

Recently I sent out the Risk/Reward matrix related to the proposed Downtown Convention Center Hotel that is shown below. Two weeks ago I made a motion related to the hotel that Mayor and Council unanimously adopted. That motion was:

To negotiate an agreement with the Rio Nuevo Multipurpose Facilities District Board for financing the Project that provides the following:

1. Satisfies the direction given by the Legislature,
2. A reduced Guaranteed Maximum Price for the project as well as reduced developer and design/build fees
3. Resolution of Issues related to the use of local subcontractors
4. Acquisition of additional security (financial commitment) from the Hotel Operator (Starwood.)

I also move that staff not return to Mayor and Council for further action until these items are accomplished.

Yesterday the Rio Nuevo Board responded to that motion with a package that contains the following points:

Rio Nuevo District will issue a Notice to Proceed to the City that is good for 90 days and pursuant to ARS section 48-4204B on a proposed hotel, convention center and garage project with the following parameters:

(This is not the same thing as a Notice to Proceed on construction of the hotel, which is described in the Master Development Agreement as a notice from the Owner (Rio Nuevo) to the Design/Builder (Garfield Traub) to proceed with construction.)

- a) The District participation will be 100% of the hotel site-generated, site-specific TIF for the first 10 years and then reduced by 5% annually for the next 10 years down to 50% for the rest of the life of the bonds. This commitment of 20+ years of the TIF does not make sense, as the TIF revenue stream will only be available until 2025, a period of 15 years. This deal point means that the City will not be entitled to any TIF money from the parking garage or Convention Center even though City money will secure the loans.
- b) Subject to a ground lease that will be no charge for the first 5 years, the City will then pay market rate to the District for the remainder of the life of the bonds—assuming 35-year bonds, 30 years at market. Because the market rate will be higher after the hotel is complete, the City will be locked in to higher rates that cannot be quantified.
- c) Bond issuer is the City. That means that more than \$280 million in bonds would be issued that would be guaranteed by our General Fund.
- d) Hotel flag will be a Sheraton/Starwood. But no additional security would be provided to the City from Starwood.
- e) Design plans for the hotel will be purchased by the City for \$10M (cost to Rio Nuevo was \$21M). Even though the design costs have already been paid, now the City must buy them back from Rio Nuevo.
- f) Distribution of income from the hotel shall be 50% to the City and 50% to the District. Even though the City bears all the risk, the Rio Nuevo District proposes to share 50% of the profit and has not offered to share 50% of any loss.
- g) District will have representation at negotiations of all contracts related to the hotel financing.

- h) Owner of the hotel will be the bond-required entity (City) with a negotiated level of ownership and oversight for the District.
- i) City shall review the sufficiency of meeting room space at the TCC and consider adding space to meet market demands. Presumably, the entire cost of this project would be borne by the City.
- j) City shall pledge all of the on-site bed and sales tax revenues from the hotel.
- k) Direction to District and City attorneys to continue negotiating on the GMP to bring the price down—any funds saved as a part of those negotiations go back into the convention center for an appropriate face lift. So any savings does not go to reduce our debt but instead to increase the value of the District-owned Convention Center.
- l) Hotel shall be an open book construction project.
- m) Financing shall comply with all City Charter requirements.

**Not only has the District Board failed to respond to any of the items contained in the Mayor and Council motion, they have instead sent back to the City a hotel proposal that increases the contribution of the taxpayers,** while at the same time ensuring the District will reap both immediate rewards in the form of a \$10M charge to the City for the construction drawings as well as long-term financial rewards in both lease payments and in any potential revenues generated by the proposed hotel. The District has also provided that TIF dollars generated in areas other than the hotel will go back to Rio Nuevo, and not towards protecting the General Fund from an underperforming hotel.

**THE RISK TO TAXPAYERS HAS GONE UP RATHER THAN DOWN.** And now the whole project threatens to encumber the City with a risk so great that financially it is a “poison pill”. The Tucson City Council demanded that our partners share in the risk and they have instead, through this proposal, said “build it if you want to but we will not take any additional risk”.

