A REPORT
TO THE
ARIZONA LEGISLATURE

Performance Audit Division

Special Audit

Arizona Sports and Tourism Authority

December • 2010
REPORT NO. 10-09

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

December 21, 2010

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Mr. Tom Sadler, President/Chief Executive Officer
Arizona Sports and Tourism Authority

Transmitted herewith is a report of the Auditor General, A Special Audit of the Arizona Sports and Tourism Authority. This report is in response to Laws 2010, Ch. 5 and was conducted under the authority vested in the Auditor General by Arizona Revised Statutes §41-1279.03. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Arizona Sports and Tourism Authority agrees with most of the findings and plans to implement all of the recommendations, including one recommendation that it plans to implement in a different manner.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on December 22, 2010.

Sincerely,

Debbie Davenport
Auditor General

Attachment

cc: Bill Peltier, Chairman
Board of Directors
Arizona Sports and Tourism Authority

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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.

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INTRODUCTION & BACKGROUND

The Office of the Auditor General has conducted a special audit of the Arizona Sports and Tourism Authority (Authority) pursuant to Laws 2010, Ch. 5. Established by the Legislature in 2000 and approved by Maricopa County voters in November of that same year, the Authority has the following four responsibilities:

- Maintaining, operating, improving, and marketing/promoting the use of the University of Phoenix Stadium, a multipurpose event facility in Glendale that serves as the home for the Arizona Cardinals National Football League football team (Cardinals), the Fiesta Bowl football games, and other events;

- Distributing monies to the Arizona Office of Tourism for tourism promotion;

- Attracting and retaining Major League Baseball Cactus League spring training operations in Maricopa County; and

- Reviewing, approving, and funding grants for youth and amateur sports facilities and programs within Maricopa County.

This special audit, conducted under the authority vested in the Auditor General by Arizona Revised Statutes (A.R.S.) §41-1279.03, addresses a number of issues raised in an earlier March 2009 performance audit of the Authority (see Auditor General Report No. 09-04). The issues addressed in the March 2009 performance audit included the Authority's financial situation and projected shortfalls in revenues and limited oversight of the facility manager that operates the multipurpose facility. For this special audit, the Legislature directed the Office of the Auditor General to address the following areas:

- The Authority's procurement processes for contracts entered into during calendar years 2008 and 2009, as well as the Authority's concessionaire and event management contracts, which the Authority entered into in February 2010 (see Chapter 1, pages 15 through 25).

- The Authority's financial situation, cash flow projections, and options available to increase its revenues or decrease expenses (see Chapter 2, pages 27 through 40).

- The Authority's current and continuing ability to meet its bond obligations, and bondholders' legal recourses if the bond obligations are not met (see Chapter 3, pages 41 through 48).

- The Authority's oversight of the facility manager, including a review of the facility manager's incentive fee structure (see Chapter 4, pages 49 through 56).

- The Authority's contractual obligations for financing Cactus League commitments, as well as the cities' and teams' financial participation (see Chapter 5, pages 57 through 66).

- The Authority's policies for funding youth and amateur sports programs within Maricopa County (see Chapter 6, pages 67 through 75).

Where applicable, this audit also makes recommendations for improvement. The remainder of this Introduction and Background provides information about the Authority's responsibilities, funding, legislatively mandated funding priorities, and organization.

Multipurpose facility and operations

The Authority constructed and operates the University of Phoenix Stadium.

One of the Authority's largest responsibilities is the multipurpose facility (facility). As required by A.R.S. §5-807, the Authority constructed a multipurpose facility in Glendale named the University of Phoenix Stadium. This facility, which began operations in August 2006, serves as the home for the Arizona Cardinals National Football League football team and Fiesta Bowl football games. The facility also hosts other sporting events, concerts, motorsports events, trade and consumer shows, meetings, and banquets. It is an enclosed air-conditioned structure with a retractable roof and a retractable natural grass playing surface. It has approximately 63,400 permanent seats and is expandable to 72,200 seats. The Authority has entered into the following contracts and agreements to help operate the multipurpose facility:

- **Facility operations—**The Authority contracts with a facility management company (facility manager) to provide comprehensive facility management and operating services. The facility manager is responsible for day-to-day facility operations, including marketing, maintenance, and security, and managing the contractor that operates concessions. The facility manager has reduced its full-time employees from 54 in fiscal year 2009 to 32 as of June 30, 2010, representing a nearly 41 percent reduction in staffing. In addition, the facility manager hires part-time staff, specialists, and/or subcontractors, as needed, to manage and operate the facility.

- **Concessions and event management agreements—**Using competitive procurement practices, in February 2010, the Authority and the Cardinals entered into a contract with a concessionaire to exclusively provide food and beverage services at the facility and the Authority also entered into a separate contract with a second event management company to provide financial assistance in the form of an assurance of at least $750,000 of annual benefits to the Authority.[1] As of July 2010, the event management company works together with both the Authority and the facility manager to help increase revenues and events held at the facility and decrease expenses. Both contracts are for 2-year terms and may be extended for an additional 1-year period. The Cardinals and the Fiesta Bowl receive between 47 and 50 percent of the revenues from gross general concessions sales for their events, and the Authority receives this percentage for other events at the facility. The concessionaire retains the remainder of gross sales. The Authority owns all concessions facilities and equipment.

- **Box office operations—**Under the Authority's agreement with the Cardinals, Cardinals staff operate the facility box office for most events held at the facility, but promoters may provide their own staffing on event days, and according to the facility manager, the Fiesta Bowl has established its own box office for its annual event.

Funding sources

The Authority receives funding from various sources, which is used to satisfy several bond and statutory funding obligations. Specifically, the Authority receives the following nonoperating and operating revenues.

Nonoperating revenues:

- **Hotel bed tax—**Consists of revenue from a 1 percent increase in the hotel bed tax in Maricopa County.[2] The tax began on March 1, 2001, and will continue through February 28, 2031. From the inception of this tax through June 30, 2010, the Authority has received approximately $115.8 million.

- **Car rental surcharge—**Consists of a 3.25 percent surcharge on car rentals in Maricopa County, which also began on March 1, 2001, and will expire on February 28, 2031. This surcharge replaced a

Nonoperating revenues— Revenues generated primarily from taxes and other revenues not generated from events held at the facility.

Source: Auditor General staff review of the Authority's financial statements for fiscal year 2009 audited by an independent certified accounting firm.

[1] Although these contracts were signed in February 2010, the event management contract terms began in July 2010 and the concession contract terms began in August 2010.

[2] Hotel bed tax rates vary among cities in Maricopa County. For example, as of June 1, 2010, hotel bed taxes were 13.27 percent in Phoenix and as of July 1, 2010, hotel bed taxes were 14.92 percent in Scottsdale, according to information on each city's Web site, as of September 2010.

previously existing $2.50 flat surcharge for each car rental contract, which was distributed to the Maricopa County Stadium District (District) to renovate existing and construct new Cactus League baseball facilities. Although the first $2.50 from each rental car contract continues to be distributed to the District, in accordance with a 2003 agreement with the District, the Authority now receives the District's rental car surcharge revenues that are not needed to retire the District's Cactus League bonds. The Authority will receive the full surcharge when these bonds are retired in June 2019. According to the agreement, the Authority can use the District's portion of the surcharge only for Cactus League projects. From the inception of this tax through June 30, 2010, the Authority has received approximately $76.7 million in car rental surcharges and an additional $4.7 million from the Maricopa County Stadium District.

- **National Football League (NFL) income tax—**All Arizona state income taxes paid by the Cardinals' corporate organization, its employees (including its players), and their spouses. From the inception of this tax in July 2001 through June 30, 2010, the Authority has received approximately $41.4 million.

- **Sales tax recapture—**The State Treasurer distributes to the Authority the base portion of state sales taxes (5 percent) received from Cardinals games, the Fiesta Bowl, and all other events held at the facility. The tax began on July 1, 2001, and does not have an expiration date. In addition, according to a 2005 agreement with the Authority, the City of Glendale remits to the Authority the nondedicated portion of its sales taxes (1.2 percent) resulting from transactions at the facility in exchange for the Authority using $32.3 million of bond proceeds for site improvement costs that were the City of Glendale's responsibility. From its inception in July 2001 through June 30, 2010, the Authority has received approximately $47.2 million of sales tax recapture revenues, including nearly $8.8 million from City of Glendale remittances.

Operating revenues:

- **Cardinals rent payments—**According to its agreement with the Authority, the Cardinals pay annual facility rent starting at $250,000 in fiscal year 2007 and increasing by 2 percent annually through the term of its 30-year lease, which expires in fiscal year 2036. The Cardinals have the option to extend this lease a total of six times for 5 years each time. The Cardinals have paid a total of approximately $1 million

Operating revenues—
Revenues generated from normal operations of the facility, such as facility events.

Source: Auditor General staff review of the Authority's financial statements for fiscal year 2009 audited by an independent certified accounting firm.

in rent for fiscal years 2007 through 2010 and will pay approximately $271,000 in fiscal year 2011.

- **Fiesta Bowl payments**—According to its agreement with the Authority, the Fiesta Bowl pays $2.50 for each Fiesta Bowl ticket sold, and the amount increases by $0.20 per ticket annually through the term of its 30-year lease, which expires in 2036. For fiscal year 2011 the amount is $3.30 per ticket. The Fiesta Bowl has the option to extend this lease a total of six times for 5 years each time. For fiscal years 2007 through 2010, the Authority has received a total of approximately $778,000 in payments.

- **Other event revenues**—The Authority receives rental payments for using the facility, concession commissions, and facility-use fees for all events held at the facility except Cardinals home games (see textbox). The facility-use fee was established to help generate revenues to retire the Authority's $53.1 million bond debt, issued to complete the multipurpose facility (see Chapter 3, pages 41 to 48 for additional information), and to reimburse the Cardinals for certain construction and other costs they incurred that were not their obligation. Beginning in August 2006, when the facility opened, the facility-use fee for events with estimated attendance of 18,000 or more consisted of a $4.25 ticket surcharge for nongeneral admission seating at events, including Fiesta Bowl games, increasing by $0.25 annually until fiscal year 2036. For fiscal year 2011 the fee is $5.25 per ticket. For events with estimated attendance of less than 18,000 or for all general admission events, the facility-use fee is $1 per ticket, increasing by $1 every 7 years beginning August 2006. For fiscal years 2007 through 2010, the Authority has received a total of approximately $3 million in facility-use fees.

Facility-use fee—

Fee included in the price of each ticket sold for events held at the facility. There is a facility-use fee on Cardinals tickets that the Cardinals retain if not needed to retire the $53.1 million bond debt. The Authority's facility-use fee is paid on tickets for its events and is used to service the $53.1 million bond debt. As of calendar year 2012, the proceeds of both fees, less any amounts needed to retire the $53.1 million bond debt, will be used to reimburse the Arizona Cardinals for certain expenses incurred that were not their obligation.

Source: Auditor General staff review of the facility-use fee agreement.

The Cardinals also collect the facility-use fee on their home games; however, these monies are deposited into a trust account and, according to the facility-use agreement, are available for debt service payments on the Authority's $53.1 million bond debt, but only if certain conditions are met. For fiscal years 2007 through 2010, the Cardinals have received approximately $10.2 million. The Cardinals received payment from the trust for the $10.2 million because the Authority received sufficient revenues to meet the $53.1 million bond debt obligations.[1]

1 According to the facility-use fee trust agreement, a ratio of 74.9 percent was established to determine whether the Cardinals' facility-use fees collected and deposited in the trust would be used to help meet the $53.1 million bond debt service requirements. The Authority annually determines if it received sufficient revenues to pay 74.9 percent of the $53.1 million bond debt service requirements. If it received enough monies, then the Authority cannot use the facility-use fees in the trust account for debt service payments. Any amounts not needed for the debt retirement are annually paid to the Cardinals.

Authority's funding priorities

Statutes direct how the Authority must distribute the revenues it receives.

Statutes establish amounts and a priority order for using the Authority's revenues. Specifically, A.R.S. §5-835 requires the Authority to maintain a tourism revenue clearing account for the hotel bed tax and car rental surcharge revenues. In addition, A.R.S. §5-834 requires the Authority to maintain a facility revenue clearing account for all other revenues. These statutes further direct how the Authority must distribute monies monthly in these accounts and specify that lower funding priorities cannot receive monies until higher funding priorities are fully funded. Figure 1 (see page 7) illustrates the funding priorities for both the tourism revenue clearing and facility revenue clearing accounts. In addition, Table 1 (see page 8) illustrates the December 2009 and June 2010 distribution of the tourism revenue clearing account receipts.

The Authority must use the revenues it receives each month for the following purposes in priority order:

1. **Multipurpose facility construction bond debt service—**The Authority must first use its monthly revenues to satisfy all of its debt service obligations for bonds it issued to pay for its share of the multipurpose facility's design and construction costs before it can fund any of its lower priorities. The Authority issued $277.6 million in bonds to pay its share of facility construction costs in addition to other cash payments. Monies from both the tourism revenue clearing account and the facility revenue clearing account are used to pay for this debt service obligation. The majority of these bonds will be retired by 2031, but some bonds will not be fully retired until 2036. The Authority projects that in total it will pay approximately $550.8 million to retire the bonds in 2036, which includes principal and interest.

2. **Tourism promotion—**Statute next requires the Authority to distribute monies from the tourism revenue clearing account to the Arizona Office of Tourism to promote tourism in Maricopa County. A.R.S. §5-835 requires the Authority to distribute $4 million annually beginning June 2001, assuming revenues will be sufficient to make the full distribution, increasing at 5 percent each year. As of June 30, 2010, the Authority had distributed approximately $44 million and estimates that it will distribute approximately $82.6 million through fiscal year 2016.[1]

3. **Cactus League promotion—**Statute then requires the Authority to contribute to the construction and renovation costs of new and existing Cactus League baseball spring training facilities to attract new teams and keep existing teams in Maricopa County. Tourism revenue clearing account monies are used to meet the required statutory distribution, including debt service payments for bonds the Authority issued to help construct a new spring training facility. If the tourism revenue clearing account monies are insufficient to make these debt service payments, the facility revenue clearing account can be used to help make these

[1] Fiscal year 2016 is the last year for which the Authority has made projections for all of its distributions.

Figure 1: Revenue Distributions in Statutory Priority Order

Tourism Revenue Clearing Account

Revenue:
- 1% hotel bed tax
- 3.25% car rental surcharge

Facility Revenue Clearing Account[1]

Revenue:
- Sales tax recapture
- NFL income tax
- Facility-generated revenue (revenue from events held at the multipurpose facility)

Distribution Priorities

1. **Multipurpose facility construction bonds debt service—**Principal and interest payments on debt
2. **Tourism promotion—**$4 million for the first 12 months beginning June 2001; amount increases by 5% annually
3. **Cactus League promotion—**$3 million allocated annually for the first 7 years beginning June 2001; annual allocation increases up to $11 million annually for the last 4 years; includes principal and interest payments on Cactus League facilities bonded debt
4. **Youth and amateur sports—**$1 million allocated for the first 12 months beginning June 2001; amount increases by $100,000 annually
5. **Arizona Sports and Tourism Authority operations, including facility operations**
6. **Reserves—**Any money remaining after operating costs are paid is directed into three reserve accounts:
   - Youth and Amateur Sports
   - Operating
   - Capital

1 Revenue in the Facility Revenue Clearing Account is used first to make principal and interest payments on the multipurpose facility bonded debt, then for the Authority's Cactus League baseball facilities bonded debt if the Tourism Revenue Clearing Account lacks sufficient monies to make these payments. Any Facility Revenue Clearing Account monies not needed for debt payments are available for authority operations, including operating and capital reserves.

Source: Auditor General staff analysis of A.R.S. §§5-834, 8-835, and 5-836.

Table 1: Examples of Monthly Distributions from the Tourism Revenue Clearing Account December 2009 and June 2010

	Priority Distribution		Required Distribution if Revenues Are Sufficient
	December 2009	June 2010	
Tourism Revenue Clearing Account receipts	$ 1,005,154	$ 3,216,166	
Distributions:			
Multipurpose facility construction bond debt service	$ 783,100	$ 783,100	$ 783,100
Tourism promotion (December)	222,054		492,485
Tourism promotion (June)		517,109	517,109
Cactus League promotion	- [1]	333,333	333,333
Youth and amateur sports (December)			150,000
Youth and amateur sports (June)		158,333	158,333
Operations		867,036	867,036 [2]
Youth and amateur sports reserve (December)			141,667 [3]
Youth and amateur sports reserve (June)		150,000	150,000 [3]
Operating reserve		407,255	NA [4]
Capital reserve			NA [4]
Total distribution	$ 1,005,154	$ 3,216,166	

[1] The Authority did not have sufficient Tourism Revenue Clearing Account receipts to meet the monthly statutorily required distribution in December 2009. Because the Authority issued subordinate bonds to help construct a new spring training facility, it must fund its bond debt service requirements. Consequently, it distributed approximately $302,000 from its Facility Revenue Clearing Account to meet the requirements.

[2] Amount is based on one-twelfth of the Authority's adopted fiscal year 2010 budget in accordance with A.R.S. §5-835(B)(5).

[3] Monthly statutorily required distribution amount is the amount required if the youth and amateur sports reserve is not fully funded. According to the Authority's records, the Authority was evaluating the reserve on an annual basis rather than a monthly basis; however, in November 2010, the Authority adjusted the June 2010 distribution to properly distribute to the reserve the required amount. See Chapter 2, pages 27 through 40, for additional information.

[4] The statute does not specify monthly requirements for these reserves.

Source: Auditor General staff analysis of A.R.S. §§5-835 and 5-838, and the Authority's fiscal year 2010 general ledger and November 2010 adjusting entry.

payments.

For example, as shown in Table 1, in December 2009, the Authority did not have sufficient tourism revenue clearing account receipts to meet its monthly Cactus League bond debt service requirements; therefore, the Authority used the facility revenue clearing account to meet the monthly debt service requirement.

Statute requires the Authority to spend $205 million beginning June 2001 through 2031 for Cactus League promotion if sufficient revenues are available. As of June 30, 2010, the Authority had distributed approximately $29.1 million for Cactus League promotion from its tourism and facility revenue clearing accounts. The Authority also distributed approximately $4.7 million for Cactus league promotion that it received from the Maricopa County Stadium District (District). Under an agreement with the District, the Authority receives monies that the District does not need to retire its bond debt. The Authority projects distributing approximately $32.4 million from its tourism and facility revenue clearing accounts and approximately $4 million that it projects receiving from the District for Cactus League promotion for fiscal years 2011 through 2016.

4. **Youth and amateur sports—**After Cactus League promotion, statute requires the Authority to fund youth and amateur sports facilities and programs with tourism revenue clearing account monies. A.R.S. §5-835 required initial annual funding of $1 million beginning June 2001, increasing by $100,000 each year, and will require the Authority to spend $73.5 million promoting youth and amateur sports through fiscal year 2031 if sufficient revenues are available. As of June 30, 2010, the Authority had distributed approximately $11.8 million and estimates it will distribute approximately $17.6 million through fiscal year 2016.

5. **Operations and administration—**After funding the previous priorities, statute requires funding the Authority's approved annual operating budget; including the facility's annual operating budget. Specifically, as shown in Table 1 (see page 8), the operations account does not receive a monthly distribution from the tourism revenue clearing account until all higher priorities have been fully funded. Similarly, the operations account does not receive a monthly distribution from the facility revenue clearing account until all of the bonds have been fully funded. The approved operating budget for fiscal year 2011 is approximately $11 million.

6. **Youth and amateur sports reserve—**After operations, statute requires the Authority to fund a reserve account for youth and amateur sports. Beginning in May 2002, monies in this account must equal the previous year's required distribution amount, if sufficient revenues are available to meet this requirement. As of June 30, 2010, the Authority has distributed approximately $1.9 million to this reserve. However, the Authority has evaluated the reserve on an annual basis rather than monthly, as required by statute (see Chapter 2, pages 27 to 40).

Statute requires the Authority to fund reserves for youth and amateur sports, operations, and multipurpose facility repair, replacement, and removal costs.

7. **Operating account, including reserves—**If monies remain after meeting the previous priorities, according to statute, the Authority must deposit any unallocated monies in its operating account. Statute requires the Authority to establish two reserves in its operating account, one for operations and one for repairs and other long-term multipurpose facility costs. Both tourism and facility revenue clearing account monies contribute to these reserves. Although statute does not establish a reserve amount for operations, the Authority's goal is to maintain an operations reserve equal to the prior year's operating budget. As of June 30, 2010, monies held in reserve for operations totaled nearly $9 million. The Authority projects that this reserve will be reduced by approximately $7.7 million between fiscal years 2011 and 2014 because of revenue shortfalls (see Chapter 2, pages 27 to 40).

Further, statute directs the Authority to establish a reserve of $25 million adjusted for inflation each year after 2001 for facility repair, replacement, and removal costs. However, the Authority reported that revenues have been insufficient to fund this reserve.

Beginning in fiscal year 2010, the Authority did not receive sufficient revenues to make monthly maximum statutorily required distributions for tourism promotion, Cactus League promotion, youth and amateur sports, operations, and required reserves. For example, as shown in Table 1 (see page 8), the Authority did not have sufficient tourism revenue clearing account monies to meet all of the maximum statutorily required distributions in December 2009. It projects similar outcomes through fiscal year 2016. See Chapter 2, pages 27 to 40, for information on the Authority's revenue shortfall.

Authority's financial activities

As shown in Table 2 (see page 11), the Authority's assets at June 30, 2010, included $426.7 million of net capital assets and $31.3 million of cash and cash equivalents that compose approximately 97 percent of total assets. Its net capital assets included the cost of the University of Phoenix Stadium building, land where the facility sits, and furniture and equipment, less accumulated depreciation. Of the $31.3 million cash and cash equivalents, only approximately $8.9 million was available for its general operations and about $700,000 was designated for facility operations. The remaining $21.7 million was restricted for bond debt service payments and a bond reserve, youth and amateur sports distribution, tourism and facility revenue clearing account distributions, and ticket sales held for promoters.

Table 2 (see page 11) also illustrates that more than 97 percent of the Authority's total liabilities at June 30, 2010, included the following:

- $320.4 million of bond-related liabilities, including principal and interest for the senior and subordinate bonds issued for the University of Phoenix Stadium and Cactus League promotion, respectively, and

- $136.7 million of Cactus League commitments to the Cities of Tempe, Scottsdale, Glendale, and Goodyear to fund part of the construction or renovation costs for their Cactus League team spring training facilities.

As shown in Table 3 (see page 12), the Authority received $34.5 million from non-operating revenues in fiscal year 2010. Nearly all of these revenues comprised hotel bed taxes, car rental surcharges, sales tax recapture, and NFL state income taxes. Also, as shown in Table 3, the Authority's nonoperating expenses during fiscal year 2010 were as follows:

- $16.3 million for bond interest and related expenses;

Table 2: Schedule of Net Assets
As of June 30, 2008, 2009, and 2010
(In Millions)

	2008	2009	2010
Assets:			
Cash and cash equivalents -			
Restricted for bond reserve and payments	$ 12.3	$ 14.3	$ 14.8
Restricted for youth and amateur sports	3.8	3.7	3.6
Restricted for Tourism and Facility Revenue Clearing Account distributions [1]	3.3	2.6	3.1
Restricted ticket sales held for promoters		4.2	0.2
Restricted for construction	0.3		
Designated for facility operations	0.2	0.5	0.7
Unrestricted general operating	8.9	5.4	8.9
Total cash and cash equivalents	28.8	30.7	31.3
Capital assets, net of accumulated depreciation	457.7	442.2	426.7
Deferred bond issue costs, net	8.9	8.4	7.9
Hotel tax, car rental surcharge, and sales tax recapture receivables	4.9	4.1	5.6
Other	0.8	0.7	0.8
Total assets	501.1	486.1	472.3
Liabilities:			
Bond-related [2]	319.2	321.6	320.4
Cactus League payable	128.6	130.6	136.7
Arizona Cardinals payable	6.9	7.2	7.6
Accounts payable and accrued expenses	3.2	5.9	2.0
Youth and amateur sports payable	3.8	1.9	2.3
Other	1.3	0.7	1.7
Total liabilities	463.0	467.9	470.7
Net assets	$ 38.1	$ 18.2	$ 1.6

[1] Consists of monies received that have not been distributed for statutory funding priorities as described on pages 6 through 10.

[2] Beginning in fiscal year 2009, as a result of the implementation of a new accounting standard, the amount includes a liability for the value of the Authority's senior variable bond swap agreement that it entered to protect against interest rate increases. Because interest rates have fallen significantly in the past years, the agreement had a negative fair value to the Authority resulting in a liability of approximately $3.9 and $6.9 million at June 30, 2009 and 2010, respectively.

Source: Auditor General staff analysis of the Authority's fiscal year 2009 and 2010 financial statements audited by an independent certified public accounting firm; fiscal years 2008 through 2010 general ledgers; fiscal year 2009 University of Phoenix Stadium financial statements audited by an independent certified public accounting firm; and fiscal year 2010 *Working Trial Balance* reports for the Authority and the University of Phoenix Stadium.

Table 3: Schedule of Revenues, Expenses, and Changes in Net Assets
Fiscal Years 2008 through 2010
(In Millions)

	2008	2009	2010
Operating revenues and expenses:			
Stadium revenues [1]	$ 13.1	$ 10.3	$ 23.2
Less: stadium expenses [1]	22.7	19.9	28.2
Operating loss before depreciation and authority operating expenses	9.6	9.6	5.0
Depreciation	15.6	15.6	15.5
Authority operating expenses	1.2	1.1	1.1
Operating loss	26.4	26.3	21.6
Nonoperating revenues:			
Hotel bed taxes	15.1	12.4	11.5
Rental car surcharges	10.3	8.8	9.3
Sales tax recapture	6.5	7.2	7.3
NFL income taxes	4.1	4.2	6.4
Other	1.0	0.6	- [2]
Total nonoperating revenues	37.0	33.2	34.5
Nonoperating expenses:			
Bond interest and other related expenses [3]	16.5	18.4	16.3
Cactus League facility expense	6.2		
Other interest	1.8	3.6	6.3
Arizona Office of Tourism distribution	5.4	5.7	5.3
Youth and amateur sports awards	2.0	- [2]	1.6
Total nonoperating expenses	31.9	27.7	29.5
Net nonoperating revenues	5.1	5.5	5.0
Decrease in net assets	21.3	20.8	16.6
Net assets, beginning of year	59.4	38.1	18.2
Restatement, change in accounting policy [4]		0.9	
Net assets, end of year	$ 38.1	$ 18.2	$ 1.6

[1] Amounts include event revenues and expenses, including monies collected at events that are paid to event promoters.

[2] Amount is less than $50,000 and does not appear in this table because amounts are shown in millions.

[3] Amounts include amortization of deferred bond issue costs and various fees related to the Authority's variable interest rate bonds. Beginning in fiscal year 2009, it also includes the change in fair value for the Authority's senior variable bond swap agreement. See footnote 4 below for additional information.

[4] Amount is an adjustment the Authority made to implement a new government accounting standard. The effect of implementing the standard is that, beginning in fiscal year 2009, the Authority now reports the changes in fair value for its senior variable bond swap agreement.

Source: Auditor General staff analysis of the Authority's fiscal years 2009 and 2010 financial statements audited by an independent certified public accounting firm; fiscal years 2008 through 2010 general ledgers; and fiscal year 2010 *Working Trial Balance* reports for the Authority and University of Phoenix Stadium.

- $6.3 million for other interest accrued for Cactus League promotion and youth and amateur sports owed to cities; and

- $6.9 million for tourism promotion and youth and amateur sports grants.

Table 3 also shows that the Authority did not have sufficient facility operating revenues to cover the related operating expenses in fiscal years 2009 and 2010, which resulted in an operating loss of $9.6 million and $5 million, respectively, before depreciation and authority operating costs. The Authority used its nonoperating revenues and operating reserve to both fund the facility operating losses and pay for its own annual operating expenses of approximately $1.1 million for fiscal years 2009 and 2010.

Organization and staffing

The Authority is governed by a nine-member board of directors. The Governor appoints five board members who represent the tourism industry, hotel and motel industry, youth sports organizations, and Major League Baseball spring training organizations. The Senate President and House Speaker each appoint two members who cannot both be from the same political party. All members serve 5-year terms and may be reappointed for one full subsequent term.

As of October 9, 2010, the Authority had two full-time employees and a contracted, part-time consultant. Specifically, the Authority has a president/chief executive officer and an office manager who are employees of the Authority. The Authority also uses a part-time consultant as its chief financial officer. The Authority mainly uses contracted services for managing, promoting, operating, and maintaining the facility and uses outside legal representation.

