State of Arizona Office of the Auditor General

PERFORMANCE AUDIT

ARIZONA COLISEUM and EXPOSITION CENTER

Report to the Arizona Legislature
By Douglas R. Norton
Auditor General
August 1996
Report 96-12

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August 14, 1996

Members of the Arizona Legislature

The Honorable Fife Symington, Governor

Ms. Yolanda Kizer, Chairman
Arizona Coliseum and Exposition Center

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Arizona Coliseum and Exposition Center. This report is in response to a May 17, 1995, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the Sunset review set forth in A.R.S. §§41-2951 through 41-2957.

The report addresses the Arizona Coliseum and Exposition Center Board's ability to generate sufficient revenues to defray the operating costs of the Arizona Veteran's Memorial Coliseum and the state fairgrounds as well as its ability to fulfill its role to provide affordable entertainment for the citizens of the State, promote the State's interests, and expand fair facilities. Regarding the Coliseum, it has operated at a net loss for much of its history. While it was not constructed with the intent of generating profits, the Coliseum's financial condition has worsened in recent years. These losses primarily result from increased competition from a number of venues in the Phoenix metropolitan area that offer considerably more amenities than the 30-year-old Coliseum. In fact, due to the increased competition and the subsequent loss of events hosted by the Coliseum, the Board had taken steps to temporarily close it, with the prospect of permanent closure. However, during the temporary closure period, the Board entered into a lease agreement with a private company to assume complete financial and operational control of the Coliseum. This lease agreement offers hope for improved financial conditions and the continued operation of the Coliseum. However, the Board should be prepared to reconsider options for closing the Coliseum if the lessee defaults under terms of the lease agreement.

Regarding the State Fair, we believe there are several opportunities for the Agency to generate additional fair revenues of approximately $1.2 million to allow the Board to continue to be self-sufficient and meet its mandate to promote state interests. While the State Fair has always maintained a profit, in recent years the costs to conduct the Fair have been rising faster than the revenues it generates. For example, between 1990 and 1995, the Fair experienced an approximate 24 percent increase in expenses and only a 7 percent increase in revenue.

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Increased personnel and contractual entertainment expenses as well as decreased sponsorship and decreased carnival and food vendor revenues have been the main reasons for profit decline. Continued reductions in the Fair's profitability, combined with losses from non-fair activities, could jeopardize the Board's ability to maintain self-sufficiency for the Agency as well as its ability to meet the State Fair's mission and goals of promoting the State's interests. Therefore, we identified several opportunities the Board could consider to increase profitability, ensure its continued compliance with statutory mandates, and support future goals. For example, the Agency could potentially generate an additional $900,000 in revenue by charging more for entertainment. Likewise, it could increase food vendor fees and sponsorship revenues.

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

This report will be released to the public on August 15, 1996.

Sincerely,

Douglas R. Norton

Douglas R. Norton
Auditor General

Enclosure

SUMMARY

The Office of the Auditor General has conducted a performance audit and Sunset review of the Arizona Coliseum and Exposition Center Board, pursuant to a May 17, 1995, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the Sunset review set forth in A.R.S. §§41-2951 through 41-2957.

The Arizona State Fair and the agency charged with conducting it existed prior to Arizona becoming a state. In 1905, the Territory of Arizona established the Territorial Fair Commission, which conducted the first fair on the current site. The Commission eventually became the Arizona State Fair Commission, so named until 1967 when the Legislature established the Arizona Coliseum and Exposition Center Board, consisting of five members appointed by the Governor. According to statute, board responsibilities include directing and conducting the State Fair, conducting an annual livestock show, maintaining the state fairgrounds and Veteran's Memorial Coliseum in good condition, and generating sufficient revenue to defray the operating expenses of the state fairgrounds and Coliseum.

Recently, the Board developed a strategic plan to better enable it to meet its responsibilities for producing and conducting the State Fair. In a presentation to the Joint Interim Committee on State Assets on November 15, 1995, the Board presented its plans to relocate the Fair or restructure its facilities on the current site. By relocating, the Board believes it can better meet the Fair's mission: to display and promote the interests of the State, including agriculture, livestock, and mining. Space limitations at the current fairgrounds prevent the Board from showcasing these and other industries to the fullest extent.

Coliseum Lease Offers Opportunity to Reduce Losses (See pages 7 through 12)

Faced with the possibility of closing the Veteran's Memorial Coliseum due to significant cash losses, the Board recently leased the Coliseum to a private company. While the State did not construct the Coliseum with the intent of generating profits, the Coliseum's financial condition has significantly worsened in recent years. For example, since fiscal year 1991-92, cash losses, excluding depreciation, increased from approximately $278,000 to $843,000 in fiscal year 1994-95. In addition to these losses, the Board expended an average of $385,000 annually during the same time for coliseum capital improvements. Furthermore, as of May 31, 1996, fiscal year 1995-96 cash losses for the Coliseum have already reached an estimated $602,500, with one month remaining in the fiscal year.

Competition from other venues has significantly reduced the number of profitable events the Coliseum hosts. In recent years, the Coliseum's major competitors—America West Arena, Blockbuster Desert Sky Pavilion, Mesa Amphitheater, and Phoenix Civic Plaza—have attracted many lucrative events that were once the Coliseum's mainstay. These events include Phoenix Suns games, concerts, and ice skating shows. As a result, the Coliseum experienced a 50 percent drop in event days, from 284 in fiscal year 1991-92 to 143 in fiscal year 1994-95.

Recognizing the Coliseum's inability to generate sufficient revenues, the Board explored various options for reducing coliseum losses. Recently, the Board closed the Coliseum from May 20 through September 4, 1996, anticipating a cost savings of over $300,000. While the Board was considering permanently closing the Coliseum, Valley Iceplex Professionals (VIP) approached it with a proposal to lease the Coliseum. Since permanently closing the Coliseum would only reduce cash losses by approximately $400,000, and a lease of the Coliseum offered further reductions in cash losses, the Board entered into a contract with VIP. However, given the Coliseum's poor financial performance and the unfavorable evaluations offered by the two other arena management groups, which were unwilling to risk running the Coliseum, the Board should reconsider options for closing the Coliseum if VIP defaults under terms of the lease agreement.

