

THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF TUCSON, ARIZONA

Application Procedures and Policies

April 2006

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

INTRODUCTION AND MISSION STATEMENT

The Industrial Development Authority (the “**IDA**”) of the City of Tucson, Arizona is a non profit corporation which has been designated by statute as political subdivision of the State of Arizona (the “State”). The IDA is committed to improving the standard of living of the residents of the City of Tucson. The IDA provides financing of projects whenever appropriate and where traditional sources of funding may not be available. Funded projects must serve a public purpose while sustaining the long-term fiscal viability of the IDA.

GOALS

Economic Development

The IDA will promote and assist in the rehabilitation, expansion and development of business and industry. The intent is to create and maintain jobs to assure an improved standard of living and an increase in the prosperity of all residents of the City of Tucson. The IDA will place an emphasis on new and expanding businesses where sources of traditional capital are not available.

Affordable Housing

The IDA will assist in the financing, rehabilitation and development of affordable housing and promote homeownership opportunities with an emphasis on the residents of the City of Tucson.

Downtown, Neighborhood and Community Development

The IDA will promote and assist projects designed to enhance, revitalize and rehabilitate the cultural, social, economic, historical and physical resources of the downtown, lower income neighborhoods, infill projects and of the broader Tucson community.

Self Sustaining & Fiscally Sound Investments

The IDA will participate in self-sustaining and fiscally sound investments commensurate with the risk and community interests.

TYPES OF PROJECTS AVAILABLE FOR FINANCING

The IDA is empowered pursuant to Title 35, Chapter 5, §§ 35-701 et seq., as amended, of the Arizona Revised Statutes (the "Act") to issue its bonds, the proceeds of which are usually lent to qualified businesses to finance certain types of “projects.” Under the Act, a "project" is defined to include any land, any building or any other improvement, and all real and personal

properties, including machinery and equipment whether or not now in existence or under construction, whether located within or without the City, which are suitable for any of the following:

(i) Any enterprise for the manufacturing, processing or assembling of any agricultural or manufactured products.

(ii) Any commercial enterprise for the storing, warehousing, distributing or selling of products of agriculture, mining or industry, or of processes related thereto, including research and development.

(iii) An office building or buildings for use as corporate or company headquarters or regional offices or the adaptive use for offices of any building within the state that is on the national register of historic places or rehabilitation of residential buildings located in registered historic neighborhoods.

(iv) A health care institution as defined in § 36-401, Arizona Revised Statutes.

(v) Residential real property for dwelling units located in the City.

(vi) Repairing or rehabilitating single family dwelling units or constructing or repairing residential fences and walls.

(vii) Convention or trade show facilities.

(viii) Airports, docks, wharves, mass commuting facilities, parking facilities, or storage or training facilities directly related thereto.

(ix) Sewage or solid waste disposal facilities or facilities for the furnishing of electric energy, gas or water.

(x) Industrial park facilities.

(xi) Air or water pollution control facilities.

(xii) Any educational institution operated by a nonprofit educational organization that is exempt from taxation under § 501(c)(3) of the Code (the "Code") and not otherwise funded by state monies, any educational institution or organization established under Title 15, Chapter 1, Article 8 of the Arizona Revised Statutes, and owned by a nonprofit organization, any private nonsectarian school or any private nonsectarian organization established for the purpose of funding a joint technological educational school district.

(xiii) Research and development facilities.

(xiv) Commercial enterprises, including facilities for office, recreational, hotel, motel and service uses if the facilities are to be located in a "designated area" as defined in the Act.

(xv) A child welfare agency, as defined in Arizona Revised Statutes § 8-501, owned and operated by a nonprofit organization.

(xvi) A transportation facility constructed or operated pursuant to Title 28, Chapter 22, Article 1 or 2 of the Arizona Revised Statutes.

(xvii) A museum operated by a nonprofit organization.

(xviii) Facilities owned or operated by a nonprofit organization described in § 501(c) of the Code that is primarily engaged in delivering community services on that property consisting of fitness programs, camping programs, health and recreation services, youth programs, child care, senior citizen programs, individual and family counseling, employment and training programs, services for individuals with disabilities, meals, feeding programs or disaster relief.

(xix) New or existing correctional facilities that contract exclusively with the State Department of Corrections or the Department of Juvenile Corrections for the housing of inmates or committed youths.

The definition of "project" under the Act is subject to change, therefore, reference is made to the Act for a complete statement of the powers of the IDA and the types of projects available for bond financing.

The provisions of federal law, as well as the Act, must be reviewed to determine the limitations and requirements pertaining to the financing of a particular project. Bond counsel should be consulted at an early stage to determine whether a project complies with existing legal requirements. Exhibit A hereto consists of general background information concerning tax-exempt private activity bond financing and an explanation of some of the federal law provisions relative thereto. Exhibit A is provided solely as a general guideline.

The IDA recognizes that the application procedure must be sufficiently flexible to accommodate the different types of projects which may be financed under the Act. This procedural pamphlet does not attempt to delineate all of the information which the IDA will require with respect to each type of project or financing. For that reason the IDA will, on occasion, waive, modify or add to the requirements set forth herein.

Although the IDA is legally empowered to finance the projects enumerated in this section, as a matter of policy the IDA will carefully analyze each proposed financing and will render a decision on whether to provide financing on a case by case basis, in the IDA's absolute

discretion. The following are some of the factors the IDA might take into consideration in determining whether or not to finance a proposed project:

(a) The project will provide additional employment or affordable housing opportunities or preserve existing jobs in the greater Tucson area and/or will otherwise stimulate economic growth in the greater Tucson area.

(b) The project is not inconsistent with the long-term development plans of the City.

(c) If the project is located in the downtown area, it will contribute to the redevelopment and rehabilitation of the downtown area in conformity with the plans of the City for such redevelopment and rehabilitation.