Scope and objectives

Laws 2010, Ch. 5, directed the Office of the Auditor General to review and analyze 17 specific areas related to authority responsibilities and operations. Appendix A (see pages a-i through a-ii) contains the complete list of these 17 areas. Auditors addressed these 17 items in the following 6 chapters. Where applicable, recommendations have been made in the chapters.

The methods used to develop and analyze the information discussed in this report are discussed in Appendix E (see pages e-i through e-iii).

The Auditor General and staff express appreciation to the Authority's Board of Directors, Chief Executive Officer, and staff for their cooperation and assistance throughout the audit.

Chapter 1

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

The Arizona Sports and Toursim Authority (Authority) has established a procurement policy, and more comprehensive procurement policies and procedures could help ensure that future procurements consistently adhere to procurement best practices. The Authority is not required to follow the State's procurement laws and has instead established a procurement policy that specifies when it will issue a request for proposals (RFP) and that it will monitor all contracts. Additionally, following procurement best practices can help produce quality contracts. Auditors reviewed the Authority's procurement of concessionaire services and financial assistance awarded in February 2010 and found that it largely adhered to procurement best practices. For example, the Authority developed and issued an RFP that addressed its business needs and also used an appropriate evaluation process. However, the RFP did not specify the weighting factors that would be used to evaluate the proposals. Auditors' review of other selected contracts the Authority entered into between 2000 and 2009 also identified some deviations from procurement best practices. To help ensure that its future procurements consistently adhere to procurement best practices, the Authority should adopt and implement additional procurement best practices.

Legislative audit mandate

The audit shall review and evaluate:

- All contracts entered into by the Authority during calendar years 2008 and 2009, including contracts with concessionaires and other providers of food, beverage, and other services at the multipurpose facility constructed pursuant to Arizona Revised Statutes (A.R.S.) §5-807.
- The procurement process used by the Authority for soliciting bids from vendors and awarding contracts for acquiring materials, services, construction or construction services, including a description of requirements, selection and solicitation of sources, preparation and award of contracts, and all phases of contract administration.

Authority has its own procurement policy

As a separate legal body from the State, the Authority is exempt from some requirements that state agencies must follow, including state procurement laws. Specifically, A.R.S. §5-802 established the Authority as a separate legal body with all

As a separate legal body from the State, the Authority is exempt from following state procurement laws.

Authority procurement policy

The Authority's procurement policy specifies that the Authority:

- Issue an RFP when contracting for general goods or services that have either a total acquisition or contract value of $25,000 or more. If the Authority determines that the services are specialized or competition is not practicable, the Authority will not issue an RFP. In these cases, the Authority will use written quotes or other documentation to support its decision.
- Will not issue an RFP for goods and services with a contract value totaling $25,000 or less that are included in the Authority's annual adopted budget. In situations where an RFP is not issued, the Authority will instead use written or verbal quotations to prove that a competitive price was obtained.
- Authorizes the Chief Executive Officer to enter into contracts up to $100,000 without prior Board of Directors (Board) ratification. These contracts/agreements are due to the Board at the next board meeting following the contract's execution.
- Will monitor all contracts entered into and verify that, prior to making contractual payments, the goods/services have been provided/received according to the terms and conditions set forth in the contract.

Source: Auditor General staff review of the Authority's procurement policy no. 300.01.

of the rights, powers, and immunities of a municipal corporation. Although the Authority must comply with open meeting and public records laws, its status as a separate legal body exempts it from other requirements that state agencies must follow.

In its March 2004 performance audit of the Authority, the Office of the Auditor General recommended that the Authority establish policies and procedures to guide its procurement activities (see Auditor General Report No. 04-01). Specifically, the 2004 audit found that the Authority had entered into several agreements totaling millions of dollars of services, yet did not have a formal procurement process. In response to this recommendation, the Authority adopted the procurement policy shown in the textbox.

As illustrated in Table 4 (see page 17), the Authority entered into six new contracts between January 1, 2008 and June 30, 2010. As of June 30, 2010, the Authority had paid a total of $566,058 for the services provided through these contracts. Further, the Authority estimated that the two contracts it entered into in February 2010, which do not require payment from the Authority but instead provide revenues to the Authority, would be valued at a minimum of $1.25 million annually, as stipulated in the contracts.

Following procurement best practices can help produce quality contracts

Other organizations, including Arizona state agencies and municipalities that are not required to follow state procurement statutes and regulations, have procurement policies that are more detailed and prescriptive than the Authority's policy. These more detailed policies generally incorporate a set of "best practices," such as those outlined by the National State Auditors Association (NSAA) or required by Arizona procurement code, which help government entities to conduct effective and efficient procurements that can lead to quality contracts. For example, best practices established by the NSAA help organizations or government entities to evaluate existing contracting policies and procedures and determine which practices are more likely to result in an efficient, effective, and accountable procurement process.[1] Following best practices, like those recommended by the NSAA or the state procurement code, helps to ensure the highest-quality product or service is received at the most economical price, and helps to ensure fair competition, prevent fraudulent activities, and protect the entity from the appearance of fraud. Additionally, Arizona's Administrative Code, Title 2, Ch. 7 (Arizona procurement code), includes detailed examples of best practices

[1] National State Auditors Association. (2003) *Contracting for services: A National State Auditors Association best practices document*. Lexington, KY: Author.

Table 4: Contracts Entered into Subsequent to January 1, 2008 As of June 30, 2010

		Impact to Authority	
Contract Type	Date Signed	Amount Paid by Authority[1]	Amount Advanced or Guaranteed to Authority
Chief Executive Officer (CEO)	June 24, 2008	$ 171,000 [2]	
Lobbyist/Public Relations/Commuity Outreach	April 15, 2009	96,000	
RFP consultant	August 4, 2009	12,435 [3]	
Interim Chief Financial Officer	October 29, 2009	101,373	
Concessionaire	February 9, 2010		$ 500,000 [4]
Event management	February 9, 2010		750,000 [5]

1 Amounts paid by the Authority on these contracts between January 1, 2008 and June 30, 2010.

2 Amount is the CEO's annual compensation and includes a car allowance. The total amount paid by the Authority since the CEO began working for the Authority in June 2008 through June 30, 2010 is $356,250.

3 In addition to this amount, the Authority paid $2,940 to this consultant in February 2009 for his review of the Authority's concessions contract.

4 Amount is an advance against future concessions revenues that was paid to the Authority during fiscal year 2010 after the contract was signed. In addition, the concessionaire provided a $1 million zero-percent interest rate loan that may not have to be repaid. See Chapter 2, pages 28 to 30, for additional information.

5 Amount is the guaranteed operational revenue increases and/or cost reductions that the event manager, an affiliate of the concessions vendor, agreed to provide to the Authority annually. This contract is only effective as long as the concessionaire contract is effective. See Chapter 2, page 30, for additional information.

Source: Auditor General staff review of the Authority's fiscal years 2008 through 2010 general ledger; new contracts entered into between January 1, 2008 and June 30, 2010; and an authority-prepared contract listing.

procedures that most Arizona state agencies are required to use. Figure 2 (see page 18) lists several procurement best practices that auditors reviewed, including procedures for developing and issuing a Request for Proposal (RFP), evaluating contract proposals, and developing and monitoring the contract.

Concessions procurement followed Authority's policy and largely adhered to best practices

The Authority's most recent procurement of concessionaire services for the multipurpose facility, which culminated in the issuance of two contracts in February 2010, largely adhered to procurement best practices reviewed by auditors. In 2009, the Authority decided to issue an RFP for both its concessionaire services and to assist in improving its financial situation. Auditors' review of this procurement determined that the Authority's process largely adhered to procurement best practices, including the use of an evaluation review team and evaluation instrument.

Figure 2: Selected National State Auditors Association Best Practices in Contracting for Services

Request for Proposal (RFP) process—Allows the agency to define the acquisition and proposal evaluation process. The RFP should:

- Identify and address the business needs;
- State the performance requirements, scope of services, evaluation criteria, and weighting factors;
- Avoid specifications that favor a particular bidder or brand; and
- Define communication procedures to ensure potential bidders have access to the same information.

Award decision process—Ensures vendor proposals are responsive to the agency's needs, are consistently and objectively evaluated, and that contracts are awarded fairly. The award process should:

- Include a proposal receipt process that ensures that proposals are not opened prematurely and not accepted after the due date;
- Use an evaluation review team comprising individuals trained to evaluate and score the proposals and free of impairments to independence.
- Use fixed, clearly defined, and consistent scoring scales to measure the proposal against the criteria specified in the RFP; and
- Document the award decision and keep supporting materials.

Contract provisions—Protect the interests of the agency; identify the responsibilities of the parties to the contract; define what is to be delivered; and document the mutual agreement, substance, and parameters of what was agreed upon. Specifically, the contract should:

- Define the scope of work, contract terms, allowable renewals, and procedures for any changes;
- Provide specific measurable deliverables and reporting requirements; and
- Describe the methods of payment and payment schedules.

Monitoring—An essential part of the contracting process; provides assurance that the agency receives what it contracts for. Monitoring ensures that:

- Contractors comply with contract terms;
- Performance expectations are achieved; and
- Problems are identified and resolved.

Source: Auditor General staff review of selected best practices from National State Auditors Association. (2003). *Contracting for services: A National State Auditors Association best practices* document. Lexington, KY: Author. reports for the Authority and the University of Phoenix Stadium.

However, this procurement also deviated from two best practices. For example, the Authority did not include specific evaluation weighting factors for the criteria in its RFP and did not follow best practice recommendations for the receipt/opening of proposals.

Authority determined new concessionaire services contract could help financial situation—As reported in the Office of the Auditor General's March 2009 performance audit of the Authority (see Report No. 09-04), the Authority was facing a projected financial shortfall of possibly as much as $29 million by 2014. The Authority had taken various actions, including reducing operating expenses, to begin to address its financial situation. According to authority officials, the Authority also began considering additional options to address its financial situation, including using its concessionaire contract. After considering various alternatives, on July 20, 2009, the Authority's Board of Directors directed its staff to develop a competitive RFP for concessionaire services and financial assistance. See Appendix B, pages b-i through b-iii, for additional information on events leading to the issuance of the RFP.

Authority's concessions and financial assistance procurement process largely adhered to procurement best practices reviewed by auditors—As directed by its Board, in August 2009, the Authority initiated a competitive procurement process for concessionaire services and financial assistance. Auditors reviewed the Authority's RFP process and determined that it largely adhered to procurement best practices. Specifically, the Authority:

The Authority developed a concessions and financial assistance RFP that addressed its business needs and specified the scope of services and performance requirements.

- **Developed an RFP consistent with its business needs—**Consistent with best practices, the Authority developed an RFP that addressed the Authority's business needs and specified both the scope of services to be provided and expected performance requirements. For example, the RFP objectives clearly stated a requirement for continued excellence in concession services for all facility partners, as well as financial assistance for the Authority. Additionally, the Authority specified the scope of work within the RFP by requiring all proposals to comply with the same general terms/conditions in the existing concessions contract and made the existing concessions contract available to proposers. Also consistent with best practices, the Authority's RFP avoided specifications that favored a particular bidder or brand and defined communication procedures to help ensure bidders had equal access to information. Further, to ensure equal access to information, the Authority restricted all questions and answers regarding the RFP to a public forum through its Web site and implemented standardized facility tours for potential bidders. Finally, in preparation for the finalists' oral presentations, written directions from authority staff to its board members specified that all discussions regarding proposals were prohibited outside of board meetings.

- **Used an appropriate evaluation process—**The Authority's evaluation process consisted of selecting a bid review team, developing an evaluation instrument, scoring the proposals and recommending finalists, hearing oral presentations, and determining the final award. Specifically:

  - **Bid review team complied with best practices—**The Authority's bid review team (review team) complied with guidelines recommended by the NSAA. Specifically, the NSAA recommends using an evaluation review team comprising individuals who are trained to evaluate and score the proposals and who are free of impairments to independence. The Authority's review team, which developed the evaluation instrument and the instructions for its use, consisted of three members—the Authority's Chief Executive Officer (CEO) and its interim Chief Financial Officer (CFO), and an independent consultant. The review team was responsible for evaluating bids, and the independent consultant was also responsible for making a final award recommendation to the Board.

- **Review team developed appropriate evaluation instrument**—Consistent with procurement best practices recommended by the NSAA, the Authority's bid review team developed an evaluation matrix that was based on RFP requirements and used consistent scoring scales. Specifically, the Authority's RFP required respondents to address questions and provide evidence regarding the respondent's financial situation and operational performance, and also required the submittal of several supporting documents. The review team used these three categories as the criteria in the matrix it developed to evaluate the proposals received by the Authority (see textbox).

Criteria used in evaluation instrument

The types of criteria used to evaluate proposals included:

- **Financial criteria**—Consists of the respondent's financial assistance options proposed; proof of the respondent's ability to fulfill proposed assistance; the ability to provide excellent concessions services to all facility partners; and compliance with the Authority's IRS and tax-exempt bond requirements.
- **Operational criteria**—Consists of the number of years the respondent had been in operation; organizational stability relative to mergers or acquisitions; the number and types of facilities currently under contract and length of contracts; history of the organization's growth or decline; and the creativity of the operational plan relative to the potential for revenue increases.
- **Compliance with RFP requirements**—Consists of an evaluation of the quality of items required by the RFP and provided in the proposal, such as letters of recommendation, audited financial statements, and a list of corporate officers with a summary of their related food service industry experience.

Source: Auditor General staff review of the Authority's concessionaire proposal evaluation instruments.

In addition, the NSAA recommends the use of a fixed, clearly defined, and consistent scoring scale for evaluation. The review team's evaluation matrix was designed to assess proposals against the criteria using a 1 to 5 scoring scale, with the rating of 5 indicating an excellent response, and a rating of 1 indicating a poor response. Each bid review team member could also provide clarifying notes for scores given and scores were totaled to arrive at a ranking for each proposal.

- **Bid review team appropriately reviewed proposals**—Auditors' review of the review team's proposal evaluation process determined that the process appeared to be appropriate. Specifically, the review team used the evaluation instrument discussed previously to evaluate the proposals received. During the first evaluation phase, which took place between August and December 2009, the team members were initially required to independently review and score each of the proposals received.

Independently scoring the proposals with an appropriate evaluation instrument complies with best practices in that review team members make their own decisions independent from other members' decisions. Later, the individual review team members' evaluations were compiled into a final summary to indicate the review team's ranking for this evaluation phase.

The review team evaluated five proposals using its evaluation instrument and the process described above. From this evaluation, the review team recommended four bidders as finalists, who would move on to make oral presentations to the full Board.[1]

- ○ **Contracts awarded according to independent consultant's recommendation—**The review team received the best and final terms from the RFP finalists on January 15, 2010. In addition, on January 16, 2010, the Authority's interim CFO analyzed the financial benefits of each of the best and final offers to determine which of these offers would provide the best financial assistance to the Authority. On January 20, 2010, the independent consultant presented his final recommendation for contract award to the full Board, based on his evaluation of written and oral presentations, best and final offers, and the interim CFO's financial analysis of best and final offers. The consultant stated that all three finalists had the ability to manage concessions; however, the company he recommended to the Board for contract award had the most to gain or lose based on concessions performance and would also provide the best financial assistance to the Authority.

  On January 20, 2010, the Board voted to enter into contract negotiations for 30 days with the company that the consultant recommended, with the provision that if a satisfactory contract could not be executed within that time frame, the Board would enter into a contract with the company the consultant recommended as his second choice. Within the 30-day period, the Authority executed two contracts with the recommended company—one contract to provide concessions services, which was modeled on the prior concessions contract, and a second, interdependent contract to provide the Authority financial assistance through additional event management services.

- **Contract provisions comply with best practices—**Auditors' review of the two contracts that resulted from the concessions RFP process found that these contracts' provisions comply with best practices. Specifically, according to the NSAA's best practices, contract provisions should define the scope of work, contract terms, allowable renewals, and procedures for changes; provide specific measurable deliverables and reporting requirements; and

The two contracts resulting from the concessions and financial assistance procurement adhere to best practices.

[1] The review team selected four finalists to make oral presentations to the full Board. However, two of these companies began merger negotiations and decided to make one presentation instead of two. Therefore, there were a total of three bidders that made oral presentations to the Board.

describe the methods of payment and payment schedules. Auditors' review of the concessions services contract, entered into by both the Authority and the Cardinals, and the Authority's event management contract determined that both meet these selected best practices.

Two best practices not followed—Although most of the Authority's concessions procurement process adhered to best practices auditors reviewed, two of its processes deviated from these best practices. Specifically:

- **RFP did not specify evaluation weighting factors—**Contrary to best practices, the Authority's RFP did not specify the evaluation weighting factors that would be used to evaluate and eventually award a contract. The purpose of providing specific evaluation weighting factors in the RFP is to allow all participants equal access to the factors that will be considered, prior to submitting a bid, which helps ensure that the entity receives bids that are responsive to its business needs. Therefore, the Authority should ensure that all future RFPs contain specific evaluation weighting factors that will be used to evaluate and award contracts.

- **Authority's proposal receipt process not consistent with best practices—**Although the Authority complied with best practices by clearly identifying in its RFP a specific date and time to submit proposals, the Authority did not adhere to other best practices related to proposal receipt and storage. Specifically, best practices by NSAA and the state procurement code include using a log to record the receipt of proposals; storing the sealed bids in a secured location; and opening the proposals in the presence of witnesses. The Authority did not follow these best practices and could not provide documentation regarding the opening process that took place. Although the Authority has only a small number of staff and reported that all proposals were received prior to the submission deadline, following these best practices for its future procurements can help to assure the public and bidders that proposals are received in a timely manner, the proposers' information remains confidential, and all bids are opened and considered at the same time.

Additional procurement policies and procedures would help ensure future procurements also follow best practices

Auditors' review of other contracts entered into by the Authority also suggests that additional procurement policies and procedures would help ensure that future procurements also follow best practices. Specifically, the Authority should more closely follow its policy of using competitive procurement processes for all contracted services that exceed its $25,000 threshold or document the reasons a competitive procurement would be impracticable. Additionally, the Authority should develop and implement additional procurement policies and procedures that incorporate best practices recommended by the NSAA to help guide future procurements. These additional policies and procedures would be especially important given the small number of authority staff, potential for turnover among the staff, and the infrequent nature of conducting procurements that would benefit from following procurement best practices. These new procedures should also ensure that all of its contracts have specific contract language that defines current payment terms.

Contrary to its policy, Authority did not competitively procure some services—Auditors reviewed four contracts the Authority entered into during 2008 and 2009, as well as the two contracts the Authority entered into in 2010 as a result of its concessions procurement process. Additionally, auditors reviewed the Authority's contract for its primary legal services, initially entered into in calendar year 2000. Auditors found that the Authority had used a competitive procurement process for only two of the five contracts that should have been competitively bid according to the Authority's procurement policy. The Authority did not competitively bid the other three contracts or document the reasons a competitive procurement would be impracticable. Specifically:

The Authority did not competitively bid some contracts reviewed by auditors or document why a competitive procurement was not used.

- **Primary legal services contract—**The Authority spent a total of $604,622 for its primary legal services during fiscal years 2008 through 2010. This amount exceeds the $25,000 policy threshold that the Authority has established for requiring competitive bids. According to authority officials, an RFP for its primary legal services was not issued because bringing in another legal services provider would put the Authority at a disadvantage because the Authority's primary legal counsel knows the Authority's history and understands its complex bond funding and financial obligations. Although the Authority has a signed contract for the legal services it receives from its primary legal contractor, this contract is dated August 2000 and the Authority did not provide any documented or signed updates to this contract after November 2000, even though there have been changes to its legal services costs.

- **Lobbying contract—**Likewise, the Authority did not competitively bid for its lobbying services even though it spent a total of $96,000 for these services in fiscal years 2009 and 2010. Rather than issuing an RFP for these services, the Authority obtained these services through three separate contracts, two of which did not have a termination date. According to authority officials, the Authority did not issue an RFP for these services because the contracts could be canceled on a 30-day notice and each 30-day time frame is below the $25,000 RFP threshold. However, the Authority has incurred costs for at least one of these contracts in excess of its $25,000 threshold.

- **Third-party interim CFO contract—**Finally, the Authority contracted with a financial services company to receive employment services to fill the position of the Authority's interim CFO, and from October 21, 2009 through June 30, 2010, the Authority paid nearly $101,400 for these services. According to an authority official, at that time, a formal RFP process was not practical because of the pending loss of its CFO, its only business office employee. In an effort to ensure imperative day-to-day operations continued, the Authority engaged the services of a well-known financial services firm.

According to the NSAA, "without proper awarding practices, there is little assurance an agency is selecting the most qualified vendor at the best price. Further, contracting decisions may not be defendable if challenged."[1] Therefore, to help ensure that it procures the most qualified vendors at the best price, the Authority should follow its procurement policies and issue RFPs for contractual services totaling more than $25,000 or document why a competitive procurement would be impracticable in these types of situations.

Authority contracts reviewed by auditors define the scope of the work, provide measurable performance and reporting requirements, and define compensation.

Authority contracts met selected best practices reviewed by auditors, but one improvement is needed—Auditors assessed the content of the Authority's seven contracts against selected NSAA best practices and state procurement rules and found that these contracts met these recommended best practices, with one exception. For example, auditors found that the Authority's contracts define the term and scope of work; provide specific measurable performance and reporting requirements; and clearly define compensation, including incentives or penalties.

However, the Authority's primary legal services contract, dated August 2000, has not been updated to reflect revised payment terms, which would be needed by the Authority to ensure payments are made according to agreed-upon contract specifications. Neither the Authority nor its primary legal counsel were able to provide auditors with an updated agreed-upon pricing schedule. Therefore, the Authority should ensure that all of its contracts have specific contract language that defines current payment terms.

Authority appropriately monitors its contracts—The Authority's contract monitoring appears to be appropriate for its contracts that contain specific performance requirements, given the limited resources available. The Authority's staff consists of two full-time employees (a CEO and an office manager) and a contracted, part-time, interim CFO. These staff are responsible for monitoring several contracts. Additionally, the Authority has contracted with a facility manager that helps the Authority by operating the facility and monitoring contracts that are specific to facility operations, including the Authority's 2010 concessions services contract. For more information about the Authority's contract monitoring of the facility manager, see Chapter 4, pages 49 to 56.

The NSAA's best practices for contract monitoring note that it is an essential part of the contracting process and provides assurance that the agency receives the contracted services. Additionally, monitoring ensures that contractors comply with

[1] NSAA, 2003, page 2.

contract terms, performance expectations are achieved, and any problems are identified and resolved. According to authority officials and auditors' observations, before contracted work is performed, the services are generally preapproved by the Authority, and before the contracts are paid, the CEO reviews reports regarding the description of services provided and hours spent providing the service, some of which include details down to 15-minute increments of time. The Authority's level of oversight appears to be appropriate for most of its contracts. However, because its contract for primary legal services does not contain specific, up-to-date payment terms, the Authority's ability to fully monitor this vendor's compliance is limited.

The Authority has established processes for preapproving contractor work and reviewing services provided before authorizing payments.

Recommendations:

1.1. The Authority should follow its policies and conduct a competitive procurement process for each contract with an expected value of $25,000 or more or document the reasons for not conducting a competitive procurement process.

1.2. The Authority should develop and implement additional policies and procedures that incorporate procurement best practices recommended by the National State Auditors Association to help guide its future procurement activities. These policies and procedures should require that:

   a. Requests for proposals (RFP) specify the business needs; scope of work desired; and the proposal evaluation criteria and weighting factors;

   b. The award decision process ensures that proposals are received appropriately and evaluated objectively. It should also ensure that contracts are awarded fairly; and

   c. Contract provisions define the scope of work, contract terms, allowable renewals, and procedures for any changes; provide specific measurable deliverables and reporting requirements; and describe the methods of payment and payment schedules.

Chapter 2

Authority has taken steps to improve financial situation, but still faces challenges

The Arizona Sports and Tourism Authority (Authority) has taken several steps to address its financial situation but still faces financial challenges. Specifically, the Authority projects that its operating reserve will be reduced by approximately $7.7 million between fiscal years 2011 and 2014 despite steps taken in fiscal years 2009 and 2010 to improve its financial situation, including increasing revenues and decreasing expenses. Although authority-prepared financial projections for fiscal years 2011 through 2016 show that the Authority will receive sufficient revenue to pay bond debt service, its projected revenues are insufficient to satisfy all funding priorities, its operating expenses, and required reserve amounts. The Authority should continue to take steps to improve its financial condition. Finally, although the Authority has established a thorough budgeting and forecasting process to help manage its finances, it faces challenges making long-term revenue projections, including predicting economic conditions. To enhance its long-term forecasts, the Authority should continue working with the Office of Tourism and other tourism industry representatives to develop long-term revenue projections and create different ranges of growth such as conservative, moderate, and aggressive scenarios for its tax revenues.

Legislative audit mandate

The audit shall review and evaluate:

- The options available to the Authority to increase revenues and decrease expenses to address its anticipated deficits and fund its reserve accounts.
- The adequacy of the Authority's cash flow projections in accurately describing its receipts and expenses.

Authority has taken actions, but revenues still insufficient to satisfy all funding priorities

In fiscal years 2009 and 2010, the Authority took several steps to address its financial situation. These actions, which included increasing revenues and decreasing expenses, resulted in a nearly $9 million operating reserve as of June 30, 2010. However, the Authority still faces financial shortfalls and projects that its operating reserve will be reduced by approximately $7.7 million between fiscal years 2011 and 2014.

Authority's actions have resulted in a nearly $9 million operating reserve as of June 30, 2010

—The Office of the Auditor General's March 2009 performance audit found that the Authority had financial difficulties and that it projected depleting all of its operating reserves in fiscal year 2010 (see Auditor General Report No. 09-04). To address this situation, the Authority took steps that resulted in a nearly $9 million operating reserve as of June 30, 2010, and it no longer projects depleting its operating reserve. These steps included:

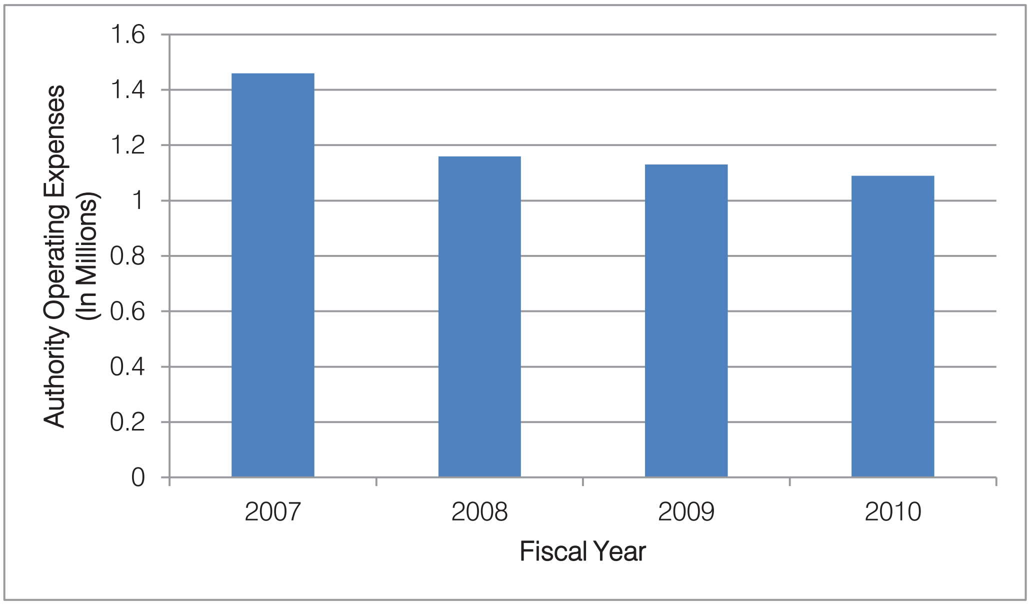
- **Reducing multipurpose facility operating expenses—**Similarly, according to a facility manager representative and an authority official, the Authority has been working with its facility manager to reduce facility operating expenses, including reducing full-time positions from 54 in fiscal year 2009 to 32 in fiscal year 2010 resulting in an approximately 30 percent reduction in payroll expenses. In addition, the facility manager representative reported that it has reduced utilities expenses by working with its electric company to run more efficiently during off-peak hours, installing motion sensor switches for lighting, and enrolling in a program that allows for selling of excess energy during peak times. Further, as discussed in Chapter 4, pages 49 to 56, the management fee for the facility manager was restructured, resulting in a savings of over 57 percent during fiscal year 2010. As shown in Figure 3 (see page 29), the facility's recurring operating expenses have decreased from $12.3 million in fiscal year 2007, the facility's initial year of operation, to approximately $9.4 million in fiscal year 2010. According to an authority official, the Authority continues to work with the facility manager to look for additional opportunities to reduce the facility's operating expenses.

