

TSA Open Meetings & Open Houses for November & December 2001

November 14 – Board Meeting
 November 29 – Board Meeting
 December 7 – Local Leaders Forum
 December 19 – Open House (East Valley)
 December 21 – Board Meeting

SUMMARY

- Financial Overview
- Bond Update
- New Site Selection Process
- TSA Accountability
- Lawsuit Update
- Youth Sports Update
- Multipurpose Facility Design Update

FINANCIAL OVERVIEW

Year to Date Revenues – The terrorist attacks of September 11th had a dramatic effect on Arizona’s economy that was already in a slump. Tourism, Arizona’s #1 industry, has been especially hit hard and the result shows in our significantly lower-than-expected revenues thus far in fiscal year 2002.

	December 2001 (in millions)			
	Actual	Budget	\$ Chg.	% Chg.
Hotel Bed Tax	\$ 0.8	1.1	\$(0.3)	(27.2)%
Car Rental Surcharge	0.5	0.7	(0.2)	(25.5)%
NFL Income Tax	0.4	0.4	-	0.0%
Sales Tax Recapture	-	0.2	(0.2)	(100.0)%
Total	\$ 1.7	\$ 2.4	\$(0.7)	(28.6)%

	FYTD:December 2001 (in millions)			
	Actual	Budget	\$ Chg.	% Chg.
Hotel Bed Tax	\$ 3.7	\$ 4.5	\$(0.8)	(18.5)%
Car Rental Surcharge	2.7	3.8	(1.0)	(26.9)%
NFL Income Tax	2.2	2.2	-	0.0%
Sales Tax Recapture	0.6	0.6	-	0.0%
Total	\$ 9.3	\$ 11.1	\$(1.8)	(16.3)%

The reduction in fiscal year-to-date revenues directly affects the TSA’s operations. Our ability to adjust to a dramatic drop in revenues in the very short-term results from two factors. The first is that our revenue forecasts are based on conservative projections. This approach will allow us to absorb up to a 30% reduction in revenues the current fiscal year, while still meeting our statutorily defined financial obligations. The second factor is the John F. Long lawsuit, which has prevented the TSA from issuing multipurpose facility bonds. Without issuing bonds, we do not have the resulting bond debt service to reserve for in the short-

term. Assuming a positive resolution of the lawsuit in favor of the TSA, we will be able to issue bonds. It will be critical that the economy continue its return to health over the next 12 months. This rebound will stimulate tourism and therefore bring our tourism tax revenues back in line with our forecasts.

The economy is showing positive signs of a comeback since September, but the rise is a slow one. We do expect another below average month in December (see above). However, two October events should help to partially offset this projected deficit. The Arizona Diamondback’s played in and won the World Series and Phoenix International Raceway’s NASCAR event attracted over 85,000 visitors.

TSA Operating Budget Revisions – In light of the current state budget crisis, the Tourism and Sports Authority has undertaken a review of its adopted annual FY2002 operating budget. Every budget line item was scrutinized for potential savings. A total of \$307, 551, or 10.5%, in budget savings were identified and adopted through program and expenditure modifications. Primary areas for savings were personnel, the monthly office lease, office improvements, and travel.

BOND UPDATE

Wells Fargo/Bank One Bonds – The TSA currently has \$13.5 million in outstanding bond debt related to the original \$15 million January 18, 2001 Credit and Pledge Agreement with the bank syndicate comprised of Wells Fargo Bank and Bank One. The amount owed is divided into two separate pieces. \$12 million is for multipurpose facility design and construction purposes and the \$1.5 million balance is for TSA operations.

On October 1, 2001 the TSA repaid \$1.5 million on the operating liability. On December 31, 2001 the TSA is prepared to repay the \$1.5 million operating loan balance and \$2 million of the multipurpose facility liability. Once the multipurpose facility bonds are issued, the entire balance will be repaid from the bond’s proceeds. Until the bonds are issued, the repayment schedule with the bank syndicate indicates that a \$5 million payment will be required on both June 30, 2002 and December 31, 2002 which will retire all bond indebtedness currently owed by the TSA.

