Meeting Minutes

ARIZONA INDUSTRIAL DEVELOPMENT AUTHORITY
BOARD OF DIRECTORS MEETING

Location: In-Person Meeting at CO+HOOTS
221 East Indianola Avenue, Phoenix, Arizona 85012
In the "Classroom"

Date and Time: Thursday, September 21, 2023
4:00 p.m.

Board Members Present (Appearing in Person):
Ken Burns
David Castillo
Marcel Dabdoub
Robin Romano

Board Members Absent:
Lea Márquez Peterson

Staff Present (In Person):
Dan Dialessi, Chief Financial Officer
Pat Ray, Cathedral Rock Issuer Services, Bond Program Manager

Staff Absent:
Dirk Swift, Executive Director

Meeting Facilitator:
Kelly McGuire – Kutak Rock LLP

Presenters:
Ahmed Abdelhameed – Ulysses Development Group
Rodrigo Dorador – Dominium
Anand Kesavan – Equitable School Revolving Fund
Leah Fregula – Arizona School for the Arts

Actions:

1. **Call to Order:**

The meeting was called to order by Robin Romano, President of the Board of the Arizona Industrial Development Authority (AZIDA), at 4:01 p.m. Board members Ken Burns, David Castillo, Marcel Dabdoub and Robin Romano participated in person. Board member

Lea Márquez Peterson was absent. Roll was called by Kelly McGuire, as meeting facilitator, and a quorum was declared present.

2. **<u>Adoption of Minutes of the August 17, 2023, AZIDA Board Meeting</u>**

David Castillo questioned the content of the minutes and the reasoning behind omissions. He noted that a number of items discussed during the meeting were not reflected in the minutes and requested clarification on the practice of keeping the minutes contained to just the agenda items. Ms. McGuire stated that the minutes are a summary of the meeting. Board packets are sent out to Board members prior to the meeting and questions and/or comments on the minutes are welcome.

Board member **<u>Ken Burns</u>** moved to adopt the minutes of the August 17, 2023, AZIDA Board Meeting. Board member **<u>Marcel Dabdoub</u>** seconded the motion.

The Board members were individually polled – Ken Burns (yes), David Castillo (yes), Marcel Dabdoub (yes), Robin Romano (yes), and by a vote of 4-0 the motion passed.

3. **<u>Agenda Items Considered:</u>**

<u>Presentation, Discussion & Adoption</u>
Approval of Resolution No. 2023-32 – Authorizing final approval of the issuance of not-to-exceed $30,000,000 of Multifamily Housing Revenue Notes (Dahlia Village Project), in one or more tax-exempt and/or taxable series for the benefit of South 12th St Owner LLC.

This project was originally approved by the Board at its August 17, 2023 meeting. Since that time, the construction and permanent lender for the project has been replaced. Ahmed Abdelhameed with Ulysses Development Group explained the reasoning for the change in lender and gave a summary of the Dahlia Village project.

The original lender attempted to retrade on their initial terms and wanted to reduce amortization from 40 to 30 years, increase interest rates by 50 basis points on the construction and permanent phases and increase service and origination fees by 50 basis points. This would have had an approximate $2 million impact on the project and would have rendered the project unfeasible. The development team has replaced the lender with Citibank, one of the largest affordable housing lenders in the country and a lender the development team has done business with in the past. Underwriting is in process and the financing is on track to close and begin construction in mid-October, which is 3-4 weeks later than what was originally planned with the original lender. The terms with Citibank are relatively similar to what was underwritten through the previous lender. There is no impact on the financial feasibility of the project.

Dahlia Village consists of 126 units, with all units at or below 60% AMI. Additionally, 11 HOME units will be provided for at-risk individuals and families requiring services or assistance to prevent homelessness. The construction contract is about to be signed, the plat has been approved by the Phoenix City Council and the final site plan has been approved by the City of Phoenix.

Robin Romano reiterated that everything remains the same as originally approved by the Board in August and that the only change is the Borrower's change in lenders. Ms. McGuire then stated that Citibank has their own document provisions and that is the reason the project required reapproval.

