



Issue 2002-2 MONTHLY REPORT February/March 2002

TSA Open Meetings held during February & March 2002
 February 7– Board Meeting # 30
 February 28 – Board Meeting # 31
 March 5 – Board Meeting # 32
 March 19 – Board Meeting # 33

SUMMARY

Financial Overview – Tax revenues off 17%; gradual tourism industry recovery anticipated.
Site Selection Process – County withdraws support of tribes; Legislature eyes corrective action. Discussions continue with City of Mesa on their site.
Youth and Amateur Sports – Fully Funded; Youth and Amateur Sports Town Hall held on April 18th.
Cactus League – TSA increases support for City of Surprise Cactus League project.
Long Lawsuit – Long has cost taxpayers millions in legal fees and higher bond debt service due to rising interest rates since his suit was filed 8 months ago.

FINANCIAL OVERVIEW

YTD Sources – In March 2002 we received the tourism tax and revenues from January 2002 activity.

SOURCES	FYTD: March 2002 (in millions)			
	Actual	Budget	\$ Chng	% Chng
Tax Revenues				
Hotel Bed Tax	\$ 6.09	\$ 7.73	\$ (1.64)	(21.2)%
Car Rental Surcharge	4.10	5.89	(1.78)	(30.2)%
NFL Income Tax	3.32	3.32	-	0.0%
Sales Tax Recapture	0.95	1.00	(0.05)	(5.0)%
Total Tax Revenues	\$ 14.45	\$ 17.93	\$ (3.48)	(19.4)%
Other Funding Sources				
Stadium Term Bonds	\$ 8.09	60.94	\$ (52.85)	(86.7)%
Operating Credit Line	2.00	3.00	(1.00)	(33.3)%
Arizona Cardinals	3.11	4.01	(0.90)	(22.4)%
Interest Income	0.13	3.34	(3.21)	(96.2)%
Total Other Sources	\$ 13.32	\$ 71.29	\$ (57.97)	(81.3)%
Total Sources	\$ 27.78	\$ 89.22	\$ (61.44)	(68.9)%

Tourism Revenues – We forecasted post-September 11th that our YTD January 2002 tourism revenues would be as much as 20% lower than our original budget expectations. The actual results were down 25% from our original expectations. While we remain optimistic about tourism’s overall recovery, it appears that the timing of the recovery needs to be approached very cautiously.

Hotel Bed Tax – Through last month this revenue source had reacted fairly predictably to the combined effect of the general nationwide economic downturn plus September 11th. January 2002’s disappointing activity indicates that there is further shaking out of the tourism industry to occur.

Car Rental Surcharge - We continue to review and analyze our car rental surcharge revenues which have not followed the general trend that the hotel bed tax has followed. We provided the Arizona Department of Revenue with our internal analysis that concludes that this important tax source is being under-reported. We hope to meet with ADOR soon to discuss this issue further.

Other Funding Sources – The original TSA budget did not anticipate fully drawing down on its \$15 million bank of available short-term bond proceeds during FY2002. This became a necessity as the FAA and lawsuit issues prevented us from issuing our multipurpose facility bonds in the final quarter of 2001, as planned. To date, the TSA has repaid \$2.0 million of the Stadium Term Bonds and the entire Operating Credit Line of \$3.0 million. \$10.0 million in Stadium Term Bonds will be repaid in \$5.0 million increments on June 30, 2002 and December 31, 2002. The Arizona Cardinals have been a consistent partner with the TSA in providing their one-fourth pro-rata share of the capital required for the multipurpose facility project. They are required to provide a minimum of \$85.0 million of the total project’s costs. Our interest income is below expectations due to two factors – our inability to issue bonds and the Fed funds rate cuts enacted through 2001 by the Federal Reserve which have impacted interest earnings rates.

Bond Update – No changes to report from the December 2001 Monthly Report.

Tourism continues its slow comeback in Arizona. We are currently researching further what the economic forecast holds for the Arizona economy in general and for tourism specifically. We have made inquiries for additional tourism information including data from Northern Arizona University’s Hospitality Research Center which provides information for Arizona’s Office of Tourism.

