Performance Audit Division

Performance Audit

Arizona Sports and Tourism Authority

Insufficient Tourism Revenues and Future Commitments May Affect the Authority’s Ability to Fully Fund Statutorily Designated Priorities and Facility Operations, and the Authority Should Improve Its Facility Management Agreement and Capital Improvement Practices

September • 2015
Report No. 15-107
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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September 1, 2015

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Mr. David Eberhart, Chairman
Arizona Sports and Tourism Authority Board of Directors

Mr. Tom Sadler, President/CEO
Arizona Sports and Tourism Authority

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Arizona Sports and Tourism Authority. This report is in response to Arizona Revised Statutes (A.R.S.) §5-812 and was conducted under the authority vested in the Auditor General by A.R.S. §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 all of the findings and plans to implement all of the recommendations.

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

Sincerely,

Debbie Davenport
Auditor General

Attachment

cc: Arizona Sports and Tourism Authority Board of Directors
The Arizona Sports and Tourism Authority (Authority) receives tourism revenues from a hotel bed tax and a 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.

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.

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Contact person:
Jeff Gove (602) 553-0333
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Agency Response

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Arizona Sports and Tourism Authority

History and responsibilities

The Legislature established the Authority in 2000, conditioned on Maricopa County voter approval. Voters subsequently passed Proposition 302 in the November 2000 election, approving the establishment of the Authority. Proposition 302 also established a new surcharge on car rentals and a new local tax on hotels in Maricopa County as well as outlined funding priorities for these new tax revenues (see pages 8 through 10 for more information on the tax revenues the Authority receives, and see Finding 1, pages 15 through 28, for information on tourism tax revenue distribution).

A.R.S. §5-802 establishes the Authority as a separate legal body with all of the rights, powers, and immunities of a municipal corporation. In addition, A.R.S. §§5-836(D) and 5-875(C)(4-5) provide that the State of Arizona is not financially liable for any of the Authority’s expenses or obligations.

The Authority has the following responsibilities, which are limited to Maricopa County:

- Maintaining, operating, improving, and marketing/promoting the use of the University of Phoenix Stadium, a multipurpose event facility (facility) in Glendale that is the home of the Arizona Cardinals (Cardinals) National Football League (NFL) team, Fiesta Bowl football games, and other events;
- Attracting and retaining Major League Baseball Cactus League spring training operations;
- Reviewing, approving, and funding grants for youth and amateur sports facilities and programs; and
- Distributing its revenues to meet various statutory financial obligations, including to the Arizona Office of Tourism for tourism promotion.

These responsibilities are described in more detail on the following pages.

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1 For example, the Authority has the power to enter into contracts and issue bonds and has the right of eminent domain.
Multipurpose facility—the University of Phoenix Stadium

A.R.S. §5-807 requires the Authority to construct, maintain, operate, improve, and market/promote the use of the facility. The Authority oversaw the facility’s construction, and the facility began operations in August 2006. The facility, located in the City of Glendale, serves as the home for Cardinals and the Fiesta Bowl football games. Although the Authority owns and operates the facility and the 25.3 acres of land the facility sits on, the Cardinals are the primary tenant and own the surrounding 140 acres, including the parking lot and landscaped areas.

The total cost of facility construction, including site improvements, was approximately $465.7 million and was primarily paid for with bond proceeds, authority revenues, and Cardinals contributions, some of which will be repaid (see page 5 for more information). Specifically, the facility was primarily paid for by:

- Approximately $277.6 million in revenue bonds the Authority issued;¹
- Approximately $37.6 million in revenues the Authority contributed; and
- Approximately $148.2 million the Cardinals contributed.

In fiscal year 2012, the Authority issued new facility bonds to replace previous bond issues. According to the Authority, issuing the new facility bonds allowed the Authority to move from variable interest rate bonds to fixed rate bonds, thereby eliminating the uncertainty of interest rate changes. Additionally, issuing the new bonds allowed the Authority to reduce its fiscal years 2013 and 2014 principal and interest payments by approximately $4 million by delaying principal payments on the facility bonds to fiscal year 2017, when its Cactus League bonds will be completely retired (see pages 5 through 6 for more information on the Authority’s Cactus League bonds). The majority of the facility bonds will be retired by 2031, but some bonds will not be fully retired until 2036. According to the Authority’s records, for fiscal years 2011 through 2014, it has incurred approximately $61.6 million in bond interest expense and issuance costs. In addition, after all bonds are retired, the Authority’s bond interest expense and issuance costs will total approximately $287.8 million, and it will have repaid approximately $275.6 million in bond principal, which totals approximately $563.4 million in bond payments by 2036 to retire the bonds.

Additionally, as part of the $277.6 million in revenue bonds, the Authority used $32.3 million to finance site improvements that were originally to be funded by the City of Glendale. According to a 2005 agreement, the City of Glendale remits to the Authority city sales tax revenue resulting from sales at the facility to help pay for the bonds that the Authority issued to finance these site improvements (see pages 8 through 10 for more information on the Authority’s funding sources).

Further, the Cardinals contributed approximately $25 million that, 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

¹ In fiscal year 2012, the Authority refunded some of these bonds, resulting in a new principal amount of approximately $275.6 million (see Finding 1, page 21, for more information on the Authority’s refunding of its bonds).
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 retained the remaining $15 million of land around the facility, which includes the parking and grass areas. The Authority entered an agreement with the Cardinals establishing a facility-use fee to pay for the Authority’s bond debt that was issued to finance the site improvements, and monies from the fee not needed to pay for the debt are used to repay the Cardinals for the $25 million contribution (see page 5 for more information on the facility-use fee agreement).

The facility is host to various other events such as 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. As shown in Table 1, in fiscal year 2014 the facility hosted 127 events with attendance of approximately 586,000 people at Cardinals’ games and the Fiesta Bowl, and approximately 560,000 people at other events.

In fiscal year 2014, the Authority spent approximately $7.7 million on facility operations and nearly $15 million on facility events, totaling approximately $22.7 million. In addition, it generated approximately $23.5 million in revenue from facility operations and events (see Finding 2, pages 29 through 35, for more information on the Authority’s operations, including facility maintenance and operations).

The Authority has entered into the following contracts and agreements related to the multipurpose facility:

- **Cardinals use agreement**—The Authority entered an agreement with the Cardinals for the Cardinals’ use of the facility for its home games and other events. The 30-year term of the agreement began in August 2006 and expires in August 2036. After the agreement expires in 2036, the Cardinals have the option to extend the agreement up to six times for 5 years each time. The agreement includes provisions for the Cardinals’ payment of rent; use of space in the facility, including for a team shop, video production facilities, and a home locker room; and a time frame for the Fiesta Bowl’s exclusive use of the facility for its annual event. In addition, according to the agreement, the Authority is responsible for the management and operation of the facility, and staffing, safety, security, and other elements of staging Cardinals home games.

### Table 1: Number of events and people in attendance at the multipurpose facility
#### Fiscal years 2007 through 2014

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Number of events</th>
<th>Football game attendance</th>
<th>Nonfootball event attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>179(^1)</td>
<td>711,009</td>
<td>499,699</td>
</tr>
<tr>
<td>2008</td>
<td>132</td>
<td>613,604</td>
<td>454,431</td>
</tr>
<tr>
<td>2009</td>
<td>121</td>
<td>745,752</td>
<td>433,469</td>
</tr>
<tr>
<td>2010</td>
<td>113</td>
<td>706,784</td>
<td>513,361</td>
</tr>
<tr>
<td>2011</td>
<td>110</td>
<td>688,404</td>
<td>356,773</td>
</tr>
<tr>
<td>2012</td>
<td>132</td>
<td>600,557</td>
<td>419,011</td>
</tr>
<tr>
<td>2013</td>
<td>126</td>
<td>599,695</td>
<td>435,220</td>
</tr>
<tr>
<td>2014</td>
<td>127</td>
<td>586,424</td>
<td>561,003</td>
</tr>
</tbody>
</table>

\(^1\) 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, fiscal years 2011 through 2014 University of Phoenix Stadium general ledgers, and information provided by the Authority’s facility management contractor.
Further, under the terms of the agreement, Cardinals staff operate the facility box office for most events held at the facility.¹

- **Fiesta Bowl use agreement**—The Authority entered an agreement with the Fiesta Bowl for the use of the facility for its annual event. The 30-year term of the agreement began in fiscal year 2007 and expires after the Fiesta Bowl game in fiscal year 2036. After the agreement expires in 2036, the Fiesta Bowl has the option to extend the agreement up to six times for 5 years each time. The agreement includes provisions for the Fiesta Bowl’s payment for use of the facility; a time frame for the Fiesta Bowl’s exclusive use of the facility for its annual event; and a requirement that the Fiesta Bowl reimburse the Authority for any game day expenses that exceed $300,000 beginning in fiscal year 2008 and increasing by 2 percent each year. For example, in fiscal year 2014, the game day expenses were approximately $607,000 with the Authority paying for approximately $338,000 and the Fiesta Bowl reimbursing the Authority for approximately $269,000.

- **Facility management agreement**—A.R.S. §5-807 requires the Authority to contract with a management firm to operate, promote, and market the facility. The Authority has contracted with the same facility management firm since fiscal year 2004 and anticipates issuing a Request for Proposals (RFP) in the fall of 2015 to manage the facility (see Finding 3, pages 37 through 46, for more information on the Authority’s facility management agreement).

- **Concessions agreement**—In fiscal year 2010, following a formal RFP process, the Authority and the Cardinals entered a contract with a concessionaire, an affiliate of the Cardinals, to exclusively provide food and beverage services at the facility. When the Authority entered into the concessions agreement, it also entered into an event management agreement with an affiliate of the concessionaire, which is effective as long as the concessions agreement is in effect (see below for information on the event management agreement). 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.

According to the concessionaire, customer satisfaction surveys conducted in 2013 indicate that concessions customer satisfaction at the facility has increased substantially since 2010, when the agreement went into effect. Specifically, the survey indicated improvement in customers’ satisfaction with wait times, affordability, variety of offerings, and quality of the product since 2009, when the previous concessionaire was in place. In addition, the concessionaire reported that, according to fan surveys the NFL conducted, the facility’s general concessions ranked fourth overall in customer satisfaction in the NFL in 2012, fifth overall in 2013, and third overall in 2014.

The concessions agreement was originally for a 2-year term, with an optional 1-year extension. In fiscal year 2013, the Authority and the concessionaire amended the agreement to extend the termination date of the concessions agreement to July 31, 2016. According to the Authority, it plans to issue an RFP for a new concessions agreement in the fall of 2015.

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¹ Event promoters may provide their own staffing on event days, and according to the facility management contractor, the Fiesta Bowl has established its own box office for its annual event.
• **Event management agreement**—In fiscal year 2010, the Authority entered into a contract with a second event management company (event manager), an affiliate of the Cardinals and concessions vendor referred to above. According to the agreement, the event manager works with the Authority and the facility management contractor to increase revenues and events held 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 event manager does not generate actual annual benefits totaling $750,000, the contract requires it to make up the difference to the Authority.

Authority financial records indicate that the event manager has generated approximately $4.3 million from July 2010, when the agreement went into effect, through June 30, 2014, which is approximately $1.3 million more than guaranteed. According to authority records, the vast majority of the benefits the event manager has provided were in the form of increased revenue. For example, records indicated that the event manager, being an affiliate of the Cardinals, was able to generate an increase in authority revenue by holding team-sponsored events at the facility and Sportsman’s Park, which is located in the parking lot owned by the Cardinals.

The event management agreement was originally for a 2-year term and may be extended for additional 1-year periods as long as the concessions agreement remains in effect.

• **Facility-use fee agreement**—In fiscal year 2006, the Authority entered into an agreement with the Cardinals establishing a fee on event tickets sold at the facility, including tickets for Cardinals’ home games. The fee is meant to help the Authority pay $53.1 million in bonds it issued to complete the facility, including paying $32.3 million for site improvements that were originally to be funded by the City of Glendale. In addition, monies not needed to pay for these bonds are used to reimburse the Cardinals for a $25 million contribution it made to help complete the site improvements.

According to the facility-use fee agreement, the Cardinals receive the facility-use fee on tickets sold for all home games to reimburse the Cardinals for the $25 million debt, plus any accrued interest. Additionally, the Authority receives the facility-use fee on tickets sold for all other events held at the facility to help pay its $53.1 million bond debt (for more information on the facility-use fee agreement, including information on the Authority’s compliance with provisions in the agreement, see Finding 2, pages 32 through 33).

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1 According to the agreement, any facility-use fee monies the Cardinals received prior to calendar year 2012 were not applied to the debt. As a result, between fiscal year 2006 and January 1, 2012, the Cardinals received approximately $11.7 million from the facility-use fee that did not apply toward any principal or interest on the debt. However, interest on the $25 million began accruing in fiscal year 2006. As of October 1, 2014, the Cardinals had received $8.3 million for repayment of the debt, and the remaining balance was approximately $25.2 million.
Cactus League and retain the existing Cactus League teams by acquiring land or constructing, financing, furnishing, improving, marketing, or promoting the use of existing and proposed MLB spring training facilities; and (3) issue bonds and use monies in the CLPA to secure bonds or other debt obligations to provide monies for Cactus League promotion.

In addition, according to a 2003 agreement with the Maricopa County Stadium District (District), the Authority receives a portion of the District’s car rental surcharge revenues that the Authority can use only for Cactus League projects (see page 10 for information on the District’s car rental surcharges and see Table 7, page 23, for more information on the Authority’s use of the District’s portion of the surcharge for Cactus League projects). According to the Authority, the agreement with the District was originally projected to provide approximately $198 million for Cactus League projects.

To comply with the Cactus League statutory requirements, since fiscal year 2001, the Authority has contributed and committed to contribute approximately $218.4 million of tourism and district car rental surcharge revenues to either construct new spring training facilities or renovate existing facilities.1 These contributions and commitments included signing interagency service agreements with various municipalities to provide CLPA monies to help the municipalities construct new facilities and renovate existing facilities and, in fiscal year 2003, issuing $32.4 million in revenue bonds to provide funding for constructing a new spring training facility in the City of Surprise (see Table 7, page 23, for more information on the facilities the Authority has helped renovate and construct).2

Youth and amateur sports

A.R.S. §5-835 requires the Authority to distribute $73.5 million to its youth and amateur sports (YAS) account through fiscal year 2031 if revenues are sufficient. As of June 30, 2014, the Authority had distributed $15.5 million to its YAS account since fiscal year 2001. Additionally, in accordance with A.R.S. §5-809, to provide funding for youth and amateur sports projects in Maricopa County, the Authority provides matching funding through grant programs to organizations that promote youth and amateur sports and recreation within Maricopa County.3 Recipients of the Authority’s grant programs must be a Maricopa County agency, municipality, school district, or any other incorporated public entity, or 501(c)(3) or 501(c)(4) nonprofit organization. According to the Authority, it advertises its youth and amateur sports grants through its Web site, e-mail distribution lists to various organizations and school districts, press releases, and workshops held throughout Maricopa County. The Authority’s established grant programs include:

- **Biennial grants**—Provides matching grants of up to $250,000 for renovating or constructing sports facilities and fields, for sports field lighting, and/or the purchase of sports equipment. The Authority awards the grants on a biennial basis. In fiscal year 2014, the Authority awarded approximately $1.7 million to 19 applicants, including approximately $244,000

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1 The Authority’s commitments are contingent on it receiving sufficient tourism and District revenues to meet these commitments.
2 These bonds will be fully paid off in July 2016.
3 According to A.R.S. §5-809, the funding recipient must provide at least one-half of the amount the Authority contributed.
for a sports field renovation for Chandler Preparatory Academy, approximately $67,000 for a shaded playground for the American Leadership Academy, and approximately $8,000 for adaptive equipment for visually impaired children for the Foundation for Blind Children.

- **Quick grants**—Provides matching grants of up to $5,000 on a first-come, first-served basis for sports equipment. In fiscal year 2014, the Authority awarded approximately $72,000 to 19 applicants for sports equipment, including batting cages, uniforms, bleachers, and field renovations.

- **Program grants**—Provides matching grants of up to $5,000 on a first-come, first-served basis for sports programs. According to the Authority, it added this program in fiscal year 2012 to meet a need for program-funding requests that did not involve equipment or facilities, such as requests to help pay for coach training and other program costs. The Authority reported that it did not receive any program grant applications in fiscal year 2014.

### Authority administration

The Authority is governed by a nine-member board of directors. According to A.R.S. §5-803, the Governor appoints five board members, four of whom represent the tourism industry, hotel and motel industry, youth sports organizations, and MLB spring training organizations. In addition, the Arizona State Senate President and Arizona House of Representatives 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.

