MEMORANDUM

Date: June 7, 2016

To: The Honorable Chair and Members
   Pima County Board of Supervisors

From: C.H. Huckelberry
       County Administrator

Re: Political Bias on the Part of the Goldwater Institute

As you will recall, I provided the Board of Supervisors with three examples of incentive packages offered by municipalities, cities or towns in Maricopa County where the Goldwater Institute did not sue based on violation of the gift clause.

One of those opportunities for Goldwater to question the violation of the State’s gift clause related to the Town of Gilbert providing and building a campus for Saint Xavier University (SXU), to attract students, not jobs. Attached is an article from the Arizona Republic regarding SXU closing the Gilbert campus less than a year after opening and after the Town of Gilbert had expended $37 million on the new campus. This is a classic example of the Goldwater Institute ignoring city, town and municipal economic incentives in Maricopa County and singling out Pima County.

Our Motion to Dismiss the Goldwater Institute lawsuit will be heard in Pima County Superior Court on July 11, 2016. I provided this Motion to Dismiss to the Board with my May 4, 2016 memorandum regarding this subject. We have also filed with the Court the attached Reply in Support of Motion to Dismiss. I will inform the Board of any outcome of this hearing.

CHH/lab

Attachments

c: Thomas Weaver, Chief Civil Deputy County Attorney
   Regina Nassen, Deputy County Attorney
   Andrew Flagg, Deputy County Attorney
   Dr. John Moffatt, Director, Economic Development
Saint Xavier University to close Gilbert campus less than a year after opening

Sonja Haller, The Republic | azcentral.com 1:53 p.m. MST June 1, 2016

Saint Xavier University, the Chicago-area-based Catholic school heralded as Gilbert's partner in economic development and a "blessing," has announced it is closing less than a year after it opened.

Gilbert spent tens of millions of tax dollars to build a downtown campus for the school, but Saint Xavier University officials cited uncertain future funding in the school's home state for the decision.

"We are going through some challenges with the Illinois state budget and there is such uncertainty with what would happen in 2017," said Karla Thomas, the university's executive director of media relations. "Handling the challenge in Illinois makes it difficult and to handle a startup in Gilbert makes it more so."

The town invested about $37 million in the satellite campus that opened in the Heritage District in August 2015. The university will close after fall classes this year.

School leaders planned to meet with students Tuesday and Wednesday to discuss their options. School officials hoped to enroll 75 students in the first year and up to 550 full-time students by its sixth year.

Student and Gilbert resident Ryan Schulte, 31, said a school official encouraged him to continue with the online program, which will remain available to Gilbert campus students.

"Going to the campus and speaking with professors and other students is what I wanted and what I needed."

Ryan Schulte, Saint Xavier student and Gilbert resident

But Schulte, who is pursuing a Master of Business Administration in health care, said he chose the new campus because it was Catholic, convenient, had a good reputation and could provide an on-campus education.

"Going to the campus and speaking with professors and other students is what I wanted and what I needed," he said.

Schulte, who runs a medical consulting business and handles business development for a psychiatric center in Chandler, added that his economics class had only one other student. Still, he found the instructors knowledgeable and full of real-world experience.
Schulte said he probably will drop a summer class he planned to take because he hasn't researched other college options and is uncertain whether credits will transfer.

"I don't think it will help me," he said. "Why take a class that in the end may not go toward the end goal of an MBA degree?"

What became the 87,000-square-foot, four-story college campus in downtown Gilbert began with discussions between town and university officials five years ago.

The university was founded in 1846 by the Sisters of Mercy. Its online graduate nursing program was ranked No. 1 in the nation by U.S. News and World Report in 2014, and its business school also captured national attention. Town officials entered into an agreement with the university requiring that the campus offer degrees in nursing, business and education and grow annual enrollment.

The exterior of Saint Xavier University in downtown Gilbert on opening day, Oct. 13, 2015. (Photo: John Samora/The Republic)

Under the terms of a 15-year lease, the university must pay $250,000 in damages if it does not fulfill the contract.

The lease also requires the university to pay rent to the end of the agreement, or for at least six years, according to the town.

The lease payments were to cover the cost of the campus construction paid through revenue bonds.

The town took out $37 million in bonds for the design and construction of the campus, and the building was leased under a lease-purchase agreement.

Gilbert Mayor John Lewis lauded the campus in his final state of the town address in February. He said it was “helping transform the face of our Heritage District.”
Two years earlier, during a ceremony to announce the renaming of Vaughn Avenue west of Gilbert Road in front of the campus to “Saint Xavier Way,” he called the university not only a partner but “family” and a “blessing.”