(d) There is sufficient reason to believe that the applicant has the financial ability to honor the obligations assumed by the applicant.

(e) The project does not constitute a speculative investment of capital in real or personal property.

(f) The tax-exempt financing of the project will not provide an unfair local competitive advantage to the applicant.

(g) The applicant has arranged for placement of the bonds to be issued by the IDA with an underwriter or through private placement, subject only to IDA approval, approval by the governing body of the City, approval pursuant to § 35-726.E. of the Act (if applicable), and fulfillment of the conditions of purchase set forth in a bond purchase contract.

The IDA is particularly interested in financing projects, including commercial projects, which are to be located within the “Targeted Area” (indicated on Exhibit B attached hereto). The proponents of such projects will, however, continue to have to satisfy normal financial and feasibility requirements imposed on all applicants for IDA financing.

The IDA reserves the right to deviate from the above standards on a project by project basis.

GUIDELINES FOR CERTAIN TYPES OF APPLICANTS

Guidelines for Multifamily Rental Projects. In evaluating proposals for multifamily rental projects, the IDA will apply the general policy stated in the following paragraphs.

The IDA will require evidence of ability to repay that portion, if any, of the bond issue which is in excess of the amount payable from the aggregate of mortgage insurance, reserve funds and letters of credit or other security pledged by the applicant. The IDA may require applicants to provide a detailed market feasibility study and/or cash flow estimates which indicate, for purposes of comparing, the effect on projected revenues of an occupancy rate no

greater than the average experienced in the area of the project site over the previous four quarters.

All apartment projects, including rehabilitations, will be expected to be in the public interest of the City. The IDA will consider all apartment projects on a case by case basis.

The IDA strongly suggests that at or before the time the applicant applies to the IDA, the applicant should give written notice of its proposed project to the City Council member in whose ward the project is located and set up a meeting to discuss the proposed project with the City Council Member. In addition, written notice should be given to the Neighborhood Association in which the project is to be located. The notice should indicate that the application may be examined at the Business Development Finance Corporation, 335 N. Wilmot, Suite 420, Tucson, Arizona 85711, and the date the applicant has requested the IDA consider the application. A copy of any such notices should accompany the application. The Citizen and Neighborhood Services Division of the City of Tucson has the list of Neighborhood Associations and their addresses.

Guidelines for Healthcare Institution Applications.

When a healthcare institution is to be financed, the applicant must provide, as a part of the application, a statement of the applicant's assessment of the feasibility of the proposed project and a statement of the effect of the proposed financing on the applicant's patient charges, including, but not limited to, the gross dollar amount of anticipated savings as a result of the proposed financing as opposed to conventional financing, taking into consideration the effect of such savings on the applicant's claims for reimbursement under government-sponsored medical insurance/expense reimbursement programs such as Medicare.

The IDA may require that the applicant provide to the IDA a demand study and/or a financial feasibility study rendered by a nationally-recognized firm of hospital consultants, engineers, architects, or accountants having a proven reputation for such reports.

The IDA may require the applicant to provide further information, including, but not limited to, the following:

- (1) Community-wide availability and need for services;
- (2) The cost, type of construction, patient population and the location of the proposed services;
- (3) The ability of the organization to operate the proposed services, and to comply with all applicable professional and licensing standards;
- (4) The projected utilization of proposed services for the first five years of operation;

- (5) The availability of less costly or more effective alternative methods of providing the proposed services;
- (6) The availability of similar services provided by other organizations and their impact on the proposed services;
- (7) The costs of constructing and operating the proposed facilities in comparison with similar projects in the City;
- (8) 5-year projections of utilization;
- (9) 5-year projections of operating expenses and revenues by service;
- (10) a description of market area and patient populations to be served;
- (11) projections on anticipated payment sources for services, including Medicare, County, self-pay, insurance, etc.;
- (12) a proposed fee schedule for first year of operation; and
- (13) a description of programs to assure quality of care.

APPLICATION PROCESS

Applicants should contact the IDA for application information. Applicants should also consult the IDA’s Legal Counsel regarding the eligibility of the proposed Project for Bond financing. If eligible, the following process must then be followed:

- Step No. 1. Application is made to the IDA for preliminary approval.
- Step No. 2. A preliminary resolution (or inducement resolution) is considered by the IDA. The remainder of this outline will assume approval by the IDA and passed by the IDA.
- Step No. 3. If necessary, a request for private activity bond volume cap is made to the Arizona Department of Commerce (“**Commerce**”).
- Step No. 4. Final Approval of the IDA is considered by the IDA. The remainder of this outline will assume approval by the IDA.
- Step No. 5. If required under **Code – Section 147(f)**, a notice of public hearing is published.
- Step No. 6. A public hearing is held (at least **14 days** after notice is given by publication).
- Step No. 7. The Mayor and City Council approve the issuance of the Bonds by the IDA.
- Step No. 8. If necessary, an application is made to Commerce for review of the Bonds under **Section 35-726** of the Act.

- Step No. 9. If necessary, a hearing under **Section 35-726** is held, and Commerce approves the issuance of the Bonds.
- Step No. 10. The Bonds are sold (either privately or publicly).
- Step No. 11. The transaction closes.

An applicant for IDA financing must prepare and submit its application to the IDA in accordance with the instructions, and in the form, set forth in Exhibit C attached hereto. Exhibit C also sets forth the IDA's fees for applications and administrative expenses, as well as the applicant's obligation to pay costs and expenses incurred by the IDA, including fees and expenses of the IDA's legal counsel and advisor, relative to the preparation, filing, and processing of the application, review of the legal proceedings and the issuance of the bonds.

By submitting an application to the IDA, the applicant will be deemed to know, understand, and accept the IDA's policies and procedures, as outlined herein and in Exhibit C hereto.