In addition, A.R.S. §5-805 establishes an executive director to oversee the Authority’s contracts and agreements, hire consultants and contractors, and employ financial and clerical staff to carry out the Authority’s responsibilities, including distributing authority revenues as required by statute. A president/chief executive officer (CEO) holds the executive director position. According to the Authority, the CEO performs various duties, including but not limited to overseeing and supporting the facility management contractor’s management of the facility; coordinating with Cardinals’ staff and management; working to attract large events to the facility, such as the NFL Super Bowl, the College Football Playoff National Championship, and the National Collegiate Athletic Association Division I Men’s Basketball Championship; and supervising authority staff.

Further, the Authority has two other employees, a treasurer/chief financial officer (CFO) and an office manager. According to the Authority, the CFO’s responsibilities include, but are not limited to, overseeing the Authority’s operating budget—including the facility budget—distributing the Authority’s revenues to meet the statutory requirements and the Authority’s financial obligations, and developing projections for the Authority’s future revenues. In addition, the Authority reported that the office manager responsibilities include, but are not limited to providing general administrative support for the CEO, CFO, and the Authority’s board of directors, and coordinating the Authority’s youth and amateur sports grant programs. In fiscal year 2014, the Authority’s administrative expenses for its own operations were approximately $1 million.
The facility management contractor performs day-to-day activities of managing the facility. Staff carrying out these responsibilities—such as maintenance, custodial services, security, and business management—are employees of either the facility management contractor or its subcontractors, not the Authority. However, the Authority pays all of the facility management contractor’s expenses for operating and maintaining the facility. In fiscal year 2014, the Authority spent approximately $7.7 million on facility operations and nearly $15 million on facility events, totaling approximately $22.7 million.

Funding sources

The Authority receives funding from several sources that it is required to distribute on a monthly basis to satisfy several statutory distribution requirements. Specifically, the Authority receives the following revenues:

Tourism revenues

- **Hotel bed tax**—Consists of revenue from a 1 percent increase in the hotel bed tax in Maricopa County. The tax began on March 1, 2001, and will continue through February 28, 2031. From its inception through June 30, 2014, this tax has provided approximately $168.1 million.  

- **Car rental surcharge**—Consists of a 3.25 percent surcharge of the amount of each car rental contract, but in no event less than $2.50 per rental contract, on car rentals in Maricopa County, which also began on March 1, 2001, and will expire on February 28, 2031. This surcharge replaced a previously existing $2.50 flat surcharge for each car rental contract, which was distributed to the District to renovate existing and construct new Cactus League baseball facilities. The District continues to receive the first $2.50 from each car rental contract (see page 10 for more information on the Authority’s receipt of the District’s car rental surcharge revenues). From the inception of this tax through June 30, 2014, the Authority has received approximately $122.1 million in car rental surcharges. However, a lawsuit filed in the Maricopa County Superior Court in 2009 could potentially eliminate the Authority’s car rental surcharge revenue if the plaintiffs are successful (see Finding 1, pages 24 through 25, for more information on the lawsuit).

Facility-related revenues

- **NFL income tax**—Consists of all Arizona state income taxes paid by the Cardinals’ corporate organization, its employees (including its players), and their spouses. The tax began on July 1, 2001, and does not expire. From the inception of this tax in July 2001 through June 30, 2014, the Authority has received approximately $64.2 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.

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1. Hotel bed tax rates vary among cities in Maricopa County. Therefore, the 1 percent increase is added to each city’s base hotel bed tax.
In addition, according to a 2005 agreement with the Authority, the City of Glendale remits to the Authority the portion of its sales taxes that are not restricted for other uses 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 the inception of the tax through June 30, 2014, the Authority has received approximately $79.7 million of sales tax recapture revenues, including nearly $17 million from City of Glendale sales tax revenues.

**Facility-use fee**—The Authority receives a per ticket facility-use fee for each ticket sold for events held at the facility except Cardinals home games. The facility-use fee was established to help generate revenues to retire the Authority’s $53.1 million bond debt issued to complete the facility and to reimburse the Cardinals for certain construction and other costs they incurred that were not their obligation (for more information on the facility-use fee agreement, including information on the Authority’s compliance with provisions in the agreement, see Finding 2, pages 32 through 33). 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 2015, the fee for these events is $6.25 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 7th year beginning August 2006. For fiscal year 2015, the fee is $2 per ticket. From August 2006 through June 30, 2014, the Authority has received a total of approximately $5.7 million in facility-use fees.

**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, as well as in any of the optional 5-year extension periods. The Cardinals have paid a total of approximately $2.1 million in rent for fiscal years 2007 through 2014, and according to its agreement, the Cardinals will pay the Authority approximately $293,000 in fiscal year 2015.

**Fiesta Bowl payments**—According to its agreement with the Authority, the Fiesta Bowl pays the Authority $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 2015, the amount is $4.10 per ticket. For fiscal years 2007 through 2014, the Authority has received a total of approximately $2 million in payments.

**Other event revenues**—The Authority receives other revenues, including rental payments from other users of the facility, concession commissions (see page 4 for more information on the Authority’s concessions agreement), and other miscellaneous revenues, such as payments for security costs, ticket printing, and other services provided for events. For fiscal years 2011 through 2014, these revenues were approximately $42.2 million.

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1 According to the Authority’s agreement with the City of Glendale, a portion of Glendale’s sales taxes are restricted for certain uses. For example, according to the agreement, 0.1 percent of Glendale’s sales taxes are restricted for use on public safety.

2 The Cardinals also collect facility-use fees on their home games and, as explained in Finding 2 (see pages 32 through 33), under certain circumstances the Authority may receive some of these fees.
Other revenues

- **District car rental surcharge**—As previously mentioned, the Authority receives a portion of the District’s car rental surcharge revenues. The District continues to receive the first $2.50 from each rental car contract in Maricopa County (see page 8); however, in accordance with a 2003 agreement with the District, the Authority now receives those surcharge revenues that are not needed to retire the District’s Cactus League bonds and 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 (see Table 7, page 23, for more information on the Authority’s use of the District’s portion of the surcharge for Cactus League projects). From the inception of agreement through June 30, 2014, the Authority has received approximately $6.8 million.

Revenue distribution priorities

Statutes establish amounts and a priority order for distributing the Authority’s tourism and facility-related revenues. Specifically, A.R.S. §5-835 requires the Authority to deposit all tourism revenues in a tourism revenue clearing account. In addition, A.R.S. §5-834 requires the Authority to deposit all facility-related revenues in a facility revenue clearing account. These statutes further direct how the Authority must distribute monies monthly from these accounts and specify that lower funding priorities cannot receive monies during a month until higher funding priorities are fully funded in that same month (see Finding 1, pages 15 through 17, for information on the Authority’s tourism revenue distribution priorities and Finding 2, pages 29 through 31, for the Authority’s facility-related revenue distribution priorities).

Additionally, after distributing its revenues according to statute, the Authority is required to establish two reserves, one to pay for future operations costs and one to pay for repairs and other long-term facility costs. Specifically, A.R.S. §5-836 requires the Authority to establish two reserves in its operating account, as follows:

- **Operating reserve**—A reserve meant to meet all of the Authority’s future operating costs, including amounts that are sufficient to pay all facility event costs. Statute does not establish a reserve amount for operations. However, although the Authority has not established a formal reserve account, the Authority’s goal is to maintain a balance in its operating account equal to the prior year’s operating budget to serve as a reserve. As of June 30, 2014, the Authority’s operating account had a balance of $13.8 million (for more information on the Authority’s operating reserve, see Finding 2, pages 30 through 31); and

- **Capital repair and replacement reserve**—A reserve for repair, replacement, and removal costs associated with the facility in an amount at least equal to $25 million, adjusted for inflation each year after 2001. The Authority reported that since it began operations, its revenues have been insufficient to fund this reserve. However, in fiscal year 2015, the Authority spent approximately $1.6 million on capital improvement projects for the facility (see Finding 4, pages 47 through 52, for more information on the Authority’s planning and budgeting for capital improvements).
Authority’s finances

As shown in Table 2 (see page 12), the Authority’s assets at June 30, 2014, included $367.6 million of net capital assets and $43.6 million of cash and cash equivalents; together these two categories comprised approximately 98 percent of the Authority’s 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 $43.6 million cash and cash equivalents, only approximately $13.8 million was available for its general operations and about $4.8 million was designated for facility operations. The remaining $25 million was restricted for bond debt service payments and a bond reserve, youth and amateur sports grants, tourism and facility revenue clearing account distributions, Cactus League obligations, and ticket sales held for promoters.

As shown in Table 2, approximately 98 percent of the Authority’s total liabilities at June 30, 2014, included the following:

- $306.4 million of bond-related liabilities, including principal and interest for bonds issued for the facility construction and Cactus League promotion, and
- $147 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.

Additionally, as shown in Table 3 (see page 13), the Authority received $41.6 million from nonoperating revenues in fiscal year 2014. Nearly all of these revenues comprised hotel bed taxes, car rental surcharges, sales tax recapture, and NFL income taxes. Also, as shown in Table 3, the Authority’s nonoperating expenses during fiscal year 2014 were approximately $22.8 million, primarily composed of facility bond interest and related expenses and distributions to the Arizona Office of Tourism.

Table 3 also shows that the Authority did not have sufficient facility operating revenues to cover the related operating expenses in fiscal years 2012 through 2014, which resulted in an operating loss of between $5.9 to $8 million each year, before depreciation and authority operating costs. The Authority primarily used its nonoperating revenues and operating reserve to fund the operating losses. See Finding 2, pages 29 through 35, for additional information on the Authority’s operations.

Followup on 2010 performance audit

The Office of the Auditor General’s most recent previous performance audit of the Authority was issued in 2010 (see Report No. 10-09) and included findings in the areas of authority finances, procurement, oversight of the facility management contractor, and youth and amateur sports. Following is an update on these previous findings:

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1 Cash and cash equivalents available for general operations were monies the Authority held in its bank account to be used for operations, whereas the monies designated for facility operations were monies held in a bank account the facility management contractor oversaw to be used specifically for facility operations.
### Table 2: Schedule of net position
As of June 30, 2014
(In millions)

<table>
<thead>
<tr>
<th>Assets:</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted for bond reserve and payments</td>
<td>$12.2</td>
<td>$14.3</td>
<td>$12.4</td>
</tr>
<tr>
<td>Restricted for Tourism and Facility Revenue Clearing Account distributions</td>
<td>3.7</td>
<td>4.1</td>
<td>4.6</td>
</tr>
<tr>
<td>Restricted for youth and amateur sports</td>
<td>3.2</td>
<td>3.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Restricted for Cactus League</td>
<td>-</td>
<td>1.1</td>
<td>2.8</td>
</tr>
<tr>
<td>Restricted ticket sales held for promoters</td>
<td>0.2</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Designated for facility operations</td>
<td>1.0</td>
<td>0.6</td>
<td>4.8</td>
</tr>
<tr>
<td>Unrestricted general operating</td>
<td>7.7</td>
<td>11.1</td>
<td>13.8</td>
</tr>
<tr>
<td><strong>Total cash and cash equivalents</strong></td>
<td>28.0</td>
<td>35.4</td>
<td>43.6</td>
</tr>
<tr>
<td>Capital assets, net of accumulated depreciation</td>
<td>396.8</td>
<td>382.2</td>
<td>367.6</td>
</tr>
<tr>
<td>Deferred bond issue costs, net</td>
<td>6.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivables—restricted</td>
<td>6.3</td>
<td>6.7</td>
<td>7.4</td>
</tr>
<tr>
<td>Other</td>
<td>0.1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>437.7</td>
<td>424.3</td>
<td>418.6</td>
</tr>
<tr>
<td>Deferred outflows of resources:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred amount on refunding debt</td>
<td></td>
<td>8.9</td>
<td>8.3</td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bond-related</td>
<td>309.6</td>
<td>312.0</td>
<td>306.4</td>
</tr>
<tr>
<td>Cactus League payable</td>
<td>148.8</td>
<td>149.1</td>
<td>147.0</td>
</tr>
<tr>
<td>Advanced revenue</td>
<td>1.3</td>
<td>0.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>2.9</td>
<td>2.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Youth and amateur sports payable</td>
<td>1.3</td>
<td>-2</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>463.9</td>
<td>464.4</td>
<td>462.3</td>
</tr>
<tr>
<td><strong>Net position</strong></td>
<td>$(26.2)</td>
<td>$(31.2)</td>
<td>$(35.4)</td>
</tr>
</tbody>
</table>

1 Consists of monies received that have not yet been distributed for statutory funding priorities as described in Finding 1, pages 15 through 17.

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

3 The Authority implemented a new governmental accounting standard that affected the method for reporting the Authority’s debt issue costs and refunding debt during fiscal year 2014 that resulted in a restatement of 2013 balances. However, 2012 balances were not required to be restated; therefore, 2012 amounts are presented in the method used prior to the new standard.

Source: Auditor General staff analysis of the Authority’s fiscal years 2013 and 2014 financial statements audited by an independent certified public accounting firm, fiscal years 2012 through 2014 general ledgers, and fiscal year 2014 Working Trial Balance reports for the Authority and the University of Phoenix Stadium.
Table 3: Schedule of revenues, expenses, and changes in net position
Fiscal years 2012 through 2014
(In millions)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenues and expenses:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stadium revenues¹</td>
<td>9.3</td>
<td>10.4</td>
<td>15.0</td>
</tr>
<tr>
<td>Less: stadium expenses¹</td>
<td>15.2</td>
<td>18.4</td>
<td>22.3</td>
</tr>
<tr>
<td>Operating loss before depreciation and authority operating expenses</td>
<td>(5.9)</td>
<td>(8.0)</td>
<td>(7.3)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>14.8</td>
<td>14.6</td>
<td>14.7</td>
</tr>
<tr>
<td>Authority operating expenses</td>
<td>2.3</td>
<td>1.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Operating loss</td>
<td>(23.0)</td>
<td>(23.7)</td>
<td>(23.0)</td>
</tr>
</tbody>
</table>

| **Nonoperating revenues:** |      |      |      |
| Hotel bed taxes         | 12.9 | 13.0 | 14.1 |
| Car rental surcharges   | 9.9  | 15.0 | 13.4 |
| Sales tax recapture     | 8.4  | 8.7  | 8.5  |
| NFL income taxes        | 6.2  | 5.4  | 5.5  |
| Other                  | 0.3  | -    | 0.1  |
| Total nonoperating revenues | 37.7 | 42.1 | 41.6 |

| **Nonoperating expenses:** |      |      |      |
| Senior bond interest and other related expenses | 16.3³ | 11.8 | 12.3 |
| Cactus League subordinate bond interest, interest owed to cities, and other related expenses | 7.9 | 2.0 | 1.7 |
| Arizona Office of Tourism distribution | 6.4 | 6.3 | 7.0 |
| Youth and amateur sports awards | 1.3 | -² | 1.8 |
| Other | 0.3 | | |
| Total nonoperating expenses | 32.2 | 20.1 | 22.8 |
| Net nonoperating revenues | 5.5 | 22.0 | 18.8 |
| Change in net position | (17.5) | (1.7) | (4.2) |
| Net position, beginning of year | (8.7) | (26.2) | (31.2) |
| Restatement, change in accounting standard⁴ | | | |
| Net position, end of year | $ (26.2) | $ (31.2) | $ (35.4) |

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 Fiscal year 2012 amount includes various expenses related to the Authority’s variable interest rate bonds up to the time they were refunded. It also includes the change in fair value for the Authority’s senior variable bond swap agreement related to these bonds.
⁴ Amount consists of an adjustment the Authority made to implement a new governmental accounting standard that affected the method for reporting the Authority’s debt issue costs. Implementing this standard resulted in a decrease in net position of $3.3 million for fiscal year 2013.

Source: Auditor General staff analysis of the Authority’s fiscal years 2013 and 2014 financial statements audited by an independent certified public accounting firm, the Authority’s fiscal years 2012 through 2014 general ledgers, and fiscal year 2014 Working Trial Balance reports for the Authority and the University of Phoenix Stadium.
• **Authority finances**—As reported in the Office of the Auditor General’s 2010 performance audit, the Authority projected that it would deplete most of its operating reserve of nearly $9 million as of June 30, 2010, by the end of fiscal year 2014. However, as of June 30, 2014, the Authority’s operating account was nearly $13.8 million, an increase of approximately $4.8 million since the beginning of fiscal year 2011. See Finding 2, page 31, for additional information.

• **Procurement**—The 2010 report included recommendations that the Authority should follow its existing policies and procedures for competitive procurement and implement additional procurement policies and procedures consistent with best practices. At the 18-month followup, the Office of the Auditor General reported that the Authority had developed appropriate procurement policies and procedures as recommended. However, auditors were unable to assess the Authority’s implementation of and compliance with the policies and procedures since the Authority had not conducted a competitive procurement since issuance of the report. In addition, according to the Authority, as of October 2014, it still had not conducted a competitive procurement. However, the Authority reported that it would put its facility management and concessions agreements out for bid in the fall of 2015; therefore, it has an opportunity to follow a competitive procurement process.