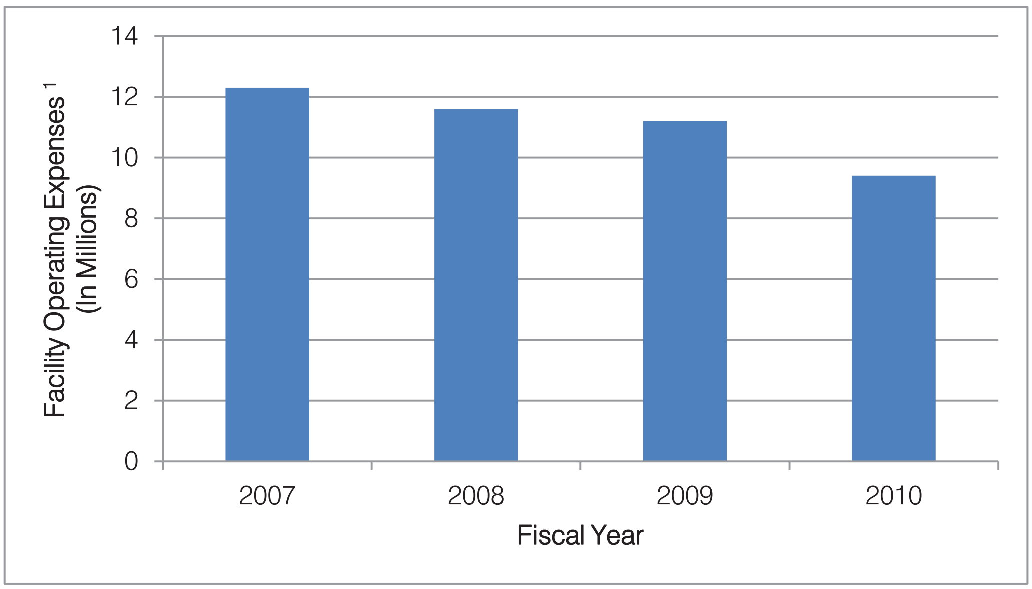
The Authority has reduced its operating expenses from more than $1.4 million in fiscal year 2007 to approximately $1.1 million in fiscal year 2010.

- **Reducing authority operating expenses—**The Authority has reduced its own operating expenses through various actions such as eliminating one full-time position, replacing a second full-time position with a contracted part-time consultant, and limiting travel and marketing and promotion activities. As shown in Figure 3 (see page 29), the Authority reduced its operating expenses from more than $1.4 million in fiscal year 2007 to approximately $1.1 million in fiscal year 2010. Additionally, according to authority-prepared projections, further reductions will decrease operating expenses to less than $800,000 in fiscal year 2011. The Authority reported that these reductions will primarily come from reduced legal costs and additional payroll savings. According to an authority official, the Authority continues to look for opportunities to reduce its operational expenses.

- **Obtaining a zero-percent interest rate loan and revenue advances from new concessionaire—**As discussed in Chapter 1 (see pages 15 to 25), in February 2010, the Authority entered into a new contract for concessionaire services. As part of this contract, the concessionaire provided a $1 million zero-percent interest loan in fiscal year 2010. The contract requires the

Figure 3: Authority and Facility Operating Expenses[1]
Fiscal Years 2007 through 2010





1 To provide a consistent comparison, facility operating expenses include only recurring operating expenses such as utilities, payroll, and Cardinals and Fiesta Bowl game day expenses. Nonrecurring event expenses are not included in this figure because they fluctuate based on the number and type of events held each year.

Source: Auditor General staff analysis of the Authority's fiscal years 2007 and 2009 financial statements audited by an independent certified public accounting firm; fiscal year 2010 *Working Trial Balance* report; fiscal year 2011 *Annual Financial Budget;* and fiscal years 2008 and 2009 University of Phoenix Stadium financial statements audited by an independent certified public accounting firm.

Authority to pay $250,000 annually beginning on August 1, 2011 through August 1, 2014, to satisfy the loan. However, unless the contract is terminated, the concessionaire will reimburse the Authority for these annual payments beginning on August 1, 2011 through August 1, 2014. The contract has a termination date of July 31, 2012, but includes unlimited optional 1-year extensions. According to an authority official, even if the contract is not extended, the Authority does not plan to use any of its resources to repay the remaining loan amount. Specifically, the Authority plans to include a similar arrangement in any future concessionaire contract so the Authority will not have to repay the remaining loan amount, if any, with its own resources.

The contract also requires the concessionaire to provide advances against the Authority's share of future concessions revenues. The concessionaire provided an advance of $500,000 during fiscal year 2010, and the contract provides for three additional $500,000 revenue advance payments in January 2011, August 2011, and August 2013. According to the contract, the concessionaire will recoup the advance amounts by retaining the first $500,000 annually in remittances owed to the Authority. However, even if the concessionaire has not generated sufficient revenues to recoup the advance amounts annually, the Authority will not have to repay these advances if it does not terminate the contract.

- **Entering a contract for guaranteed annual benefits with an event management company—**As discussed in Chapter 1 (see pages 15 to 25), in February 2010, the Authority also entered into a separate contract with a second event management company (Company), an affiliate of the concessions vendor referred to above.[1] As of July 2010, this event management company works together with both the Authority and the facility manager to help increase revenues and events at the facility and decrease expenses. The contract provides the Authority with guaranteed operational revenue increases and/or cost reductions of $750,000 each year for the duration of the contract. If the Company does not generate actual annual benefits totaling $750,000, the contract requires it to make up the difference to the Authority. Increased revenues could result from an increase in sales tax recapture, food and beverage sales, facility-use fees, and other revenues from facility events, including Arizona Cardinals (Cardinals) National Football League events. Cost reductions are event operating cost savings arising from the Company's initiatives or actions, which would also include Cardinals home game expenses and goods or services provided by third parties. The contract terminates on June 30, 2012, and includes unlimited optional 1-year extensions, but is only effective as long as the new concessionaire contract is in effect.

- **Taking advantage of and terminating in a favorable manner an agreement designed to protect against interest rate increases—**The Authority terminated a Constant Maturity Swap (CMS) agreement it had established to protect it from potential increases in the interest rate it pays on its $53.1 million

[1] The Authority's contract with the facility manager also requires it to perform event management responsibilities.

variable-rate bonds. Under this agreement, the Authority paid another party a specified market-indexed interest rate on its bonds, and the other party paid the Authority an amount based on a different market-indexed interest rate. This agreement attempted to even out the effective interest rate paid by the Authority. Any difference between the two rates provided either a gain or loss to the Authority. To take advantage of favorable interest rates, in January 2009 the Authority's Board of Directors (Board) approved a resolution authorizing the Authority to temporarily disable this agreement. When the interest rate difference was in the Authority's favor in February 2009, the Authority locked in this difference and received payment of approximately $1.1 million. When interest rates were again in the Authority's favor in February 2010, the Board's Budget, Audit, and Finance Committee authorized the termination of this agreement and the Authority received a payment of $1.6 million.

Revenues potentially insufficient to satisfy all funding priorities—The Authority projects it will continue to face financial difficulties through fiscal year 2016, the last year for which it has made projections. Specifically, the Authority did not receive sufficient revenues to meet all of its funding priorities in fiscal year 2010 and projects it will not meet them each year through fiscal year 2016. The Authority has experienced declining tourism revenues from the hotel bed tax and car rental surcharge, which it uses to help meet its bond debt obligations and distribute monies for tourism promotion, Cactus League promotion, and youth and amateur sports. As Table 5 shows (see page 32), through fiscal year 2009, the Authority had sufficient total revenue to make maximum statutorily required distributions for all of these responsibilities. However, revenues from hotel bed taxes and car rental surcharges have decreased from approximately $25.5 million in fiscal year 2007 to approximately $21 million both in fiscal years 2009 and 2010. Consequently, although the revenues were sufficient to meet its bond debt obligations, they were insufficient for monthly maximum statutorily required distributions for these other purposes starting in fiscal year 2010. The Authority projects the same outcome for fiscal years 2011 through 2016. Based on statutorily required distributions to these three priorities, the Authority projects a revenue distribution shortfall of approximately $17.4 million for fiscal years 2010 through 2016.

Authority revenues from hotel bed taxes and car rental surcharges have decreased from approximately $25.5 million in fiscal year 2007 to approximately $21 million in fiscal year 2010.

Besides having insufficient revenues to meet these statutorily required distributions, the Authority also projects deficits for its own operations through fiscal year 2014, as shown in Table 6 (see page 33). Projected operating deficits range from approximately $800,000 to $3 million and by fiscal year 2016 its cumulative operating deficit is projected to total approximately $6 million. The Authority projects these operating deficits will reduce its operating reserve by approximately $7.7 million between fiscal years 2011 and 2014. However, the Authority might use more of its operating reserve or even deplete it if revenues do not increase as projected. For example, as discussed on pages 38 to 39, the Authority projects that its tourism revenues will increase 2.5 percent in fiscal year 2012 and 5 percent annually in fiscal years 2013 through 2016. If these increases do not materialize,

Table 5: Impact of Revenue Shortfalls on Tourism Promotion, Cactus League Promotion, and Youth and Amateur Sports Distributions
Fiscal Years 2001 through 2016
(In Millions)

	Tourism Promotion			Cactus League Promotion [1]			Youth and Amateur Sports			
Fiscal Year	Annual Statutorily Required Distributions if Revenues Are Sufficient [2]	Actual or Projected Distributions	Revenue Shortfall for Making Maximum Statutory Distributions [3]	Annual Statutorily Required Distributions if Revenues Are Sufficient [2]	Actual or Projected Distributions	Revenue Shortfall for Making Maximum Statutory Distributions [3]	Annual Statutorily Required Distributions if Revenues Are Sufficient [2]	Actual or Projected Distributions	Revenue Shortfall for Making Maximum Statutory Distributions [3]	Total Revenue Shortfall for Making Maximum Statutory Distributions [3]
Actual:										
2001	$ 0.3	$ 0.3	$ -	$ 0.2	$ 0.2	$ -	$ 0.1	$ 0.1	$ -	$ -
2002	4.0	4.0	-	3.0	3.0	-	1.0	1.0	-	-
2003	4.2	4.2	-	3.0	3.0	-	1.1	1.1	-	-
2004	4.4	4.4	-	3.0	3.0	-	1.2	1.2	-	-
2005	4.7	4.7	-	3.0	3.0	-	1.3	1.3	-	-
2006	4.9	4.9	-	3.0	3.0	-	1.4	1.4	-	-
2007	5.1	5.1	-	3.0	3.0	-	1.5	1.5	-	-
2008	5.4	5.4	-	3.1	3.1	-	1.6	1.6	-	-
2009	5.6	5.6	-	4.0	4.0	-	1.7	1.7	-	-
2010	5.9	5.3	(0.6)	4.0	3.8	(0.2)	1.8	0.9	(0.9)	(1.7)
Estimated:										
2011	6.2	5.4	(0.8)	4.2	3.9	(0.3)	1.9	0.9	(1.0)	(2.1)
2012	6.5	5.8	(0.7)	6.0	5.3	(0.7)	2.0	0.8	(1.2)	(2.6)
2013	6.9	6.2	(0.7)	6.1	5.3	(0.8)	2.1	0.9	(1.2)	(2.7)
2014	7.2	6.6	(0.6)	7.0	5.9	(1.1)	2.2	0.9	(1.3)	(3.0)
2015	7.6	7.1	(0.5)	7.0	6.0	(1.0)	2.3	1.1	(1.2)	(2.7)
2016	8.0	7.6	(0.4)	7.0	6.0	(1.0)	2.4	1.2	(1.2)	(2.6)
Total	$ 86.9	$ 82.6	$ (4.3)	$ 66.6	$ 61.5	$ (5.1)	$ 25.6	$ 17.6	$ (8.0)	$ (17.4)

1 Includes amounts from the Facility Revenue Clearing Account (Account) that are projected to retire a portion of the Authority's $32.4 million subordinate bonds issued to build the City of Surprise Stadium. The Authority used $1.9 million through fiscal year 2010 and estimates it will use $9.8 million from the Account to pay for debt service during fiscal years 2011 through 2016.

2 Amounts are the annual totals to make the monthly distributions required by A.R.S. §5-835 assuming revenues were, or will be, sufficient to make the full distribution.

3 Since the amounts that were, or will be, distributed are based on having sufficient monthly revenues available to do so, the actual or projected distributions may not meet the maximum amounts specified in A.R.S. §5-835. However, for years prior to fiscal year 2010, the Authority chose to use its operating account monies to fully fund these distributions even when available monthly revenues in the Tourism Revenue Clearing Account were not sufficient to do so.

Source: Auditor General staff analysis of A.R.S. §5-835, and the Authority's fiscal years 2005 and 2011 *Annual Financial Budget*; fiscal years 2001 through 2009 general ledgers; and November 2010 cash flow projections.

Table 6: 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)

Source: Auditor General staff analysis of the Authority's November 2010 cash flow projections for fiscal years 2011 through 2016.

the Authority may have to rely on its operating reserve to make up the difference. Conversely, if revenues increase more than projected, the Authority may not need to rely on its reserve as much.

The Authority's projected revenue is also insufficient to fund the three statutorily required reserve accounts. Specifically:

The Authority projects being unable to fully fund the youth and amateur sports reserve for fiscal years 2011 through 2016.

- **Youth and amateur sports reserve**—The Authority has set aside sufficient monies to meet statutory requirements for fully funding this reserve prior to fiscal year 2010. As of June 30, 2010, the Authority had distributed approximately $1.9 million to this reserve. However, the Authority has not appropriately applied the funding requirements specified by Arizona Revised Statutes (A.R.S.) §5-835 to this reserve and it projects being unable to fully fund the youth and amateur sports reserve for fiscal years 2011 through 2016 because of revenue shortfalls. Specifically, the Authority annually allocates monies to the reserve instead of monthly as required by statute. Annually funding this reserve as opposed to funding the reserve on a monthly basis potentially reduces the amount of monies distributed to the reserve. Additionally, the Authority did not use this reserve to make up for any tourism revenue shortfalls in monthly distributions to youth and amateur sports as required by A.R.S. §5-838(B). Instead, the Authority used its operating monies to make up for revenue shortfalls prior to fiscal year 2010. If the Authority had followed statute, the reserve would have been used regularly during fiscal year 2010 to make up for the revenue shortfalls in its youth and amateur sports program and the balance in its reserve account would have been less than statutorily required. However, because the Authority used its operating monies to fully fund any prior shortfalls in monthly allocations to the youth and amateur sports program, the program as a whole is not underfunded. To ensure compliance with statute, the Authority should properly apply the funding priorities required in A.R.S. §5-835 and use the reserve to fund monthly revenue shortfalls as required by A.R.S. §5-838(B).

- **Operating reserve—**Although the Authority reported an operating reserve totaling nearly $9 million as of June 30, 2010, based on its projections the Authority will not be able to set aside additional monies for its operating reserve and projects that it will reduce this balance by $7.7 million between fiscal years 2011 and 2014.

- **Capital repair and replacement reserve—**Finally, according to A.R.S. §5-836(C)(2), the Authority is required to establish a reserve of at least $25 million, adjusted for inflation each year after 2001, to meet facility repair, replacement, and removal expenses. This reserve is critical to addressing major capital repairs and renovations that arise as the facility ages. However, the Authority stated that revenues have been insufficient to fund this reserve.

The Authority has not funded the statutorily required capital repair and replacement reserve.

Limited options for increasing revenues and reducing expenses available

The Authority has limited options it could pursue to further address its financial situation. One option will potentially become available in fiscal year 2016, when the Authority will retire its subordinate bond debt, potentially making monies available for authority operations. The Authority's near-term options for addressing its financial situation are limited to its operating activities because most authority revenues and distributions are restricted by voter-approved or statutory mandates and facility agreements.

Retirement of subordinate bond debt in fiscal year 2016 may free up monies for authority use—The scheduled retirement of the Authority's subordinate bonds in fiscal year 2016 may assist the Authority in addressing its financial situation, but not until that time. The Authority issued these bonds in fiscal year 2003 to provide funding for the construction of the City of Surprise Cactus League spring-training baseball facility (see Chapter 3, page 45 for information on the subordinate bonds). Although the Authority uses its tourism revenues first to meet this bond obligation, it also pledged its facility revenues to help satisfy this obligation in the event that tourism revenues are insufficient to meet the bond debt service requirements. For example, in fiscal year 2010, the Authority used approximately $1.4 million in facility revenues to meet this debt obligation, and it projects that an additional $9.8 million in facility revenues will be needed in fiscal years 2011 through 2016 to satisfy the remaining bond debt obligation.

According to A.R.S. §5-834, any revenues not needed for the Authority's senior bond obligations or other debt secured with the facility revenues are available for operations. Consequently, after the subordinate bonds are retired, the Authority may have additional monies for operations.

Authority should continue taking steps to increase revenues and decrease expenses—The Authority and its Board of Directors should continue to take steps to address its financial shortfall. The Authority's options for addressing its projected deficits are limited because much of its revenues and required distributions of those revenues are restricted. Specifically, the hotel bed tax and car rental surcharge are voter-protected revenues that would require voter approval to change, while the NFL income taxes, sales tax recapture monies, and distribution of most of these revenues would require legislative action to change. Additionally, various facility agreements further limit authority options for generating revenues and reducing expenses. For example, according to an agreement with the Cardinals, the Authority pays for all Cardinals' game day expenses, which were more than $2.3 million annually in fiscal years 2009 and 2010, while the Cardinals paid approximately $265,300 in rent for fiscal year 2010 and receive all game day revenues. However, the Authority receives a portion of all sales tax revenues generated at Cardinals home games which, according to the Authority, totaled approximately $4 million in fiscal year 2010. Facility-use fee agreements also restrict how monies generated from facility-use fees on facility event tickets, including Cardinals' game tickets, can be used. Further, as stated in A.R.S. §§5-836(D) and 5-875(C)(4-5), the State of Arizona is not financially liable for any of the Authority's expenses or obligations. Steps the Authority should take include the following:

The Authority's options for addressing its projected deficits are limited because much of its revenues and required distributions are restricted.

- **Continuing to explore options for increasing revenues for events held at the facility**—The Authority should continue to explore options for increasing facility event revenue. As shown in Table 7, the reported number of events hosted and the nonfootball event attendance has declined each year since it opened in fiscal year 2007 except in fiscal year 2010, and the Authority projects additional declines in fiscal year 2011. According to an authority official, the reduction in the number of events is consistent with the normal operation of any new stadium or sports facility over the first 5 years of operation. According to University of Phoenix Stadium records and a facility manager representative, there were several large events that brought in substantial

Table 7: Number of Multipurpose Facility Events and Event Attendance
Fiscal Years 2007 through 2011
(Unaudited)

Fiscal Year	Number of Events	Nonfootball Attendance	Football Attendance
2007 [1]	179	499,699	711,009
2008	132	454,431	613,604
2009	121	433,469	745,752
2010	113	513,361	706,784
2011 (Est.)	101	325,185	695,893

1 Excludes events held in conjunction with the facility's grand opening.

Source: Auditor General staff analysis of the Authority's fiscal year 2011 budget worksheets and information provided by the Authority's facility manager.

revenues and attendees during fiscal year 2010. These large events resulted in increased operating revenues. However, according to an authority official, the Authority has only one large event scheduled for fiscal year 2011; therefore, it projects its operating revenues will decrease in fiscal year 2011.

A facility manager representative reports that in addition to trying to secure major ticketed events, the management team continues to expand its roster of consumer, trade, and special and corporate event categories by aggressively marketing the facility to destination management companies and new local and national show producers. For example, the fiscal year 2011 event schedule includes a gun show and a children's exposition. According to an authority official, the Authority's goal is to hold approximately 100 events per year and its Board directed staff and the facility manager to focus on larger revenue-generating events. As shown in Table 7 (see page 35), the Authority held 113 events in fiscal year 2010 and projects holding 101 events in fiscal year 2011, which is in line with the Authority's goal. A facility manager representative reports that the management team is working to secure additional events in fiscal year 2011 such as two motorsports events and soccer events, and has been working for the past one-and-a-half years for a soccer world cup event in 2018 or 2022. In addition, the Authority has taken steps to increase event revenues, such as entering an agreement with a second event management company to increase revenues (see page 30).

- **Continuing to explore options for decreasing operating expenses—**As discussed on page 28 and shown in Figure 3 (see page 29), the Authority has taken steps to reduce its operating expenses and worked with its facility manager to reduce the facility's operating expenses. The Authority should continue to explore options to decrease operating expenses to provide it with monies that can be used for operations and potentially reserved for future needs, such as facility improvements and renovations. For example, the Authority should consider whether it can further reduce its legal costs. Specifically, during each of fiscal years 2008 and 2010 the Authority paid more than $255,000 in legal expenses and during fiscal year 2009, it paid approximately $172,000 in legal expenses. For fiscal years 2008 and 2010, these expenses represented nearly 25 percent of the Authority's annual operating expenses. Although the legal services it needs will vary from year to year, these expenses could potentially be reduced. Therefore, the Authority should continually review its legal services and the related expenses to determine if opportunities exist to reduce these expenses.

Because the Authority has not funded its capital repair and replacement reserve, it may not have sufficient monies to make future needed facility repairs.

Finally, as discussed on page 34, the Authority has been unable to fund its capital repair and replacement reserve and projects revenues will not be sufficient to do so through fiscal year 2016, when the facility will be 10 years old. Consequently, the Authority may not have sufficient monies to make needed repairs to the facility and provide for its upkeep as the facility ages. Because the Cardinals have a vested interest in maintaining and potentially renovating the facility as it ages, they may be willing to renegotiate the facility-use fee agreement to make some of the monies that are deposited in a trust account available for facility repairs. As previously mentioned, the facility-use fee and associated agreements with the Cardinals were established to generate revenues to retire the Authority's $53.1 million bond debt and to reimburse the Cardinals for certain construction and other costs they incurred that were not their obligation (see Introduction and Background, pages 1 to 13). Under the agreement, the Cardinals receive the facility-use fees from the sale of Cardinals game tickets. The Authority receives facility-use fees from the Fiesta Bowl and other facility events. The Cardinals' monies are deposited into a trust account and, according to the facility-use agreement, are available for debt service payments on the Authority's $53.1 million bond debt, but only if certain conditions are met.[1] During fiscal years 2007 through 2010, approximately $10.2 million has been deposited into the trust account. However, because the Authority has not needed to access these monies to help retire the bond debt, the money has been paid to the Cardinals (see Introduction and Background, page 5, for more information).

Authority has reasonable 1-year revenue and expense projections and prepares long-term revenue projections for planning purposes

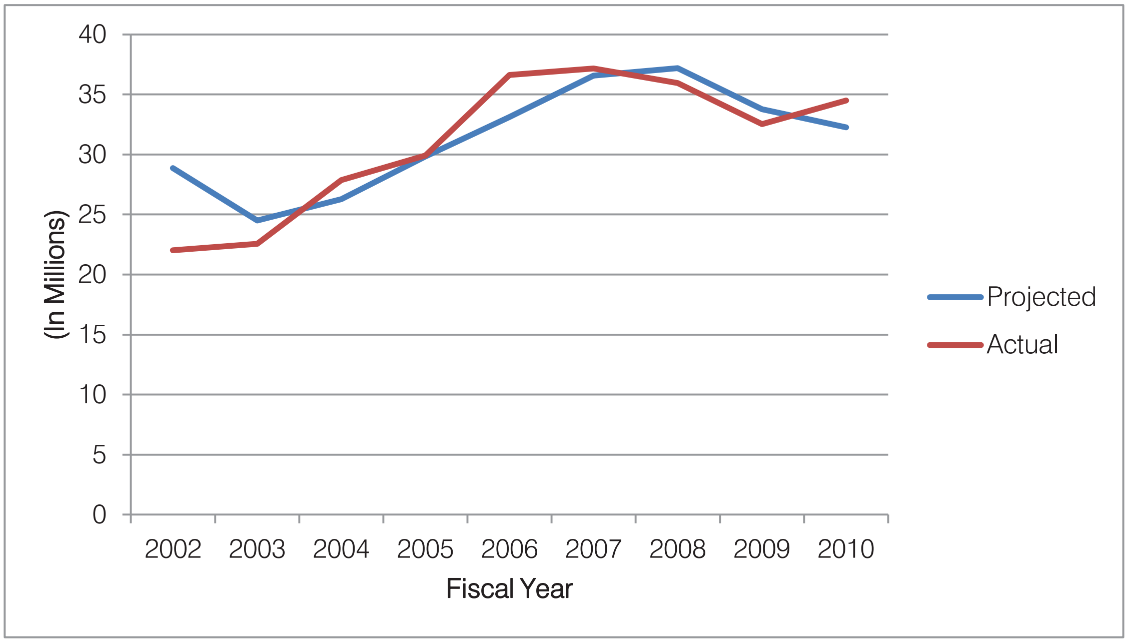
The Authority prepares an annual budget that includes short-team revenue and expense projections for the upcoming fiscal year and long-term revenue and expense projections for an additional 5 fiscal years for planning purposes. The Authority's 1-year revenue projections are based on reasonable methods, but the Authority faces challenges making long-term revenue projections, which have been less reliable than its 1-year projections. To enhance its long-term projections, the Authority should continue to work with the Office of Tourism and other tourism industry representatives to develop tourism revenue projections and create different ranges of growth such as conservative, moderate, and aggressive scenarios for its tax revenues. Finally, the Authority uses reasonable procedures to project its expenses.

Authority's 1-year revenue projections reasonable—The Authority's budget includes projections for all of its revenues, and as shown in Figure 4 (see page 38), the Authority's fiscal years 2002 through 2010 1-year revenue projections for its tax revenues generally provided reasonable estimates of its actual tax revenues.[2] Although the Authority's 1-year revenue projections for individual tax revenues produced mixed results, its overall projections from its four tax revenues

1 According to the facility-use fee trust agreement, a ratio of 74.9 percent was established to determine whether the Cardinals' facility-use fees maintained in the trust would be used to help meet the $53.1 million bond debt service requirements. The Authority annually determines if it received sufficient revenues to pay 74.9 percent of the $53.1 million bond debt service. If it received enough monies, then the Authority cannot use the facility-use fees in the trust account for debt service payments.

2 Tax revenues consist of hotel bed taxes, car rental surcharges, NFL income taxes, and sales tax recapture revenues.

Figure 4: Comparison of Projected to Actual Tax Revenues[1]
Fiscal Years 2002 through 2010



[1] Tax revenues consist of hotel bed taxes, car rental surcharges, NFL income taxes, and sales tax recapture revenues.

Source: Auditor General staff analysis of the Authority's fiscal years 2002 through 2010 *Annual Financial Budget*; fiscal years 2002 through 2009 financial statements audited by independent certified public accounting firms; and fiscal year 2010 *Working Trial Balance* report.

combined produced reasonable estimates. For example, the Authority's projected hotel bed taxes for fiscal year 2009 were 14.8 percent higher than actual revenues; however, the Authority projected all tax revenues combined at approximately 1.1 percent less than actual revenues.

Authority faces challenges projecting long-term revenues—The Authority has experienced challenges in providing reliable long-term projections, which it prepares for planning purposes, because many of its revenues are affected by the State's economy. For example, in both its fiscal year 2007 and 2008 budgets, the Authority projected an approximately 5 percent annual increase in its hotel bed tax revenues for fiscal years 2009 and 2010. Similarly, in its fiscal year 2009 budget, it projected a 5 percent increase in fiscal year 2010 for these tax revenues. However, the hotel bed taxes actually declined by nearly 18 and 7 percent in fiscal years 2009 and 2010, respectively, because the State entered a recession.

Projecting long-term revenues can be challenging.

Projecting long-term revenues will continue to be challenging because the Authority must consider economic changes such as recessions, expansions, and inflationary periods. The State of Arizona has encountered similar challenges projecting revenues. For example, according to the State of Arizona's Joint

Legislative Budget Committee, "long-term revenue projection is speculative;" however, "most economists are forecasting some future growth but the precise magnitude is difficult to predict with any certainty."[1]

Despite these challenges, reasonably accurate revenue forecasts are important for the Authority to manage its finances. Specifically, the Authority's projected depletion of its operating reserves in fiscal year 2014 is based on tourism revenues increasing 2.5 percent in fiscal year 2012 and 5 percent annually during fiscal years 2013 through 2016. Similarly, it is based on NFL income taxes increasing 5 percent and sales tax recapture revenues increasing between 3.7 and 9.2 percent during fiscal years 2012 through 2016. If these forecasted increases are substantially incorrect, the Authority may need to rely on its reserves more heavily or even deplete its reserves. Conversely, if revenues increase more than projected, the Authority may not have to rely on its reserves as much.

