Meeting Minutes

ARIZONA INDUSTRIAL DEVELOPMENT AUTHORITY
BOARD OF DIRECTORS MEETING

Location: In-Person Meeting at Arizona Grand Resort & Spa
8000 S. Arizona Grand Parkway, Phoenix, Arizona 85044
In Hospitality Suite: C370

Date and Time: Sunday, August 18, 2024
4:15 p.m.

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

Staff Present (Appearing in Person):
Dirk Swift, Executive Director
Dan Dialessi, Chief Financial Officer

Meeting Facilitator (Appearing in Person):
Kelly McGuire, Kutak Rock LLP

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 4:15 p.m. Board members Ken Burns, David Castillo, Marcel Dabdoub, Robin Romano and Andre Whittington attended in person. Roll was called by Kelly McGuire, as meeting facilitator. A quorum was declared present.

Robin Romano opened the meeting by reminding Board members that no decisions would be made on any topic and that the Board may direct staff to study or provide information on items the Board may want to consider. She stated that today's session is for an open discussion about where the Board is operationally. Ms. Romano reminded the Board that they were appointed as a result of the sunset performance audit for AFA, which also encompassed a review of AZIDA operations, and that the vast majority of the audit findings related to AZIDA had been addressed.

Ms. Romano said that she doesn't want the Board members to have an expectation that all issues will be resolved in one meeting, or every question answered, and that further discussions will need to occur. She reminded the Board that there has been no strategic planning done since 2018. She then turned the discussion over to Mr. Swift.

2. **<u>Discussion; No Board Action – Authority's Operations and Staffing Plan</u>**

Mr. Swift shared a timeline showing how AZIDA has evolved since its creation by way of House Bill 2666, that created AZIDA in May 2016.

Mr. Swift described the way AZIDA was originally set up to operate, with Lorenzo Romero (former Director of the Office of Budget and Strategic Planning under the Ducey Administration) serving as the first executive director also tasked with operating AZIDA and Mr. Swift joining in 2017 as an employee focused only on the down-payment assistance side of the business. Mr. Romero stepped away from his job in government and with AZIDA after only 3-4 months and Cathedral Rock Issuer Services (Pat Ray) was then hired to "run" AZIDA.

Neither Mr. Swift nor Ms. McGuire participated in negotiation of or preparation of the CRIS contract. Ms. McGuire thought that Mr. Ray had stepped into the contract Mr. Romero had in place with AZIDA but was not sure. Under the prior governor, AZIDA was meant to be lean and mean with as few FTEs as possible.

Mr. Swift shared that the prior CRIS contracts were entered into without Board approval as was permitted at the time. Ms. McGuire shared that while she had not prepared them, she had reviewed them when she started working with AZIDA and the original organizational documents were set up so that the president of AZIDA could take almost all action unilaterally except approve the issuance of bonds.

Mr. Swift continued. AZIDA operated in such a manner from 2017 to 2021 and during that time CRIS paid all AZIDA expenses since CRIS was handling day-to-day operations, banking, etc. In May 2021, then-president, Victor Riches, resigned from the Board and Mr. Swift was appointed as Executive Director and given the authority to sign documents. At that time the contract with CRIS was revised so that CRIS was no longer responsible for all AZIDA expenses. During the period that CRIS paid all AZIDA expenses, it also provided health insurance coverage for Mr. Swift. AZIDA could not separately obtain a group health insurance plan because it had only one employee. For this reason, while CRIS was paying all AZIDA expenses, the contract also required that CRIS be responsible for making one of the quarterly bonus payments to Mr. Swift so he could be characterized as an employee of CRIS for health insurance purposes. When the next contract came out, CRIS still had a lot of managerial functions. The sunset audit called to light the issues with the process, which also resulted in multiple requests for information from the Arizona Republic.

At that time Mr. Swift and the Board planned to change AZIDA's operations and processes, but with the goal of taking action most efficiently, waited for the final audit results to start those actions – there was no need to waste time and resources doing something just to find out it should be done a different way. Once the results of the performance audit were published, AZIDA (with AFA) hired Accenture to do a deep dive into process improvement.

There was discussion by the Board members regarding the Accenture report helping to create a blueprint of issues for AZIDA to work on, the political nature of the audit, and the hefty expense of the Accenture report.