• **Facility management contractor oversight**—The 2010 report included recommendations that the Authority should increase oversight of facility preventative maintenance and facility management contractor expenses. At the 18-month followup, the Office of the Auditor General reported that the Authority had implemented the recommendation to increase its oversight of facility preventative maintenance. However, although auditors found that the Authority had expanded its review of some facility management contractor expenses, the Authority did not conduct a monthly review of check registers and bank reconciliations. The Authority reported that it and its facility management contractor undergo an annual financial audit, which includes a review of check registers and bank reconciliations, and that it did not have the resources available to review monthly check registers and bank reconciliations.

• **Youth and amateur sports**—The 2010 report included recommendations that the Authority should improve its youth and amateur sports biennial and quick grant application processes. At the 18-month followup, the Office of the Auditor General reported that the Authority had implemented all of the recommendations. In addition, auditors found that as of October 2014, the Authority had implemented additional policies and procedures aimed at improving its review of biennial grant applications. For example, during the 2014 biennial grant application cycle, authority staff visited the planned project sites during the application review process.
Authority’s tourism revenues are insufficient to fund all statutorily designated priorities

Statute designates how tourism revenues are to be distributed

The Authority receives tourism revenues that it uses to satisfy several statutory responsibilities. Specifically, the Authority receives monthly tourism revenues from a 1 percent increase in the hotel bed tax and a 3.25 percent car rental surcharge in Maricopa County (see Introduction, pages 8 through 10, for more information on the Authority’s revenue sources). Arizona Revised Statutes (A.R.S.) §5-835 requires the Authority to maintain a tourism revenue clearing account for its tourism revenues, establishes monthly distributions of these revenues, and specifies the priority for distributing the monies. As shown in Table 4 (see page 16), facility construction bond debt service is the highest priority of the designated monthly distributions, and the Authority’s operating account is the lowest priority. See textbox for more explanation on how the priority system works.

How monthly distribution works

A.R.S. §5-835 establishes a monthly designated distribution amount that the Authority must distribute for each statutory priority if it receives sufficient tourism revenues during a month to do so. The Authority must first satisfy the statutorily designated monthly distribution for a higher priority category before it can move to the next priority. For example, bond debt carries the highest priority, and the distribution must fully address bond debt before tourism promotion, the next priority, can be funded. If revenues are not sufficient in any month, then tourism promotion may not receive any or only a portion of its monthly designated distribution, which for fiscal year 2014 was $600,000. Categories below tourism promotion face similar limitations in receiving their statutorily designated amounts.

Source: Auditor General staff analysis of A.R.S. §5-835.

Once distributed, the tourism monies are used, as follows:

- **Facility construction bond debt service**—One of the Authority’s main responsibilities was construction of the University of Phoenix Stadium, a multipurpose event facility (facility) in Glendale that is the home of the Arizona Cardinals (Cardinals) National Football League (NFL) team, Fiesta Bowl football games, and other events. As a result, the Authority is required to use the monies to pay a portion of the bond debt it issued to help pay for constructing the facility;
### Table 4: Monthly tourism revenue distributions by priority order
Fiscal year 2014

<table>
<thead>
<tr>
<th>Priority order</th>
<th>Statutory requirement</th>
<th>Maximum monthly distribution if revenues are sufficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facility construction bond debt service¹</td>
<td>Principal and interest payments on debt for bonds the Authority issued to pay for the facility’s design and construction costs. The Authority issued $277.6 million in bonds to pay its share of facility construction costs in addition to other cash payments.</td>
<td>$685,598</td>
</tr>
<tr>
<td>Tourism promotion</td>
<td>$4 million allocated annually for the first 12 months beginning June 2001; amount increases by 5 percent annually.</td>
<td>598,219²</td>
</tr>
<tr>
<td>Cactus League promotion account</td>
<td>$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.</td>
<td>583,333</td>
</tr>
<tr>
<td>Youth and amateur sports account</td>
<td>$1 million allocated annually for the first 12 months beginning June 2001; amount increases by $100,000 annually.</td>
<td>183,333²</td>
</tr>
<tr>
<td>Authority operating account—first distribution</td>
<td>First distribution to the Authority’s operating account, distributed monthly as one-twelfth of the Authority’s approved annual budget. The Authority’s approved operating budget for fiscal year 2014 was approximately $11.8 million and included both authority administration and facility operations.</td>
<td>979,321</td>
</tr>
<tr>
<td>Youth and amateur sports reserve</td>
<td>Equal to the previous year’s required youth and amateur sports account distribution beginning in May 2002. Monies in the reserve are to be transferred to the youth and amateur sports account in any month when revenues are insufficient to make the required monthly youth and amateur sports distributions previously described.</td>
<td>175,000²</td>
</tr>
<tr>
<td>Authority operating account—second distribution</td>
<td>Second distribution to the Authority’s operating account, distributed monthly as any monies remaining in the tourism revenue clearing account after fully funding all higher-priority obligations.</td>
<td>Any monies remaining</td>
</tr>
</tbody>
</table>

¹ A.R.S. §5-835 states that the Authority can use no more than $165.5 million of tourism revenues to pay principal for facility bond debt over the 30-year payoff period. This number represents half of the estimated cost of constructing the facility when the Authority was established in 2000. As a result, the Authority’s monthly debt service payments are split between tourism and facility-related revenues to ensure it meets this requirement. In fiscal year 2014, tourism revenues paid approximately 62 percent of the debt service, and facility-related revenues paid approximately 38 percent.

² According to the A.R.S. §5-835, the increases for these distributions is effective in June of each fiscal year; therefore, the amounts presented were in effect for 11 of the 12 months in fiscal year 2014.

Source: Auditor General staff analysis of A.R.S. §5-835 and the Authority’s fiscal year 2014 general ledger.
• **Tourism promotion**—The Arizona Office of Tourism uses the monies for tourism promotion in Maricopa County;

• **Major League Baseball (MLB) Cactus League promotion**—The Authority is also responsible for attracting and retaining MLB Cactus League spring training operations in Maricopa County. The Authority uses the monies to meet commitments it has made to either construct new spring training facilities or renovate existing facilities;

• **Youth and amateur sports grants**—Further, the Authority is responsible for funding youth and amateur sports facilities and programs in Maricopa County. It provides matching funding through grant programs to organizations that promote youth and amateur sports and recreation within Maricopa County, and it uses the monies for this purpose (see Introduction, pages 6 through 7, for more information); and

• **Authority operations**—The Authority is responsible for maintaining, operating, and marketing the facility. Therefore, the Authority uses the monies to pay for facility operations. In addition, statute allows the Authority to spend the monies to pay for administrative expenses for meeting its responsibilities. However, the Authority funds its operations primarily with facility-related revenues (see Finding 2, pages 29 through 35, for more information).

Tourism revenues insufficient to fully fund monthly distributions

Tourism revenues the Authority received have been insufficient to fully fund monthly distributions designated in statutes and will likely continue to be insufficient in the future. Specifically, in fiscal years 2011 through 2014, tourism revenues were insufficient to fully fund all of the monthly distributions designated in statute. Additionally, month-to-month variation in the amount of revenues received impacted the Authority’s ability to meet these designated amounts. Further, the Authority’s revenue projections indicate that revenues will continue to be insufficient to fully fund these distributions in the future.

Revenues sufficient to cover bonds, but not lower priorities—In fiscal years 2011 through 2014, the tourism revenues the Authority received were sufficient to meet its bond debt obligations but were insufficient to fund distributions for other lower-priority purposes. Specifically, the total amount of the distributions designated by statute for all priorities for fiscal years 2011 through 2014 was approximately $146.4 million, including a designation of approximately $46 million for the Authority’s operating budget. However, the Authority received approximately $96.6 million of tourism revenues during this period, a difference of approximately $49.8 million. As a result, as shown in Table 5 (see page 18), in fiscal years 2011 through 2014, the Authority’s distributions for tourism promotion, Cactus League promotion, and youth and amateur sports were about $900,000, $6 million, and $4.5 million less than the distributions designated in statute, respectively. Additionally, the revenues available for distribution to the Authority’s operating account were $36.4 million less than the amount designated by statute. Specifically, as shown in Table 4 (see page 16), statute allows the Authority to distribute one-twelth of its approved annual operating budgets each month. Consequently, the Authority must primarily rely on its facility-related revenues to fund its operations (see Finding 2, pages 29 through 35, for additional information).
Revenues vary widely from month to month, compounding shortfalls—As shown in Table 4 (see page 16), the statutorily designated distributions for each funding priority are the same each month during a fiscal year. For example, the monthly distribution for tourism promotion in fiscal year 2014 was approximately $600,000, or one-twelfth of the annual distribution amount of $7.2 million. However, monthly tourism revenues the Authority received varied widely, depending on the month. For example, in fiscal year 2014, the Authority’s monthly tourism revenues ranged from approximately $1.1 to $4.3 million. As a result, in months with higher revenues, the Authority distributed the monthly designated distribution to most, if not all of its funding priorities, whereas in months with lower revenues, the Authority distributed monies only to the highest priorities (see Table 6 on page 19 for an

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**Table 5: Impact of monthly tourism revenue shortfalls on annual distributions**

<table>
<thead>
<tr>
<th>Fiscal years 2011 through 2014 (In millions)</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Facility construction bond debt service</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual statutorily designated distributions</td>
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<td>$8.6</td>
<td>$8.2</td>
<td>$34.7</td>
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<tr>
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<td>10.2</td>
<td>7.7</td>
<td>8.6</td>
<td>8.2</td>
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</tr>
<tr>
<td>Revenue shortfall</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Tourism promotion</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual statutorily designated distributions</td>
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<td>6.9</td>
<td>7.2</td>
<td>26.8</td>
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<tr>
<td>Actual distributions</td>
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<td>6.4</td>
<td>6.9</td>
<td>7.0</td>
<td>25.9</td>
</tr>
<tr>
<td>Revenue shortfall</td>
<td>(0.6)</td>
<td>(0.1)</td>
<td>-</td>
<td>(0.2)</td>
<td>(0.9)</td>
</tr>
<tr>
<td><strong>Cactus League promotion account</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>6.0</td>
<td>6.1</td>
<td>7.0</td>
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<td>4.6</td>
<td>5.2</td>
<td>5.2</td>
<td>17.3</td>
</tr>
<tr>
<td>Revenue shortfall</td>
<td>(1.9)</td>
<td>(1.4)</td>
<td>(0.9)</td>
<td>(1.8)</td>
<td>(6.0)</td>
</tr>
<tr>
<td><strong>Youth and amateur sports account</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual statutorily designated distributions</td>
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<td>2.0</td>
<td>2.1</td>
<td>2.2</td>
<td>8.2</td>
</tr>
<tr>
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<td>0.6</td>
<td>1.2</td>
<td>1.1</td>
<td>3.7</td>
</tr>
<tr>
<td>Revenue shortfall</td>
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<td>(1.4)</td>
<td>(0.9)</td>
<td>(1.1)</td>
<td>(4.5)</td>
</tr>
<tr>
<td><strong>Authority operating account—first distribution</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual statutorily designated distributions</td>
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<td>11.3</td>
<td>11.5</td>
<td>11.8</td>
<td>45.6</td>
</tr>
<tr>
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<td>3.6</td>
<td>2.4</td>
<td>9.2</td>
</tr>
<tr>
<td>Revenue shortfall</td>
<td>(9.0)</td>
<td>(10.1)</td>
<td>(7.9)</td>
<td>(9.4)</td>
<td>(36.4)</td>
</tr>
<tr>
<td><strong>Youth and amateur sports reserve</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual statutorily designated distributions</td>
<td>1.8</td>
<td>1.9</td>
<td>2.0</td>
<td>2.1</td>
<td>7.8</td>
</tr>
<tr>
<td>Actual distributions</td>
<td>0.2</td>
<td>0.3</td>
<td>0.4</td>
<td>0.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Revenue shortfall</td>
<td>(1.6)</td>
<td>(1.6)</td>
<td>(1.6)</td>
<td>(1.8)</td>
<td>(6.6)</td>
</tr>
<tr>
<td><strong>Authority operating account—second distribution</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual statutorily designated distributions</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Actual distributions</td>
<td>0.2</td>
<td>1.6</td>
<td>1.6</td>
<td>1.2</td>
<td>4.6</td>
</tr>
<tr>
<td>Revenue shortfall</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: Auditor General staff analysis of A.R.S. §5-835 and the Authority’s fiscal years 2011 through 2014 general ledgers and tourism-revenue-distribution documentation.
However, A.R.S. §5-835 does not require or authorize the Authority to address previous months’ shortfalls in distributions in months when revenues are higher. Therefore, insufficient revenues for making the monthly distribution in one month will not be made up by larger receipts of revenues in another month.

According to the Authority, tourism revenues vary during the year for three main reasons:

- **Seasonal fluctuations in tourism activity**—Tourism revenues fluctuate based on the level of tourism activity in Maricopa County throughout the year. For example, the Authority’s tourism revenues in the fourth quarter of the fiscal year are generally higher than in other quarters, potentially because of increased hotel bed tax and car rental surcharge activity during the Cactus League spring training season in February and March.¹

- **Payments for adjustments from previous years**—The Authority reported that the Arizona Department of Revenue (ADOR) periodically makes adjustments to tourism revenues for underpayments or overpayments discovered by ADOR audits and other reviews of tourism revenues from previous years. Consistent with statute, the Authority distributes the revenues in the month after they are received from ADOR. For example, according to the Authority, it received an unusually large car rental surcharge payment in September 2012, which included an adjustment for previous years made by ADOR, and it distributed the monies in the following month, as required by statute. As a result, some lower priorities received a larger

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1 The Authority did not have sufficient tourism revenue clearing account receipts to meet the monthly statutorily designated distribution in September 2013. 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 $379,500 from its facility revenue clearing account to meet the requirements (see Introduction, page 10, for more information on the facility revenue clearing account).

Source: Auditor General staff analysis of the Authority’s fiscal year 2014 monthly revenue distribution documentation.

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Table 6: Examples of monthly receipts and distributions from the tourism revenue clearing account September 2013 and June 2014

<table>
<thead>
<tr>
<th>Receipts:</th>
<th>September 2013</th>
<th>June 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism revenue clearing account</td>
<td>$1,085,913</td>
<td>$4,253,499</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Distributions:</th>
<th>September 2013</th>
<th>June 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facility construction bond debt service</td>
<td>$685,598</td>
<td>$685,598</td>
</tr>
<tr>
<td>Tourism promotion</td>
<td>400,315</td>
<td>628,550</td>
</tr>
<tr>
<td>Cactus League promotion account¹</td>
<td>583,333</td>
<td></td>
</tr>
<tr>
<td>Youth and amateur sports account¹</td>
<td>191,667</td>
<td></td>
</tr>
<tr>
<td>Authority operating account—first distribution¹</td>
<td>789,685</td>
<td></td>
</tr>
<tr>
<td>Youth and amateur sports reserve¹</td>
<td>175,000</td>
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<tr>
<td>Authority operating account—second distribution¹</td>
<td>1,199,666</td>
<td></td>
</tr>
<tr>
<td>Total distribution</td>
<td>$1,085,913</td>
<td>$4,253,499</td>
</tr>
</tbody>
</table>

¹ The Authority did not have sufficient tourism revenue clearing account receipts to meet the monthly statutorily designated distribution in September 2013. 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 $379,500 from its facility revenue clearing account to meet the requirements (see Introduction, page 10, for more information on the facility revenue clearing account).

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¹ The State Treasurer distributes tourism revenues to the Authority once a month and in the month after they are collected. Therefore, the majority of the Authority’s revenues from the Cactus League season are received in April, which is in the fourth quarter.
distribution in October 2012 than they would have if the Authority had not received the adjustment. Additionally, the amount distributed to each of these priorities likely would have been different had they been distributed in the months and years in which they should have been received. However, according to the Authority, ADOR does not indicate a specific month or year for which adjustments were made. Therefore, auditors could not determine the impact of the Authority distributing the adjusted revenues in the month they were received as compared to distributing the revenues in the months in which they should have originally been received.

- **Changes in economic conditions**—Changes in the State’s economic conditions can affect the Authority’s revenues. For example, the Authority’s hotel bed taxes declined by nearly 18 percent and 7 percent in fiscal years 2009 and 2010, respectively, because the State entered a recession.

**Authority projects shortfalls in revenues will continue**—The Authority’s revenue projections for fiscal years 2015 through 2020 indicate that although future tourism revenues should be sufficient to satisfy its future bond debt obligations, they will continue to be insufficient to fully satisfy distributions for lower funding priorities. The Authority prepares an annual budget that includes short-term 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.\(^1\) Specifically, the Authority projects that tourism revenues will be approximately $33.8 million less than necessary to fully meet distributions for tourism promotion, Cactus League promotion, and youth and amateur sports for fiscal years 2015 through 2020. In addition, the Authority projects that its distribution of tourism revenues available for its operations will decrease beginning in fiscal year 2017 from over $2 million annually to less than $1.5 million each year, making the Authority more reliant on facility-related revenues to fund its future operations (see page 22 for more information).