Pursuant to Arizona law, the instruments, documents, files, and records of the applicant (and any guarantor) filed with the IDA will be available for inspection by the public. Thus, the applicant, by filing the application, agrees that any information delivered to the IDA by or on behalf of the applicant is not confidential or privileged and may be disclosed to the public. The application and any related documents and information may be referred by the IDA to accountants, attorneys and consultants for evaluation. By submitting the application to the IDA, the applicant is expected to have disclosed any and all matters material to the proposed financing as of the date of the application. If an applicant is concerned about divulging proprietary information or trade secrets, the applicant should discuss the matter with the IDA's legal counsel.

IDA MEETINGS AND CONSIDERATION OF APPLICATIONS; PRELIMINARY AND FINAL APPROVAL

The IDA is subject to the State's open meetings laws. The IDA's meetings will be open to the public and duly noticed. In general, all applications will be considered at regularly scheduled meetings of the IDA. Regular meetings of the IDA are held on the 2nd Thursday of each month, commencing at 4:00 p.m., at the offices of the Business Development Corporation, 335 N. Wilmot, Suite 420, Tucson, Arizona, or as otherwise indicated on a given meeting's notice or agenda. In appropriate circumstances, upon written request, the IDA may hold a special meeting to consider an application.

Representatives of the Applicant must attend the meeting of the IDA at which the application is to be considered in order to make a brief oral presentation of the proposed project and related financing and to answer questions.

In general, all correspondence and communications regarding applications should be with the IDA's advisor and/or legal counsel. It is the policy of the IDA that applicants not contact individual members of the IDA's board of directors for the purpose of soliciting support for their applications. Applicants may, however, discuss applications with individual IDA directors who are seeking information, which information will be reported to all directors of the IDA at the time the application is considered.

At the initial meeting, the IDA may grant preliminary approval of the application, reserve judgment to a later meeting or reject the application. The IDA's preliminary approval, if granted, will expire eighteen (18) months after the date it is granted by the IDA, unless within that time period bonds have been issued or an extension of time has been obtained. The IDA may set a different initial expiration date or grant an extension at its discretion on a case by case basis.

Once preliminary approval of the IDA has been obtained, the applicant is required to submit to the IDA for its review copies of the proposed financing documents, including the proposed form of authorizing resolution of the IDA, the proposed form of offering memorandum or official statement, the proposed forms of indenture, loan agreement or lease, guaranty agreement, promissory note, bond purchase contract, security documents and such other documents relative to the financing as the IDA may reasonably request. The IDA will expect that financing documents be made available to it at least ten calendar days prior to the requested date of final approval. A shorter period may be accepted for good cause shown.

The IDA's final approval of the project and delivery of financing documents will be at the IDA's absolute discretion, and may be subject to specific conditions established at or after preliminary approval. Some examples of conditions to final approval are set forth in the form of Inducement Resolution attached hereto as Exhibit D.

OTHER APPROVALS

Allocation of Private Activity Bonding Authority. The applicant or bond counsel shall be responsible for preparing and filing with the Arizona Department of Commerce (or any successor thereto) all applicable requests for allocations, requests for extensions, notices of intent, and certificates of closing required by any federal or state statutes or executive order of the Governor of Arizona.

Arizona Attorney General. The IDA is required to deliver a description of each project to be financed by the IDA's bonds to the State's Attorney General, who is given ten days to determine whether the project comes within the purview of the Act. If ten days pass without objection by the Attorney General, the bonds may be issued.

Mayor and City Council. Under the Act, the IDA may not issue its bonds unless the proceedings under which the IDA's bonds are to be issued are approved by the City's Mayor and Council.

Arizona Department of Commerce (or any successor thereto). Under the Act, the issuance of bonds to finance certain types of projects (e.g., multifamily residential rental projects, sanitariums, clinics, medical hotels, rest homes, nursing homes, skilled nursing facilities and life care facilities) is subject to the approval of the Arizona Department of Commerce (or any successor thereto.) The applicant shall be responsible for obtaining any such approval, if required, and for preparing and filing any application and documentation required by the Arizona Department of Commerce (or any successor thereto.)

MISCELLANEOUS

Private Placements. Any of the IDA's bonds that are privately placed must be sold to either "qualified institutional buyers" within the meaning of the Securities Act of 1933, as amended or "accredited investors" as defined in Rule 501 of Regulation D of the United States Securities and Exchange Commission. A bond purchaser's status as either a qualified institutional buyer or an accredited investor shall be established by an investor letter, in a form acceptable to the IDA and its legal counsel, from the bond purchaser to the IDA. Bonds privately placed may not be resold in a public offering without the consent of the IDA and satisfaction of such conditions as the IDA may impose.

Public offerings. Alternatively, if the bonds are to be offered publicly, an investment grade rating of at least "BBB" from a national rating agency must be obtained or the bonds must be secured by either an irrevocable letter of credit issued or confirmed by an investment grade-rated financial institution or another form of credit enhancement acceptable to the IDA.

Conflict of Interest. The IDA, its Directors, the City, the Mayor and the City Council are governed by the State's conflict of interest law, Arizona Revised Statutes §§ 38-501, *et seq.* The Applicant should take every precaution available to it to learn of any possible conflict between itself and each of the directors, officers, elected officials, employees, or agents of the IDA or the City (or any of their "relatives" (as defined in Arizona Revised Statutes § 38-502)) which might prohibit the IDA or the City from completing the financing, especially where construction or other contracts may be signed before the bonds are authorized or issued.

Notice of § 38-511. Each agreement entered into by the IDA must, in accordance with the provisions of Arizona Revised Statutes § 38-511, contain language notifying the reader of the existence of such statute such as the following:

Notice of § 38-511 - Cancellation. Notice is hereby given of the provisions of Arizona Revised Statutes § 38-511. By this reference, the provisions of said statute are incorporated herein to the extent of their applicability to contracts of the nature of this agreement under the laws of the State.

General. It is the responsibility of the applicant to ensure to the satisfaction of bond counsel that all legal requirements in connection with the financing have been satisfied and all regulatory approvals obtained.