Increased Fair Profits Could Help the Board Achieve Its Mandates and Goals (See pages 13 through 20)

While the Coliseum has had difficulty generating revenues, the State Fair has the potential to generate an additional $1.2 million in profits that would allow it to better meet statutory mandates and realize future plans. Over the past 6 years, costs to conduct the Fair have risen at a faster rate than revenues, resulting in a 49 percent decrease in profitability, from $2.26 million for the 1990 State Fair to $1.14 million for the 1995 State Fair. Several factors, including increased personnel and entertainment costs, have contributed to reduced profits. Additionally, the Fair has not taken advantage of ways it could enhance revenue through food vendor fees and sponsorship.

Reduced fair profits coupled with coliseum losses have contributed to overall agency losses for the past three fiscal years, affecting the Board's ability to meet its statutory mission of self-sufficiency. While the Arizona Coliseum and Exposition Center (ACEC) currently has approximately $2 to $2.5 million in cash reserves and liquid investments available to cover losses, continued agency losses could ultimately threaten its ability to remain self-sufficient. Specifically, ACEC has incurred losses of approximately $1 million, $560,000, and $367,000 in fiscal years 1992-93, 1993-94, and 1994-95, respectively. These losses hamper the Board's ability to meet the Arizona State Fair's mission and goals, including showcasing state industries and possibly relocating the Fair, by reducing the resources available to the Board for these purposes.

To ensure continued compliance with statutory mandates and to support future goals, there are several profit enhancement opportunities the Board can consider. For example, ACEC could increase fair entertainment ticket prices, food vendor fees, and sponsorship revenue. At the same time, ACEC should analyze personnel costs and identify ways to reduce them.

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Table of Contents

Tables and Figure

INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit and Sunset review of the Arizona Coliseum and Exposition Center Board pursuant to a May 17, 1995, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the Sunset review set forth in A.R.S. §§41-2951 through 41-2957.

Board History and Responsibilities

The history of the Arizona Coliseum and Exposition Center Board precedes Arizona statehood. In 1905, the Territory of Arizona established the Territorial Fair Commission for the purpose of administering a fair. This Commission eventually became the Arizona State Fair Commission, so named until 1967, at which time the Legislature established the Arizona Coliseum and Exposition Center Board. Establishment of the Board coincided with the completion of the Veteran's Memorial Coliseum.

The Board, consisting of five members appointed by the Governor, has three basic responsibilities:

- Maintain the state fairgrounds and Veteran's Memorial Coliseum facilities in good condition and use these facilities for the enjoyment of the people of Arizona.
- Direct and conduct state fairs, exhibits, contests, and entertainment for the purpose of advancing the interests of this State and its counties.
- Generate sufficient monies to defray the operating expenses of the state fairgrounds and the Veteran's Memorial Coliseum.

Additionally, according to A.R.S. §5-113.C., the Board is responsible for conducting an annual livestock fair for the purpose of promoting Arizona's livestock and agricultural resources.

Organization and Staffing

To assist the Board in meeting its responsibilities, the Arizona Coliseum and Exposition Center (ACEC) is authorized 278 FTE positions for fiscal year 1995-96. However, the

Agency currently employs only 45 permanent, full-time employees.[1] The remaining employees either work part-time or are hired to provide ushering, security, or parking attendant services for specific events. In addition to the full-time and temporary staff employed throughout the year, the ACEC typically hires 1,500 to 1,650 people each year for the State Fair to assist with security, ticket sales, ushering, maintenance, and janitorial duties.

Under the direction of an executive director who reports to the Board, the ACEC consists of the following departments:

- **Operations**—By far the largest department, Operations maintains and operates the 35 buildings on the 80-acre fair site and an additional 16 acres on 2 smaller lots, which are primarily used for parking. The fairground buildings include a mineral building, civic, agricultural, and vocational/academic buildings, a grandstand, the Veteran's Memorial Coliseum, and various physical plant buildings. Operations also selects and manages ride and game operators during the Fair and is responsible for security and parking on the fairgrounds throughout the year.

- **Coliseum Management**—Coliseum management books and prepares for all the events (entertainment, shows, etc.) in the Coliseum and other buildings on the fairgrounds throughout the year, including the Fair. The department also handles box office and ushering functions for events and performs marketing, advertising, public relations, advance ticket sales, and sponsorship solicitation functions for the Fair.

- **Accounting**—In addition to its accounting responsibilities for all activities that occur on the fairgrounds, this department handles admission and ride ticket sales during the Fair.

- **Administrative Services**—This department performs personnel, purchasing, and clerical functions. This department also solicits and manages food and commercial vendors during the Fair.

Budget

As required by statute, ACEC operates with revenues generated from both fair and non-fair activities. Revenue sources include fair admissions, fair entertainment ticket sales, facility rental fees, commissions on ticket sales for coliseum events, parking, concessions, commercial space rentals during the State Fair, a percentage of midway monies (carnival rides), and interest income. As illustrated in Table 1 (see page 3), these sources have generated revenues that recently have begun to decline from approximately $13.3 million

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1 As of May 20, 1996.

in fiscal year 1992-93 to $12.9 million in fiscal year 1994-95. However, these revenues have still allowed the Agency to operate without legislative appropriations since fiscal year 1981-82, and retire the bonds used to finance construction of the Coliseum on schedule in 1994.

