

REPORT HIGHLIGHTS PERFORMANCE AUDIT

Subject

The Arizona Sports and Tourism Authority (Authority) owns and operates the University of Phoenix Stadium multipurpose facility. The facility is an enclosed air conditioned structure, with retractable roof and retractable natural grass playing field, and seating up to 72,200. The Authority also distributes money for tourism promotion, helps fund the building and renovation of Cactus League baseball facilities, and funds youth and amateur sports facilities and programs.

Our Conclusion

The Authority may be unable to pay its operating expenses by as early as October 2009. Although it will have enough revenue to pay its bonds and distribute revenue to tourism and sports programs, unless changes are made, it will not have sufficient revenues to operate the facility. The Authority needs to continue its ongoing efforts to increase revenues and/or decrease expenses.



2009

Authority should continue to address its deficit

The Authority receives its money from a hotel bed tax, car rental surcharge, recapture of sales tax received from Cardinals games and other events at the facility, Cardinals' organization and employees' state income tax, facility rental payments, and event ticket surcharges.

The Authority's revenues must be used for specific purposes, and according to these statutory priorities:

- **Bond debt service**—The Authority issued \$277.58 million in bonds to construct the University of Phoenix Stadium.
- **Tourism promotion**—Increasing by 5 percent each year, almost \$5.4 million was paid to the Office of Tourism in 2008 to distribute to local tourism offices.
- **Cactus League promotion**—Increasing by statutorily required amounts, the Authority allocated nearly \$3.1 million in fiscal year 2008 and is required to allocate \$4 million in fiscal year 2009 for construction and renovation costs.
- **Youth and amateur sports**—Increasing by \$100,000 each year, over \$1.7 million was directed to these facilities and programs in 2008.
- **Authority operations and administration**—The Authority has established an operating budget for fiscal year 2009 of almost \$13.7 million.
- **Three reserve accounts**—Statutes require the Authority to fund a youth and amateur sports reserve, and an operating reserve, and to create a \$25 million reserve for facility repairs and replacement costs.

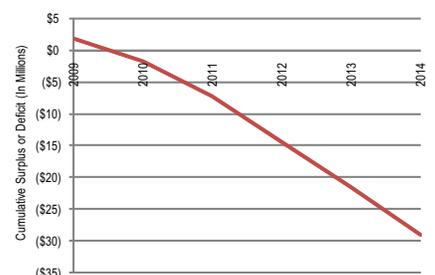
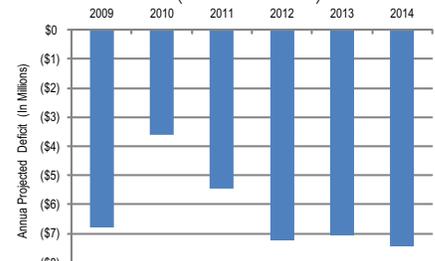
Authority is operating with financial deficit—The Authority has sufficient revenues to pay for all of the higher-priority items listed above, but not for its own operations or for the reserve accounts. In 2008, the Authority had an operations deficit of \$457,536, but was able to cover



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

it because it had almost \$8.7 million in operating reserves as of June 30, 2008. However, the Authority expects its annual operations deficit to grow to \$6.8 million in fiscal year 2009 and expects to have continuing deficits ranging from \$3.6 million to over \$7.4 million each year through fiscal year 2014. These deficits will exhaust the Authority's operating reserves by as early as October 2009, leaving the Authority without sufficient funding to operate the multipurpose facility.

Projected Annual and Total Cumulative Operating Surplus or Deficit Fiscal Years 2009 through 2014 (Unaudited)



No provision for future major repairs—The Authority has never funded the statutorily required reserve account needed to meet future facility repair, replacement, and removal costs because its policy is to first fully fund its operating reserve. This account, which is required to eventually have at least \$25 million, is critical for addressing major capital repairs and renovations that arise as the facility ages. Because projected obligations exceed projected revenues, the Authority expects that it will continue to be unable to fund this reserve in the future.