On Tuesday, Lewis said in a statement: "The town of Gilbert is of course disappointed with Saint Xavier University’s decision with respect to its campus in downtown Gilbert. After discussions and negotiations beginning in 2011, the town and the university entered into a development agreement and 15-year lease in 2015. Saint Xavier’s expressed intentions will be considered by the town and the town will continue to focus its efforts on bringing expanded higher education opportunities to Gilbert."

Saint Xavier was expected to boost the town’s economy by about $282 million over its first 10 years, according to a town-funded study by Phoenix-based research firm Applied Economics.

The study suggested Gilbert would receive about $113,000 in sales-tax revenue from transactions made at the university over the next 10 years.
Defendants submit this Reply in Support of their Motion to Dismiss ("Motion").

MEMORANDUM OF POINTS AND AUTHORITIES

1. **Standard of Review.**

   Plaintiffs are correct that, for purposes of ruling on Defendants’ Motion, the Court assumes the truth of all well-pleaded facts in the Complaint. This does not, however, mean that the Court must take as true Plaintiffs’ description of the terms of the World View Agreements,\(^1\) when a review of the actual documents themselves shows that those descriptions are inaccurate. Interpretation of contracts is a matter of law for the Court.

2. **The consideration provided by World View under the World View Agreements is not grossly disproportionate to its contractual obligations.**

   Control of Launch Pad. In § II.A.1 of their Response, Plaintiffs argue that World

\(^{1}\)Capitalized terms used in this Reply have the meanings assigned in the Motion.
View gets something for “nothing” under the Operating Agreement, because it does not have to pay for its “exclusive control” of the Launch Pad. But Plaintiffs ignore the fact that “control” of the Launch Pad, under the restrictions set forth in the Operating Agreement, isn’t worth anything. World View must operate and maintain the Launch Pad at its own expense and allow other companies to use it, and it can only charge those companies a fee that is based on a fair allocation of the Launch Pad operating costs. It cannot make any sort of profit from its operation of the Launch Pad, and cannot recover operating costs allocated to its own use of the Launch Pad. Under these circumstances, “control” of this public asset has no market value; it is a liability—one that World View is willing to accept because it needs to have a pad available for its own use, and these are the terms under which the County was willing to build one. But this is not a privilege for which other entities would logically be willing to pay.

This concept—that what looks like the conveyance of an asset is sometimes really the shifting of a liability—was recognized by the Arizona Supreme Court in Kromko v. Arizona Board of Regents. The Court held that the challenged conveyance of the University Medical Center to a private nonprofit corporation for a fraction of its ostensible market value did not violate the gift clause, in part because the conveyance eliminated the need for substantial annual State general-fund subsidies of the hospital operation. Kromko, 149 Ariz. 319, 322 (1986).

Rent. Plaintiffs argue, in § II.A.2 of their Response, that the consideration provided by World View under the Lease is constitutionally inadequate because, whether the lease-purchase transaction is viewed as an operating lease or as a financing

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2The fact that World View does not go through a public process for setting the fees, as pointed out by Plaintiffs, does not negate the contract’s substantive limits on the fee amount.
arrangement, it is not a “market value” transaction. Defendants may have to treat Plaintiffs’ factual assertions as true for purposes of their Motion (though Defendants have by no means, as Plaintiffs claim, conceded the actual accuracy of those assertions). But it doesn’t matter, because “below market value” is not synonymous with “grossly disproportionate,” which is the actual constitutional standard.

“Grossly disproportionate” hasn’t been specifically construed in published Gift Clause cases. But that standard has been used in other contexts. For example, a criminal penalty violates the Eighth Amendment if it is “grossly disproportionate” to the crime. In the course of upholding a 10-year sentence for knowingly possessing child pornography depicting children younger than 15, the Arizona Supreme Court noted that:

The [U.S.] Supreme Court has affirmed a sentence of twenty-five years to life for the grand theft of three golf clubs worth nearly $1200 by a recidivist felon; upheld a sentence of life in prison without parole for a first-time offender possessing 672 grams of cocaine; and found no Eighth Amendment violation in two consecutive twenty-year prison terms for possession of nine ounces of marijuana with intent to distribute. Similarly, this court has upheld a sentence of twenty-five years without parole for a twenty-one-year-old defendant convicted of selling a $1 marijuana cigarette to a fourteen-year-old . . . .