David Castillo asked if the original lender provided the basis for their changes or expressed any concerns regarding risk exposure or concerns with the borrower or the project such that the original terms were recast. Mr. Abdelhameed stated that the original lender had completed their underwriting, but the originator had overpromised on the terms he was allowed to issue without credit committee review. The changes had nothing to do with the project or the borrower, it was an internal bank issue. Mr. Castillo then asked if the new underwriting process and terms offered would be feasible or reasonable for the project. Mr. Abdelhameed indicated that the terms with Citibank are very reasonable and within market, not too indifferent than the original terms from the previous lender, with a 40-year amortization and market rates on both the construction/permanent phases and origination fees. Ulysses had closed a project with Citibank earlier this year so most of the terms had already been approved and agreed upon.

Board member **Marcel Dabdoub** then motioned to approve Resolution No. 2023-32, as presented. Board member **David Castillo** seconded the motion.

The Board members were individually polled – Ken Burns (yes), David Castillo (yes), Marcel Dabdoub (yes), Robin Romano (yes), and by a vote of 4-0 the motion passed.

Presentation, Discussion & Adoption
Approval of Resolution No. 2023-33 – Authorizing final approval of the issuance of not-to-exceed $49,000,000 of Multifamily Housing Revenue Bonds (The Safford Project), in one or more tax-exempt and/or taxable, senior and/or subordinate series, for the benefit of Marana Leased Housing Associates I, LLLP.

Rodrigo Dorador with Dominium provided an update to the board. Dominium is one of the largest developers, owners and operators of affordable housing projects in the United States. Dominium received inducement approval approximately 2.5 years ago. Due to the increased construction costs and rising interest rates, they are requesting an additional $3 million of private activity bonds for the project.

Ms. Romano asked for an explanation regarding the senior/subordinate bond structure. Mr. Dorador explained that once the project is completed and stabilized there will be a permanent mortgage like any other multifamily housing development. The senior bonds will back the mortgage on the property and the subordinate bonds will provide a rebate on the cash flow obtained from the property after the payment of debt service on the mortgage. Ms. Romano noted for the record that the project had already been approved by the City of Marana and the area had been zoned for multifamily housing since 2006.

Board member **Ken Burns** then motioned to approve Resolution No. 2023-33, as presented. Board member **Marcel Dabdoub** seconded the motion.

The Board members were individually polled – Ken Burns (yes), David Castillo (yes), Marcel Dabdoub (yes), Robin Romano (yes), and by a vote of 4-0 the motion passed.

<u>Presentation, Discussion & Adoption</u>
Approval of Resolution No. 2023-34 – Authorizing final approval of the issuance of not-to-exceed $400,000,000 of National Charter School Revolving Loan Fund Revenue Bonds, in one or more tax-exempt and/or taxable, senior and/or subordinate series, for the benefit of Equitable School Revolving Fund, LLC.

Anand Kesavan, the CEO of Equitable School Revolving Fund ("ESRF"), provided an update to the Board. He is joined by Leah Fregulin, the executive director of the Arizona School of the Arts ("ASA"), one of the beneficiaries of their program, to talk about the impact on her school. ESRF is a 501(c)(3) nonprofit whose mission is to help quality charter schools serving underserved populations grow with affordable financing. ESRF has partnered with AZIDA over the past five years and plans to continue in the future. To date, ESRF has lent $1 billion to over 150 schools around the country with zero defaults. One of the strengths of the ESRF loan program is the strong credit that Bondholders get with diversification of projects around the country as well as philanthropic equity put into ESRF's program. Mr. Kesavan explained that charter schools, unlike public district schools, don't get funding for their facilities and they need to seek financing from the private sector, which tends to be expensive. With credit enhancement from ESRF, charter schools pay less for financing which ensures critical funds can flow back to the classroom and drive long-term school quality. The ESRF program has saved charter schools over $250 million, specifically those schools in Arizona and across the country that serve predominantly low-income students, with 80% of students served identifying as minorities. Over 90% of the schools served by ESRF's loan program outperform the respective local public schools.