The terms of this procedural pamphlet are intended to be advisory only. Either in connection with preliminary or final approval the IDA reserves the right to waive, add or modify requirements with respect to particular transactions as it deems appropriate.

FOR ADDITIONAL INFORMATION, CALL OR WRITE:

Legal Counsel:

Charles W. Lotzar
LOTZAR LAW FIRM, P.C.
6263 North Scottsdale Road, Suite 216
Scottsdale, Arizona 85250

Telephone: 480-905-0300
Facsimile: 480-905-0321
E-mail: cwl@lotzar.com

Advisor:

Gary Molenda, President
Karen Valdez, Program Manager
BUSINESS DEVELOPMENT FINANCE
CORPORATION
335 N. Wilmot, Suite 420
Tucson, Arizona 85711

Telephone: 520-882-5591
Facsimile: 520-624-1728
E-mail: gmolenda@bdfc.com

EXHIBIT A

TAX-EXEMPT QUALIFIED PRIVATE ACTIVITY BOND FINANCING

Section 103(a) of the Internal Revenue Code of 1986, as amended (the “Code”) provides that the interest on debt obligations (including bonds) issued by a state or political subdivision of a state (including the IDA) is exempt from federal income taxation. Section 103(b) of the Code, however, provides that such tax exemption does not apply to “private activity bonds” unless they are “qualified bonds.” “Qualified bonds” are referred to herein as QPAB’s. Bonds issued by a state or political subdivision of a state that are not private activity bonds are commonly referred to as “governmental bonds.” Such bonds are not discussed here.

Private Activity Bonds:

Section 141(a) of the Code provides that a bond is a “private activity bond” if either:

- a. Both (a) more than 10% of the proceeds of the bond issue are to be used for any private business use (i.e., use by a person or entity other than a governmental unit) (the “private business use test”), and (b) payment of the principal of, or interest on, more than 10% of the bond issue is either (i) secured by property used for a private business use or secured by payments in respect to such property, or (ii) to be derived from payments in respect of property, or borrowed money, used for a private business use (the “private security or payment test”); or
- b. More than \$5,000,000 or 5% of the bond proceeds are to be used to make or finance loans to persons other than governmental units (the “private loan financing test”).

Section 141(e) of the Code defines a “qualified bond” (a “QPAB”) as any private activity bond that meets certain requirements set forth in Sections 146 and 147 of the Code and is one of the following types of bonds:

1. An exempt facility bond;
2. A qualified mortgage bond;
3. A qualified veterans’ mortgage bond;
4. A qualified small issue bond;
5. A qualified student loan bond;
6. A qualified redevelopment bond; or

7. A qualified 501(c)(3) bond.

The requirements of Sections 146 and 147 of the Code will be discussed below, following a description of the types of QPABs most applicants request the IDA to issue.

Exempt Facility Bonds:

Section 142(a) of the Code provides that a bond is an “exempt facility bond” if 95% or more of the “net proceeds” of the bond issue are used to provide any of the following:

- A. Airports;
- B. Docks and wharves;
- C. Mass commuting facilities;
- D. Facilities for the furnishing of water;
- E. Sewage facilities;
- F. Solid waste disposal facilities;
- G. Qualified residential rental projects (as defined in Section 142(d) of the Code);
- H. Facilities for the local furnishing of electric energy or gas;
- I. Local district heating or cooling facilities;
- J. Qualified hazardous waste facilities;
- K. High-speed intercity rail facilities; and
- L. Environmental enhancements of hydroelectric generating facilities.

Such expenditures of net proceeds are usually referred to as “good costs.” “Net proceeds” are defined as the proceeds of a bond issue, less amounts used to fund a “reasonably required reserve or replacement fund.” The Code sets forth limitations on the amount of bond proceeds that may be used to fund a reasonably required reserve or replacement fund.

Qualified residential rental projects (Section 142(d) of the Code):

The IDA can finance certain multifamily apartment projects through the issuance of QPABs under Section 142(d) of the Code. The Code requires, among other things, that throughout a period known as the “qualified project period,” either (1) at least 20% of the units in the project must be set aside for individuals or families whose income is at or below 50% of the median income for the Tucson Metropolitan Area or (2) at least 40% of the units in the project must be set aside for individuals or families whose income is at or below 60% of the median income for the Tucson Metropolitan Area. The “qualified project period” begins on the first day following issuance of the bonds that 10% of the project’s units are occupied and ends on the later of (1) 15 years after the date on which 50% of the project’s units are occupied, (2) the first day no QPAB issued with respect to the project is outstanding, or (3) when any assistance provided with respect to the project under Section 8 of the United States Housing Act of 1937 terminates.

Qualified Small Issue Bonds:

The IDA can finance certain manufacturing facilities through the issuance of tax-exempt qualified small issue bonds under Section 144 of the Code, which provides, in general, that a bond is a “qualified bond” under Section 103(a) and therefore tax exempt if, at the election of the IDA, the aggregate authorized face amount of the issue, along with the aggregate amount of outstanding qualified small issue bonds and capital expenditures with respect to facilities located in the City the principal user of which is or will be the Applicant or 2 or more related persons paid or incurred during the 6-year period beginning 3 years before the date of the Bonds and ending 3 years after such date, is \$10,000,000 or less, and 95% or more of the net proceeds are used for the acquisition, construction, reconstruction, or improvement of land or property of a character subject to the allowance for depreciation.

Qualified 501(c)(3) Bonds:

The Code permits Qualified 501(c)(3) Bonds to be issued under Section 145(a) of the Code if (1) all property which is to be provided by the net proceeds of the bonds is to be owned by a tax-exempt organization recognized by the Internal Revenue Service as described in Section 501(c)(3) of the Code (a “501(c)(3) Organization”) or by a governmental unit, and (2) such bonds would not be “private activity bonds” under Section 141 (applying the tests set forth in Section 141 with certain revisions set forth in Section 145(a)).