Several factors contribute to deficit situation—Lower-than-expected revenues and several authority decisions have contributed to the Authority's financial situation:

- **Lower NFL Tax revenues**—NFL tax revenues are not coming in as projected. The Authority receives all the Arizona state income taxes paid by the Cardinals' corporate organization, employees, and spouses. When first implemented, it was anticipated that the Authority would receive \$3.5 million, increasing by 8 percent annually. Instead, actual increases have averaged 2.2 percent. In addition, in 2007, the Legislature repealed a provision that required the State General Fund to make up any shortfalls if annual NFL tax revenue did not increase by 8 percent. Between fiscal years 2002 and 2007, the State General Fund paid nearly \$4.3 million to cover annual shortfalls. Had this provision not been repealed in 2007, the State General Fund would have paid another \$1.4 million in fiscal year 2008.
- **Declining tourism revenues**—Although the combined hotel bed tax and car rental surcharge revenues grew by an average of 7.9 percent annually through fiscal year 2007, these revenues decreased from nearly \$24.3 million in fiscal year 2007 to \$24.1 million in fiscal year 2008. These revenues have continued to decline in fiscal year 2009.
- **Higher facility costs**—The facility cost was \$53.4 million more than originally estimated, and furniture, fixtures, and equipment added another \$9.6 million. This included increased construction materials costs as well as \$32.3 million for site improvements, which should have been funded by the City of Glendale (City), but were not. The Authority agreed to finance the site improvements, and in turn, the City remits to the Authority city sales tax revenues from sales at the facility.

- **Payments to Cardinals**—The Authority estimates that it will pay the Cardinals \$15 million from its share of facility-use fees between fiscal years 2012 and 2020. This is to reimburse the Cardinals for a portion of its \$140.3 million contribution for the land, on-site improvements, and construction costs, which it was not obligated to pay. Although this includes reimbursement for the costs of the parking areas and other land around the facility that the Cardinals currently own, the Cardinals will retain ownership of these properties.
- **Payment of game day expenses**—The Authority also agreed to pay the Cardinals game day expenses, such as facility preparation, cleanup, and security. These expenses were more than \$2.3 million in both fiscal years 2007 and 2008, and are estimated at almost \$2.5 million for fiscal year 2009. The Authority does receive a portion of all sales tax revenues generated at these games.
- **Naming rights revenues**—In addition, the Authority gave the Cardinals naming rights for the facility and will receive nothing for such rights. The University of Phoenix will pay the Cardinals \$154.5 million over 20 years for these rights.

Limited event revenue—The Authority hosts various events at the facility, such as concerts and other sporting events. The revenue from these events did not cover the facility's annual operating costs for such expenses as utilities, security, and other operations. Although operating revenues were never expected to cover all operating expenses and it was planned that nonoperating revenues would help cover these expenses, the unrecovered costs in fiscal year 2007 were about \$8.6 million, and in fiscal year 2008 were about \$9.1 million. Few events generate large amounts of revenue, and the number of events and the attendance are declining. However, the Authority anticipates hosting several major events in fiscal year 2010.

Authority should continue efforts to address shortfall—The Authority has taken some steps to address its shortfall. It has worked with the Cardinals and the Arizona Department of Revenue to identify an estimated \$1.17 million in additional NFL income tax revenues that will be paid to the Authority in fiscal year 2010. It is also working with the facility manager on a revised business plan to decrease facility operating expenses by \$1 million in fiscal year 2009 and another undetermined amount for fiscal year 2010. However, more options will need to be considered.

Recommendation

- The Authority should continue to take steps to address its financial shortfall.

Authority should enhance oversight of facility manager

The Authority employs only four staff of its own and contracts with a facility management company to manage and operate all aspects of the multipurpose facility. Under this contract, the facility manager markets and schedules the facility for various events. It also hires employees and contracts for services to operate and maintain the facility, including hiring temporary staff to clean up after events, and arranging for security at events. In addition, the Authority authorized the facility manager to establish an authority bank account to deposit revenue and pay expenses.

