

Minutes  
of the  
Regular Meeting of the Board of Directors of  
The Industrial Development Authority of the County of Maricopa  
(the "Authority")

Date: March 9, 2021, 9:30 a.m.

Place: GoToMeeting - virtually

Presiding: Maria Spelleri

Present: Maria Spelleri, Ronald L. Westad, Andrew M. Cohn, Lisa A. James, Ronald J. Castro, Jr., Steve Bales and Rebecca Burnham

Absent: Jim Rounds and Jeremey Stawiecki

Executive Director: Shelby L. Scharbach

Administrators: Janis L. Larson and Kathleen Jakubowicz

Business Development Officer: Gregg Ghelfi

Attorney: William F. Wilder and John J. Fries of Ryley Carlock & Applewhite

Guests: Jake Hinman, Pedro Miranda, Steve Harris, Patrick Feeney, Kelly Singer, Phil Lake, and Bryant Barber

Maria Spelleri called the Regular Meeting of the Board of Directors of the Authority to order at 9:31 a.m., noting the presence of a quorum.

**1. APPROVAL OF MINUTES OF THE REGULAR MEETING OF THE BOARD HELD ON FEBRUARY 9, 2021.**

On motion made by Mr. Westad and seconded by Ms. Burnham, the minutes of the February 9, 2021 Regular Meeting were approved as written.

**The motion passed unanimously by a vote of (7-0).**

**2. DISCUSSION AND ACTION AS DETERMINED REGARDING THE ADOPTION OF A RESOLUTION GRANTING FINAL APPROVAL FOR THE ISSUANCE AND SALE OF NOT TO EXCEED \$85,000,000 OF THE AUTHORITY'S REVENUE BONDS FOR THE BENEFIT OF SANTA CRUZ VALLEY REGIONAL HOSPITAL.**

The following persons were in attendance, virtually, in support of the Santa Cruz Valley Regional Hospital project: Pedro Miranda, bond counsel from Squire Patton Boggs, Stephen Harris of SCVRH LLC, Patrick Feeney of Lateral Investment Management ("Lateral").

Mr. Fries explained that the proposed bond issue will be a five-year interest only bond program not to exceed \$85,000,000 of taxable hospital revenue bonds for the acquisition, construction, improvement, equipping and operation of the Santa Cruz Valley Regional Hospital (the "Hospital"), a 49-bed acute care hospital located in Green Valley, Arizona, for the benefit of SCVRH LLC (the "Applicant").

Mr. Fries noted the Hospital opened in 2015 and ran into financial difficulties and filed for Chapter 11 Bankruptcy in 2017.

On July 25, 2018, the Hospital was sold under a bankruptcy court order, that sold the Hospital free and clear of liens, in return for an assumption of certain debt, certain cash consideration and a credit bid against the amount Lateral had lent to the debtor during the chapter 11 bankruptcy.

After the bankruptcy, Lateral was the main owner of the Hospital (with an 85% interest through their various affiliates), along with SQN Capital Management (which has a 15% ownership interest.)

In order to put the Hospital back on firm footing, the current owners intend to open clinics in Nogales and Tubac hoping to expand the reach and service in the underserved area.

Patrick Feeney explained that this independent community hospital, located in the Green Valley, Arizona, area, which has a population of approximately 30,000, has a primary service area of over 100,000 people, reaching from Sahuarita down to Nogales at the Mexican border. This is an area that has been historically underwhelmed with respect to healthcare services, and much of the surrounding area has been designated by the State as a healthcare provider shortage area ("HIPSA").

It is believed, this area has the oldest demographic in the state of Arizona, with the median age of 72 years, so this population has heightened healthcare needs, and certainly in a pandemic they've been a high risk population.

Mr. Feeney noted they have nearly doubled their service line since investing substantial capital in procuring equipment, hiring physicians and recruiting leadership.

Steve Harris reported on the tremendous community support they have and said they are a strong member of the local community.

Mr. Harris explained they have brought in specialists that respond to medical conditions of the elderly, including medical professionals in urology, general surgery, orthopedics and podiatry.

In response to a question from Mr. Castro, Mr. Feeney explained the bond offering is to provide capital in a few areas: approximately \$63 million to refinance debt associated with the construction, acquisition, working capital, etc., \$6.8 million to be deposited into the debt service reserve fund, and \$3.4 million to service the first interest payment on October 1st. Approximately \$11.5 million will be used to launch the two rural health clinics, recruit physicians and upgrade technology with such things as leading firewall security for patient information care. The balance is for working capital, which is contemplated to be used to advance several initiatives at the Hospital and provide capital for moving the business forward.

Mr. Miranda explained that the bulk of the money is considered a reimbursement or refinancing of the debt incurred in acquiring the Hospital through bankruptcy but also improvements and operating costs spent up until today.

Mr. Castro said he thought this is really a leverage recap, and the original investors are getting repaid on their original investments, plus about \$3 million in accrued preferred yield.

Mr. Feeney explained the dollars that are going to pay down acquisition costs and improvements are dollars that have been invested by Lateral. There are hard dollars that have been used to acquire the Hospital, to improve the Hospital and to operate the Hospital. Those investments will be reflected on the balance sheet as debt, and they are memorialized in a preferred equity investment.

That preferred equity investment is dollars invested with an 8% accrued return, and as of December 31, 2020, there is a mandatory redemption feature that has been introduced, which will be treated as debt, as verified by the Hospital's auditor, and will be reflected on the balance sheet as debt going forward.

