STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Arizona Sports and Tourism Authority

REPORT HIGHLIGHTS
SPECIAL AUDIT

Our Conclusion

The Arizona Sports and Tourism Authority (Authority) is responsible for operating and marketing the University of Phoenix Stadium, the multipurpose facility that is the home of the Arizona Cardinals (Cardinals) and the Fiesta Bowl; and distributing monies for various statutory purposes. The Authority has taken steps to address its financial situation, but projects continuing revenue shortfalls affecting its ability to meet statutory distributions and resulting in a reduced operating reserve. These shortfalls should not affect its ability to meet its bond obligations. The Authority's procurement of concessions services largely adhered to best practices and it should use these best practices for future procurements. The Authority should also make some minor changes to its oversight of the facility manager and review of youth and amateur sports grant projects.

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Authority has improved financial situation, but still faces challenges

The Authority receives its operating revenue from normal operations of the facility, including rental payments, concessions commissions, and facility-use fees for all events held at the facility, except Cardinals games. It also receives nonoperating revenues from a Maricopa County hotel bed tax and car rental surcharge; state income taxes paid by the Cardinals' corporate organization, its employees, and their spouses; and sales taxes generated from events held at the facility.

Statutes establish the amounts and priority for using the Authority's revenues. The revenues go first to pay bonds issued to construct the multipurpose facility, then for tourism promotion, Cactus League promotion, youth and amateur sports programs, authority operations, and its reserves.

The Authority projects that it will have operating deficits through fiscal year 2014 resulting in a cumulative operating deficit of approximately $6 million by fiscal year 2016.

Authority has taken steps to address its financial situation—The Authority has a $9 million operating reserve as of June 30, 2010, which has resulted from steps it has taken to address its financial situation. These steps include reducing operating expenses for both the facility and the Authority, such as reducing staffing.

Other steps taken pertained to the Authority's concessionaire contract. Specifically, it obtained a $1 million zero-percent interest rate loan from its new concessionaire that it will essentially not have to pay back if the contract is not terminated, as well as $500,000 annually for 4 years in cash advances against the Authority's share of future concessions revenues. It also entered into a separate contract with a second event management company affiliated with its new concessionaire. The contract provides guaranteed operational revenue increases and/or cost reductions of $750,000 each year at least until 2012. After that, the Authority can renew this contract annually for an indefinite time as long as the new concessionaire contract is in effect.

The Authority also took advantage of interest rate differences related to its variable-rate senior bonds and received two payments totaling approximately $2.7 million.

Summary of Projected Cumulative Operating Deficit
Fiscal Years 2011 through 2016
(In Millions)
(Unaudited)

Fiscal Year	Projected Operating (Deficit) Surplus	Projected Cumulative Operating Deficit
2011	$ (2.6)	$ (2.6)
2012	(3.0)	(5.6)
2013	(1.3)	(6.9)
2014	(0.8)	(7.7)
2015	0.3	(7.4)
2016	1.4	(6.0)

The Authority still faces financial difficulties for the foreseeable future. Hotel bed taxes and car rental surcharges that the Authority receives have decreased from approximately $25.5 million in fiscal year 2007 to approximately $21 million annually in fiscal years 2009 and 2010. As a result, although revenues were sufficient to meet bond debt obligations, starting in fiscal year 2010, they were insufficient to fully fund tourism promotion, Cactus League promotion, youth and amateur sports, and the Authority's operations. The Authority projects the same outcome through fiscal year 2016. Additionally, the Authority projects that its operating deficits will reduce its operating reserves by approximately $7.7 million between fiscal years 2011 and 2014. Further, the Authority's anticipated revenues are not sufficient to fund three statutorily required reserves for youth and amateur sports, operations, and capital repair and replacement.

Authority's options to reduce financial shortfall limited—A change in the bed tax and rental car surcharge would require voter approval, and changes in NFL state income taxes, sales tax recapture, or the revenue distribution stream would require legislative action. The Authority's various facility agreements further limit its options for generating revenues.

Recommendation:

The Authority should continue to explore options for increasing facility event revenues and decreasing operating expenses, such as reviewing its legal services to determine if opportunities exist to reduce these expenses.

Concessions procurement largely adhered to best practices; additional policies and procedures for future procurements would be helpful

Although the Authority is exempt from the state procurement requirements, it has adopted its own procurement policy. The policy provides a $25,000 threshold that triggers competitive bidding or documentation of the reason competitive bidding is not used and a $100,000 limit the Chief Executive Officer can contract for before prior approval by the Board of Directors is required.

Following procurement best practices can help produce quality contracts. One of the Authority's strategies to improve its financial situation was to rebid its concessions contract. This procurement largely adhered to best practices. The Authority's concessions request for proposal addressed its business needs, the scope of services, and performance requirements. It used a team to evaluate the written proposals using appropriate guidelines, and the contracts were awarded based on the evaluators' recommendation.

Authority did not use a competitive procurement process for some contracts—Although the Authority spent more than $604,000 for its primary legal services in fiscal years 2008 through 2010, and a total of $96,000 on lobbying in fiscal years 2009 and 2010, it did not competitively procure these contracts or document the reasons why a competitive procurement would be impracticable, as its policy requires.

Recommendations:

- The Authority's existing procurement policy does not include many of the procurement best practices it used to bid its concessions contract and it should incorporate these procurement practices in to its policies.
- The Authority should follow its policy for competitively procuring services valued at more than $25,000 or document why a competitive bid is not practicable.