The Act limits the types of projects that can be financed with the proceeds Qualified 501(c)(3) Bonds.

Qualified Zone Academy Bonds:

The IDA can finance certain educational institutions through the issuance of Qualified Zone Academy Bonds under the Code. The Bonds must comply with all requirements of the

Code, and any applicable Arizona laws and policies and procedures of the Arizona Department of Education, with respect to Qualified Zone Academy Bonds.

Code Section 146 (Volume Cap):

In general, Section 146 of the Code permits the IDA to issue QPABs only if the Arizona Department of Commerce or any successor thereto (“Commerce”) has allocated a portion of the State’s private activity bond volume cap (“Volume Cap”) to the bond issue in the principal amount of the bonds. If Volume Cap is required, applicants must apply to Commerce for an allocation of Volume Cap after the IDA has granted preliminary approval for the issuance of the bonds.

Volume Cap is not required for Qualified 501(c)(3) Bonds or for current refundings of QPABs (if the amount of the refunding bonds does not exceed the outstanding principal amount of the refunded bonds).

Code Section 147:

With certain exceptions, the issuance of QPABs is also subject to the following requirements.

Substantial User Requirement. A bond is not treated as a QPAB during any period it is held by a “substantial user” or a “related person” of a substantial user, as defined in the Code. This requirement does not apply to Qualified 501(c)(3) Bonds.

Maturity Limitation. In general, the average maturity of the bonds cannot exceed 120% of the average reasonably expected economic life of the facilities being financed.

Limitation on Land Acquisition. In general, (1) less than 25% of the net proceeds of the bonds can be used directly or indirectly to acquire land or an interest in land, and (2) no proceeds can be used to acquire land to be used for farming (with certain exceptions for first-time farmers). This requirement does not apply to Qualified 501(c)(3) Bonds.

Limitation on Acquiring Existing Property; Rehabilitation Exception. In general, no proceeds can be used to acquire existing property. This limitation does not apply to the acquisition of a building (and equipment therein) if rehabilitation expenditures with respect to the building equal or exceed 15% of the portion of the cost of acquiring the building (and equipment) financed with the net proceeds of the bonds. The rehabilitation expenditures must be incurred no later than two years after the later of the date on which the building is acquired or the date on which the bonds are issued. In general, this requirement does not apply to Qualified 501(c)(3) Bonds, though it may apply if such bonds are used to finance the acquisition of existing a multifamily apartment project.

Prohibited Use of Proceeds. None of the proceeds can provide for any airplane, skybox, or other private luxury box, health club facility, facility used primarily for gambling, or store the principal business of which is the sale of alcoholic beverages for consumption off premises.

“TEFRA” Public Approval. QPABs must be approved the IDA and the City following a public hearing. Public notice of the hearing must be published at least two weeks before the hearing. In general, this requirement does not apply to current refunding bonds unless the average maturity date of the refunding bonds is later than the average maturity date of the refunded bonds.

Restriction on Costs of Issuance Financed with Bond Proceeds. No more than 2% of QPAB proceeds can be used to finance costs of issuance of the bonds.

EXHIBIT B

[See attached Map]

EXHIBIT C

**THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF TUCSON, ARIZONA**

**FORM OF APPLICATION FOR
AUTHORITY FINANCING**

INSTRUCTIONS

1. Preapplication Conference. The Authority recommends that all Applicants schedule a preapplication conference call with the Authority's Counsel and its Advisor. The purpose of the preapplication conference call is to brief the Applicant on the preparation of the Application, as well as to give the Applicant an opportunity to provide additional background information on the proposed Project and the related financing. Questions concerning this Application may be directed to the Authority's Counsel or its Advisor at any time.

2. Format. This Form of Application is designed to act as a guideline for the Applicant's use in providing the Authority with sufficient information on which to base its decision to consider preliminary approval of the issuance of the proposed bonds. The Authority requests the Applicant to submit its Application on 8 ½ x 11 inch paper restating all of the captions set forth in the proposed Form of Application, including a written restatement of each section, title, and question, or request for information, as well as the Applicant's response or appropriate notations as to the inapplicability of certain items. The Applicant should respond to each question or request for information as thoroughly as possible and if the question or request is not applicable to the Applicant to so indicate.

The Authority requests that each Application be submitted in a three-ring loose-leaf binder. The Authority requests that each binder (one original and nine copies) be labeled on the front and side as follows:

(Name of Applicant)
Application for Financing
By
The Industrial Development Authority
of the City of Tucson, Arizona
In an Amount Not to Exceed \$ _____
(Date)

3. Deliverables. Ten (10) counterparts (one original and nine copies) of the Application are to be provided to the Authority at the following address no fewer than ten (10) business days prior to the Authority meeting at which consideration of the Application is requested:

The Industrial Development Authority
of the City of Tucson, Arizona
Attention: President
c/o Gary Molenda
Business Development Finance Corporation
335 N. Wilmot, Suite 420
Tucson, Arizona 85711

4. Authority Meetings. Regular meetings of the Authority are held on the second Thursday of each month, commencing at 4:00 p.m., at the offices of the Business Development Corporation, 335 N. Wilmot, Suite 420, Tucson, Arizona, or as otherwise indicated on a given meeting's notice or agenda. In appropriate circumstances, upon written request, the Authority may hold a special meeting to consider an Application.

5. Applicant's Presentation. Representatives of the Applicant must attend the meeting of the Authority at which the Application is to be considered in order to make a brief oral presentation of the proposed Project and related financing and to answer questions.

6. Applicant's Affidavit. The Application must include the Affidavit set forth in Section 8 which must be signed by an appropriate officer (if the Applicant is a corporation), by a general partner (if the Applicant is a partnership), by an authorized manager or member (if the Applicant is a limited liability company), or by the owner (if the Applicant is a sole proprietorship), and acknowledged before a Notary Public.