“Grossly disproportionate” therefore describes a much more significant disparity than simply “below market.” Turken tells us to take a “panoptic view” of a transaction when comparing the value of the consideration provided by the private party to the value

3Specifically, Plaintiffs assert that the rent, at least the rent at the beginning of the Lease term, is below market rent, and that World View would not be able to get a loan to build its own facility with repayment terms equivalent to its rent payments under the Lease.
of the consideration it receives from the public entity in exchange; one that is “not overly technical.” *Turken v. Gordon*, 223 Ariz. 342, 352, ¶ 47 (2010) (internal quotation marks omitted). When the lease-purchase transaction at issue here is considered as a whole, the obligations of the parties cannot be said to be “grossly disproportionate” to one another. Pima County is agreeing to build a facility and sell it to a private party for an amount that is more than the cost of construction plus the value of the land and the County’s borrowing costs. That simply does not “shock the conscience.”

Employment and Salary Requirements. Plaintiffs, in § II.A.3 of their Response, make two arguments in support of their assertion that World View’s promises regarding employment and salary levels do not constitute consideration. First, they assert that the promises are illusory. That is incorrect as a matter of law. As explained in the Motion, if World View does not meet the stated requirements, the County can terminate the Lease and even seek contract damages. Termination of the Lease, and loss of the purchase option, perhaps after paying millions of dollars in rent, is a significant detriment to World View. It is also a benefit to the County; it regains possession and control of the County Facility, which it can repurpose or re-let. This detriment to World View and benefit to Pima County makes the employment and salary promises real, not illusory, under the standard cited by Plaintiffs. See *King Cty. v. Taxpayers of King Cty.*, 949 P.2d 1260, 1268

The official disclosure document (the “OS”) for the Taxable Series 2016B Certificates of Participation, which were issued to fund construction of the County Facility, can be viewed online at: [http://www.onlinemunis.com/Statement/upload/Pima.COPS.FOS.4.8.16.pdf](http://www.onlinemunis.com/Statement/upload/Pima.COPS.FOS.4.8.16.pdf). The schedule of principle and interest payments is set forth on page 14 of the OS. If the two columns of numbers under the “Taxable 2016B Certificates” heading are added up, they total $19,444,133. As noted in the Motion, rent payments under the lease total $23,625,000.

It certainly does not, as Plaintiffs assert (Response, p. 7), place World View in a “better position”—a rather astonishing assertion in light of their earlier insistence that the Lease is unfairly favorable for Worldview.
(Wash. 1997) (“[T]he mere possibility the Mariners may breach its promise in the future on its obligation to share profits with the County does not make this provision of the lease illusory.”).

Plaintiffs’ second argument is that the employment and salary promises are not “Gift Clause consideration” because the government does not “receive” the promised jobs and salaries, which instead benefits a “third party.” In this case, of course, the “third party” is the public, the members of which benefit financially, some directly and others indirectly, from creation of the promised jobs at the promised salary levels. The idea that the government does not “receive” the benefit of a promise to perform some service for, or provide something of value to, members of the public, is ridiculous. But even if it does not, Plaintiffs’ reasoning is still faulty.

Turken emphasized that the second prong of the Gift Clause test focuses on traditional contract consideration. There is, in other words, no special category of “Gift Clause consideration”; there is just contract consideration. And under basic contract law principles, any non-illusory promise is valid consideration; it does not matter if the benefit of that promise runs to a third party. Restatement (Second) of Contracts § 71(4) (1981) (“The performance or return promise may be given to the promisor or to some other person.”) Consider Plaintiffs’ hypothetical: a lease agreement under which World View gets possession, and eventual title, to the County Facility and, in exchange, is only obligated to purchase a Ferrari and give it, not to Pima County, but to Mr. Huckelberry. Plaintiffs argue that treating the promise to provide the car as consideration for Gift Clause purposes would lead to an absurd result. But it does not.

There are two Gift Clause problems in the hypothetical. The first problem is that the value of a Ferrari—unless it is made of gold—is grossly disproportionate to the value

of a $15 million facility. Therefore, the lease and eventual conveyance of the County Facility to World View would be an unconstitutional gift in this hypothetical, *not because the promise to provide the Ferrari is not valid consideration*, but because the *value* of that consideration is grossly disproportionate to what World View is getting in return from the County. The second problem is that the Board, by approving the contract and directing the Ferrari to be given to Mr. Huckelberry, will—unless the car is bargained-for employment compensation—have made an unconstitutional gift to Mr. Huckelberry, because there is no public purpose or adequate consideration for the conveyance. We need not twist and misinterpret basic contract law principles in order to avoid an absurd result.