The factors that contributed to the tourism revenues being insufficient to fully fund monthly distributions during fiscal years 2011 through 2014 may also contribute to the insufficiency of future tourism revenues, and other factors will intensify the shortfalls. Specifically, not only will estimated total tourism revenues be insufficient and monthly revenues likely will continue to vary from month to month, these projected insufficient revenues will be exacerbated by increasing distribution requirements and debt obligations. Specifically:

- **Increasing distribution requirements will further impact lower funding priorities**—As shown in Table 4 (see page 16), statutes establish periodic increases in the monthly distributions for tourism promotion, Cactus League promotion, and youth and amateur sports. For example, the Authority’s monthly designated distributions for tourism promotion in its first year of operations totaled $4 million annually, and statute requires the distribution to increase 5 percent each year. To meet this increased amount, funding priorities that are lower than tourism promotion may receive less funding—or no funding at all.

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\(^1\) Auditors found that the Authority uses reasonable methods for projecting tourism revenues that, according to the Authority, include reviewing economic studies from various sources, including the Arizona Office of Tourism and Arizona State University’s W.P. Carey School of Business.
• **Increasing bond debt obligations impact lower funding priorities**—Increasing bond debt requirements may also affect all of the lower funding priorities. Specifically, as previously discussed (see Introduction, page 2), the Authority issued new facility bonds in fiscal year 2012, allowing it to delay some principal payments for facility construction bond debt service until after its Cactus League bonds are paid off at the end of fiscal year 2016. As a result, beginning in fiscal year 2017, its facility construction bond debt service payments for tourism revenues will increase annually through fiscal year 2031. For example, in fiscal year 2017, the Authority’s total debt service payments for tourism revenues will increase by approximately $3.6 million from the fiscal year 2016 payment amounts, and in fiscal year 2018 the payments will again increase by approximately $466,000 from the fiscal year 2017 payments. Although the increased facility construction bond debt payments are partially offset by the decreased Cactus League debt payments, shifting the payments to a higher funding priority may affect some of the Authority’s funding obligations that are lower priorities than facility debt. For example, because the monthly facility construction bond debt service payments will increase by approximately $300,000 each month, each of the lower funding priorities could see lower monthly distributions, including tourism promotion, Cactus League promotion, and youth and amateur sports.

These projections, while conservative, may be prudent. Although revenues have exceeded the Authority’s estimates in recent years, they were still insufficient to fund all monthly distributions.1 The same might be the case for its future revenues. Additionally, future revenue increases are not guaranteed. As reported in the Office of the Auditor General’s December 2010 performance audit (see Report No. 10-09), the Authority has experienced challenges in reliably projecting long-term revenues because the State’s economy can affect revenues. For example, the Authority projected annual increases in hotel bed tax revenues for fiscal years 2009 and 2010. However, hotel bed taxes actually declined by nearly 18 percent and 7 percent in fiscal years 2009 and 2010, respectively, because the State entered a recession.

### Insufficient tourism revenues impacted priorities in several ways

Insufficient tourism revenues to fully meet distributions has had a varied range of impacts on the Authority’s distribution priorities. Specifically:

• **Decreased tourism promotion activities may lead to further reductions in tourism revenues**—According to the Arizona Office of Tourism (Office), it distributes the tourism revenues it receives on a monthly basis to destination-marketing organizations and convention and visitor bureaus in Maricopa County. The Office reported that when its distributions of tourism revenues are less than the amount designated in statute, the recipients of its distributions may have to cancel portions of their marketing and advertising campaigns, which could ultimately lead to less tourism activity and, thus, less tourism revenues over time.

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1 According to the Authority, it uses relatively conservative projected growth rates for future revenues, including annual growth rates of 2.5 percent for tourism revenues during the budgeting process. In actuality, in fiscal years 2011 through 2014, tourism revenues increased by an average of 6.2 percent annually.
• Authority may not meet planned commitments to two cities for Cactus League facilities—To meet its statutory responsibility to attract and retain MLB Cactus League spring training operations in Maricopa County, the Authority entered into intergovernmental agreements (agreements) with eight cities to contribute or commit to contribute tourism and Maricopa County Stadium District (District) revenues to construct and renovate spring training facilities.1 In addition, the Authority prioritized its funding commitments for these spring training facility projects in the agreements (see Table 7, page 23, for the list of prioritized projects). However, because its tourism revenues have been insufficient to fund its Cactus League distributions each month, the Authority’s payments for commitments to some of the higher-priority Cactus League projects have taken longer than originally projected. For example, the Authority originally projected finishing paying its commitments to the Cities of Tempe and Scottsdale in fiscal year 2017, but it now projects finishing paying its commitments to these two cities in fiscal years 2020 and 2021, respectively. In turn, this delay has affected the Authority’s ability to pay for commitments to lower-priority Cactus League projects—specifically, its commitments to the Cities of Glendale and Goodyear. As a result, these two cities will likely have to find other monies to pay for their facilities.

• Youth and amateur sports grants have been unaffected, but future funding in doubt—Insufficient tourism revenue has not yet affected the Authority’s ability to provide grants for youth and amateur sports facilities and programs in Maricopa County. Specifically, as of June 2015, the Authority reported that it had not had to deny any grant-funding requests because of lack of funding. In addition, as of June 2014, the Authority’s youth and amateur sports account had an unobligated balance of approximately $2.8 million, despite the Authority having awarded more than $2 million in grants during fiscal year 2014. In August 2012, the Authority also doubled the maximum award for its quick grants program from $2,500 to $5,000 per request. According to the Authority, it provided a funding increase in part because it had sufficient monies to do so (see Introduction, pages 6 through 7, for more information on the Authority’s grant programs). Further, the Authority reported that it continues to expand its outreach efforts throughout Maricopa County in an effort to increase the number of grant applications it receives. However, if future tourism revenues are insufficient to fully fund this priority, the Authority could face difficulties meeting future grant requests.

• Authority’s ability to maintain and operate facility may be affected—As discussed in Finding 2 (see pages 29 through 35), the biggest impact of this continued shortfall may be on the last priority to be funded—the Authority’s own operations, and more specifically, the operation of the facility. The Authority’s revenue projections for fiscal years 2015 through 2020 indicate that future distributions of tourism revenues to its operating account will decrease by more than $500,000 a year, beginning in fiscal year 2017. As a result, the Authority will be increasingly more reliant on facility-related revenues to fund its future operations—including operating and maintaining the facility—which it pays for with monies from its operating account. However, as discussed in Finding 2 (see pages 29 through 35), the Authority will have to devote additional facility-related revenues to other purposes in the near future, including increased bond debt payments and other commitments. If both types of revenue—tourism and facility-related—are subject to additional pressure, the Authority may find itself at increased risk in its ability to operate and maintain the facility.

1 The Authority’s commitments are contingent on it receiving sufficient tourism and district revenues to meet these commitments.
The priorities were established in Authority Board Resolution 2008-75. In addition to the priorities presented here, the Authority also established a third priority to pay for future renovations, including facilities with leases expiring prior to 2031, and a fourth priority to pay for any unpaid balance of the Goodyear obligation for its 2008 commitment and any new Cactus League facilities. The fourth priority is dependent on the Authority receiving new Cactus League funding. The priorities help establish the order to pay for facilities; however, in its agreements signed with the Cities of Mesa, Peoria, and Phoenix, only district monies were pledged to pay for the renovations. Consequently, any tourism monies will be paid to the Cities of Tempe and Scottsdale after the obligations to the Cities of Glendale and Goodyear are paid.

2 Amounts do not include interest on outstanding agreements.

3 The Authority issued $32.4 million in revenue bonds in 2003 that provided all of its portion of the construction costs for the Surprise Stadium. The Authority issued new bonds in fiscal year 2013 to replace the original bonds, and the amount of principal it ultimately will pay was reduced from the initial $32.4 million to $31.8 million. The bonds will be fully paid on July 1, 2016.

Source: Office of the Auditor General Report No. 10-09 and Auditor General staff analysis of the Authority’s fiscal year 2014 financial statements audited by an independent certified public accounting firm, Authority’s fiscal years 2001 through 2014 general ledgers, intergovernmental agreements and amendments entered into in fiscal years 2001 through 2014 between the Authority and the cities, subordinate bond official statements, cities’ and/or facilities’ Web sites, and information obtained from the Authority.

<table>
<thead>
<tr>
<th>Priority</th>
<th>City</th>
<th>Facility description</th>
<th>Project type</th>
<th>Year commitment made</th>
<th>Amount committed</th>
<th>Actual or estimated completion year</th>
<th>Authority's estimated years of repayment</th>
<th>Amount paid, including interest</th>
<th>Amount owed, including interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1a</td>
<td>Surprise</td>
<td>Surprise Stadium, a two-team facility</td>
<td>New</td>
<td>2001</td>
<td>$32.4</td>
<td>2003</td>
<td>2003-2016</td>
<td>$37.5</td>
<td>$9.2</td>
</tr>
<tr>
<td>1b</td>
<td>Tempe</td>
<td>Tempe Diablo Stadium, a one-team facility</td>
<td>Renovation</td>
<td>2004</td>
<td>12.0</td>
<td>2006</td>
<td>2005-2020</td>
<td>3.5</td>
<td>13.1</td>
</tr>
<tr>
<td></td>
<td>Scottsdale</td>
<td>Scottsdale Stadium, a one-team facility</td>
<td>Renovation</td>
<td>2005</td>
<td>20.0</td>
<td>2007</td>
<td>2005-2021</td>
<td>8.2</td>
<td>19.3</td>
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<tr>
<td></td>
<td>Mesa</td>
<td>Hohokam Stadium, a one-team facility</td>
<td>Renovation</td>
<td>2013</td>
<td>8.2</td>
<td>2015</td>
<td>2021-2024</td>
<td></td>
<td>8.5</td>
</tr>
<tr>
<td>1c</td>
<td>Peoria</td>
<td>Peoria Sports Complex, a two-team facility</td>
<td>Renovation</td>
<td>2014</td>
<td>11.2</td>
<td>2015</td>
<td>2021-2025</td>
<td></td>
<td>11.9</td>
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<tr>
<td></td>
<td>Phoenix</td>
<td>Maryvale Stadium, a one-team facility</td>
<td>Renovation</td>
<td>2012</td>
<td>1.0</td>
<td>2014</td>
<td>2021</td>
<td></td>
<td>1.1</td>
</tr>
<tr>
<td>1d</td>
<td>Glendale</td>
<td>Camelback Ranch, a two-team facility</td>
<td>New</td>
<td>2007</td>
<td>60.0</td>
<td>2009</td>
<td>2021-2031+</td>
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<td>77.1</td>
</tr>
<tr>
<td></td>
<td>Goodyear</td>
<td>Goodyear Ballpark, a one-team facility</td>
<td>New</td>
<td>2007</td>
<td>37.4</td>
<td>2009</td>
<td>2021-2031+</td>
<td></td>
<td>48.0</td>
</tr>
<tr>
<td>2</td>
<td>Goodyear</td>
<td>Goodyear Ballpark, converted to two-team facility</td>
<td>New</td>
<td>2008</td>
<td>32.5</td>
<td>2010</td>
<td>2031+</td>
<td></td>
<td>32.5</td>
</tr>
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</table>
A lawsuit filed in the Maricopa County Superior Court could potentially eliminate one of the Authority’s main sources of tourism revenues if the plaintiff is successful. Specifically, the lawsuit, 
Saban Rent-A-Car LLC vs. the Arizona Department of Revenue, contends that the car rental surcharge voters passed in 2001 to provide monies for the various purposes specified in statute is unconstitutional because the Arizona State Constitution requires money raised from vehicle excise taxes to be used for highway-related purposes, such as highway maintenance and construction. In addition, the suit contends that the law violates the U.S. Constitution because it unfairly burdens out-of-state consumers over Arizona consumers. Although ADOR is the defendant in the case, the Authority reported that it intervened in the case because its resolution will impact the Authority. According to the Authority, its legal counsel has filed motions in the case.

In June 2014, the presiding tax court judge issued a ruling in favor of the plaintiff that the car rental surcharge violates the Arizona State Constitution, but did not agree that it violates the U.S. Constitution. Both the Authority and ADOR filed motions for reconsideration of the ruling. However, in March 2015, the judge denied both motions for reconsideration. Additionally, in April 2015, both the Authority and ADOR filed motions for partial summary judgment on the following issues: (1) whether or not the ruling would be subject to a refund for taxes collected; (2) if there is a refund, who is obligated to provide the refund to the plaintiffs; and (3) whether or not any refund would apply prospectively or retroactively. Based on the partial summary judgment motions filed, in August 2015, the presiding tax court judge ruled that ADOR must pay back the entire amount of the car rental surcharge revenues collected since the inception of the tax. Finally, the ruling stated that, to recover car rental surcharge revenues paid to the Authority, the State Treasurer can reduce future distributions of other state taxes to the Authority. Such taxes may include the hotel bed tax, state sales taxes, and NFL income taxes (see Introduction, pages 8 through 9, for more information on the Authority’s tax revenues).\(^1\) According to the Authority, as of August 2015, it believes the ruling was incorrect, and that appellate courts will review the case and ultimately concur with its position.

To assess the potential impact of the loss of car rental surcharge revenues to the Authority’s finances, auditors analyzed the effect that the absence of the car rental surcharge would have had during fiscal years 2011 through 2014. Specifically, auditors recalculated the Authority’s monthly revenue distributions during fiscal years 2011 through 2014 without the revenues provided by the car rental surcharge during this period. Results of the analysis indicated that the Authority would have had sufficient hotel bed tax and facility-related revenues to pay its monthly facility bond debt payments, with the exception of October through December of 2011. In these 3 months, the Authority would have had to use monies from its operating reserve to pay for a portion of the facility debt service.

The Authority’s other funding obligations would have been significantly affected by the lost car rental surcharge revenues, with tourism promotion and Authority’s operating account seeing the largest negative impact in terms of total dollars that would have been lost. Specifically, the

\(^1\) A.R.S. §42-5029(G) allows the State Treasurer to reduce the amount of its monthly distribution of state taxes to the Authority by 1/36 of the total amount to be recovered. However, any monthly reduction cannot exceed 10 percent of the State Treasurer’s full monthly distribution to the Authority.
analysis indicated the distribution of the Authority’s funding priorities would have seen the following approximate decreases in distributions over the 4-year period:

- **Tourism promotion**—($12.4 million);
- **Cactus League promotion**—($3.2 million);\(^1\)
- **Youth and amateur sports, including reserve**—($4.3 million); and
- **Authority operating account, including facility-related revenues**—($25 million).

Additionally, the loss of tourism revenues may have impacted the Authority’s ability to meet some bond debt obligations. Specifically, as mentioned in the Introduction (see pages 5 through 6), in fiscal year 2003 the Authority issued revenue bonds to provide funding for constructing a new Cactus League spring training facility in the City of Surprise. Although the Authority uses its tourism revenues first to meet this bond obligation, it also pledged its facility-related revenues to help satisfy this obligation in the event that tourism revenues are insufficient to meet the bond debt service requirements. However, the analysis indicated that in 10 months during fiscal years 2011 through 2014, the Authority’s tourism and facility-related revenues would not have been sufficient to meet the Cactus League bond debt obligations. For these months, the Authority would have had to rely on monies in its operating account to make up the difference. However, given the large impact of the lost car rental surcharge revenues on the Authority’s operating account, it is likely the Authority would not have had sufficient monies in its operating account to make these payments.

Although it is difficult to predict the future impact of the potential absence of the car rental surcharge revenues, it likely would have a large negative impact on the Authority’s operations because the Authority’s operations is the lowest funding priority for tourism revenues. Specifically, in fiscal years 2015 through 2020, even if the Authority’s hotel bed tax and facility-related revenues were to meet or exceed its projections, the lost car rental surcharge revenue would likely result in much smaller distributions to lower funding priorities, with authority operations potentially receiving no distributions. Such an outcome would likely make the Authority entirely reliant on facility-related revenues to fund operations. However, the Authority’s debt payments and other future commitments will decrease its facility-related revenues available to pay for operations and increase its future operational expenses. As discussed in Finding 2 (see pages 29 through 35), facility-related revenues will face pressures of their own. The net effect would be to place continued operation and maintenance of the facility at additional risk.

