

**Minutes
of the
Regular Meeting of Board of Directors of
The Industrial Development Authority of the County of Gila
(the “IDA”)**

Date: October 17, 2013, 9:00 a.m.

Place: Gila County Supervisor’s Building, Payson
Supervisor’s Conference Room
610 E. Highway 260
Payson, AZ

Presiding: Cliff Potts

Present: Cliff Potts, Fred Barcon, Mac Feezor, Tim Humphrey, Bob Pastor

Absent: Stanley Gibson, Gerry Kohlbeck, Tim Grier, Bill Byrne

Administrative Manager: Sandy Palmer

Guest Present: Kenny Evans, Mayor of Payson; Debra Galbraith, Payson Town Manager; Juan Salgado, Executive Director Phoenix IDA; Pat Ray, Partner Kutak and Rock, LLC.

Cliff Potts called the Special Meeting of the Board of Directors of the Authority to order at 9:04 a.m., noting the presence of a quorum.

1. APPROVAL OF THE MINUTES OF THE REGULAR MEETING OF THE BOARD HELD ON September 13, 2013.

On motion made by Bob Pastor and seconded by Tim Humphrey, the minutes of the Regular Meeting of the Board held on September 13, 2013 were approved as submitted.

2. INFORMATION AND DISCUSSION AS DETERMINED REGARDING AN UPDATE ON CURRENT ECONOMIC DEVELOPMENT ACTIVITIES GIVEN BY MAYOR OF PAYSON, KENNY EVANS AND PAYSON TOWN MANAGER, DEBRA GALBRAITH.

Cliff Potts thanked Mayor Evans and Ms. Galbraith for taking the time to provide the IDA Board with an update on economic development efforts.

Mayor Evans stated that confidentiality is often a factor in dealing with new business development. He assured the group that they have been working diligently on both economic development and industrial development. Mayor Evans provided information on the industrial development park the Town of Payson is working toward with the expectation of making announcements before the beginning of the year.

Mayor Evans provided a recap of the history and process of getting the university campus to the point it is today. The footprint of the campus would include an industrial and research development park, conference and hotel center and retail centers.

Debra Galbraith mentioned the economic development website the Town of Payson is in the process of creating. At the appropriate time Gila IDA will be contacted to contribute to the website. The Town of Payson is considering hiring an expert to create a regional economic development plan. This plan will incorporate what the people want, what the strengths and weaknesses of the region are, and most importantly the plan will be executable.

Fred Barcon stated the meeting with Juan Salgado and Pat Ray was held in Payson for the purpose of introducing Juan Salgado and Pat Ray to Mayor Evans and the university campus project in hopes their expertise would offer direction.

Mayor Evans provided a condensed history of the project, highlighting the steps taken to achieve the current position. Stating the land will be acquired by the SLE and leased to the university, hotel and industry. At this time, ASU is the preferred university. The concept is to build a cottage campus into the forest, one of the highest tech campuses in the world. It will be energy neutral, carbon neutral, it will generate more power than it consumes, it will have the platinum standard for LEADS.

The goal is to appeal to students looking for quality education in a laid back rural setting. From the ground up, the campus will be designed with some of the most significant technology players in the world. Current partners are Panasonic, IBM, Sysco and Corning Fiber. There is interest from other major corporations that would like to be part of the university.

Debra Galbraith stated the campus will have 6,000 on-site students and at least 60,000 on-line students.

Mayor Evans said that a research center must be affiliated with a state university to qualify for the 37% upfront investment tax credit available to a research park. Natural resource business,

Concord Blue, recently announced they will be housed in the research park. There is potential to secure a 30 million dollar grant from US Department of Health and Human Services to develop a telehealth network through the rural parts of north and northeastern Arizona.

Bob Pastor asked about the labor needed to build the campus and facilities.

Mayor Evans said that finding employable people is probably the most difficult obstacle in terms of industrial development. They are working with NAVIT and EVIT.

Fred Barcon said the campus will have an enormous impact on the entire county. The IDA would like to support the project.

Pat Ray asked if the special purpose entity had been created.

Mayor Evans stated the Rim County Education Alliance was formed about two years ago.

