

**SUMMARY**

**A Year in Review 2002** – What a Difference a Year can make for the TSA

**Looking Ahead in 2003** – Green Light for all Projects

**State Education Fund gets Boost from TSA Programs**

**Financial Overview** – December revenues fall slightly short of budget

**AYEAR IN REVIEW 2002**

The year 2002 was the most challenging and the most successful in the short history of the Tourism and Sports Authority since its formation following voter approved Prop. 302 in Nov. of 2000.

The authority was faced with a second round of site selection candidates, the continuation of a 15-month lawsuit by John F. Long, and a 20% decline in tourism revenues after the Sept. 11 terrorist attacks. In addition, the state legislature entertained several bills that dictated where the stadium would go, put the stadium question back on the November ballot, or eliminated the authority altogether.

Through the adversity, the all-volunteer group of citizens that make up the TSA Board of Directors and the small professional staff successfully managed challenges for projects which will leave a legacy of economic benefits to the state.

Those projects included a new Cactus League facility, the final site for the Multipurpose Facility and two Youth and Amateur Sports projects.

**John F. Long Lawsuit** –The biggest obstacle overcome was the continual legal maneuverings by John F. Long aimed at eliminating the authority and its programs.

A series of legal actions by Long over a 15-month period were finally terminated by the Arizona Supreme Court when, on Dec. 3, it refused to hear Long's petition claiming that the original legislation that created the TSA was unconstitutional.

The court's ruling supported earlier court rulings in which Long's case was defeated again and again with no dissenting votes. The constitutionality of the TSA was confirmed by the State Attorney General, the Arizona Superior Court and the Arizona Court of Appeals.

The ruling cleared the way for the construction of a new \$355 million multipurpose stadium facility which, when combined with related infrastructure improvements, will total more than \$400 million, generate 3,500 new, high-paying construction jobs and will reduce the state's budget deficit by \$20 million over the next 3 years.

**City of Surprise Cactus League Spring Training facility** – The Supreme Court's decision rewarded the confidence of the Mayor and City Council of the City of Surprise that 18-months earlier had forged ahead with construction of a new 10,560-seat Surprise Stadium and related spring training facilities. The new facilities were officially dedicated on December 7<sup>th</sup>.

The stadium is the new Spring Training home of the Kansas City Royals and the Texas Rangers, who are leaving Florida's Grapefruit League for the Cactus League.



*Overall view of the new Surprise Cactus League Stadium*

The two teams will kick off the exhibition season with a charity game on Thursday, Feb. 27. The Texas Rangers will play 18 of their 29 Cactus League games at the Surprise Recreation Campus; the Kansas City Royals will play 17 of their 30 games in Surprise.

With the addition of these two teams, Arizona is now the spring training home to 12 of Major League Baseball's 30 teams.

When the TSA issues Cactus League bonds in late January, we will forward over \$27 million to complete our two-thirds funding (\$32 million) for this \$48 million facility.

**The TSA/Cardinals Multipurpose Facility** – Glendale was chosen as the new home of the Arizona Cardinals, the Fiesta Bowl, future Super Bowls, and NCAA Final-Four Championships, as well as other events to be held in the Multipurpose Facility.

The TSA Board of Directors voted 7-1 on August 29<sup>th</sup> naming Glendale as the site for the stadium which will be on 180-acres adjacent to and directly south of the Coyotes Arena project currently under construction.

The Glendale site was recommended by the TSA because it offered a superior proposal, a stronger financial plan, and fewer contingencies than the Mesa site located at the Loop 202 and Dobson Road. The Mesa site was subsequently rejected at a September 10th citizen's referendum.

The synergy with the neighboring Coyotes Arena and planned retail development will create a sports and entertainment megaplex that will be a magnet for economic growth and tourism to the county. The current planned development surrounding the Coyotes Arena will include up to six million square feet of space for shops, restaurants, hotels, cinema, office, residential and major retail establishments.

On September 5<sup>th</sup>, the TSA delivered the signed and fully executed agreements for the Multipurpose Facility to both the Governor and the Attorney General's office, satisfying the legislative requirement to meet a September 12<sup>th</sup> deadline. By delivering the agreements 10 days early, the TSA avoided incurring election expenses that could have amounted to as much as \$600,000.