David Castillo asked how ESRF reduces financing costs. Mr. Kesavan explained that, without ESRF, the school would have to do a bond issuance, which is fairly expensive to do and the school would only be pledging its own revenues. Even though the school may be high quality, an investor would charge a premium, as the bond would be hard to trade, it is not liquid, and it is coming in a small piece. The investor would be taking the risk that the school may shut down or not be financially solvent. Instead, ESRF makes a loan directly to the school and then ESRF issues bonds with the help of AZIDA. Therefore, the investor is investing with ESRF instead of the school. If the school doesn't pay ESRF, ESRF has cash raised from donors and ESRF will take the first loss. The investor doesn't see any loss and in exchange they give a much lower interest rate. ESRF lends at cost to the school and the school saves the difference to put back into the classroom.

ESRF has made two loans of approximately $19.2 million to ASA over the years, both with AZIDA tax-exempt proceeds. They have saved $7.4 million to the bottom line of the school, which goes directly back into the classrooms.

Ms. Fregula explained that ASA is the poster child for exactly the problem Mr. Kesavan described. High-cost facilities, especially performing arts facilities and dual use classrooms with academic and arts components, are extremely expensive and these tax-exempt loans have helped the school become sustainable. With almost 800 students, ASA has been able to invest in technology, such as a piano lab, as well as provide financing for the maintenance and replacement costs of technology. ASA recently created an outdoor amphitheater and production lab where students can not only perform but learn skills to produce music.

Ms. Fregula then gave a brief history of ASA, which is one of the very first arts schools in Arizona. ASA draws its students from over 100 zip codes across Maricopa County.

ASA has graduated over 1,500 students and will put their graduate success against any exclusive, highly ranked school in the state. ASA graduates have gone on to attend Princeton, Harvard, MIT, Yale, UC Berkeley, UCLA, Pomona College, ASU, Berklee College of Music, Jacob School of Music, Juilliard, and Parsons.

ASA prides itself on its ability to offer programs and provide resources that are not going to limit the students but expand their opportunities so that when they graduate they are not just considered art students. Ms. Fregula explained that ASA students are academic students, art students, creatives, and technicians. The ESRF loan program has given ASA the ability to remain sustainable over time and continue their success both academically and artistically.

Mr. Dabdoub asked how the loans compare regarding terms, rates, and amortization. Mr. Kesavan explained that most of the ESRF loans are long-term, low-cost, so ESRF's general product is a 30-year term that amortizes over 30 years at a fixed rate, and pays monthly like a mortgage. ESRF does not charge closing costs because ESRF is funded by philanthropy. ESRF has some alternate products now that long-term rates are high with the goal of trying to find alternatives to save schools money.

Mr. Dabdoub asked if ESRF's cost of capital is generally below the yield on the loans they are issuing to the schools. Mr. Kesavan explained that the yield varies, as ESRF basically operates at cost.

Mr. Dabdoub then asked if ESRF fixes the interest rate based on an index. Mr. Kesavan indicated that the interest rates are set according to the municipal market index. He added that one of the biggest benefits of issuing ESRF's bonds through AZIDA is that it allows ESRF to set rates according to the municipal index rather than US treasury rates. Every dollar of the savings from tax-exemption goes to the schools.

Ms. Romano called for further questions from the Board. She then thanked staff for preparing a very detailed presentation and thanked ASA for sharing its success story.

Mr. Dabdoub then asked how the issuance of $400 million would be deployed among the schools. Mr. Kesavan explained that the current year's issuance is larger than the previous years. The current issuance will likely be in range of $250 million but ESRF wanted flexibility to do a second issuance later this year. Mr. Kesavan added that it is unlikely that ESRF will issue the entire $400 million, similar to what ESRF has done with past issuances.

Mr. Kesavan added that a portion of the $400 million has been deployed already. ESRF used its philanthropy funds to make loans and then ESRF will reimburse itself for that part of issuance. $100 million has already been deployed and the rest will be deployed within the next 6-8 months. The schools receiving the loans have been identified and are currently in diligence periods.