The Authority has taken some steps to improve forecasts. For example,according to an authority official, the Authority has established procedures to develop its long-term revenue estimates, such as discussing tourism trends with tourism industry representatives, including one of the board members who is involved in the tourism industry, and the Office of Tourism. To enhance its long-term revenue projections, the Authority should continue to work with the Office of Tourism and other tourism industry representatives to forecast tourism revenues. In addition, the Authority should create different ranges of growth and/or decline such as conservative, moderate, and aggressive scenarios for its tax revenues and document its methodology used for this analysis. The Joint Legislative Budget Committee similarly obtains four economic viewpoints to create a range of projections and also calculates an average of the four projections.

Authority's procedures for projecting expenses reasonable—The Authority's annual budget presents detailed and reasonable information for all of its expenses. Specifically, the Authority has reasonably projected its nonoperating expenses, including bond debt service payments and statutorily required distributions for tourism, Cactus League, and youth and amateur sports promotion. The Authority appropriately used the bond debt service schedules and statutory distribution requirements to calculate these expenses. Further, the Authority reasonably budgeted its operating expenses, using contracts for services committed, statutorily required payroll deduction percentages, current cost information for payroll, and historical trends for other operating costs, such as communications. According to an authority official, the projections for the facility expenses are developed with the assistance of its facility manager.

Beginning with its fiscal year 2011 budget, the Authority provides explanations for the difference between budget and actual expense amounts for fiscal year 2010. The inclusion of these explanations increases the budget's usefulness and provides the Board with a good management tool that it uses to monitor the

[1] Joint Legislative Budget Committee. (2010, April 23). *JLBC staff long-term budget projections*. Phoenix, AZ: Arizona State Legislature. See pages 1 & 2.

budget. For example, the Board established a Finance, Budget, and Audit Committee that regularly monitors the budget, and it reviews and approves the annual budget.

Recommendations:

2.1. To ensure compliance with statute, the Authority should properly apply the funding priorities required in A.R.S. §5-835 to the youth and amateur sports reserve and use this reserve to fund monthly revenue shortfalls in its youth and amateur sports program as required by A.R.S. §5-838(B).

2.2. The Authority and its Board of Directors should continue to take steps to address its financial shortfall by increasing revenues and/or decreasing expenses. In doing so, the Authority should study various options available to increase facility revenues and decrease facility expenses to address its projected deficits and fund its required reserve accounts. For example, it could review its legal services and related expenses to determine if opportunities exist to reduce these expenses.

2.3. To enhance its long-term revenue projections, the Authority should continue to work with the Office of Tourism and other tourism industry representatives to forecast tourism revenues and create different ranges of growth such as conservative, moderate, and aggressive scenarios for its tax revenues and document its methodology.

Chapter 3

Authority meeting bond obligations, but has reached debt capacity

The Arizona Sports and Tourism Authority (Authority) is meeting its bond obligations, but likely will not be able to issue additional debt. Statute authorizes the Authority to issue bonds for two purposes: the construction of the multipurpose facility, also known as the University of Phoenix Stadium, and Cactus League promotion. Since its inception, the Authority has issued almost $310 million in bonds for these purposes and has received sufficient revenues to satisfy these bond obligations. Additionally, the Authority's ability to continue to meet its bond obligations appears favorable when assessed against required bond coverage ratios. However, because revenues will be needed to pay for statutory funding priorities, including the bond debt service payments and Cactus League promotion commitments and operations, the Authority has reached its debt capacity. Finally, if for any unforeseen reason the Authority is not able to meet its bond obligations, bondholders' legal recourse is limited. The Office of the Auditor General is making no recommendations about the matters discussed in this chapter.

> **Legislative audit mandate**
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> The audit shall review and evaluate:
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> - The variance, if any, between construction and development costs contained in an authority contract or final memorandum of understanding and actual costs being repaid through bond obligations.
> - The source and adequacy of debt service payments by the Authority with respect to each facility financed with bonds issued by the Authority.
> - The amount of any surplus or deficit in the overall debt capacity of the Authority and in the current and projected capability of dedicated revenue sources to meet the Authority's debt service requirements.
> - The legal recourse of holders of the Authority's bonds in the event of the Authority's default in making scheduled debt service payments.

Statutes allow Authority to issue bonds

To meet its various responsibilities, statutes authorize the following for the Authority:

- Arizona Revised Statutes (A.R.S.) §5-807 requires the Authority to construct, finance, furnish, maintain, improve, operate, and market/promote the use of a multipurpose facility and do all things necessary or convenient to accomplish those purposes.

- A.R.S. §5-862(A) allows the Authority to issue bonds to provide sufficient monies for any multipurpose facility purpose and pay necessary bond-related expenses.

- As described in Chapter 5 (see pages 57 through 66), A.R.S. §5-837(C) allows the Authority to issue bonds for the purposes of providing monies for Cactus League promotion.

Authority issued revenue bonds for facility construction and Cactus League projects

Senior and subordinate revenue bonds—Senior bonds have a higher claim on the same pledged revenues than the subordinate bonds.

Source: Auditor General staff review of authority official bond offering statements.

Since its inception, the Authority has issued nearly $310 million in revenue bonds. This includes approximately $277.6 million in senior revenue bonds that the Authority used for the construction of the multipurpose facility (facility) and $32.4 million in subordinate revenue bonds that the Authority used for Cactus League promotion.

Authority incurred more construction costs to build the multipurpose facility than its projections—As illustrated in Table 8 (see page 43), the facility cost more than $465 million to build. According to authority records, the Authority's contribution toward the facility construction costs totaled $310 million, which is $64 million more than originally projected in the Proposition 302 (2000) voter information pamphlet and $43.4 million more than projected in January 2004 when facility design plans were largely finalized. According to the Authority, the increased costs of construction materials contributed to the higher construction costs. Additionally, $32.3 million of the increased costs were for site improvements that were originally to be funded by the City of Glendale (City). Instead, to help ensure that facility construction was completed on time, the Authority agreed to finance the site improvements. The increased construction costs were primarily paid for through the issuance of additional senior revenue bonds. In turn, according to a 2005 agreement, the City remits to the Authority city sales tax revenue resulting from sales at the facility to help repay bonds that the Authority issued to finance the site improvements.

The Authority issued approximately $277.6 million in senior revenue bonds to help pay for the multipurpose facility's construction.

Authority issued senior revenue bonds for facility construction—As illustrated in Table 9 (see page 44), from 2003 through 2008, the Authority issued approximately $277.6 million in senior revenue bonds to help pay for facility construction. Approximately $272.4 million of the amount was used for facility construction, while the remaining $5.2 million was used to pay bond issuance costs. The repayment of these bonds, with estimated interest costs of $273.2 million, is expected to cost the Authority more than $550.8 million. The majority of these bonds will be retired by 2031, but some bonds will not be fully retired until 2036. As of June 30, 2010, the Authority had paid approximately $85.9 million of

Table 8: Original Projection, January 2004 Projection, and Actual Facility Construction and Development Costs by Funding Source
As of June 30, 2010
(In Millions)

	Original Voter Pamphlet Projection	Projection As of January 2004	Actual Costs
Authority:	$ 246.0	$ 266.6	
Senior bond proceeds [1]			$ 272.4
Tourism, facility, and interest revenues			37.6
Total authority contribution	246.0	266.6	310.0 [2]
Arizona Cardinals [3]	85.0	104.0	148.2
Fiesta Bowl [4]			5.3
Facility's concessionaire [5]			2.2
Total construction and development costs	$ 331.0 [6]	$ 370.6	$ 465.7 [7]

1 Bond proceeds are adjusted for costs to issue bonds and bond premiums collected at issuance.

2 Amount represents the Authority's contribution at the time the facility was constructed, including $32.3 million of site improvements that were originally the City of Glendale's (City) obligation. The Authority's final and total contribution toward the construction and development of the facility is not known because it receives sales tax revenues from the City to help repay bonds that the Authority issued to finance facility site improvements that were originally to be funded by the City. Similarly, it has not been adjusted for payments the Authority will make to reimburse the Cardinals for $25 million of facility costs that the Cardinals paid, but was not their obligation to pay.

3 Actual costs include approximately $15 million for the facility parking area and other land around the facility that is owned by the Cardinals.

4 According to the Authority's records, the Fiesta Bowl contributions are for tenant improvements.

5 The facility's concessionaire provided kitchen equipment for the concessions area of the facility.

6 According to the original voter pamphlet, the projected cost did not include the site acquisition, infrastructure, or parking costs.

7 Auditor General Report No. 09-04 reported the total construction cost as $446.4 million. This amount was primarily based on the construction costs and did not include furniture and equipment, and certain site improvements, and included $6.7 million from the City of Glendale for street improvements. In addition, the cost and funding analysis provided by the Authority for the prior audit did not include all cost and source information.

Source: Office of the Auditor General Report No. 09-04 and Auditor General staff analysis of the September 3, 2002, Memorandum of Understanding between the Authority and the Arizona Cardinals; the Authority's fiscal years 2003 through 2010 general ledgers; fiscal year 2009 financial statements audited by an independent certified public accounting firm; bond offering statements; and authority-provided information.

bond interest and $4.3 million in principal payments, leaving an outstanding principal balance of $273.3 million.[1]

In addition to the bond financing, as shown in Table 8, the Authority reported that it used tourism, facility, and interest revenues to pay its portion of facility construction and development costs. Funding was also provided by the Arizona Cardinals (Cardinals), the Fiesta Bowl, and the facility's concessionaire for facility construction and development costs. The Cardinals were the largest contributor and the City of Glendale has provided other contributions. Specifically:

1 Principal and interest payments include the payments due July 1, 2010. The monies to make these payments were deposited with the trustee (see textbox, page 46, for definition of trustee) as of June 30, 2010.

Table 9: Schedule of Estimated Costs to Repay Authority's Obligated Senior Bonds
Through July 1, 2036, as of June 30, 2010
(In Millions)

Senior Revenue Bonds	Amount
Series 2003A, interest from 4 to 5.25 %, maturing July 1, 2031	$ 134.5
Series 2007A Refunding, interest from 4 to 5%, maturing July 1, 2024	90.0
Series 2008 Refunding, variable interest rate, maturing July 1, 2036	53.1
Total principal	277.6
Estimated interest through bond maturity [1]	273.2
Total estimated costs to repay senior bond obligations	$ 550.8

[1] Amount is net of bond premiums received when the bonds were sold. In addition, the amount is projected based on actual interest as of June 30, 2010, and estimated interest through July 1, 2036, using maturity schedules, and the interest rate and fixed pay swap structure agreement rate for the Series 2008 bond issue. The Authority entered the swap agreement to protect it from potential increases in the interest rate payable.

Source: Auditor General staff analysis of the Authority's fiscal years 2003 through 2009 general ledgers; fiscal year 2009 financial statements audited by an independent certified public accounting firm; fiscal year 2010 *Working Trial Balance* report; and bond offering statements.

The Cardinals contributed $148.2 million toward facility construction, but will be reimbursed $25 million that was not their obligation to pay.

- **Arizona Cardinals**—The Cardinals contributed $148.2 million toward facility construction and development costs. This amount included approximately $25 million that was not the Cardinals' obligation to pay but rather, similar to the site improvements, was originally the City of Glendale's obligation. In order to help ensure the facility was completed on time, the Cardinals agreed to fulfill these obligations. These costs included $17.8 million for land, $4.2 million for facility improvements, and $3 million for construction costs. Regarding the land costs, the Cardinals deeded approximately $2.8 million of the land to the Authority for the facility and retain the remaining $15 million of land around the facility, which includes the parking and grass areas.

  The Authority agreed to reimburse the Cardinals for fulfilling the City of Glendale's obligation. According to the Authority's facility-use fee agreement with the Cardinals, the Authority agreed to reimburse the Cardinals' additional $25 million contribution plus 5 percent interest annually from fiscal year 2006 until fully paid (see Introduction and Background, pages 1 to 13 for additional information). The agreement establishes a fee in the price of each ticket sold for events held at the facility, including Cardinals' games, to help repay the Authority for the additional senior bonds it issued to complete facility construction and reimburse the Cardinals for its additional $25 million contribution. Beginning in calendar year 2012, the agreement requires both the Authority and the Cardinals to use the revenue from their respective facility-use fees to begin reimbursing the Cardinals for the $25 million plus accrued interest. However, the Authority is required to use only the excess facility-use fee revenues that it does not need to pay the series 2008 bond debt service to contribute to the Cardinals' $25 million reimbursement. Despite the eventual reimbursement of the land costs, the Cardinals will retain ownership of the parking area and other land around the facility, which cost about $15 million.[1]

- **City of Glendale**—Although the City did not contribute toward the construction and development costs of the facility, it contributed $6.7 million for street improvements. In addition, as of June 30, 2010, the City has remitted nearly $8.8 million of sales tax revenue to the Authority to help repay bonds that the Authority issued to finance the site improvements, as described earlier on page 42.

The City of Glendale contributed $6.7 million for street improvements and remits some of its sales tax revenue to the Authority.

Ultimately, the Authority's contribution toward the construction and development of the facility is estimated to be $588.4 million, which includes the following:

- $550.8 million of repayments for the senior bond principal and interest as shown in Table 9 (see page 44); and

- $37.6 million of costs paid from the tourism, facility, and interest revenues as shown in Table 8 (see page 43).

However, the Authority's final and total contribution toward the construction and development of the facility is not known. This is because the Authority will make payments to reimburse the Cardinals for $25 million in facility costs that the Cardinals paid, but was not their obligation to pay, and the Authority will also receive sales tax revenues from the City of Glendale to help repay bonds that the Authority issued to finance facility site improvements. Thus, the $588.4 million authority contribution will be adjusted somewhat to reflect the payment and receipt of these monies.

Authority issued subordinate revenue bonds for Cactus League promotion—The Authority has issued a total of $32.4 million in subordinate revenue bonds. These bonds were issued in 2003 to promote the Cactus League by funding part of the construction costs for the City of Surprise Stadium. The subordinate bond proceeds funded approximately $32 million (or approximately 63.4 percent) of the City of Surprise Stadium's construction costs. The Authority projects that, with interest ranging from 2.25 to 5 percent, approximately $47.4 million will be paid to retire the subordinate bonds at the final maturity date, which is July 1, 2016.

As of June 30, 2010, the Authority had approximately $23.2 million of outstanding subordinate bond principal remaining. It has paid approximately $9.2 million of principal and $10.8 million of bond interest expenses between fiscal years 2006 and 2010.[2] Table 12 (see Chapter 5, page 59) details the City of Surprise Stadium's project costs and funding sources.

[1] The Cardinals will retain ownership of the land, despite reimbursement, because the Authority agreed to this arrangement. A.R.S. §5-802(C) exempts the Authority from Arizona's constitutional ban on providing gifts.

[2] Principal and interest payments include the payments due July 1, 2010. The monies to make these payments were deposited with the trustee as of June 30, 2010.

Glossary of bond terminology

- **Debt service payment**–The principal and interest amounts.
- **Bond indenture**–A legal agreement between the bond issuer and its bondholders, usually specifying interest rate, maturity date, pledged revenues, bond coverage, and other terms.
- **Pledged revenues**–The monies obligated for debt service payment as required by the bond indenture. For example, the Authority pledged hotel, car rental, NFL income, and recaptured sales taxes, Arizona Cardinals' rent, Fiesta Bowl and other facility-use fees, other facility-generated revenues, and interest for all of its bonded debt service payments.
- **Bond coverage**–The safety margin for debt service payment, reflecting the number of times by which pledged revenues for a period of time exceed debt service payable in such period.
- **Bond coverage ratio**–The amount of pledged revenues needed to meet annual debt service payment. A ratio of 1.0 indicates pledged revenues equal debt service payment for a period of time while a higher ratio indicates the pledged revenues are greater than the amount needed to pay debt service payment.
- **Trustee**–An administrator who manages a bond issue for a borrower and ensures that the issuer meets all the terms and conditions associated with the borrowing. Additionally, a trustee also controls bond proceeds and makes debt service payments.

Source: Auditor General staff review of authority official bond offering statements.

Authority meeting bond obligations with pledged revenues

According to the Authority's financial records, it has met its debt service requirements since the first required debt service payment (see glossary of bond terminology textbox) was made in fiscal year 2003. In addition, as shown in Table 10 (see page 47), the Authority's ability to meet future bond obligations appears favorable when judged against its historical bond coverage ratios. Specifically, if the bond ratio is higher than the minimum ratio required, it signifies a greater potential ability to repay the bond debt. For example, the senior and subordinate bond indentures (see textbox) require the Authority to maintain a minimum bond coverage ratio (see textbox) of 1.30 and 1.15, respectively. As shown in Table 10 (see page 47), the Authority has maintained a senior bond's ratio ranging from 2.18 to 3.19 for fiscal years 2004 through 2010, which exceeds the minimum 1.30 ratio. Similarly, the Authority has maintained a subordinate bond ratio, ranging from 1.35 to 2.00, which also exceeds the minimum 1.15 ratio.

According to the senior and subordinate bond offering statements, the Authority has pledged nearly all of its revenues to meet its debt service requirements for senior and subordinate bonds, except for revenues that are restricted for other purposes. As illustrated by its historical bond coverage ratios, these revenues have been more than sufficient to meet its debt service requirements.

Authority has reached debt capacity

The Authority does not have the capacity to incur additional debt. The Authority's debt capacity is affected by whether pledged revenues are sufficient to satisfy the senior and subordinate bond debt obligations, funding priorities established by statute, and facility and authority operations. The Authority's inability to incur additional debt is based on the following:

- **Cactus League and youth and amateur sports commitments—**After meeting the senior bond debt service payments and tourism promotion distributions, the next statutorily required funding priorities are Cactus League promotion and youth and amateur sports (see Figure 1 on page 7 for information on distribution

Table 10: Actual and Projected Senior Bond and Subordinate Bond Coverage Ratios through Fiscal Year 2016
As of June 30, 2010

Fiscal Year	Pledged Revenues [1] (in millions)	Senior Debt Service Requirements (in millions)	Senior Bond Coverage Ratio [2]	Tourism Distribution [3] (in millions)	Subordinate Debt Service Requirements (in millions)	Subordinate Bond Coverage Ratio [2]
2004	$ 24.29	$ 11.14	2.18	$ 4.43	$ 2.40	1.35
2005	25.96	11.14	2.33	4.65	2.37	1.43
2006	29.65	11.14	2.66	4.88	2.35	1.61
2007	40.41	12.65	3.19	5.13	2.46	2.00
2008	36.70	12.95	2.83	5.38	2.54	1.76
2009	33.44	12.92	2.59	5.65	3.60	1.51
2010	36.25	13.67	2.65	5.26	3.60	1.61
2011 to 2016 (Estimated)	231.79	95.20	2.43	39.35	27.60	1.43
Total	$ 458.49	$ 180.81	2.54	$ 74.73	$ 46.92	1.52

1 The Authority only pledged facility-use fees from Cardinals' home games for the Series 2008 bonds (see Introduction and Background pages 1 through 13 for further information); therefore, the amounts were not included as pledged revenues in this table. The inclusion of these monies would result in an increase to the Senior Bond Coverage Ratio of less than 0.23.

2 The Senior Bond Coverage ratio is calculated by dividing pledged revenues by senior debt service requirements. Similarly, the Subordinate Bond Coverage ratio is calculated by dividing pledged revenues by the total of the Senior Debt Service Requirements, Tourism Distribution, and Subordinate Debt Service Requirements.

3 A.R.S. §§5-834 and 5-835 require distributions for senior debt service requirements and tourism promotion before distribution for Cactus League, including debt service requirements.

Source: Auditor General staff analysis of the Authority's fiscal years 2004 through 2009 general ledgers and financial statements audited by an independent certified public accounting firm; fiscal year 2010 *Working Trial Balance* report; fiscal year 2011 *Annual Financial Budget* and related budget worksheets; and bond offering statements.

requirements). However, all Cactus League Promotion Account monies are used to either pay for its $32.4 million subordinate bond obligations or other Cactus League commitments as discussed in Chapter 5, pages 57 to 66. Similarly, as discussed in Chapter 6, pages 67 to 75, the Authority must also meet statutory requirements for providing funding to youth and amateur sports and as shown in Table 5, page 32, the Authority has experienced and is projecting revenue shortfalls in meeting these statutory requirements through fiscal year 2016. These funding commitments and requirements do not provide the Authority with additional capacity to issue debt.

- **Shortfalls in Operations and Reserves—**As discussed in Chapter 2, pages 27 to 40, the Authority is projecting it will have operating deficits for fiscal years 2011 through 2014 and in fiscal year 2014 its cumulative operating deficit is projected to total approximately $7.7 million. This projected cumulative operating deficit also suggests that the Authority does not appear to be in a position to obtain additional debt.

Bondholder recourse limited

The Authority's bonds are not obligations of the State.

If, for any unforeseen reason, the future pledged revenues are not sufficient to meet the bond debt service payments, the bondholders' legal recourse is limited. According to the senior and subordinate revenue bond offering statements, the bonds are not obligations of the State or enforceable against the Authority out of any monies other than the specified pledged revenues. In the event of default, bondholders that own a majority of the outstanding bond principal amount can sue the trustee (see textbox, page 46, for definition of a trustee) only if the trustee fails to fulfill its fiduciary responsibilities, such as exercising remedies. An example of such a remedy would be appointing an attorney for the bondholders who would have authority to make or file any document to receive distributable payments.

Although legal recourse is limited, some compensation may be available for the bond principal and interest payments that are insured or guaranteed. These bondholders can seek payments from the insurance company or the commercial bank that insured or guaranteed the scheduled principal and interest payments for the senior bonds.[1] Although the Authority did not purchase insurance for the subordinate bonds, the bond indenture requires that 10 percent of the total bond face value, or $3.24 million, be placed in trust in case the Authority cannot meet this bond debt's obligations. As of June 30, 2010, the Authority has fully funded this reserve. Bondholders can access these monies in the event of default but would have to meet certain legal provisions. For example, the bondholders holding the majority of the bonds must request in writing that the trustee exercise remedies in the event of default.

[1] The Series 2003A and 2007A senior bonds' scheduled principal and interest payments are guaranteed over the life of these insured bonds. The Series 2008 senior bonds' scheduled principal and interest payments are guaranteed until May 2011. However, according to an authority official, the Authority plans to continue its contract with a commercial bank to guarantee the Series 2008 bond principal and interest payments beyond May 2011.

Chapter 4

Authority has improved oversight of facility manager, but minor additional steps needed

The Arizona Sports and Tourism Authority (Authority) has implemented a more performance-based incentive fee structure for the manager of its multipurpose facility, but should continue to improve its oversight of this manager. The Authority contracts with a management company (facility manager) to provide all aspects of facility management and operations. In July 2009, and in response to a recommendation from the Office of the Auditor General's March 2009 report, the Authority amended its management agreement to include a more performance-based incentive fee structure. The March 2009 audit also recommended that the Authority improve its oversight of the facility manager, and while the Authority has taken some steps to do so, it needs to do more to ensure that the facility manager performs all preventative maintenance needed to prevent deterioration of the facility and that expenses for managing and operating the facility are necessary and reasonable.

> **Legislative audit mandate**
>
> The audit shall review and evaluate
>
> - The management agreement with the Authority's facility manager and any potential performance incentives the Authority may offer for increased facility revenues and decreased facility expenses.
> - Contract monitoring activities conducted by the Authority with respect to the facility manager's performance with respect to financial accountability, event settlements, preventative maintenance, box office services, and other areas of performance.

Authority contracts for facility management, operations, and maintenance

The Authority is responsible for managing and operating the multipurpose facility known as the University of Phoenix Stadium. In order to fulfill this responsibility, the Authority has contracted with a facility manager. As outlined in its agreement with the Authority, the facility manager is responsible for all aspects of facility management and operations, including:

- **General management and operations—**This includes marketing the facility, scheduling and booking facility events, maximizing the revenues from those events, and acquiring applicable permits, such as local and state permits needed for certain event activities. As of July 2010, the facility manager works with the Authority and a second event management company to coordinate event marketing and scheduling.[1]

- **Managing facility employees—**The facility manager recruits, trains, supervises, and directs the employees needed to operate and maintain the facility. The facility manager has reduced the number of its full-time employees from 54 in fiscal year 2009 to 32 as of June 30, 2010, representing a nearly 41 percent reduction in staffing. In addition, the facility manager hires part-time staff, specialists, and/or subcontractors, as needed, to manage and operate the facility.

- **Maintenance, engineering, and custodial services—**This includes providing maintenance, upkeep, and custodial services for the facility structure and all related components, such as the retractable roof and retractable field, and the facility's electrical, plumbing, and central air conditioning systems. According to the facility manager, it provides these services for the facility, supplementing its own staff with vendors or subcontractors where needed.

- **Security and crowd control—**The facility manager is responsible for providing and arranging for security at the facility at all times, including during facility events. The facility manager has contracted with a security personnel company to provide facility security.

- **Concessionaire management—**In February 2010, the Authority and the Arizona Cardinals contracted with a company to provide concessions at the facility. The facility manager oversees the concessionaire and associated agreement.

- **Administration of the facility's bank account—**The facility manager pays all of its expenses incurred in managing and operating the facility directly from an authority bank account that the Authority authorized the facility manager to establish for this purpose. In addition, the facility manager deposits facility-related revenues that it receives into the account.

Authority has revised facility manager fee structure

The Authority has amended its facility management agreement to lower the fixed portion of the management fee and to base the rest of the management fee more heavily on specific performance criteria rather than on a percentage of total revenues.

[1] Although the contract terms became effective in July 2010, the contract was entered into in February 2010.

Facility manager's annual fixed management fee reduced—To assist the Authority with its financial situation, the facility manager agreed to reduce its annual fixed management fee beginning in fiscal year 2010. In the original facility management agreement, the facility manager received a $200,000 fixed management fee for the first 12-month period beginning in August 2006 that increased annually by $30,000. Specifically, the facility manager received fixed annual management fees of $200,000, $230,000, and $260,000 in the first 3 years of stadium operations, respectively.

To assist the Authority with its financial situation, the facility manager agreed to reduce its annual fixed management fee.

The Authority and the facility manager revised their agreement in July 2009 to reduce the annual fixed management fee. As illustrated in Table 11 (see page 52), the facility manager received an annual fixed management fee of $12,500 per month between July 1, 2009 and March 31, 2010, and is scheduled to receive annual fixed management fees of $12,500 per month between April 1, 2010 and June 30, 2011, growing to $13,781 per month by fiscal year 2013.

Authority established more performance-based incentive fee—Consistent with the recommendation from the Office of the Auditor General's March 2009 performance audit (see Report No. 09-04), the Authority has revised the incentive fee structure in its facility manager agreement to make it more performance-based. The original facility management agreement provided for an annual incentive fee that consisted of an objective and a subjective component. For the objective incentive fee, the facility manager earned a fee equal to 5 percent of all adjusted operating revenue not obtained from Arizona Cardinals (Cardinals) and Fiesta Bowl events, up to 50 percent of the management fee. This was regardless of whether these revenues increased or decreased. The Authority, the Cardinals, and the Fiesta Bowl each independently established criteria to determine the subjective portion of the incentive fee, which could also total up to 50 percent of the potential incentive fee.

The original incentive fee structure was less performance-based than stadium management agreements at other National Football League (NFL) stadiums. A May 2006 Louisiana Legislative Auditor performance audit reviewed six NFL stadium management agreements, including the Authority's agreement, and found that some of the other agreements based their incentive fees on the achievement of specific predetermined operating goals or benchmarks.[1] Arizona had the only agreement that provided incentive fees based simply on a percentage of revenues. As a result, the Office of the Auditor General's March 2009 performance audit recommended that the Authority continue with its plans to review and revise its incentive fee structure.