Table 1

Arizona Coliseum and Exposition Center Revenues and Expenses for Fiscal Years 1992-93 through 1995-96 (Unaudited)

	Fiscal Year 1992-93	Fiscal Year 1993-94	Fiscal Year 1994-95	Fiscal Year 1995-96 (est.)
Operating Revenue:				
State Fair	$ 9,100,800	$ 9,632,400	$9,685,600	$10,244,300
Non-Fair	4,181,000	3,573,400	3,183,100	3,855,200
Total Operating Revenue	13,281,800	13,205,800	12,868,700	14,099,500
Operating Expense:				
State Fair	8,297,900	8,520,200	8,366,700	9,103,800
Non-Fair	6,677,000	5,840,400	5,599,200	5,977,700
Total Operating Expense	14,974,900	14,360,600	13,965,900	15,081,500
Operating Loss:	(1,693,100)	(1,154,800	(1,097,200)	(982,000)
Non-Operating Revenue:				
Racing Receipts	378,700	370,500	421,300	400,000
Interest Earned	291,100	225,600	305,300	50,000
Sales of Capital Assets	0	0	3,600	0
Total Non-Operating Revenue	669,800	596,100	730,200	450,000
Net Loss	($1,023,300)	($ 558,700)	($ 367,000)	($532,000)

Source: Financial statements and budgets prepared by the accounting office of the Arizona Coliseum. Actual amounts in fiscal years 1992-93, 1993-94, and 1994-95 are rounded for presentation purposes.

Despite earning millions in revenues, in recent years the Agency has not generated sufficient monies to defray its costs. ACEC last generated a profit of $749,100 in fiscal year 1991-92, even though the Agency showed an operating loss. The profit resulted from non-operating revenues, comprised of interest income and racing receipts.[1] As shown in Table 1 (see page 3), ACEC has incurred losses since fiscal year 1992-93 and has relied on its retained earnings, accumulated from previous profitable fiscal years, to cover expenses. In addition to the losses posted for fiscal years 1992-93 through 1994-95, the Board projects agency losses averaging approximately $1.5 million for each of the next three fiscal years.

State Fair Status and ACEC's Future Plans

Despite declining revenues, ACEC is recognized as producing and operating one of the most successful state fairs in the country. Attendance at the Fair ranks within the top ten state fairs nationally, with reported attendance topping one million during the 1995 State Fair—the third time in its history that attendance has surpassed one million people. Agency management has developed innovative ideas, including the independent midway concept, in which the Fair contracts directly with numerous ride and game operators rather than one carnival operator. This allows the Fair to offer a greater variety of and the most current rides, and ensures more control over the safety and operation of those rides. Based on Arizona's success, other states have adopted this concept. In addition to these ideas, management's focus on presenting a safe, secure fair enhances the fair experience for all patrons.

However, despite these achievements, the Board acknowledges that these results were obtained by sacrificing part of the Fair's core mission: to display and promote the interests of the State. These interests include agriculture, livestock, mining, hobbies, exhibits, etc. The lack of attention devoted to these interests partially results from the limited space the Fair now occupies. Other state fairs with similar attendance occupy, on average, approximately 250 acres, compared to the 96 acres currently used by the Arizona State Fair.

Therefore, the Board has taken preliminary steps to reemphasize its mission and address the space restrictions. In a presentation to the Joint Interim Committee on State Assets on November 15, 1995, the Board communicated its desire to relocate the Fair or restructure its facilities on the current site. In fact, the Board has already begun the process of designing a new fairgrounds and estimating potential costs as first steps to achieve this goal by the year 2000. With additional acreage, the Board indicated that more space could be devoted to agriculture and livestock, hobby displays, mining and high-tech exhibits, and possibly even the creation of a working farm that could benefit Arizona citizens year-round.

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1 According to A.R.S. §5-113.A, the Board receives the greater of 4½ percent or $400,000 annually of the State's revenue from pari-mutuel wagering (racing receipts). Guaranteeing the Board at least $400,000 annually from racing receipts became effective July 1994.

Audit Scope and Methodology

This audit focuses on ACEC's ability to generate sufficient revenues to defray the operating costs of the fairgrounds and Arizona Veteran's Memorial Coliseum. The audit also addresses whether the Agency generates sufficient revenue to facilitate compliance with its other goals and statutory mandates, including maintaining the fairgrounds and Coliseum for the public use and enjoyment, promoting the State's interests, and expanding fair facilities.

To evaluate the continued need for the Coliseum, we contacted event promoters and the Coliseum's major competitive venues to assess the market in which it competes. Additionally, we reviewed and analyzed the Coliseum's financial performance for the past five fiscal years and reviewed all events held there since July 1990 to note changes in types of events held and their effect on the Coliseum's financial condition. We also contacted similar venues in other states to obtain comparative information relating to coliseum operations and financial performance.

To offer recommendations for improving State Fair profits, we analyzed its financial statements for the past 6 fiscal years to ascertain changes in financial performance. We also contacted various organizations and individuals, including 22 state and large county fairs, national fair associations, commercial and food vendors, and ride operators to determine what opportunities exist to increase revenues and/or decrease costs and improve fair operations.[1] We also randomly surveyed fair patrons during different days and times to estimate how much they spent on various fair activities. Finally, we reviewed agency compliance with statutory mandates, including production of the annual livestock show.

Our report presents findings and recommendations in two areas:

- The Board has recently entered into a lease agreement for the Coliseum, which should reduce its cash losses; however, the Board should reconsider options for closing the Coliseum if the lessee defaults under terms of the lease agreement.

- The need for the Board and agency management to increase revenues and reduce state fair expenses to ensure compliance with statutory mandates and to meet agency goals for fair expansion.

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1 We contacted state and county fair officials in other states that reported a 1994 fair attendance level of a minimum 650,000 to the International Association of Fairs and Expositions. State fairs contacted were California, Colorado, Florida, Illinois, Indiana, Iowa, Kentucky, Massachusetts, Minnesota, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Texas, and Wisconsin. County fairs contacted were Del Mar, California; Pomona, California; and Erie County, New York.

In addition to these audit areas, this report also contains responses to the 12 Sunset Review Factors for the Agency.

This audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the board members, Executive Director, and staff of the Arizona Coliseum and Exposition Center Board for their cooperation and assistance throughout the audit.

FINDING I

COLISEUM LEASE OFFERS OPPORTUNITY TO REDUCE LOSSES

Faced with the prospect of permanently closing the Veteran's Memorial Coliseum, the Board recently leased the facility to a private company. This move was made in an effort to reduce cash losses from the Coliseum that have resulted from increased competition in recent years. While the lease agreement offers the Board an opportunity to significantly reduce its losses, it should reconsider options for closing the Coliseum should the lessee default under terms of the lease agreement.

