

Meeting Minutes

ARIZONA INDUSTRIAL DEVELOPMENT AUTHORITY BOARD OF DIRECTORS MEETING

Location: In-Person Meeting at
Sonesta Suites Scottsdale Gainey Ranch
7300 East Gainey Suites Drive, Scottsdale, Arizona 85258
In Gainey Ballroom A/B

Date and Time: Thursday, May 18, 2023
3:02 p.m.

Board Members Present (Appearing Telephonically):

Ken Burns
Gary Naquin
Lea Márquez Peterson
Brad Vynalek

Board Members Absent:

Paulina Vazquez Morris

Executive Director Present (In Person):

Dirk Swift

Chief Financial Officer (In Person):

Dan Dialessi

Meeting Facilitator:

Kelly McGuire – Kutak Rock LLP

Presenters:

Melinda White – Sage Memorial Hospital
Cameron Chubbuck – Horizon ELOM
Ahmed Abdelhameed – Ulysses Development Group
Matt Klein – Lincoln Avenue Capital
Dirk Swift – AZIDA Executive Director

Actions:

1. **Call to Order:**

The meeting was called to order by Gary Naquin, President of the Board of the Arizona Industrial Development Authority (AZIDA), at 3:02 p.m. Participating telephonically were Ken Burns, Gary Naquin, Lea Márquez Peterson and Brad Vynalek. Paulina Vazquez Morris was absent. A quorum was declared present.

2. **Adoption of Minutes of the April 20, 2023, AZIDA Board Meeting**

Board member **Ken Burns** moved to adopt the minutes of the April 20, 2023, AZIDA Board Meeting. Board member **Lea Márquez Peterson** seconded the motion.

The Board Members were individually polled – Ken Burns (yes), Gary Naquin (yes), Lea Márquez Peterson (yes), Brad Vynalek (yes), and by a vote of 4-0 the motion passed.

3. **Agenda Items Considered:**

Presentation, Discussion & Adoption

Approval of Resolution No. 2023-12 – Authorizing the issuance of not-to-exceed \$195,000,000 of Hospital Revenue Bonds (Navajo Health Foundation – Sage Memorial Hospital, Inc. Project), in one or more tax-exempt and/or taxable series for the benefit of Navajo Health Foundation – Sage Memorial Hospital, Inc.

Melinda White, the CEO of Sage Memorial Hospital, shared details of the project with the Board. Ms. White noted that Navajo Health Foundation – Sage Memorial Hospital, Inc. is a private, nonprofit, 501(c)(3) corporation and is the first native-managed private comprehensive health care system in the country. It is also the only Native American hospital to hold a license from the Arizona Department of Health Services and be accredited by the Joint Commission. The hospital is located on private land owned by the Presbyterian Church within the Navajo Nation Reservation. The hospital is a critical access hospital that has an outpatient and rural health clinic approximately 28 miles away. The new facility will consist of approximately 140,000 square feet, almost doubling the square footage of the existing facility. The new facility will allow for the addition of an intensive care unit, an operating room, and a labor and delivery department, as well as expanding current outpatient specialty and increasing the capability in other departments such as dental, optometry, pharmacy and other ancillary departments. The hospital services eight communities within the Navajo Nation. The hospital will not only serve Native Americans within the service area, but will also serve the non-Native population, making Sage Memorial Hospital different than any other facility in the country. Ms. White then offered to entertain questions from the Board.

Mr. Naquin asked if the original hospital facility will be closed or operated simultaneously with the new facility. Ms. White stated all services will be handled at the new facility. They are currently considering a nursing school or training centers at the original facility in order to provide a source for staffing at the new facility. Ms. Márquez Peterson then asked how many beds would be available in the new facility. Ms. White responded it will be a 25-bed facility.

Board member **Lea Márquez Peterson** then motioned to approve Resolution No. 2023-12, as presented. Board member **Brad Vynalek** seconded the motion.

The Board Members were individually polled – Ken Burns (yes), Gary Naquin (yes), Lea Márquez Peterson (yes), Brad Vynalek (yes), and by a vote of 4-0 the motion passed.

Presentation, Discussion & Adoption

Approval of Resolution No. 2023-13 – Authorizing final approval of the issuance of not-to-exceed \$8,500,000 of Multifamily Housing Revenue Bonds (Arizona Retirement Home of Scottsdale), in one or more tax-exempt and/or taxable series for the benefit of ARHS Housing Partners, L.P.

Cameron Chubbuck of Horizon ELOM refreshed the Board’s recollection of details of the project, which is the purchase and substantial rehabilitation of an existing 47-unit affordable senior housing complex in the city of Scottsdale, Arizona. In addition to the financing provided by the bonds, Horizon will leverage 4% low-income housing tax credits. Mr. Chubbuck noted that Horizon has completed approximately five other affordable housing projects through the AZIDA and is very appreciative of the relationship with AZIDA. He then offered to entertain questions from the Board.