7. Fees and Expenses. The Authority's fees are as follows:

A) Application Fee. The nonrefundable fee for filing an Application is **\$500** which must be paid at the time the Application is filed. An additional **\$2,000** non-refundable fee must be paid by the Applicant within **10 days** of the Authority's grant of preliminary approval to the issuance of the proposed bonds.

B) Authority's and Authority's Counsel and Advisor Fees. By submitting an Application, the Applicant also agrees to pay, on a monthly basis, all costs and expenses incurred by the Authority, including the fees of its Counsel and Advisor relative to the preparation, filing, and processing of the Application, review of the legal proceedings and the issuance of the bonds. The Applicant should consult with the Authority's Counsel and Advisor with respect to their respective payment terms and any retainer requirements.

C) Annual Assessment of Authority's Administrative Expense. Additionally, as a condition to the issuance of the Bonds, the Applicant must agree to pay a proportionate part

of the Authority's administrative expenses during the period the bonds are outstanding. The following is a current schedule of such fees:

A. For-profit Borrowers:

1. **9 basis points** on the portion of the outstanding principal amount of the bonds from **\$0 - \$10,000,000**; plus
2. **6 basis points** on the portion of the outstanding principal amount of the bonds from **\$10,000,001 - \$20,000,000**; plus
3. **3 basis points** on the portion of the outstanding principal amount of the bonds above **\$20,000,000**.

B. Non-profit Borrowers:

1. **8 basis points** on the portion of the outstanding principal amount of the bonds from **\$0 - \$10,000,000**; plus
2. **5 basis points** on the portion of the outstanding principal amount of the bonds from **\$10,000,001 - \$20,000,000**; plus
3. **2 basis points** on the portion of the outstanding principal amount of the bonds above **\$20,000,000**.

D) Extension Fee. To the extent applicable, if the Applicant requests an extension of preliminary or final approval, an additional nonrefundable fee of \$500 will become payable at the time the extension is granted.

8. Further Diligence. The Authority reserves the right to request that the Applicant provide the Authority with additional descriptive information about the Applicant's business, the Project and/or the financing, including, but not limited to, financial projections on the Applicant's business or the Project.

9. Ramification of Submitting Application. By submitting the Application to the Authority, the Applicant will be deemed to know, understand, and accept the Authority's procedures, as outlined herein.

[The Application form begins on the next page.]

APPLICATION

SECTION 1 IDENTITY OF PARTICIPANTS

- 1.1 Applicant's Legal Name:
Business Address:
Principal Contact(s):
Telephone Number(s) of Contact(s):
Facsimile Number(s) of Contact(s):
E-mail Address(es):
Web Site:

- 1.2 Applicant's Counsel:
Business Address:
Principal Contact(s):
Telephone Number(s) of Contact(s):
Facsimile Number(s) of Contact(s):
E-mail Address(es):
Web Site:

- 1.3 Placement Agent or Underwriter:
Business Address:
Principal Contact(s):
Telephone Number(s) of Contact(s):
Facsimile Number(s) of Contact(s):
E-mail Address(es):
Web Site:

- 1.4 Placement Agent's or Underwriter's Counsel:
Business Address:
Principal Contact(s):
Telephone Number(s) of Contact(s):
Facsimile Number(s) of Contact(s):
E-mail Address(es):
Web Site:

- 1.5 Applicant's Independent Certified Public Accountant:
Business Address:
Principal Contact(s):
Telephone Number(s) of Contact(s):
Facsimile Number(s) of Contact(s):
E-mail Address(es):

Web Site:

- 1.6 Suggested Bond Counsel:
Business Address:
Principal Contact(s):
Telephone Number(s) of Contact(s):
Facsimile Number(s) of Contact(s):
E-mail Address(es):
Web Site:

- 1.7 Suggested Trustee:
Business Address:
Principal Contact(s):
Telephone Number(s) of Contact(s):
Facsimile Number(s) of Contact(s):
E-mail Address(es):
Web Site:

- 1.8 Suggested Trustee's Counsel:
Business Address:
Principal Contact(s):
Telephone Number(s) of Contact(s):
Facsimile Number(s) of Contact(s):
E-mail Address(es):
Web Site:

SECTION 2
EXECUTIVE SUMMARY

2.1 Provide a short, plain statement of the type of business or businesses engaged in by the Applicant and a description of the Applicant's business organization and management. If the Applicant is a subsidiary corporation or has subsidiaries, include a short, concise description of the business of all affiliated companies.

2.2 Provide a short, plain description of the Project.

2.3 List the principal amount of financing requested.

2.4 With respect to the Project, state the estimated sources of funds and uses of bond proceeds and other funds using the format set forth below.

<u>Estimated Sources of Funds:</u>	<u>Amount</u>
Equity (cash)	\$ _____
Equity (non-cash, please specify)	_____
Bond Proceeds	_____
Other	_____
Total Sources of Funds	\$ _____

<u>Estimated Uses of Funds:</u>	<u>Amount</u>
A. Cost of Acquisition and/or Construction:	
Land	\$ _____
Construction	_____
Equipment	_____
Architecture/Engineering	_____
Capitalized Interest	_____
Accrued Interest	_____
Other Hard Costs	_____
Other Soft Costs	_____
B. Costs of Issuance	\$ _____
C. Other Costs	\$ _____
Total Uses of Funds	\$ _____

(Note: When estimating the Cost of Issuance figure, please be careful to include each of the following items to the extent applicable: printing, trustee's fees, trustee's counsel fees, rating agency fee, bond counsel fee, special tax counsel fee, underwriter or disclosure counsel fee, Authority's Counsel fee, Authority's Advisor fee, Applicant's counsel fee, placement agent fees, and underwriter's discount, including takedown, underwriting, expenses, and management fees.)