Pat Ray asked if RCEA is a non-profit.

Mayor Evans responded that it is a political subdivision of the state of Arizona. The two entities are the Town of Payson and the Town of Star Valley. It has a six member board; they meet regularly and follow the protocol of a political subdivision.

Pat Ray asked if a price has been set for the land.

Mayor Evans said the appraisal is the last of the last. There was an appraisal done on the property across the road which is a mirror image, the appraisal should come in between \$20,000 - \$30,000 per acre.

With no further questions, Cliff Potts thanked Mayor Evans and Debra Galbraith and reiterated the IDA's desire to support and move the project forward as the campus project will be a tremendous benefit to the county as a whole.

Mayor Evans stated that one of the easiest things they were able to do was secure financing for the project. They were able to secure a 550 million dollar commitment to build out the university, conference center and hotel, and the first phase of the research center. The challenge, those commitments are based on having a research park. And before you have a research park you have to have a state university partner. Before we can get a university partner, you have to have the land. The process of acquiring that land meant spending a lot of soft dollars.

Pat Ray asked who made the financial commitment.

Mayor Evans replied that it is mandatory evaluation reserve money from insurance companies. Mayor Evans discussed the investment terms.

With no further discussion, Cliff Potts thanked Mayor Evans and Debra Galbraith for their time and presentation.

3. INFORMATION, DISCUSSION AS DETERMINED REGARDLING THE PRESENTATION GIVEN BY JUAN SALGADO, EXECUTIVE DIRECTOR OF PHOENIX IDA, AND PAT RAY, PARTNER OF KUTAK ROCK, LLP.

Juan Salgado thanked the IDA Board for their invitation. He offered to share experiences Phoenix IDA has gone through. He referred to the PowerPoint presentation handout.

Discussing bond proceedings, Juan Salgado said a lot of folks question the role of IDAs in issuing bonds because a lot of issuers are issuing debt of the city, debt of the state. There often is an education process on what a conduit issuer is.

Phoenix IDA believes strongly in their mission statement. That is to provide economic benefits to Phoenix residents through bond financing and other community investments. The mission statement became very important when they began bonding projects outside of Maricopa. Phoenix IDA keeps their mission statement in the forefront out of loyalty and commitment to the City of Phoenix residents.

Phoenix IDA has a nine member board appointed by the Mayor of Phoenix. The mayor considers the IDA one of the premier organizations, and so he alone decides who gets on the IDA. The Phoenix IDA has done very well with appointments; usually high level professionals.

Juan Salgado said when he joined the Phoenix IDA in 2008; they were averaging a couple transactions a year. Today, Phoenix IDA has a fulltime staff of six. Growth and being able to provide services for the transactions have been important factors. Phoenix IDA has four legal firms involved with bond transactions, and a separate firm to represent IDA's corporate interests. This helps in cases when the IDA has a transaction that may have potential conflicts of interest, the firm representing the IDA will make those calls as they are not involved in the bond issue.

Kutak Rock is Phoenix IDA's lead firm. Pat Ray has been very instrumental in growing the IDA. Kutak Rock is represented nationally, has a great reputation, a deep bench of lawyers that

understand all the aspects of public finance. Other firms used by Phoenix IDA are Greenburg and Squire Sanders.

The roles the firms play are either as bond counsel to the transaction or IDA representation as issuer counsel. The Phoenix IDA Board wanted separation between bond and issuer counsel.

Revenue bond projects:

Since January of 2009, Phoenix IDA has issued and closed 497 million in education bonds, 184 million in community development bonds, just under 80 million in manufacturing bonds. In total, approximately 778 million dollars in bonds have been issued since January 2009. The growth has been attributed to redoing the organization, the application process, website, and finance team. One of the key hires was bringing in Kutak Rock. They themselves bring creditability to the transaction.

Education bonds: Phoenix IDA has issued over 164 million in bonds to schools. District schools have their own bonding authority. Charter schools do not have their own bonding authority, so they have to come to IDAs.

Juan Salgado shared examples with Higley School District in Gilbert, Arizona, and a private school bond in New York.