In response to a question from Mr. Castro regarding the return on the investment for the original investors, Mr. Feeney said the investors will not be getting all of their original investment back. There will be a balance of roughly \$7 million left in the business, some of which is investor principle. They will be setting aside interest, as well as depreciation, which is a non cash expense.

*Ms. Burnham left the meeting at 10:02 a.m.*

In response to a question from Ms. Spelleri, Mr. Fries explained that the bonds will be sold to qualified institutional investors and accredited investors through Oppenheimer & Co, Inc., the bond underwriter, in \$100,000 denominations.

Mr. Miranda added the bondholders will be limited to 35, but expects to only have 2 to 5 investors.

Mr. Castro said he would be voting no, and explained that while the Hospital is doing wonderful things in the area, it was his opinion the Authority is being used as a tool for some financial engineering that is principally going to benefit only the original investors in the purchase of the Hospital.

After further discussion and upon motion made by Mr. Westad and seconded by Mr. Cohn, the following was adopted:

RESOLVED to adopt the Resolution in the form presented to the meeting authorizing and approving the issuance of not to exceed \$85,000,000 of the Authority's Hospital Revenue Bonds (Santa Cruz Valley Regional Hospital Project), Taxable Series 2021.

**The motion passed by a vote of (5-1).**

**Mr. Castro voted nay. Mmes. Spelleri and James and Messrs. Cohn, Bales, Westad voted aye.**

**3. DISCUSSION AND ACTION AS DETERMINED REGARDING THE ADOPTION OF A RESOLUTION CONSENTING TO THE SALE OF THE COVES AT NEWPORT, F/K/A PASEO PARK, AND THE ASSUMPTION OF THE LAND USE RESTRICTION AGREEMENT.**

The following persons were in attendance, virtually, in support of The Coves at Newport Apartments project: Bryant Barber of Lewis Roca Rothgerber Christie LLP and Phil Lake of Knightvest.

Mr. Fries reminded the Board that in 2013, the Authority issued \$30,000,000 of bonds to finance the Paseo Park Apartments. As part of the initial financing, the Project was encumbered by the Regulatory Agreement, which requires that certain units must be set aside for low to moderate income persons throughout the "Qualified Project Period" or until about December 18, 2028.

In 2019, the Authority approved the sale of the Project and the assumption of the Regulatory Agreement. In connection with the sale of the Project, the bonds were paid in full.

The current owner is requesting the Authority again approve a sale of the Project and the assumption of the Regulatory Agreement.

After further discussion and upon motion made by Mr. Castro and seconded by Ms. James, the following was adopted:

RESOLVED to adopt a Resolution in the form presented to the meeting authorizing and approving the sale and transfer of The Coves at Newport Apartments Project and the assumption by Paseo Park II, LLC of the Regulatory Agreement that encumbers the Project through the execution of a Consent of Issuer and Assignment and Assumption Agreement.

**The motion passed unanimously by a vote of (6-0).**

**4. LEGISLATIVE REPORT, DISCUSSION AND ACTION AS DETERMINED.**

Jake Hinman was in attendance to report on legislative matters.

Mr. Hinman reported that 1708 bills have been introduced at this point, with a few additional bills being expected to be introduced relating to the budget. Hundreds of those bills have already died.

Mr. Hinman also reported on the tax package being discussed in the Legislature, and stated that Arizona's January revenue was actually up over 9%, exceeding the budgeted January projection of over \$65 million.

Bill 1377, which is a Covid premise liability reform bill, continues to move along. It passed out of the Senate Judiciary Committee a few weeks ago, and is now in the House Judiciary Committee.

Mr. Hinman also reported on affordable housing conversations in the Legislature, which include zoning, design and fees, restoration of the Arizona Housing Trust Fund, and the low income housing tax credit program.

**5. FINANCIAL REPORT.**

Ms. Scharbach referred to the unaudited financial statements for the period ended February 28, 2021; a copy of which is attached hereto. Ms. Scharbach reviewed the February 28, 2021 financial statements, and pointed out the approximately \$1.9 million for 13 grants that were approved by the Board at the March 13, 2021 Board meeting.

**6. PAYMENT OF INVOICES.**

Ms. Scharbach referred to the invoices previously distributed to the Board Members for the month ended February 28, 2021.

Mr. Castro moved to approve the payment of invoices as submitted for the period ended February 28, 2021. Mr. Bales seconded the motion.

**The motion passed unanimously by a vote of (6-0).**

**7. BUSINESS DEVELOPMENT OFFICER.**

Mr. Ghelfi reported there may be a couple of charter school bond issues to come before the Board in the near future, along with the possibility of a manufacturing company.

With respect to the Home in Five program, the supply of homes throughout the County is very low and interest rates are starting to rise. These two issues could affect the number of mortgage originations in the program.

Mr. Ghelfi also reported the Authority will be sponsoring the 2021 Arizona Trends Day to be held virtually from April 20 to 22<sup>nd</sup>.

**8. PRESIDENT'S REPORT.**

Ms. Spelleri acknowledged International Women's Day.

**9. EXECUTIVE DIRECTOR'S REPORT.**

Ms. Scharbach thanked the Board Members and staff for their participation/work, especially during the past year.

**10. LEGAL COUNSEL REPORT.**

Mr. Fries reported the Deer Valley Gardens project previously approved by the Board is scheduled to close on or about March 25, 2021.

**11. COMMENTS FROM BOARD MEMBERS.**

There were no comments from the Board Members.

**12. CALL TO THE PUBLIC.**

No members of the public commented.

**ADJOURNMENT**

With no further business to come before the Authority, upon motion made and duly seconded, the Regular Meeting was adjourned at 10:39 a.m., without objection.

  
\_\_\_\_\_