	Actual	Budget	\$ Chng	% Chng
Multipurpose Facility	\$ 11.46	\$ 55.40	\$ (43.94)	(79.3)%
Tourism	2.67	2.67	-	0.0%
Cactus League	2.51	16.50	(13.99)	(84.8)%
Y&A Sports	-	0.75	(0.75)	(100.0)%
TSA Operations				
Operations	0.89	1.49	(0.60)	(40.3)%
Legal/Professional	1.20	0.26	0.94	361.5%
Bond Repayment	5.00	5.00	-	0.0%
Total Uses	\$ 23.73	\$ 82.07	\$ (58.34)	(71.1)%
Net Sources/(Uses)	\$ 4.05	\$ 7.15	\$ (3.10)	(43.4)%
Obligated v. Unobligated				
Operating Reserves	\$ 0.53	\$ 0.53	-	0.0%
Capital Reserves	-	-	-	-
Payables	3.80		3.80	-
Bonds	-	-	-	-
Total Obligated	\$ 4.33	\$ 0.53	\$ 3.80	713.2%

YTD Uses – The following details our fiscal year-to-date expenditures through March 2002:

The current fiscal year has deviated substantially from what the TSA had anticipated when the budgets were approved by the Board of Directors last June.

Multipurpose Facility – The John F. Long lawsuit continues to impede and impair the multipurpose facility project. The lawsuit's negative effect on the project is three-fold.

1. The first negative effect is on the TSA's operating budget related to legal fees. The TSA has currently expended \$550k on legal fees defending itself against this lawsuit. In a time when tourism and its related revenues are sharply down, these additional costs place more burden on them.
2. The second negative impact is on the MPF's construction costs. Delays add to the cost of labor and materials. The result is that you either build the MPF with all of its original features for more money or you build a stripped-down version in order to save on construction costs. This has the effect of reducing future economic revenue streams due to decreased flexibility in the MPF's design and the events that can be held within the MPF.
3. The final economic blow is due to rising interest rates. The additional interest costs that the TSA will need to repay the debt service on the MPF's bonds is in the millions. Since last fall when the TSA was prepared to sell its bonds, interest rates have climbed appreciatively from their 30+ year lows adding millions of dollars in additional interest costs. Now, these dollars will have to be used to pay the bondholders rather than be used for

early retirement of the bond debt principal. This has an additional negative impact. Why? Once the bonds are repaid and the other statutory funding requirements are met including the reserves, any remaining monies are to be distributed on a 70:30 basis between tourism and Cactus League baseball.

Tourism – On the second Tuesday of every month, an amount equal to 1/12th of the \$4.0 million is disbursed to the Tourism Fund which is then electronically wired to an account for the Arizona Office of Tourism. These amounts have been fully funded and are to be used by the Arizona Office of Tourism in their marketing and promotion efforts within Maricopa County. SB1220 outlines that the base year amount of \$4.0M will be increased by 5% in each subsequent twelve month period for a total of 360 months. June 2002 will be the first month of the second twelve month period when the TSA will begin to distribute 1/12th of \$4.2M.

Cactus League – \$2.51 million has been forwarded to the City of Surprise Construction Trust Account (the "CTA") under the first amendment to our IGA with Surprise. These monies represent 100% of the amount that we have statutorily disbursed to the Cactus League Promotion Account since July 2001. We will continue to disburse the monthly amount of \$250,000 to the CTA until such time the bond proceeds are deposited to the CTA. At that time we will reimburse the Cactus League Promotion Account for the full amount provided to Surprise under the IGA's first amendment. Under the IGA's second amendment we have agreed to commit up to an additional \$6.0 million to this project up to a maximum amount of \$32 million. This is committed on a monthly basis in the amount of \$0.6 million for every month that we are unable to issue the bonds for this project. Through March 2002 we have accrued an additional \$1.8 million toward this project.

Youth and Amateur Sports – This fund receives a monthly disbursement from tourism taxes equal to 1/12th of \$1.0 million in the first twelve months. This amount is schedule to increase by \$100,000 per year thereafter. To date, the Youth and Amateur Sports account has received 100% of its funding. The TSA has approved two projects for funding from this account. The South Mountain YMCA is scheduled to receive \$150,000 during calendar year 2002 and \$3.4 million is scheduled for a regional soccer/football/youth complex in Avondale. The Avondale project will be funded over a period of 12-13 years utilizing 25% of each year's allocation for this regional youth sports complex. SB1220 outlines that the base year amount of \$1.0M will be increased by \$100,000 in each subsequent twelve month period for a total of 360 months. June 2002 will be the first month of the second twelve month period when the TSA will begin to distribute 1/12th of \$1.1M.

TSA Operations – The TSA has dealt with a number of significant and unexpected issues this fiscal year. The drop-off in tourism nationwide was felt significantly at home in Arizona. Tourism is our number one industry and one on which we are very dependent

financially. To date, we have seen a 25.1% decrease (\$3.42 million) in expected tourism revenues. The FYTD budget figure includes our \$0.3 million reduction to our original FY2002 budget total (see November/December 2001 Monthly Report).

Legal/Professional – Our legal costs are significantly greater than expected due to the combined effect of the John F. Long constitutionality lawsuit and our defense of the original Tempe site with regard to the FAA's hazard determination.