Enabling legislation allows IDAs to issue outside their jurisdiction. IDAs can bond anything with the exception of housing. Housing must stay within jurisdiction. Pima County IDA pioneered bonding outside jurisdiction. They issued charter school debt all over the country. No matter where the bonds are issued, the IDA must go back to their local jurisdiction to get approval of the bond process. Not the bond, the bond process.

The Phoenix IDA Board decided as they started expanding out-of-state that they would not take any volume cap from the state, even though they're not needed with charter schools. They also decided they would not compete with local issuers. If the local community has the ability to issue through their local IDA or finance authority, they should go there first. In some cases the local issuers say, "We'll only work on rated bonds". Obviously there are a lot of non-rated transactions that are good. We will then step into the project.

If a deal is controversial, Phoenix IDA won't get involved. The deal must be an easy, cookie-cutter transaction that creates economic development. The statute is clear that the Board of Directors needs to demonstrate when they approve the issuance of bonds that there is a benefit to the residents of Arizona. Phoenix IDA came up with language in the Resolution that satisfied

their tax opinion that included an out-of-state fee of \$25,000, on top of standard fees. The Board took further action to invest that money into local non-profits in the Phoenix area.

Mayor Evans asked if that benefit has to accrue to the Phoenix IDA footprint if the project is inside the State of Arizona, but outside Phoenix IDA's district.

Juan Salgado said the Phoenix IDA Board made a policy decision to invest the money back into Phoenix residents. That was part of getting city council to agree it is revenue coming in, it's not taking volume cap, it's not costing the city taxpayers any money to go through the transaction.

Bob Pastor asked if the Higley School District model Juan mentioned could be used in partnership with ASU and other schools.

Pat Ray said there needs to be more specific discussion about the ASU project. Conceptually, using the same model of a 501 (c) (3) as a conduit for financing could work.

Mayor Evans stated the RCEA has a 501 (c) (3), the Rim Country Education Foundation.

Juan Salgado highlighted some of the non-profit projects the Phoenix IDA has invested in.

Phoenix IDA charges an upfront fee of 2 basis points at closing, a non-refundable \$3,000 application fee, and an ongoing fee. If the entity is a non-profit, the ongoing fee is 7.5 basis points on the outstanding balance. Every year Phoenix IDA does a landscape on what the other issuers are charging. Some issuers charge 10 basis points on the original amount regardless of whether it's declining or not. Some go with different scales depending on the amount. Phoenix IDA keeps it simple: 7.5 basis points paid annually for non-profit entities, for-profit entities are 9 basis points. In some cases, with a present value calculation, Phoenix IDA will take fees up front. In that case, it's built it into the transaction cost paid at closing. That way, you don't have to worry about administrative fees.

Pat Ray stated there are two forms of economic development available to an IDA. One form is to provide conduit financing for your borrower. If a charter school wants to borrow money to build a facility and you give them access to your capital markets, it is a service to them and a form of economic development. The other form is to create a pool of money from the fees you charge to make awards to non-profits, seed businesses, make low-interest loans, and buy land for your own development. There are lots of things you can do because these are not public dollars. These are non-profit dollars that you can keep consistent with your non-profit status. Remember an IDA is both a non-profit subdivision and a political subdivision. The fees you generate are spent in connection with your non-profit status. With the awards and low-interest loans you can seed

economic development within your county separate and apart from your status as a conduit revenue bond issuer.

Juan Salgado added, when you're constructing and expanding you're creating jobs. There are temporary jobs created with construction and permanent jobs in term of those hired to fulfill positions.

Juan Salgado talked about the success of the First Time Homebuyer Program and the Phoenix IDA loan fund partnership with Arizona Community Foundation.

Juan Salgado mentioned the importance of having the ability to deliver for your clients. He stressed the importance of having seasoned professional that do great work. The counsel and investment bankers must provide quality service and try to keep costs down. The key to success: deliver a cost effective, problem-free product on time. Take care of issues behind the scenes. When you can do that, folks will take notice.

Phoenix IDA has done joint issues with Maricopa County and would be willing to do a joint issue with Gila County.

Mayor Evans and Debra Galbraith thanked Juan Salgado, Pat Ray and the IDA Board and left the meeting.

