For over 9 months we worked in good faith with reporters from the Arizona Republic, supplying all documentation requested and answering all questions posed. Despite those efforts, the resulting story on December 13 can only be categorized as inaccurate, unfair, and grossly misleading. Many facts are misstated, and others are conspicuously omitted. What follows is the factually correct version of the story:

• WHAT IS AZIDA?

AZIDA is a nonprofit corporation formed by three Arizona citizens in 2016 with the approval of the Arizona Finance Authority. Its 5-member volunteer board is appointed by the Governor and serves without compensation. The proceedings under which AZIDA issues bonds must be approved by the Arizona Finance Authority. To reduce costs and improve efficiencies, day-to-day business operations of AZIDA are privatized through contracts with 3rd party professionals.

• WHAT DO WE DO?

The mission of AZIDA is threefold: (1) to make home ownership more affordable for low- and moderate-income families in Arizona by developing, implementing and promoting the HOME Plus single-family mortgage loan program; (2) to issue conduit revenue bonds for the benefit of commercial enterprises and nonprofit corporations within and without the State of Arizona, in order to lower financing costs and improve access to the capital markets; and (3) to further economic development within the State of Arizona by making annual contributions of surplus funds to the Housing Trust Fund and the Office of Economic Opportunity.

• DO WE RECEIVE FUNDING FROM THE STATE?

No. No tax dollars have ever been used by AZIDA for any purpose. 100% of AZIDA's funding comes from voluntary private sector fees and revenues generated by its programs. In fact, AZIDA makes annual contributions *to* the State of Arizona. Our operating costs run at an industry low 12-13% of gross revenues.

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• HOW ARE WE DOING?

- Since inception, AZIDA has originated over $8.9 billion in affordable home loans in the State of Arizona, provided over $250 million in down payment assistance, and established a Special Grant Program for Qualified Veterans that provides grants to assist qualified veterans to purchase homes located in rural counties in the State of Arizona. ALL WITHOUT USING A PENNY OF TAXPAYER DOLLARS!

- Since our first bond closing in December of 2016, we have closed a total of 110 conduit revenue financings in the aggregate principal amount of $7.8 billion. The vast majority of our bond issues finance public charter schools, affordable multifamily housing projects, and health care facilities. About 1/3 of our bond issues finance eligible projects outside the State of Arizona that effectively import out-of-state investment dollars back to the State of Arizona. Non-Arizona projects typically involve no fewer than 3 Arizona tax-paying companies and must make a substantial payment toward economic development in Arizona through payment of AZIDA's fee. AZIDA will not finance projects in local jurisdictions that object to our participation.

- In FY2021 we delivered $14,734,378 in excess funds to the State of Arizona for economic development in the State. Since inception (August 2016-July 2021), AZIDA has now transferred over $60 million in unencumbered moneys to the State.

- Our bond default rate is 0.9% (one bond issue). AZIDA has never been accused of wrongdoing in a lawsuit, never paid a penny in settlement, and never received notice from any regulatory body.

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Arizona Republic article misstatements of fact:

PART 1 – THE AUTHORITY

- Third sentence: "Arizona is quietly tied to the fate of these and other far-flung projects because their financings were run through an arm of state government — the Arizona Industrial Development Authority — so that each could be built more cheaply."

  That is a false statement. Arizona is not tied to the fate of any project; AZIDA is not an arm of state government. AZIDA is a non-profit corporation.

- After the map: "Patrick Ray, a private contractor who runs the bonding program, says the board issues exotic bonds to fulfill a mission: generate revenue for the state that doesn't come from taxpayers. According to figures provided by Ray, the bonding program has brought in $19.1 million over the past three fiscal years. Put in perspective, that amounts to a 0.05% rounding error in state budgets totaling nearly $37 billion over the same period. But not all that money is accounted for. A spokesperson for the Arizona Commerce Authority, the agency that state statute says is the destination for the funds, said it had only received $14.5 million from the Industrial Development Authority. The fate of the remaining $6.1 could not be determined."

  A number of false statements. I never said the board issues exotic bonds (it does not); I did not provide them with a $19.1 million figure (I don't know where that figure came from); every penny of our revenues and expenses is 100% accounted for through meticulous monthly accounting and independent audited financials that are provided to the State; the statute does NOT designate the Arizona Commerce Authority as the destination for our funds. And to correct the author's math, $19.1 million minus $14.5 million is not $6.1 million.

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- Three sentences later: "In order to keep the money flowing, the Arizona Industrial Development Authority, under Ray's direction, has taken on increasingly larger and more complex deals. And put the state's reputation on the line should the bonds fail."

  That is a false statement. One our first financings (the application for which arrived before I was even engaged as Program Manager) was the largest multifamily affordable housing bond issue in the history of the state. The state's reputation is never on the line in the unlikely event our conduit revenue bonds fail.

- Next sentence: "Two of the authority's bonds are in default, a financial black eye for Arizona."