In July 2009 and again in April 2010, the Authority amended its facility management agreement and revised both the objective and subjective portions of the incentive fee. Specifically:

[1] Louisiana Legislative Auditor. (2006). *Louisiana stadium and exposition district: Superdome/Arena management agreement State of Louisiana* (Performance Audit Report-Audit Control #06301565). Retrieved September 09, 2010, from http://app1.lla.state.la.us/PublicReports.nsf/EFB6A92FAC3D8AB086257163006C361F/$FILE/000018B6.pdf

Table 11: Facility Manager Fee Schedule
August 11, 2006 through June 30, 2013

Fee Period	Monthly Fixed Fee	Objective Incentive Fee	Subjective Incentive Fee	Total Fee[1]
Actual:				
August 11, 2006-August 10, 2007	$ 16,667	$ 100,000	$ 82,250	$ 382,254
August 11, 2007-August 10, 2008	19,167	115,000	97,693	442,697
August 11, 2008-June 30, 2009 [2]	21,667	89,700	115,050	443,087
Projected: [3]				
July 1, 2009-March 31, 2010	12,500	NA [4]	50,000	162,500
April 1, 2010-June 30, 2010	12,500	NA [4]	NA [4]	37,500
July 1, 2010-June 30, 2011	12,500	100,000	50,000	300,000
July 1, 2011 June 30, 2012	13,125	105,000	52,500	315,000
July 1, 2012-June 30, 2013	13,781	110,250	55,125	330,747

1 Amounts are calculated by multiplying the monthly fixed fee by the number of months in the fee period and adding the objective and subjective incentive fees.

2 The Authority amended its facility management agreement on July 1, 2009, ending the August 11, 2008 through August 10, 2009, fee period on June 30, 2009. In addition, according to the Authority, it paid 11 monthly installments of $21,667 for this fee period.

3 Objective incentive fees for 2010 through 2013 may vary depending on whether the facility manager meets incentive fee criteria identified in the Authority's annual budget. Similarly, the subjective incentive fee for 2010 through 2013 may vary based on facility manager performance evaluations provided by the Cardinals and the Fiesta Bowl.

4 For these periods the noted incentives were not applicable because the Authority's facility management agreement did not provide for these fees.

Source: Auditor General staff review of the May 2004 facility management agreement; July 2009 and April 2010 amendments to the facility management agreement; facility manager incentive evaluation forms; facility manager incentive fee proposal; and other information provided by the Authority.

- **Objective incentive fee based on specific goals and targets**—Changes to the facility management agreement revised both the amount and determination of the objective incentive fee starting in fiscal year 2010. As part of the Authority's cost reduction plan, from July 1, 2009 to June 30, 2010, the Authority's facility management agreement did not include an objective incentive fee. Beginning July 1, 2010 through June 30, 2013, the facility manager is eligible to receive an objective incentive fee equal to two-thirds of the annual management fee. For example, in fiscal year 2011, the facility manager can receive an objective incentive fee up to $100,000. The amended facility management agreement bases the objective incentive fee on five incentive fee criteria (see textbox, page 53).

Each criteria element will account for 20 percent of the total objective incentive fee and has been assigned an annual goal. To determine the objective incentive fee, the Authority will assess the facility manager's performance in each of the criteria in relationship to the associated goal.

Objective incentive fee criteria

Criteria	Annual Goal[1]
Attendance	325,185
Tax recapture	$830,850
Food and beverage	$338,457
Number of events	101
Facility-use fees	$260,721

1 Goals represent the goals assigned to each criterion in the Authority's fiscal year 2011 annual budget. The Authority will set annual goal levels in the fiscal year budget.

Source: Auditor General staff review of the facility manager incentive fee documentation and the Authority's fiscal year 2011 annual budget.

- **Subjective incentive fee more clearly tied to evaluations**—Based on revisions to the facility management agreement, the subjective incentive fee can potentially total one-third of the annual management fee. From July 1, 2009 to March 31, 2010, the award was based on evaluations by the Cardinals and the Fiesta Bowl and could have totaled up to $50,000. As of September 10, 2010, the subjective portion of the incentive fee for the July 1, 2009 to the March 31, 2010, time frame was still to be determined. In addition, the subjective portion of the incentive fee was not available from April 1, 2010 to June 30, 2010. However, according to the management agreement, beginning in fiscal year 2011, the Cardinals and Fiesta Bowl may recommend that the facility manager receive the subjective incentive fee based on their evaluations of the facility manager's performance. The Authority will then determine whether or not to award the subjective portion of the incentive fee.

The Authority determines whether to award the subjective incentive fee to the facility manager based in part on recommendations from the Cardinals and the Fiesta Bowl.

Authority should continue to improve facility manager oversight

The Authority has improved its facility manager contract oversight but additional steps are needed. The Office of the Auditor General's March 2009 performance audit recommended that the Authority improve its oversight of the facility manager. Although the Authority has taken some steps to improve its oversight of the facility manager, such as implementing procedures for reviewing facility manager event settlements, additional steps are needed to further improve its oversight.

Box office services supported by written agreements—Consistent with the 2009 audit report's recommendation, in September 2009, the facility manager established a formal written agreement with the Cardinals for box office services. The Cardinals provide box office services not only for their games, but also for the majority of facility events. The written agreement details the compensation that the Cardinals will receive for their services, as well as the Cardinals' expectations relating to the scope of work for box office services.

Authority's review of event settlements has improved—As of July 2010, the Authority has implemented procedures for reviewing individual facility manager event settlements. As indicated in the 2009 audit report, the facility manager performs an event settlement for all facility events, except for Cardinals games, because the Authority pays all the Cardinals' home game day expenses. During the event settlement, the facility manager meets with the event promoter to discuss and determine the amount owed to or by the event promoter. The amount owed to or by the promoter is based on the contract with the promoter, revenues collected on the promoter's behalf, estimated costs prior to the event, and any changes to these estimated costs based on actual costs incurred during an event.

The Authority has established procedures for reviewing event settlements.

The Authority's new event settlement review procedures allow it to better ensure that the facility manager is adequately reconciling event settlements. According to the Authority, as part of the contract oversight of the facility manager, the Authority reviews at least one event settlement each month. Based on the number of events hosted by the multipurpose facility annually, this sample represents approximately 10 percent of total event settlements. Additionally, the Authority's procedures specify the parameters of an event settlement review (see textbox). Specifically, during event settlement reviews authority staff complete a five-step process that includes a general review of event documents such as licensing agreements and settlement statements. In addition, this process requires staff to reconcile four specific pieces of financial information documented on the event settlement sheet or the event income statement to supporting documentation contained in the event settlement file. For example, authority staff reconcile revenues received from ticket sales as reported on the event settlement sheet to revenues documented on the ticket report received from the box office.

Authority event settlement review procedures
Step 1- Review promoter settlement/license agreement to gain an understanding of event and items charged to the promoter.
Step 2- Tie ticket sales from promoter settlement to ticket report provided by the box office.
Step 3- Tie final total due/from promoter to payment/receipt as evidenced in file.
Step 4- Review the income statement for the event.
Step 5- Select two expenses from the income statement and reconcile with invoices.

Source: Auditor General staff review and observation of the Authority's event settlement review procedures.

Authority has improved preventative maintenance oversight, but additional steps needed—As indicated in the 2009 audit report, the Authority discussed preventative maintenance with the facility manager at its monthly meetings and received preventative maintenance documentation. However, according to authority officials, the Authority did not periodically review the preventative maintenance schedule or other relevant documentation to ensure that preventative maintenance had been completed.

The Authority continues to discuss preventative maintenance in the monthly meeting, and also reviews monthly and quarterly reports, which list the maintenance performed. However, these reports do not document the completion dates of the maintenance activities or whether maintenance was performed according to the facility manager's preventative maintenance schedule. Therefore, although the Authority is aware that a repair has been made, the Authority does not know if the preventative maintenance schedule was followed and does not oversee the facility manager's efforts to follow this schedule.

According to the facility manager's Operation and Maintenance Plan, preventative maintenance is one of the most important components of facility management because it protects the facility, ensures smooth operations of events, minimizes costly emergency repairs, and helps protect the safety of attendees. In addition, overseeing maintenance to help ensure that components do not prematurely fail is particularly important because the Authority has not funded any reserves for facility capital equipment repair and replacement (see Chapter 2, page 34).

Authority officials indicated that the Authority does not verify the completion of preventative maintenance because the facility manager has a vested interest in ensuring that it is done, and if preventative maintenance was not being done, then facility tenants, such as the concessionaire and the football team, would observe items that were not maintained appropriately and complain to the Authority. However, if facility tenants notify the Authority of items in disrepair, these items are likely to be past the point when preventative maintenance should have been performed. In addition, tenants would be unable to observe some required preventative maintenance activities, such as preventative maintenance completed on sump pumps, air conditioning units, and facility electrical components, but it is still important that they are done in a timely manner in order to prevent disrepair.

The Authority should take steps to ensure that the facility manager performs preventative maintenance according to its preventative maintenance schedule. For example, the Authority should require the facility manager to include maintenance completion dates on the quarterly and monthly maintenance reports that it provides to the Authority. These reports should also include whether each preventative maintenance item listed on the report was completed according to the preventative maintenance schedule. In addition, the Authority should require staff to select a small sample of planned preventative maintenance from the preventative maintenance schedule to verify that preventative maintenance is being performed in a timely manner. Authority staff should also determine, based on resources available, how frequently these samples should be reviewed.

The Authority should ensure that the facility manager performs preventative maintenance according to the schedule.

Authority performs only limited review of facility manager expenses—

In contrast to the 2009 audit report's recommendations, the Authority continues to perform only a limited review of the facility manager's expenses. Specifically, according to the 2009 report, the Authority approved the facility manager's operating budget and quarterly funding requests, which auditors found did not provide sufficient detail to identify potential problems or give a detailed picture of how the facility manager spends its budget. The 2009 audit report recommended that the Authority expand its review of facility manager expenses by reviewing the detail of a sample of facility expenses, monthly check registers, and bank reconciliations, based on available resources.

Although the Authority reviews facility manager financial and expense information on a monthly basis, its review is too limited to provide sufficient assurance that the facility manager's expenses are necessary and reasonable to manage and operate the facility. Specifically, as part of its event settlement review process, which involves reviewing at least one event settlement monthly, the Authority reconciles event revenues and selects two event expenses, such as police and catering service expenses, to review in detail. However, the Authority has not expanded its review of the facility manager's expenses to include indirect expenses such as payroll, employee training, or other office expenses, such as telephone or postage expenses, monthly check registers, and bank reconciliations. This limited review does not allow the Authority to identify any expenses not needed to efficiently manage and operate the facility, or any expenses that should not be paid by the Authority.

The Authority should expand its review of facility manager expenses.

The Authority should expand its review of facility manager expenses, including implementing a process for reviewing monthly check registers and bank reconciliations and, based on resources available, determine a frequency for selecting a sample of both direct and indirect expenses for an in-depth review.

Recommendations:

4.1. The Authority should take steps to ensure that the facility manager performs preventative maintenance according to its preventative maintenance schedule by:

   a. Requiring the facility manager to include maintenance completion dates on its monthly and quarterly reports; and

   b. Selecting a small sample of planned preventative maintenance projects from the preventative maintenance schedule to verify that preventative maintenance is performed in a timely manner. Authority staff should also determine based on resources available, how frequently these samples should be reviewed.

4.2. The Authority should expand its review of facility manager expenses, including implementing a process for reviewing monthly check registers and bank reconciliations and, based on resources available, determine a frequency for selecting a sample of both direct and indirect expenses for an in-depth review.

Chapter 5

Authority complying with Cactus League statutory requirements, but revenue shortfall will affect ability to meet planned commitments

The Arizona Sports and Tourism Authority (Authority) has either provided funding or committed funding to the renovation and/or construction of six different Cactus League spring training baseball facilities (spring training facilities). Specifically, statutes require the Authority to spend $205 million for Cactus League promotion by fiscal year 2031 if sufficient revenues are available. Since its inception, the Authority has either spent or committed a total of more than $198 million for this purpose, including funding for three new spring training facilities in Surprise, Glendale, and Goodyear. Although the Authority is complying with the Cactus League requirements, it projects that revenue shortfalls will affect its ability to fully meet its planned commitments to two of these six spring training facilities. Finally, the Authority has planned for future renovations of existing spring training facilities. The Office of the Auditor General is making no recommendations about the matters discussed in this chapter.

Legislative audit mandate

The audit shall review and evaluate:

- All contracts and final memoranda of understandings entered into by the Authority to acquire land or construct, finance, furnish, improve, market, or promote the use of existing or proposed major league baseball spring training facilities for the purpose of acquiring or retaining major league baseball spring training operations.
- A description of the financing assistance provided by the Authority pursuant to Arizona Revised Statutes (A.R.S.) §5-808, with respect to each major league baseball spring training facility.
- The sources of monies to be used, or pledged for use, by the county, city, or town to repay its obligation as presented in the Authority's contract or final memorandum of understanding for major league baseball spring training facilities under A.R.S. §5-808.
- The legal recourse of holders of bonds issued by the county, city, or town in the event of default by the county, city, or town in making scheduled debt service payments.
- The level of financial participation from each major league baseball team using spring training facilities constructed with financial participation by the Authority pursuant to A.R.S. §5-808.

Statute requires Authority to renovate or construct new Cactus League facilities

According to A.R.S. §5-808, the Authority may use monies in the Cactus League Promotion Account (CLPA), which consists of the hotel bed tax and car rental surcharge, to attract new Major League Baseball (MLB) teams to the Cactus League and retain the existing Cactus League teams that conduct spring training in Maricopa County. It also allows the Authority to acquire land or construct, finance, furnish, improve, market, or promote the use of existing and proposed MLB spring training facilities. Specifically, A.R.S. §5-835(B)(3) requires the Authority to spend $205 million through fiscal year 2031 for Cactus League promotion if sufficient revenues are available. Further, A.R.S. §5-837(C) allows the Authority to issue bonds and use monies in the CLPA to secure bonds or other debt obligations to provide monies for Cactus League promotion.

Additionally, the Authority entered into a 2003 agreement with the Maricopa County Stadium District (District) to receive the District's car rental surcharge revenues that are not needed to retire the District's Cactus League bonds. The Authority will receive the full surcharge when these bonds are retired in June 2019. According to the agreement, the Authority can use only the District's portion of the surcharge for Cactus League projects.

In January 2010, the Authority projected it would have $287.4 million in revenues that would be available for Cactus League projects.

In January 2010, the Authority projected that, through fiscal year 2031, it will distribute approximately $146.8 million to its CLPA and receive $140.6 million from its agreement with the District for a total of $287.4 million in revenues that will be available for Cactus League projects. The Authority has already committed all of these monies for Cactus League projects through fiscal year 2031. However, as discussed on pages 62 through 64, tourism revenue shortfalls will affect the Authority's ability to fully meet some of its commitments to two cities.

Cactus League facilities involve Authority's financial assistance and commitments

To comply with the Cactus League statutory requirements, the Authority entered into intergovernmental agreements (agreements) with six cities to fund the construction or renovation of their spring training facilities. Specifically, the Authority has entered into agreements with the Cities of Surprise, Glendale, and Goodyear to provide funding for the construction of three new facilities; and the Cities of Phoenix, Tempe, and Scottsdale to renovate their existing facilities. The three newly constructed facilities have attracted six new MLB teams to the Cactus League and renovations to the three existing facilities will help to retain their three teams. Table 12 (see page 59) illustrates the Authority's financial assistance of approximately $36.3 million that it has already provided to the cities, the Authority's future commitment of about $161.9 million for these facilities, and each facility's project costs, type, completion year, and funding amounts by the Authority, city, and MLB team. These various organizations have either already contributed or have committed to contribute the following:

Table 12: Cactus League Completed Projects, Project Costs, and Funding Sources Fiscal Years 2002 through 2010 (In Millions) (Unaudited)

Facility Completion Year	City	Facility	Project Type	MLB Team(s)	Facility Project Cost	Project Funding (Paid and/or Committed) Authority	City [1]	Team	Source of Cities' Contributions
Authority's financial assistance paid with bond and CLPA monies:									
2003	Surprise	Surprise Stadium	New	Texas Rangers	$ 50.5 [2]	$ 32.0	$ 17.7	$ 0.4	Excise tax revenue bond proceeds
				Kansas City Royals				0.4	
2004	Phoenix	Phoenix Municipal Stadium	Renovation	Oakland Athletics	6.5	4.3	2.2	-	Hotel excise taxes from Downtown Arena Fund
Authority's commitments being repaid to cities:									
2006	Tempe	Tempe Diablo Stadium	Renovation	Los Angeles Angels	21.9	12.0	8.1	1.8	Excise tax revenue bond proceeds, and the city's general and community service capital project funds
2007	Scottsdale	Scottsdale Stadium	Renovation	San Francisco Giants	25.3	20.0	5.3	- [3]	Excise tax revenue bond proceeds and city's general fund
Authority's commitments planned to be repaid to cities, including commitments after February 2031:									
2009	Glendale	Camelback Ranch	New	Chicago White Sox	118.7 [2]	60.0	47.8	2.6	Excise tax revenue bond proceeds and city's general fund
				Los Angeles Dodgers				8.3	
2009 [4]	Goodyear	Goodyear Ballpark	New	Cleveland Indians	111.3 [2]	37.4 [5]	36.1	2.4	Municipal facilities revenue and general obligation bond proceeds, and interest earned on bond proceeds
						12.5 [5]			
2010 [4]				Cincinnati Reds		20.0 [5]		2.9	

1 City's share of funding is its project cost net of the authority and team paid/committed amounts. The Cities of Tempe, Scottsdale, Glendale, and Goodyear initially paid the Authority's commitments, which are being repaid as CLPA monies become available according to the Authority's funding prioritization (see Table 14 on page 64). In addition, the City of Scottsdale is also being repaid with up to $6.7 million of monies from the Maricopa County Stadium District car rental surcharges. The Authority began its repayments to the Cities of Scottsdale and Tempe in 2005 and 2006, respectively, and projects that it will begin its repayments to the Cities of Glendale and Goodyear in 2021.

2 Project cost includes approximately $5.5 million of land and site improvement for the City of Surprise and $10 million of land for the City of Goodyear because these costs were included in the calculation of authority funding. Further, it excludes approximately $18.5 million of donated infrastructure that the City of Goodyear received and $4.6 million of land that the City of Glendale purchased over 26 years ago.

3 Although the San Francisco Giants did not contribute to the renovation costs, the team agreed to impose a $1 surcharge on each ticket sold for all of its spring training baseball games to repay the City of Scottsdale's construction costs and bonded debt service payments for the bonds issued for the stadium. According to the facility agreement between the City and the team, the ticket surcharge should continue for 20 years beginning in 2004 or until all of the incurred debt and construction costs have been repaid, whichever occurs first. As of April 2010, approximately $1 million of ticket surcharge fees have been collected and remitted to the City.

4 The Goodyear Ballpark and Cleveland Indians Development Complex were completed in 2009 and the Cincinnati Reds Development Complex was completed in 2010.

5 The Authority amended its contract with the City of Goodyear to commit Cactus League monies if they are available after fiscal year 2031 because the City changed its planned spring training facility from a new 1-team to a 2-team facility. Initially, the Authority committed $37.4 million to the City for the Goodyear Ballpark and the Cleveland Indians Development Complex. Consistent with its funding criteria, the Authority's $37.4 million commitment represented one half the cost of the 1-team facility. However, when the City of Goodyear expanded to a 2-team facility, the Authority increased its commitment by $12.5 million to fund up to two-thirds of the total project costs based on its own funding criteria for 2-team facilities (see Table 14 on page 64 for prioritization). In addition, the Authority committed approximately $20 million to fund the Cincinnati Reds Development Complex.

Source: Auditor General staff analysis of the Authority's fiscal year 2009 financial statements audited by an independent certified public accounting firm; intergovernmental agreements and amendments between the Authority and cities that were entered into in fiscal years 2001 through 2009; and financial records, bond offering statements, and other information provided by the cities.

The Authority has contributed and committed approximately $198.2 million to six cities for Cactus League spring training facilities.

- **Authority's financial assistance and commitments—**Since fiscal year 2001, the Authority has contributed and committed to contribute approximately $198.2 million to either construct new spring training facilities or renovate existing facilities. Specifically:

  - In fiscal years 2002 and 2003, the Authority contributed $36.3 million to fund part of the construction costs for a new two-team facility in the City of Surprise and renovation costs for the City of Phoenix Municipal Stadium, an existing one-team facility. The Authority contributed $4.3 million from the CLPA for the City of Phoenix's project and issued $32.4 million in subordinate revenue bonds (bonds) in 2003 that provided all of the monies for the City of Surprise's project. The Authority projects that its final contributions for this project will be approximately $47.4 million, which includes repayments for the bond principal, bond interest, and bond issuance costs. The total outstanding bonds payable as of June 30, 2010, was approximately $23.2 million and the final maturity date for these bonds is July 1, 2016. For additional information on the Authority's bond obligations and debt capacity, see Chapter 3, pages 41 to 48.

  - Between fiscal years 2005 and 2007, the Authority committed approximately $161.9 million of the future revenues that it projected to receive to four additional cities for the construction of two new and renovation of two existing spring training facilities, as shown in Table 12 (see page 59). The Cities of Glendale and Goodyear both constructed new two-team facilities, which attracted a total of four new MLB teams to the Cactus League. The Cities of Tempe and Scottsdale both renovated their existing 1-team spring training facilities. According to the funding agreements that the Authority entered into with these four cities, each city must fund 100 percent of its spring training facility's construction or renovation project and the Authority agrees to make payments to these cities, in the amount of 50 to 66 percent of the total project costs, as funding becomes available through the CLPA and the Maricopa County Stadium District's car rental surcharge revenues. According to these agreements, the Authority has also agreed to pay interest on the outstanding principal balance at the lesser of the actual rate each city secured through its project financing or 5 percent a year. Interest is estimated to total $214 million by the end of the project financing maturity dates, which range from 2021 to 2031.

    Since fiscal year 2005, the Authority has paid the City of Tempe approximately $800,000 and the City of Scottsdale approximately $5.5 million in principal and interest payments. According to an authority official, it anticipates beginning its payments to the Cites of Glendale and Goodyear in fiscal year 2021. As of June 30, 2010, the Authority has accrued and owes the following amounts to these four cities. These amounts do not include projected interest amounts beyond June 30, 2010. Specifically:

- City of Tempe—Approximately $13.9 million;
- City of Scottsdale—Approximately $18.8 million;
- City of Glendale—Approximately $64.2 million; and
- City of Goodyear—Approximately $39.9 million.[1]

- **City funding sources—**As shown in Table 12 (see page 59), of the six cities that received financial assistance or commitments of future financial assistance from the Authority to construct or renovate their spring training facilities, the City of Phoenix used hotel excise tax from its Downtown Arena Fund to pay for its renovation project. The remaining five cities issued revenue bonds to fund the majority of their construction or renovation projects. In addition to the revenue bonds, the City of Goodyear issued general obligation bonds. As shown in Table 12, the Cities of Scottsdale, Tempe, and Glendale also used city general fund monies to help pay for their spring training facility construction or renovation costs, while the City of Goodyear received infrastructure for its spring training facility from a private donor.

  Five of the six cities that built new or renovated existing spring training facilities issued bonds to fund project costs.

  The cities spent about $270.3 million in total of bond proceeds for their projects. According to the cities' official bond offering statements, the cities pledged their unrestricted excise taxes and property taxes to secure their outstanding revenue and general obligation bonds, respectively.[2,3] If the pledged excise tax or property tax revenues are not sufficient to meet the debt service payments, the bondholders' legal recourse is limited. According to the bond offering statements, in general, bondholders that own a majority of outstanding bond principal amount can sue only the trustee if the trustee fails to fulfill its fiduciary responsibilities. Although legal recourse is limited, some compensation is available for bondholders of five of the eight bonds issued by the cities, which are insured by an insurance company. These bondholders can seek payments from the insurance company through a financial guaranty insurance policy.[4]

- **MLB team financial participation—**According to the cities' officials and their financial records, seven of the nine MLB teams using the spring training facilities

1 Although the Authority signed an amendment to increase its funding for the City of Goodyear's facility by approximately $32.5 million, this additional funding is committed if Cactus League monies are available after fiscal year 2031 or after all other Cactus League commitments are satisfied. Therefore, the Authority does not treat it as a liability on its accounting records.

2 The bonds for all but the City of Tempe were issued through nonprofit corporations formed to aid and assist the four cities in financing municipal facilities. The four cities pay the corporation installment or lease rental payments that are used to pay bond principal and interest payments. Unrestricted excise taxes generally consist of transaction privilege taxes (sales and use taxes); state shared sales taxes; state revenue sharing; franchise taxes; permits and fees; and fines and forfeitures, which are not earmarked by the contributor for a contrary or inconsistent purpose.

3 Property taxes are to be levied on all of the taxable property located within city boundaries, without limit as to rate or amount.

4 The five insured bonds include the following: City of Surprise Municipal Property Corporation Excise Tax Revenue Bonds, Series 2000; City of Surprise Municipal Property Corporation Excise Tax Revenue Refunding Bonds, Series 2003; City of Scottsdale Municipal Property Corporation Excise Tax Revenue Bonds, Series 2005; City of Goodyear General Obligation Bonds, Series 2007; and City of Goodyear Arizona Public Improvement Corporation Municipal Facilities Revenue Bonds, Series 2007A.

contributed a total of about $18.8 million toward construction or renovation costs. Table 12 (see page 59) details each team's contribution. Further, according to the facility-use agreements between the cities and their MLB teams, most of the teams share their ticket sales and concession revenues with the cities and pay most of the facilities' operational and maintenance costs. For example, all teams provide for janitorial services and customary costs for game day expenses such as supplies, umpires, ticket takers, and attendants. The facilities' operating revenues and operating and maintenance costs are summarized in Appendix C for each team (see Appendix C, pages c-i through c-iv).

Tourism revenue shortfall will affect Authority's ability to meet planned commitments to two cities

The Authority projects that it will not be able to provide almost $164.8 million committed to the cities of Glendale and Goodyear because of projected tourism revenue shortfalls.

The Authority projects that it will not have the necessary tourism revenue to fully meet two of its planned commitments for spring training facility projects as specified in the associated agreements. As shown in Table 13 (see page 63), the Authority has met or anticipates fully meeting commitments to the Cities of Surprise, Phoenix, Scottsdale, and Tempe, but not to the Cities of Glendale and Goodyear. Specifically, the Authority's January 2010 revenue projection estimated the total monies through fiscal year 2031 for these six spring training facility projects to be $395.1 million, including $229.4 million of estimated interest and bond issuance costs. However, because of projected tourism revenue shortfalls, the Authority projects that it will not be able to provide almost $164.8 million in planned commitments to the Cities of Glendale and Goodyear. As a result, these cities may not be fully reimbursed by the Authority for constructed spring training facilities.

As indicated in Chapter 2, page 38, projecting long-term revenues can be challenging. For example, in fiscal year 2009, the Authority projected that tourism tax revenues would fully fund the commitments to the Cities of Tempe and Scottsdale by 2017. However, because of continuing tourism tax revenue shortfalls brought about by the downturn in the Arizona economy, the Authority's January 2010 tourism tax revenue projection shows that distributions from these revenues will not fully satisfy these commitments until 2020. Based on the January 2010 projection of the tourism tax revenues and as shown in Table 13 (see page 63), the Authority projects that $230.3 million will be distributed through fiscal year 2031 to Cactus League cities, but the actual amount distributed could be higher or lower depending on the actual revenues the Authority receives during this time. Consequently, the $164.8 million Cactus League shortfall presented in Table 13 could also be higher or lower depending on the revenues the Authority receives through fiscal year 2031.

However, the Authority prioritized these spring training facility projects in the funding agreements, and its funding for these projects is based on this prioritization and available revenues. Specifically, as outlined in the agreements, the Authority is not obligated to pay committed amounts to the cities if it has insufficient monies to do

Table 13: Cactus League Financial Assistance, Planned Commitments, and Projected Tourism Revenue Shortfall[1] As of January 2010 [2] (In Millions) (Unaudited)

City	Cactus League Financial Assistance and Planned Commitments: Interest Rates	Amount Spent or Committed	Interest and Bond Issuance Costs	Total	Projections through Fiscal Year 2031: Payments	Tourism Revenue Shortfall for Planned Commitments
Surprise [3]	2.25 - 5.0 %	$ 32.0	$ 15.4	$ 47.4	$ 47.4	
Phoenix	NA [4]	4.3	NA [4]	4.3	4.3	
Scottsdale	4.5	20.0	11.7	31.7	31.7	
Tempe	4.4	12.0	8.6	20.6	20.6	
Glendale	5.0	60.0	127.8	187.8	78.9	$ (108.9)
Goodyear:						
Original agreement	4.8	37.4	65.9	103.3	47.4	(55.9)
Amendment [5]	NA	32.5	NA	NA	NA	NA
Total		$ 198.2	$ 229.4	$ 395.1	$ 230.3	$ (164.8)

1 Tourism revenue consists of monies from the CLPA and the Maricopa County Stadium District car rental surcharges.

2 Projections are through fiscal year 2031, when the hotel bed tax and car rental surcharge expire.

3 Amounts presented are for the repayment of the $32.4 million subordinate bond proceeds the Authority used for its contribution toward the City of Surprise's Stadium.