Pat Ray said there are several IDAs within the state. Phoenix IDA probably has the largest with six paid staff. If Gila IDA can piggyback off of that, there is no need for six staff or four law firms in play. If you can use what Juan's infrastructure is already in place to do.

Pat Ray stated the enabling legislation in Arizona for IDAs are some of the broadest in the country. Kutak Rock bonds in all 50 states. There are no more user friendly issuers in the country than Arizona IDAs, particularly Phoenix IDA. When there is an opportunity for someone, somewhere to use an out-of-state issuer and they call Pat, he pushes them to Phoenix IDA because they are objectively the easiest issuer to use in the country. That's the beauty of IDA financing, it is easier to describe what you can't finance than it is what you can. That's how broad your statute is. Whether you can do it on a federally tax exempt basis is a different question.

Fred Barcon said Gila IDA has been trying to find avenues to make money. He shared the ASARCO bond issue and the IDA's role in financing mines over the years.

Pat Ray said the entire university campus could be financed with Gila IDA revenue bonds. Whoever signs the lease is ultimately the credit of the bond issue. It can be rolled out in phases. Gila IDA can use a 501 (c) (3) as the conduit or use the entity itself as the conduit. Every individual private sector that signs a lease with leasing entity becomes the credit for that piece of the bond issue. It's a non-recourse revenue bond for Gila IDA, non-recourse to the town's special purpose entity. The obligation to repay the debt is on the back of the individual who signs the lease. That's how the credit for the bonds will be determined. You can do that in phases and finance the entire project with revenue bonds.

Fred Barcon asked about the 501 (c) (3) stating the IDA is not a 501 (c) (3).

Pat Ray agreed IDAs are not a (c) (3); they are a non-profit and a political subdivision.

Fred Barcon asked about establishing a 501 (c) (3) subsidiary.

Pat Ray asked why the IDA would want to create a 501 (c) (3).

Cliff Potts mentioned one reason is to be an award recipient. An example, Freeport McMoRan is interested in spurring economic growth. Gila IDA desires to be a catalyst and facilitator.

Pat Ray started by making a distinction between a 501 (c) (3) and a non-profit. An entity can be a non-profit without being a (c) (3). Creating a non-profit to be the recipient of awards is a good idea, creating a (c) (3) is unnecessary. The only reason you would want to create a (c) (3) is so that when you give it money you can take a tax deduction. And IDAs don't pay taxes, so there is no reason to create a (c) (3), plus it will take a minimum of nine months when the IRS is open for business. It's very expensive, very time consuming, and frankly a pain-in-the-neck to get (c) (3) status these days. A paralegal can set up a non-profit in ten minutes. There are other 501 (c) s out there. You may want to form one of those, but not a (c) (3). Unless you have a very specific 501 (c) (3) financing in mind that requires a 501 (c) (3). If you want to pursue the (c) (3) it will take about a year and \$50,000 in legal fees to get it established. You can probably do with that non-profit whatever you think you were going to do with the (c) (3).

Tim Humphrey asked Juan Salgado about understanding the client's needs.

Juan Salgado and Pat Ray discussed the need to have a simple, hassle-free process, and at times extending a loan for gap financing.

Cliff Potts asked how many meetings are held and what steps are taken before the applicant comes before the IDA Board.

Juan Salgado said once an application is received it goes to legal counsel for review, and is scheduled for the next IDA Board meeting. Request for city council action is a three week process. Phoenix IDA has streamlined the process. Juan spends time in advance discussing the transaction with each member of the IDA.

During the application diligence process, Juan meets with the applicant and discusses what the process will involve. They come to one meeting. The IDA President turns the meeting over to Juan, he makes quick comments, has the finance administrator give an overview of the project (which is a summation of what they got in writing), the legal advisor states how it complies with statutes, etc. The applicant is asked to give a five minute commercial about their project, and how they are serving their community.

Sometimes there are questions, sometimes not because the board has been briefed in advance. The IDA meeting takes no more than 15 minutes per transaction. The next step is the city council.

Pat Ray added that the IDA meeting is typically a telephonic meeting.