**The Rio Nuevo proposal should not even come before Mayor and Council because it fails to meet the standard set forth in our unanimously-adopted motion; that is, “staff not return to Mayor and Council for further action until these items are accomplished.”**

**The discussion of the hotel project should now end and our focus should turn to successfully negotiating an Intergovernmental Agreement with the District that outlines the rights and responsibilities of each party as we move forward in prioritizing new projects to consider.**

The Legislation by which the current Board was appointed states that until a Notice to Proceed is issued on the hotel, the TIF money was locked up in the hotel, existing debt service and other previously obligated projects. Rio Nuevo issued such a Notice to Proceed – to the City. However, that is not consistent with the terms of the Master Development Agreement the District has with the Developer. Those terms are:

**6.8. Notice to Proceed.** Subject to the Closing having occurred, Owner shall issue the Notice to Proceed with respect to the Project (excluding the CC East Entrance which shall commence earlier than the Closing) promptly after the occurrence of all three of the following events: (i) Owner shall have approved the Capital Plan and the Project, as adjusted during the Design Development Period, (ii) the Closing shall have occurred, and (iii) all necessary permits shall have been obtained for the commencement of construction of the Project. Owner shall issue the Notice to Proceed with respect to the CC East Entrance after the occurrence of (i) and (iii) above and the establishment of the CC East Entrance Construction Escrow (as described in Section 2.2).

What the District has sent to us does not reflect their obligation to move the hotel forward as that is defined in their own contract with Garfield Traub. The terms of that NTP sent to the City clearly put the taxpaying public at an unacceptable risk, are not responsive to the Council motion related to the hotel. As the District's 'best and final' offer it puts further discussion of the Project to rest. As I said last week, if our "partners" fail to step up and join us in the risk, it is because the risk is too great.

I look forward to moving forward with the Rio Nuevo District Board on looking towards projects in which we can agree to invest that are in the long term best interest of the City and the Tucson taxpaying public.

Sincerely,



Steve Kozachik  
Council Member, Ward 6

**SUBJECT: Risk To Tucson Taxpayers is even higher after the Rio Nuevo Notice to Proceed on the Convention Hotel**

TEAM MEMBER	BASIS OF PARTICIPATION	FINANCIAL CONTRIBUTION	GUARANTEE PROVIDED	RISK
GARFIELD TRAUB (DEVELOPER)	3.5% OF TOTAL PROJECT COST (EXCEPTING FINANCING COSTS)	NONE	NONE	ZERO
DLR ARCHITECTS	6.4% OF DIRECT CONSTRUCTION COSTS, INCLUDING FF&E AND CONTINGENCIES	NONE	NONE	ZERO
TURNER/SUNDT CONTRACTORS	4.5% OF CONSTRUCTION COSTS	NONE	GMP STILL BEING NEGOTIATED	ZERO
STARWOOD HOTELS –	3% OF GROSS REVENUES PLUS	\$10M LETTER OF CREDIT	ONLY ACCESSABLE IN	\$10 MILLION – TERMS OF

TEAM MEMBER	BASIS OF PARTICIPATION	FINANCIAL CONTRIBUTION	GUARANTEE PROVIDED	RISK
OPERATOR	PERFORMANCE INCENTIVES		LIMITED CIRCUMSTANCES	REPAYMENT STILL TBD
PIPER JAFFRAY	% OF BONDS ISSUED	NONE	NONE	ZERO
CS&L	FLAT FEE - \$20K	NONE	NONE	ZERO
HVS	FLAT FEE - \$25-\$45K	NONE	NONE	ZERO
RIO NUEVO	<p>\$ IN THE FORM OF LEASE BACK OF LAND</p> <p>\$10 Million for Construction Drawings</p> <p>50% of the Project profit</p> <p>Convention Center Upgrades if the GMP is reduced</p> <p>Site specific TIF after 5 years</p> <p>Decision making authority</p> <p>Negotiated level of ownership for the hotel</p>	<p>Site Specific TIF For the Hotel Only</p> <p>50% of the Construction Design which has already been bonded for and paid</p>	NONE	ZERO
CITY OF TUCSON TAXPAYERS	<p>\$258 MILLION IN BONDS</p> <p>\$10 Million Dollars to Rio Nuevo for construction documents</p> <p>Give 50% of profits to Rio Nuevo</p> <p>Pay all taxes and permitting charges</p>	ALL	\$258 MILLION IN BACKSTOP OF BONDS	VIRTUALLY 100% OF ALL RISK And now assume all the additional risks from the Rio Nuevo proposal

TEAM MEMBER	BASIS OF PARTICIPATION	FINANCIAL CONTRIBUTION	GUARANTEE PROVIDED	RISK
	Pay market rate for the ground lease to Rio Nuevo  Lose any reduction in the GMP and instead the \$ goes to the Rio Nuevo owned  Convention Center			