Background

With $6.9 million in bond proceeds, the State constructed the Coliseum in the mid 1960s when it recognized the need for a large multi-purpose facility to hold sporting and entertainment events. For almost three decades, the Coliseum was virtually the only facility of its kind, hosting a variety of events, including Phoenix Suns basketball games, professional ice hockey and tennis, ice shows, rodeos, and concerts. In recent years, however, competition from new, state-of-the-art venues such as the America West Arena (AWA) and Blockbuster Desert Sky Pavilion has led to the loss of not only the Suns basketball games, but also of most major entertainment events occurring in the Phoenix area. Currently, the Coliseum is used primarily in conjunction with the State Fair; however, other events, such as Roadrunner ice hockey games, trade shows, car sales, and occasional concerts, are held in the building.

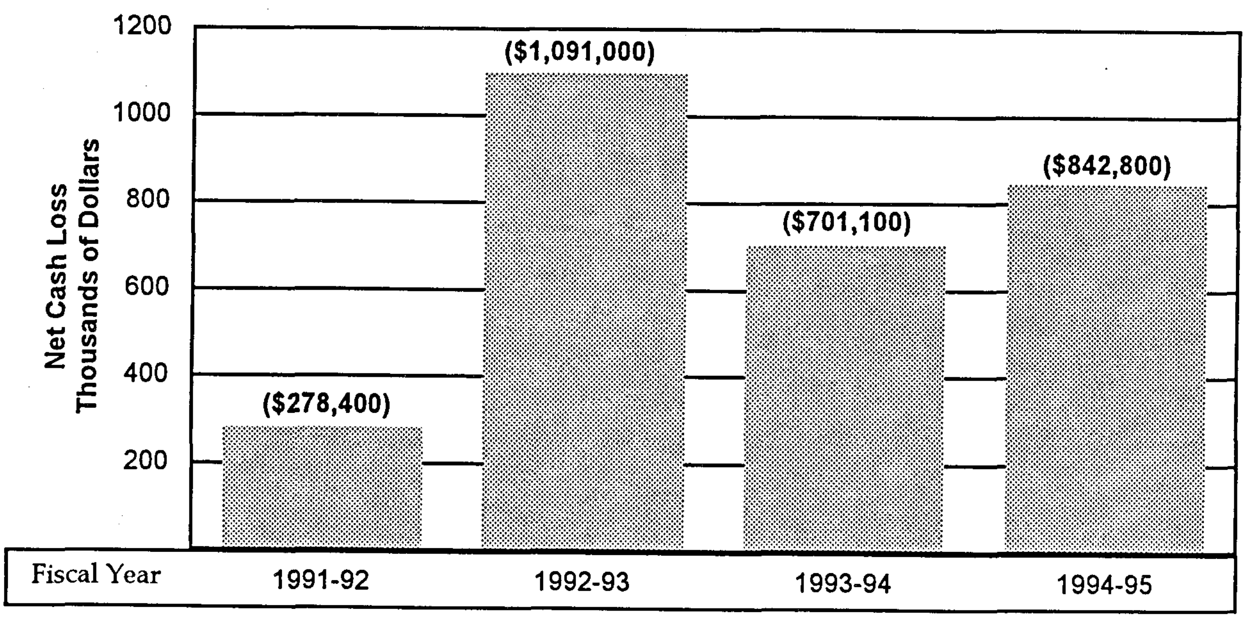
Board Temporarily Closed Coliseum Due to Losses from Increased Competition

For much of its history, the Coliseum has operated at a net loss. While financial losses are not uncommon among public arenas, the Coliseum's losses have increased in magnitude over the past three fiscal years. These losses primarily result from increased competition, which has ultimately threatened to jeopardize the self-sufficiency of the Arizona Coliseum and Exposition Center (Agency). Therefore, in an attempt to minimize losses, the Board opted to temporarily close the Coliseum.

***Coliseum's financial losses increasing*—**While public arenas generally do not earn profits, the Coliseum's operating losses have increased dramatically in recent years. A 1991 study on government-owned arenas and convention centers reported that these facilities rarely earn a profit, and their operating costs are, on average, about 42 percent higher than revenues.[1] Similarly, not only has the Coliseum rarely generated a profit, its fiscal year 1994-95 operating costs were more than 70 percent higher than its revenues. As illustrated in Figure 1, the Coliseum's cash losses, excluding depreciation, have increased

Figure 1

Arizona Coliseum and Exposition Center
Coliseum Estimated Net Cash Losses[(a)]
Fiscal Years 1991-92 through 1994-95



a Estimated cash losses exclude depreciation.

Source: Auditor General analysis of Arizona Coliseum and Exposition Center financial statements for fiscal years 1991-92 through 1994-95.

1 Heartland Policy Study No. 33, *"Should Governments Own Convention Centers?"* by Edwin S. Mills, January 21, 1991.

from approximately $278,000 in fiscal year 1991-92 to $843,000 in fiscal year 1994-95, an increase of 203 percent. Moreover, these cash losses do not include capital expenditures made for the Coliseum, which have averaged $385,000 annually during that same period. Finally, as of May 31, 1996, fiscal year 1995-96 cash losses totaled an estimated $602,500, with one month remaining in the fiscal year.

Losses due to competition—The Coliseum's ability to attract events and generate profits has been seriously damaged by the number of venues in the Phoenix metropolitan area. Recently constructed venues such as the AWA and Blockbuster Desert Sky Pavilion have attracted premium events such as concerts, ice shows, and circuses, which were once the Coliseum's mainstay. These new, state-of-the-art facilities offer considerably more amenities to performers and promoters than the 30-year-old Coliseum. Although event promoters spoke favorably about ACEC staff and operations, they still fail to book many top events in the Coliseum.[1] One promoter explained that while performers usually look for a deal that best meets their overall needs, they simply prefer a new facility to the aging Coliseum. A review of event calendars from the Coliseum and its four major competitors for the period July through December 1995 confirmed this. For example, we found that the Coliseum hosted only 2 of the 49 concerts held in the Phoenix metropolitan area during the period examined.[2] In addition, while the Agency has in more recent years sought to specialize in such events as home and garden shows, trade shows, and merchandise sales, the Phoenix Civic Plaza appears to dominate this area, since they hosted 20 such events compared to the 6 hosted by the Coliseum.