However, having engaged an independent third-party to evaluate operations and offer suggestions for improvement was a helpful fact to have in-hand when AZIDA was required to appear before subcommittees in the State Legislature to answer questions about the results. It was at that time that major organizational and operational changes began to be made, with Mr. Dialessi being hired as Chief Financial Officer in February 2022. The addition of a second employee enabled AZIDA to procure group health insurance.

Mr. Swift discussed the movement of AZIDA records from CRIS to AZIDA's centralized location and Ms. Romano noted AZIDA is still waiting for CRIS to supply some missing information.

Mr. Swift explained that following the sunset audit and Accenture report, a new contract with CRIS was negotiated. Whether or not accurate, the Auditor General concluded that AZIDA was paying 70% more than other IDAs for the services provided by CRIS. So, the then-president of the Board created a Finance Committee that consisted of the president, Mr. Swift and Mr. Burns, with assistance from Mr. Dialessi to run various models.

The resulting contract moved nearly all administrative functions from CRIS to AZIDA staff (Mr. Swift and Mr. Dialessi).

Some key changes include applications being submitted through the AZIDA website and not to CRIS, as well as creation of a process to track and approve fees, giving AZIDA a "paper trail". Under the new system, CRIS submits the fee proposal through an online portal, which then must be approved by Mr. Swift or Mr. Dialessi. Now AZIDA can easily review the information in the file to determine how and why a fee was approved.

Mr. Swift then went through the current organizational chart.

Mr. Swift then reviewed the history of the DPA program and the servicing vendors and hedging providers available and the determination that moving to U.S. Bank for servicing and Hilltop for hedging was based on identifying capable leaders in the market who also offered favorable pricing. He noted that Hilltop cannot do mortgage revenue bonds, so cFX was brought on as AZIDA's advisor for the single family program.

Mr. Dabdoub emphasized that a historic relationship doesn't guarantee the best service, so AZIDA needs to make sure vendor selection is made on the merits.

Mr. Swift shared that he is very familiar with the service providers in the DPA and single family industries and the vendors AZIDA is using are high performers and, especially with AZIDA's historic DPA volume, gave AZIDA favorable pricing.

There was further discussion regarding servicers, the extremely small pool of vendors and the inefficiency of an RFP when there are only three or four options, and we know the pricing of each.

Mr. Dabdoub agreed that going through an entire RFP process for such a small group of vendors would be a lot of work for no gain. However, he still wanted to make sure there is some sort of check-and-balance to continue assessing relationships with vendors.

Mr. Swift thought this could be achieved by way of structure and guidance from the Board. Historically, he vets decisions to change major vendors, like master servicers, with the Board president or brings the action to the Board.

Mr. Dabdoub suggested that some sort of analysis be conducted as each contract term comes up to determine that the contract remains appropriate – maybe not even a deep dive, but at least a look (possibly from a 3rd party), to give the Board a comparison of rates, etc.

Ms. Romano shared that Mr. Swift had not engaged cFX with no input. She and Mr. Swift had discussed prior to the engagement of cFX, including her suggestion that he "shop" the role, which is how he landed with cFX. Ms. Romano noted that those types of conversations are part of her job as president, and she has a lot of this type of conversation. It is understandable, and it should give the Board comfort, that for some decisions within Mr. Swift's authority, he would still seek feedback. Not every single operational detail can wait for a meeting or needs full Board approval, but in the interests of the Board, it is the right thing to do to keep the president in the loop.

Mr. Swift then moved the conversation from DPA and single family to the conduit revenue bond business channel.

He noted that while AZIDA has always had an annual audit prepared, a new firm was hired this year (Eide Bailly LLP) to help move from a cash to accrual basis. They are very thorough, and their diligence has almost been to the level of the Auditor General's.

Mr. Dialessi noted that the new firm would move AZIDA's accounting to a far more professional level, which is required when you have a single-family mortgage revenue bonds (MRBs) out in the market. The new firm is doing AZIDA's audit and helping prepare new financial statements.

Ms. Romano discussed that the previous audits and financial statements were really insufficient, and it is appropriate that AZIDA's accounting and procedures evolve.

Mr. Swift noted that Supporting Strategies had been helping with bookkeeping since the beginning and Kutak Rock has been providing legal support.

