclined -- that someone move to adopt resolution 2.13,
13 which is in your book.

14 CHAIRMAN McCUSKER: Should we read that into the
15 record, or is that too lengthy?

16 MR. COLLINS: It's two pages long.

17 CHAIRMAN McCUSKER: So we can just adopt as
18 drafted.

19 MR. COLLINS: And we can post it on the -- if you
20 adopt it, you can post it on the website so that the public
21 knows. But I will assert to you that it says what you have
22 described.

23 TREASURER SHEAFE: I propose that we adopt
24 resolution 2.13 as drafted by counsel.

25 MR. MOORE: I'll second that.

1 CHAIRMAN McCUSKER: We have a motion to draft the
2 resolution and a second.

3 Any further conversation?

4 All in favor, say aye.

5 (Ayes.)

6 CHAIRMAN McCUSKER: Any opposed?

7 That passed unanimously. Thank you very much.

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

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

15 That would require action by this board.

16 TREASURER SHEAFE: There's two points here.
17 First, I think we ought to deal with the health benefits.
18 Or do you want to --

19 CHAIRMAN McCUSKER: You can do that; that's fine.
20 That's kind of routine.

21 TREASURER SHEAFE: I think it's absolutely
22 important that the employees of Rio Nuevo understand that we
23 are providing health insurance as part of their employment
24 package. And I would move that we assure that through
25 negotiations for the best package that we can possibly find

1 and make sure that the staff understands that their
2 insurance will continue.

3 MS. COX: Second.

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

6 All in favor, say aye.

7 (Ayes.)

8 CHAIRMAN McCUSKER: Any opposed?

9 Thank you.

10 And then as to salary.

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

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

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

22 And I would strongly put forth the motion that we
23 at least match the State increase, which is, I believe
24 5 percent.

25 CHAIRMAN McCUSKER: That's not an entirely clear

1 motion.

2 TREASURER SHEAFE: You want to help me on that?

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

5 TREASURER SHEAFE: Yes.

6 CHAIRMAN McCUSKER: Would you restate your motion,
7 please.

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

10 ALBERTO MOORE: That's crystal clear.

11 MS. COX: Second.

12 CHAIRMAN McCUSKER: I have a motion and a second.

13 Mr. Moore?

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

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

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

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

24 TREASURER SHEAFE: Well, I don't want to be cute
25 here, but, you know, we didn't give these guys a raise for

1 the last five years either.

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

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

7 CHAIRMAN McCUSKER: Any other questions?
8 Conversation?

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

11 Michele, call the roll.

12 MS. BETTINI: Alberto Moore?

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

15 MS. BETTINI: Do you want me to start again?
16 Jannie Cox?

17 MS. COX: Yes.

18 MS. BETTINI: Jeff Hill.

19 MR. HILL: Mr. Chairman, I will explain my vote.
20 That 5 percent, the reason for it and then to back off on
21 it, is linking it to the State pay increase, I think is
22 redundant, or certainly not appropriate.

23 I think we're overstaffed now that we've concluded
24 the audits. We've done the performance audit that's coming
25 up. And I think we should have a complete review of our

1 staffing costs. And just add 5 percent, to me, is not a
2 wise decision. So I vote "no."

3 MS. BETTINI: Mark Irvin?

4 SECRETARY IRVIN: Yes.

5 MS. BETTINI: Fletcher McCusker?

6 CHAIRMAN McCUSKER: Aye.

7 MS. BETTINI: Chris Sheafe?

8 TREASURER SHEAFE: Yes.

9 MS. BETTINI: Alberto Moore?

10 MR. MOORE: No.

11 CHAIRMAN McCUSKER: Four to two is my count. The
12 motion passes.

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

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

21 MR. HILL: Very good.

22 CHAIRMAN McCUSKER: And Michele, any cards from
23 the audience?

24 All right. We have no call from the audience.

25 I'd entertain a motion to adjourn.

1 SECRETARY IRVIN: So moved.

2 MR. MOORE: Second.

3 CHAIRMAN McCUSKER: All in favor, say aye.

4 (Ayes.)

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

7 (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