Due to increased competition from other venues, the number and types of events hosted by the Coliseum do not generate sufficient revenues to cover all its operating costs. According to the Coliseum Manager, an optimum utilization rate for the Coliseum would be between 280 to 300 event days throughout the year.[3] However, after the opening of the AWA in June 1992, the Coliseum experienced over a 40 percent drop in event days, from 284 in fiscal year 1991-92 to 167 in fiscal year 1992-93. Consequently, cash losses from the Coliseum increased by 292 percent, from approximately $278,000 to $1,091,000 during that same period. Significant cash losses of $701,000 and $843,000 continued in fiscal years 1993-94 and 1994-95, respectively, as the number of event days fell to 148 and 143, respectively.

Not only has the Agency been unable to secure many profit-making events for the Coliseum, it had to retain some events on unfavorable financial terms. For example, to ensure a long-term anchor tenant for the Coliseum, ACEC entered into a five-year contract

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1 We spoke to representatives of four major promotion companies that actively promote events in the Phoenix metropolitan area.

2 The competitors included in this review were AWA, Blockbuster Desert Sky Pavilion, Mesa Amphitheater, and the Phoenix Civic Plaza, since they compete for the same or similar events as the Coliseum.

3 Event days include the days scheduled for event setup and cleanup in addition to the day an event actually takes place.

with the Phoenix Roadrunners hockey team to host its home games at the Coliseum through the 1995-96 hockey season. However, the contract called for ACEC to pay a $1 incentive to the Roadrunners for each person attending a Roadrunners hockey game at the Coliseum. This contract term cost the Agency $236,000 during the 1994-95 hockey season and resulted in an estimated loss of $106,000 for that season alone.

Board planned to close Coliseum to protect Agency—The various circumstances affecting the Coliseum's financial viability have ultimately threatened to jeopardize the Agency's self-sufficiency. According to statutory mandates, the Board should earn sufficient revenues to cover the operating costs of the fairgrounds and Coliseum. Historically, the State Fair's success has produced sufficient revenues to cover the losses experienced by the Coliseum. For example, although ACEC earned a $1.6 million profit from the 1994 State Fair, it posted an overall net loss of $367,000 during fiscal year 1995 due primarily to the Coliseum's net loss of over $1.5 million (including depreciation). The Agency also incurred overall net losses of $558,700 in fiscal year 1994 and $1,023,300 in fiscal year 1993, despite earning over $800,000 in state fair profits during each of those fiscal years.

Due to the Coliseum's deteriorating financial situation, the Board began considering various options for reducing coliseum losses. Under the Legislature's direction, the Board first explored the possibility of privatizing the Coliseum's management and operations. During its 1993 Sunset review of the Agency, the House Government Operations and Senate Government Committee of Reference required the Board to produce a report regarding the feasibility and consequences of privatizing all or part of the Coliseum's activities and operations. In response, the Board issued a request for proposal (RFP) to determine private sector interest in operating the Coliseum. However, the Board was unsuccessful in this effort. As a result, the Board began discussing options for closing the facility. The options discussed included closing the Coliseum for three months, six months, or full-time, except during the State Fair. Based on an analysis of these options, the Board decided to close the Coliseum from May 20 through September 4, 1996, with the option of extending the closure period if tentatively scheduled events did not occur.

By taking this action, agency management expected to produce a cost savings of over $300,000 through layoffs of all temporary coliseum maintenance staff, and an 80 percent reduction in utility requirements. Permanent staff who normally work on coliseum-related activities would have shifted to fairgrounds maintenance activities or worked on tasks related to the State Fair. Through this temporary closure, the Board had planned to determine actual cost savings attributable to the closure and opportunities for future closures.

Lease Agreement Provides Opportunity to Reduce Losses

A recent agreement to lease the Coliseum offers hope for its continued operation. During the Coliseum's temporary closure, a private group approached the Board with a proposal to lease the Coliseum and significantly reduce the Agency's losses associated with the facility. While this new arrangement improves the outlook for the Coliseum, prior private sector reviews of the Coliseum suggest the Board should be prepared to reconsider options for closing the Coliseum in the event the lessee defaults on the lease agreement.

Lease agreement should reverse losses—During the temporary closure period and while the Board was contemplating permanent closure of the Coliseum, Valley Iceplex Professionals (VIP) approached the Board proposing to lease the Coliseum. Since permanent closure of the Coliseum would still yield losses and this lease agreement with VIP would significantly reduce such losses, the Board entered into a contractual agreement with VIP. Through this five-year contract, effective September 1, 1996, the lessee will assume complete financial and operational control of the Coliseum. Therefore, the lessee will schedule and oversee all events, pay for all coliseum expenses such as utilities, insurance, and personnel, and remit a nominal lease fee to the Agency. The contract also provides for the Agency's exclusive use of the Coliseum during the State Fair period. During this time, the Agency will be responsible for coliseum expenses as they relate to the activities and events of the Fair. Finally, the Agency will benefit from clauses in its contract with the lessee requiring VIP to establish a $300,000 security deposit account for the Agency's exclusive use should the lessee default under terms of the contract, and an irrevocable letter of credit in the amount of $525,000 issued to the Agency. The contract requires VIP to establish the security deposit account within 30 days of the execution of the lease. Additionally, the letter of credit, to be issued by a major bank, reflects the total amount of lease payments over the life of the lease and will be issued prior to the commencement of the lease term. Should the lessee default, the Agency will receive the balance of unpaid lease payments through the letter of credit.

