STATE OF ARIZONA
OFFICE OF THE
AUDITOR
GENERAL

Arizona Tourism and Sports Authority

REPORT
HIGHLIGHTS

PERFORMANCE AUDIT

Subject

The Arizona Tourism and Sports Authority (TSA) is responsible for the following in Maricopa County: designing, constructing, and operating a multipurpose facility; distributing monies to the Arizona Office of Tourism for tourism promotion; funding Cactus League baseball stadium improvements; and awarding grants for youth and amateur sports facilities and programs.

Our Conclusions

The multipurpose facility's total cost has increased to $370.6 million. While TSA receives funding from several sources, the Legislature may want to reduce the burden on the State General Fund. TSA can enhance the grant process for youth and amateur sports and the Cactus League. In addition, it needs to improve its administrative practices. The report also contains information on revenue projections.

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TSA's Funding Priorities

The TSA has a number of sources to fund the construction of its multipurpose facility and its other responsibilities. Statute establishes the priorities for the use of these funds.

TSA funding

TSA has five major funding sources:

- **Hotel bed tax**—TSA's largest source of funding is from a 1 percent increase in the Maricopa County hotel bed tax. This tax began on March 1, 2001, and is projected to produce $610 million through 2031, when it ends.
- **Car rental surcharge**—TSA receives a portion of a 3.25 percent rental car surcharge in Maricopa County. The car rental surcharge is split between the County Stadium District, which receives the first $2.50 from each car rental surcharge, and the TSA. This tax is expected to produce $382 million for TSA through 2031, when it ends.
- **NFL tax**—TSA also receives all state income taxes paid by the Arizona Cardinals' football corporate organization, its employees (including players) and their spouses. If these taxes do not meet a specified minimum amount, the State General Fund must make up the difference. These taxes are projected to provide at least $397 million by 2031; however, this tax does not expire.
- **Sales tax**—TSA receives the state sales taxes paid at Cardinals' games, including those played at Arizona State University's Sun Devil Stadium until the facility is built, and all other events at the facility once it is built. These taxes are projected to total $130 million through 2031. This tax does not have an expiration date.

TSA's state-of-the-art multipurpose facility, with a retractable roof, will have a capacity of 63,000 air-conditioned seats. The facility is located in the City of Glendale. Construction began in July 2003 and is expected to be completed in the summer of 2006.

Source: Arizona Tourism and Sports Authority.

- **Facility revenue**—Once the facility is operating, TSA projects generating $2 million in its first full year from rent and concessions at nonfootball events, in addition to the $250,000 rent (increasing at 2 percent per year) the Cardinals will pay each year. Total projected revenues are $115 million through 2031.

Funding
March 1, 2001—December 31, 2003

Hotel Bed Tax	$26.7 million
Car Rental Surcharge	$19.1 million
NFL Tax	$ 9.4 million
Sales Tax Recapture	$ 3.9 million
General Fund	$ .83 million

TSA funding priorities

Statute prioritizes the uses and distribution of TSA's monies.

- **Debt service**—The first priority is to pay principal and interest on $222 million in bonds that TSA issued in February 2003 to finance facility construction. These bonds are due to be retired in 2031. The payment

amounts for fiscal years 2005 through 2007 are $11.1 million per year, and then increase to approximately $19 million per year for the last 15 years of the bonds' life. The total principal and interest payments are projected to cost $457 million.

- **Tourism**—The next funding priority is for tourism promotion. TSA will distribute $4 million annually, growing at 5 percent each year, to the Arizona Office of Tourism to promote tourism in Maricopa County. Through 2031, an estimated $264 million will be distributed for tourism promotion.
- **Cactus League Baseball**—TSA's third funding priority is construction or renovation of Cactus League baseball facilities. TSA estimates a total of $205 million will be spent by 2031.
- **Youth and amateur sports**—After tourism promotion and the Cactus League, statute provides for TSA to fund youth and amateur sports. This program will receive an estimated $73.5 million through 2031.
- **Operations**—After funding all of the areas above, TSA can use the remaining money for operating the facility, staff salaries, travel, and insurance. Operating expenses for FY 2003 were $1.9 million, but are expected to grow to $11.6 million in FY 2007 after the facility begins operating.

In addition to these funding priorities, TSA is required to establish and fund reserves for its operations, youth and amateur sports, and for repairs and other long-term costs associated with the facility.

Facility Cost at $370.6 Million

The multipurpose facility's cost has increased to $370.6 million, nearly $40 million over its original cost estimate. Statute does not cap facility construction costs, and as design plans for the facility were largely finalized in January 2004, construction costs increased. According to its agreement with the Cardinals, TSA will pay an estimated $266.6 million, or 72 percent, of the facility's costs. The Cardinals are obligated to pay approximately $104 million toward facility construction.

