

**Minutes of Special Meeting
Of Board of Directors of
Rio Nuevo Multipurpose Facilities District**

**Tuesday, December 2, 2008
City Hall Mayor & Council Chambers, 255 W. Alameda, 1st Floor
Tucson, Arizona**

1. Roll Call

Chair Russell called the meeting to order at 5:32 p.m.

Present: Anne-Marie Russell, Rio Nuevo Board Chair
Roman Soltero, Rio Nuevo Board Secretary
Jeff DiGregorio, Rio Nuevo Board Member
Bill Hicks, Ballard Sparhr Andrews & Ingersoll, LLP, District Counsel
Greg Shelko, Downtown Development Director

Absent: Dan Eckstrom, Rio Nuevo Board Member

2. Call to the Audience

A call to the audience was made. There was no response.

3. Approval of Minutes for the October 1, 2008 meeting

Mr. Soltero questioned the vote count showing up as 11 to 0 when only three members were present at the last meeting. Mr. Hicks explained the weighed voting system (City of Tucson representatives have 5 votes each and City of South Tucson representatives have 1 vote each). Mr. Soltero then moved to approve the minutes as presented and Mr. DiGregorio seconded the motion. The motion passed unanimously (11 to 0).

4. Bonds

Mr. Shelko stated the Board was being asked to consider, and if appropriate, adopt a resolution approving and authorizing the issuance and sale of not to exceed \$80,000,000 in aggregate original principal amount of the District's Subordinate Lien Excise Tax Revenue Bonds, Series 2008 (the "Bonds"), and in connection therewith approve and authorize the execution and delivery of a master trust indenture, a first supplemental trust indenture, a first amendment to intergovernmental agreement, a bond purchase agreement, a continuing disclosure undertaking and preliminary and final official statements to finance the acquisition and construction of certain infrastructure projects and capital improvements for the District and declaring an emergency.

Mr. Shelko said about 300 pages of documents in substantially complete form were sent to the members of the Board prior to the meeting and acknowledged that Mr.

Hicks, the District's Legal Council and the City's Bond Counsel, along with RBC Capital Markets, the City Attorney, Piper Jaffrey, and rating agencies worked diligently to pull the documents together in an effort to get the first bond issuance in to the marketplace before the close of 2008. This was done because projects need to be financed and the rates are constantly changing so the sooner the financing is completed the better. It will provide certainty of financing for those projects that are pending.

Mr. Shelko then compared the projects funded with this bond issue and the CIP that was considered by the Rio Nuevo Board and Mayor and Council back in August (see Attachment A). There are very few changes to the CIP and only one new project was added to the list – a partial repayment of a City loan to the District. Some priorities were also reordered based on need.

Specific comments included:

- The Fox Theatre is not being refinanced at this time.
- The infrastructure improvements are being moved up for Barrios Viejo and Sin Nombre.
- As contemplated, the Mission San Agustin Gardens and Mission Landfill and Archaeology are being funded.
- The Civic Center Projects (specifically the arena) are being moved up because a decision on an arena operator is close to being made, the RFQ design solicitation is out in the street, and a solicitation for proposals for a Construction Manager at Risk will be put out soon.
- The Depot Plaza Parking garage and plaza public improvements are being funded as planned.
- The Downtown Infrastructure Project is being funded at \$6 million.
- No money was funded for the UA Science Center/State Museum, but there's a continuing obligation to pay for ½ of the design/development costs to the point of construction. The \$2 million of funding for this project represents about ½ of what U of A estimates to be the balance of the design expenses to get to construction in May/June of next year (the stated schedule).
- Pre-development for the Arizona History Museum and Tucson Children's Museum is included.
- \$1.6 million is included for the Cushing Street Bridge and road system; the project had \$10 million in the CIP, but the project won't require construction dollars until the summer of next year. This money will keep the design development moving forward. \$9 million will be refunded to the City for a payment to the State of Arizona for the Clark Street Underpass widening.
- The \$17.3 million that was in the CIP for the westside parking garage and plaza has been moved to the summer of next year based on the construction schedule.
- \$6.8 million is funded for repayment of the money that the City of Tucson advanced to the District for previous design, development and construction costs.