Also, on September 3<sup>rd</sup> the authority and the Arizona Cardinals executed an agreement which should prove advantageous for the citizens of Maricopa County. The Authority Board of Directors voted 8-0 to approve a memorandum of understanding which puts a "hard cap" on the cost of the Multipurpose Facility at \$355.5 million and provides that the Arizona Cardinals will contribute the \$24.3 million difference from the original estimate of \$331 million to the extent the Authority cannot through its own revenues. The agreement also makes the Cardinals responsible for any project cost overruns that are not the responsibility of the stadium builder.

The agreement was negotiated by TSA Board members John Benton and Herman Orcutt and stipulates that the public contribution to the project remains a minimum of \$246 million. The Cardinals' potential contribution could increase from \$85 million to as much as \$109.3 million.

With their purchase of the land for the Glendale site, the Cardinals' total commitment to the project could approach \$133 million – far above the average of \$54 million contribution by NFL teams for other stadium projects around the country.

**Southwest Regional Youth and Amateur Sports Complex** – The TSA Board on Sept. 28 approved \$3.4 million toward the development of a regional Sports Complex in Avondale. The complex will feature a dozen multipurpose fields as well as a number of lit softball fields. The size and multiplicity of fields at the facility are important for generating tourism dollars because complexes of this size are used by teams and associations to host regional and national tournaments drawing participants from out of state.

The remaining funds for developing the \$5.5 million complex are being provided by the City of Avondale.

**South Mountain YMCA Youth Sports Projects** – On a smaller scale, on May 21, the TSA board approved \$150,000 toward the development of a multi purpose sports field complex for the South Mountain YMCA. The organization is using the initial grant as "seed money" to privately raise the remaining funds for the \$1 million project.

## **LOOKING AHEAD IN 2003**

**Multipurpose Facility** – The most visible project to be started this year will be the Multipurpose Facility. A construction schedule is planned that will span between 33 and 35 months. The start of construction and improvements to the infrastructure by Glendale is anticipated to occur in the early spring following the Cardinals' completion of the land purchase from the Rovey and the Pendergast families.

**Construction Bonds** – With the specter of the Long Lawsuit complete, the authority is currently working with its investment counselors on the timing of the issuance of construction bonds. With interest rates at a historic low, it is generally seen as favorable to the authority to issue the more than \$200 million in bonds quickly. Moody's has assigned an A2 underlying rating while Fitch Ratings has assigned an A- rating which are both considered investment grade. The bonds will be insured and receive an insured AAA rating.

**Cactus League** – Following the issuance of the stadium construction bonds, the authority will market subordinate bonds for Cactus League improvements. This will generate the funds to pay the City of Surprise the remaining \$27 million for their new stadium (this is money owed to the city that was unable to be forwarded initially because of the Long Lawsuit).

It will also generate the money necessary to fund refurbishment efforts at Phoenix Municipal Stadium. The project will begin in April of this year so that it can be completed by the end of the Oakland Athletics' lease, which is due in 2004.

Next in line for funds for modernization and upgrading will be two East Valley projects: Tempe Diablo Stadium (home of the World Champion Anaheim Angels) and then Scottsdale Giant's Stadium.

**Youth and Amateur Sports** – The Youth & Amateur Sports account has been fully funded, despite the slowdown in revenues from tourism. The Youth and Amateur Sports account is funded at \$1 million the first year, increasing by \$100,000 each subsequent year. All told, there will be \$73.5 million available for funding youth and amateur and recreation facilities over the next 30 years.

A well known Valley sports figure, Steve Patterson, is assisting the TSA in this regard. With the help of an advisory committee made of professional and volunteer recreation and sports experts, Patterson has embarked on a county-wide facility utilization survey which cuts across all municipal, county, and private lines. For the first time ever, there will be a comprehensive picture showing the greatest needs for facilities versus the physical location of facilities. This program will help the TSA board of directors better evaluate proposals vs. the growth in the Valley.

The TSA is currently putting together a Youth and Amateur Sports Summit to be held on February 7<sup>th</sup>, which will feature some of the nation's most knowledgeable and accomplished authorities in this area. These experts will share knowledge and information on how individual programs can partner to create synergy and offer technical assistance in identifying and developing funding sources.

**Financial and Tourism Outlook** – All of the TSA programs were fully funded in 2002 despite the bleak economy and the devastating hit lingering from Sept. 11. During the first 6 months of the fiscal year (July 2002 through Dec. 2002), revenue from tourism taxes were nearly 10% higher than the first 6 months of the prior year. Continued signals from the economy indicate there is a case for cautious optimism in this area (see related story under “Financial Overview”).

