

Arizona Sports and Tourism Authority Funding

The Arizona Sports and Tourism Authority (AzSTA) owns and operates the University of Phoenix Stadium in Glendale, Arizona and funds Maricopa County tourism promotion, Cactus League Spring Training construction and renovation, and youth and amateur sports projects. A recent court ruling would, if upheld, result in the loss of some of its ongoing revenue as well as the payment of more than \$100 million by the state. This report provides background on AzSTA's revenue sources and expenditures.

History

Proposition 302 passed in November 2000, created the Authority and established a 3.25% car rental sales tax and 1% hotel lodging sales tax in Maricopa County for the purposes of funding a multipurpose sport and event facility (which eventually became the University of Phoenix Stadium in Glendale), youth and amateur sports recreational facilities, tourism promotion, and Cactus League facilities.

Proposition 302 was referred to Maricopa County's November 2000 ballot by [Laws 2000, Chapter 372](#). Section 16 of the bill specifies the requirement of the election, including the following phrase:

A "yes" vote has the effect of funding a multipurpose sport and event facility, youth and amateur sports recreational facilities, tourism promotion and Cactus League facilities by imposing a new local surcharge on car rentals and a new local tax on hotels, in addition to other existing taxes throughout the county for a period of thirty years. Over the thirty year time period the money raised by the imposition of these new taxes is projected to be expended as follows: twenty-seven per cent for debt service for the multipurpose facility, twenty-nine per cent for enhanced tourism promotion, thirty-one per cent for Cactus League major league baseball facilities, five per cent for amateur and youth sport facilities and three per cent for stadium operations and five per cent for capital repairs and replacement.

A "no" vote has the effect of rejecting a local surcharge on car rentals and a local tax on hotels and removing the authority to fund a multipurpose sport and event facility, youth and amateur sports recreational facilities, tourism and Cactus League facilities with these public funds.

While the ballot language provides percentage breakouts based on projected revenues, they have no legal authority, as Chapter 372, which referred the language above to the ballot, also separately established and specified the distribution of the car rental surcharge monies in A.R.S. § 5-835.

Distribution Requirements

The car rental surcharge and hotel tax are deposited into the same Tourism Revenue Clearing Account (TRCA) and distributed identically. [A.R.S. § 5-835](#) outlines requirements for distributing the TRCA receipts. The actual distributions to non-debt-service items have not matched the minimum yearly amounts required by statute because A.R.S. § 5-835 mandates monthly distributions, and revenues to the TRCA vary widely by month. For example, in September 2013, the TRCA received less than \$1.1 million, which was only sufficient to fund the stadium debt service and less than the full amount for tourism promotion. In June 2014, on the other hand, the TRCA received \$4.3 million, which permitted them to fully fund all distributions and deposit the remaining \$1.2 million into its operating account pursuant to statute.

The section requires deposits in the order of priority as mandated in A.R.S. §5-835 and outlined below and in *Table 1*:

- 1) Debt service for construction of University of Phoenix Stadium in Glendale: Statute limits the portion of stadium debt service payable from this source to principal of \$165.5 million.
- 2) Tourism promotion in Maricopa County: Statute requires deposit of \$4.0 million increased by 5% annually, which AZSTA calculates would otherwise require a deposit of about \$7.8 million in FY 2016.
- 3) Cactus League promotion and subordinate bonds for Cactus League stadiums: Statute specifies a gradually increasing distribution, which is currently \$7.0 million yearly.
- 4) Youth and Amateur Sports: Statute requires deposit of \$1 million increased by \$100,000 yearly, so would currently require a deposit of about \$2.3 million annually.
- 5) Operating Account and Reserve: Statute requires a deposit “equal to... the authority’s adopted budget for . . . the purposes set forth in A.R.S. § 5-836.” This amount is \$3.4 million, which is roughly 23% of the Authority’s \$14.9 million total operational budget.
- 6) Youth and Amateur Sports Reserve: This reserve has had monies deposited into it in the past, but the balance has been drawn down for previously-awarded grants.
- 7) Capital Repair and Replacement Reserve: Another reserve fund administered by the Authority.

<u>Purpose</u>	(\$ in millions)	
	<u>Statutorily-Required</u>	<u>Budgeted</u>
Football Stadium Debt Service	\$10.1	\$10.1
Maricopa County Tourism Promotion	7.8	7.6
Cactus League Promotion/Debt Service	7.0	4.6
Youth & Amateur Sports	2.3	1.0
Operating Account/Reserve	3.4	3.4
Youth & Amateur Sports Reserve	--	--
Capital Repair & Replacement Reserve	--	--

Revenues and Expenditures

The Authority’s budget essentially consists of 2 components: the TRCA (discussed above), and the Facilities Revenue Clearing Account (FRCA), which is established in [A.R.S. § 5-834](#) and consists of facilities revenues. The FRCA, which has an \$18.8 million budget for FY 2016, includes the corporate income tax liability of the Arizona Cardinals and the personal income tax liability of Cardinals players, employees, and spouses; sales tax recapture from football games; other football-related revenues such as ticket surcharges and facilities use fees; and similar types of revenues for non-football events.

