

**REGULAR MEETING OF THE BOARD OF DIRECTORS OF THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA**

Thursday, April 21, 2022  
3:00 p.m.

Virtual meeting held via zoom

**Minutes**

	<b>Present</b>	<b>Absent</b>
Board Members:	Judy Clinco Meredith Aronson Sharayah Jimenez Melissa (“Mimi”) Noshay-Petro Moniqua Lane (arrived at 3:30 p.m.)	Patricia Schwabe Sandra Barton
Staff & Advisors:	Andrea (“Dre”) Thompson, CEO Wendy McBroom, Operations Coordinator Karen Valdez, BDFC Advisor Services, LLC Julie Arvo MacKenzie, Engelman Berger, P.C. Brigitte Findley Green, Engelman Berger, P.C.	
Guests:	Liz Morales, City of Tucson Scott Riffle, Stifel Public Finance Anthony Villari, Essentage Services Sal Hernandez, Essentage Services Courtenay Epperson, Roberts Alexonis Group	

**COVID-19 SPECIAL MEETING NOTE:** This Regular Meeting was conducted using measures to protect public health. Social distancing practices were used. This Special Meeting was held remotely through a Zoom conference call, as permitted under Arizona law. Members of the public were not allowed to attend the Special Meeting in person. Members of the public could attend and listen to the Special Meeting by a Zoom conference telephone call.

Pursuant to **Arizona Revised Statutes Section 38-431.02**, notice was given to the general public and to the members of the Authority’s Board of Directors that the Authority will hold a meeting open to the public to discuss, consider and take legal action on the following Agenda items:

<b>ITEM</b>	<b>ACTION TAKEN / TO BE TAKEN</b>
<b>1. Call to Order and Review of Mission Statement</b> <b>Tucson IDA enables strategic economic and community development by providing financing and access to capital for projects and programs that benefit a thriving Tucson</b>	The meeting was called to order at <b>3:04 p.m.</b>
<b>2. Request for Resolution</b> <b>Approve the Minutes of the Regular Meeting of March 17, 2022</b>	A <b>MOTION</b> was made and seconded (M. Noshay-Petro / J. Clinco) to approve the minutes of the <b>March 17, 2022</b> Regular Meeting as presented. <b>Approved 5-0</b>

**3. Guest Presentation: Essentage**

**Essentage has completed a three-month review of the Tucson IDA's finances, risks, and processes & procedures. Their Principals have been invited by the Finance Committee to present their findings and recommendations to the Board.**

D. Thompson introduced Anthony Villari and Sal Hernandez, Principals of Essentage Services. Essentage Services was retained to complete a review of the Authority's financials, to provide objective support in understanding the risk areas and opportunities to grow, and to assist the Authority in improving its overall financial building blocks.

D. Thompson stated that she has been working with Essentage Services over the last few months and thought it would be beneficial to the Authority to hear an overview of their findings. These findings provide for the development of the Authority's financial policies and procedures.

Presentation was as follows:

Mr. Villari began with their credentials stating that both he and Sal Hernandez are both Certified Public Accountants ("CPAs") and own and operate Essentage in Tucson. Essentage Services works with the local small businesses and spends a fair amount of time every year with business incubator programs through Startup Tucson, Local First, the Hispanic Chamber of Commerce, etc. They have experience in public accounting as auditors.

**Review of the FY20-21 Audited report ended June 30, 2021 and June 30, 2020 ("Audit") resulted in the following findings:**

- Audit Opinion was Qualified. To the extent the language of the Audit's opinion is Qualified, it's highly problematic. The opinion was Qualified because of unsatisfactory testing over balances related to bonds.
- The audit had no language related to an assessment of internal controls. In their view, a financial statement audit requires assessment of internal controls based on the American Institute of Certified Public Accountants ("AICPA"), the CPAs audit guidance standards. In order to perform an audit, the audit firm and auditors need to assess internal controls to identify any risk areas, so that the audit firm knows where to focus their testing.

The audit firm is testing:

1. Balances on the balance sheet and all transactional data that underlies those balances.
2. Financial processes through which transactions happen in an organization.
3. If revenues are coming in and hitting the bank and checks are going out to vendors from the bank.
4. The Processes like revenue recognition; how income is collected; if there are receivables out there; how is it determined that receivables are collected.
5. How is it determined that a vendor invoice is legitimate, in the correct amount and paid?

No action taken

In essence, the audit firm is confirming that processes within the organization are in place that make the auditors comfortable that these transactions are for the correct amounts, are accurate and free of material misstatements or errors.

S. Hernandez: Does the organization have a system of checks and balances? And is the policy effective to catch anything that would or could go wrong? Is it being implemented? Checks and balances have to be properly designed and properly implemented.

M. Aronson: Is this the primary outcome that Essentage is wanting the Authority to understand from the review they completed, or are there other points as well?