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\(^1\) As mentioned in the Introduction (see page 6), in fiscal year 2003 the Authority issued revenue bonds to help fund construction of a Cactus League spring training facility in the City of Surprise. Although the Authority uses its tourism revenues first to meet this bond obligation, it also pledged its facility-related revenues to help satisfy this obligation in the event that tourism revenues are insufficient to meet the bond debt service requirements. Therefore, the decrease in distributions for Cactus League promotion auditors calculated was less than decreases for other priorities because the Authority’s facility-related revenues would have been used to pay some of its Cactus League debt obligations. Similarly, as mentioned in Finding 2 (see pages 29 through 31), the Authority relies primarily on facility-related revenues to pay for operations. Therefore, the decrease in distributions to the Authority’s operating account auditors calculated is higher than the decreases for other priorities because the Authority’s facility-related revenues to pay for operations would have been reduced by the need to use facility-related revenues to meet Cactus League bond debt obligations.
Authority’s Board should identify options for addressing issue of insufficient tourism revenues to fund monthly distributions

Although the Authority cannot directly address the issue of insufficient tourism revenues for funding monthly distributions, it should take steps to identify options for resolving the issue. Specifically, the Authority’s funding distributions and priorities are set in statute. As a result, legislative action would be required to address the issues that have contributed to this problem, such as the fact that the designated distributions set forth in statute are even in each of the 12 months, but revenues vary widely from month to month. Additionally, the Authority does not have any direct control over or impact on the tourism revenues.

Although decisions about changing the distribution of tourism revenues rest with the Legislature, the Authority, and specifically the Board, should play a role in addressing the issue. Specifically, because so many of the Authority’s funding priorities, including bond repayments and day-to-day operations of the facility, could be affected if tourism revenues remain insufficient to fund all priorities, the Board should work with authority staff to identify and study various options for addressing the issue and work with stakeholders and the Legislature to identify which options would be feasible. However, any statutory changes that do not result in increased revenue would likely result in shifting monies from one priority to another. Therefore, in studying the various options, the Board should attempt to determine the potential financial impact to each statutory priority and clearly communicate these impacts to the Legislature and stakeholders.

Options the Board could consider and study include, but are not limited to:

- Setting monthly designated distributions in statute as a percentage of actual monthly revenues received, rather than a stated dollar amount. This option could result in an even distribution to the various priorities each month. However, this option could result in the highest priorities receiving less money than originally required by statute, particularly in months with lower revenues. Additionally, the Authority’s bond debt obligations would still need to be paid in accordance with statute and the Authority’s bond indentures and, thus, could not be paid as a percentage of actual revenues.\(^1\)\(^2\)

- Changing statute to allow for revenue distribution on an annual basis, rather than distributing the revenues each month. This option could result in a more even distribution of revenues on an annual basis. However, this option might be impractical for other entities relying on these monthly distributions, such as the Arizona Office of Tourism or Cactus League cities.

- Discontinuing or changing statutorily required distribution increases. This option could result in lower priorities continuing to receive distributions in the future. However, it would result in higher priorities receiving less revenue than originally designated by statute.

- Changing the priority order of the distributions. Although this option could result in some priorities receiving more revenue, it would also result in different priorities than voters

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1 A bond indenture is a legally binding document between the bond issuer and the bond holders.
2 The Authority is required by A.R.S. §5-865 and its bond indentures to pay its monthly bond debt obligations. Therefore, the Authority’s monthly required distribution for bond debt could not be based on a percentage of revenue received during a month.
originally approved. However, the Legislature has already changed the priority order once. Specifically, in fiscal year 2002, the Legislature changed the priority order to move youth and amateur sports higher than the Authority’s operating account.

Because there are many possible and varied impacts of the options listed above that require careful consideration, the Board should conduct additional research and obtain stakeholder input on the various options before proceeding with any of them.

Authority inadvertently distributed tourism revenues inconsistent with statutory requirements

During fiscal years 2011 through 2014, the Authority’s distribution of tourism revenues was not always consistent with statutory requirements. Specifically, auditors’ review of the Authority’s fiscal years 2011 through 2014 tourism revenue distributions indicated that the Authority made errors in its monthly distributions in 15 months over the 4-year period. As a result, the Authority distributed approximately $447,000 more than designated by statute over the 4-year period to Cactus League promotion. These errors also impacted lower priorities. Specifically, over the 4-year period, the Authority distributed approximately $98,000 and $349,000 less than required by statute to youth and amateur sports and its operating account, respectively. To address this issue, the Authority should work with its legal counsel to determine if it can legally correct the erroneous distributions, and then it should act accordingly.

The impact of the errors compared to the total amount distributed over the 4-year period was less than one-half of 1 percent of the Authority’s total distributions. However, the occurrence of these errors indicates a need to ensure errors can be more quickly identified and corrected if they occur again. Because the Authority has limited staff, it should hire an outside contractor to annually review its monthly revenue distributions, including conducting work to determine if the amounts distributed were consistent with its statutory requirements. To comply with A.R.S. §5-841, the Authority hires a Certified Public Accountant (CPA) to conduct annual financial audits of the Authority’s accounts, and this CPA firm could potentially provide the review of its distributions. In addition, the facility management contractor employs accounting staff who may be qualified to review the Authority’s distributions; therefore, the Authority could consider renegotiating its facility management agreement to add the reviews to the facility management contractor’s scope of work. According to the Authority, as of July 2015, it had reached an agreement with its CPA firm to annually review the tourism revenue distributions as part of the Authority’s annual financial audit. In addition, the Authority reported that it had reached an agreement with the facility management contractor to review the Authority’s tourism revenue distributions on a monthly basis to help provide additional assurance that it will avoid errors in the future.

Recommendations:

1.1. The Board should take an active role in addressing the issue of insufficient tourism revenues for funding monthly distributions by taking the following actions:
a. Working with authority staff to identify and study various options for addressing the issue, including determining the potential financial impact to each statutory priority for each option;

b. Working with stakeholders and the Legislature to identify which options would be feasible; and

c. Clearly communicating to the Legislature and stakeholders the financial impacts to each funding priority for any recommended options.

1.2. To help ensure that its distribution of tourism revenues is consistent with current statutory requirements, the Authority should:

a. Work with its legal counsel to determine if it can legally correct the errors this report has identified in the Authority’s prior distributions and then act accordingly; and

b. Hire an outside contractor to annually review its monthly revenue distributions, including conducting work to determine if the amounts distributed were consistent with its statutory requirements.
Authority expenses mostly related to multipurpose facility—the University of Phoenix Stadium

The Authority’s operations generally consist of overseeing and funding the operation of the facility and other administrative activities related to its statutory responsibilities. Specifically, authority operations include the following:

- **Maintaining, operating, and promoting the facility**—One of the Authority’s main statutory responsibilities is maintaining, operating, and marketing the facility, which is the home of the Arizona Cardinals (Cardinals) National Football League (NFL) team, Fiesta Bowl football games, and other events. Arizona Revised Statutes (A.R.S.) §5-807 requires the Authority to contract with a management firm to operate, promote, and market the facility. In May 2004, the Authority contracted with a facility management contractor to comply with this requirement. As outlined in its facility management agreement with the Authority, the facility management contractor is responsible for all facility management and operations activities, including general maintenance and event booking (see Finding 3, pages 37 through 46, for more information on the facility management agreement). Additionally, the Authority is responsible for paying all of the facility management contractor’s expenses for managing and operating the facility, including expenses for events. In fiscal year 2014, the Authority spent approximately $7.7 million for facility operations and nearly $15 million on facility events, totaling approximately $22.7 million.¹

- **Authority administration**—In addition, authority staff have several administrative responsibilities including providing oversight and support of the facility management contractor, coordinating with Cardinals staff and management, preparing the Authority’s operating budget, distributing the Authority’s revenues, coordinating the Authority’s youth and amateur sports grant programs, and providing administrative support for the Authority’s Board of Directors (Board). In fiscal year 2014, the Authority spent approximately $1 million for administration.²

¹ Auditors obtained facility operations expense and revenue totals from the facility’s fiscal year 2014 financial statements audited by an independent certified public accounting firm. Event expenses include all expenses related to football and nonfootball events held at the facility such as Cardinals and Fiesta Bowl game day expenses, concessions expenses, promoter fees, and security costs.

² In fiscal year 2007, the year the facility opened, the Authority’s administration expenses were nearly $1.5 million. However, in subsequent years, its administration expenses have ranged from a low of approximately $1 million in fiscal year 2014 to a high of approximately $1.26 million in fiscal year 2011.
Although the Authority receives several revenues related to facility operations (facility-related revenues), it must first use these revenues to satisfy some bond debt obligations before using the monies to pay for its operations, including costs for operating the facility (see textbox for more information on the Authority’s facility-related revenues). Specifically, A.R.S. §5-834 requires the Authority to maintain a facility revenue clearing account for its facility-related revenues, and the Authority must first distribute the monies in the facility revenue clearing account to pay the portion of the bond debt it issued for construction of the facility that tourism revenues do not pay for.¹ For fiscal year 2014, the Authority distributed approximately $5 million from the facility revenue clearing account for this debt. After distributing the monies to pay for bond debt, the Authority is required to distribute any monies remaining in the facility revenue clearing account to its operating account. In addition, according to its bond indentures for the bond debt it issued to construct a Cactus League facility in the City of Surprise, the Authority has committed facility-related revenues distributed to its operating account to pay the bond debt in months when tourism monies are insufficient to pay the full amount of the monthly debt service payment (see Introduction, pages 5 through 6, for more information on the Authority’s Cactus League bonds).²³ For fiscal year 2014, facility-related revenues paid approximately $1 million for this debt.

After meeting these obligations, according to A.R.S. §5-836, the Authority may use monies remaining in its operating account for operating, marketing, promoting, furnishing and equipping the facility, paying all costs associated with the Authority’s administrative duties, and paying bond debt. Additionally, as discussed in the Introduction (see page 10), A.R.S. §5-836

¹ A.R.S. §5-835 states that the Authority can use no more than $165.5 million of tourism revenues to pay principal for facility construction bond debt over the 30-year payoff period. Therefore, the Authority’s monthly debt service payments are split between tourism and facility-related revenues to ensure it meets this requirement. In fiscal year 2014, tourism revenues paid approximately 62 percent of the debt service, and facility-related revenues paid approximately 38 percent.

² A bond indenture is a legally binding document between the bond issuer and the bond holders.

³ The Authority’s obligated bond debt service payment for the Cactus League facility in Surprise will expire July 1, 2016.
requires the Authority to establish two reserves in its operating account—an operating reserve to pay for the Authority’s future operating costs and a reserve for repair, replacement, and removal costs associated with the facility. Although the Authority has not established formal reserve accounts for these purposes, the Authority’s goal is to maintain a balance in its operating account equal to the prior year’s operating budget to act as a reserve. In addition, in fiscal year 2015, and for the first time since the facility opened in August 2006, the Authority approved an expenditure of approximately $1.6 million for facility capital improvement projects (see Finding 4, pages 47 through 52, for more information).

In fiscal year 2014, the Authority received approximately $29 million in facility-related revenues, and after paying its bond debt obligations, the Authority had approximately $23 million to pay for operations. As discussed in Finding 1 (see pages 15 through 17), the Authority can also use available tourism revenues to help pay for its operations. However, tourism revenues comprise a much smaller portion of its revenue available to pay for operational expenses. For example, during fiscal year 2014, the Authority received approximately $3.6 million in tourism revenues that was available to pay for operations.

**Arizona’s operational finances have improved**

In fiscal years 2011 through 2014, the Authority’s total revenues available for operations exceeded its operational expenses, thereby increasing its operating reserve. Specifically, in fiscal years 2011 through 2014, the Authority deposited nearly $54 million in its operating account, mostly from distributions of facility-related and tourism revenues, and spent more than $49 million, primarily for facility operations. As a result, the Authority increased the reserve in its operating account from nearly $9 million at the beginning of fiscal year 2011 to nearly $13.8 million in fiscal year 2014.

Two main factors allowed the Authority to increase its operating reserve:

- **Facility-related revenues increased**—As shown in Table 8 (see page 32), in fiscal years 2011 through 2014, the Authority’s facility-related revenues increased from approximately $20 million in fiscal year 2011 to approximately $29 million in fiscal year 2014. As a result, the Authority was less reliant on its reserve to pay for its operating expenses in fiscal years 2012 through 2014. For example, in fiscal year 2012, the Authority’s facility-related revenues were sufficient to pay the entire cost of its operations while also contributing approximately $300,000 to its operating reserve. Additionally, when the Authority needed to use its operating reserve, it was smaller than in past years. For example, in fiscal years 2013 and 2014, the Authority needed approximately $800,000 and $300,000, respectively, from its operating reserve to help pay for operations. In contrast, in fiscal year 2011, the Authority needed approximately $5.6 million from its operating reserve to pay for operations in that fiscal year.

- **Bond repayment was postponed**—In fiscal year 2012, the Authority refunded its debt on the facility by issuing new facility bonds. This refunding of debt allowed the Authority to delay some of its principal payments until fiscal year 2017, when its Cactus League bonds will be entirely paid. As a result, as shown in Table 8, the Authority’s bond debt payments were reduced, increasing the amount of facility-related revenues available to pay operating expenses.
Authority’s operations may be affected by need to make payments under facility-use fee agreement

As previously mentioned (see Introduction, page 5), in fiscal year 2006, the Authority entered into an agreement with the Cardinals establishing a facility-use fee (FUF) on event tickets sold at the facility, including tickets for Cardinals’ home games. The FUF is meant to help the Authority pay $53.1 million in bonds it issued to complete the facility, including paying $32.3 million for site improvements that were originally to be funded by the City of Glendale. In addition, FUF revenues that are not needed to pay for these bonds are used to reimburse the Cardinals for a $25 million contribution the team made to help complete the site improvements. According to the FUF agreement, the Cardinals receive the FUF on tickets sold for all home games to reimburse the Cardinals for the $25 million debt, plus any accrued interest. Additionally, the

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1 According to a 2005 agreement, the City of Glendale remits to the Authority city sales tax revenue resulting from sales at the facility to help repay the Authority’s bonds.

2 According to the FUF agreement, any FUF revenues the Cardinals received prior to calendar year 2012 were not applied to the debt (see Introduction, page 5, for more information).
Authority receives the FUF on tickets sold for all other events held at the facility to help pay its $53.1 million bond debt.

In addition, the FUF agreement requires payments of FUF revenues between the Authority and the Cardinals if certain conditions are met. Specifically, based on a complex calculation involving the Authority’s bond debt payments and revenues from multiple sources, the Authority must annually determine one of three potential payment scenarios: (1) the Authority pays the Cardinals a portion of its FUF revenues collected during the fiscal year to help reimburse the Cardinals; (2) the Cardinals pay the Authority a portion of their FUF revenues collected during the fiscal year to help pay the Authority’s bond debt; or (3) neither party pays the other.¹

According to authority records, between August 2006 and June 30, 2014, the Authority received a single payment, of approximately $1.1 million for fiscal year 2011, from the Cardinals as required by the FUF agreement. However, auditors’ review of authority records indicated that the Authority incorrectly calculated the payment amount. For example, it excluded some revenues that should have been included in the calculation. In addition, auditors’ review of the Authority’s payment calculations for fiscal years 2012 through 2014 indicated that authority staff continued to make similar errors during these years, although the errors did not result in any erroneous payments between the Cardinals and the Authority.² Further, in May 2015, authority staff indicated that they had been unaware of the FUF agreement’s requirement for potential payments from the Authority to the Cardinals. As a result, the Authority did not know if it should have made any payments to the Cardinals since this requirement went into effect in January 2012.

As a result of these issues, the Authority should consult its legal counsel and work with the Cardinals to determine the correct amount of any required payments between the two parties for fiscal years 2011 through 2014. Additionally, the Authority should continue to conduct the calculations as required by the FUF agreement to determine any future payments between the two parties, including any payments from the Authority to the Cardinals. Further, because of the FUF agreement’s complexity and the Authority’s limited staffing, it should hire an outside contractor to annually review its calculations related to the FUF agreement to identify potential errors. Similar to the reviews of its statutorily required distributions recommended in Finding 1 (see page 27), the Authority could consider hiring the CPA firm that conducts its annual financial audit or the facility management contractor’s accounting staff to provide the review of its calculations. According to the Authority, it will work with its legal counsel to develop a simplified procedure to calculate payments required by the FUF agreement. In addition, as of July 2015, according to the Authority, it had reached an agreement with the facility management contractor to annually review the Authority’s FUF calculations. Further, the Authority reported that it had reached an agreement with the independent CPA firm that performs its annual financial audit to annually review its FUF calculations as part of the Authority’s annual financial audit.

Finally, because the Authority’s revenues are statutorily required to be used for certain purposes, any payments it makes to the Cardinals will have to be paid from its operating account. As a result, any such payments will increase the Authority’s operating expenses, exacerbating the effect of other issues that will increase its expenses, as discussed below.