Design-build agreement—In August 2003, TSA entered into a design-build agreement with the facility's contractor, which set a guaranteed maximum price of $346.3 million for the multipurpose facility's construction. At that time, the facility design plans were not finalized. As part of this agreement, the contractor assumed responsibility for any planned construction costs that exceed the maximum price. However, as design plans were largely finalized in January 2004, the contractor provided more information regarding construction costs. TSA and the Cardinals then decided which features to retain, add, or remove. TSA and the Cardinals also agreed to modify the design-build agreement and increased the guaranteed maximum price to $357.8 million. There is also nearly $12.9 million in costs for such things as city permit fees, construction testing and inspection, and insurance not included in the guaranteed maximum price bringing the total project cost to $370.6 million.

Cardinal's agreement—TSA developed an agreement with the Cardinals under which, if the Cardinals want construction upgrades, they are solely responsible for the costs. The Cardinals set aside $9 million to pay for such possible changes. However, the Cardinals committed nearly $5.8 million of this amount to help cover some of the recent cost increases.

Construction oversight—TSA has also hired staff, construction consultants, and testing consultants to oversee construction and help ensure proper building techniques. Monies have also been budgeted for contingencies. While $18 million was designated for contingency, including the $9 million from the Cardinals and another $9 million that is part of the contractor's guaranteed maximum price, over 60 percent of this money has already been committed to cover facility cost increases.

Legislature Should Review General Fund Subsidy

One of the tax revenues TSA receives is the state income taxes paid by the the Cardinals' corporate organization, personnel (including players), and their spouses. This is called the NFL tax, and the statute creating it guarantees the TSA a minimum amount each year. This minimum amount was projected at about $3.5 million in fiscal year 2002 and increases by 8 percent each year. TSA keeps any amounts above the minimum. However, in the event the tax falls short of the minimum amount, additional General Fund monies must make up the difference. This guarantee continues indefinitely, even if the Cardinals relocate.

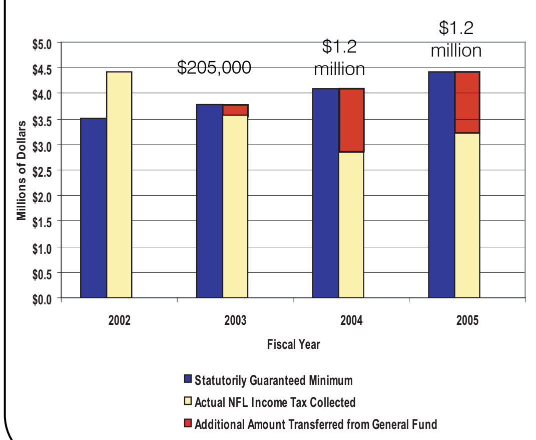
While the NFL tax exceeded the minimum amount by over $915,000 in fiscal year 2002, by the end of fiscal year 2005, non-NFL income tax General Fund monies will have subsidized the guaranteed amount by over $2.6 million.

Whether the General Fund subsidizes the guaranteed amount can depend on fluctuations in Cardinals' salaries, the state of the economy, and any work stoppage or relocation by the Cardinals.

Alternatives to General Fund Guarantee

The Legislature could consider at least three options to limit or control General Fund payments that may not be needed to sustain TSA operations:

Comparison of General Fund Guarantee to NFL Tax



- Continue to distribute the minimum specified amount, but allow the General Fund to keep any NFL tax revenues in excess of the minimum amount;
- Require TSA to hold any NFL taxes that exceed the minimum in reserve for use in years when the taxes do not meet the minimum; or
- Eliminate the General Fund guarantee, distributing only the NFL tax to TSA. If needed, the TSA could request additional funding through specific legislation.

Because the Legislature created the NFL tax, and this tax is not pledged to TSA's bonds as are the other taxes, the Legislature can modify its provisions.

Recommendation

The Legislature may want to consider modifying statute to minimize the impact of NFL tax shortfalls on the General Fund.

More Specific Evaluation Process Needed for Grants

TSA can improve its processes for funding youth and amateur sports and the Cactus League.

Youth and amateur sports grants

TSA lacked a documented decision-making process when it committed approximately $5.2 million for youth and amateur sports projects in 2001 and 2002. That money was committed to:

- Sports fields at South Mountain YMCA ($150,000);
- A regional sports complex in Avondale ($3.4 million plus $666,000 in interest); and

- Turf fields in Glendale that will double as overflow parking for the new multipurpose facility ($1 million).

The Glendale project's total cost has not been established. However, according to a TSA official, TSA will enter into an agreement with Glendale that will identify the project's total cost and the city's match once Glendale has obtained the land for this project.

TSA has since established a 20-member advisory committee to assist it in establishing and prioritizing youth and amateur sports facility needs. TSA has also implemented a new process for evaluating grant applications. Under this process, TSA received 92 applications and in February 2004, awarded 13 grants totaling over $1.3 million. However, TSA could enhance this process by:

- Establishing guidelines for grant administration and oversight;
- Establishing the period of time an applicant must operate a facility; and
- Defining appropriate expenditures that the applicant may count for its grant match.