Ms. Romano discussed that Ms. McGuire's role, the lead attorney from Kutak Rock, and Kutak Rock's role, generally, has expanded to more than just support and preparation of Board materials and assisting with Board meetings. Because of the press AZIDA has received in connection with the Auditor General's report, a few AZIDA transactions that have defaulted and the like, there is a constant flurry of subpoenas and public information requests that have to be handled. This is in addition to the bond deals AZIDA closes, which are monitored. There TEFRA approval process is also extensive and labor-intensive. There are a lot of other legal things that go on, not just the pretty forms that we get during the meetings.

Mr. Dabdoub was interested in how many records requests and subpoenas AZIDA receives.

Mr. Swift shared that AZIDA receives a lot of public records requests, which can be anything from a request from reporters with Bloomberg News or the Wall Street Journal to a citizen that read or heard something about an AZIDA financing. AZIDA has received several about the proposed Riverview dairy financing, despite the fact that AZIDA never issued bonds for that project.

He continued that AZIDA also receives 3rd party subpoenas requesting information.

By way of example, Ms. McGuire shared that AZIDA and Kutak are currently working on responding to a subpoena that is not related to the failure of the Legacy Park transaction, as many are, but is in connection with a third party suing the underwriter of the Legacy bonds who alleges he should have been paid a fee at closing because the financing was his idea. The subpoena to AZIDA is a 3rd party subpoena – AZIDA is not a party to the lawsuit.

Mr. Swift explained that for this particular subpoena, which will include a deposition, as opposed to a production of documents, though Mr. Swift wasn't involved in the transaction at all, AZIDA is legally required to educate him, as the representative of AZIDA, so that he is prepared to be deposed regarding what AZIDA knew at the time.

Ms. McGuire noted that locating records and documents responsive to public records requests and subpoena duces tecum document requests has been difficult with respect to materials and correspondence from 2016 through 2021 because AZIDA had no centralized record location. Things are improving now that AZIDA keeps its own records.

There was further discussion by the Board related to making sure AZIDA monitored vendor relationships and didn't stay with a vendor merely because a relationship already existed. Mr. Dabdoub stressed that AZIDA does not want to find itself in a position of relying on Auditor General performance audits to improve its processes.

On that point, Mr. Swift shared that AZIDA still has not received the results of the six-month follow-up, which is part of the Auditor General's formal review process. Following a performance audit, there is a six-month, an 18-month and a two-year follow-up. The Auditor General's office asked for information for the six-month follow-up and then disappeared. There hasn't been any contact for the 18-month follow-up either, which has passed.

Mr. Burns mentioned that ACA's performance audit followed right behind AFA and AZIDA's and ACA just had its six-month review.

A Board member asked about AZIDA's public relations and Mr. Swift shared that AZIDA does not currently have anyone helping with public relations. After the first negative Arizona Republic article was published in December 2021, the Board wanted AZIDA to engage someone to help with public relations. The person AZIDA used was "in" with the legislature and it worked fine. He wasn't really a media person, more of a legislative liaison, and then the Board changed, and the governor changed, and he was terminated as AZIDA didn't quite need him at that time.

Ms. Romano discussed the benefits of having public relations support but wasn't necessarily in favor of relying on AFA's public affairs officer to handle AZIDA's needs. It might be useful to hire a firm that would work solely on behalf of AZIDA. She noted that sometimes a refusal from the governor's office to give TEFRA approval is really politically driven and not because the Board hasn't done its job and review and approved a solid deal. But that's politics.

Ms. McGuire took the opportunity to explain that as a result of the new administration's process, the TEFRA submission and approval process has changed from an insignificant, pro forma task to an involved and labor-intensive endeavor. She further shared that even after obtaining loads of information from applicants and presenting information packages to the governor's office, sometimes the approval still doesn't come through. This emphasizes Ms. Romano's point – it could be a good deal, but politics is politics.

Mr. Dabdoub noted that it has increased the checks and balances for transactions, and Ms. Romano agreed that Board members do an extensive evaluation before approval – there is no rubber-stamping.

Mr. Dabdoub, Mr. Swift and Ms. Romano discussed the possibility of engaging someone to assist with public relations.

Mr. Burns wanted to discuss the findings of the performance audit further and noted that while the internal process improvements were necessary and very good, the public side of the whole thing was largely a misunderstanding about how all conduit issuers and revenue bond issues work. The press didn't understand it, the legislators don't understand it, so the more Board members educate people and tell "our own story", the better.

Mr. Castillo mentioned that AZIDA doesn't underwrite and is not loaning its own money, which some people do not understand.