¹ According to the FUF agreement, potential payments from the Cardinals to the Authority began when the facility opened in August 2006; however, potential payments from the Authority to the Cardinals did not begin until January 1, 2012. ² Auditors’ review of authority records indicated that the Authority’s calculations during these years would not have triggered a payment from the Cardinals to the Authority, regardless of the errors.
Increasing debt payments and other commitments may affect funding available for operations

Future increases in facility debt payments and other authority commitments may affect the Authority’s ability to fund its operations in future years. Specifically, the Authority is facing increasing debt payments and other commitments including:

- **Increasing facility bond debt payments**— As discussed in the Introduction (see page 2), the Authority issued new facility bonds in fiscal year 2012, allowing it to delay some principal payments for facility debt service until after its Cactus League bonds are fully paid at the end of fiscal year 2016. As a result, although its Cactus League debt will be eliminated, the Authority’s facility bond debt that must be paid with facility-related revenues will begin to increase annually in fiscal year 2017.

Because of this increased requirement, the Authority will potentially have less facility-related revenues available for operations. Specifically, in fiscal years 2011 through 2014, the most the Authority distributed in facility-related revenues for Cactus League bond debt in any year was approximately $1.4 million. However, beginning in fiscal year 2017, its facility construction bond debt service payments for facility-related revenues will increase annually through fiscal year 2031. For example, the total fiscal year 2017 debt service payments will increase by approximately $2.2 million from the fiscal year 2016 payments, and in fiscal year 2018 the payments will increase by approximately $285,000 from the fiscal year 2017 payments. Therefore, the Authority may have less facility-related revenues available for operations unless its facility-related revenues increase enough to cover the higher debt-service obligation.

- **Scoreboard agreement will increase Authority’s future operating expenses**—In March 2014, the Authority entered into an agreement (scoreboard agreement) to reimburse the Cardinals for a portion of the costs of purchasing and installing a new video scoreboard for the facility. Under the terms of the scoreboard agreement, the Cardinals agreed to pay approximately $10.9 million to purchase and install the scoreboard. According to the scoreboard agreement, the scoreboard was installed in the summer of 2014, to enhance the public’s experience at the facility, improve the facility’s ability to attract events in the future, and assist the Cardinals in generating sponsorships.

Beginning in September 2015, the scoreboard agreement requires the Authority to make annual payments to the Cardinals to reimburse the team approximately $8 million, plus interest, for the scoreboard. According to the scoreboard agreement, the amount of the Authority’s annual payment for the scoreboard will vary depending on the amount of revenues it receives during the fiscal year. However, the first payment due in September 2015 could be as high as $1.4 million, including accrued interest. Regardless of the annual payment amount, the scoreboard payments will increase the Authority’s operational expenses. Specifically, because the Authority’s revenues are statutorily required to be used for certain purposes, any scoreboard payments it makes to the Cardinals will have to be paid from its operating account.
• **Future receipt of tourism revenues uncertain**—Finally, as discussed in Finding 1 (see pages 15 through 28), the Authority’s distribution of future tourism revenues to its operating account to fund its operations is uncertain, and possibly unlikely. Compared to facility-related revenues, tourism revenues provide a much smaller portion of funding for operations. However, if this source is unavailable, the Authority’s ability to operate is at risk.

The Authority’s own projections for its operating reserve reflect the increased stress on operational revenues. Although the Authority could use its operating reserve to help pay for future operations, it projects that it will significantly decrease its reserve by the end of fiscal year 2020. Specifically, the Authority estimates that its reserve will be approximately $16.2 million as of June 30, 2016, but will decrease by nearly half by the end of fiscal year 2021. Declining reserves are a concern not only for sustaining operations, but for funding capital projects as well. According to the Authority, it relies on the reserve as a source for funding facility capital improvements as well as a source for operations funding. Therefore, if the Authority depletes its operating reserve to fund operations, it could face challenges in funding future capital improvements that may be important to maintaining the facility as a viable venue for events and for the Cardinals (see Finding 4, pages 47 through 52, for additional information on capital improvements).

As a result of these issues, as well as the previously identified issues related to the Authority’s FUF agreement payments to the Cardinals, the Authority should take steps to help ensure it can fund its future operations with facility-related revenues. Specifically, Finding 3 (see pages 37 through 46) addresses the Authority’s facility management agreement and recommends ways to improve the agreement to better minimize operational expenses.

**Recommendations:**

2.1. In order to ensure that it complies with its FUF agreement with the Cardinals, the Authority should:

   a. Consult with its legal counsel and work with the Cardinals to determine the correct amount of any required payments between the two parties for fiscal years 2011 through 2014;

   b. Continue to conduct the calculations as required by the FUF agreement to determine any future payments between the two parties, including any payments from the Authority to the Cardinals; and

   c. Hire an outside contractor to annually review its calculations related to the FUF agreement to identify potential errors.
 Authority contracts for facility management and operations

The Authority is responsible for managing and operating the multipurpose facility known as the University of Phoenix Stadium (facility), which serves as the home for the Arizona Cardinals (Cardinals) National Football League (NFL) team, the Fiesta Bowl football games, and other events. According to Arizona Revised Statutes §5-807, the Authority is required to contract with a management company for the facility’s operations and management. In May 2004, the Authority contracted with a facility management contractor to comply with this requirement. The Authority’s facility management agreement (agreement) with the contractor expires on June 30, 2016, and the Authority reported that it plans to issue a Request for Proposals (RFP) for a new agreement in the fall of 2015. The Authority has also contracted with a private consultant to assist with the development of the RFP and agreement negotiations (see page 45 for more information).

As outlined in the agreement, the facility management contractor is responsible for all facility management and operations activities. These activities range from marketing the facility and booking events, to maintaining the facility, providing security, and working with suppliers (see textbox on page 38 for information on the facility management contractor’s responsibilities). According to the agreement, the Authority pays for all of the facility management contractor’s expenses to manage and operate the facility, including paying for all of the facility management contractor’s staff salaries, subcontractors costs, and all other facility maintenance and operation expenses. In fiscal year 2014, the Authority spent approximately $7.7 million for facility operations and nearly $15 million on facility events, for a total of approximately $22.7 million.¹ The agreement calls for the facility management contractor, in carrying out these responsibilities, to maximize operating revenues while minimizing operating expenses.

Separate from the Authority’s payment of the facility management contractor’s expenses for operating the facility, the agreement contains two other provisions for compensating the facility management contractor. These are as follows:

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¹ Auditors obtained facility operations expense and revenue totals from the facility’s fiscal year 2014 financial statements audited by an independent certified public accounting firm. Event expenses include all expenses related to football and nonfootball events held at the facility such as Cardinals and Fiesta Bowl game day expenses, concessions expenses, promoter fees, and security costs.
Fixed annual management fee—The facility management contractor receives base compensation in the form of a management fee for providing the management services specified in the agreement each fiscal year. In fiscal year 2014, the management fee was $165,375 and was scheduled to increase to approximately $170,000 in fiscal year 2015 and approximately $175,000 in fiscal year 2016.

Incentive fee—The facility management contractor is eligible to receive an annual incentive fee not to exceed the amount of the fixed annual management fee. For example, the fiscal year 2014 incentive fee could not exceed $165,375. Additionally, as shown in Table 9, page 39, the incentive fee is separated into two components, as follows:

- Objective incentive fee—The objective component is two-thirds of the total incentive fee and is based on several performance measures. Specifically, the Authority assesses the facility management contractor’s performance against annual goals approved by the Authority’s Board of Directors (Board) in five categories designed to increase facility revenue. These categories are (1) total event attendance, (2) revenue received from sales tax recapture, (3) food and beverage revenue, (4) number of events, and (5) revenue collected from the facility-use fee.\(^1\)^\(^2\)

- Subjective incentive fee—The subjective component is one-third of the total incentive fee and is based on separate evaluations of the facility management contractor’s performance completed by the Cardinals and the Fiesta Bowl. For example, the Cardinals evaluate the facility management contractor’s performance on game

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\(^1\) 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. Additionally, the Authority receives a per ticket facility-use fee for each ticket sold for events held at the facility (see Introduction, pages 8 through 9, for more information on sales tax recapture and the facility-use fee).

\(^2\) The Authority assesses the facility management contractor’s performance in these areas for only events the facility management contractor directly oversees. For example, when assessing the facility management contractor’s performance, the Authority does not include Cardinals home games or events a second event management company (event manager) oversees (see Introduction, page 5, for more information on the event manager).
management/operations, safety and security of ticket holders, cooperating with and enforcing team rights, and maintaining a trained and motivated stadium work force.

Table 9: Facility management contractor’s maximum and awarded incentive fee payments Fiscal years 2011 through 2014 (Unaudited)

<table>
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<th>Fiscal year</th>
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<th>Subjective incentive</th>
<th></th>
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<td>Percent awarded</td>
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<td>Not available(^1)</td>
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</tr>
</tbody>
</table>

\(^1\) According to the Authority, the fiscal year 2014 subjective incentive fee has not been determined. Therefore, the fiscal year 2014 total incentive fee is not yet available.

Source: Auditor General staff analysis of the Authority’s fiscal years 2011 through 2014 incentive fee calculation of the facility management contractor.

Authority’s agreement complies with federal regulations but may not be most beneficial approach

Although the Authority’s agreement is designed to comply with U.S. Internal Revenue Service (IRS) regulations, it may not be the most beneficial approach given the Authority’s situation. Specifically, the Authority’s agreement complies with IRS regulations because the Authority pays for all of the facility management contractor’s expenses for facility management and operations. However, this approach may not be the most beneficial for the Authority given the length of time the facility has been in operation and the Authority’s small administrative staff.

Authority’s facility management agreement complies with federal regulations—

The Authority is required to comply with IRS regulations for facilities financed with tax-exempt bonds, such as the facility.\(^1\) Specifically, 26 CFR 1.141-3 prohibits the Authority from entering into a management agreement that compensates a service provider based on net profit. For example, the Authority can pay the facility management contractor an incentive fee for either increasing facility revenue or decreasing facility expenses, but not both because this would constitute compensation based on net profit.

The Authority’s agreement complies with the IRS regulations for facilities financed with tax-exempt bonds. Specifically, the IRS has published guidelines for complying with its regulation related to facilities financed with tax-exempt bonds. The guidelines state that reimbursement of a service provider for actual and direct expenses is not considered compensation. As a result, the Authority complies with the regulation by paying all of the facility management contractor’s expenses

\(^1\) Tax-exempt bonds are bonds used to finance public governmental projects. Interest earned on tax-exempt bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended. The Authority’s facility construction bonds are tax-exempt bonds.
incurred for managing and operating the facility and compensating the facility management contractor as previously described.

The Authority’s agreement was designed similarly to agreements for other facilities financed with tax-exempt bonds. Specifically, according to the Authority, the agreement was written to comply with IRS regulations for a facility financed with tax-exempt bonds. A May 2006 Louisiana Legislative Auditor performance audit reviewed six NFL stadium management agreements, including the Authority’s agreement, and found that the majority of the agreements had similar provisions for compensating their facility’s management contractor. For example, three of the agreements required the public entity to pay the facility management contractor’s expenses for managing and operating the facility.

Cost-reimbursement agreement may not be ideal for Authority’s situation—Although the Authority has structured its facility management agreement to comply with IRS regulations, its payment of all the facility management contractor’s expenses for managing and operating the facility is not recommended by best practices, given the length of time the facility has been in operation and the Authority’s small administrative staff. Specifically, the Federal Acquisition Regulation (FAR) provides uniform policies and procedures for federal agencies’ acquisitions of goods and services that are designed to ensure receipt of the best value product or service while maintaining the public’s trust and fulfilling public policy objectives. FAR outlines two main groups of agreements for compensating a service provider: cost-reimbursement agreements and fixed-price agreements (see textbox). The Authority’s agreement meets FAR’s definition of a cost-reimbursement agreement.

FAR’s guidelines indicate that the Authority’s use of a cost-reimbursement agreement may not be the most beneficial for the Authority. Specifically, according to FAR, a cost-reimbursement agreement should be used only when an entity cannot sufficiently define its requirements for a fixed-price agreement. For example, if the entity has not had sufficient time to assess the costs of running a facility, such as during the first years of operation, or if the service being provided is new or experimental, this type of arrangement may be appropriate. However, the facility has been in operation since August 2006; therefore, the Authority may have had sufficient time to assess and determine the costs for running the facility.

In addition, the Authority may not have sufficient staff to provide the level of contractor oversight necessary for a cost-reimbursement agreement. According to FAR, a cost-

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2 According to 48 CFR 1.101, FAR is established for the codification and publication of uniform policies and procedures for acquisition by all federal executive agencies. FAR is intended to help agencies obtain quality, cost-effective goods and services in a timely manner by, for example, maximizing the use of commercial products and services, promoting competition, and minimizing administrative operating costs.
The reimbursement agreement requires, among other considerations, thorough oversight to provide reasonable assurance that the contractor is employing efficient methods and effective cost controls. The Authority oversees facility management contractor expenses in various ways. Specifically, the Authority reviews the facility management contractor’s financial and expense information on a monthly basis. This includes, according to the Authority, meeting monthly with facility management contractor staff to review budgeted versus actual expense information and reviewing a sample of the facility management contractor’s expenses on a monthly basis. However, previous performance audits of the Authority, conducted by the Office of the Auditor General, have recommended that the Authority enhance its oversight of the facility management contractor’s expenses (see Report Nos. 09-04 and 10-09 for more information). For example, the 2010 report recommended that the Authority expand its review of the facility management contractor’s expenses to include selecting a sample of indirect expenses for review, such as payroll, employee training, or other office expenses. Although the Authority took some steps to address the previous recommendations, it reported that because of limited resources, it has not been able to fully expand its review as recommended.

Authority should consider various management agreement options

The Authority should consider various options for improving its facility management agreement when it issues an RFP for a new agreement in the fall of 2015. One such option would be a fixed-price agreement, which could offer multiple benefits, including the potential to motivate the facility management contractor to optimally manage facility expenses. Another option is to continue with a cost-reimbursement agreement, which offers other benefits not offered by a fixed-price agreement, such as the ability to adjust to unknown or unforeseen costs. A third option is to incorporate both fixed-price and cost-reimbursement approaches into a new facility management agreement, which could offer some of the benefits of both approaches. The Authority has hired a consultant to assist with the procurement and negotiation of its new facility management agreement, and it should draw on his expertise to ensure it enters into an agreement that provides maximum benefits to the Authority. The Authority should also work with its legal counsel to ensure that the agreement continues to comply with IRS regulations.

Fixed-price agreement offers multiple benefits—One option the Authority should consider is a fixed-price agreement (see textbox, page 40, for the definition of a fixed-price agreement), which offers multiple benefits. According to FAR, a fixed-price agreement is preferable in situations where there is sufficient information to establish costs for the service provided because it shifts risk and responsibility for all costs to the contractor, thus providing maximum motivation for the contractor to control costs and perform effectively while imposing minimum administrative burden on the contracting entity. As a result, a fixed-price agreement could help the Authority to better maximize available funding for its operations while also reducing some of its oversight responsibilities. Specifically, a fixed-price agreement would provide the following benefits:

- **Optimum management of facility expenses**—Because a fixed-price agreement includes a set price for the service provided, it would protect the Authority from having to pay for increases in expenses above the fixed price. As a result, a fixed-price agreement would reduce the Authority’s risk for incurring potential increases in facility expenses. However, the Authority should take other steps to help ensure that the facility management contractor
meets all of the agreement’s provisions such as conducting preventative maintenance and providing quality service to facility tenants (see page 43 for more information).

- **Increased ability to plan for future operations**—The Authority’s facility operating and event expenses make up the majority of the Authority’s operational expenses. In addition, the Authority’s expenses for operating the facility fluctuate from year to year. For example, the facility management contractor’s expenses, including facility operating and event expenses, were approximately $14 million in fiscal year 2011 and approximately $22.7 million in fiscal year 2014. As a result, when preparing its revenue and expense projections for future years, the Authority and the facility management contractor can only estimate the amount of future facility operating expenses. A fixed-price agreement would establish a fixed price for the total cost of facility operations, either annually or over the term of the agreement, allowing the Authority to more accurately project its future operating expenses and, thus, more accurately predict the amount of revenues needed for its future operations.

- **Reduced need for financial oversight**—As previously mentioned, the Authority reported that because of limited resources, it has not been able to implement some improvements to its oversight of facility management contractor expenses recommended by the Office of the Auditor General (see page 41). A fixed-price agreement provides a natural control on facility expenses by motivating the facility management contractor to keep expenses below the amount of the fixed price. As a result, a fixed-price agreement may reduce the need for the Authority to increase its oversight of facility expenses.