  That is a false statement. Only one AZIDA bond has ever defaulted (Harvest Village). A "workout" – where the conduit borrower and the lender work out a consensual payment arrangement is the OPPOSITE of a default. Our ONE default did not create a financial black eye for Arizona; indeed our default rate of 0.9% is the envy of the public finance industry.

- In the "findings" that are listed 6 paragraphs later, first bullet: "It has issued bonds as a favor to major banks so they could move assets between divisions or get loans off their books. It involved itself in a complicated swap transaction reminiscent of deals that led to the Great Recession."

  That is a false statement. No special treatment was afforded the applicants on those financings; the banks were not moving assets to get loans off their books; the interest rate swaps and credit swaps may have seemed complicated to unsophisticated reporters, but were not complicated to professional finance parties; AZIDA engaged a special Independent Registered Financial Advisor (IRMA) to scrutinize the swap documents on its behalf; the AZIDA board adopted a special set of derivative policies to guarantee no exposure to any swap; and the transaction was in no way reminiscent of any of the derivatives that led to the Great Recession.

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- Two bullet points later: "The Arizona Industrial Development Authority has shifted away from the types of rural projects that were supported by its predecessors — public projects like jails, medical facilities and fire trucks — in places like Three Points, Cobre Valley and Nogales."

  <u>That is both a false and meaningless statement.</u> The "predecessors" to AZIDA were not non-profit industrial development authorities; they were state agencies with limited scope and jurisdiction. AZIDA did not "shift away" from anything and would be delighted to finance the types of projects its "predecessors" did.

- Next bullet: "While the authority's objective is to raise money for the state, it's not clear what that money is being used for. The fees earned by the authority are squirreled away in a fund at the Arizona Commerce Authority. One year can't be accounted for. In another year, none of it was spent."

  <u>That is series of false statements.</u> The Authority's objectives, as stated above, are (1) to make home ownership more affordable for low- and moderate-income families in Arizona by developing, implementing and promoting the HOME Plus single-family mortgage loan program; (2) to issue conduit revenue bonds for the benefit of commercial enterprises and nonprofit corporations within and without the State of Arizona, in order to lower financing costs and improve access to the capital markets; and (3) to further economic development within the State of Arizona by making annual contributions of surplus funds to the Housing Trust Fund and the Office of Economic Opportunity. Fees earned by AZIDA are not sent to the Arizona Commerce Authority. Every year is fully accounted for.

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- Final bullet: "As the state affixes its financial reputation to ever-riskier borrowers, its name will be associated with each failure. Because of its lack of due diligence, the authority issued bonds for Harvest Gold Silica, run by John Owen, a businessman with Texas ties whose companies faced allegations of fraud in filings by state securities regulators. Now Harvest Gold's $22 million in bonds are in default, and the authority's name is on the second line of a federal lawsuit in which investors claim the company committed fraud and used the authority to give it a sheen of credibility."

  That is a series of false statements. The State has never affixed its financial reputation to any AZIDA bond; the State's name will never be associated with any failure by a conduit borrower to repay its loan to the lender with whom it negotiated the transaction; it is impossible to determine if the AZIDA board would have approved bonds for the manufacturing facility in Congress, AZ had it known all the allegations alleged by the Republic; that the Authority's name appears "on the second line" of the lawsuit brought by the lender against the borrower is intentionally misleading – AZIDA was only referenced to state the facts of the case – and there is absolutely no suggestion of any improper action by AZIDA or the State of Arizona.

- Four paragraphs later: "But a string of defaults would be seen as a lack of good governance, as Arizona's governor, by state and federal statutes, serves as the overseer of the authority's doings. He personally signs off on many of the deals."

  That is series of false statements. Even if 100% of the AZIDA bonds defaulted it would not be seen as lack of governance (good or bad) by the State, since AZIDA is a non-profit corporation and not part of State government. The Governor does NOT, by state or federal statute (or any other means), serve as the overseer of the authority's "doings". He has never personally signed off on any of the bonds.

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- Three paragraphs later: "Byron Schlomach, head of the free-market 1889 Institute in Oklahoma, said that Arizona has placed a 'stamp of approval' on the projects, some of which he reviewed at the request of The Republic. It makes them seem like surer bets for bond buyers. He said that could come back to bite the authority if a deal fails. I have a hard time believing that if one of these things goes belly up that some people aren't going to come along and sue the state at least for deceptive practices,' Schlomach said."

    That is a false statement by Mr. Schlomach, who confuses conduit revenue bonds with traditional government obligations. Arizona has not placed any "stamp of approval" on the projects (as every financing -document clearly states); the State does not affect the credit quality of the bonds, which relies 100% on the collateral pledged by the borrower to support them; no failed financing has ever come back to "bite" any conduit revenue bond issuer in the country; and no State has ever been successfully sued for deceptive practices related to a conduit revenue bond issued by a non-profit corporation within it.

- In the graphs: "The IDA started off issuing bonds mainly to charter schools in Arizona. But by 2018 it had changed its strategy and was issuing bonds to a variety of borrowers all over the country."