A. Villari: From the review of the audit report this is the primary take away. We suggest the Authority completes a review of their work papers to understand what was done to assess controls and for adequate testing.

M. Aronson: In your efforts, did you begin to unpack what are some of the needed processes, or is that outside of the scope of your work?

A. Villari: That was outside of the scope of what was preliminarily done. We did sit with Ms. Thompson to discuss, at a base level, some of the things that need to be considered with regard to internal controls. One of the challenges is that the Authority does not have domain over the accounting. It is our understanding that most of that happens at Business Development Finance Corporation ("BDFC") and the audit did not look at BDFC's controls. Transactional controls have to be looked at in order to complete an audit. Structuring the actual controls that are going to be in place at the Authority is going to depend on where the actual transactional accounting resides in the future. Is it going to continue where it resides now at BDFC or is it going to come back in house? Either way, there are controls that could be enacted to deal with the fact of having only the limited staff at the Authority, for example, if Ms. Thompson is now running payroll at Tucson IDA, someone other than Ms. Thompson should be reviewing the payroll register periodically. And someone other than one person should be reviewing bank statements.

D. Thompson: Under the current financial policies and procedures, S. Barton is going to be her check, and will review all bank statements, payroll and financials on a monthly basis so that there is that double check and balance.

A. Villari: Some of the other things found in looking through the audit report and historical documents, some things that the auditor did know and seemed accurate with the internal documents, was that to the extent there are large cash balances being held, a risk perceived on an everyday basis is deposit insurance limits at banks and banking institutions. Depending on how much is sitting in certain accounts, the audit report noted that there was somewhat of an investment policy or an investment mix of holdings in terms of how cash on hand should be invested in treasury bonds just to make sure there was some yield being earned on idle cash. The report did mention that the policy in existence has been in existence for a while and noted that there is an optimal mix in terms of how cash balances on hand should be deployed whether just sitting in a bank account or potentially invested in low-risk instruments. This was noted as something for the Authority to discuss.

If the Authority is going to engage in an audit again at the end of the fiscal year this June, in his professional opinion, he is not sure that the organization would necessarily be what he and Sal would consider audit ready.

It takes some time to identify and implement internal controls once you know how the accounting processes are going to be structured. A more prudent approach, to the extent that they're going to engage with a public accounting firm that performs financial audits, is to engage on the basis of getting audit ready rather than an audit.

D. Thompson: Do you have a sense of what exactly an audit ready process would look like? What would that entail? The Authority is at the point of considering next steps for June.

Mr. Villari: To the extent the Authority may not be comfortable with how things were done in the past, a couple ways you can engage with a firm that performs financial audits is to first have them do what is called an "Agreed Upon Procedures Engagement". Basically, the Authority would dictate what you would like them to do and what to get to the root of. The output or report is not an audit report. Example: have them examine, from the previous Auditor, their working papers. They have a professional duty to turn them over. And assess exactly the testing that was done. If looking at the testing they did, were there any high-risk areas that they missed.

Mr. Hernandez and Mr. Villari estimated that an audit for an organization like the Authority should cost in the **\$25,000 to \$35,000** range.

S. Hernandez said that each deficiency should be ranked as either standard, significant, or material. If there is a material weakness, it needs to be corrected immediately.

A. Villari, and you'll essentially never get an unqualified opinion.

M. Aronson: I hear the conversation about audit, and certainly I heard your recommendation that we think about audit readiness, and particularly with regard to the internal controls, my questions are what seems to be the piece that is most helpful, a very specific assessment? Is there any reason why that single action could not be where we begin our process?

A Villari: I agree with you Meredith, I think that you could start with an Agreed Upon Procedures Engagement. Not doing an audit, but the type of assessment that identifies any significant deficiencies or potentially material weakness. And then knowing your infrastructure, here is what we have at our disposal in terms of staffing and Board members, give us the suggestions. I think you are absolutely on the right path. You can put those controls into place and ultimately get to the point where you are ready for an audit.

J. Clinco: what can we expect to pay for that?

A Villari: I would say similar to the audit fee. The public accounting environment does budget by hours and essentially comes up with pricing based on how many hours their staff will need to work on the engagement. I would expect something very similar to the actual audit fee because there is a lot of work to be done initially to identify the risk and problem areas and to give you the suggestions.

M. Aronson: So last question to you Ms. Thompson, on your radar is a part time Chief Financial Officer and thinking about the complexity of the analysis across BDFC and the Authority, is the timing of the assessment connected to the phasing of the strategy of staffing and the organizational relationships?