This contract may reduce the financial losses the Agency has historically incurred for the Coliseum's operation. Under the terms of the contract, the Agency will derive revenues from the lease fee, an additional annual fee for the right to sell concessions at the Coliseum, and parking at coliseum events. However, the Agency will still incur expenses for its office space, certain maintenance, and parking at coliseum events. Most important, the Agency will still incur a cash outlay of $251,000 annually for the next three fiscal years since it must honor two lease agreements for cooling equipment and an electronic scoreboard.

Board should be prepared to close Coliseum—While the lease agreement with VIP should reduce the Agency's financial burden posed by the Coliseum, the Board should be prepared to reconsider options for closing the Coliseum if the lessee defaults under terms of the lease agreement. As previously mentioned, other private management firms reviewed the Coliseum's ability to successfully compete with other venues and were unwilling to enter into a contract for its management and operation. In fact, the Board received five responses to the RFP, only two of which merited further consideration by the Board. When the two private management companies performed an analysis of the Coliseum's operations and financial data and the Phoenix area's competitive environment, both found that the financial risk of assuming the Coliseum's operating expenses outweighed its profit-generating potential. In a letter to agency management, one RFP respondent stated that the privatization agreement sought by the Agency was *"not practical – and probably not possible."* Further, the respondent stated, *"we are unwilling to place ourselves in a risk position for the private management contract."*

Given the Board's inability to operate the Coliseum at a profit, and the unfavorable evaluations offered by two other arena management groups, the lessee may have difficulty improving the Coliseum's financial outlook. While the Board will have financial remedies available to it should the lessee default on the lease agreement, the Board should also reconsider options for closing the Coliseum.

In addition, the Board should take steps to develop a mechanism to identify and track its costs associated with the Coliseum. As the lessor of the facility, ACEC will continue to have some involvement in the activities and events held in the Coliseum. For example, the lessee may require the assistance of ACEC staff for event setup. Even though the contract includes a schedule for employee and equipment costs, to date, ACEC has lacked a mechanism to track such costs as employee hours, utilities, maintenance, and other direct and indirect costs per event. While some event costs, such as security and ushering, are known because they are paid per event and charged back to the event promoter, most costs, including event staff time, are unknown.

RECOMMENDATIONS

1. Should the contract with the lessee prematurely terminate, the Board should again consider options for closing the Coliseum.

2. The Board should develop a mechanism to identify and track all costs for the services it may provide to the lessee. Specific costs it should capture include employee hours, maintenance, and equipment usage.

FINDING II

INCREASED FAIR PROFITS COULD HELP THE BOARD ACHIEVE ITS MANDATES AND GOALS

By enhancing State Fair revenues and decreasing costs, the Board could potentially generate additional profits of approximately $1.2 million, thereby allowing it to better meet statutory mandates and realize future plans. Due to rising costs, State Fair profits have decreased 49 percent in the last 6 years, from $2.26 million in 1990 to $1.14 million in 1995. As a result, the Agency's ability to maintain self-sufficiency and promote state interests may be jeopardized. Therefore, to allow the Board to continue to meet its mandates and fulfill its objectives, it should consider several opportunities to increase fair revenues and decrease costs.

According to its strategic plan, the Board intends to take steps to better enable it to meet statutory mandates for conducting the Fair. This plan calls for either the relocation or restructuring of the current fairgrounds. However, both options would require a significant amount of money. A study commissioned by the Board in 1986 estimated that relocating the fairgrounds would cost between $97 and $107 million. Accounting for inflation, the cost of relocation has grown to an estimated $136 to $150 million. Recent relocation cost estimates provided by an architectural firm place the costs for construction between $50 and $95 million, excluding land acquisition costs. While a variety of sources, including proceeds from the sale of the existing site, legislative appropriations, and revenue bonds could be used to finance either option the Board selects, ACEC could decrease the taxpayers' burden by contributing fair proceeds toward the cost.

Decreasing Profits Jeopardize Board's Mandates

Declining fair profits ultimately threaten the Board's ability to meet current mandates and realize future goals. While the State Fair has enjoyed significant profits in the past, these have decreased 49 percent within the last few years, due to increasing costs and revenues that have not kept pace. As a result, the Board may have difficulty meeting its statutory mandates for self-sufficiency and promotion of state interests.

Fair's profitability has decreased—While still maintaining a profit, ACEC's costs to conduct the State Fair are rising at a faster rate than revenues, thus reducing overall profit. For example, the 1990 State Fair generated $9.6 million in revenue and incurred $7.34 million in expenses for a net profit of $2.26 million. However, for the 1995 State Fair, revenue only increased to $10.24 million while expenses increased to $9.1 million, for a net profit of $1.14 million. Overall, this represents an approximate 24 percent increase in expenses and only a 7 percent increase in revenue.

Increased personnel and contractual entertainment expenses, which account for 55 percent of the Fair's total costs, have been the main reasons for profit decline.

- **Personnel Costs**—Personnel costs, which include wages, salary, and employee-related expenses for ACEC permanent staff and the approximately 1,500 to 1,650 temporary staff hired for the Fair, account for 32 percent of total operating costs. These costs have increased 30 percent, from $2.26 million for the 1990 State Fair to $2.94 million for the 1995 State Fair. ACEC incurred a large portion of that increase last year when personnel costs increased 16 percent, from $2.53 million in 1994 to $2.94 million in 1995. The Agency attributes these rising personnel costs to a tight labor market, forcing management to pay higher wages to attract temporary fair personnel.

- **Entertainment Costs**—Contractual and entertainment fees, which include big-name entertainer fees and expenses, small band and various show fees, safety engineer fees, and staging personnel expenses, have increased 40 percent since the 1990 State Fair. Specifically, ACEC incurred $2.32 million in contractual and entertainment expenses for the 1995 State Fair, an increase of 42 percent from 1990 fair expenses of $1.63 million. ACEC attributes the rise in this expense to the increased cost of booking big-name entertainment.

Coupled with increased expenses, ACEC has encountered declining revenues in some areas and has not taken advantage of opportunities to increase certain other revenues to offset its rising costs. These revenues include:

- **Sponsorship Revenue**—ACEC has not focused on the revenue-generating potential of sponsorship solicitation for the Fair. In fact, due to management's inability to devote the necessary resources to sponsorship solicitation, revenue has declined 33 percent, from $240,100 for the 1990 State Fair to $160,200 for the 1995 State Fair. According to the Marketing Manager, he and his assistant devote approximately 25 to 30 percent of their time to soliciting sponsors.