The Board then discussed ways to own and build AZIDA's narrative and other public-facing things that could be done like banners at construction sites and ribbon-cuttings.

Mr. Swift then moved to discuss conduit bonds and reiterated that AZIDA is a true conduit – there is a loan between the borrower and the lender that just passes through AZIDA, and to Mr. Castillo's point, AZIDA does not underwrite, but there is a (false) perception by some that it does. He noted that AZIDA has reputational risk because of that perception and that the conversations he had in front of the House and Senate subcommittees were tough, in part because they think AZIDA lends money, but it does not.

Mr. Swift then pointed the Board to the "heat map" created at the request of Ms. Romano that shows the locations of the in-state conduit bond projects financed by AZIDA. Almost everything is education, multifamily housing, or healthcare. Though there are starting to be many projects approved that will be built in Pinal County, most closed financings are for projects in Maricopa County.

Mr. Dabdoub noted AZIDA's volume of multifamily housing projects and wondered how many housing projects went through the Phoenix IDA.

Ms. McGuire explained that multifamily housing projects can only be done in an IDA's own jurisdiction, so Phoenix IDA can only finance multifamily housing located in Phoenix, and the Maricopa IDA can finance multifamily housing anywhere in Maricopa County, and then AZIDA can finance multifamily housing anywhere in the State of Arizona (State). There are three IDAs that can issue bonds to finance multifamily housing in Maricopa County – Maricopa IDA, Phoenix IDA, and AZIDA have overlapping jurisdiction with respect to multifamily housing project. For projects other than housing, any IDA can finance a project in any location – there are no geographical restrictions.

Mr. Castillo noted that AZIDA had over100 transactions for the period 2016-2024. With Mr. Swift identifying 60 as having an out-of-state component or being completely located outside the State.

Mr. Castillo reiterated that the fees generated by out-of-state transactions bring money to Arizona and can be used to help Arizona citizens, especially in rural communities.

Mr. Swift pointed to Mohave County being the location of three transactions but explained that it's been the same borrower three times – not new money.

Ms. Romano added that this was another reason for providing the seed money for GADA technical assistance. AZIDA wants to help rural communities, but many aren't ready to do a financing yet, so which is why AZIDA needs to have strategic planning discussions now.

Mr. Castillo and Ms. Romano discussed the possibility of leveraging out-of-state deals in order to allow AZIDA to go into parts of the State it hasn't been able to access yet.

Mr. Castillo led Board discussion regarding being more intentional about going to other parts of the State – identifying what they need. And it's not just technical assistance like an engineering report – they need relationships and connections. They need to know who the players are and how to get things done. They need to be walked through how to build a pro forma, how an issue gets through the process and who they need to know and develop a relationship with.

Ms. Romano and Mr. Castillo discussed the majority of the projects being located where most of the population is, and the need for outreach, which is still limited in that AZIDA can't force developers to build housing in other areas.

Ms. McGuire added that part of the issue is that AZIDA doesn't offer money or a resource other than access to the market. It is passive in that the deal comes to AZIDA, AZIDA doesn't put together the deal. The borrower and the lender have already identified their project and made their business deal – they bring in AZIDA last.

The Board members then discussed housing needs across the State and ways to incentivize development in underserved areas with the goal of bridging the gap, including the possibility of hiring someone specifically for that purpose, similar to Ms. Foote's outreach efforts, in support of GADA. AZIDA needs to have conversations in rural areas that it is not having right now and start to develop relationships.

The Board then discussed fee collection and Mr. Swift pointed to a chart that breaks down one time upfront fees paid in AZIDA vs. annual fees.

Mr. Dialessi explained the fee collection process and the pros and cons of upfront fees and annual fees. He shared that there were only about 17 of the 160 fees that were annual. It's good to receive the fee up front, but it would be nice to have some annuity income.

Mr. Dialessi shared that the new system was only recently put in place and AZIDA is now able to collect data more easily. He suggested the Board consider establishing a minimum fee for a project of either a percent or dollar amount, because AZIDA doesn't have any type of minimum and AZIDA would want to at least break even.

Mr. Dabdoub inquired how one would establish the minimum, and noted one would need to consider the manpower, bandwidth, and legal that you're allocating to each financing.

Mr. Swift also noted the fixed fee due each month under the CRIS contract, before the percentage based on originations -$75,000 a month and 25% of amounts earned on bond transactions. That has to be budgeted in as well.