- **Continued compliance with IRS regulations**—IRS regulations allow fixed-price agreements for facilities financed with tax-exempt bonds. Specifically, IRS regulations outline seven permissible compensation provisions for management agreements at facilities financed with tax-exempt bonds. Four of the allowable provisions are applicable to the facility, and all four consist of a fixed-price agreement.¹

However, if the Authority chooses this option, it should take additional steps to design an effective fixed-price agreement, including:

- **Increasing performance incentives to compensate facility management contractor for assuming more risk**—Assuming responsibility for the full risk of facility expenses might be unattractive to potential facility management contractors. Therefore, the Authority should take steps to offset this risk, such as increasing the amount of the performance incentive paid to the facility management contractor for performance that meets the Authority’s established requirements. For example, the facility management contractor for the O.co Coliseum, the home of the Oakland Raiders NFL football team, can receive an incentive fee equal to 12 percent of the facility management contractor’s generated revenues if it generates revenue of at least $27 million over the 5-year term of the agreement.² Similarly, the Authority could provide the facility management contractor

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¹ The three compensation provisions not applicable to the Authority are for facilities that provide different services than the Authority, such as public utility properties or healthcare providers.

² Management agreement dated as of June 25, 2012, between the Alameda County Coliseum Authority and AEG Management Oakland, LLC.
with an increased performance incentive for meeting or exceeding an established facility revenue guarantee. This guarantee, when combined with other facility-related revenues, should be sufficient to pay for the Authority’s administrative and operational expenses.

- **Incorporating incentives and/or disincentives for nonfinancial performance**—Because a fixed-price may motivate the contractor to reduce costs, the Authority should include incentives or disincentives in its agreement aimed at ensuring that the facility management contractor continues to provide important services, such as conducting preventative maintenance activities and providing quality service to key tenants. For example, the City of Jacksonville’s facility management agreement for EverBank Field, the home of the Jacksonville Jaguars NFL football team, includes an incentive fee based on achievement of certain performance criteria including customer satisfaction; cooperative marketing with prime tenants, sports teams, and management; achievement of annual goals; and efficacy of facility maintenance and repair.¹

The Authority’s agreement includes a subjective incentive fee based on evaluations (as described earlier on pages 38 through 39) completed by the Cardinals and the Fiesta Bowl. As part of its new management agreement, the Authority should continue to ask its primary tenants to complete facility management contractor evaluations. Additionally, the Authority should incorporate disincentives for poor performance into a fixed-price management agreement such as a monetary penalty for not conducting adequate preventative maintenance.

Cost-reimbursement agreement offers some benefits not offered by fixed-price—Another option the Authority should consider is to continue with a cost-reimbursement management agreement. This type of agreement offers some benefits not offered by a fixed-price agreement, but the Authority would need to enhance its oversight of the facility management contractor’s expenses under this type of an agreement. A cost-reimbursement agreement would offer the following benefits:

- **Ability to adjust to unknown or unforeseen costs**—According to FAR, a cost-reimbursement agreement may be warranted when an entity cannot estimate costs with sufficient accuracy to use a fixed-price contract. As a result, a cost-reimbursement agreement may allow the Authority the ability to adjust to unknown or unforeseen costs. For example, costs of hosting large events such as the NFL Super Bowl or the College Football Playoff National Championship may be unknown or unforeseen at the time when a long-term facility management agreement is executed. Therefore, a cost-reimbursement agreement might allow the Authority more flexibility to hold unplanned or unforeseen events.

- **Continued compliance with IRS regulations**—As previously discussed (see page 39), IRS guidelines for complying with its regulation related to facilities financed with tax-exempt bonds state that reimbursement of a service provider for actual and direct expenses is not considered compensation. As a result, a cost-reimbursement agreement would comply with IRS regulations.

Additionally, cost-reimbursement agreements are a common approach for NFL stadium management agreements. As a result, according to the Authority, it remains open to all agreement options, including cost-reimbursement agreements. Further, the Authority has used a cost-

¹ Facilities management contract dated as of April 1, 2013, between the City of Jacksonville and SMG.
reimbursement agreement since it contracted with the facility management contractor in 2004. As a result, implementing this approach may be easier for the Authority than moving to a new approach, such as a fixed-price agreement.

However, a cost-reimbursement agreement has some drawbacks given the Authority’s situation. Therefore, if the Authority chooses this option, it should take additional steps to appropriately design and oversee a cost-reimbursement agreement, including:

- **Enhancing oversight of contractor expenses**—As previously mentioned, the Authority reported that because of limited resources, it has not been able to implement some improvements to its oversight of facility management contractor expenses previously recommended by the Office of the Auditor General (see page 41). However, as previously mentioned, according to FAR, a cost-reimbursement agreement requires, among other considerations, thorough oversight to provide reasonable assurance that the contractor is employing efficient methods and effective cost controls.

- **Including a revenue guarantee that meets the Authority’s needs**—As previously mentioned (see pages 42 through 43), the Authority could require the facility management contractor to meet an annual facility revenue guarantee that, when combined with other facility-related revenues, would be sufficient to pay for the Authority’s administrative and operational expenses, including those expenses outlined in the facility management contractor’s annual budget.

- **Better aligning facility revenue and expenses in the facility’s annual budget**—As discussed in Finding 2 (see pages 29 through 35), in fiscal years 2011 through 2014, the Authority’s facility-related revenues increased from approximately $20 million in fiscal year 2011 to approximately $29 million in fiscal year 2014. As a result, the Authority was less reliant on its reserve to pay for its operating expenses in fiscal years 2012 through 2014. For example, in fiscal year 2012, the Authority’s facility-related revenues were sufficient to pay the entire cost of its operations while also contributing approximately $300,000 to its operating reserve. However, during this period, the facility management contractor’s annual budgets continued to project operating losses at the facility—in other words, budgeted expenses exceeded budgeted revenues—despite an increase in revenues at the facility. Given the improvements in its facility-related revenues, to help ensure that it can pay its administrative and operational expenses, the Authority could consider requiring the facility management contractor’s annual budgeted facility expenses to be less than or equal to budgeted facility revenues.

Mixed approach may offer benefits of both fixed-price and cost-reimbursement agreements—A final option the Authority should consider is an agreement with a mixture of a fixed-price and cost-reimbursement components, which may offer the Authority some of the benefits of both types of agreements. For example, as previously mentioned, the facility has been in operation since August 2006, and therefore, the Authority may have had sufficient time to assess and determine some of the costs for operating and maintaining the facility. However, other costs, such as those for large events, may be more difficult to forecast. As a result, the Authority could consider paying the facility management contractor a fixed-fee for facility management services for which there is sufficient information to establish costs for the service provided, while continuing to reimburse for costs that are less easily estimated. In
doing so, the Authority could potentially receive the benefits of both approaches, including continued compliance with IRS regulations.

Authority should work with consultant and legal counsel to enter into the most beneficial agreement—Given the importance of an effective management agreement to the Authority’s financial situation, in June 2015, the Authority contracted with an independent consultant to assist with the procurement and negotiation of a new facility management agreement. According to authority records, the consultant has provided consulting services on over 450 sports and entertainment projects for professional and minor league teams, sports commissions and authorities, colleges and universities, public and quasi-public entities, private investment groups, and amateur sports organizations. Additionally, the consultant’s experience includes venues such as stadiums, arenas, multipurpose sports complexes, motor speedways, amphitheaters, and other similar facilities with experience providing analysis of economic and financial implications, and various measurements of risk and return.

In working with its consultant, the Authority should ensure that it establishes the most beneficial agreement possible. Specifically, the new management agreement should be designed to help ensure that the Authority’s facility-related revenues can pay for its administrative and operational expenses. In addition, based on the type of agreement it establishes, it should incorporate into the agreement and/or establish sufficient mechanisms to adequately oversee its facility management contractor and ensure that the Authority is receiving the highest quality service for the lowest possible costs. Further, the agreement should be consistent with the Authority’s other agreements such as its concessions and event management agreements (see pages 3 through 5 for more information). For example, if the Authority’s agreement with a second event manager continued to be in effect, the facility management agreement should include a provision requiring the facility management contractor to cooperate with the event manager to maximize revenues and events held at the facility. Finally, the Authority should work with its legal counsel to ensure that its new agreement continues to comply with IRS regulations.

Recommendations:

3.1. The Authority should consider various options for improving its facility management agreement as follows:

   a. If the Authority chooses to enter an agreement with a fixed-price for any services, whether the agreement is a fixed-price agreement or an agreement with a mixture of a fixed-price and cost-reimbursement components, it should take additional steps to design an effective agreement, including:

      • Increasing performance incentives to compensate the facility management contractor for assuming more risk;

      • Incorporating incentives and/or disincentives for nonfinancial performance in its agreement; and
- Including its subjective fee evaluations to be completed by the Cardinals and the Fiesta Bowl to help determine a performance-based incentive fee.

b. If the Authority chooses to enter an agreement with cost reimbursement for any services, whether the agreement is a cost-reimbursement agreement or an agreement with a mixture of a fixed-price and cost-reimbursement components, it should take additional steps to appropriately design and oversee an effective agreement, including:

- Enhancing its oversight of the facility management contractor’s expenses;
- Including a revenue guarantee that meets the Authority’s needs; and
- Better aligning facility revenue and expenses in the facility’s annual budget.

3.2. The Authority should work with its consultant to procure and negotiate the most beneficial agreement possible by:

a. Designing the agreement to help ensure that the Authority’s facility-related revenues can pay for its administrative and operational expenses;

b. Incorporating into the agreement and/or establishing sufficient mechanisms to adequately oversee its facility management contractor and ensure that the Authority is receiving the highest quality service for the lowest possible costs; and

c. Ensuring the agreement is consistent with any of the Authority’s other agreements.

3.3. The Authority should work with its legal counsel to ensure that the new agreement complies with IRS regulations for tax-exempt facilities.
Authority should improve its facility capital improvement practices

Authority completed several facility capital improvements in fiscal year 2015

Consistent with one of its main responsibilities, the Authority approved four facility capital improvement projects (facility projects) in fiscal year 2015. Specifically, one of the Authority’s main responsibilities is maintaining and improving the facility. According to the Authority, doing so is crucial to the facility’s long-term viability as a venue for the Arizona Cardinals (Cardinals) National Football League (NFL) team and the Fiesta Bowl, the facility’s main users, and to attract other revenue-generating events to the facility.

In fiscal year 2015, and for the first time since the facility opened in August 2006, the Authority approved an expenditure of approximately $1.6 million for facility projects. According to authority documents, the facility management contractor completed the following facility projects:

- **Upgraded security cameras**—In November 2014, the facility management contractor entered into a contract for approximately $770,000 to upgrade the facility’s security cameras. According to the Authority, the new cameras are aligned with the NFL’s best practices for security and provide greater picture quality and the ability to provide video coverage to assess facility-related injuries, property damage, and potential legal issues.

- **Upgraded fire/emergency medical services (fire/EMS) communications system**—In September 2014, the facility management contractor entered into a contract for approximately $220,000 to upgrade the facility’s fire/EMS communications system, as required by the City of Glendale’s (Glendale) fire code. Glendale’s fire department and other emergency medical services personnel use the facility’s communications system to communicate both within the facility and with personnel outside of the facility. According to the Authority, Glendale required this upgrade because the facility is a public assembly building.

1 According to the Authority’s agreement with the facility management contractor, capital improvements are any and all building additions, alterations, renovations, repairs, or improvements that have an initial dollar cost of not less than $5,000 per project.

2 According to the Authority, Glendale began using different radio types and frequencies for fire department and emergency medical services personnel to comply with its adoption of the International Fire Code. Therefore, Glendale required the Authority to upgrade the facility’s antenna system to support the new radios.
• **Purchased security barricades**—In September 2014, the facility management contractor ordered 753 steel security barricades for approximately $60,000, which according to the Authority are used by the facility management contractor’s security personnel during events to create an outside bag buffer zone. Additionally, the Authority stated that this one-time purchase would save the Authority an annual security barricade rental fee of approximately $55,000 every year.

• **Upgraded sports field lighting**—In July 2014, the facility management contractor entered into a contract to upgrade the facility’s sports field lighting. The project replaced the facility’s metal halide sports lighting with new energy-efficient, light-emitting diode (LED) bulbs and cost approximately $530,000. According to the Authority, the LED sports lighting system requires less maintenance, provides approximately 40 percent brighter lighting levels on the field, and reduces electrical use because it uses less electricity and generates less thermal heat than the old lighting system, thereby reducing cooling costs.

Authority’s approach to capital improvements had several deficiencies

The Authority lacked a capital improvement plan and budget, which is inconsistent with best practices. Best practices indicate that capital planning policies, which include the development of a capital improvement plan and a process for making funding decisions, are important for maintaining capital assets over the full life of the asset. However, the Authority and its Board of Directors (Board) did not adequately plan and budget for the facility capital improvement projects and has not developed a formal multiyear capital plan and capital budget. As a result, this lack of planning and budgeting could hinder the Authority’s future ability to adequately maintain and improve the facility.

Authority’s lack of planning and budgeting for facility projects was inconsistent with best practices—The Authority and its Board did not appropriately plan and budget for the facility projects, which was inconsistent with best practices developed by the Government Finance Officers Association (GFOA), as follows:

• **A capital improvement plan was not developed**—The GFOA recommends that an organization develop a capital improvement plan covering at least 3 to 5 years that identifies and prioritizes capital improvement needs, establishes the scope and cost of proposed projects, details funding sources and amounts, and projects future operating costs. According to the Authority, to comply with an NFL policy on the size and types of bags allowed at games, starting with the 2013-2014 NFL football season, the facility management contractor developed a bag buffer zone, where security personnel screen bags outside the facility for Cardinals games and other large events, such as the NFL Super Bowl, NFL Pro Bowl, and the Fiesta Bowl. According to the Authority, because the policy change occurred close to the start of the NFL season, the Cardinals agreed to split the cost of the barricades with the Authority during the first year, and they rented the barricades from one of the Cardinals’ existing vendors. However, according to the Authority, in the second year, it determined that purchasing the barricades would be a better option than renting.

2 The GFOA is a professional association representing nearly 18,000 federal, state/provincial, and local public finance officials throughout the United States and Canada. The GFOA’s mission is to enhance and promote the professional management of governmental financial resources by identifying, developing, and advancing fiscal strategies, policies, and best practices for the public benefit.
and maintenance costs associated with any projects.\(^1\) However, the Authority did not develop a multiyear capital improvement plan before completing the facility projects previously described. Instead, the Board approved the facility projects without considering some of the factors that should be included in a capital improvement plan, such as the need for and priority of other potential facility projects and any future operating and maintenance costs associated with a capital improvement project.

- **A capital improvement project budget was not established**—The GFOA recommends that an organization prepare and adopt a formal capital improvement project budget as part of its budget process because capital improvement projects often involve large financial obligations that may span 2 or more fiscal years.\(^2\) In addition, according to the GFOA, a capital improvement project budget should flow from an approved multiyear capital improvement plan. However, the Authority and Board did not prepare and adopt a capital improvement budget or a separate budget for any of the facility projects, either as part of its annual budget process or as part of facility project planning. Instead, the Board allocated operating monies for unspecified capital improvements and later approved only the total cost of the facility projects. At the time of the Board’s approval, one project had already been completed, two projects had signed contracts, and the fourth project was in the process of being procured.

Insufficient planning and budgeting could affect the Authority’s ability to adequately maintain and improve the facility—According to the GFOA, effective capital planning policies, which include the development of a capital improvement plan and a process for making funding decisions, can help ensure the sustainability and maintenance of capital assets.\(^3\) However, the Authority’s lack of adequate planning and budgeting resulted in several problems that, if continued, could affect the Authority’s ability to maintain and improve the facility. For example, in completing the facility projects, the Authority and/or the Board:

- **Inadequately considered the potential impact of its future financial situation**—The Board approved the facility projects without discussing the Authority’s future financial situation, including its revenue projections. For example, the Board’s formal consideration of the facility projects and its decision to use operating monies to fund the projects did not include any discussion of the Authority’s increasing debt requirements, potentially increasing operating expenses, and uncertain tourism revenues, all of which may put its future funding for operations in jeopardy (see Finding 2, pages 34 through 35, for more information on the Authority’s future funding for its operations). As a result, the Authority approved an expenditure of approximately $1.6 million of its operating monies for the facility projects, money that might have been needed to fund future operations.

- **Did not assess long-term priorities**—The Board approved the facility projects without any formal discussion or consideration of the facility’s future capital improvements and long-term needs. For example, the discussion for approving the facility projects did not include any information about future facility needs from the facility management contractor or the Cardinals. However, the facility management contractor provided auditors with a draft list for

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capital improvement projects they believe will need to be completed in coming years. Additionally, according to the Cardinals, several other facility improvements not listed on the facility management contractor’s draft list may be needed in the coming years, such as upgrading the facility’s sound system to improve the acoustics for all events, and an upgrade to the club level, including carpet and décor items. As a result, any or all of these four projects that the Authority completed may have been lower-priority projects, rather than higher-priority projects.