2.5 Have any of the expenditures shown under "Estimated Uses of Funds" already been incurred or made by the Applicant? If yes, indicate amounts, timing and nature of expenditures.

2.6 Will any of the funds to be borrowed through the Authority be used to repay or refinance an existing mortgage or outstanding loan? If yes, indicate particulars.

2.7 The proposed bonds:

2.7.1 Type of offering and sale:

2.7.2 Anticipated purchaser(s):

2.7.3 Anticipated interest rate(s):

2.7.4 Term of bonds to be issued and proposed debt retirement schedule:

2.8 Specify the approximate dates of:

2.8.1 When the Applicant will be making its presentation before the Authority seeking preliminary approval;

2.8.2 Mailing of any preliminary Official Statement or other offering document;

2.8.3 Issuance and sale of the bonds;

2.8.4 Start of construction of the Project; and

2.8.5 Completion of the Project.

2.9 Provide an employment plan, including a description of the following:

a. Number, classification, and estimated salary range of jobs to be created;

- b. Procedures to be followed for recruiting, training, and placing new employees; and
- c. Affirmative action/equal opportunity employment policy.

3.6 Attach the most recent quarterly unaudited financial statements, reports on Forms 8-K (since the filing of the most recent 10-Q), 10-Q and 10-K, and proxy statements, if applicable.

3.7 If the Applicant is required to file periodic reports or disclosure statements under the Securities Exchange Act of 1934 or any similar law in any state or any other similar law of the United States, a copy of the most recent reports must be attached. For previous transactions subject to Rule 15c2-12 promulgated by the SEC, the most recent annual statement filed with the NRMSIRs and all material event filings made. Indicate whether there have been any instances in which the Applicant or any other “obligated person” with respect to the proposed bonds failed to comply with any undertaking made pursuant to Rule 15c2-12. Additionally, please attach the following:

- A. The Applicant’s most recent annual report.
- B. The most current debt ratings, if any debt securities of the Applicant are rated, and any changes in such rating(s) within the past two years.

SECTION 4
PROJECT INFORMATION

4.1 Project name.

4.2 Location of Project, including address and legal description.

4.3 Provide a detailed description of the Project.

4.4 Explain the public purposes to be served by the Project.

4.5 If the Applicant is not now the owner of the Project site, does the Applicant have an option or contract to purchase the site and any buildings on the site? If yes, indicate the date of option agreement or contract, purchase price, the expiration date of the option, and/or the closing date.

4.6 Is there a blood or legal relationship or common control or ownership between or among (A) the Applicant and the seller, lessor, or lessee of the Project site; (B) the Authority's officers, directors, Counsel or Advisor, and anyone listed in response to Sections 3.2, 3.3, or 3.4; (C) the Mayor, Council, City Manager or other elected or appointed official of the City of Tucson and the seller, lessor, or lessee of the Project site; (D) the Mayor, Council, City Manager or other elected or appointed official of the City of Tucson and the Applicant or anyone listed in response to Sections 3.2, 3.3, or 3.4; and (E) the Authority's officers, directors, Counsel or Advisor and the Applicant and/or the seller, lessor, or lessee of the Project site? If yes, describe in full detail.

4.7 Prior to final approval, provide an appraisal prepared by a person who has been certified by the State of Arizona, setting forth the value of the Project site, the value of the Project after any contemplated construction is completed, and evidence that the Authority may rely on such appraisal.

4.8 Prior to final approval, provide an environmental assessment and a statement of environmental impact addressed to the Authority and detailing any attributes of the proposed Project or its site which could affect human health or safety or the protection of the environment.

4.9 If the Project to be financed through the issuance of the Authority's bonds is (i) part of a larger project contemplated by the Applicant or (ii) to be financed from sources other than the Authority's bonds, describe the overall project, indicating which part is to be financed with the Authority's Bonds and which part will not be so financed and describe all other sources of funding.

SECTION 5
ADDITIONAL INFORMATION REGARDING THE PROPOSED BONDS

5.1 List the following information for all tax-exempt financings previously arranged by or for the benefit of the Applicant.

Issuer and Date of Issue	Original Principal Amount	Current Principal Amount Outstanding	Status of Project
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5.2 Has the Applicant or any affiliate or related person thereof previously been denied financing, whether conventional, tax-exempt or otherwise, for the proposed or a similar Project? If yes, please describe.

5.3 Has the Applicant or any affiliate or related person thereof ever defaulted on any debt obligation including, without limitation, any public or private bond, mortgage, note, or debenture? If yes, please describe.

SECTION 6
BOND PROCEEDS TO BE USED BY SECTION 501(c)(3) ORGANIZATIONS

(NOTE: Questions 6.1 through 6.3 are to be completed only if the Applicant is an organization described in Section 501(c)(3). If an Applicant is not such an entity, then the Applicant should so indicate.)

6.1 Attach a copy of the Applicant's Determination Letter from the Internal Revenue Service to the effect that the Applicant is an organization described in Section 501 (c)(3) of the Internal Revenue Code of 1986, as amended.

6.2 Will the Applicant conduct at the Project any "unrelated trade or business," as that term is described in Section 513 of the Internal Revenue Code of 1986, as amended? If yes, indicate particulars.

6.3 Briefly describe the Applicant's history of operations, including a discussion of management's experience with the ownership and/or operation of facilities similar to the proposed Project, as well as a discussion of any limitations management may have which could adversely impact the operation of the proposed Project.

SECTION 7
PROPOSED FORM OF INDUCEMENT RESOLUTION

Please utilize the proposed form of Inducement Resolution attached as Exhibit D to the Authority's guidelines entitled "Application Procedures and Policies, September 2001."

SECTION 8
AFFIDAVIT

The Application must, in all cases, be accompanied by an Affidavit executed by a person with authority to make statements on behalf of the Applicant in the form set forth on the following page.