- **Carnival Revenue**—For the past two years (1994 and 1995 fairs), the Board has elected to decrease its share of revenues from rides. The ACEC contracts with individual ride owners based on a percentage of total revenue derived from rides. For the 1993 State Fair, the Board set this percentage at 55/45, with the ACEC receiving 55 percent of ride revenue. However, the Board reduced this percentage to 53/47 in 1994 and 52/48 in 1995. In 1994 and 1995, rides generated approximately $3.87 million and $4.2 million, respectively, which was then divided between ACEC and ride operators according to the percentage split. Therefore, due to ACEC's reduced share in each year, it has forsaken revenues of approximately $77,500 and $126,000 in 1994 and 1995, respectively. ACEC management cites increased costs to ride owners and the need to ensure ride safety as primary reasons for decreasing revenue shares.

- **Food Vendors' Revenue**—Unlike its agreement to share in the revenues earned from rides, ACEC's method of charging food vendors a flat fee for space at the Fair does not allow it to benefit from the food sales it helps generate. Each year, ACEC contracts with approximately 125 vendors to sell food at the Fair. Management assesses vendors a flat fee of $200 per front trailer foot for space at the Fair. For the 1995 Fair, ACEC received approximately $510,000 in fee revenue, or an estimated 16 to 18 percent of the $2.78 to $3.18 million in gross revenue earned by food vendors during the 1995 Fair. In contrast, most state and county fairs surveyed indicated they charge food vendors between 20 to 25 percent of their gross revenue for space at fairs. This allows those states to share in the revenues they help create for food vendors by conducting the fair and attracting fair attendance.

The State Fair's rising costs and declining revenues will likely continue for the next few years. Based on its own projections, ACEC expects the gap between revenues and expenses to continue to narrow. In budget requests submitted to the Joint Legislative Budget Committee, ACEC management estimates that by fiscal year 1997-98, profits will decline another 39 percent, to approximately $690,000.

Continued self-sufficiency in question—While the Board has met its financial obligations in the past, continued reductions in profitability combined with losses from non-fair activities may affect its ability to defray operating expenses. According to statute, the Board should be self-sufficient; however, the Board has incurred losses totaling over $1.9 million since fiscal year 1992-93. As stated previously, leasing the Coliseum offers an opportunity to significantly reduce its losses. However, based on average losses of $535,000 annually since fiscal year 1991-92 from other non-fair activities, and the Fair's declining profitability, the Board's continued self-sufficiency will be jeopardized if it does not take steps to improve fair profits (see Finding I, pages 7 through 12, for further information regarding coliseum losses).

Fair's mission has not been fully achieved—Similar to the impact on the Agency's self-sufficiency, decreasing profits hamper the Board's ability to meet the State Fair's mission and goals. Through the State Fair, the Board should advance Arizona's interests, including agriculture, livestock, and mining. However, ACEC management has focused more on the Fair's entertainment aspects, rather than showcasing and promoting state industries and products. The decrease in state fair entries over the last six years illustrates this situation. For example, while 1,224 people entered livestock in the 1990 State Fair, this number dropped to 615 in 1995. Additionally, the total number of exhibitors (people or organizations that display agricultural goods, industry items, homemaking items, hobbies, etc.) at the State Fair dropped from 9,095 in 1990 to 7,738 in 1995. According to the Board Chairman, in order to reverse this trend and improve the State Fair, agency management needs to put more effort into providing a fair rather than a carnival. To do this, management plans to implement a county outreach program among county fairs by traveling to these fairs and picking up entries for the State Fair. Management hopes this plan will enable more Arizona citizens to showcase their hobbies and interests at the Fair.

In addition to showcasing the agricultural and other state interests, the Board's ability to maintain an affordable fair is somewhat dependent on the Fair's profitability. Currently, admission prices for the Fair compare favorably to admission prices charged by other state fairs; however, continued reductions in profits could require higher-priced admission and ride coupons. To retain affordable admission rates and maintain fair facilities for the public's use and enjoyment, the Board should explore opportunities to increase the Fair's profitability.

Board Should Consider Revenue Enhancement and Cost Reduction Options

To ensure continued compliance with statutory mandates and to support future goals, the Board can take several steps to improve the Fair's profitability. As demonstrated by other states, opportunities exist to increase total entertainment, food vendor, and sponsorship revenues by approximately $1.2 million. Additionally, ACEC should analyze opportunities to reduce personnel costs.

The Fair can increase entertainment revenue—ACEC can potentially generate an additional $900,000 in revenue by charging more for entertainment. Currently, ACEC books approximately 25 "big-name" entertainment events for the Fair each year and holds these events in the Coliseum. For each event, ACEC reserves approximately 5,000 (35 percent) of the 14,500 seats in the Coliseum and charges either $5 per seat for a matinee show or $7 per seat for a night show. The remaining 9,500 Coliseum seats (65 percent) are free to fair patrons. The ACEC provides low-cost and free entertainment in an effort to attract more fair patrons and increase revenue from other areas, such as admission, rides, and food. As a result, only a small portion of the entertainment costs are covered by those in attendance, with the remaining costs subsidized by all fair patrons. For example, in 1995, the State Fair sold, on average, 2,274 (45 percent) of its available reserved seats per show and generated $322,923 in revenue, covering only 21 percent of its $1.5 million in entertainment costs.

In contrast, other state and county fairs charge more for big-name entertainment and base ticket prices on event costs. Seventeen of 22 (77 percent) fairs we surveyed charged for big-name entertainment, and all but two states reserved *all* seating for those events. In addition, 14 of the 17 states (82 percent) that charged for entertainment adjust ticket prices depending on the event's cost. For example, the New York State Fair fluctuated entertainment prices to recover costs or even generate additional revenue. During its 1995 fair, it charged $17 and $19 for Beach Boys concert tickets, whereas Bon Jovi concert tickets cost $19, $24, and $28.