**STATE EDUCATION FUND GETS BOOST FROM TSA PROGRAMS**

While not everyone can agree on how to reduce the state’s budget deficit for 2004, everyone agrees that education is an important part of the state’s future. When the citizens approved Prop. 302 two years ago they set up a unique combination of projects which will contribute \$30-50 million per year over the next 30 years to the state’s general fund – 60% of which goes to education.

The Multipurpose Facility being built in Glendale is a large contributor to the state’s education fund. During the construction phase, taxes from the project will give \$1.4 million directly to the education fund. And, over the life of the stadium, \$14.9 million will be generated for the education fund from events held at the facility.

The programs born from Prop 302 clearly make money for the state. When the first shovel of dirt is turned this year at the new site in Glendale for the TSA/Cardinals Multipurpose Facility, the state economic picture will get a much-needed boost.

The construction of the facility will last three years and will create 3,500 high-paying jobs -- jobs that are desperately needed at a time when Arizona is facing a billion dollar budget deficit.

The direct construction spending alone will generate roughly \$400 million in economic activity in Maricopa County. And the state will start receiving revenues from construction workers’ income taxes, taxes on construction purchases here in the state as well as sales taxes collected on the increased consumption and spending from the workers and their families.

The Arizona State general fund will net \$20 million during the construction period alone.

The stadium (MPF) is being funded over 30 years, from annual revenues that are initially \$22 million. The stadium is largely paid for by out-of-town visitors, through higher tourism taxes, and the Arizona Cardinals.

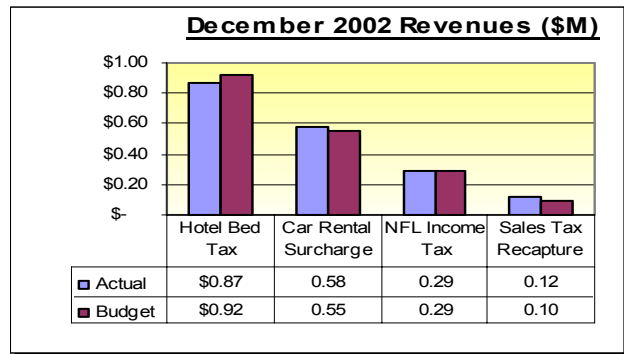
The tourism industry, in effect, agreed to tax itself because it sees the huge benefits in promoting the economic engines of Prop. 302.

The recent Fiesta Bowl shows the power of this economic engine. The recent National Championship game contributed \$142 million in positive impact to the area. In addition, each Super Bowl held in the stadium contributes more than \$300 million to the Valley. The Cactus League is estimated to contribute \$250 million each year to the local economy.

In total, programs created by Prop. 302 are going to create a positive annual economic impact averaging \$1.95 billion over the next 30 years.

**FINANCIAL OVERVIEW**

**Sources** – The following chart provides our actual v. budgeted December 2002 performance which reflects October’s sales activity:



On a combined basis, the **tourism revenues** for December were down slightly for the period – a total of \$28,749 or 2.0% under budget. The **hotel bed tax** was below budget by \$54,442 or (5.9%) while the **car rental surcharge** revenues displayed another positive performance by exceeding our projections by a total of \$25,693, or 4.7%.

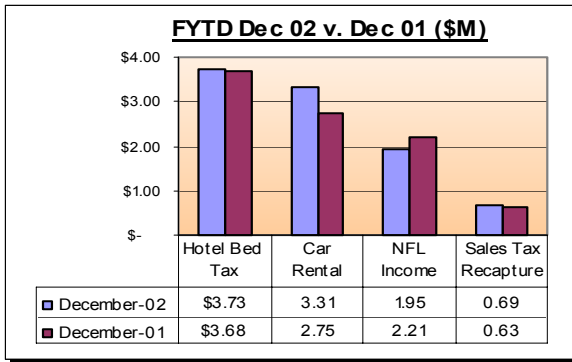
On a fiscal YTD basis, the tourism revenues continue to outperform our projections by \$223,332, or 3.3%. A recent tourism article in the Arizona Republic provided information that this all-important Arizona industry is experiencing a rebound which will hopefully eclipse the year 2002’s performance. Revenue figures for the first six months of the current fiscal year note that the Authority’s combined tourism revenues are up 9.6%, \$615,587, over the same period one year ago. A hopeful sign that tourism revenues are on their way to returning to pre-September 11<sup>th</sup> levels over the course of this and the next fiscal years.