3. **Plaintiffs cannot evade, by simply ignoring, the Supreme Court’s clear direction to defer to the public body’s determination that a transaction serves a public purpose.**

Plaintiffs’ arguments in § II.B are all based, fundamentally, on the proposition that economic development is not a legitimate public purpose, and that no lease-purchase transaction in which the government finances the building of improvements that ultimately end up in private hands serves a public purpose. That ship, however, has already sailed. The Supreme Court has already recognized that economic development is a legitimate public purpose, and that lease-purchase arrangements are a legitimate mechanism for achieving that purpose. *Turken*, 223 Ariz. at 349, ¶ 27.

Plaintiffs cite the *Nelson* case in support of their assertion that the government must retain “ownership or control of the assets that benefit[] the private parties.” Yet the transaction at issue in *Nelson* was the financing of improvements that were exclusively used and controlled, and ultimately owned, by the Magma Copper Company under a lease-purchase agreement with the IDA. *Industrial Dev. Auth. of Pinal Cty. v. Nelson*, (http://dendritics.com/metal-calc/). The retail price of a normal Ferrari 458, in contrast, is approximately $240,000.
109 Ariz. 368, 371 (1973). The Gift Clause does not require permanent public ownership and control. Nor does it confine government purchases to “traditional government service[s].” (Response, p. 11.) And the Supreme Court has very specifically rejected the “incidental private benefit” test, which Plaintiffs seem determined to resurrect. Turken, 223 Ariz. at 348, ¶ 21.

4. **Plaintiffs are not simply construing A.R.S. § 11-254.04 in a manner that renders it consistent with § 11-256; they are nullifying part of § 11-254.04.**

Plaintiffs note that, unlike several other sections of the Arizona Revised Statutes, § 11-254.04 does not contain an explicit exemption from § 11-256’s requirements, and they infer from this that no exception was intended. That does not follow. An explicit reference to § 11-256 would certainly have been a clear and unambiguous indication of legislative intent, but the absence of such a reference does not logically imply the absence of the intent. The explicit reference in § 11-254.04 to conveying and leasing property serves the same function, because the reference would be meaningless if it authorizes nothing more than leasing or conveying property under statutes already in existence when § 11-254.04 was enacted. Though Plaintiffs claim that they are reading the statutes in a manner that makes them consistent with one another, they are actually doing the opposite—rendering § 11-254.04’s reference to leases and conveyances meaningless. See, e.g., State v. Bowsher, 225 Ariz. 586, 589, ¶ 13 (2010) (rejecting an interpretation of one statute that would unduly limit the language of another).

Nor does the Johnson case support Plaintiffs’ argument. The park statute at issue in Johnson explicitly exempts agreements for the operation of public parks from § 11-256’s “10-year limitation” (though § 11-256 no longer contains such a limitation). Yet the Johnson court concluded that “even assuming that the IGA is properly characterized

7This is the formal fallacy of denying the antecedent. “If A, then B; not A, therefore not B” is an invalid argument.
as part sublease and part cooperative agreement, we conclude that the public auction requirement of § 11–256(C) is inapplicable to acquisitions or leases for public park purposes made pursuant to § 11–932.” Johnson v. Mohave Cty., 206 Ariz. 330, 333, ¶ 11 (App. 2003) (emphasis added). Moreover, there was no reference at all to the leasing statute in the original version of the park statute. 1939 Ariz. Sess. Laws ch. 9, §§ 1-2 (predecessor to § 11-256) (copy attached as Exhibit A); 1939 Ariz. Sess. Laws ch. 78, § 2 (predecessor to § 11-932) (copy attached as Exhibit B). The court’s conclusion was not, therefore, based on an explicit statutory exception.

5. Courts have never permitted a taxpayer to challenge a Chapter 6 procurement, and the remedial scheme in A.R.S. § 34-613 precludes a taxpayer suit to set aside a Chapter 6 procurement.