Cactus League Bonds – The John F. Long lawsuit effectively precluded the Tourism and Sports Authority from issuing Cactus League bonds prior to the October 31, 2001 deadline per the intergovernmental agreement (IGA) with the City of Surprise. In May 2001 the TSA agreed to provide up to \$26 million in capital funding for the two-team spring training facility – with the City of Surprise paying the remaining \$22 million of the \$48 million project.

The obvious implications of this lawsuit and the TSA’s inability to issue bonds are significant and far-

reaching for the City, the two Major League Baseball teams – the Texas Rangers and the Kansas City Royals– and for the future of spring training baseball in the Valley of the Sun.

- The City of Surprise will run out of earmarked funds for this project in late-February.
- The City’s agreements with the Rangers and Royals stipulate that portions of this dual-team sports facility would be made available to them beginning in the summer of 2002.
- The Rangers and the Royals will be homeless in 2003 and absolutely require that this facility be finished per the original terms of their respective agreements with the City of Surprise.

In order to provide financial assistance to this project, the Tourism and Sports Authority’s board of directors, unanimously agreed in November 2001 to amend the May 21, 2001 IGA with the City of Surprise as follows:

- All monies held in reserve in the TSA’s Cactus League Promotion Account would be made available to the City of Surprise until such time the bonds are issued;
- Until the bonds are issued, the TSA will provide the monthly statutory amount of \$250,000 to the City of Surprise;
- Once bonds are issued, all amounts forwarded from the Cactus League Promotion Account will be repaid to the TSA from the bond’s net proceeds.

On December 17, 2001 the TSA instructed its bank to forward a total of \$1,757,197.49 to the City of Surprise/TSA Construction account. This includes seven month’s of monthly distributions plus accumulated interest.

The Tourism and Sports Authority continues to explore additional remedies for the City of Surprise to keep this project on schedule.

Multipurpose Facility Bonds – The TSA has also been unable to issue additional bonds for the TSA/Arizona Cardinals’ multipurpose facility due to the pending John F. Long legal action. We have been advised by our legal team that until the Arizona State Supreme Court has rendered an opinion in this case or until John F. Long definitively drops his action against the TSA bonds cannot be sold.

The effect upon this project is similar to that of the City of Surprise project. It is severely limiting our ability to continue forward with the design/pre-construction phase while we move through the renewed site selection process. Furthermore, municipal bond interest rates have risen a 1/4–point since the Long lawsuit was filed and may continue to rise throughout 2002.

Funding Priorities – The Tourism and Sports Authority is obligated to distribute the revenues received into the Tourism Revenue Clearing and Facility Revenue Clearing accounts per the statutory requirements set forth in sections 5-834 and 5-835 of Senate Bill 1220.

[See final page of report for diagram]

NEW SITE SELECTION PROCESS

After the FAA issued its long-awaited final report on the proposed Tempe site, the TSA moved quickly to abandon the site and to initiate a new site selection process. We immediately focused on a new site selection process that is open, deliberate, understood, and results in a site that the community can rally around.

The first step was the call for “expressions of interest” (EOI’s), which was made on November 28, 2001. EOI requirements were simple. They included the location, amount of acreage, ownership of the acreage, availability, and an acknowledgement on the part of the applicant that the local site host is responsible for covering the costs “outside the dripline” of the new multipurpose stadium facility, such as land, infrastructure, and parking. As of the Friday, December 14 deadline, the TSA received 18 EOI’s from all areas of the county (a listing of the sites and the new site selection process can be found at our website: www.az-tsa.com).

The next steps in the process included an Open House on Wednesday, December 19, from 7-9 p.m. at Scottsdale Community College. Representatives from the various site proposers were available to extol the virtues of their site and to answer questions. The public was asked to give their feedback on site selection at the conclusion of the meeting.

Friday, December 21, the TSA Board of Directors met to further refine the site selection timetable and to review the EOI’s, with the purpose of paring back the number of sites to be invited to respond to a detailed “request for proposals” from the TSA. The TSA Board received a report on the “constructability” of each site from the TSA’s Constructability Assessment Team. This team of technical experts gave its unanimous recommendation to move forward with 7 sites and gave a mixed review to 4 others. After hearing from several of the site proposers, the TSA Board voted to extend formal RFP’s to a total of 10 sites.