D. Thompson: I definitely think so.

<p>A Villari and S. Hernandez were thanked for their time.</p>	
<p><b>4. Finance Committee Summary Report &amp; Action:</b></p> <p><b>A. Summary of the Finance Committee meeting</b></p> <p><b>B. Call to approve the Finance Policies and Procedures Document</b></p> <p><b>C. Discussion and action on the decision to transition MCC program execution to CIC</b></p> <p>D. Thompson reported that a final read through of the Finance Policies and Procedures, as well as a Cooperative Agreement with the Industrial Development Authority of the County of Pima, is needed prior to action being taken on these items.</p>	<p>No action taken</p>
<p><b>5. Development Committee Summary Report &amp; Action:</b></p> <p><b>Summary of the Development Committee meeting and any votes related to current proposals and actions related to development holdings.</b></p> <p>M. Lane provided a status report of the <b>April 18, 2022</b> Development Committee (“Committee”) Meeting as follows:</p> <ol style="list-style-type: none"> <li>1. Goal of the Committee is to establish parameters for the CEO to pursue deals and deal flow, evaluate proposals as they are received, and to make recommendations to the Board.</li> <li>2. Reviewed a Decision Rubric: a list of specific criteria used for decision making and to rate/score proposals to establish transparency.</li> <li>3. Reviewed proposal received for purchase of 450 N. Main. Recommendation of the committee is to pass on this proposal due to below market offer to purchase and a tax-exempt financing for this project doesn't appear to work.</li> <li>4. Looking for direction from the full Board on 1) strategy regarding real estate: sell, hold, acquire, develop, or co-develop and 2) parameters as it relates to criteria for evaluating qualifications/projects, and strategy/master plan. Suggest discussion of this item at the Board Retreat.</li> <li>5. The Committee recommends taking down the for-sale signs on 450 N. Main.</li> <li>6. Discussed potential land swap with the City of Tucson (“COT”) or purchasing the portion of the property that was transferred to the Authority to remove the restrictions on development.</li> <li>7. Recommendation is to pass on the proposal presented by DUST. S. Jimenez expressed concerns of being land locked given the small parcel size of Block 174. Other considerations are site access, and potential air rights. Of the Authority’s assembled parcels, Block 174 has the highest zoning, up to 130 feet and potential due to the zoning density. The parcel is in the core of downtown and keeping the building there could be a limiting factor in the future. Discussed having a strategic development plan with highest and best use, prior to committing.</li> </ol> <p>D. Thompson: Eco Northwest was recommended by COT Department of Housing &amp; Community Development and asked L. Morales to share any insights about them.</p>	<p>No action taken</p>

<p>L. Morales: Eco Northwest has an incredible list of projects that they've completed and are becoming very familiar with Tucson. The COT has pooled together a list of consultants, Eco Northwest being one. L. Morales highly recommends them.</p> <p>D. Thompson stated that she is anticipating a number of proposals to come in for several different options.</p> <p>M. Lane stated that the Authority has a good amount of development expertise on the Board and a good amount that can be handled by the Board but if looking at a highest and best use study, working with an outside partner would be a good idea. However, if generally assessing a partner, inclination is to keep it local or regional rather than national. If looking at a project to partner with the COT, particularly on affordable housing then potentially the partner the COT uses will be the partner that the Authority consults with, on a case-by-case basis.</p> <p>It was the consensus of the Committee to officially change the name to the Property Development Committee and will meet the 2<sup>nd</sup> Thursday of each month from 4:00 p.m. to 5:00 p.m. M. Lane is the Chair.</p>	
<p><b>6. CEO Update: Status Report</b>  <b>An overview of the financial, strategic, and operational developments of the organization over the past month.</b></p> <p>D Thompson provided updates on the following:</p> <p><b>A. Review of Finances</b></p> <ul style="list-style-type: none"> <li>• As of March 31, 2022 - Cash &amp; Cash Equivalents, less existing commitments: \$4,569,780 available to invest.</li> <li>• Small Business Loans disbursed FY21-22 through March 31, 2022: \$442,500.</li> <li>• Single Family Program income for the month of March, 2022: \$298,959.</li> <li>• Annual Assessment Fees: \$6,493</li> <li>• Real Estate Monthly Income: \$11,791,06</li> <li>• Revenue projections will be adjusted, and the Authority will need to look to actively diversifying revenue streams.</li> </ul> <p>Options include:</p> <ul style="list-style-type: none"> <li>➤ Bond issuance</li> <li>➤ Diversifying lending programs</li> <li>➤ Explore commercial property investment &amp; management</li> <li>➤ Property rental</li> <li>➤ Grant funding</li> <li>➤ Increasing productivity of parking lots</li> <li>➤ Contracting/services</li> </ul> <p><b>B. Review of Program Updates</b></p> <ul style="list-style-type: none"> <li>• The Pima Tucson Homebuyer's Solution Program</li> </ul>	<p>No action taken</p>

(“PTHS”) which generates 80% of the Authority’s revenue will be declining due to adverse market conditions.