4 Interest rates and interest and bond issuance costs are not applicable to the City of Phoenix because the Authority paid its financial assistance in full to the City with CLPA monies upon completion of the City's renovation of its spring training facility.

5 The City of Goodyear principal commitment is presented to show all Cactus League commitments but the interest and revenue shortfall are not presented because the committed Cactus League monies extend beyond fiscal year 2031. Specifically, an amendment was made to the original contract with the City of Goodyear to commit Cactus League monies if they are available after fiscal year 2031, when the hotel bed tax and car rental surcharge expire or after all other Cactus League commitments are satisfied. The additional funding was committed because the City of Goodyear had changed its initial planned spring training facility from a new 1-team to a new 2-team facility. The Authority increased its commitment by $12.5 million to change from funding one-half to not to exceed two-thirds of the total project costs based on its own funding criteria and prioritization (see Table 14 on page 64 for prioritization). In addition, it committed approximately $20 million in its amendment to fund the Cincinnati Reds Development Complex.

Source: Auditor General staff analysis of the Authority's January 2010 Cactus League projections; subordinate bond offering statement; intergovernmental agreements and amendments between the Authority and cities that were entered into in fiscal years 2001 through 2009; and the Authority's fiscal year 2009 financial statements audited by an independent public accounting firm.

so. As shown in Table 14 and according to the Authority's Cactus League agreements with these cities, the Authority must first satisfy the debt obligation associated with the subordinate bonds it issued to provide funding to the City of Surprise for its spring training facility. Next, the cities of Scottsdale and Tempe receive available authority monies for their renovated spring training facilities. Future renovations of existing spring training facilities, which are discussed further below, are then next in line for authority funding. Finally, the Cities of Glendale and Goodyear will receive any remaining authority monies for their newly constructed spring training facilities. Because these two cities are the lowest priority for available authority monies, they are at the greatest risk for not receiving all of the funding committed by the Authority.

Table 14: Cactus League Funding Prioritizations
As of June 30, 2010

Funding Priority	Funding Commitments
Prior Authority Cactus League funding commitments:	
1a	Subordinate bond debt service for Surprise facility
1b	Tempe/Scottsdale facility renovations[1]
1c	Future renovations (for teams with leases expiring between 2012 and 2022)
1d	(i) Glendale two-team facility new construction (ii) Goodyear priority funding commitment[2]
Prior to February 2031, if the Glendale/Goodyear prior obligations are repaid then Maricopa County Stadium District (District) monies received by the Authority will be distributed according to the following:	
2	(i) Up to 50% reserved for future renovation projects including facilities with leases expiring prior to 2031 (ii) 50% to Goodyear supplemental contribution[3]
After February 2031, or later if necessary:	
3	All district funds received by the Authority will be reserved for future renovations including facilities with leases expiring prior to 2031
If the Authority received new Cactus League funds:	
4	(i) Up to 50% to Goodyear to pay the remaining balance for the Goodyear supplemental contribution (ii) Up to 50% of the New Cactus League funds reserved for financing additional Cactus League facilities

[1] The Authority pays equal payments to the Cities of Scottsdale and Tempe as funds are available. However, due to a previous agreement between the District and the City of Scottsdale, the Authority agreed to pay the City of Scottsdale up to $6,667,000 plus project financing costs from funds if and when received by the Authority from the District in recognition of the City's previous investment in the Stadium.

[2] The Authority agreed to contribute 50 percent of the total project costs to build facilities for the Cleveland Indians. In addition, the Authority pays three-eighths of the funds available to the City of Goodyear while the remainder is provided to the City of Glendale.

[3] The Goodyear supplemental contribution is defined as the Authority's contribution of (a) two-thirds of those project costs for additional facilities for the Cincinnati Reds and (b) the amount of funding required to bring the Authority's contribution for facilities for the Cleveland Indians from 50 percent to two-thirds of the total project costs.

Source: Auditor General staff analysis of intergovernmental agreements between the Authority and the Cities of Glendale and Goodyear and Authority Board Resolution 2008-75.

Authority has planned for future renovations of existing spring training facilities

In accordance with the Authority's funding priorities, which were established as early as 2007, it continues to anticipate, subject to appropriate renovation requests, that it will contribute funding toward the renovation of additional Cactus League facilities. Specifically, according to the Authority's January 2010 revenue projection, in addition to the six Cactus League projects previously discussed, the Authority planned to contribute funding toward the renovation of five existing Cactus League facilities for teams with leases expiring between 2012 and 2022. As illustrated in Table 15, the Authority projects to contribute a total of approximately $66.6 million to these five future renovations projects from fiscal years 2020 through 2027. Further, as shown in Table 14 (see page 64), based on the Authority's policies for expending its Cactus League monies, these five renovation projects are higher priority than the previously mentioned spring training construction projects for the Cities of Glendale and Goodyear. The Authority projects that it will receive sufficient revenues to meet these renovation commitments.

Table 15: Authority's Projected Cactus League Facility Renovation Contributions
Fiscal Years 2020 through 2027
(In Millions)
(Unaudited)

Planned Future Renovation Projects	MLB Team(s)	Authority Projected Contribution [1]
Maryvale Baseball Park	Milwaukee Brewers	$ 12.1
Peoria Sports Complex	Seattle Mariners San Diego Padres	18.1
Phoenix Municipal Stadium	Oakland Athletics	6.0
Hohokam Stadium (Mesa)	Chicago Cubs	12.1
Surprise Stadium	Texas Rangers Kansas City Royals	18.3
Total estimated authority contribution		$ 66.6

[1] Authority contributions include principal and interest paid toward each renovation project.

Source: Auditor General staff review of the Authority's Cactus League facility renovation projections as of September 15, 2010.

No specific action is currently underway with regard to any of these renovations. According to the Authority's Cactus League funding policy, in order to receive authority funding, each city must prepare and submit a comprehensive and detailed list of planned repairs and upgrades along with estimated costs for the renovation project. The Authority will accept the proposed renovation documentation from each city no earlier than 3 years ahead of the team's facility lease expiration.

As of September 2010, the Authority had not received any renovation requests from the five cities eligible for renovation funding.

As of September 10, 2010, the Authority had not received any renovation requests or specific plans from the five cities eligible for renovation funding. Although the City of Mesa requested that the Authority consider providing the renovation funds projected for the Hohokam spring training facility's renovation in Mesa to assist in funding a new stadium for the Chicago Cubs, as of September 10, 2010, the Authority had not reviewed the City's request.[1]

[1] In January 2010, the Mesa City Council (City Council) entered into a memorandum of understanding with the Chicago Cubs to build a new spring training facility within the City of Mesa and later referred a ballot measure to Mesa voters. In the November 2010 election, Mesa voters passed the ballot measure authorizing the City to expend various public funds and provide tax concessions to construct a new spring training facility. The Chicago Cubs' existing lease agreement with the City of Mesa for Hohokam Stadium expires in 2016.

Chapter 6

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

In accordance with Arizona Revised Statutes (A.R.S) §5-809, the Arizona Sports and Tourism Authority (Authority) provides funding for a variety of youth and amateur sports projects within Maricopa County. As of June 30, 2010, the Authority had awarded 141 grants totaling more than $12.5 million since its inception through its youth and amateur sports grant programs. Although the Authority did not have sufficient revenues in fiscal year 2010 to fully fund the youth and amateur sports program and projects the same for fiscal years 2011 through 2016, it has sufficient resources to meet its current obligations. To provide funding for youth and amateur sports projects, the Authority has established two grant programs, one that provides grants on a biennial basis for larger projects and a second that provides grants of $2,500 or less. Both of these programs would benefit from some administrative changes, including better guidance for authority staff and better documentation of certain procedural steps. Prior to establishing these specific grant programs, the Authority issued grants to three other youth and amateur sports projects.

Legislative audit mandate

The audit shall review and evaluate:

- All contracts and final memoranda of understandings awarded by the Authority to acquire land or construct, finance, furnish, maintain, improve, operate, or market/promote the use of community youth and amateur sports facilities, recreational facilities, and other community facilities or programs.
- The sources of monies to be used, or pledged for use, by the county, city, or town to repay its debt obligation as presented in the Authority's contract or final memorandum of understanding for youth and amateur sports and recreational facilities under A.R.S. §5-809.
- Policies and procedures that incorporate the criteria used for, and that expedite the process of, awarding financial assistance for the youth and amateur sports program.
- The legal recourse of holders of bonds issued by the county, city, or town in the event of default by the county, city, or town in making scheduled debt service payments.

Revenue shortfall may limit future funding

A.R.S. §5-835 requires the Authority to spend $73.5 million promoting youth and amateur sports through fiscal year 2031 if revenues are sufficient. As of June 30, 2010, the Authority had awarded more than $12.5 million in youth and amateur sports project grants. Although the Authority did not have sufficient revenues in fiscal year 2010 to fully fund the youth and amateur sports program and projects the same for fiscal years 2011 through 2016, it has sufficient resources to meet its current obligations. Specifically, as shown in Table 5 (see Chapter 2, The Authority did not distribute approximately $900,000 during fiscal year 2010 to youth and amateur sports because of revenue shortfalls.

page 32), the Authority did not distribute approximately $900,000 during fiscal year 2010 for youth and amateur sports projects because of revenue shortfalls and estimates that it will be unable to fund approximately $7.1 million for these projects between fiscal years 2011 and 2016 because of insufficient tourism revenue. However, as of June 30, 2010, the Authority had approximately $3.6 million in its youth and amateur sports program account, which is sufficient to meet its funding obligations. Although the youth and amateur program as a whole is not underfunded, the Authority has not appropriately distributed monies to its reserve in accordance with statute (see Chapter 2, pages 27 through 40, for additional information).

Two small changes should be made to biennial grant program

The Authority has established a policy and additional funding requirements to guide its biennial grant award decisions, but two small changes would further enhance this grant program. The Authority has awarded the majority of its funding through the biennial grant program, with approximately $7.1 million in grants awarded from the 2004 through the 2010 biennial grant cycles. For the 2010 biennial grant cycle, auditors found that the Authority largely followed its funding requirements for awarding and denying grant funding. However, two small changes would improve authority oversight.

Biennial grant program

Grant awards—The Authority awarded 62 biennial grants during the 2004 through 2010 biennial grant cycles.

Authority contribution—The Authority awarded approximately $7.1 million in youth and amateur sports funding to these 62 projects.[1]

Range of funding—The Authority awarded a range of funding from $632 to $1.2 million for these projects.[2]

[1] As of June 30, 2010, the Authority's contribution amount includes nearly $1.2 million the Authority plans to contribute to those biennial grants awarded in the 2010 biennial grant cycle that are still in process. These grant projects will receive funding on a reimbursement basis.

[2] The Authority awarded $1.2 million to the City of Phoenix in the 2006 biennial grant cycle to contribute toward the City's approximately $11.5 million field lighting project for 10 multipurpose fields.

Source: Auditor General staff review of the Authority's general ledger, fiscal year 2009 financial statements audited by an independent certified public accounting firm, authority grant files for biennial grants issued during the 2004 through 2010 grant cycles, and other information provided by the Authority.

Majority of authority funding is distributed through its biennial grant program—The Authority awarded approximately $7.1 million through its biennial grant program (see textbox), which is nearly 98 percent of the total monies that have been granted through the youth and amateur sports program. The Authority's youth and amateur sports biennial grant program provides up to two-thirds of a project's costs, and funding is awarded biennially. During the 2004 through 2010 biennial grant cycles, the Authority awarded 62 youth and amateur sports biennial grants. For example, in the 2006 biennial grant cycle, the Authority contributed $240,675 to help the Boys & Girls Club of Metropolitan Phoenix complete gymnasium renovations. Similarly, in the 2008 biennial grant cycle, the Authority contributed nearly $500,000 to the Valley of the Sun YMCA's pool construction (see Appendix D, Table 17, pages d-ii through d-vii, for a complete list of biennial grant awards).

Authority largely adhered to its biennial grant policy and other application requirements for the 2010 biennial grant cycle—Consistent with statute and recommendations from the Office of the Auditor General's previous performance audits of the Authority (see Report Nos.

04-01 and 09-04), the Authority has established a policy to guide its review and awarding of youth and amateur sports grant applications. This policy includes limiting the Authority's award to up to two-thirds of each qualifying project's total costs, specifying grant selection criteria, and specifying applicant contributions, including in-kind contributions. In addition to the funding policy, the Authority has established additional requirements in its biennial grant application materials (see textbox).

Biennial grant funding requirements

In order to receive authority funding, the following requirements must be met:

- **Authority contributions—**Authority funding contribution may not exceed two-thirds of the total project cost.
- **Applicant contributions—**Applicant funding contributions must equal or exceed one-half of the Authority's contribution.
- **Secured funding—**One hundred percent of the applicant's contribution must be secured before execution of authority funding agreement.
- **In-kind contributions—**An applicant's in-kind contribution (i.e., labor and materials) is limited to the lesser of 10 percent of the total project costs or 25 percent of the applicant's total contribution.
- **Organization—**An applicant must be a Maricopa County agency, municipality, school district, or any other incorporated public entity or nonprofit organization that has been in operation for a minimum of one calendar year.
- **Project location—**The project must be located in Maricopa County, with priority funding for projects that will be located near or will benefit public schools.
- **Project type—**The project must be a facility or field construction/renovation, or equipment purchase.
- **Project completion—**Projects must be completed within 12 months of the execution of the funding agreement.[1]

[1] The project completion requirement was not reviewed by auditors because at the time of auditor review, the 2010 biennial grant cycle was not complete.

Source: Auditor General staff review of A.R.S. §5-809, authority youth and amateur sports funding policy, and biennial grant application materials.

The Authority largely adhered to biennial grant funding requirements for the biennial grants auditors reviewed.

Auditors reviewed 10 of the 17 biennial grant applications that the Authority awarded in the 2010 biennial grant application cycle and found that it largely adhered to its funding requirements. Specifically, the Authority followed all of the funding requirements for 6 of the 10 grant applications auditors reviewed and followed all but one of the requirements for 3 of the remaining 4 applications.[1] However, one grant application reviewed did not contain documentation of the total project cost; therefore, auditors were unable to determine the appropriateness of the Authority's contributions, applicant's contributions, or in-kind contributions. Further, because auditors could not determine the amount of the applicant's contribution, auditors could not determine whether 100 percent of the applicant's funding was secured before execution of the funding agreement.

Auditors also reviewed 4 of the 8 biennial grant applications that were not awarded funding in the 2010 biennial grant cycle and found that the Authority appropriately chose not to fund all

[1] In two cases, the applicant's in-kind contributions exceeded 10 percent of the total project costs, and exceeded 25 percent of the applicant's total contribution. In one case, the Authority did not have documentation showing that 100 percent of the applicant's funding was secured before executing the funding agreement.

4 applicants.[1] Specifically, these applicants did not meet grant funding criteria or did not meet the required funding match.

Changes to procedures would improve biennial grant program—To help address the few problems auditors found with the biennial grant program, the Authority should make two changes to its process. Specifically, the Authority should:

- **Establish additional guidance for staff regarding secured funding review—**The Authority should specify for its staff what documentation staff should review and retain in the grant file in order to determine that an applicant has secured 100 percent of its project funding contribution. As noted above, auditors identified two cases where the grant file did not contain adequate documentation for auditors to determine that the applicant had secured its complete funding contribution. Without evidence of secured funding, the Authority runs the risk of entering into a funding agreement with an organization that is not capable of funding its portion of the project.

- **Improve review of reimbursement requests—**Although the Authority provides grant funding only on a reimbursement basis, it should improve its review of reimbursement requests submitted by grant recipients. Auditors identified one example from 2008 where inadequate review of grant project information led to an inaccurate reimbursement and failure to identify a change to the project scope. Specifically, auditors found a 2008 grant reimbursement form in which the grant recipient transposed numbers from an invoice, which led to the Authority providing the grant recipient with $1,200 more than specified in the funding agreement. In addition, the grant recipient reduced the scope of the project; however, it does not appear that the grant recipient received authority approval for the scope change as required by the funding agreement. Therefore, the Authority should require that its staff reconcile funding reimbursement requests to submitted invoices and review invoices to ensure that work completed is consistent with the approved project scope.

Authority should make one change to quick grant program and consider seeking recovery of some previously awarded monies

In addition to its biennial grant program, the Authority has established a youth and amateur sports quick grant program. Between fiscal years 2005 and 2010, the Authority awarded quick grants totaling more than $151,000. The Authority complied with most of its grant requirements for the 15 projects it awarded funding to in fiscal

[1] The Authority originally awarded funding to 1 of the 4 projects; however, because the applicant could not secure its contribution to the project, the Authority did not proceed with the award.

years 2009 and 2010. However, it should ensure that it provides funding for quick grants on a reimbursement basis, and develop a method of documentation that clearly shows that the Authority sends each check after reimbursement has been requested. Further, it should determine whether it should seek the repayment of some grant monies it previously awarded that may not have been spent by grant recipients as approved by the Authority.

The Authority's quick grant program provides up to $2,500 for small projects.

Quick grant program provides monies for small projects—This program allows applicants to request funding for smaller projects that should not exceed $10,000 in total project costs and do not request more than $2,500 in authority contributions (see textbox).[1] The Authority has awarded 76 quick grants totaling $151,242 between fiscal years 2005 and 2010. Examples of the Authority's quick grants include $2,050 for a wrestling mat for Madison Meadows Middle School awarded in fiscal year 2007, and $684 for soccer equipment for the Fountain Hills Soccer Club awarded in fiscal year 2010 (see Appendix D, Table 18, pages d-viii through d-xii, for a complete list of quick grants awarded by the Authority).

> **Quick grant program**
>
> **Grant awards**—The Authority awarded 76 quick grants between fiscal years 2005 and 2010.
>
> **Authority contribution**—The Authority awarded $151,242 in youth and amateur sports funding to these 76 projects.
>
> **Range of funding**—The Authority awarded a range of funding from $300 to $5,000.[1]
>
> [1] Because current authority staff were not employed by the Authority at the time the $5,000 quick grants were awarded and distributed, they could not determine the circumstances that led the Authority to fund these grants when the Authority Quick Grant funding criteria states that the Authority will contribute up to 2/3 the total project costs not to exceed $2,500.
>
> Source: Auditor General staff review of the Authority's general ledger, fiscal year 2009 financial statements audited by an independent certified public accounting firm, grant files for quick grants issued between fiscal years 2005 through 2010, and information provided by authority officials.

Authority complied with most requirements for fiscal years 2009 and 2010 quick grants—The Authority has established funding requirements to direct its quick grant program. These funding requirements include focusing on funding projects with equipment-related needs and limiting applicants to receiving one quick grant in a 12-month period (see textbox, page 72).

Auditors reviewed all 15 approved quick grant applications submitted to the Authority in fiscal years 2009 and 2010 and found that all 15 grants met most of the quick grant requirements reviewed. For example, all 15 applicants received an award of $2,500 or less in quick grant funding and applicants received only one quick grant in a 12-month period. However, for 5 of these quick grants, auditors could not determine whether authority funding was provided on a reimbursement basis because of inadequate documentation in these grant files.

In addition, auditors reviewed 11 quick grant applications the Authority received in fiscal years

[1] As of June 2010, the Authority's quick grant funding requirements suggest that quick grant projects should not exceed $10,000, but that any increases in project costs are the sole responsibility of the grant applicant.

Quick grant funding requirements

In order to receive authority funding, the following requirements must be met:

- **Approval—**Grants must be approved by the Authority's Chief Executive Officer.
- **Project type—**Authority focuses funding on projects with equipment-related needs.
- **Authority contributions—**Authority's funding contribution may not exceed two-thirds of the cost of each item requested with a maximum contribution amount of $2,500.
- **Applicant contribution—**Applicant contribution must equal at least one-third of the total project cost.
- **Total project cost—**Total project costs may not exceed $10,000.
- **Organization—**An applicant must be a Maricopa County agency, municipality, school district, or any other incorporated public entity or nonprofit organization which has been in operation for a minimum of one calendar year.
- **Previous grants—**Applicants are limited to one quick grant per 12-month period, and cannot have received a biennial grant within the prior two calendar years.
- **Grant funding—**The Authority funds grants on a reimbursement basis.
- **Project completion—**Projects must be completed within 45 days of the grant award.[1]

[1] Quick grant files reviewed contained inconsistent documentation of the date that the Authority awarded quick grants. This documentation is needed to determine whether the grant recipient completed the project within 45 days of the award date. However, as of fiscal year 2011, authority staff has implemented a process that clearly documents the Authority's date of approval for each quick grant.

Source: Auditor General staff review of Authority's youth and amateur sports funding policy, quick grant application materials, and information from the Authority.

2009 and 2010 and chose not to fund.[1] Although the Authority can deny any grant application, the Authority documented its rationale for denying 8 of these quick grant applications. Although not required, 3 of the quick grant files did not contain documentation of the Authority's reason for denying the application.

One improvement to quick grant process needed—The Authority should document that it provides funding to quick grant recipients after receiving reimbursement requests.

According to authority quick grant funding requirements, an applicant must complete both a project summary report and a quick grant reimbursement request form prior to receiving quick grant reimbursement from the Authority. However, as previously mentioned, for 5 of the quick grants reviewed by auditors, there was no documentation to support whether the grant recipient requested reimbursement before the Authority provided funding. Therefore, the Authority should ensure that it provides funding for quick grants on a reimbursement basis and develop a method of documentation that clearly shows that the Authority sends each check after reimbursement has been requested, as required by quick grant funding requirements.

- **Authority should determine if it should seek to recover some quick grant monies previously awarded—**Finally, as time and resources permit, the Authority should review quick grants it approved and funded prior to fiscal

[1] The Authority does not separately track unapproved quick grants; therefore, auditors could not determine whether the unapproved quick grant files reviewed represented the total population of unapproved quick grants.

years 2009 and 2010 to determine whether it should seek to recover any youth and amateur sports monies it distributed. Prior to May 2008, instead of providing quick grant funding on a reimbursement basis, the Authority advanced funding to approved applicants. Additionally, for most of the pre-May 2008 quick grant applications reviewed by auditors, the Authority did not take steps to completely close out project files or ensure authority-provided funding was spent as intended and supported with proper cost documentation. Specifically, auditors reviewed 61 quick grants awarded prior to May 2008 and found that only 12 of these quick grants were completely closed out with adequate cost documentation and a summary report. The remaining 49 quick grant files lacked adequate documentation supporting the appropriate expenditure of authority youth and amateur sports funding and the completion of the quick grant project. These quick grants include the following examples:

- **City of Tempe quick grant for sports equipment—**In February 2008, the Authority provided the City of Tempe (City) $2,050 for sports and fitness equipment. Although the City estimated that this equipment would cost approximately $4,900, according to cost documentation for this project, the City spent only about $2,900 for the equipment. This means that the Authority's grant accounted for nearly 71 percent of the project cost as opposed to the approximately 42 percent intended by the Authority. As a result, in March of 2008, the City informed the Authority that it needed to repay some of the grant. In a March 2008 e-mail to Tempe, the Authority requested that Tempe remit the unused authority money. However, the Authority does not have documentation of the amount that the City needed to repay, any repayment from the City, or any followup to resolve this issue.

- **Chandler Youth Baseball quick grant for pitching machine—**In March 2008, the Authority provided this organization $800 toward the purchase of a pitching machine. The organization estimated that the machine would cost approximately $1,200. The organization properly submitted cost documentation and a summary report in accordance with the Authority's requirements. However, a pitching machine was not included in this documentation and instead other items not requested or approved in the quick grant application, such as t-shirts, were included. Additionally, there was no documentation in the Authority's files to support a change in the project scope or that the Authority followed up with the grant recipient to resolve this issue.

Because current authority staff were not employed by the Authority at the time these grants were awarded and monies were distributed, they could not comment on any authority efforts to recover these monies. However, the Authority should determine whether it has the time and resources to review quick grants issued prior to May 2008 where it either lacks documentation supporting project completion and the appropriate expenditure of authority monies or the documentation indicates that the scope of the project and/or the project costs changed. If it conducts this review and identifies opportunities to recover monies, it should then work with its attorneys to take steps to recover these monies if it determines it has the ability and it is cost-effective to do so.

Authority issued three grants before formal grants programs established

Prior to establishing the biennial or quick grant programs and prior to establishing policies and procedures for disbursing monies to youth and amateur sports projects, the Authority issued three other grants. Specifically:

The Authority committed $4.1 million toward the costs of the City of Avondale Sports Complex.

- **City of Avondale sports complex—**In 2001, the Authority entered into a youth and amateur sports agreement with the City of Avondale to help build a regional sports complex. According to an Avondale official, the completed project cost the City nearly $5.9 million and was paid for with excise tax revenue bonds and Avondale development fees. The Authority agreed to contribute $3.43 million plus associated financing costs of approximately $665,000 for a total of approximately $4.1 million toward the costs of this project. As of June 30, 2010, the Authority had paid approximately $2.8 million and owes approximately $1.3 million to the City of Avondale. According to Avondale's bond offering statement, it pledged unrestricted sales taxes, state-shared sales taxes and revenue sharing, franchise fees, permits, fees, and fines and forfeitures revenues toward repayment of the bonds.[1] It also pledged to increase these revenues to meet the principal and interest payments, as necessary. The principal and interest payments are further insured by a financial guaranty insurance policy, thus providing recourse for bondholders if the City defaults on the bonds.

- **South Mountain YMCA Field Construction—**Also in 2001, the Authority contributed $150,000 to the South Mountain YMCA to assist in funding the construction of new sports fields. The South Mountain YMCA projected the total costs for this project to be more than $1.1 million. According to a Valley of the Sun YMCA official, this project received funding from other sources including the Arizona Diamondbacks, the National Football League, a Community Development block grant, and several individuals.

- **City of Glendale New Sports Field Construction—**In 2002, the Authority agreed to contribute $1 million to the City of Glendale toward a nearly $4.4 million project constructing five multipurpose sports fields. In addition to the Authority's contribution, a Glendale official reported using Fiesta Bowl contributions, approximately $500,000 of proceeds from a nearly $29.4 million

[1] The bonds were issued by the City of Avondale Municipal Development Corporation (Corporation), a nonprofit corporation formed to aid and assist the City of Avondale in financing municipal facilities. Avondale pays the Corporation lease rental payments that are used to pay bond principal and interest payments. Avondale also pledged certain revenues to make the lease rental payments.

general obligation bond offering, and Glendale's general fund to pay for its portion of project funding. According to Glendale's bond offering statement, the general obligation bonds used to pay for part of this project will be completely paid by July 1, 2021. Additionally, general obligation bonds are the direct and general obligations of Glendale with principal and interest payments being paid from property taxes, which may be levied on all taxable property in the City without limitation as to rate or amount; therefore, Glendale has the ability to increase property taxes to make principal and interest payments on the bonds. The principal and interest payments due in 2017 through 2021 are further insured by a financial guaranty insurance policy, thus providing recourse for bondholders if the City defaults on the bonds.

Recommendations:

6.1. The Authority should improve its biennial grant application funding process by:

   a. Establishing additional guidance for staff regarding secured funding, such as the evidence or documentation staff should review and retain in the grant file in order to determine that the applicant has secured 100 percent of its project funding contribution.

   b. Requiring authority staff to reconcile funding reimbursement requests to submitted invoices and to review invoices to ensure that work completed is consistent with the project scope as approved by the Authority.

6.2. The Authority should improve its quick grants process by developing a method of documentation that clearly shows that the Authority issued each check on a reimbursement basis as required by quick grant requirements.

6.3. As time and resources permit, the Authority should:

   a. Review quick grants issued prior to May 2008 where it either lacks documentation supporting project completion and the appropriate expenditure of authority monies or the documentation indicates that the scope of the project and/or the project costs changed; and

   b. Identify opportunities to recover monies and then work with its attorneys to take steps to recover these monies if it determines it has the ability and it is cost-effective to do so.

APPENDIX A

Statutory questions

Laws 2010, Ch. 5 requires the Office of the Auditor General to complete a special audit and provide a report to the Governor, the President of the Senate, the Speaker of the House of Representatives, and the Secretary of State on or before December 31, 2010. Specifically, the audit is required to review and evaluate:

1. All contracts entered into by the Authority during calendar years 2008 and 2009, including contracts with concessionaires and other providers of food, beverages, and other services at the multipurpose facility constructed pursuant to Arizona Revised Statutes (A.R.S.) §5-807.