Mr. Shelko said the bond issue is not to exceed \$80 million. Some additional costs are approximately \$4 million for capitalized interest, the first principal payment which is due in October 2010, and the costs of issuing the bonds, including underwriters' fee and costs of issuance (approximately \$900,000), and \$7.7 million to establish a reserve essentially to guarantee the District's ability to meet debt service on the bonds. Some of the fee-based numbers like issuance costs and capitalized interest could move depending on what the market terms are and the resulting sizing of the reserve fund on the date of sale.

Chair Russell asked when the bond issue would be coming back to the board for final approval? Mr. Shelko responded that it would not be coming back. Should the Board approve it tonight, the financing will also be presented to Mayor and Council for their approval on December 9th and, if they approve it at that time, the finance team would take the bonds to the market immediately.

Mr. Hicks indicated that documents involved in transactions like this really set-up relationships among the participants with respect to the transaction and then proceeded to describe each document:

Master Trust Indenture – This document sets up the relationship with the District and Trustee. It says the District it intends to issue some bonds and wants the trustee to administer the process. The District wants the trustee to receive money from the sale and then make the various transfers among the different accounts to fund the projects and the reserve fund, and to pay the debt service on the bonds. The document establishes three principal accounts: The Debt Service Fund from which debt service payments on the bonds are made, the Acquisition and Construction Fund which is where the bulk of the proceeds go once the bonds are sold and closed and the Reserve Fund, which holds a portion of the proceeds of the bonds and provides additional security for the bondholders. The State Treasurer will be asked to send the TIF money directly to the trustee each month, as opposed to the City, which has been collecting the money on behalf of the District.

First Supplemental Trust Indenture – This document authorizes the first series of bonds and sets forth the specific terms. It states how much is being issued, sets up the mechanisms for issuance, talks about which funds and accounts the proceeds are going to be deposited in to pay the costs of issuance, provides for capitalized interest to be used to pay interest on the bonds until the revenues are sufficient for that purpose, and specifies redemption features (which are when the bonds are subject to redemption prior to maturity). Each subsequent bond issue will have its own supplemental trust indenture.

First Amendment to the Intergovernmental Agreement – This document says that the principal source of revenues will come from TIF moneys to be paid by the State

of Arizona, but for various reasons in negotiations with the investment bankers and rating agencies it was decided that additional security was required to market the bonds. Under the Arizona statutes and the original IGA between the City and the District, the City is obliged to match the TIF funds in an amount equal to the amount invested by the District in infrastructure and other authorized improvements. In order to discharge that obligation they came up with the notion that they would backstop the District. In this case, if, on any May 1st the District has not deposited sufficient funds with the trustee to provide for the payment of debt service on the ensuing payment date, the trustee will notify the City and the City will have enough time to budget and pay an amount equal to any shortfall. No such shortfall is expected but this provision serves as additional security for the bondholders and enables the District to get a better rating and therefore to sell the bonds at a lower interest cost. And that's the primary purpose for the Mayor and Council action on this financing, because they are a party to this the document. Subsequent notices will be sent on June 1st and July 1st and the amount of any shortfall should be declining with each month's TIF receipts. Any such deficiency will have to be paid by July 15th so that the District will be able to pay its debt service in August and February of the following fiscal year.

Preliminary and Final Official Statements - These documents are used to market and sell the bonds to individual and institutional investors. They are comprehensive descriptions of the District, the purpose and terms of the bond issue, the preceding documents, demographic data about the City of Tucson, and specific information about the TIF revenues, which is the security for the bonds. The draft form has a principal scale, but no interest rates because the bonds have not yet been marketed. The investment bankers will ask investors whether they are interested in buying the bonds that are maturing in a specific year (say, 2017) and, if the investor says yes, they will ask them what interest rate they would expect to receive (say, 4.75%). If enough investors agree, the bankers will agree to underwrite the bonds and they will return to the District and say here's what we are willing to do in terms of interest rates, If the District accepts those rates, the bankers can then calculate the bond issue size, the amount of the reserve fund, capitalized interest and the like. All of these numbers flow from the interest rates.

Bond Purchase Agreement – This document memorializes the agreement between the District and underwriter. It says we, the underwriter, are willing to buy the District bonds described in this document on the terms set forth on Schedule 1 to Exhibit A including the maturities, interest rates, redemption features and all of the terms and unique features of the bonds. Once the exact terms have been filled and this document has been signed, the preliminary official statement gets turned into the a final Official Statement.