Mr. Swift noted there is financial incentive for CRIS to negotiate a one-time upfront fee.

Mr. Dialessi added that without the upfront fees, the ramp up for AZIDA to start earning money from the bond side would have been very lengthy. Collecting 7.75 or 9.75 bps on the declining principal each January would have been very slow.

Mr. Burns then pointed out that moneys that are transferred by AZIDA at the end of each fiscal year aren't "swept" into the general fund. Certain money goes to the Housing Trust Fund, which has a specific purpose, and the other category of money goes to the OEO's Economic Development Fund. The ACA has 13 staff that are paid from moneys in the Economic Development Fund under a contract between OEO and ACA – they would lose their jobs if AZIDA doesn't send funds to the Economic Development Fund. He explained that the money that goes to that fund has supported economic growth under both the Ducey and Hobbs administrations, including multiple projects in the semiconductor sector, along with two major LG energy projects in Queen Creek.

Mr. Burn, Ms. Romano and Mr. Whittington discussed the transfers and the contract relationship between ACA and OEO

Ms. Romano reiterated that AZIDA does not control money once it is transferred to the Housing Trust Fund administered by the Department of Housing and the Economic Development Fund administered by OEO.

Mr. Burns pointed out the differences between the other IDAs earning money and AZIDA earning money, which amounts are statutorily required to be transferred.

Mr. Dialessi pointed out that AZIDA first has to make sure it can pay for its operations, though, it wants to act consistently with the governor's goals and fund the Economic Development Fund.

Mr. Burns and Ms. Romano discussed whether ACA and AZIDA were hearing consistent messaging from the governor's office.

Ms. Romano then reminded the group AZIDA has experience with DPA making a lot of money and then practically going away, and AZIDA needs to be prepared for the ups and downs of the DPA side and the conduit bond side.

Mr. Swift and Mr. Dialessi explained how AZIDA now tracks earnings from the DPA side and the bond side.

Mr. Dabdoub and Mr. Swift discussed pricing strategies and maintain pricing flexibility.

Mr. Swift said he'd look into setting a pricing minimum and/or pricing range and bring it back to the Board.

Mr. Dabdoub, Mr. Dialessi and Ms. McGuire discussed pricing amongst IDAs and applicants shopping for the best fees.

Mr. Swift then moved to a discussion of AZIDA's bond transactions in default.

Ms. Romano, Mr. Burns, Mr. Swift, Mr. Dialessi and Ms. McGuire discussed the characterization of AZIDA defaulted bond transactions in various media publications, along with the reputation risk of out-of-state deals. Even if whether a project is located in-state or out-of-state has nothing to do with risk, AZIDA is excoriated in the press if an out-of-state deal goes south. The university parking structure in Michigan and senior living facilities in the Great Lakes region were both negatively affected by the Covid global pandemic – an unfortunate circumstance and not a reflection of the worthiness or wherewithal of the transactions.

Mr. Burns remarked – one wouldn't think you could go wrong with a university parking garage – unless all of a sudden everyone is forced to stay home.

To the point of managing risk, Ms. Romano reminded the Board that with AZIDA wanting to focus on financings in rural areas, the Board should keep in mind the projects are generally smaller and the chance of default higher.

Ms. Romano, Mr. Dabdoub and Mr. Dialessi discussed the level of risk versus bad timing experienced with some of AZIDA's distressed financings.

Mr. Castillo circled back to the public relations discussion and the fact that people not directly in the conduit financing space do not understand it. He encouraged improved messaging on AZIDA projects and bond financing, generally.

Mr. Whittington added that it was important that the messaging emphasize AZIDA's mission and mission-driven projects, which was agreed to by and discussed amongst Ms. Romano, Mr. Dabdoub, Mr. Castillo and Mr. Swift.

Ms. Romano drew the Board's attention to an AZ Central article about the Legacy ballpark transaction that painted AZIDA in an unfavorable light, and how the Board, after a year of service and involvement now has the insight to see behind the articles and that often the reporters don’t understand or are choosing not to go into the details of AZIDA’s true conduit involvement in financings – some information is accurate, but a lot seems to be misunderstanding.

Mr. Whittington noted that it reflects where AZIDA came from and how it has moved forward, with discussion from Mr. Dabdoub, Mr. Burns, Mr. Castillo, Ms. Romano and Mr. Swift regarding the articles spurring growth of AZIDA as an entity and providing an impetus for adoption of AZIDA policies and guidelines. - That’s where it came from, now moving forward.