Authority pays bonds, but has reached debt capacity

The multipurpose facility (University of Phoenix Stadium) cost more than $465 million to build. The Authority paid for most of its contribution by issuing about $277.6 million in revenue bonds. The cost of these bonds, most of which will be paid by 2031, including interest, is expected to total approximately $550.8 million. The Cardinals contributed $148.2 million toward facility construction and development costs, $25 million of which is being repaid through facility-use fees collected on event tickets. Although the City of Glendale did not contribute toward the development and construction of the facility, it contributed $6.7 million for street improvements.

The Authority also issued $32.4 million in subordinate revenue bonds to fund part of the City of Surprise Stadium construction as part of its Cactus League responsibilities.

The Authority has pledged nearly all of its revenues to meet its debt service obligations, which it is meeting, and it appears that it will be able to continue to meet. However, the Authority cannot incur additional debt because of its bond obligations, Cactus League and youth and amateur sports commitments, and projected operating deficits.

Facility manager oversight has improved, but minor additional steps needed

The facility manager is responsible for the management and operation of the facility, including marketing the facility, booking events, facility maintenance and custodial services, security, and overseeing the concessionaire. The Authority has revised the facility manager incentive fee structure to make it more performance-based. The previous incentive fee structure was less performance-based than contracts at some other National Football League stadiums. Now it bases the objective incentive fee on specific goals, such as attendance and the number of events. The Cardinals and the Fiesta Bowl may recommend that the facility manager receive the subjective incentive fee based on their evaluations of the facility manager's performance; however, the Authority makes the final determination whether or not to award the fee.

Source: Global Spectrum. (2007). *University of Phoenix Multipurpose Football Stadium.* [Photograph]. Retrieved January 6, 2009, from http://www.universityofphoenixstadium.com/index.php

Authority has improved oversight of facility manager—After each event, the facility manager settles with event promoters. The Authority's new event settlement procedures allow it to better ensure that the facility manager adequately reconciles event settlements. Specifically, the Authority reviews at least one monthly event settlement and verifies financial information, such as comparing the ticket report and actual ticket sales.

Some reviews still too limited—In monthly meetings with the facility manager, the Authority reviews and discusses monthly and quarterly preventative maintenance. However, these reports do not document whether maintenance was performed according to the preventative maintenance schedule. To ensure that preventative maintenance is performed as scheduled, the Authority should require a monthly report showing which items on the maintenance schedule were completed.

Although the Authority reviews the facility manager's expenses, its review is limited. For example, it reviews direct expenses, but does not review indirect expenses, such as payroll, training costs, or office expenses, such as telephone or postage. The Authority also does not review check registers or bank reconciliations.

Recommendations:

The Authority should:

- Ensure the facility manager performs preventative maintenance as scheduled.
- Expand its review of the facility manager's indirect expenses, including monthly check registers and bank reconciliations.

Authority promoting Cactus League, but commitments potentially affected by revenue shortfall

The Authority issued $32.4 million in subordinate revenue bonds and used $4.3 million in Cactus League promotion monies to help pay for the City of Surprise Stadium construction and the Phoenix Municipal Stadium renovation. Between fiscal years 2005 and 2007, the Authority committed monies to the Cities of Tempe, Scottsdale, Glendale, and Goodyear for the construction or renovation of their Cactus League facilities. These four cities paid $259.2 million towards the cost of constructing or renovating their facilities and the 6 Major League Baseball teams using these facilities contributed $18 million. According to the Authority's agreements with these cities, it has agreed to make payments to these cities as revenues become available through approximately $161.9 million in commitments. However, because of anticipated tourism revenue shortfalls, the Authority does not anticipate that it will fully meet its commitments to the Cities of Glendale and Goodyear. In addition to the 6 Cactus League facilities described earlier, the Authority projects it will contribute approximately $66.6 million toward the renovation of 5 existing Cactus League facilities from fiscal years 2020 through 2027.

Authority funding has helped youth and amateur sports, but future funding potentially limited

As of June 30, 2010, the Authority had awarded more than $12.5 million in youth and amateur sports project grants. The Authority did not have sufficient revenues in fiscal year 2010 to fully fund the youth and amateur sports program according to statutory requirements and projects the same through fiscal year 2016. However, the Authority has sufficient monies to meet the commitments for grants awarded.

The Authority distributes most of the money through a biennial grant program, awarding approximately $7.1 million during the 2004 through 2010 biennial grant cycles. It has established, and largely follows, policies and procedures for this program. However, to improve the program, the Authority should make some administrative changes such as improving its review of reimbursement requests. In one instance, the recipient transposed numbers on the request for reimbursement and also changed the scope of the project without the Authority's approval.

The Authority also has a quick grant program that focuses on equipment-related needs and pays up to two-thirds, with a maximum of $2,500, of projects not exceeding $10,000. The Authority has awarded 76 quick grants totaling more than $151,000. However, for five grants, auditors could not determine whether the Authority issued the quick grant on a reimbursement basis as required by the quick grant funding requirement. In addition, it previously advanced grant funding to applicants and for some pre-May 2008 grant applicants, it did not take steps to completely close out project files or ensure the monies were spent as intended.

The Authority also issued 3 grants before it established the two grant programs. It paid $150,000 toward the construction of the South Mountain YMCA sports fields, and agreed to contribute approximately $4.1 million to the City of Avondale for a regional sports complex, and $1 million for the construction of multipurpose sports fields in the City of Glendale.

Recommendations:

The Authority should:

- Improve its biennial and quick grant application processes by making some minor changes.
- Review quick grants and consider whether to recover any grant monies used inappropriately.