Mr. Hicks said there will be numerous closing certificates, legal opinions from various people, and a lot of certifications, but basically these are the basic documents that make up the deal. If the Board approves them today, and the Mayor and Council

approve the bond issue in general and the amendment to the IGA in particular on December 9th, the underwriters and the financial advisor will try to market the bonds immediately to see what kind of interest rates they can get for the maturities. They are optimistic and interest rates are quite good at the moment. The preliminary official statement will be mailed out tomorrow to try to get investors interested and, on the 10th, 11th and 12th, they will start doing some pricing and by December 14th and 15th they should have a commitment and the bond purchase contract can then be finalized for the Board's signature. The pre-closing will probably occur on December 29th and the closing has tentatively been scheduled for December 30th.

On the December 30th the underwriters would wire the agreed purchase price for the bonds to the trustee (Wells Fargo Bank) which will deposit it into the various accounts as described above (construction fund, capitalized interest fund, and reserve fund) and invest it in U.S. government securities until needed to finance the project or pay debt service on the bonds. The capitalized interest account will have some investment gain that will be used to pay additional interest. The same is true of the reserve fund. A lot of the money will be paid out at closing to cover expenses of the financing and pay for design, development and/or construction to that date. And the draw-downs will continue to occur as needed. Requisitions will be signed by the District for the trustee to pay out project expenses as needed.

If all goes as planned with the first project, supplemental trust indentures relating to additional projects will be presented for discussion and possible adoption as they are needed.

Mr. DiGregorio made a motion to approve the resolution approving and authorizing the issuance and sale of not exceed \$80,000,000 in aggregate original principal amount of the District's Subordinate Lien Excise Tax Revenue Bonds, Series 2008. Chair Russell seconded the motion, which passed 11 to 0.

At this point, Secretary Soltero indicated that he would not be available for the signing of the documents on December 29th and 30th. Accordingly, Mr. DiGregorio was elected an Assistant Secretary of the District specifically to sign and/or certify the documents and closing papers required for the bond issue.

5. Project Updates and Financial Reports

The Board was provided ahead of time with two different versions of the financial reports for the District (one is the simplified version that has the year to date expenditures and then the other has the expenditures from inception to date). The Board will continue to receive the report titled Flow of Funds which shows the year-to-date expenditures for the current fiscal year and then carries a running total by project or category. One of the benefits of the bond issue that was just approved by the Board will be that the District can eliminate operating in the negative and will be refunding some of the expenses that the City advanced pursuant to the IGA. The

largest one being the \$9 million for the Clark Street underpass. Both reports are being posted on the Rio Nuevo website and will be provided to both the Board and Rio Nuevo/Downtown Subcommittee on a monthly basis.

Chair Russel asked if the CIP would be changed based on the drop in TIF Revenues? Mr. Shelko advised that sales tax revenues have declined everywhere. They are waiting to see how a couple of months go, before taking a look at it. If the economy continues to worsen, it starts to narrow the District's borrowing ability. The District is looking at the CIP to move some project expenses around and see if the hotel can carry a share of the arena capital costs. It's a difficult environment right now and staff is recalculating the future revenues on a daily basis for City budgeting and for Rio Nuevo purposes.

Project Updates

Mr. Shelko spoke about a few of the downtown projects on the monthly project listing

4th Avenue Underpass – has a completion date of summer 2009

Plaza Centro – The project has been connected to the 4th Avenue Underpass project for some time. The developer may not stand alone, but partials may become part of a larger development project as part of the warehouse area.

Downtown Links – The final engineering design construction plans have been approved and there was an establishment of a final alignment in the last six months.

Modern Streetcar – The final engineering is moving forward and there's a targeted completion date of 11/11/11 – a date one won't forget. There are some financial requirements that still need to be met and the City is working very hard at the Federal level on carrying some of the costs of the system. Chair Russel asked about the Gas Tax Revenues? Greg said he didn't have an answer, but he has heard from the people involved that there's a sense of optimism at the Federal level that the City will be able to get a significant amount of FTA money to fill the budget for the streetcar.

Mercado District – There's a commercial building in construction that will probably open several months after the holiday season. In advance of the building actually opening, the developer is partnering with the neighborhood for holiday festivities December 12-21st.