Mr. Dabdoub once again emphasized accurate messaging, in particular trying to be more proactive in educating folks about AZIDA and that it serves the citizens of the State, not the applicants or other members of financing teams. AZIDA is focused on facilitating projects, not the developers, which is a distinction.

Mr. Swift directed the Board to the work that has gone into the new AZIDA website, which has evolved from a couple pages with minimal information to very robust, including a list of all financed projects, submission portals, etc. The goal is to be transparent with the public.

Mr. Swift then pivoted to a discussion of the down payment assistance program and shared its history with the Board. There was then a discussion of the requirements to be program lenders and to serve as the master servicer for the DPA program. U.S. Bank is the current master servicer, Hilltop is the hedge provider and does compliance, and the program has many lenders across the State.

He discussed the penetration rates in each county and the challenges of making loans in some locations – there may be a lender that is a single-person operation or no lenders at all. He discussed what he saw as holes and opportunities, and the efforts made to increase production in the low-penetration areas.

Mr. Swift described how interest rate fluctuations pushed the program from making a lot of money to just covering costs. With rates moving up, issuing tax-exempt bonds to get into the single family housing mortgage revenue bond market made sense. Still, there is a tension because MRBs required volume cap and so do the multifamily housing projects AZIDA finances, so it is a balancing act. AZIDA wants to provide single family housing opportunities and affordable multifamily housing, but there is only a finite amount of cap and the other IDAs all have projects and programs competing for it.

Mr. Swift then discussed administration of volume cap, which by statute is the purview of the Arizona Finance Authority. He noted that volume cap stress is hitting most states and everyone is juggling the same issues. The best hope is an increase at the federal level, though, revisions to the State volume cap statutes may be helpful too. For instance, allocating volume cap to mortgage credit certificates (MCC) is inefficient. A discussion of how MCCs programs work followed.

Mr. Swift, Ms. Romano and Ms. McGuire discussed the volume cap statutes, generally, how the amount is calculated at the beginning of each year, the "run" on volume cap in May of 2024, and which developers have historically received large allocations.

Mr. Swift then shared with the Board that in the near future he may be requesting permission to switch to another master servicer. He has begun research and is impressed with a master servicing option that leverages data to improve outcomes. The terms and restrictions imposed by U.S. Bank and the limitations of the other two or three master servicer options are burdensome and may not align with AZIDA's mission and program, including imposing credit score minimums above those required by lenders, nickel-and-diming fees, placing limits on the number of manufactured housing, an important option for rural communities, and an inability to service HUD 184 loans.

The Money Source is a data-driven master servicer that uses data borrower patterns (do they communicate via text, do they always pay on the 6th of the month, etc.) to customize interactions with homeowners so that each interaction is of maximum effect. They increase the "touches" with borrowers, which improves outcomes. By lowering default risk in this manner, they can accept lower credit scores, for instance. They are also more flexible in the manner in which they accept applications, including for 184 loans.

Mr. Dabdoub, Mr. Castillo and Mr. Swift further discussed decision-making in selecting a master servicer, as well as the sensitivities and problems with some of them.

Because this is a major relationship, switching to an alternative provider is something he wants to make sure the Board is aware of and has all the information they want to feel comfortable with the decision. Mr. Castillo, Mr. Dabdoub and Mr. Whittington noted Mr. Swift's expertise in the industry and appreciated him sharing details.

Mr. Castillo asked what transitioning to another master servicer would look like, practically speaking, for the program. Mr. Swift noted that while the DPA and MRB programs were in somewhat slow periods, it was probably the best time to make a change, as opposed to when AZIDA was doing 5,000 DPA transactions a year.

3. **Discussion; No Board Action – Lines of Business**

Ms. Romano then asked that the group turn to a discussion of revenues, where they were coming from and how fee arrangements are made. CRIS makes a lot of money under its contract and AZIDA needs to know if that is where bond transactions are originating and if the cost is commensurate with the revenues generated – is CRIS the direction AZIDA wants to go in the future?

Mr. Castillo noted that the history of the relationship is in the past and now the Board needs to look forward and the value of the contract, commenting that AZIDA is in a different place as an entity than it was at inception and an evaluation of its current needs is merited.

Mr. Whittington agreed.