According to our tentative site selection timetable, RFP instructions were sent to the approved sites on December 21, 2001, with roughly two months for the site hosts to respond. The TSA staff and consultants will assist communities as requested in the timely completion of their responses. On January 8, a mandatory pre-proposal conference will be held to answer questions and hear concerns regarding the new site selection process.

The Deadline for responding to the RFP has been tentatively set as Monday, February 11, 2002. Thereafter, the TSA Board of Directors will take until March 1 to review these responses, hold at least one public meeting and an Open House for public input, and vote to select 2 or 3 finalists. Another couple of weeks will be spent negotiating the terms of a Binding Memorandum of Understanding (MOU) between the TSA and each finalist, which must be honored for at least 90 days (so that if any insurmountable complication arises with the winning site, the Board can turn to the runner-up). Under this tentative timetable, the TSA Board will then select the winning site on March 15 or three months from now.

With a binding MOU in hand, the TSA can make necessary site specific design changes to the multipurpose facility, while completing a development

and disposition agreement with the site host over a 4-6 week period. It is anticipated that construction could begin by May 1, 2002. This schedule appears to work for all sites with the possible exception of Phoenix. If Phoenix determines a need for a special election in May, it could give preliminary approval in late February and final approval in late March. The tentative TSA timetable will let Phoenix know whether it has a "finalist site" in time to call for a special election if needed.

TSA ACCOUNTABILITY

Audit—By law, the TSA must produce an annual financial audit, and every ten years, be subject to a program audit similar to that performed for state agencies as part of the sunset review process. Even though the TSA is a municipal corporation and not a state agency, in this case, it is treated like one for audit purposes. The first TSA financial audit will be released shortly, for the fiscal year ended June 30, 2001. The audit was performed by Ernst & Young and will be forwarded to the Legislative Auditor General for their review.

Gift Law—By law, the Board of Directors and employees of the TSA are subject to the same gift law as are legislators and state employees. The TSA statute (Ch.372, L2000) may need updating to conform with any changes made since its enactment.

Open Meetings—The TSA Board of Directors is subject to the same open meetings law as other public bodies. In fact, since their appointment and inaugural meeting in July 2000, the TSA Board has had 27 meetings and all have been open to the public. Meeting agendas and minutes can be found at our website at www.az-tsa.com/archives.htm.

Monthly Report—The TSA produces a monthly report to the Legislature and Governor that is sent electronically to everyone on our e-mail list and can be found at www.az-tsa.com.

Volunteer Board Members—The TSA Board of Directors were appointed by the Governor (5), the Speaker of the House (2), and the President of the Senate (2). They drew lots for staggered terms in accordance with the law; three members have 3 year terms, three members have 4 year terms, and three have 5 year terms. The Board elected its Chairman, James Grogan of Scottsdale and its Treasurer, Rod Williams of Glendale. Board members are unpaid volunteers. While Board members are eligible for per diem payments (\$30 per day) in accordance with state law, none have requested per diem payments. The Chairman and some Board members have given 10-15 hours per week on TSA business, purely as public service. Board member bio's can be found at www.az-tsa.com/board.htm.

Website—To help keep the public informed of TSA activities, the TSA maintains an extensive website, www.az-tsa.com. The website is in the process of a substantial upgrade anticipated to be completed by January 2002.

LAWSUIT UPDATE

On November 6, 2001, Judge Mark Santana ruled in favor of the TSA with respect to the John F. Long lawsuit. Judge Santana ruled that the TSA statute (SB1220) is constitutional. Furthermore, the Judge ruled that the Doctrine of Laches does apply in this case, and

that Long has simply taken too long to come forward with his lawsuit and as a result, there would be too much prejudice and harm to the defendants were Long to prevail.

On November 21, 2001, on the last possible day, Mr. Long moved for a new trial arguing that the FAA determination that the Tempe stadium site is a hazard to air navigation meant that the laches argument should have failed. After oral arguments on December 11, Judge Santana denied the Long motion. Unfortunately, this legal maneuvering gave Mr. Long an additional 30 days after the filing of the Judge's decision in which to file an appeal, or about January 14.

The TSA has asked Mr. Long to drop his lawsuit not for the sake of the TSA/Cardinals Multipurpose Facility, but rather for the sake of the City of Surprise. As mentioned earlier in this report, the Long suit is beginning to affect the pace of construction of the two-team cactus league facility in Surprise. The TSA is investigating every possible means of honoring our commitment to get \$26 million to the City of Surprise, but are finding our options to be very limited.