S. Riffle stated that we are currently experiencing the perfect storm on the demand side and the finance side. Record inflation is having a dramatic effect on people’s ability to qualify for a mortgage loan. The second part is that investors are now aware of the fact that interest rates are going to go up and they are very averse to buying. It’s hard to generate profits when an investor is no longer listening to the things that have been done in the past to sell the assets. A perfect storm of items all hitting at one time: inflation, higher interest rates, a Federal Reserve that’s very committed to raising rates to try to adjust inflation, etc. Stifel is very good at continuing to price options however challenging. Currently, Stifel is looking at: 1) mortgage-backed bond issues, and 2) at changing a 2<sup>nd</sup> loan structure to an amortizing 2<sup>nd</sup>. The Authority, a leader in this space, has done these things in the past to adjust to difficult markets. Stifel is looking at all options to be prepared in the event the market does not fix itself.

D. Thompson wants everyone to be aware that revenue will be significantly impacted this year which will impact the budgeting process. Strategy: 1) believes there is potential by marketing directly to consumers, 2) increase quantity by re-launching the website, and 3) the Essential Workers Program will bring awareness to the program. The main message is that the Authority cannot rely on the PTHS Program alone.

- Essential Workers Program:
  - Secured \$25,000 from FHR Cares
  - COT is committed and planning on funding the program
  - Pima County potential to match the COT contribution

**C. Update on the Strategic Framework progress**

In progress:

- Hire a Chief Financial Officer (“CFO”)
- ARPA Funding

Completed:

- Hired Operations Coordinator
- Streamlined regular management tasks
- Reassess contracts
- Evaluate Programs: Mortgage Credit Certificate (“MCC”) and PTHS
- Created a budgeting process

Moved to Summer:

- Review and Revise By-Laws
- Review Current IDA Policies

**D. Update on the Annual Board Retreat – May 18<sup>th</sup>**

<p>Discussed having optional workshops for those who wish to join: 1) New Board Members Orientation, 2) Educational Workshop, and 3) Happy Hour</p> <p>Board Retreat will be held 11:00 a.m. to 3:00 p.m. with a working lunch. The meeting will be in person with a zoom option as well.</p> <p>M. Aronson asked if 4 hours is enough time. Discussion ensued. Comments should be submitted to D. Thompson.</p>	
<p><b>7. CEO Update: Call for Action</b></p> <p><b>Action related to programmatic</b></p> <p><b>A. Call for action regarding participation in the USDA Climate Smart Commodities Grant Proposal Due June 6<sup>th</sup>.</b></p> <p>D. Thompson stated that there is a professional writing team involved who will be writing the grant proposal.</p> <p>Purpose: Catalyze full market penetration of locally produced climate-smart products, through a multi-site agro-tech project, focused on incubating young, primarily BIPOC farmers/entrepreneurs to build businesses using these practices. The grant supports bridging relationships with local grocery stores, restaurants, and tourism markets.</p> <p>Authority's Role: Create access to capital through the formation of a revolving loan fund (\$500,000) and provide technical support. The Authority would also explore adding an innovative purchase order financing tool. May offer to include some of the Authority's funds to supplement USDA Dollars.</p> <p>Discussion ensued and it was noted that the farms are all located outside of the Authority's jurisdiction in Pima County, Southern Arizona. Comment was made that the Authority isn't ready to provide technical services, however capable of managing the fund through Business Development Finance Corporation, similar to the Community Loan Fund.</p> <p><b>B. Presentation and Call for action regarding Activate El Presidio Proposal.</b></p> <p>Request received:</p> <p>A) Contribute up to \$100,000 to become a title sponsor of the project.</p> <p>B) Consider contracting with Rio Nuevo to assist coordinating with the City, Neighborhood, local artists to help execute the existing plan. This contract would ideally cover 75% of a full-time employee staff member of the Authority.</p> <p>Discussion ensued and it was noted that the Authority could be at a net loss. It has strategic value in relationship building. It was the consensus that this request should be reviewed and discussed by the Property Development Committee.</p>	<p>A <b>MOTION</b> was made and seconded (J. Clinco / M. Noshay-Petro) authorizing Dre Thompson to move forward with the Smart Commodities Grant Proposal with the understanding that the Tucson IDA is not available to provide Technical Support .</p> <p><b>Approved 5-0</b></p>

<p><b>8. Call to the Public</b></p> <p>C. Epperson introduced herself as present on behalf of Roberts Alexonis Group.</p>	
<p><b>9. Adjourn</b></p>	<p>A <b>MOTION</b> was made and seconded (M. Noshay-Petro / S. Jimenez) to adjourn the regular meeting at <b>4:45 p.m.</b>  <b>Approved 5-0</b></p>

Submitted by:  
Karen J. Valdez  
BDFC Advisor Services, LLC