- **Inadequately monitored work on and completion of the facility projects**—The Board did not formally monitor the work on or completion of the facility projects. First, when the Board formally approved the facility projects, one had already been completed, two had signed contracts with vendors for completion, and the procurement process had been started on the last. As a result, the Board was largely unable to exercise its authority to adequately review and then approve these projects, and the Board’s vote to approve the facility projects was largely symbolic because the Authority had already committed its monies to most of these projects regardless of the Board’s decision.

Additionally, the Board did not adequately oversee facility project costs. For example, based on auditors’ review of project documents, some aspects of the sports field lighting project may have been optional and, thus, potentially could have been eliminated from the project or delayed to allow for costs savings. Specifically, the facility management contractor hired a separate vendor to remove all of the old lighting for approximately $60,000. However, the agreement with the sports lighting vendor indicated that most of the existing lighting system could functionally remain in place. Additionally, the vendor hired to remove the old lighting paid a subcontractor $30,000 and then charged a 15 percent markup for the cost of the subcontractor. As a result, the Authority potentially paid more for the work than if it had directly hired the subcontractor itself. However, these details were not provided to the Board for formal consideration at a board meeting. Therefore, the Board could have approved an expenditure of less than $1.6 million for the four facility projects and potentially used these monies for other purposes.

**Authority should align its capital improvement planning and budgeting with best practices and improve board oversight**

The Authority should align its process for capital improvements planning and budgeting with best practices. Specifically, the GFOA recommends entities develop capital planning policies that direct how an organization will approach capital improvements planning, including, but not limited to, identifying how planning decisions will be made, outlining a structured process for prioritizing needs and allocating limited resources, requiring the development of a multiyear capital improvement plan, and outlining provisions for monitoring and oversight of projects. In addition, A.R.S. §5-807 states that the Board is responsible for and shall monitor and take action as necessary to ensure the appropriate maintenance and operation of the facility. According to the Authority, prior to fiscal year 2015, it had never completed any capital improvement projects and, therefore, had not needed to develop policies or procedures for planning and budgeting for capital improvements.
To help ensure that the Authority adequately plans and budgets for future capital improvements and that the Board meets its statutory responsibility to oversee maintenance of the facility, the Authority and the Board should develop and implement capital planning policies and procedures that are consistent with the GFOA best practices. These policies and procedures should include the following:

- A clear definition of what constitutes a capital improvement project, including but not limited to significant capital maintenance projects;

- Provisions for the Board’s monitoring and oversight of capital improvements planning and budgeting to help ensure a clear decision-making process, including a description of how the Board will prioritize and approve projects, and a description of the roles and responsibilities in the process for authority staff, the facility management contractor, and facility tenants;

- Provisions for developing a multiyear capital improvement plan (capital plan) covering a period of at least 3 to 5 years that clearly identifies capital and major equipment needs, maintenance requirements, funding options, and operating budget impacts; and

- Provisions for developing a capital improvement budget approved by the Board as part of its annual budget process using the information in the capital plan to help separately budget and track its capital improvement projects. The budget should include a schedule for completing each project, including specific project phases, estimated funding requirements for the upcoming year(s), and planned timing for acquisition, design, and construction activities.

The Authority has taken some steps to address the previously mentioned issues. Specifically, in June 2015, the Board approved the Authority’s fiscal year 2016 budget, which included a proposed capital investment budget of approximately $635,000 for eight capital improvement projects to be completed during the fiscal year. Additionally, in July 2015, the Board approved revisions to the Authority’s procurement policy that added provisions for the Board’s approval of capital acquisitions and capital improvements.

Recommendations:

4.1. To help ensure the sustainability and viability of the facility, the Authority and its Board should develop and implement capital planning policies and procedures that include:

a. A clear definition of what constitutes a capital improvement project, including but not limited to significant capital maintenance projects;

b. Provisions for the Board’s monitoring and oversight of capital improvements planning and budgeting to help ensure a clear decision-making process, including a description of how the Board will prioritize and approve projects, and a description of the roles and responsibilities in the process for authority staff, the facility management contractor, and facility tenants;
c. Provisions for developing a multiyear capital improvement plan (capital plan) covering a period of at least 3 to 5 years that clearly identifies capital and major equipment needs, maintenance requirements, funding options, and operating budget impacts; and

d. Provisions for developing a capital improvement budget as part of its annual budget process using the information in the capital plan to help separately budget and track capital projects. The budget should include a schedule for completing each project, including specific project phases, estimated funding requirements for the upcoming year(s), and planned timing for acquisition, design, and construction activities.
Auditors used various methods to study the issues addressed in this report. These methods included reviewing applicable state laws, authority policies and procedures, and various agreements, and other information obtained from authority staff and the Authority’s Web site; analyzing the Authority’s and the University of Phoenix Stadium’s (facility) fiscal years 2011 through 2014 financial statements audited by an independent certified public accounting firm, and general ledgers; reconciling the Authority’s fiscal years 2011 through 2014 financial statements and general ledgers; reconciling the facility’s fiscal years 2013 through 2014 financial statements and general ledgers; reviewing the Authority’s fiscal year 2014 Working Trial Balance report and fiscal years 2011 through 2016 Annual Financial Budget reports; interviewing authority staff; and reviewing previous Office of the Auditor General audits of the Authority (Report Nos. 04-01, 09-04, and 10-09).

Additionally, auditors used the following specific methods to meet the audit objectives:

- To determine the impact of tourism revenues on statutorily designated priorities, auditors examined the Authority’s fiscal years 2011 through 2014 tourism monthly revenue distribution documentation and compared amounts distributed to amounts required by statute; reviewed the Authority’s facility and Cactus League bond official statements for bonds issued during fiscal years 2012 and 2013; and reviewed the Authority’s methodology for projecting tourism revenues in its fiscal year 2014 Annual Financial Budget report. In addition, to determine the status of the Saban Rent-A-Car LLC vs. the Arizona Department of Revenue (Saban), auditors interviewed the Authority’s general counsel and reviewed Superior Court of Arizona, Maricopa County, court documents. Further, to determine the potential impact of Saban, auditors analyzed the effect that the absence of the car rental surcharge would have had during fiscal years 2011 through 2014 by recalculating the Authority’s monthly revenue distributions without the revenues provided by the car rental surcharge during this period.

- To analyze the Authority’s financial situation related to its operations, auditors examined the Authority’s fiscal year 2014 facility-related monthly revenue distribution documentation and compared amounts distributed to amounts required by statute for August 2013 and June 2014; calculated the amounts the Arizona Cardinals (Cardinals) National Football League team should pay the Authority or the Authority should pay the Cardinals based on their facility-use fee agreement using the Authority’s fiscal 2014 Annual Financial Budget report.
years 2011 through 2014 general ledgers; compared the calculated payment amounts to the amounts calculated by authority staff; and reviewed the Authority’s facility and Cactus League bond official statements for bonds issued during fiscal years 2012 and 2013.

- To examine the Authority’s facility management agreement, auditors reviewed the Authority’s 2004 management and preopening services agreement, and the 2009, 2010, and 2013 amendments to the preopening services agreement; the Authority’s 2011 through 2014 facility management contractor incentive fee calculations; 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. Additionally auditors reviewed the Federal Acquisition Regulation, which provides uniform policies and procedures for federal agencies’ acquisitions of goods and services and reviewed management agreements from several publicly owned, privately managed stadiums and arenas.

- To assess the appropriateness of the Authority’s planning and budgeting for facility capital improvement projects (facility projects), auditors reviewed facility project contracts, invoices, and other documents provided by the facility management contractor; board meeting minutes and exhibits; and best practices for capital improvements published by the Government Finance Officers Association. Additionally, auditors attended board meetings, and interviewed facility management contractor staff and Cardinals officials.

- To obtain information used in the Introduction section of the report, auditors reviewed the Authority’s fiscal year 2014 approved biennial and quick grant files, and various reports and documents the Authority received from the facility management contractor as part of its monitoring activities, including financial statements, consolidated event income statements, and preventative maintenance reports.

- Auditors’ work on internal controls included reviewing the Authority’s and facility’s fiscal year 2014 management letters issued by an independent certified public accounting firm and procedures followed for the Authority’s fiscal year 2014 tourism and facility-related monthly revenue distributions, including reviewing documentation for the August 2013 and June 2014 distributions. In addition, auditors reviewed board meeting minutes and exhibits, facility project contracts and invoices, other documents provided by the facility management contractor, and attended board meetings. Auditors’ conclusions on internal control are reported in Findings 1, 2, and 4 of the report.


2 Management agreement dated as of June 25, 2012, between the Alameda County Coliseum Authority and AEG Management Oakland, LLC and facilities management contract dated as of April 1, 2013, between the City of Jacksonville and SMG.

August 26, 2015

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

RE: 2015 Performance 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 (the “Authority”) we appreciate the opportunity to respond to the 2015 Performance Audit of the Authority. We commend the professionalism, diligence and hard work of the staff of the Auditor General that we have had the pleasure to work with in the last year.

We are pleased with the overall conclusions of the Performance Audit.

Thank you again for the opportunity to respond to this Performance Audit report.

The response to each of the recommendations by the Authority is attached.

Sincerely,

Tom Sadler  
President/CEO

cc: David Eberhart, 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 – 2015 Performance Audit

Finding 1  
Authority’s tourism revenues are insufficient to fund all statutorily designated priorities  

Authority Response  

The Authority has fully funded all of its statutory obligations as permitted by the receipt of its dedicated tax revenues, over which it has no control.  

Over the time frame of this performance audit, the Authority has distributed a total of $96,505,000 in tax revenues, including the following: Senior Bonds Debt Service: $34,710,000; Tourism Promotion: $25,869,000; Subordinate Bonds Debt Service: $13,248,000; Cactus League Promotions: $4,074,000; Youth and Amateur Sports: $3,643,000; and Youth and Amateur Sports Reserve.  

The majority of the Authority’s revenue sources (approximately 90%), come from a variety of sales taxes, income taxes, hotel bed taxes and car rental surcharges. These revenue sources have not kept pace with the original projections when our enabling act was passed by the Legislature. Compounding this fact has been the extreme economic recession that impacted tourism over the last eight years. The Authority felt the impact of the economic downturn, but that impact was 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 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." Page 28.

Unfortunately, what the Auditor General forecasted in that first performance audit has become reality for the Authority. Not surprisingly, given that all of the revenue sources originally available to the Authority were considered when crafting the funding of the waterfall, the impact of the elimination of the statutory minimum on the Authority's sources of revenues has reduced the likelihood that the Authority can fund all of the statutorily designated priorities each month.

Recommendation 1.1  
The Board should take an active role in addressing the issue of insufficient tourism revenue for funding monthly distributions by taking the following actions:
a. Working with authority staff to identify and study various options for addressing the issue; including determining the potential financial impact to each statutory priority for each option;

b. Working with stakeholders and the Legislature to identify which options would be feasible; and

c. Clearly communicating to the Legislature and stakeholders the financial impacts to each funding priority for any recommended options.

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

Recommendation 1.2
To help ensure that its distribution of tourism revenues is consistent with current statutory requirements, the Authority should:

a. Work with its legal counsel to determine if it can legally correct the errors this report has identified in the Authority’s prior distributions and then act accordingly; and

b. Hire an outside contractor to annually review its monthly revenue distributions, including conducting work to determine if the amounts distributed were consistent with its statutory requirements.

Authority Response
The finding of the Auditor General is agreed to and the audit recommendation has been implemented. The Authority has initiated a practice to have the facility management firm review and sign-off on their review of the calculations on a monthly basis. Additionally, the independent financial auditor will review these monthly calculations as part of the annual financial audit of the Authority and include a summary of their review and findings in their report-out to the Authority’s Board during their presentation of their audit opinion.

Finding 2
Authority may face challenges funding future operations

Authority Response
The Authority agrees with the Auditor General’s conclusion that, to the extent the expenses of the Authority are increased without offsetting revenue increases, the Authority will face challenges funding future operations.

Recommendation 2.1
In order to ensure that it complies with its FUF agreement with the Cardinals, the Authority should:

a. Consult with its legal counsel and work with the Cardinals to determine the correct amount of any required payments between the two parties for fiscal years 2011 through 2014;

b. Continue to conduct the calculations as required by the FUF agreement to determine any future payments between the two parties, including any payments from the Authority to the Cardinals; and
c. Hire an outside contractor to annually review its calculations related to the FUF agreement to identify potential errors.

Authority Response

2.1 a. The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Authority has worked with legal counsel to prepare a simplified procedure to be followed pursuant to the FUF agreement.

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

2.1 c. The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Authority has initiated a practice to have the facility management firm review and sign-off on the calculations each year at the time the calculations are performed. Additionally, the independent financial auditor will review the calculations as part of their annual financial audit of the Authority and include a summary of their review and findings in their report-out to the Authority’s Board during their presentation of their audit opinion.

Finding 3
Authority should consider various options for improving facility management agreement

Authority Response

The Authority agrees with the conclusion of the Auditor General that the Authority should consider all options to obtaining the best management agreement possible. The Authority has already engaged in that endeavor, by contracting with an expert in the field of stadium management, to help guide the Authority in the process of setting forth the requirements, procuring and evaluating bids and selecting a stadium manager. The Authority is considering ways to encourage and incentivize the need to balance the desire to control costs, increase revenues and maintain a state-of-the-art facility for events. The Authority also agrees with the Auditor General’s finding that, notwithstanding what might be considered the best economic deal for the Authority, the management agreement will have to be compliant with IRS regulations.

Recommendation 3.1
The Authority should consider various options for improving its facility management agreement as follows:

a. If the Authority chooses to enter an agreement with a fixed price for any services, whether the agreement is a fixed-price agreement or an agreement with a mixture of a fixed-price and cost-reimbursement components, it should take additional steps to design an effective agreement, including:

- Increasing performance incentives to compensate the facility management contractor for assuming more risk;
- Incorporating incentives and/or disincentives for nonfinancial performance in its agreement; and
- Including its subjective fee evaluations to be completed by the Cardinals and the Fiesta Bowl to help determine a performance-based incentive fee.
b. If the Authority chooses to enter an agreement with cost reimbursement for any services, whether the agreement is a cost the agreement is a cost-reimbursement agreement or an agreement with a mixture of a fixed-price and cost-reimbursement components, it should take additional steps to appropriately design and oversee an effective agreement, including:

- Enhancing its oversight of the facility management contractor’s expenses;
- Including a revenue guarantee that meets the Authority’s needs; and
- Better aligning facility revenue and expenses in the facility’s annual budget.

**Authority Response**

*The finding of the Auditor General is agreed to and the audit recommendation has been implemented. The Authority implemented this process prior to the release of this report by retaining the stadium management expert.*

**Recommendation 3.2**

The Authority should work with its consultant to procure and negotiate the most beneficial agreement possible by:

a. Designing the agreement to help ensure that the Authority’s facility-related revenues can pay for its administrative and operational expenses;

b. Incorporating into the agreement and/or establishing sufficient mechanisms to adequately oversee its facility management contractor and ensure that the Authority is receiving the highest quality service for the lowest possible costs; and

c. Ensuring the agreement is consistent with any of the Authority’s other agreements.

**Authority Response**

*The finding of the Auditor General is agreed to and the audit recommendation has been implemented. The Authority implemented this process prior to the release of this report by retaining the stadium management expert and working with its legal counsel.*

**Recommendation 3.3**

The Authority should work with its legal counsel to ensure that the new agreement complies with IRS regulations for tax-exempt facilities.

**Authority Response**

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

**Finding 4**

Authority should improve its facility capital improvement practices

**Authority Response**

*The Authority agrees with the Auditor General’s finding and has already implemented many improvements. The Authority just recently had the money to invest in necessary capital improvements and, given that the facility is a relatively new building, saw the need for such improvements. We agree that is a prudent management technique to provide for a long range plan of these expenditures.*
Recommendation 4.1
To help ensure the sustainability and viability of the facility, the Authority and its Board should develop and implement capital planning policies and procedures that include:

a. A clear definition of what constitutes a capital improvement project, including but not limited to significant capital maintenance projects;

b. Provisions for the Board’s monitoring and oversight of capital improvements planning and budgeting to help ensure a clear decision-making process, including a description of how the Board will prioritize and approve projects, and a description of the roles and responsibilities in the process for authority staff, the facility management contractor and facility tenants;

c. Provisions for developing a multiyear capital improvement plan (capital plan) covering a period of at least 3 to 5 years that clearly identifies capital and major equipment needs, maintenance requirements, funding options, and operating budget impacts; and

d. Provisions for developing a capital improvements budget as part of its annual budget process using the information in the capital plan to help separately budget and track capital projects. The budget should include a schedule for completing each project, including specific project phases, estimated funding requirements for the upcoming year(s), and planned timing for acquisition, design, and construction activities.

Authority Response
The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Authority has already implemented this recommendation in part, as noted by the Auditor General.
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