The Authority uses revenues from both the TRCA and FRCA to pay the debt service on the stadium (\$16.3 million) and Cactus League facilities (\$4.3 million). Besides the other statutory distributions, a combined \$14.9 million is used for the operations of the stadium and the Authority, including \$8.1 million for Spectra, the firm which manages the stadium.

Table 2 below outlines the expected sources and uses of both accounts in the Authority’s FY 2016 budget:

Table 2			
FY 2016 AZSTA Budget			
(\$ in millions)			
	<u>TRCA</u>	<u>FRCA</u>	<u>Total</u>
<u>Sources</u>			
Hotel Bed Tax	\$14.1		\$14.1
Rental Car Surcharge	12.6		12.6
NFL Income Tax		7.1	7.1
Cardinals Sales Tax Recapture		5.1	5.1
Other Football Revenues		1.8	1.8
Non-Football Revenues		4.8	4.8
Total Sources	\$26.7	\$18.8	\$45.5
<u>Uses</u>			
Football Stadium Senior Bonds Debt Service	\$10.1	\$6.2	\$16.3
Tourism Promotion	7.6		7.6
Cactus League Subordinate Bonds Debt Service	3.2	1.1	4.3
Cactus League Promotion	1.4		1.4
Youth & Amateur Sports Promotion	1.0		1.0
Operations and Reserves	3.4	11.5	14.9
Total Uses	\$26.7	\$18.8	\$45.5

Potential Impact of Rental Car Ruling

In 2014, a Maricopa County Superior Court judge ruled that the use by AzSTA of the 3.25% excise tax on Maricopa County car rental revenues for purposes other than transportation projects violated the Arizona Constitution. An August 2015 ruling by another Maricopa County Superior Court judge stated that the State of Arizona must repay the car rental companies for prior payments. The Auditor General in its September 2015 audit reports AzSTA received \$122 million in car rental surcharge revenues through June 30, 2014, though the plaintiffs' attorney has reported that the refunds could total \$160 million.

While AzSTA is an independent entity, the Superior Court ruling indicated that the State of Arizona would initially be responsible for repayment. This is similar to how the state handles lawsuits against cities and counties, but in those cases the state can recoup the monies by withholding revenue sharing. In this case, the state could withhold future revenues, to get the money back from AzSTA, but the size of the total repayment would take decades to recoup from the agency.

In its recent audit on the Authority, the Auditor General noted that AzSTA's FY 2014 budget assumed collections of \$12.2 million from the rental car tax and \$13.5 million for the hotel tax. Statute permits the authority to use the 2 revenue sources for construction of sports facilities and tourism promotion in the County, based on the order of funding priorities listed in *Table 3* below.

Items 1 and 3 in the funding order in the table include debt service amounts on bonds previously issued to pay for University of Phoenix Stadium and for several Cactus League facilities. Any remaining hotel revenue the authority receives cannot be used for Cactus League bond repayment (Item 3) until all Tourism Promotion grants (Item 2) are distributed.

Table 3

AzSTA's Statutory Uses of Rental Car and Hotel Lodging Taxes (A.R.S. § 5-835)
(\$ in millions)

	FY 2014 Budget (with Rental Tax)	FY 2014 Budget (No Rental Tax)	Difference
1. Debt service on bonds issued by AzSTA to pay for building University of Phoenix Stadium in Glendale. \$282 million in principal due by CY 2036	8.2	8.2	0.0
2. Tourism Promotion grants to 9 destination marketing organizations in Maricopa County	7.2	5.3	(1.9)
3. Cactus League facilities and promotion. Partly includes debt service on bonds issued by AzSTA to pay for stadiums	5.5	-	(5.5)
4. Youth sports facilities	1.1	-	(1.1)
5. AzSTA operating budget	2.6	-	(2.6)
6. Reserves for capital repair of facilities	<u>1.1</u>	<u>-</u>	<u>(1.1)</u>
Total (\$ millions)	\$25.7	\$13.5	\$(12.2)

As shown in the table, in the absence of a rental car tax, AzSTA may have to reduce funding for all items except debt service on University of Phoenix Stadium. Beyond the retrospective payment, if the ruling is upheld, AzSTA would lose about \$13 million of its \$46 million FY 2016 budget. This would give it enough money to pay its stadium debt, but would likely result in a significant reduction in the \$7 million to \$8 million per year it sends to the Office of Tourism. Other items further down the list -- Cactus League promotion, youth & amateur sports, and possibly some AzSTA administration -- would receive little if no revenue.