    That is a false statement. AZIDA has no control over the applications it receives or when bond issues close. 8 of our first 9 closings were for charter schools because those were the applications we received that went to fruition. On the other hand, 18 of the 19 items on our December agenda were for affordable multifamily projects in Arizona, because those were the applications we received. There was no change in strategy, which has always been the 3-part mission stated above.

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- Towards the end, under “mission to give money to the State” second paragraph: “The freshly minted authority subsumed the work of three other IDAs that focused on projects in Arizona, like a hospital in Cobre Valley, a business incubator in Flagstaff or a court complex in Nogales.”

  That is a false statement. As stated above, the entities subsumed by AZIDA were not non-profit industrial development authorities; they were state agencies with limited scope and jurisdiction.

- Seven paragraphs later: “But, in December 2018, after Ray was named the manager of the bonding program and had his name placed on the authority’s banking account, the entity adopted a new strategic plan.”

  That is a false statement. I became Program Manager in October 2017, as I confirmed in an email to them prior to print. The use of the deliberately false December 2018 date is a clumsy attempt by them to convince readers that a new strategic plan was somehow my doing. The mission and plan of AZIDA never changed from the day it was incorporated under the Non-Profit Corporations Act by three unrelated citizen-electors in 2016; the mission was merely put into words in 2018, more than a year after my contract was signed.

- After the picture of the Hilton Garden Inn. “Then, there was a convention center and hotel on the north coast of Puerto Rico, a $300 million development that came before the Arizona Industrial Development Authority three times, gaining approval at each meeting. From there, it went to Ducey for his signature, which he granted.”

  That is a false statement. Nothing went from AZIDA to Ducey for his signature on this, or any other financing. The Governor’s only role in our bond issues is to sign off on a public “TEFRA” hearing (named after the 1982 federal law), which is a purely administrative act required by the federal income tax code for certain types of bonds to qualify for federal tax exemption. It merely says a public hearing was held; it does not grant any substantive approval of, or greenlight the project in any way.

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- Four paragraphs later: “Arizona approved $60 million in financing for the project. And though the bonds were never issued and the ballfields were never built, Arizona's involvement arguably created its own cottage legal industry and tore the city apart.”

  That is a false statement. Our involvement had no effect on the City; no one from Hutto ever contacted us. The suggestion that by agreeing to act as a conduit for a loan from an unrelated bank to an unrelated borrower (which never got funded) we somehow “tore apart” a City in Texas is absurd.

- After the chart on our categories of bonds: “In February 2020, the board adopted a policy on how it would handle derivatives, allowing it to enter the higher risk world of interest rate swaps and credit default swaps, the obscure financial instruments that played a role in the downfall of titanic firms like AIG and Lehman Brothers and tanked the global economy in 2008.”

  That is a false statement. Our Derivatives Policy was specifically enacted to LIMIT the use of derivatives. Under the Policy, any derivative product and be used only for hedging interest rate risks and are not permitted for speculative purposes; they must have a maturity date that does not exceed the maturity date of the associated debt; they must be in compliance with all applicable regulatory requirements imposed under the authority of Section 731 of Title VII of the Dodd-Frank Act; and to the extent they involve the potential for any future payment by AZIDA to any counterparty, they must contain a provision to fund or capitalize such payment at the time the Derivative Contract is executed. The very limited types of derivatives we entered (rate swaps and credit swaps) have absolutely nothing to do with the downfall of titanic firms like AIG and Lehman Brothers and tanked the global economy in 2008.

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- Under “Lessening the burdens of government” second and third paragraphs: “At the time Ray started having the authority entertain more complex, risky and non-Arizona projects, it had no executive director. The authority filled the position, which had been vacant since mid-2017, with Dirk Swift, a man who had long run a program that helped low-income homebuyers. He was appointed by the board in May 2021, a few months after The Republic made initial inquiries into the program.”

  That is a false and very misleading statement. I never directed any risky projects – all projects pose precisely the same risk for the State, the taxpayers, AZIDA, and its board: zero. We filled the position of Executive Director in 2021 to ease the administrative burden of the volunteer President. The suggestion that the appointment of an ED had anything to do with the yearlong stream of questions from the reporters is ridiculous.

- 17 small paragraphs later: “Although the Industrial Development Authority is part of the Arizona Commerce Authority, when that agency released a splashy video and series of press releases touting its achievements over the past decade, the projects funded through the bonds didn’t merit any mention.”

  That is a false statement. AZIDA is not part of the Arizona Commerce Authority. AZIDA has no legal connection whatsoever to the Arizona Commerce Authority. AZIDA is a non-profit corporation that lists the Arizona **Finance** Authority as the beneficiary of its assets (as required by the State’s non-profit corporation law).

- Under my photo, first paragraph: “Beginning in August, after months of questions and requests for documents from The Republic, the authority seemed to not entertain nearly as many out-of-state projects.”

  That is an extremely misleading statement. As mentioned above, we entertain and review applications as they are sent to us. We have no control over whether an applicant is a charter school operator, a multifamily housing developer, a hospital, or a bank – or whether the project is in Arizona.

Pat

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