Bond Repayment – Due to the John F. Long lawsuit the TSA has been unable to issue its multipurpose facility construction bonds. These bonds were schedule to repay the outstanding stadium term bonds payable to Wells Fargo Bank and Bank One. The TSA has made all of its scheduled bond payments on time from its diminished operating revenue stream. The TSA has an additional \$5.0M due and owing as of June 30, 2002. The TSA has communicated regularly with the two banks and has given this financial commitment its top priority.

Obligated v. Unobligated – The TSA currently has \$9.33M in obligations of which \$8.8M is payable to third parties. \$3.8M is for accounts payable that represents \$3.4M for construction related activities, \$0.3M for legal/professional and \$0.1M for operating costs. \$5.0M in stadium term bonds are schedule to be repaid to Wells Fargo Bank/Bank One on June 30, 2002 and the balance of \$5.0M on December 31, 2002.

SITE SELECTION PROCESS UPDATE

On February 15, six sites provided detailed responses to the TSA's request for proposals. Subsequently, the Phoenix downtown site withdrew from consideration, when it became apparent that the City was unwilling to provide a site large enough to accommodate the stadium's basic design criteria. Essential and long-standing design features include the signature rollout field that was promised to the voters and that will make the stadium a true multipurpose facility (Other design features can be found at <http://www.az-tsa.com/multipurposeHP.htm>). The Phoenix City Council decision to not forward a site to municipal voters at the May election effectively doomed the Mashburn site as well, a promising urban "in-fill" site located north of the Loop 202 at 40th St.

On March 5th, the TSA Board picked two site finalists and a backup: 1) the City of Mesa site at the southeast corner of Loop 101/202, and 2) the Gila River Indian Community site two miles southwest of the intersection of the Loop 202 and I-10 freeways. The Fort McDowell site is in place as a backup in the event either finalist falters. On March 19th, the TSA Board heard final sales pitches from Mesa and GRIC and was set to pick the winning site on March 21st. However, on March 20th, less than 24 hours before final site selection, Maricopa County withdrew their earlier letter of support. A letter from the Chairman of the Board of Supervisors indicated that concerns about County liability and other issues raised by the County Attorney were at the heart of his decision to rescind his earlier letters of support to all competing Indian tribes.

As a result of the County's actions, and because the City of Mesa and Gila River Indian Community had both requested additional time, the TSA canceled the March 21st Board meeting and the deadline for completing site agreements. We are using this time to meet with City of Mesa officials and to finalize an agreement for their site. We are also working with the Legislature on legislation that would remove impediments to the TSA completing the site selection process: most notably, making it abundantly clear that tribal governments and other parties can be site hosts provided they can demonstrate that they have the land and sufficient financing to cover all site host's costs including infrastructure, pedestrian plaza, and parking. These changes have been incorporated into HB 2177, which would also elevate the priority of funding for youth and amateur sports, increase the frequency of TSA audits, and require a monthly report.

MPF CONSTRUCTABILITY ASSESSMENT TEAM UPDATE

The Constructability Assessment Team met with the three remaining site hosts to further understand issues related to fire and life safety code review, and soil conditions.

Mesa – Meetings with the building safety director and the plan review staff clarified that Mesa plans to use the 1997 Uniform Building Code. Stadiums are not identified in this code as a specific use, and therefore, we would expect many broad interpretations to determine is our design assumptions for exiting, fireproofing, smoke evacuation will be supported or will add additional costs. As stated before, the soil condition are very good, and will support the assumed loads without additional site host costs.

We are happy to report that the partnership between the City of Mesa and the Salt River Pima-Maricopa Indian Community (SRPMIC) has produced the framework for construction cost savings for the project. Nearly ½ million dollars could be saved by accepting an offer from SRPMIC to complete excavation and material processing/crushing work. The TSA and Hunt Construction Group are very supportive of this creative partnership.

Gila River – Meetings with the building safety director, fire department, and inspection staff clarified that the 2000 International Codes would be used on this job. Stadiums are included as a specific use in this edition, and therefore, much less subjective interpretations would be expected. The soils are weaker and would need larger foundations to support the large column weights. The site host was told that an additional \$4 to \$6 million would be required. In addition, the water table was found near 52 feet. If the filed level stayed near 24 to 26 feet as presently designed then the lowest excavations, sumps below the super columns and elevator shafts, would remain 10 to 12 feet above the water, which is good. Additional costs for excavated materials and dewatering systems add to the site host costs, if the building was lowered much further.

Fort McDowell – The host staff said it would complete the required parking/traffic studies, phase one environmental report, and related work, if they become a

serious contender. The plan review and building code assessment would be conducted by an outside company which has not been identified. A soils report was delivered for the two holes that were drilled at the proposed site. Early indication is that a combination of spread footings and drilled cassions would be used. A cost estimate has not been given to the site host yet.