Board member **Brad Vynalek** then motioned to approve Resolution No. 2023-13, as presented. Board member **Ken Burns** seconded the motion.

The Board Members were individually polled – Ken Burns (yes), Gary Naquin (yes), Lea Márquez Peterson (yes), Brad Vynalek (yes), and by a vote of 4-0 the motion passed.

Presentation, Discussion & Adoption

Approval of Resolution No. 2023-14 – Authorizing an extension of preliminary approval of not-to-exceed \$27,000,000 of multifamily housing revenue bonds, notes, or other obligations to be issued in one or more tax-exempt and/or taxable series to assist in financing a qualified residential rental facility to be located in Phoenix, Arizona, for the benefit of a tax credit limited liability company or partnership to be formed by Ulysses Development Group LLC.

Ahmed Abdelhameed with Ulysses Development Group (UDG) presented the request for extension or preliminary approval to the Board. Mr. Abdelhameed indicated that UDG received initial inducement approval in June 2022, and that it is requesting an extension due to the fluctuating market conditions over the past year. During that time, UDG focused heavily on securing funding in order to make the project financially feasible. They have received a commitment for over \$8,000,000 from ADOH and have secured all financing for the construction phase, the permanent phase loan, and the tax credit equity. The project will be approximately 126 units of affordable housing located in the city of Phoenix, Arizona, all of which will be occupied by residents earning at or below 60% area median income. UDG anticipates receiving building permits from the city of Phoenix in August, and they anticipate closing and commencing construction in September. Mr. Abdelhameed stated UDG looks forward to closing their second project with the AZIDA and expressed appreciation for the continued support. He then offered to entertain questions from the Board.

Board member **Ken Burns** then motioned to approve Resolution No. 2023-14, as presented. Board member **Lea Márquez Peterson** seconded the motion.

The Board Members were individually polled – Ken Burns (yes), Gary Naquin (yes), Lea Márquez Peterson (yes), Brad Vynalek (yes), and by a vote of 4-0 the motion passed.

Presentation, Discussion & Adoption

Approval of Resolution No. 2023-15 – Authorizing an extension of preliminary approval of not-to-exceed \$65,000,000 of multifamily housing revenue bonds, notes, or other obligations to be issued in one or more tax-exempt and/or taxable series to assist in financing a qualified residential rental facility to be located in Casa Grande, Arizona, for the benefit of Cottonwood Ranch GP LLC.

Matt Klein with Lincoln Avenue Capital (LAC) provided a brief update of the project to the Board to request an extension of preliminary approval. He reminded the Board that the project will consist of approximately 300 units of affordable housing in Casa Grande, Arizona, to be rented to tenants earning 60% of area median income. LAC has been working to retain the feasibility of the project through pursuing soft funds. They were able to obtain \$200,000,000 from ADOH, as well as substantial value engineering on the construction side. LAC is currently going through the permitting process with the city of Casa Grande and is looking forward to closing and commencing construction in the fourth quarter of 2023. Mr. Klein then offered to entertain questions from the Board.

Board member **Lea Márquez Peterson** then motioned to approve Resolution No. 2023-15, as presented. Board member **Brad Vynalek** seconded the motion.

The Board Members were individually polled – Ken Burns (yes), Gary Naquin (yes), Lea Márquez Peterson (yes), Brad Vynalek (yes), and by a vote of 4-0 the motion passed.

Presentation, Discussion & Adoption

Approval of Resolution No. 2023-16 – Authorizing the preliminary approval of not-to-exceed \$60,000,000 of multifamily housing revenue bonds, notes, or other obligations to be issued in one or more tax-exempt and/or taxable series to assist in financing a qualified residential rental facility to be located in Maricopa, Arizona, for the benefit of a tax credit limited liability company or partnership to be formed by Lincoln Avenue Capital, LLC.

Matt Klein with Lincoln Avenue Capital shared a brief description of the project with the Board. Mr. Klein indicated the project will consist of approximately 260 units of affordable housing in the city of Maricopa, Arizona. The project will be a mix of two- and three-bedroom affordable housing units in the ‘build-to-rent’ style of housing product that will cater to residents earning 60% of the area median income. He shared that the build-to-rent product is relatively new to the Valley. The typical communities will be a combination of detached and attached units with backyards and small patios. They expect to begin construction in the first quarter of 2024. Mr. Klein then offered to entertain questions from the Board.

Mr. Naquin asked if this type of product has been built in Phoenix or surrounding Maricopa County prior to this project. Mr. Klein responded that there has been quite a bit built in the greater Phoenix metropolitan area for market-rate renters, but there isn’t much available from an affordable perspective. This product seems to work well in the Southwest and is trending across the country. Lincoln Avenue Capital is exploring it in each of the states in which they operate.

Board member **Brad Vynalek** then motioned to approve Resolution No. 2023-16, as presented. Board member **Ken Burns** seconded the motion.