In contending they have standing to challenge procurements of architect and construction-manager-at-risk services, Plaintiffs cite Achen-Gardner, Secrist, and Smith, but none of those cases addressed whether a statutory remedy precluded equitable relief. Indeed, Secrist and Smith pre-date the existence of a statutory remedy for Chapter 2 violations, which was adopted in 1985. See 1985 Ariz. Sess. Laws ch. 80, § 3 (codified as amended at A.R.S. § 34-203) (copy attached as Exhibit C). And Plaintiffs’ quotation from Achen-Gardner (which, in any event, was not a taxpayer lawsuit), suggesting that the Court found equitable relief appropriate, is misleading because it omits the text of the footnote immediately following the quoted sentence. In that footnote, the Court expressly declined to decide whether equitable relief was appropriate:

The court of appeals ordered the superior court to “enjoin Chandler from reimbursing Jeri–Co for the public street improvements unless the competitive bidding laws under Title 34 are followed.” The propriety of such an injunction

was not included among the issues presented by the parties in their petitions for review. Consequently, we address neither the propriety of that remedy nor its continued viability. Thus, this disposition does not preclude the parties from questioning, on remand, the continuing suitability under the circumstances of such equitable relief.

Achen-Gardner, 173 Ariz. at 55 n.5 (citation omitted).

As explained in the County’s Motion, Chapter 6 both creates a scheme for soliciting the type of services covered by that chapter and includes a complete and valid remedy for violations of that scheme, including, under certain circumstances, equitable relief. A.R.S. § 34-613. Though Plaintiffs would prefer otherwise, Arizona law does not permit them to supplement that remedial scheme by bringing a taxpayer suit. See Valley Drive-In Theatre Corp. v. Super. Ct., 79 Ariz. 396, 400 (1955). Plaintiffs’ curious citation of Weitz Co. v. Heth, 235 Ariz. 405 (2014) (Response, p. 15), does nothing to undermine this conclusion. Weitz was an equitable-subrogation case in which the Court simply held that a statute governing lien priority did not preclude a party from availing itself of the assignment of another party’s priority under equitable subrogation. Id. at 410, ¶¶ 15-18. The subrogee was not attempting—as Plaintiffs are here—to tack an additional remedy onto the already-available list of statutory remedies; it was rather using a common-law doctrine to obtain another party’s statutory lien priority. Id. ¶ 15.

6. **Plaintiffs’ construction of A.R.S. § 34-606 would rewrite the statute.**

Even assuming Plaintiffs could challenge the procurements here, they cannot show the County unquestionably abused its discretion in applying that statute. Plaintiffs protest, relying in part on a 1996 Attorney General opinion, that both a “threat to the public health, welfare or safety” must exist and Title 34 compliance must be “impracticable, unnecessary or contrary to the public interest.” 9 (Response, p. 14.) But this reading

9The opinion is more nuanced than Plaintiffs let on. It relies on both the language of A.R.S. § 41-2537 and a companion administrative rule. 1996 Op. Ariz. Att’y Gen. 196-
rewrites the statute—changing “or” to “and.” Properly read, the statute gives the County discretion to depart from Title 34 requirements when either a “threat to the public health, welfare or safety exists or . . . a situation exists that makes compliance with [Title 34] impracticable, unnecessary or contrary to the public interest.” § 34-606 (emphasis added).

The County exercised that discretion here, and, as explained in the Motion, Plaintiffs' allegations, even if true, would not show an unquestionable abuse of that discretion.

Plaintiffs further contend that the County did not use “such competition as is practicable under the circumstances.” § 34-606. (Response, pp. 14-15.) But just as Plaintiffs do not allege facts that would show that the County unquestionably abused its discretion in relying on the accelerated construction timeframe to apply § 34-606, they do not allege facts that would show the County unquestionably abused its discretion in concluding that its chosen procurement method was the only one “practicable under the circumstances.”

7. **Plaintiffs do not meaningfully respond to the County’s laches argument or its argument regarding Count 4.**

Though Plaintiffs briefly assert that their claims “are [n]ot [t]ime-[b]arred,” (Response, p. 15) they make no meaningful argument regarding laches. Similarly, Plaintiffs do not respond to the County’s argument that Count 4 should be dismissed because the Pima County Code provides its own remedial scheme, which Plaintiffs have plainly not followed. This Court can—and should—deem their failure to meaningfully respond to these important arguments as a waiver. See *Myrick v. Maloney*, 235 Ariz. 491, 495, ¶ 11 (App. 2014) (failure to present counterargument in trial court resulted in waiver).

RESPECTFULLY SUBMITTED June 6, 2016.

BARTBARA LAWALL
PIMA COUNTY ATTORNEY
By: /s/ Regina L. Nassen
Regina L. Nassen
Andrew L. Flagg
Deputy County Attorneys
CERTIFICATE OF SERVICE

I hereby certify that on June 6, 2016, I electronically transmitted the attached document to the Clerk’s Office using the TurboCourt System for filing and transmittal of a Notice of Electronic Filing to the following TurboCourt registrants:

Honorable Judge Catherine Woods
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Assigned Judge

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