There was discussion among Mr. Castillo, Mr. Dabdoub, Mr. Whittington and Ms. Romano regarding what other types of people or entities could fill the CRIS role and the possibility of going through an RFP process. It was noted that there is a likelihood that the number of deals AZIDA closes each year may decrease without CRIS, but it is unlikely they would all go away. However, with the cost savings, perhaps AZIDA sets itself up to be competitive in other ways.

Mr. Dabdoub and Mr. Castillo discussed the analysis of the CRIS contract, what a transition would look like, and the public relations component of the current CRIS contract terms.

Mr. Burns mentioned that another option was to renegotiate the CRIS contract to more favorable terms and noted that when compared to the people and methods other IDAs use to generate business, the comparisons fall apart quickly. AZIDA's volume speaks for itself. CRIS was an important partner when AZIDA was created because it had no contacts, was an unknown in the industry, and had a mandate to keep FTE costs down. There were no benchmarks for that type of contract in that situation. Following the Auditor General's report, the cost of the contract was reduced by 70%, which was a good start.

Ms. Romano pointed the Board to the independent analysis of the contract prepared by Squire Patton Boggs.

The Board members and Mr. Swift discussed whether AZIDA still has the same needs, what the implications of a change might be, but noted no decision would be made during the Planning Session.

Mr. Dabdoub and Mr. Whittington encouraged Mr. Swift to determine if there are other options that could be evaluated against the CRIS contract.

Mr. Castillo noted that an issue is the way CRIS's services were established, with just the approval of the then-president, and the Board wants to make sure future decision-making is beyond reproach.

Ms. Romano agreed that an evaluation of options and of the services CRIS was actually providing was important. She discussed her interactions with Mr. Ray each month and some of the communication challenges there have been. She would like to hear his ideas for where AZIDA is going in the future, when volume cap is less available.

Mr. Dabdoub, Ms. Romano and Ms. McGuire discussed AZIDA's desire to assist with manufacturing projects and some of the challenges to finance manufacturing projects under the Internal Revenue Code.

Mr. Whittington and Mr. Castillo noted that AZIDA should be receiving the services set forth on the Appendix to the CRIS contract.

Ms. Romano, Mr. Dabdoub and Mr. Swift then discussed some of the potential transactions that have made contact with Mr. Ray or indicated an interest in financing, many from out of state and in different industries, like an airport in Austin, a utility in Georgia, and a minor league ballpark in Washington state.

Mr. Dabdoub emphasized that following an evaluation of the CRIS contract and even the master servicer, the Board is sensitive to the increased work for AZIDA staff that transitions cause, and he wants to make sure Mr. Swift has the support he needs at all times given how busy he is in his role already.

Mr. Swift thought that was a good segue into keeping the idea of succession planning on the Board members' minds. AZIDA will need to find someone with DPA/mortgage experience before Mr. Swift retires and allow for sufficient time for that person to get up to speed.

Mr. Castillo then brought the Board back to the issuer of exposure to risk in the financings AZIDA closes. Mr. Castillo, Mr. Dabdoub, Mr. Swift and Ms. McGuire discussed the vetting that AZIDA does versus the underwriting performed by investors and lenders, as well as the understanding and acknowledgement by lenders that AZIDA is not underwriting risk for them and it is up to them to determine the appropriateness of an investment. Ms. McGuire added that there is standard language in offering documents and purchaser letters plainly stating that fact.

Mr. Swift added that on the AZIDA website there is a statement that AZIDA is not a creditor – AZIDA does not loan money.

Ms. McGuire noted that the structure of a conduit financing is generally that the borrower asks AZIDA to "borrow" money from the lender or investor, and then AZIDA loans that money to the borrower. The lender is 100% aware that AZIDA will pay back its "loan" only to the extent the borrower repays its loan to AZIDA. It is the industry standard and investors area fully aware.

Board members and Mr. Swift briefly discussed the lack of actual monetary risk to AZIDA, but that reputation risk remained, and the meeting came to an end.

4. **Call to the Public**

There were no members of the public in attendance.

5. **Announcements**

Mr. Swift reminded Board members that the second part of the Planning Session would be held in a different room on Monday.

6. **Adjournment**

Board member **Robin Romano** motioned for adjournment of the meeting at 6:20 p.m. Board member **David Castillo** seconded.

By a vote of 5 ayes, 0 opposed and 0 abstentions, the motion passed.

[*Signature page follows*]

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 17, 2024 Date of Board Action