Cactus league grants

As of December 31, 2003, TSA had already committed about one-quarter of the total money it will receive for Cactus League facilities. This money was awarded for construction of a new spring training facility in Surprise ($32 million), and renovations at Phoenix Municipal Stadium (over $4.3 million). However, the TSA did this without formal guidelines for its process.

The Maricopa County Stadium District, which also provides funding for Cactus League facilities, has developed written guidelines for its process. These guidelines address its funding priorities, evaluation criteria, and the types of projects and costs that can be funded. While TSA said that it already uses some of these to evaluate grant applications, it needs formal guidelines to ensure consistency and fairness.

Recommendations

TSA should:

- Develop and implement additional policies and procedures to evaluate and administer youth and amateur sports grants; and
- Develop and implement written Cactus League funding guidelines.

TSA Needs To Develop Policies To Guide Its Administration

TSA is not a state agency and is exempt from some policies state agencies must follow for things such as procurement and travel. Therefore, it needs to develop its own policies for these areas as well as for other, sometimes unique, aspects of its operations.

Procurement policies needed

TSA has contracts for various services, including legal, engineering, and construction management, but has no defined process for conducting these procurements or overseeing the contracts. Several factors that TSA should consider that would help ensure the best product at the most economical price, promote competition, and avoid fraud include:

- Procurement thresholds describing when verbal and written price quotes, and sealed bids are required;

- Timelines when the Board should ratify contracts entered into by TSA's executive director;
- Procedures for overseeing contracts;
- Procedures for approving smaller dollar purchases; and
- Guidelines for using credit cards.

Review use of attorneys' legal costs

TSA should also review its use of attorneys and consider whether there are some things that staff could do, such as prepare minutes and policies, that are currently done by its attorneys, and whether it should hire an in-house attorney.

Attorney fees through June 2003

- $4.1 million total
- $120 to $160 an hour for drafting meeting minutes
- $200 an hour for developing a conflict-of-interest policy
- Up to $325 an hour for developing contracts with staff, consultants, and organizations.

Policies needed for other expenditures

Travel policy—TSA first adopted a travel policy in January 2003. Prior to this, TSA did such things as pay for a staff overnight stay in town, although this has been recently reimbursed. Even since it adopted the policy, TSA has not always followed it. For example, TSA sometimes paid more for hotel rooms than allowed, without obtaining written approvals.

Gifts—Unlike most governmental entities, TSA may provide gifts, but has lacked guidelines defining under what circumstances it may provide gifts. Some gifts that TSA has made include flowers and meals for staff, consultants, and board members. While most gifts were under $100, between April 19 and June 18, 2003, TSA spent about $918 just on meals. TSA adopted a policy for providing gifts in December 2003.

Financial controls—TSA lacks written policies and procedures for recording and explaining transactions and transferring money, and there is no independent internal review of the transactions. In addition, credit card payments have been delinquent, resulting in late fees.

Uses of luxury suite—TSA has not developed specific policies for the use of its luxury suite and tickets that it will receive to all football games at the facility. It is important to have such a policy, given the potential value of the suite and tickets.

Recommendations

TSA should:

- Establish and implement purchasing guidelines;
- Ensure it is making the most effective and efficient use of attorneys;
- Follow its travel policy and obtain required approvals for all travel;
- Strengthen its controls over financial matters; and
- Establish a policy for the use of the luxury suite and tickets for football games.

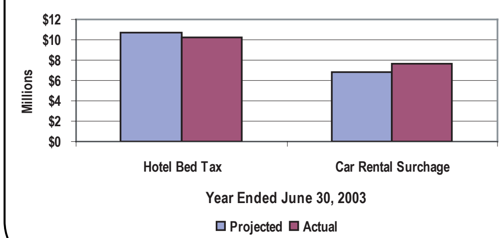
Projected vs. Actual Revenues

Future revenue for TSA depends on the rate of growth of the hotel bed tax and the rental car surcharge. Two sets of revenue projections were prepared, one for the 2000 election publicity pamphlet and the other for the 2003 bond offering. For the first, consultants suggested an 8 percent annual increase in the hotel bed tax, declining after 10 years, and a 5 percent annual increase in the car rental surcharge, declining after 20 years.

For the bond offering statements, the same consultants suggested a 5 percent annual increase in the hotel bed tax for fiscal years 2005 through 2011, with no change in the rental car surcharge through fiscal year 2011. These estimates were revised because of the September 11, 2001, terrorist attacks and their effect on tourism, and a general economic downturn.

Results from fiscal year 2003 show that the hotel bed tax is falling about 4 percent short of the revenue estimates used for

Projected vs. Actual Revenue



the bonds, while the car rental surcharge is outperforming the estimates by about 12 percent.

To prepare for the possibility of revenue shortfalls, TSA is working to obtain a $3 million line of credit and is establishing the operating reserve required by statute. If necessary, TSA could reduce its operating expenses and/or renegotiate some of its consultants' contracts.

TO OBTAIN MORE INFORMATION

A copy of the full report can be obtained by calling

(602) 553-0333

or by visiting our Web site at:
www.auditorgen.state.az.us

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