If Mr. Long is unwilling to drop his lawsuit, the TSA would simply ask him to get on with the suit. Had Mr. Long immediately appealed Judge Santana's November 6th decision (as we prospectively asked him to do in late October), our case would be before the Supreme Court today, and likely decided by the end of January. Instead, if he continues to take advantage of every court-provided opportunity for delay, this case could still be before the Court in April, if not later.

YOUTH & AMATEUR SPORTS (YAS) FACILITIES UPDATE

The Long lawsuit is beginning to cast a pall over youth facilities as well. Until this case is resolved, the TSA is reluctant to approve additional grants. As it is, the TSA has already approved two awards: 1) a \$150,000 grant to the South Mountain YMCA toward a \$900,000 athletic fields project; and 2) \$3.4 million toward a major regional youth sports complex in Avondale.

Given that the annual allotment of TSA dollars for Youth & Amateur Sports is statutorily set at \$1,000,000 per year, growing by \$100,000 annually, it is critical that these dollars be well managed. The Avondale project will be leveraged by the TSA committing 25% of its Youth & Amateur Sports allotment over the next 12 years, and by the City of Avondale "fronting" these monies for the project and then being repaid over the 12 year period with interest. (The TSA may not issue bonds for Youth and Amateur Sports facilities).

TSA/CARDINALS MULTIPURPOSE FACILITY DESIGN UPDATE

The design team has focused recent efforts on critical decisions that will clarify owner preferences in key building areas. Highlights of these meetings include the following.

Food Service Review – Hunt's food service consultant, Cini Little, and the selected provider, Volume Services, met to resolve issues related to the concession equipment budget, point of sale locations, beer

distribution system, waste disposal, electric power, and commissary/pantry/buffet locations.

Plumbing and HVAC System Review –

Mechanical subcontractor TD Industries and the design team reviewed the building’s mechanical and plumbing systems as currently designed. In particular, we asked for more efficiency and better zoned climate control in the club atriums, administrative offices, suites, and trade show floor.

Facade System Review –

The design team met with Crown Corr, Inc. to finalize the building exterior wall panel system and support structure, and the connections with glass and Bird Air Fabric. The interplay of the building’s enclosure system and the architectural theme desired for the building is an active process due to the curvatures and constructability issues. From an owner standpoint, we shared our concern for water tightness/testing, dust/rust control, and durability/maintenance.

Electrical Systems Review –

The design team met with three electrical subcontractors regarding the project scope and requirements for power distribution. We shared our preferences for local labor and disadvantaged business participation.

Upcoming meetings will address the removable field and scoreboard/video designs.

TSA Open Meetings Scheduled for January 2002
January 8 – Pre-Proposal Meeting 8:00am, TSA Board Room
January 16 – Board Meeting 6:00pm, Midwestern University
January 16 – Open House 7:00pm, Midwestern University

FUNDING PRIORITIES
(CONTINUED FROM ABOVE)

Tourism and Sports Authority
Flow of Funds
Tourism Revenue Clearing Account (TRCA) and
Facility Revenue Clearing Account (FRCA)

Item	Priority	TRCA	FRCA
Revenues			
Hotel Bed Tax	-	100%	
Car Rental Surcharge	-	100%	
NFL Franchise Tax	-		100%
Sales Tax Recapture	-		100%
Other Events	-		100%
Fiesta Bowl Ticket Surchg			100%
AZ Cardinals Rent			100%
Distributions			
Senior Bonds	1	<u>Debt Service</u> on bonds issued for \$165M of MPF construction costs	
Senior Bonds	2		<u>Debt Service</u> on bonds not covered in Priority 1
Tourism Promotion	3	Per Senate Bill 1220	
Subordinate Bonds	4	<u>Debt Service</u> on bonds up to statutorily scheduled Cactus League Promotion Distribution	
Subordinate Bonds	5		<u>Debt Service</u> on bonds not covered in Priority 4
Cactus League Promotion	6	Statutory amount less distributions from Priority 4	
Operating Expenses	7	Per annual adopted TSA budget	
Youth & Amateur Sports	8	Per Senate Bill 1220	
Operating Reserves	9	All remaining amounts	All remaining amounts

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