My Commission Expires:

EXHIBIT D

ISSUER'S PRELIMINARY APPROVAL RESOLUTION

RESOLUTION OF THE BOARD OF DIRECTORS OF THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA PRELIMINARILY APPROVING THE ISSUANCE OF ITS _____ REVENUE BONDS (_____ PROJECT), SERIES 20__, IN A PRINCIPAL AMOUNT NOT IN EXCESS OF \$_____ (THE "**BONDS**")

WHEREAS, The Industrial Development Authority of the City of Tucson, Arizona (the "**Issuer**") is a nonprofit corporation designated a political subdivision of the State of Arizona (the "**State**") incorporated with the approval of Mayor and Council of the City of Tucson, Arizona (the "**City**"), pursuant to the provisions of the Constitution of the State and under **Title 35, Chapter 5 of the Arizona Revised Statutes**, as amended, (**Sections 35-701 through 35-761**, inclusive) (the "**Act**");

WHEREAS, the Issuer is authorized and empowered, among other things, (**a**) to issue revenue bonds and use the proceeds thereof in accordance with the Act, (**b**) to contract with and employ others to provide for and to pay compensation for professional services and other services as the Issuer deems necessary for the financing of "**projects**" as defined in the Act, and (**c**) to pledge its property and revenues to secure the payment of the principal of and premium, if any, and interest on its revenue bonds;

[WHEREAS, at the request of the Borrower, the Issuer previously issued its \$_____ The Industrial Development Authority of the City of Tucson, Arizona _____ Revenue Bonds (_____ Project), Series 20__ (the "**Prior Bonds**")];]

[WHEREAS, the Issuer previously lent the proceeds of the Prior Bonds to the Borrower to assist in the financing of the acquisition, construction, improvement, or equipping of the Project;]

[WHEREAS, the Borrower is requesting that the Issuer issue the Bonds to assist the Borrower in the refunding of the Prior Bonds, and, thereby, allow for the refinancing of the Borrower's debt related to the Project;]

WHEREAS _____ (the "**Borrower**") has requested that the Issuer issue the Bonds and loan the proceeds thereof to the Borrower to assist the Borrower in the [financing/refinancing] of the [acquisition, construction, improvement, rehabilitation, or equipping] of _____ located _____ (the "**Project**");

[WHEREAS, the Borrower has advised the Issuer that the Bonds shall not be sold until the Borrower has obtained a written commitment from _____ (the "**Guarantor**") to provide a guaranty or other credit enhancement for the Bonds;]

WHEREAS, in furtherance of the purposes of the Act, the Issuer is preliminarily considering the issuance of the Bonds, the proceeds of which will be loaned to the Borrower to assist the Borrower in the [financing/refinancing] of the [acquisition, construction, improvement, rehabilitation, or equipping of the] Project; and

WHEREAS, it is intended that the Issuer take official action within the meaning of the applicable provisions of the Internal Revenue Code of 1986, as amended (the "**Code**"), and any regulations promulgated thereunder for the purpose of issuing the Bonds in an amount not to exceed \$ _____, for the purpose of assisting in the [financing/refinancing] of the [acquisition, construction, improvement, rehabilitation, or equipping of the] Project.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of The Industrial Development Authority of the City of Tucson, Arizona that:

Section 1. Definitions. In addition to the words elsewhere defined in this Resolution, the capitalized words and terms used herein shall have the meanings given to them in the Issuer's Procedural Pamphlet.

Section 2. Preliminary Approval; Conditions. The issuance of the Bonds for the purpose of lending the proceeds thereof to the Borrower to assist the Borrower in [financing/refinancing] a portion of the costs of the Project, including, without limitation, reimbursing the Borrower for any costs arising from and after the **60th day** before the date of this Resolution, is hereby preliminarily approved, subject to satisfaction of the following conditions:

(a) The Borrower's agreement to comply with and abide by all requirements and provisions of the Issuer's Procedural Pamphlet other than those specifically waived herein;

(b) The Bonds, if sold based on a public offering, must have a rating of "**BBB**" or better by a nationally-recognized rating agency, and if sold on a private placement basis, the purchasers of the Bonds must execute an Investor Letter in form and substance satisfactory to the Issuer; and

(c) _____

Section 3. Waivers. At the request of the Borrower, the Issuer agrees to waive its Procedural Pamphlet requirements for:

(a) _____

(b) _____

(c) _____

Section 4. Bond Counsel. The Authority consents to the Borrower's request that _____ serve as bond counsel and does based on the recognition that _____ is serving as counsel to the Borrower as opposed to counsel to the Authority.

Section 5. Execution of Documents. The President or any Vice President of the Issuer is

hereby authorized and directed to execute and the Secretary or Assistant Treasurer is hereby authorized to attest to any document necessary or appropriate in connection with this Resolution.

Section 6. Request for Allocation. The Borrower is authorized to file a request for allocation for private activity bonding Issuer through the Arizona Department of Commerce in an amount which the Borrower represents is sufficient to finance the cost of the Project (which shall not exceed \$_____).

Section 7. Severability. If any section, paragraph, clause or provision of this Resolution shall, for any reason, be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution.

Section 8. Waiver. Any provisions of the Authority's By-Laws, Procedural Pamphlet, Document Standards, or prior resolutions that are inconsistent herewith are waived to the extent only of such inconsistency. This waiver shall not be construed as repealing any such By-Laws, Procedural Pamphlet, Document Standards, or resolution or any part thereof.

Section 9. Headings. Subject headings included in this Resolution are intended for the purpose of convenience only and shall not affect the construction or interpretation of any of its provisions.

Section 10. Effectiveness. This Resolution shall be effective immediately.

[SIGNATURE APPEARS ON THE FOLLOWING PAGE]

PASSED, ADOPTED, AND APPROVED on _____, **20**__.

THE INDUSTRIAL DEVELOPMENT
AUTHORITY OF THE CITY OF TUCSON,
ARIZONA

(INSERT NAME)
President