The Board Members were individually polled – Ken Burns (yes), Gary Naquin (yes), Lea Márquez Peterson (yes), Brad Vynalek (yes), and by a vote of 4-0 the motion passed.

4. **Executive Director’s Report**

Dirk Swift, the Executive Director of AZIDA, provided an update on contract negotiations with AZIDA’s bond program manager, Cathedral Rock Issuer Services (CRIS). Mr. Swift indicated that over the past 90 days the AZIDA Finance Committee, which was created at the pleasure of the President pursuant to AZIDA’s Amended and Restated Bylaws, has had numerous conversations and conducted multiple meetings to analyze goals of a new contract. The Finance Committee is comprised of the AZIDA President, Mr. Naquin, the AZIDA Treasurer, Mr. Burns, and Mr. Swift. Kelly McGuire with Kutak Rock, and Daniel Dialessi, the AZIDA CFO, have also participated in review of the contract. Mr. Swift noted that in the AZIDA’s six-month response to the Auditor General’s report, which was submitted on March 22, 2023, AZIDA stated any restructured CRIS contract would accomplish three main goals. First, the elimination of any CRIS managerial responsibilities because that function is no longer necessary in AZIDA’s life cycle; second, compensation would relate to conduit revenue bond results, better matching business channel expenses to business channel revenues; and third, it would create an incentive payout structure that is in line with the peer group. With regard to the third point, Mr. Swift stated the AZIDA is a unique entity both in mission and structure which creates a challenge in finding comparable peer groups to conduct a similar review of similar companies. The Arizona Auditor General’s report stated that it had reviewed a similar conduit issuer in California as its basis for comparison. It noted that the California entity had results similar to AZIDA, and as such, the Auditor General believed “the AIDA operating costs for fiscal year 2021 were at least 70% higher than three other issuer entities we reviewed.” The other two entities it reviewed had multiple in-house staff and produced a quarter of the volume AZIDA produces. AZIDA does not agree that any of those entities are truly comparable, however, AZIDA accepted the Auditor General’s figures and crafted the new CRIS contract to result in a 70% reduction in compensation, subject to CRIS maximizing production incentives. Mr. Swift relayed that Mr. Dialessi modeled several scenarios to assist the Finance Committee’s analysis. The data provided alternative compensation plan variations which were evaluated and compared to historic contract results over many years. As a result, the final financial terms of the new CRIS contract include a fixed monthly payment, plus a percentage of any monthly revenue received by the AZIDA. CRIS compensation will relate solely to the revenue bond business channel. The new contract has been accepted by the Finance Committee and by CRIS, is fully executed and will be effective June 1, 2023. Mr. Swift added that AZIDA gets a lot of attention and focus on its conduit revenue bond program, but that is just half of what AZIDA does. The HOME Plus Down Payment Assistance Program also uses contractors to originate business on behalf of AZIDA. He stated AZIDA has hundreds of lenders that are paid a service release premium, or SRP, to generate business for the HOME Plus Program. Since AZIDA’s inception in August 2016, through the end of 2022, HOME Plus Program lenders have originated 36,166 HOME Plus transactions. Those mortgages total \$7.7 billion and the lender SRP paid on that volume was over \$155 million. When Mr. Swift took over the program in 2014, it was grossly underproducing due to many flaws, but one of those flaws was the low lender compensation paid.

Mr. Naquin thanked Mr. Swift for the summary and expressed his appreciation for everyone's work and effort during the negotiation of the new contract.

5. **Call to the Public**

Kelly McGuire announced a call to the public for comments.

No comments were made.

6. **Announcements**

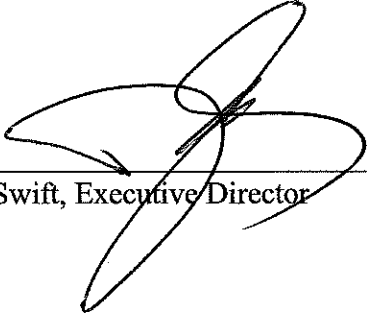
Gary Naquin announced that the next meeting of the Arizona Industrial Development Authority would be held on Thursday, June 15, 2023, at 3:00 p.m., and said to please consult the Arizona IDA website for any changes and/or meeting details.

7. **Adjournment**

Board member **Ken Burns** motioned for adjournment of the AZIDA Board Meeting at 3:31 p.m. Board member **Lea Márquez Peterson** seconded.

The Board Members were individually polled – Ken Burns (yes), Gary Naquin (yes), Lea Márquez Peterson (yes), Brad Vynalek (yes), and by a vote of 4-0 the motion passed.

Approval: The undersigned hereby certifies that the Board of Directors of the Arizona Industrial Development Authority formally adopted these Minutes on the date shown below.



Dirk Swift, Executive Director

June 15, 2023

Date of Board Action