The facility manager receives a fixed fee of \$200,000 for the first 12-month period beginning in August 2006 that increases annually by \$30,000. In addition, the manager receives an annual incentive fee of up to 100 percent of the fixed fee. In fiscal year 2007, the total fee paid was \$382,250. The total fee for fiscal year 2008 has yet to be determined.

However, the Authority should establish a more performance-based incentive fee. For example, part of the incentive fee is paid on a percentage of all adjusted operating revenues without regard to whether these revenues increase or decrease.

In its May 2006 performance audit report of the Louisiana Stadium and Exposition District, the Louisiana Legislative Auditor noted that, of the six NFL stadium management agreements it reviewed, Arizona's was the only one that provides for an incentive fee based solely on a percentage of revenues.¹ Three other agreements base the fee on specific performance measures, such as actual operating income meeting or exceeding budgeted operating income.

Authority should expand review of the facility manager's expenses—Although the Authority approves the facility manager's budget and quarterly funding requests, auditors identified some expenses that might warrant further scrutiny, given the Authority's financial situation and the use of public monies to pay for these expenses. For example, facility manager corporate employees sometimes travel to the facility to assist with big events. Associated expenses the facility manager paid included one employee's \$700 hotel bill for a 2-night stay and other hotel expenses, and various costly food expenses such as one meal costing almost \$200, two others costing more than \$150 each, and three others costing more than \$100 each. According to the facility manager, each of these meals were purchased for several corporate and facility manager employees.

Authority does not adequately review event settlements—After each event, the manager has an event settlement with the event's promoter to determine the amount owed to or by the promoter. Although the Authority's external financial auditor tests some event revenues, the Authority does not review the settlement documentation to determine if reconciled amounts are appropriate.

Other limited oversight—In addition, the Authority does not regularly review the preventive maintenance schedule for the facility or ensure that it is completed. Further, the Authority has not ensured that the facility manager has established a written contract for the box office services that the Cardinals perform on the Authority's and the manager's behalf.

Recommendation

- The Authority should continue with its plans to review and revise the incentive fee structure with the facility manager and enhance its monitoring of the manager's activities and performance.

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.la.state.la.us/PublicReports.nsf/EFB6A92FAC3D8AB086257163006C361F/\\$FILE/000018B6.pdf](http://app1.la.state.la.us/PublicReports.nsf/EFB6A92FAC3D8AB086257163006C361F/$FILE/000018B6.pdf)

Minor improvements needed to better fulfill mission

In addition to operating the multipurpose facility, the Authority is responsible for distributing funding intended to increase tourism, developing and renovating Cactus League baseball facilities, and supporting youth and amateur sports. The Authority can make some minor improvements in the youth and amateur sports area.

Tourism—As required, the Authority distributed nearly \$5.4 million to the Arizona Office of Tourism (Office) in fiscal year 2008. The Office retains 5 percent of the monies and, through a grant process, awards the other monies to cities, chambers of commerce, and convention bureaus in Maricopa County to promote tourism. No improvements were identified.

Cactus League—Through fiscal year 2031, the Authority projects spending \$205 million on projects such as the new

stadiums in Surprise, Goodyear, and Glendale, and renovations of stadiums in Phoenix, Scottsdale, Tempe, Peoria, Maryvale, and Mesa. These monies, coupled with \$198 million from the Maricopa County Stadium District, will result in over \$403 million in Cactus League expenditures during this time.

Youth and Amateur Sports—The Authority also funds amateur and youth sports facilities and programs. From fiscal years 2001 to 2008, it has awarded more than \$11.3 million for 110 projects in Maricopa County. It distributes the monies through biennial grants to Maricopa County cities, and youth and amateur sports organizations in Phoenix, Mesa, Gilbert, and Cave Creek. However, some of its policies and procedures for distributing the monies are outdated and need revision to reflect existing practices.

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Recommendation

- The Authority should update its youth and amateur sports grant policies and procedures.