YOUTH & AMATEUR SPORTS (YAS) FACILITIES UPDATE

On Thursday, April 18th the TSA hosted the *Youth & Amateur Sports Town Hall* to discuss the creation of a community based advisory committee to assist the Tourism and Sports Authority in identify important youth and amateur sports needs as part of its voter approved grant program, which will invest \$73.5 million dollars toward youth and amateur sports over the next 30 years. The meeting, which was attended by twenty-five people representing a broad cross section of youth and amateur sports stakeholders, was positively received as the first of many steps in seeking and actively engaging those “closest to the action” in helping best determine how the TSA can maximize the use of its annual funding of \$1 million per year. For the 2001 fiscal year, the TSA has received 28 grant requests, totaling \$13.6 millions dollars. Of the 28 requests, two grants have been approved, including \$150,000 to the South Mountain YMCA and \$3.43 million towards a large multiuse sports complex in the City of Avondale.

Over the course of the next several months the TSA, in partnership with interested youth and amateur sports stakeholders, will form the advisory committee and will begin putting the necessary resources in place to perform a comprehensive facility and programming assessment survey within Maricopa County to establish a current inventory of youth and amateur sports facilities, along with identifying new facilities that will be coming online in the short term (next 5 years) and long term (5 years and beyond). It was the consensus of those in attendance at the Town Hall that the TSA’s survey approach was greatly needed and would be an important tool, not only for assisting the TSA, but for all organizations that have a role in youth and amateur sports activities throughout the Valley.

CACTUS LEAGUE UPDATE

City of Surprise – The two-team Cactus League facility that will be the new home of the Kansas City Royals and Texas Rangers is over 50% complete and will be ready for the 2003 Cactus League. The Tourism and Sports Authority has not been able to issue bonds to meet our initial obligation to Surprise due to the Long lawsuit, but we continue to forward monies received at the rate of \$250,000 per month. The City is utilizing interfund borrowing in order to keep the project on track, and in exchange for that added element of risk, the TSA is increasing our financial support for the project by \$600,000 per month (as an accrual that will be paid once TSA bonds are issued). The additional support is capped at \$6 million, which when added to the original commitment of \$26 million, would increase TSA’s share of total project costs to \$32 million, representing two-thirds of the overall \$48 million cost.

Other Projects – The TSA continues to meet with various representatives of other Cactus League facilities regarding important renovation and modernization projects designed to keep the facilities competitive. To date the TSA has met with representatives from the City of Phoenix (Oakland A’s), the City of Scottsdale (Giants) and the City of Peoria (Padres/Mariners).

LONG LAWSUIT UPDATE

The Long lawsuit is now before the Court of Appeals. Written briefs will be concluded by May 9 and oral arguments scheduled sometime in the ensuing three weeks. The TSA won a lower court victory on November 5, 2001 (six months ago!) when Judge Mark Santana ruled in our favor on all three constitutional questions. Furthermore, Judge Santana ruled that the doctrine of laches applies in this case, and that the plaintiff (Long) had unreasonably delayed in commencing his cause of action and that there has been significant prejudice as a result of the delay.

The TSA remains optimistic that the appellate court will sustain the lower court ruling. We have presented a strong brief to the court (<http://www.az-tsa.com/docs/lawsuit/TSA's%20answering%20brief.pdf>) and will provide a strong defense at oral argument.

Meanwhile, the Long suit continues to pile up added costs to the TSA, the least of which are the attorneys fees, even though those costs now total \$548,000. More distressing is the added interest costs associated with a .40% increase in bond interest rates since the Long suit was initiated last fall. The fact is, we knew last fall that interest rates were likely to rise, and the TSA would have issued bonds (with or without a stadium site) if not for the Long lawsuit.

As a result of the Long delay, the TSA would pay \$14.4 million more in bond interest today dollars than we would have had the bonds been sold last fall. This includes \$10.7 million move for the MPF bond and \$3.7 million more for the City of Surprise Cactus League bond and related costs. These added costs are entirely attributable to the Long lawsuit.

However, because of the John Long lawsuit we cannot issue bonds today. If the lawsuit is further appealed all the way to the Arizona Supreme Court, we may not be able to issue bonds until as late as November, roughly 6 months from today. Financial experts are forecasting another half-point increase in bond interest rates by then. In this event, the present value cost of the Long lawsuit in terms of higher interest costs and higher payments to the City of Surprise will have soared to \$32.6 million, entirely attributable to John Long!! These are expenses that have nothing to do with site selection delay, because we could have and would have issued bonds last Fall if not for John Long’s lawsuit. These are dollars that could have been spent improving the quality and versatility of the building, or could have reduced our overall borrowing requirement.