2. All contracts and final memoranda of understandings entered into by the Authority to acquire land or construct, finance, furnish, improve, or market/promote the use of existing or proposed major league baseball spring training facilities for the purpose of acquiring or retaining major league baseball spring training operations.

3. All contracts and final memoranda of understandings awarded by the Authority to acquire land or construct, finance, furnish, maintain, improve, operate, or market/promote the use of community youth and amateur sports facilities, recreational facilities, and other community facilities or programs.

4. The management agreement with the Authority's facility manager and any potential performance incentives the Authority may offer for increased facility revenues and decreased facility expenses.

5. The procurement process used by the Authority for soliciting bids from vendors and awarding contracts for acquiring materials, services, or construction or construction services, including a description of requirements, selection and solicitation of sources, preparation and award of contracts, and all phases of contract administration.

6. Contract monitoring activities conducted by the Authority with respect to the facility manager's performance with respect to financial accountability, event settlements, preventative maintenance, box office services, and other areas of performance.

7. The sources of monies to be used, or pledged for use, by the county, city, or town to repay its debt obligation as presented in the Authority's contract or final memorandum of understanding for major league baseball spring training facilities under A.R.S. §5-808, and youth and amateur sports and recreational facilities under A.R.S. §5-809.

8. The variance, if any, between construction and development costs contained in an authority contract or final memorandum of understanding and actual costs being repaid through bond obligations.

9. Policies and procedures that incorporate the criteria used for, and that expedite the process of, awarding financial assistance for the youth and amateur sports program.

10. The level of financial participation from each major league baseball team using spring training facilities constructed with financial participation by the Authority pursuant to A.R.S. §5-808.

11. A description of the financing assistance provided by the Authority pursuant to A.R.S. §5-808, with respect to each major league baseball spring training facility.

12. The adequacy of the Authority's cash flow projections in accurately describing the Authority's receipts and expenses.

13. The options available to the Authority to increase revenues and decrease expenses to address its anticipated deficits and fund its reserve accounts.

14. The source and adequacy of debt service payments by the Authority with respect to each facility financed with bonds issued by the Authority.

15. The amount of any surplus or deficit in the overall debt capacity of the Authority and in the current and projected capability of dedicated revenue sources to meet the Authority's debt service requirements.

16. The legal recourse of holders of the Authority's bonds in the event of the Authority's default in making scheduled debt service payments.

17. The legal recourse of holders of bonds issued by the county, city, or town in the event of default by the county, city, or town in making scheduled debt service payments.

APPENDIX B

Events leading to issuance of concessions RFP

Chapter 1 (pages 15 to 25) and this appendix contain information regarding the events that preceded the Authority's 2009 competitive procurement process to obtain concessions services and financial assistance. As mentioned in Chapter 1 and reported in the Office of the Auditor General's March 2009 performance audit of the Authority (see Report No. 09-04), the Authority was facing significant financial difficulties. As a result and according to authority officials, the Authority began considering options to improve its financial situation, including using its concessionaire services contract. The following is a sequential listing of some of the events leading to the issuance of the Request for Proposal (RFP) for concessionaire services and financial assistance to the Authority.

- As early as 2008, the Arizona Cardinals National Football League team (Cardinals) proposed that the facility partners use a shared-interests concept to address the Authority's financial situation. The shared-interest concept would protect the revenue each partner receives/needs from facility operations through reducing expenses and increasing revenues at the multipurpose facility. However, according to an authority official, the concept was not actively pursued at that time.

- In January 2009, to help address its financial situation, the Authority's Finance Committee instructed authority staff to work on the shared-interests concept with the facility manager and the facility partners. Prior to this time, according to an authority official, the Authority had met with various stakeholders, including the facility manager, the Cardinals, and the Fiesta Bowl to discuss its financial situation and find ways to increase revenues and decrease expenses. According to this same authority official, because the Cardinals indicated that they could help, and as a result, the Authority continued to meet with the Cardinals to discuss ideas for enhancing revenues and how to formalize these ideas in a contract. These discussions involved concessions operations.

- In February 2009, the Authority hired a consultant to review the existing concessions contract based on industry standards, and to recommend potential revisions prior to issuing the next concessions contract. The consultant's report indicated that the contract compared favorably to industry standards. According to authority officials, the Authority wanted to ensure that its concessions contract was appropriate to use as a baseline for developing a new concessions contract.

- The Cardinals received a letter dated April 15, 2009, from the then current facility concessionaire expressing interest in assisting the Authority with its financial situation. In this letter, the concessionaire offered the Authority two options, either of which would provide the Authority immediate financial assistance. The first option involved providing the Authority with an immediate cash grant in exchange for a long-term concessions contract. The second alternative option involved providing the Authority cash advances from future concessions commissions.

- In an April 16, 2009, letter to the concessionaire, the Authority indicated that it had spent several months conducting a detailed analysis of the Authority's budget situation and determined that options recommended by the concessionaire did not work for the Authority. Instead, the Authority determined that major structural changes to its operating framework were required, including a change in concessions operations.

- In an April 17, 2009, letter to the Authority, the concessionaire responded that it would honor its obligations and continue to provide the concessions services required by its contract until July 31, 2010.

- Between April and July 2009, according to an authority official, the Authority continued to meet with the Cardinals to further develop revenue generation ideas and a concessions contract with a Cardinals affiliate that would achieve revenue enhancement.

- According to the Authority's July 15, 2009, board meeting minutes, the Board was provided drafts of a few agreements for review, including a new concessions agreement with a Cardinals affiliate company and an amendment to the facility manager agreement. These proposed agreements stipulated potential contract terms for two companies affiliated with the Cardinals—one to assist with concessions and one to provide event management services. Upon review of these documents, the Board voted to postpone the approval of the concessions services agreement with the Cardinals affiliate company and the other agreements, pending both the future presentation of the documents to the members in final form and the Authority's waiving of its procurement policy. The Board unanimously agreed to re-review the amended facility manager agreement and to discuss the waiver of its procurement policy in a later meeting.

- On July 17, 2009, the facility concessionaire sent the Authority a letter that included a second set of proposals for financial assistance and continued concessionaire services.

- On July 20, 2009, the Authority's Board of Directors elected not to waive its procurement policy and instead decided to issue an RFP for concessionaire services. Authority officials stated that based on the concessionaire's July 17, 2009, letter, the Authority realized it might have additional opportunities for revenue enhancement through a competitive RFP process.

See Chapter 1, pages 15 through 25, for additional information on the procurement process used by the Authority for the concessions services and financial assistance contracts.

APPENDIX C

Table 16: Cactus League Operating and Maintenance Contributions
As of June 30, 2010

City	Surprise	Phoenix	Tempe	Scottsdale	Goodyear	Glendale
Team(s)	**Texas Rangers and Kansas City Royals**	**Oakland Athletics**	**Los Angeles Angels of Anaheim**	**San Francisco Giants**	**Cleveland Indians and Cincinnati Reds**	**Chicago White Sox and Los Angeles Dodgers**
Contract expiration	January 31, 2023	December 31, 2014	December 31, 2025	December 31, 2025	First day following the completion of the 2029 and 2030 spring training seasons for the Indians and Reds, respectively	December 31, 2028
Rental payments	Varied based on average daily attendance [1]	$275,000 beginning in 2004 with increases every or every other year until it ends at $425,000 in 2014	None	$200,000 annually	$100,000 in 2009 and 2010 for the Indians and Reds, respectively, increasing with the Consumer Price Index	$1.00 annually
Revenue sharing:						
Major League Baseball spring training game tickets	City receives 20% of gate receipts	City does not receive any of these revenues	City receives 20% of net revenues	City receives $1.00 surcharge per ticket sold to help pay for stadium construction costs and related debt payments	City receives 20% of gate receipts; also may charge a minimum $1.00 surcharge per ticket and retains revenue from premium seating and city-controlled suites for capital improvements	City does not receive any of these revenues
Concessions, program sales, parking, souvenirs, and advertising	City receives 50% of net revenues for home games	City receives $14,200 annually for team's rights for advertising on replacement scoreboard	City receives 50% of net revenues plus $25,000 for display panel advertising by the team	City does not receive any of these revenues	City receives 50% of net revenues	City receives 50% of "Parking Events" [2]
Naming rights	City receives first $25,000 of revenue, and 50% of remaining revenue	No specific provisions	No specific provisions	City receives 50% of proceeds	City receives all revenues	City does not share these revenues

Table 16: Cactus League Operating and Maintenance Contributions (Continued)
As of June 30, 2010

City	Surprise	Phoenix	Tempe	Scottsdale	Goodyear	Glendale
Team(s)	**Texas Rangers and Kansas City Royals**	**Oakland Athletics**	**Los Angeles Angels of Anaheim**	**San Francisco Giants**	**Cleveland Indians and Cincinnati Reds**	**Chicago White Sox and Los Angeles Dodgers**
Off-season and city events	City receives 50% of baseball-related souvenirs; 100% of non-baseball souvenirs; and meets with teams for agreement on share of other revenues	No specific provisions	No specific provisions	No specific provisions	City confers with teams on disposition of any admission and parking revenues; and receives 50% of concession and exclusive/nonexclusive souvenir revenues; and 100% of all nonbaseball souvenirs and advertising revenues	City retains revenues for city events
Team contribution for expenses:						
Game Day	Teams provide customary costs, including game supplies, umpires, and batboys/girls	Team provides game supplies, and game day security and personnel (e.g., ushers, ticket takers, medical)	Team provides umpires and public address announcer	Team provides ticket sellers, ticket takers, parking attendants, clubhouse personnel, ushers, umpires, and other game day support necessary.	Teams provide customary costs, including game supplies, umpires, and batboys/girls.	Teams are responsible for operating, managing, and maintaining the facility
Maintenance and operations	Teams provide janitorial services to clubhouses	Team provides janitorial services to the clubhouse, office area used by the team, team souvenir store during season, and restrooms during home games	Team provides janitorial and housekeeping services to the clubhouse and administrative offices	Scottsdale Charros[3] or team pays the lesser of $200,000 or 20 percent of the City's actual cost during the preceeding calendar year of maintaining, operating, and repairing the facilities	Teams provide janitorial services to the clubhouses during times of exclusive use	Teams are responsible for operating, managing, and maintaining the facility
Utilities	Teams pay for communication charges at clubhouses	Team contributes 53.7% of clubhouse electricity and water costs	Team pays for field lighting and telephone costs during time of use	Team, Scottsdale Charros[3], and City share equally	Teams pay for utilities at clubhouse	Teams are responsible for all utilities except at city events

Table 16: Cactus League Operating and Maintenance Contributions (Concluded)
As of June 30, 2010

City	Surprise	Phoenix	Tempe	Scottsdale	Goodyear	Glendale
Team(s)	Texas Rangers and Kansas City Royals	Oakland Athletics	Los Angeles Angels of Anaheim	San Francisco Giants	Cleveland Indians and Cincinnati Reds	Chicago White Sox and Los Angeles Dodgers
Security	Teams provide security for clubhouses and parking lots	Team provides additional security beyond what the City provides, if desired, and shared cost with the City for the security system installation	Team does not contribute	Scottsdale Charros[3] provide private and other security at games and other events open to the public	Teams provide security to the clubhouses and dedicated parking	Teams provide all security except public service (e.g., police, fire) customarily provided at public events
Insurance	Both the teams and City provide commercial general liability insurance	Team provides commercial general liability insurance	Team provides commercial general liability and any applicable excess or umbrella liability insurance	Team, Scottsdale Charros[3], and City provide general liability, product and completed operations, and automobile liability insurance	Teams and City provide commercial general liability insurance	Teams provide commercial general liability, automobile liability, and liquor liability insurance
Property taxes	Teams do not contribute	Team pays all taxes, assessments, and similar impositions levied or imposed on the stadium	Team does not contribute	Team does not contribute	Teams do not contribute	Teams do not contribute

1 Average daily attendance, based on number of tickets sold per home game, was initially used to determine rent payments prior to fiscal year 2006. The rent payment amounts initially began at $150,000 annually for less than 5,499 sold tickets and when more than 6,500 tickets were sold for two consecutive years a second rent schedule became effective. If by fiscal year 2006 the second rent schedule had not become effective, the teams would have paid a similar rent amount to the second rent schedule where the teams pay $60,000 increased annually for inflation by the Consumer Price Index, or 5 percent, whichever is less. During fiscal year 2010, the teams each paid approximately $67,400 annually.

2 Parking Events are defined in the agreement as use of the facility's parking lots during preseason and regular season games. The City is responsible for any and all expenses incurred by the teams in connection with the Parking Events.

3 Scottsdale Charros is an Arizona nonprofit corporation that is dedicated to serving the community through the promotion and support of education, youth programs, and economic development. The facility-use agreement includes the Charros as a party to the agreement.

Source: Auditor General staff analysis of the facility-use agreements between the teams and cities.

APPENDIX D

Table 17: Initial and Biennial Grants Projects Funded or Awarded for Youth and Amateur Sports August 9, 2000 through June 30, 2010

Grant Year [1]	Location	Organization	Project	Project Cost [2] Estimated	Project Cost [2] Actual	Authority's Contribution [2]	Organization's Planned Source of Contribution [3]
2001	Avondale	City of Avondale	Regional sports complex with ten multipurpose fields, two lit youth baseball fields, and two basketball courts		$ 5,872,668	$ 4,095,901 [4]	City bond proceeds, development fees, and Parks and Development Fund
2002	Glendale	City of Glendale	Five multipurpose sports fields		4,353,667	1,000,000	City general fund, bond proceeds, and Fiesta Bowl contributions
2002	Phoenix	South Mountain YMCA	One lit youth baseball field and one lit multipurpose field	$ 1,125,619		150,000	Organization's bond fund, and private and corporate/business donations
2004	Queen Creek	Town of Queen Creek	Four lit youth baseball fields and two lit multipurpose fields at Desert Mountain Park		6,446,135	250,000	Town parks and open space development fees
2004	Phoenix	Arizona State University	ASU West Community Park: • 40 acres • 2 lit multipurpose fields • 2 basketball courts		3,250,000	150,000	Organization, Arizona State Park's Board Heritage Fund, City of Phoenix Parks and Recreation contributions, and corporate/business donations
2004	Phoenix	Phoenix Rotary Club Charities, a nonprofit foundation supporting the Phoenix Rotary 100 community service projects	One lit multipurpose field, one lit youth baseball field, and one basketball court		547,338	150,000	City of Phoenix block grant, and corporate/business and individual donations
2004	Glendale	Valley of the Sun YMCA	Gym for the Glendale-Peoria location		1,831,400	150,000	Corporate/business and private donations
2004	Phoenix	Arizona's Children Association	Gym improvements and repairs at Golden Gate Community Center		211,439	138,697	Organization fundraising
2004	Scottsdale	City of Scottsdale	Two youth baseball fields and two multipurpose fields at Cochise School Youth Sports Complex		306,338	130,000	City general fund, and sports clubs/orgainzations donations
2004	Tempe	Arizona State University	Web-based Geographic Information System (GIS) mapping and database of Maricopa County sports and recreational facilities		66,298	66,298	Not applicable

Table 17: Initial and Biennial Grants Projects Funded or Awarded for Youth and Amateur Sports (Continued)
August 9, 2000 through June 30, 2010

Grant Year [1]	Location	Organization	Project	Project Cost [2]		Authority's Contribution [2]	Organization's Planned Source of Contribution [3]
				Estimated	Actual		
2004	Mesa	Mesa Family YMCA	Lighting for multipurpose field	308,000		65,000	Organization, Community Development Block Grant (CDBG), and donations
2004	Phoenix	Espiritu Community Development Corporation	Scoreboard, flag poles, goal posts, and bleachers at Adele Harris Sports Facility multipurpose field		210,774	33,274	NFL Grass Roots Program donation
2004	Tempe	Arizona State University	Transportation for youth participants in the National Youth Sports Program		143,094	19,000	University contributions; United States Department of Agriculture and National Youth Sports Program grants; Department of Health Services, City of Phoenix, Maricopa County Attorney's Office, and National Guard contributions; and nonprofit donations
2004	Laveen	Laveen Elementary School District	Pre-kindergarten and special needs playground		68,483	13,066	Laveen Community Council and individual and nonprofit donations
2004	Phoenix	Florence Crittenton of Arizona	20-passenger bus for physical education activities		15,000	10,000	Tax credits, grants, and organization fundraising events
2004	Chandler	Galveston Elementary School, part of the Chandler Unified School	Fitness trail		17,280	9,080	Private foundation and corporate/business donations
2004	Glendale	City of Glendale	Equipment for inline hockey program		1,915	632	City contributions
2006	Phoenix	City of Phoenix	Lighting for 10 multipurpose fields at Phoenix Reach 11 Regional Complex		11,540,000	1,200,000	City special use tax from the Parks and Preserve Initiative
2006	Phoenix	Boys & Girls Clubs of Metropolitan Phoenix, Stewart Branch	Gym renovations		1,376,661	240,675	City of Phoenix CDBG, corporate/business donations, and other contributions
2006	Paradise Valley	Town of Paradise Valley	Athletic field renovation at Kiva Municipal Sports Complex		920,207	150,000	Not available
2006	Cave Creek	Cactus Foothills North Little League	7th Grade Desert Arroyo Middle School field equipment		236,488	110,000	Not available

Table 17: Initial and Biennial Grants Projects Funded or Awarded for Youth and Amateur Sports (Continued)
August 9, 2000 through June 30, 2010

Grant Year [1]	Location	Organization	Project	Project Cost [2]		Authority's Contribution [2]	Organization's Planned Source of Contribution [3]
				Estimated	Actual		
2006	Chandler	Boys & Girls Clubs of the East Valley, Compadre Branch	Field and court lighting and renovations		172,759	105,383	Organization and City of Chandler contribution
2006	Phoenix	Arizona Recreation Center for the Handicapped	Sports and fitness park		256,033	65,048	CDBG, and private foundations and corporate/business donations
2006	Tempe	Arizona Sports Council	Multi-sport Olympic Festival winter games (Grand Canyon State Games)		61,659	40,000	Entry fees, Arizona Department of Health Services contributions, and corporate/business donations
2006	Phoenix	Downtown Urban Community Kids	Facility renovations		46,863	31,241	Private foundation donations
2006	Phoenix	Most Holy Trinity School	Sports field renovation		56,028	28,642	Parent association contributions, corporate/business donations, and other contributions
2006	Phoenix	Phoenix Regional Sports Commission	Event bid pool—The Arizona Basketball Challenge		54,560	27,450	Maricopa County, Phoenix Convention and Visitors Bureau, and corporate/business contributions, sponsorships, and other contributions
2006	Phoenix	Special Olympics	Summer games		35,736	13,000	Donations
2006	Phoenix	Phoenix Children's Hospital	School-based fitness program		22,254	12,249	Private foundation
2006	Phoenix	Florence Crittenton of Arizona	Sports equipment		4,496	2,517	Tax credits
2006	Phoenix	Maricopa Council on Youth Sports and Physical Activity (MCYSPA)	Program funding for MCYSPA, a coalition of community partners responding to the crisis of childhood obesity, physical inactivity, and poor nutrition in Maricopa County, Arizona	615,233		225,000	Private foundations, corporate/business donations, and interest income
2008	Phoenix	Arizona Community Foundation	Improvements to the Youth and Amateur Sports GIS Web site to make it interactive	126,848		62,913	Network of nonprofit organizations, Maricopa Council on Youth Sports and Physical Activity, Arizona State University, and corporate/business donations
2008	Mesa	Valley of the Sun YMCA	Pool construction		6,714,018	499,999	Financing, and private and corporate/business donations

Table 17: Initial and Biennial Grants Projects Funded or Awarded for Youth and Amateur Sports (Continued)
August 9, 2000 through June 30, 2010

Grant Year [1]	Location	Organization	Project	Project Cost [2] Estimated	Project Cost [2] Actual	Authority's Contribution [2]	Organization's Planned Source of Contribution [3]
2008	Buckeye	Town of Buckeye	Sports courts and ball fields at Earl Edgar Recreational Facility		2,752,000	400,927	Impact fees, donations, and the City's general and special revenue funds
2008	Fountain Hills	Town of Fountain Hills	Neighborhood park and fields		3,163,788	252,000	Town's general fund, development fees, and Arizona State Parks Board's Heritage Fund grant
2008	Glendale	Boys & Girls Clubs of Metropolitan Phoenix	Clubhouse and gym		3,602,318	250,000	City of Glendale, Glendale Elementary School District, and U.S. Dept. of Housing and Urban Development contributions; individual and corporate/ business donations; and nonprofit contributions
2008	Phoenix	Valley of the Sun YMCA-Maryvale	Club house and gym at Maryvale Family YMCA		9,112,311	220,000	Private donations, corporate donations, and grants
2008	Phoenix	Audubon Arizona	Nature and hiking trails at the Nina Mason Pulliam Rio Salado Audubon Center		424,612	200,000	Private foundations and trusts contributions, individual donations, business/corporate donations, and community grants
2008	Phoenix	Brunson-Lee Elementary School, part of the Balsz Elementary School District	Track resurfacing at Brunson-Lee Elementary School		150,000	100,500	Balsz Elementary School District new building construction fund
2008	Phoenix	Friendly House, Inc.	Field renovations		118,412	67,276	Organization and other contributions
2008	Phoenix	Arizona Zoological Society	Nature and discovery play area		268,708	45,430	Individual and business/ corporate donations
2008	Glendale	Arizona Karting Association	Racetrack facility upgrades		65,212	40,000	Donated signs from a private foundation
2008	Scottsdale	Valley of the Sun Jewish Community Center	Pool renovations		40,930	21,666	Organization
2008	Phoenix	Paradise Valley Christian Preparatory	Field renovations		23,606	13,246	Organization
2008	El Mirage	Dysart Community Center	Gym lighting replacement		22,000	13,200	Organization

Table 17: Initial and Biennial Grants Projects Funded or Awarded for Youth and Amateur Sports (Continued)
August 9, 2000 through June 30, 2010

Grant Year [1]	Location	Organization	Project	Project Cost [2] Estimated	Project Cost [2] Actual	Authority's Contribution [2]	Organization's Planned Source of Contribution [3]
2008	Peoria	One Step Beyond, Inc.	Dance and workout center		10,330	6,000	Organization and private foundation donation
2008	Glendale	Arizona Swimming Gauchos	Pool covers		6,728	4,507	Organization fundraising
2008	Phoenix	Civitan Foundation, Inc.	Play structure	40,892		4,330	Contributions from the Arizona Department of Economic Security and Valley View School, part of the Roosevelt School District
2010	Scottsdale	Miracle League of Arizona	Baseball field construction	1,150,000		250,000	Corporate/business, nonprofit organization, and private donations
2010	Phoenix	Valley of the Sun YMCA	Christown health initative expansion project	3,100,000		150,000	Grants and private donations
2010	Phoenix	Arizona Bridge to Independent Living	Sports equipment for the Virginia Piper Sports and Fitness Center for People with Disabilities (SPOFIT)	264,644		132,322	Organization and/or grants, if awarded
2010	Phoenix	Children's Museum of Phoenix	Three-story climbing tower of activities	1,500,000		100,000	Donated supplies and labor; corporate/business, private foundation, and individual donations; and fundraising event
2010	Glendale	City of Glendale	O'Neil Community Park renovation	339,473		100,000	Grants and monies from the City's Park and Recreation Capital Improve Plan
2010	Phoenix	City of Phoenix	Field and facility construction	875,000		100,000	City impact fees
2010	Phoenix	Deer Valley Unified School District	Title 1 sports field lighting	500,000		100,000	Organization
2010	Mesa	Paloma Sports Outreach	New field construction	539,123		100,000	Church and soccer club donations
2010	Phoenix	Salvation Army	Youth and community center construction	79,500,000		100,000	Private grants and donations
2010	El Mirage	City of El Mirage	Scoreboards and shade structures for Gateway Park	148,939		68,000	City recreation programs and General Fund
2010	Phoenix	Special Olympics Arizona	Equipment	91,719		61,452	Cities of Tempe, Phoenix, Scottsdale, Peoria, and Mesa contributions; and nonprofit and corporate/business donations

Table 17: Initial and Biennial Grants Projects Funded or Awarded for Youth and Amateur Sports (Concluded)
August 9, 2000 through June 30, 2010

Grant Year [1]	Location	Organization	Project	Project Cost [2]		Authority's Contribution [2]	Organization's Planned Source of Contribution [3]
				Estimated	Actual		
2010	Mesa	Boys and Girls Club of the East Valley	Sports field renovations	90,000		60,000	Organization
2010	Peoria	Boys and Girls Club of Metropolitan Phoenix	Peoria Branch gym renovation	125,000		50,000	Private foundation, corporate/business, and in-kind donations
2010	Phoenix	Arizona Recreation Center for the Handicapped	Sports and fitness park construction	78,097		40,000	Organization
2010	Phoenix	Arizona's Children Association	Gym divider and public address system for the Golden Gate Community Center	50,269		33,513	Corporate/business and private donations
2010	Scottsdale	Boys & Girls Club of Greater Scottsdale	Three gym floor refinishes	16,799		10,400	Donations
2010	Chandler	Foundation for Blind Children	Facility renovation	15,275		10,081	Organization
		Authority's total contribution				**$ 12,349,914**	

1 The grant year is the year in the biennial grant cycle that the Authority awarded the grant.

2 Some grant files did not include actual project costs and this information was not available at the time of the audit work for all of the 2010 grants; consequently, the project cost was estimated based on information in the grant files. In addition, the Authority's contribution is based on its planned contribution for those grants that were not completed as of June 30, 2010.

3 Applicants were not required to submit information on the final source of their contributions; consequently, the table includes the planned source of the organization's contribution included in the grant files, except for the Cities of Avondale, Glendale, and Phoenix, and the Towns of Buckeye, Fountain Hills, and Queen Creek that provided their actual sources of contributions.

4 Amount includes the financing costs being paid to the City of Avondale for the bonds issued to construct the project. The Authority committed to pay the City of Avondale $3,430,820 plus $665,081 of financing costs.

Source: Auditor General staff analysis of the Authority's listing of youth and amateur sports awards and grant files, including applications, invoices, and other documentation as available, and information provided by the Valley of the Sun Jewish Community Center; the Cities of Avondale, Glendale, and Phoenix; and the Towns of Buckeye, Fountain Hills, and Queen Creek.