Mr. Dabdoub then asked staff if the Board is comfortable with approving the issuance of an amount greater than what is actually utilized. Ms. McGuire clarified this is not a transaction that is subject to volume cap allocation. This is a 501(c)(3) deal so the Board would not be approving the issuance of a finite resource.

Ms. Romano then called for any further questions from the Board, of which there were none.

Board member **Marcel Dabdoub** then motioned to approve Resolution No. 2023-34, as presented. Board member **Ken Burns** seconded the motion.

The Board members were individually polled – Ken Burns (yes), David Castillo (yes), Marcel Dabdoub (yes), Robin Romano (yes), and by a vote of 4-0 the motion passed.

4. **Authorization for Executive Director to Hire a Full-Time Employee for Bookkeeping and Administrative Purposes**

Mr. Burns asked staff whether hiring a full-time employee for bookkeeping and administrative purposes would provide any savings or if it would be comparable to hiring outside services.

Mr. Dialessi explained that there would not be a lot of savings due to the small amount of bookkeeping. Mr. Dialessi went on to add that this employee would take on more duties than bookkeeping and internal controls would be better administered with three people.

Mr. Burns noted the need for the position and also expressed concern for the budget.

Board member **Marcel Dabdoub** then motioned to authorize the Executive Director to hire a full-time employee to bring bookkeeping tasks in-house and to assist with general administrative matters. Board member **Ken Burns** seconded the motion.

The Board members were individually polled – Ken Burns (yes), David Castillo (abstain), Marcel Dabdoub (yes), Robin Romano (yes), and by a vote of 3-0 the motion passed.

5. **Adoption of Fiscal Year 2024 Budget**

Ms. Romano directed Mr. Dialessi to provide a summary of the budget. Ms. Romano also commented that it would be nice to use an Arizona-based bank or credit union in the future.

Mr. Dialessi gave a presentation of the budget including historical context, expected revenues and projections, and sources and uses by program.

Ms. Romano provided comments to the budget and expressed the need to invest in the website and marketing tools.

Mr. Burns expressed his concern for spending.

Mr. Dabdoub asked for an explanation on the variability of the investment proceeds and income year-over-year. Mr. Dialessi explained that this number is AZIDA's cash on hand and the interest it is earning on that. This number will fluctuate based on interest rates and the amount of cash on hand.

Ms. Romano addressed Mr. Burns' concerns on the budget and the need to invest in the future of AZIDA.

Mr. Burns proposed to table the approval of the budget until the Finance Committee is formed and has time to review the budget. No further discussion was had and the approval of the budget was tabled for the next meeting.

6. **Establishment of Committees**

Robin Romano explained the necessity for the formation of various committees. She will form the committees and appoint members.

Ms. Romano explained the importance of the formation of a Finance Committee and a Governance Committee and called for input from the rest of the Board for other potential committees to be formed.

7. **Executive Director's, Chief Financial Officer's and/or Program Manager's Reports**

Mr. Ray gave praise to the approved ESRF Social Bonds project.

Mr. Ray gave a brief presentation on internal policy 3.1 regarding how AZIDA accepts bond financing applications and suggested the Board look into this policy and potentially revise the policy to provide more guidance to staff. Mr. Ray also called the financial benefits of out-of-state financings to the Board's attention. Ms. McGuire added that AZIDA and other industrial development authorities in the state have the ability to issue outside and inside of Arizona.

Ms. Romano stated that she will be discussing the policy with both staff and individual Board members.

8. **Call to the Public**

Kelly McGuire announced a call to the public for comments.

No members of the public appeared in person or by telephone to comment.

9. **Announcements**

Ms. Romano announced that the next meeting of the Arizona Industrial Development Authority is scheduled to be held on Thursday, October 19, 2023, in the same location, at 4:00 p.m., but noted that people should consult the Arizona IDA website for any changes to meeting details.

10. **Adjournment**

Board member **Ken Burns** motioned for adjournment of the AZIDA Board Meeting at 5:15 p.m. Board member **David Castillo** seconded.

The Board members were individually polled – Ken Burns (yes), David Castillo (yes), Marcel Dabdoub (yes), Robin Romano (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.

Robin Romano, President

October 19, 2023

Date of Board Action