STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Arizona Sports and Tourism Authority

REPORT HIGHLIGHTS
PERFORMANCE AUDIT

Our Conclusion

The Arizona Sports and Tourism Authority (Authority) receives tourism revenues from a hotel bed tax and car rental surcharge in Maricopa County and several other revenues from the operation of its multipurpose facility—the University of Phoenix Stadium (facility)—including event revenues, rental payments, and some sales tax revenues. In fiscal years 2011 through 2014, the Authority's tourism revenues were insufficient to fully fund all the purposes prescribed by statute. The Authority may also face challenges in funding its future operations, including operating and maintaining the facility. However, the Authority has options for improving its facility management agreement, which could help improve funding for future operations. Finally, the Authority should take steps to improve its planning and budgeting for capital improvements to help ensure it adequately maintains and improves the facility.

2015

September • Report No. 15-107

Authority's tourism revenues are insufficient to fund all statutorily designated priorities

The Authority owns and operates the University of Phoenix Stadium, the home of the Arizona Cardinals (Cardinals) National Football League team and other events. The Authority receives tourism revenues from a hotel bed tax and a car rental surcharge in Maricopa County, which it distributes for several statutory purposes. It also receives facility-related revenues, such as Arizona state income taxes paid by the Cardinals' employees, including its players, and their spouses, and other revenues from the operation of the facility, such as facility rent the Cardinals pay and sales taxes collected at facility events.

Statute prescribes tourism revenue distribution priorities—Statute requires the Authority to distribute its tourism revenues for use in the following priority order: repaying bonds issued to construct the facility, tourism promotion, Major League Baseball Cactus League spring training promotion, youth and amateur sports facilities and program grants, and the Authority's operations. Statute designates monthly distribution amounts for each priority, and a lower priority cannot receive monies until a preceding priority's monthly amount is fully distributed. In addition, according to statute, if a lower priority does not receive the full amount designated by statute in one month, sufficient revenues in a following month cannot be used to make up a month when revenues were insufficient.

Insufficient tourism revenues have impacted priorities—In fiscal years 2011 through 2014, although the Authority received sufficient tourism revenues to pay its facility bond debt payments, revenues were insufficient to fully fund the amount designated in statute for other priorities, resulting in multiple impacts. For example, the Authority reported that lower distributions for Cactus League promotion has affected its ability to meet planned commitments to the Cities of Glendale and Goodyear to help pay for their Cactus League facilities.

Revenues will continue to be insufficient—The Authority projects that tourism revenues will continue to be insufficient to fully satisfy distributions to all priorities. Additionally, statutorily required increases for some priorities and increasing bond debt payments may result in lower priorities receiving less money in the future. Finally, in June 2014, the Maricopa County Superior Court ruled that the car rental surcharge in Maricopa County was unconstitutional. The absence of the car rental surcharge will likely have a large negative impact on the various funding priorities, particularly the Authority's operations. However, according to the Authority, it believes the ruling was incorrect and that appellate courts will review the case and ultimately concur with its position.

Recommendation

The Authority's Board of Directors (Board) should take an active role in addressing the issue of insufficient tourism revenues to fund monthly distributions by working with its staff, stakeholders, and the Legislature to identify and study various options to address the issue.

Authority may face challenges funding future operations

Authority's operational finances have improved—The Authority's operations generally consist of overseeing and funding the facility's operation and other administrative activities related to its statutory responsibilities. In fiscal years 2011 through 2014, the Authority's total revenues available for operations exceeded its operational expenses, and the Authority was able to increase its operating reserve from nearly $9 million at the beginning of fiscal year 2011 to nearly $13.8 million in fiscal year 2014. The Authority should be able to use these monies for future operating costs and facility repairs and improvements. A main factor that led to the operating reserve increase was an increase in the Authority's facility-related revenues, from approximately $20 million in fiscal year 2011 to $29 million in fiscal year 2014.

Other payments and commitments may affect future funding for operations—The Authority may need to make payments to the Cardinals under the terms of its facility-use fee agreement, which the Authority would have to pay with operating monies. In addition, the Authority's bond debt payments made with facility-related revenues will begin to increase starting in fiscal year 2017, potentially decreasing the amount of these revenues available for operations. Further, the Authority agreed to use operating monies to reimburse the Cardinals about $8 million plus interest for the purchase of a new scoreboard that was installed in the summer of 2014. As a result of these payments, the Authority may face challenges funding its future operations.

Authority should consider various options for improving facility management agreement

Authority has options for improving facility management agreement—Statute requires the Authority to contract with a management company for the facility's operations and management. The Authority's facility management agreement, which expires in June 2016, is a cost-reimbursement contract that pays the contractor a fixed management fee and includes an incentive fee based on performance measures. The Authority pays all the expenses to operate the facility. When the Authority issues a Request for Proposals (RFP) for a new agreement, as it plans to do in the fall of 2015, it should consider several options for improving the agreement to help ensure it can generate sufficient revenues to pay its operational expenses. These options include using a fixed-price agreement, continuing with a cost-reimbursement agreement, or using a mixed approach. Regardless of the approach it takes, the Authority should draw on the expertise of a consultant it has hired to assist with procuring and negotiating a cost-effective agreement that provides high-quality services, and to develop and implement the necessary controls to oversee the agreement.

Recommendations

The Authority should:

- Consider various options for improving its facility management agreement, and
- Work with its consultant to procure and negotiate the most beneficial agreement possible.

Authority should improve its facility capital improvement practices

In fiscal year 2015, the Authority approved several capital improvements at the facility. However, the Authority did not have a capital improvement plan or budget to guide the projects, which was inconsistent with best practices. As a result, when approving these projects, the Board did not fully consider the Authority's future financial situation and did not discuss information about future facility needs. In addition, because the projects were started and in some cases substantially completed when they were approved, the Board did not have an opportunity to adequately oversee the projects.

Recommendation

The Authority and its Board should develop and implement capital planning policies and procedures.