Juan Salgado said Phoenix IDA has simplified the process. It involves one application upfront. The board meets the second Thursday of the month. The application states special meetings are an additional \$5,000 on top of the \$3,000 application fee. Otherwise, applicants will always request a special meeting.

After the IDA meeting, we go to the city council meeting. If the project is in the city, we involve the city council members to explain the project out of courtesy. It also gives the applicant the opportunity to talk about their project, and invite the council members to the ground breaking event. The applicant is only asked to attend the council meeting if there are questions from council members about the project. The applicant will deliver a better presentation about their project, about their school, about the services they are providing.

Cliff Potts asked if Phoenix IDA has experienced any trouble with elected officials.

Pat Ray responded that typically any adverse or negative reaction is born out of ignorance. They don't understand the bond; they don't understand the mechanism of the conduit revenue bond issue. They think tax dollars are involved. They think the credit of the county is involved. It's an education process. If you can ferret out any objections early on with a five minute discussion, you can probably persuade them that their objections are unfounded. You have to get approval of your proceedings, not your bond issue-- just your proceedings. If they elect not to approve your proceedings, you can't issue your bonds.

Gila IDA is not a political subdivision of the county; you're a political subdivision of the State of Arizona. Statute requires approval of your proceedings. The ideal approach is to come to an agreement with the County Board of Supervisors where if a project looks a certain way they will approve it on the consent agenda or without discussion. If it means no tax dollars involved, no credit involved. Whatever the parameters are, get them to agree upfront that any project you bring for approval of the proceedings will get approved.

Juan Salgado said the other part that happens is just politics. A person may not like the people involved with a project, they may challenge it depending on how much fuss they make about it. Those things happen. Pay attention to which members have hot buttons and spend time with them. Take time to sit down and inform them. Most folks are suspect of out-of-the-box thinking. It's so simple, it's scary. Most people think there has to be more to it.

Fred Barcon asked Juan Salgado and Pat Ray how they would approach the university campus project.

Pat Ray stated the project may not necessarily be federally tax exempt, but is state tax exempt. Every part the campus can be issued by IDA revenue bonds. Some of the university components can certainly be done federally tax exempt. The retail component wouldn't be. The biggest pieces could be tax exempt; the land itself could be tax exempt.

Cliff Potts asked about manufacturing.

Pat Ray said if it's less than 10 million on the bond, 20 million on the capital costs, and 40 million per user. There are pretty strict rules on the manufacturing side.

Juan Salgado stated by the time Phoenix IDA gets a transaction it is fully vetted. IDAs don't get involved in the infrastructure. An applicant with applicant counsel will assemble a development team that will fully vet the transaction on understanding how they are going to finance, how they are going to construct, how they are going to tier the project over a period of time. Like any other transaction, the development team comes together, the bank gets involved early whether it's an investment banker to help massage some of that, and a good law firm to walk through the process of being able to diversify what's federal tax verses state tax. At that point you can decide what role the IDA can play.

The university campus sounds very interesting. It's really who is driving this whole plan, who is ultimately going to be the applicant. What role does the RCEA play? Are they hiring the professionals or are they going to drive the project. Somebody needs to lead the parade, which is typically not a role for the IDA. The IDA is typically on the backend to provide the financing.

Juan Salgado continued, today has been good introduction. The next step is for these guys to start flushing out the structure, identify who the players are, the term sheet, do they have financing. Then you can talk about the role the IDAs can play. If you do anything more than that it is really a non-role, it's really not cost effective. That's why we stay to our process. When we get applications from entities, sometimes we have to refer them to people who can help get them further along.

Cliff Potts said that is something Gila IDA would like to tap into. When Gila IDA is asked for referral to get lined up and prepared to access the capital markets, to whom do we send them?

Pat Ray said he would be happy to help out, that's his job. He does not charge a fee unless there is a bond issue. He works on contingency. He will connect applicants with investment bankers and other contacts, he helps applicants assemble their team and get in position.

With no further questions, Cliff Potts and the IDA Board thanked Juan Salgado and Pat Ray for sharing their time and expertise.