The **NFL income tax** for the current month reflects the second of four months’ worth of adjustments to account for the correction issued by the Arizona Department of Revenue (refer to the October 2002 Monthly Report). The adjusted amount to be received for FY2003 will be the guaranteed statutory minimum of \$3,784,320. Over the next four months the Authority will receive a lower monthly amount to account for the overage received during July – October 2002. During the final four months of this fiscal year we will receive the monthly amount of \$315,360 (annualized it equals the statutory minimum).

In December we received \$120,298 in **state sales tax recapture** revenues which represents the sales activity from the Arizona Cardinals’ home game vs. the Dallas Cowboys in October with the season’s highest single game attendance of over 59,000. For the first six months of this fiscal year we have received a total of \$694,942 in sales tax recapture revenues. This represents sales from the first five home games (there are a total of ten home games including pre-season (2) and regular season (8)). The total attendance for these five games represents approximately 47% of the total attendance for the entire season. If our per capita spending estimates for tickets and concessions continue to hold, we believe that there is a strong possibility that we will exceed our revenue projections of \$979,471 for

the fiscal year. The final receipt for these revenues should be in February 2003.

The next chart provides a fiscal year-to-date comparison for the months of December 2002 v. December 2001:



We are pleased to continue to report that this year's performance from all revenue sources is better by \$146,182, or 8.6%, on a monthly basis and by \$418,221, or 4.5%, on a fiscal YTD basis. The results are even better when comparing just the tourism tax revenues. On a monthly basis this year's results are \$108,487, or 8.1%, better and \$615,587, or 9.6%, improved on a YTD basis.

**Tourism** – For FY2003 the Authority has been instructed by the state legislature to split the monthly statutory distribution of \$350,000. Over the course of this fiscal year, the Authority will pay a total of \$2.0 million to the Arizona Office of Tourism and \$2.2 million to the state's general fund. The Authority made these payments in November.

**Cactus League** – The scheduled monthly distribution of \$250,000 was made to the Cactus League Promotion Account with further distribution to the City of Surprise per Amendment One to the original Intergovernmental Agreement. The Authority owes a total of \$32.0 million in bond proceeds to the City of Surprise less the amount that has been forwarded since December 2001 (\$4.75 million through December 2002). We anticipate selling Authority bonds in late January to meet our remaining funding obligation to Surprise.

**Youth and Amateur Sports** – The December 2002 amount distributed to the Youth and Amateur Sports account was \$91,667.

**Bond Repayment** – The Authority made its final bond payment to Wells Fargo Bank/Bank One of \$5.0 million due on December 31, 2002. There is no outstanding balance left on these bonds.

**Audit** – The FY2002 audit received its final review and was approved unanimously at the December 12, 2002 board of director's meeting.

**Tourism & Sports Authority**  
**14500 N. Northsight Blvd., Suite 312**  
**Scottsdale, AZ 85260**  
**(480) 505-0533 Phone (480) 505-0534 Fax**  
 www.az-tsa.com

**TSA Board of Directors:**

James J. Grogan, Chairman: [jgrogan@az-tsa.com](mailto:jgrogan@az-tsa.com)  
 F. Rockne Arnett: [rarnett@az-tsa.com](mailto:rarnett@az-tsa.com)  
 John Benton: [jbenton@az-tsa.com](mailto:jbenton@az-tsa.com)  
 C.A. Howlett: [chowlett@az-tsa.com](mailto:chowlett@az-tsa.com)  
 Valarie Miceli: [vmiceli@az-tsa.com](mailto:vmiceli@az-tsa.com)  
 Herman Orcutt: [horcutt@az-tsa.com](mailto:horcutt@az-tsa.com)  
 William Peltier: [wpeltier@az-tsa.com](mailto:wpeltier@az-tsa.com)  
 Rod Williams: [rwilliams@az-tsa.com](mailto:rwilliams@az-tsa.com)

**TSA Staff:**

Ted A. Ferris, President/CEO: [tferris@az-tsa.com](mailto:tferris@az-tsa.com)  
 Kenny W. Harris, VP Facilities: [kharris@az-tsa.com](mailto:kharris@az-tsa.com)  
 Charles M. Foley, CFO: [cfoley@az-tsa.com](mailto:cfoley@az-tsa.com)  
 Brad Parker, PIO: [bparker@az-tsa.com](mailto:bparker@az-tsa.com)  
 Kim Monroe, Executive Asst.: [kmonroe@az-tsa.com](mailto:kmonroe@az-tsa.com)  
 Deb Wilson, Executive Asst.: [dwilson@az-tsa.com](mailto:dwilson@az-tsa.com)