Westside Archaeological investigates, landfill remediation and flood mitigation – All of the work on the westside is complete with the exception of some of the work on Mission Lane. Funds are included for this in the bond issue that was just approved by the Board. All westside design work is proceeding. They are about to commence construction on the gardens, the construction documents for the parking garage and plaza are about 65% complete and the construction documents for the historical buildings are 100% complete, with their construction commencing around the summer of next year. Fran LaSala has taken over the management of the project and has done a heroic job.

UA Science Center and Arizona State Museum – The UofA continues design development work. They have asked about bridge financing alternatives but that has not been decided yet and they will come back to us in that regard. We have encouraged them to have a public meeting on the design as soon as possible.

Arizona History Museum and Tucson Children’s Museum – The AHM is in its second month of about a 12-month design development project. They have a full team pulled together (architectural, exhibit designers, builder, etc.). Once the site issues have been resolved, they will be able to define the parcel for the TCM. The TCM was anxious for the bond issue to be approved because \$1.2 million of the anticipated proceeds is allocated for this design work.

Arena – We are close to making a recommendation on an arena operator and will be receiving proposals from architectural design teams through December 17th. And we are preparing to distribute an RFP for a construction manager at risk by the middle of January. The intent is to have the arena operator work with staff in an advisory capacity on the selection of the design/build team and assist with refining the building program because the arena operator will have to guarantee the bottom line in terms of function and economics.

Convention Center Expansion and Convention Headquarter Hotel Development

– Several meetings have been held over the last couple of months. The design/development process was kicked-off. Once the final room count and conference room space is established, then the designers and architects can go about the business of design work. A community meeting is being held on December 15th to ask the public what are important design considerations for the hotel. This will be the first of three public meetings. The design team is being asked to look at expanding the convention center with 40,000-sq. ft. of exhibit hall space on westside and 25,000 sq. ft. of meeting room and function space to the hotel to increase business and improve their financial position. So when the hotel costs come together, there will also be some costs associated with expanding the convention center.

Infrastructure, Streetscape and Parking - A groundbreaking for the first phase of the streetscape project took place Monday, November 24th in front of the Arizona Theatre Company/Temple of Music and Art.

Mr. DiGregorio announced that they started construction yesterday.

6. Future Agenda Items

The next scheduled meeting of the Board is set for Wednesday, December 31, 2008. It’s going to be left on the calendar just in case we need to hold a meeting before the end of the year for the bond sale.

The motion passed 11 to 0.

Other upcoming items discussed were:

MOU with the Children’s Museum

Updates by the Hotel and Arena Teams

7. Adjournment

Meeting adjourned at 4:25 p.m.

Attachment A

Project	CIP	Planned
Fox Theater	\$ 3.6m	\$ - (1)
Mission San Agustin Gardens	\$ 3.0m	\$ 3.0m
Mission Landfill and Archaeology	\$ 5.4m	\$ 5.4m
Civic Center Projects	\$ -	\$10.0m (2)
Depot Plaza Parking Garage	\$12.2m	\$11.6m (3)
Depot Plaza Public Improvements	\$ 1.4m	\$ 1.4m
Downtown Infrastructure Projects	\$ 7.0m	\$ 6.0m (4)
UA Science Center / State Museum	\$ -	\$ 2.0m (5)
AZ History Museum	\$ 3.0m	\$ 3.0m
Tucson Children's Museum	\$ 1.2m	\$ 1.2m
Cushing Street Bridge and Road	\$10.0m	\$ 1.6m (6)
Clark Street Underpass	\$ 9.0m	\$ 9.0m
W.S. Parking Structure and Plaza	\$17.3m	\$ - (7)
Barrio Viejo Infrastructure	\$ -	\$ 2.0m (8)
Barrio Sin Nombre Infrastructure	\$ -	\$ 2.0m (9)
City Loan Repayment (partial)	\$ -	\$ 6.8m (10)
	\$73.1m	\$65.0m

- (1) refinancing deferred in favor of neighborhood improvement projects
- (2) moved up from '09 borrowing, arena design RFQ to be published November 21, 2008
- (3) lesser amount since ongoing construction cost paid with cash on hand to date
- (4) based upon current estimated cash needs
- (5) moved up from '09 for design development in UA anticipation of Spring construction
- (6) for engineering and design, balance moved back to '09 borrowing / construction start
- (7) moved back to '09 borrowing / construction start
- (8) moved up from '09 borrowing as priority
- (9) moved up from '09 borrowing as priority
- (10) added, City cash need