Table 18: Quick Grants Projects Funded for Youth and Amateur Sports August 9, 2000 through June 30, 2010

Fiscal Year	Location	Organization	Project	Project Cost [1] Planned	Project Cost [1] Actual	Authority's Contribution	Organization's Planned Source of Contribution [2]
2005	Tempe/ Phoenix	Thomas J. Pappas Schools for the Homeless, part of the Maricopa County Regional School District	Two applications were combined for physical education equipment at Tempe and Phoenix locations	$ 69,279		$ 5,000	Organization
2005	Phoenix	Azimuth Foundation	Athletic shoes and milestone awards for children participating in a walk and jog challenge by the Azimuth Foundation and Phoenix Children's Hospital	50,059		2,500	Organization; corporate/business cash and product donations; and transportation by Creighton Elementary School District
2005	Maricopa County	Maricopa County Department of Public Health	Equipment to increase the number of kids qualifying for Presidential Award	136,213		2,400	Organization
2005	Glendale	One Step Beyond, Inc.	Equipment for disabled student exercise program and transportation costs for Special Olympics events	3,750		1,500	Organization
2005	Phoenix	Madison Park Sports Program	Transportation, uniforms, and equipment	10,000		1,350	Organization, student fees, and tax credit donations
2005	Scottsdale/ Paradise Valley	The Tesseract School	Volleyball and soccer uniforms	24,334		1,300	Organization, parent donations, athletics fees, and donated labor and equipment
2005	Phoenix	Americans for a Better Tomorrow	Materials to measure student success, and awards and incentives for the Power Fitness for Youth Program© in the Roosevelt School District	100,000		1,250	City of Phoenix Community Development Block Grant, Valley of the Sun United Way, golf tournament proceeds, and individual donations
2005	Phoenix Metro	Arizona Stars Youth Basketball	Camp fees, food for a charity event, and uniforms	19,740		1,000	Organization and monthly dues from parents
2005	Scottsdale	Future for Kids	T-shirts and gifts for 50 at-risk kids attending a sports camp	15,930		1,000	Organization, corporate/business-donated advertising and gifts, speaker-donated time, and donated high school field for the camp
2005	East Valley	Rio Salado Youth Football and Cheer	General equipment and uniforms for football and cheer program	11,000		1,000	Organization and donated uniforms, helmets, and practice field

Table 18: Quick Grants Projects Funded for Youth and Amateur Sports (Continued)
August 9, 2000 through June 30, 2010

Fiscal Year	Location	Organization	Project	Project Cost [1]		Authority's Contribution	Organization's Planned Source of Contribution [2]
				Planned	Actual		
2006	Scottsdale	Valley of the Sun Jewish Community Center	Scholarships for Maccabi Games	110,000		5,000	Organization and donated scholarships by a golf club
2006	Chandler	Foothills Gymnastic Association	Facility rental fees	25,000		2,500	Organization, door charges, and donated location and equipment rental
2006	Mesa	Lady Arizona Silver Streaks	Equipment and uniforms	25,469		2,500	Organization
2006	Maricopa County	National Youth Sports	Baseball and football equipment		$ 9,523	2,500	Organization
2006	Maricopa County	Arizona Desert Heat Sports	Softball equipment and uniforms	3,743		2,486	Organization and candle sales
2006	Phoenix	Westwind Preparatory Academy	Two portable basketball hoops	3,610		2,410	Organization
2006	Maricopa County	Lutheran Social Ministry of the Southwest	Tennis rackets and pop-up tents	42,758		2,320	Organization and donations from a private foundation, private association, and individuals
2006	Glendale	Copper Canyon High School, part of the Tolleson Union High School District	Spirit line warm-up outfits and registration	9,500		2,000	Private foundation and Glendale Parks & Recreation donations
2006	Gilbert	Arizona Athletes Foundation	New uniforms and basketballs	3,580		1,850	Organization
2006	Scottsdale	Pima Elementary Parent Teacher Organization	Fitness equipment/playground	9,163		1,750	Organization, private foundation and other private donations, and school district resurfacing and sand contributions
2006	Mesa	East Valley Athletes for Christ	Athletic programs for home	25,300		1,600	Organization
2006	Tempe	Kyrene Schools Community Foundation	Equipment and uniforms as part of a program to allow underprivileged children the ability to participate in the athletic program	322,414		1,500	District contributions, tax credits, corporate/business donations, and participation fees
2006	Glendale	West Valley Child Crisis Center, Inc.	Uniforms and equipment for an expanded activity program	27,500		1,500	Organization, corporate/business donations, and YMCA-donated membership
2006	Phoenix	E-Cademie High School, a charter school working under the auspices of Goodwill of Central Arizona	Cheer equipment	5,328		1,400	Organization

Table 18: Quick Grants Projects Funded for Youth and Amateur Sports (Continued)
August 9, 2000 through June 30, 2010

Fiscal Year	Location	Organization	Project	Project Cost [1] Planned	Project Cost [1] Actual	Authority's Contribution	Organization's Planned Source of Contribution [2]
2006	Avondale	City of Avondale	Multisport tabletop electronic scoreboards	12,965		1,350	Organization
2006	Phoenix	UMOM New Day Centers	Athletic equipment	3,000		1,000	Individual contributions
2007	Phoenix	Arcadia Little League	Field renovation	31,132		5,000	Contributions from Scottsdale Unified School District and a parent teacher association
2007	Chandler	Arizona Flames Track Club	Track uniforms		3,909	2,500	Organization
2007	Mesa	American Youth Soccer Organization Region 503	Soccer goals	6,000		2,500	Organization
2007	Glendale	Cactus Wren Little League	New fencing for three fields	5,000		2,500	Organization and donated labor from Little League volunteers
2007	Chandler	Chandler Girls Softball, Inc.	Softball equipment		6,100	2,500	Organization
2007	Tempe	Connolly Middle School, part of the Tempe Elementary School District	Uniforms and equipment		3,347	2,500	Organization
2007	Phoenix	Florence Crittenton of Arizona	Weights and cable equipment at the Crittenton Youth Academy	5,490		2,500	Organization
2007	Scottsdale	Desert Springs Elementary School Parent Teacher Association	Sports court upgrade		6,250	2,500	Organization
2007	Mesa	Mesa Southern Little League	Little League baseball equipment	4,000		2,500	Not available
2007	Peoria	Peoria High School, part of the Peoria Unified School District	Baseball pitching machine	3,800		2,500	Not available
2007	Scottsdale	Thunderation Booster Club	Uniforms		6,996	2,500	Parents
2007	Goodyear	Gaucho Baseball Inc.	Baseball equipment	20,510		2,160	Organization and corporate contributions
2007	Chandler	Foothills Gymnastic Association	Electronic scoreboard	8,500		2,100	Organization's fundraising and a private foundation
2007	Phoenix	Madison Meadows Middle School, part of the Madison Elementary School District	Wrestling mat		6,567	2,050	Private donations
2007	Avondale	City of Avondale	Safety fencing for softball/baseball fields	4,080		2,040	Organization
2007	Tempe	Boys & Girls Club of the East Valley, Ladmo Valley Branch	Equipment for the sports, fitness, and recreation programs	3,500		2,000	Organization, Prudential Foundation
2007	Phoenix	Isaac Middle School, part of the Isaac School District	Sports and recreation equipment	2,544		1,703	Organization
2007	Maricopa County	Arizona State University Foundation	Helmets for the Hunkapi Horse Program	2,550		1,620	Contributions from event

Table 18: Quick Grants Projects Funded for Youth and Amateur Sports (Continued)
August 9, 2000 through June 30, 2010

Fiscal Year	Location	Organization	Project	Project Cost [1]		Authority's Contribution	Organization's Planned Source of Contribution [2]
				Planned	Actual		
2007	Mesa	Arizona Aqua Stars	Competitive swim wear		3,065	1,200	Parent Association
2007	Phoenix	Washington Elementary School, part of the Washington Elementary School District	Basketball uniforms		1,150	750	Parent Teacher Association
2007	Tempe	Arizona State University Cycling and Triathlon Club	Cycling equipment	9,015		300	Membership dues
2008	Phoenix	Arizona's Children Association	Equipment for sports and recreation programs at Golden Gate Community Center	4,560		2,500	Organization
2008	Scottsdale	Sandpiper Elementary, part of the Paradise Valley Unified School	Resurface basketball courts	7,220		2,500	Not available
2008	Goodyear	Southwest Valley Regional YMCA	Golf and soccer equipment, and tabletop scoreboards	4,482		2,500	Organization
2008	Peoria	American Youth Soccer Organization Region 310	Soccer equipment	3,662		2,453	Organization
2008	Scottsdale/ Paradise Valley	Scottsdale/Paradise Valley Regional YMCA	Sports equipment for Midnight Madness Program	3,499		2,343	Organization
2008	Mesa	Mesa Westwood Little League	Pitching machine and baseball equipment		3,519	2,322	Organization
2008	Scottsdale	Scottsdale Pop Warner Football, Inc.	Uniforms		3,718	2,300	Organization
2008	Tempe	City of Tempe	Sports and fitness equipment		2,883	2,050	Organization
2008	Mesa	Mesa Association of Sports for the Disabled	Adaptive kayaking equipment		3,242	2,000	Organization
2008	Goodyear	Estrella Youth Sports	Basketball equipment		2,809	1,882	Organization
2008	Phoenix	Herrera Elementary School, part of the Phoenix Elementary School District	Playground equipment		2,364	1,661	Organization
2008	Fountain Hills	Fountain Hills Soccer Club	Soccer equipment	3,750		1,293	Organization
2008	Tempe	Tempe Family YMCA	Volleyball and basketball		2,261	1,200	Organization
2008	Chandler	Chandler Youth Baseball	T-shirts, catcher's equipment, and helmets		2,555	800	Organization
2008	Scottsdale	Pinnacle Soccer Academy	Soccer equipment		1,276	778	Not available
2009	Chandler	Arizona Flames Track Club	Track equipment		3,162	1,500	Not available
2009	Phoenix	Black Mountain Athletic Association	BMX racing bicycles		3,656	1,641	Not available

Table 18: Quick Grants Projects Funded for Youth and Amateur Sports (Concluded)
August 9, 2000 through June 30, 2010

Grant Year	Location	Organization	Project	Project Cost [1] Planned	Project Cost [1] Actual	Authority's Contribution	Organization's Planned Source of Contribution [2]
2009	Scottsdale	Coyotes Curling Club	Scoreboards		1,993	926	Not available
2009	Scottsdale	Future for Kids	Shade tents for outdoor events and sports camps		487	325	Not available
2009	Scottsdale	North Scottsdale Youth Football	Helmets and shoulder pads		10,939	2,500	Not available
2009	Phoenix	Phoenix Table Tennis Club	Eight table tennis tables		5,417	2,500	Not available
2010	Tempe	Tempe Family YMCA	Sports equipment		3,984	2,500	Not available
2010	Phoenix	Rio Salado Rowing Club	Adaptive rowing equipment		4,492	2,485	Not available
2010	Glendale	Heart for the City	Football equipment		6,975	2,302	Not available
2010	Glendale	Ironwood High School	Football equipment		3,606	2,165	Not available
2010	Phoenix	Arizona Spinal Cord Injury Association, Banner Wheelchair Suns Chapter	Uniforms		2,400	1,608	Not available
2010	Tempe	City of Tempe	Kayaks and boating equipment		4,363	2,496	Not available
2010	Mesa	Arizona Aqua Stars	Underwater sound system for		1,700	1,139	Not available
2010	Fountain Hills	Fountain Hills Soccer Club	Soccer equipment		1,235	684	Not available
		Authority's total contribution				$ 151,242	

1 Prior to May 2008, the Authority paid quick grants in advance and requested that the organizations provide cost documentation and final summary reports with information on how the money was spent. The organizations did not generally provide this information; therefore, the actual costs were not always available. The planned project amounts in the application were used when the actual project costs were not available. Subsequent to May 2008, the Authority paid on a reimbursement basis; therefore, the actual project costs were known and used in the table.

2 Prior to May 2008, the Authority required applications to include information on the source of the organization's contribution; however, applicants are no longer required to include this information. The table includes the planned source of the organization's contribution, if this information was available.

Source: Auditor General staff analysis of the Authority's listing of youth and amateur awards; *Award Payment Request Form* for awards prior to May 2008; *Quick Grant Reimbursement* forms for awards subsequent to May 2008; and quick grant files, including applications, invoices, and other documentation as available.

APPENDIX E

Methodology

Auditors used various methods to study the issues addressed in this report. These methods included interviewing Arizona Sports and Tourism Authority (Authority) Board of Directors and staff; and reviewing the 2004 and 2009 Auditor General performance audits of the Authority (Report Nos. 04-01 and 09-04). Further, auditors analyzed the Authority's fiscal years 2002 through 2010 financial statements audited by an independent certified public accounting firm, fiscal years 2001 through 2010 general ledgers, fiscal year 2010 *Working Trial Balance* report, and fiscal years 2002 through 2011 *Annual Financial Budget* reports. Additionally, auditors reviewed various authority agreements, contracts, and other documents, including documents and information posted on the Authority's Web site. Further, auditors used the following specific methods:

- To examine the Authority's procurement processes, auditors reviewed 4 contracts issued in calendar years 2008 and 2009, 1 contract issued in calendar year 2000, the concessions and event management contracts issued in February 2010, and the associated procurement process for the February 2010 contracts and all available documentation related to these procurements. Auditors also reviewed the Authority's procurement policies and procedures, Arizona state procurement laws and regulations, and the National State Auditors' Association's (NSAA) Best Practices for Contracting for Services.[1]

- To determine the options available to the Authority for addressing its financial situation and to determine the adequacy of the Authority's cash flow projections, auditors performed the following:

    - Tested the March 2010 bank reconciliation for the Authority's 12 active bank accounts and the June 2010 bank reconciliations for 8 of its active bank accounts, including reconciling the bank reconciliations to the general ledger for fiscal year 2010.

[1] National State Auditors Association. (2003) *Contracting for Services: A National State Auditors Association best practices document*. Lexington, KY: Author.

- Evaluated the Authority's procedures for budgeting and projecting revenues and expenses by analyzing the Authority's budget worksheets for its fiscal year 2011 budget, observed the Board of Director's (Board) May 2010 Audit, Finance, and Budget Committee meeting and the June 2010 Board meeting where the fiscal year 2011 budget was reviewed and approved, reconciled the fiscal year 2009 actual revenue and expense amounts presented in the budget to the audited financial statements, analyzed variances between budget and actual revenues and expenses for each year for fiscal years 2002 through 2010, and reviewed the November 2010 cash flow projections.

- To examine and evaluate the Authority's bond obligations and debt capacity, auditors performed the following:

  - Determined the variance, if any, between contracted and actual construction and development costs by reconciling the construction and development costs for the University of Phoenix Stadium from the fiscal year 2009 audited financial statements to the appropriate funding sources. The funding sources were obtained from the authority-prepared construction costs and funding sources schedule as of November 17, 2009.

  - Reviewed bond principal, interest, and bond premium and issuance costs as reflected in the official senior bond offering statements; amortized bond premium amounts and swap interest income as reported in the Authority's fiscal years 2003 through 2010 general ledgers; the Authority's 2003 through 2010 audited financial statements and general ledgers; and the authority-prepared cash flow projections for fiscal year 2011 through 2016.

- To examine the Authority's contract with the multipurpose facility stadium manager and oversight of the facility manager, auditors reviewed the Authority's 2004 management and pre-opening services agreement, and the 2009 and 2010 amendments to the pre-opening services agreement; the Authority's facility manager incentive fee proposal; a performance audit report on the Louisiana Stadium and Exposition District issued by the Louisiana Legislative Auditor in May 2006; and U.S. Internal Revenue Service regulations pertaining to management contracts for facilities financed with tax-exempt bonds.[1] Auditors also reviewed the Authority's event settlement review process, and the facility manager's monthly reports to the Authority. In addition, auditors attended a monthly meeting in which the facility manager reviewed the monthly report information with the Authority, attended an additional meeting between the facility manager and the Authority where the status of multipurpose facility repairs were discussed, and reviewed the box office services agreement between the facility manager and the Arizona Cardinals.

[1] Louisiana Legislative Auditor. (2006). Louisiana stadium and exposition district - Superdome/Arena management agreement State of Louisiana (Performance Audit Report - Audit Control #06301565). Retrieved May 16, 2008, from: http://app1.lla.state.la.us/PublicReports.nsf/EFB6A92FAC3D8AB086257163006C361F/$FILE/000018B6.pdf

- To evaluate authority financing assistance for renovating or constructing new Cactus League facilities, auditors reviewed and analyzed all six signed Cactus League contracts and documentation obtained from various Arizona cities regarding spring training facility construction and/or renovation costs and funding sources including eight official bond offering statements for bonds that cities issued to fund these facilities. Auditors also reconciled the spring training facility construction costs to the funding sources for each of these facilities. Further, to identify the level of financial participation from each major league baseball team (MLB) using the six Cactus League spring training facilities, auditors reviewed and analyzed all signed facility-use agreements between the Cities of Surprise, Phoenix, Tempe, Scottsdale, Goodyear, and Glendale and the MLB teams that use these facilities. Auditors also obtained copies of receipts or checks documenting the MLB teams' contributions. Finally, auditors reviewed the Authority's Cactus League funding prioritizations established in board resolutions and Cactus League funding agreements; and analyzed and recalculated any authority payments to Cactus League projects.

- To evaluate the Authority's youth and amateur sports (YAS) program, auditors reviewed a sample of 10 of the 25 2010 grant application cycle approved biennial grant applications, 4 of the 8 2010 biennial grant applications that were not approved, all 15 approved quick grant applications received in fiscal years 2009 and 2010, and 11 quick grant applications the Authority received in fiscal years 2009 and 2010 but did not approve.[1] Finally, auditors reviewed the Authority's YAS policies and requirements and its general ledgers to identify the youth and amateur sports projects that received authority funding through the biennial and quick grant programs since the inception of each program.

[1] The Authority does not separately track unfunded quick grants; therefore auditors could not determine whether the unfunded quick grant files reviewed represented the total population of unfunded quick grants.

AGENCY RESPONSE

AZSTA
ARIZONA SPORTS & TOURISM AUTHORITY

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December 15, 2010

Ms. Debra K. Davenport, CPA
Auditor General
State of Arizona
2910 N 44th Street, Suite 410
Phoenix AZ 85018

RE: 2010 Special Audit of the Arizona Sports and Tourism Authority

Dear Auditor General Davenport:

On behalf of the Board of Directors and staff of the Arizona Sports and Tourism Authority we appreciate the opportunity to respond to the 2010 Special Audit of the Authority.

Since the Authority's inception in late 2000, this is the third audit of the Authority. The first audit occurred a little more than two years after our inception with the University of Phoenix Stadium under construction for less than 8 months. The second performance audit came at a time when the stadium had been open for operations for a little over two years, after we held hundreds of events which showcased the stadium, the Valley of the Sun and Arizona on a worldwide stage. This third audit comes just one year after the second performance audit and after a little more than 4 years of operations. In addition, this Special Audit comes at a time after the economy has seen its worst downturn in decades and the Authority has seen the financial impact of lower Tourism Taxes.

We are pleased with the basic conclusions of the Special Audit, specifically your finding that, with respect to major contracts entered into by the Authority, we have complied with our own procurement policies and have bid them in material compliance with best procurement practices. In addition, we appreciate your recommendations. The Authority has implemented already or will implement their related recommendations over the coming months. We believe that your findings will help all interested parties further understand the Authority's performance with respect to the diverse set of operations and objectives required of the Authority.

The Authority anticipates that under our current operations structure, we will be able to continue to provide the type of economic impact on Maricopa County as we have been able to provide for the past 10 years. As shown in the Special Audit, the Authority has used the nearly $300 million in taxes received as the voters of Prop 302 intended, resulting in an economic impact to Maricopa County of almost $4 billion, more than a 15 times multiplier on the investment of Prop 302 [1].

Our economic challenge is the same as most local, county, state and national governments and public/private organizations are facing: the loss of significant revenue as a result of the economic crisis that has plagued our nation since late 2007. The majority of our revenue sources (approximately 90%), come from a variety of sales taxes, income taxes, hotel bed taxes and car rental surcharges. The

[1] Data was derived from an economic impact study "Prop 302 10 Year Retrospective" being released on December 22, 2010.

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Authority is feeling the impact of this economic downturn, which has been further aggravated by several legislative changes to our enabling legislation. The first legislative change was moving the funding for the Authority's operating budget in 2002 (including the stadium's operations) from the fourth to the final position in the flow of funds. The second legislative change that has negatively impacted the Authority's financial performance was the elimination of the statutory minimum from our NFL income tax revenue source in 2007.

The elimination of the NFL income tax statutory minimum was based upon a recommendation made by the Auditor General's office during the first performance audit of the Authority. In that report, the Auditor General noted on page 28 that removal of the statutory minimum "*...could potentially affect TSA's ability to meet its funding obligations. This could include TSA's ability to establish and fund required reserves for operations and repairs, and other long-term costs associated with the multipurpose facility. Reduction in or elimination of the additional General Fund monies for TSA could also affect its ability to adequately fund current operations.*" Unfortunately, what the Auditor General forecasted in that first performance audit has become reality for the Authority. The impact of the elimination of the statutory minimum on the Authority's sources of revenues for fiscal years 2008 through 2011 is more than $4.5 million.

While the operating deficits for the Authority are projected to be greater than $4.5 million, we believe that our operational funding shortfalls would have been more than offset if the legislature had not made the two changes mentioned above. We believe that had the Authority not lost its original statutory minimum funding and had not experienced the estimated $6.4 million impact from the change in priority of the Authority's operating budget in the 2002 legislative change, we would not have an operating deficit. The combined decline in Tourism Taxes from 2008 – 2010 of more than $13 million only further exacerbate the financial obstacles that the Authority must overcome now and into the future.

We commend the professionalism, diligence and hard work of the staff of Auditor General we have worked with since last March. Thank you again for this opportunity to respond to this Special Audit report.

Sincerely,

Tom Sadler
President/CEO

cc: William Peltier, Chairman, Arizona Sports and Tourism Authority
Board of Directors, Arizona Sports and Tourism Authority

Enc

Arizona Sports and Tourism Authority

Summary Response to Findings and Recommendations – 2010 Performance Audit

CHAPTER 1

Concession procurement largely adhered to best practices; additional policies and procedures to guide future procurement would be helpful.

Authority Response

The Authority is of the same opinion that our concessions procurement activity largely adhered to best practices, and appreciates the confirmation from the Auditor General. We would also state that our procedures followed all State Statutes which the Authority is bound to comply with and resulted in superior results to our initial concession contract.

Recommendation 1.1

The Authority should follow its policies and conduct a competitive procurement process for each contract with an expected value of $25,000 or more or document the reasons for not conducting a competitive procurement process.

Authority Response

The finding of the Auditor General is not agreed to, but the audit recommendation will be implemented.

We disagree with any finding that we have not followed our policies regarding procurement. The Authority has always competitively bid its material contracts where competition has a positive impact, such as concessions and management services. However, our policies permit us to directly procure services where services are specialized or competition is not practicable.

The Authority's current policies and procedures led directly to the process we followed for the concession procurement.

The Authority will continue to follow our policy and more closely document the reasons and justifications for its decisions when not competitively bidding a contract due to specialization or impracticability.

Recommendation 1.2

The Authority should develop and implement additional policies and procedures that incorporate procurement best practices recommended by the national State Auditors Association to help guide its future procurement activities. These policies and procedures should require that:

a. Requests for proposals (RFP) specify the business needs; scope of work desired ; and the proposal evaluation criteria and weighting factors;
b. The award decision process ensures that proposals are received appropriately and evaluated objectively. It should also ensure that contracts are awarded fairly; and

c. Contract provisions define the scope of work, contract terms, allowable renewals, and procedures for any changes; provide specific measureable deliverables and reporting requirements; and describe the methods of payment and payment schedules.

Authority Response

1.2 a. The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Authority has shown that with the exception of "weighting factors", this recommendation was in place during the latest RPF for concessions.

1.2 b. The finding of the Auditor General is not agreed to, but the recommendation will be implemented.

The Authority strongly protests this language as all of our contracts have been evaluated objectively and awarded fairly. We will of course continue to do this in every contract that we award.

1.2 c. The finding of the Auditor General is not agreed to, but the recommendation will be implemented.

The Authority showed during this and past audits that all of our contracts have these provisions with the exception of the legal services for which we do not have specific measurables or a rate sheet included in the paperwork. We showed conclusively in the audit that all invoices clearly state the rate we are paying and are reviewed by the CFO and CEO for accuracy. The Auditor General, nor the agency's annual financial auditors, has not found any issue with our invoicing for legal services.

CHAPTER 2

Authority has taken steps to improve its financial situation, but still faces challenges.

Recommendation 2.1

To ensure compliance with statute, the Authority should properly apply the funding priorities required in 5-835 to the youth and amateur sports reserve and use this reserve to fund monthly revenue shortfalls in its youth and amateur sports program as required by A.R.S 5-835(B).

Authority Response

The finding of the Auditor General is agreed to and the audit recommendation will be implemented

Recommendation 2.2

The Authority and its Board of Directors should continue to take steps to address its financial shortfall by increasing revenues and/or decreasing expenses. In doing so, the Authority should study various options available to increase facility revenues and decrease facility expenses to address its projected deficits and fund its required reserve accounts. For example, it could review its legal services and related expenses to determine if opportunities exist to reduce these expenses.

Authority Response

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Authority, as stated in our detailed response to the 2009 audit, began taking steps to address the financial condition as soon as the economy started turning down in 2008. The Authority actively continues to address our financial condition on a regular basis, as stated by the Auditor General in this report.

The Authority will review its legal services and related expenses, as well as all of our expenses, as shown in our annual budget to determine if opportunities exist. The Authority will not implement changes for the sake of change, or for purely low cost bid, which could endanger our ability to produce quality results for our constituents, the voters of Maricopa County.

Recommendation 2.3

To enhance its long-term revenue projections, the Authority should continue to work with the Office of Tourism and other tourism industry representatives to forecast tourism revenues and crease different ranges of growth such as a conservative, moderate, and aggressive scenario for its tax revenue s and document its methodology.

Authority Response

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Authority has already implemented this process.

CHAPTER 3

Authority meeting its bond obligations but has reached debt capacity.

No recommendations

Authority Response

The Authority appreciates the diligent review of our bonding activity by the Auditor General and appreciates the recognition that the Authority has followed the guidelines in the best interest of Maricopa County voters.

CHAPTER 4

Authority has improved oversight of facility manager, but minor additional steps needed.

Authority Response

The Authority believes that we could not have more oversight of the facility manager if they were employees of the Authority. The daily interaction between the Authority and the Facility Manager is extensive and adequate. There were no findings by the Auditor General that any of the specific recommendations shown below would have changed any results the Authority has attained through its current oversight.

Recommendation 4.1

The Authority should take steps to ensure that the facility manager performs preventative maintenance according to its preventative maintenance schedule by:

a. Requiring the facility manager to include maintenance completion dates on the monthly and quarterly reports; and
b. Selecting a small sample of planned preventative maintenance schedule to verify that preventative maintenance is performed in a timely manner. Authority staff should also determine based on resources available, how frequently these samples should be reviewed.

Authority Response

The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

The Authority currently reviews the preventative maintenance budget in our annual budgeting cycle and then monitors that budget on a monthly basis in our meetings with the Facility Manager, as well as completing unscheduled inspections of the work. We will add to this process by implementing the additional steps outlined by the Auditor General.

Recommendation 4.2

The Authority should expand its review of facility manager expenses, including implementing a process for reviewing monthly check registers and bank reconciliations and, based on resources available, determine a frequency for selecting a sample of both direct and indirect expenses for an in-depth review.

Authority Response

The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

The Authority will review check registers of the facility manager, which has already been implemented. The Authority will not engage in the review of University of Phoenix Stadium

Bank reconciliations given that the auditors of both the Authority and the University of Phoenix Stadium already engage in this activity.

CHAPTER 5
Authority complying with Cactus League statutory requirements, but revenue shortfall will affect ability to meet planned commitments.

No recommendations

Authority Response
The Authority appreciates the diligent review of our Cactus League activity by the Auditor General and appreciates the recognition that the Authority has followed the guidelines in the best interest of Maricopa County voters.

CHAPTER 6
Authority funding has helped youth and amateur sports, but future funding is potentially limited.

Recommendation 6.1
The Authority should improve its biennial grant application funding process by:

a. Establishing additional guidelines for staff regarding secured funding, such as the evidence or documentation staff should review and retain in the grant file in order to determine that the applicant has secured 100 percent of its project funding contributions.
b. Requiring authority staff to reconcile funding reimbursement requests to submitted invoices and to review invoices to ensure that work completed is consistent with the project scope as approved by the Authority.

Authority Response
The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 6.2
The Authority should improve its quick grant process by developing a method of documentation that clearly shows that the Authority issued each check on a reimbursement basis as required by quick grant requirements.

Authority Response
The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 6.3
As time and resources permit, the Authority should:

a. Review quick grants issued prior to May 2008 where it either lacks documentation supporting project completion and the appropriate expenditure of authority monies or the documentation indicates that the scope of the project and/or project costs changed; and

b. Identify opportunities to recover monies and then work with its attorneys to take steps to recover these monies if it determines it has the ability and it is cost-effective to do so.

Authority Response

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Performance Audit Division reports issued within the last 24 months

09-01 Department of Health Services, Division of Licensing Services—Healthcare and Child Care Facility Licensing Fees
09-02 Arizona Department of Juvenile Corrections—Rehabilitation and Community Re-entry Programs
09-03 Maricopa County Special Health Care District
09-04 Arizona Sports and Tourism Authority
09-05 State Compensation Fund
09-06 Gila County Transportation Excise Tax
09-07 Department of Health Services, Division of Behavioral Health Services—Substance Abuse Treatment Programs
09-08 Arizona Department of Liquor Licenses and Control
09-09 Arizona Department of Juvenile Corrections—Suicide Prevention and Violence and Abuse Reduction Efforts
09-10 Arizona Department of Juvenile Corrections—Sunset Factors
09-11 Department of Health Services—Sunset Factors
10-01 Office of Pest Management—Restructuring
10-02 Department of Public Safety—Photo Enforcement Program
10-03 Arizona State Lottery Commission and Arizona State Lottery
10-04 Department of Agriculture—Food Safety and Quality Assurance Inspection Programs
10-05 Arizona Department of Housing
10-06 Board of Chiropractic Examiners
10-07 Department of Agriculture—Sunset Factors
10-08 Department of Corrections—Prison Population Growth
10-L1 Office of Pest Management—Regulation

Future Performance Audit Division reports

Department of Public Safety—Followup on Specific Recommendations from Previous Audits and Sunset Factors