4. INFORMATION, DISCUSSION, AND ACTION AS DETERMINED REGARDING GILA IDA FACILITATING AND HOSTING A MASTER PLAN MEETING WITH LAND OWNERS OFF HIGHWAY 60, NORTHEAST OF GLOBE.

Fred Barcon said the City of Globe asked Gila IDA to facilitate the meeting because a portion of the property is outside of Globe City limits. The land is referred to as the northeast corridor, the land north of the drive-in theater to just north of the fairgrounds.

Max Trax is putting a proposal together for the events center at the fairgrounds. They have a relationship with a highly regarded real estate and land developer by the name of William Beal. Fred Barcon asked William Beal if he would be kind enough to facilitate the meeting as he is an expert land developer. The event center is going to need a waste water plant and infrastructure. Max Trax is coming in with funding for the events center; they can find ways to unite with the landowners for infrastructure development.

Cliff Potts asked if Gila IDA will pay William Beal's fee.

Fred Barcon said William Beal has offered his service pro bono.

Cliff Potts asked what the IDA's role will be.

Fred Barcon said it is just to coordinate the meeting; secure a venue, contact and invite the landowners, get the topo and parcel maps to William Beal prior to the meeting. The meeting will be an open discussion between William Beal and landowners. William Beal has the expertise to guide the landowners in the development of a master plan.

Mac Feezor mentioned the IDA will be in position to bond the project once a master plan is in place.

Discussion ensued.

On motion made by Bob Pastor and seconded by Tim Humphrey, the motion to permit Fred Barcon to continue with the investigation and facilitation of the initial meeting between the land owners and William Beal for the property off highway 60, NE of Globe.

Motion passed unanimously by a vote of (5-0).

5. INFORMATION AND DISCUSSION AS DETERMINED REGARDING AN UPDATE ON GILA COUNTY MARKETING PACKAGE.

Cliff Potts informed the Board that he authorized a check to Monster Media to move forward with the marketing package.

Fred Barcon shared the idea to have former Governor Mofford, Congressman Pastor, and former Senator Alfredo Gutierrez provide the opening statement for Gila County video. Have Congressman Gosar in the middle, Gila IDA President and Vice President make a short statement, and close with Congresswoman Kirkpatrick.

Cliff Potts said he likes the favorite sons approach. It has a historical perspective. Cliff mentioned another historian, Tim Ehrhardt, has in-depth knowledge on the history of the area.

Mac Feezor mentioned the Clines are one of the largest ranching families in the county.

Cliff Potts said it would be good to give the County Supervisors a role.

Mac Feezor stated the Supervisors have every interest in marketing Gila County.

Cliff Potts asked to get an update from Monster Media for the December meeting.

6. INFORMATION AND DISCUSSION AS DETERMINED REGARDING ITEMS FOR THE NEXT AGENDA.

Cliff Potts said he added this item to provide the opportunity to discuss items for the next Agenda. Under Open Meeting Law, it is the only time the board can discuss items prior to Agenda.

Cliff Potts mentioned the need to revisit the mission statement and get perspective on the direction of Gila IDA. A single IDA member can't speak for and bind Gila IDA, but the members can represent the IDA at meetings and events. As Chairman's prerogative, business cards will be made for networking purposes.

As an Agenda item for a future meeting to discuss having a retreat in which the Board can discuss the direction, mission statement, and goals for Gila IDA.

Mac Feezor said it would be handy to have something to hand out; brochure explaining the IDA's role, an application with a flow chart.

Tim Humphrey mentioned the need to discuss legal representation. Legal representation is a critical factor in moving forward.

Fred Barcon stated Gila IDA needs an attorney that specializes in bonds, and a general counsel attorney to help on regular issues.

Cliff Potts agreed to add selection of legal counsel on the December Agenda.

Bob Pastor mentioned Phoenix IDA has a staff of six; Gila IDA has a staff of one. As a new Gila IDA member, he would like to understand the role, compensation and duties of staff.

Cliff Potts agreed to add staff description to the Agenda and added Stan Gibson would be back for the financial report.

7. CALL TO THE PUBLIC

8. ADJOURNMENT

With no further discussion to come before the Board, upon motion made and duly seconded meeting adjourned at 12:13 p.m.

Cliff Potts, President