Similar to other states, ACEC could set event ticket prices based on the percentages of costs it wishes to recover. Table 2 (see page 18) illustrates two potential options that include moderate ticket prices, yet allow ACEC to recover a greater percentage of its entertainment costs. Ticket prices for the two options vary depending on the cost of a particular event. As reflected in Option 1, if ACEC decided to continue with its current pricing policy of providing free admission for many of its 14,500 seats, reserved seat ticket prices could range from $10 to $20 depending on an event's cost. For example, if an event cost $113,000, ACEC could charge $20 per reserved seat and recover approximately 40 percent of the event's costs. Option 2 presents sample ticket prices and potential revenues if ACEC charged a moderate ticket price for its reserved seating and a nominal fee for general admission. Based on the pricing options indicated in Table 2, average attendance at 1995 State Fair entertainment events, and adjusting ticket prices depending on the cost of each entertainment event, ACEC could potentially generate between $530,000 to $950,000 in additional entertainment revenue from all its events. However, the amount of additional revenues generated will depend on the ticket pricing option ACEC chooses for each event, which should be dictated by the event's costs.

ACEC can increase food vendor fees—In addition to generating more entertainment revenue, ACEC could increase its food vendor fee revenues by $46,000 to $285,000. As mentioned earlier, most states earn anywhere from 20 to 25 percent of food vendors' gross sales, while ACEC earns the equivalent of 16 to 18 percent. Based on an estimated $2.78 to $3.18 million in total revenue earned by food vendors at the Fair, if ACEC assessed fees to capture 20 percent of these revenues, it could generate an additional $46,000 to $126,000. These revenues could potentially increase to $285,000 if the Agency assessed fees to capture 25 percent of food vendors' gross revenue. ACEC could consider two different methods to capture a larger percentage share of food vendor revenue.

- **Charge a percentage of gross revenue**—While ACEC could still require an up-front fee to secure space at the Fair, the final charge for vendor space could consist of a percentage of the vendor's gross sales. Fourteen of 21 (67 percent) states surveyed use the percentage of vendor gross sales method to determine vendor space charges. One other state plans to adopt this approach for its next state fair. Many states that use this method rely on daily reporting of revenues and a team of auditors to ensure accurate reporting. For example, in Minnesota, each vendor is audited a minimum of 4 times during the 12-day fair. This requires estimating what revenue the food vendors should be reporting and then comparing the estimates with the vendors' self-reported gross revenue. During its 1995 fair, Minnesota hired 4 auditors and spent approximately $2,880 for auditing services, but earned over $1 million in food vendor revenues.

Table 2

Arizona Coliseum and Exposition Center Entertainment Event Cost Recovery Options

	Option 1 Charge for Reserved Seats and Provide Free General Admission for All Remaining Seats			Current Price	Option 2 Charge for Reserved Seats and a Nominal Amount for All Remaining Seats		
Event Cost [a]	$113,000	$49,500	$29,000	$29,000-$113,000	$113,000	$49,500	$29,000
Ticket Price [b]	$20	$15	$10	$7	$20 and $5	$15 and $2.50	$10 and $1
Revenues [c]	$45,500	$34,100	$22,700	$15,900	$75,100	$48,900	$28,700
Percent of Cost Recovered	40.3	68.90	78.3	21.0	66.50	98.8	99.0

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a Event costs illustrate the range of entertainment costs incurred by the Arizona Coliseum and Exposition Center, and were developed by grouping the costs of 25 events at the 1995 Arizona State Fair into 3 ranges and selecting the median amount in each range.

b Ticket prices shown reflect a pricing strategy of charging higher ticket prices for high-cost entertainment events and lower ticket prices for less costly events, a strategy employed by several other states.

c Under Option 1, revenue amounts were determined by multiplying the reserved seat ticket price by the average number of reserved seats (2,274) at 1995 State Fair entertainment events. In addition to revenues calculated under Option 1, Option 2 includes revenues determined by multiplying the nominal ticket price by the average number of general admission seats (5,926) at 1995 State Fair entertainment events.

Source: Auditor General analysis of cost recovery options, based on average attendance levels at 1995 Arizona State Fair entertainment events and indicated ticket prices.

While this option would be more difficult to administer than ACEC's current flat fee, vendors would receive more equitable treatment, since this method would account for varying levels of sales among vendors that result from location and product differences.

- **Raise current fees** — In keeping with its current approach, the ACEC could raise its current food vendor fees to an amount equal to 20 to 25 percent of estimated gross revenues. Based on 1995 estimated food vendor gross revenues, our analysis shows that the Agency would have to raise the current $200 per front trailer foot fee to between $218 and $251 if it wished to capture 20 percent of the food vendors' gross revenue. Likewise, to capture 25 percent, vendor fees would have to be raised to rates between $275 and $316.

  This option has the advantage of easy administration, a benefit preferred by ACEC management. However, it disregards the vendors' sales level and does not differentiate between good and bad sites at the Fair.

- **Charge flat fee against a percentage of gross revenue** — A final option combines the benefits achieved by charging vendors a flat fee and a percentage of the vendor's gross sales. ACEC could establish a flat front foot trailer fee similar to its current fees that all vendors would pay to secure space at the Fair. This would protect the Agency if food vendor sales are negatively affected by low attendance, rainy days, or other unforeseeable events, while still allowing it earn significant revenues. Against this flat fee, ACEC could charge 20 to 25 percent of vendors' gross sales to take advantage of sales that the Agency helps generate by conducting the Fair. ACEC would retain the greater of the flat front footage fee or the fee received from charging vendors 20 to 25 percent of their gross sales.

Increasing food vendors' fees should not negatively affect demand for space at the Fair, nor should it necessarily translate into increased food prices for fair patrons. Each year, ACEC receives more food vendor applications than can be filled by the limited available space. For example, in 1995 the ACEC accepted 123 vendors, and turned away 64. Based on interviews with 6 rejected applicants, 5 indicated a willingness to pay higher rates to secure space at the Fair. However, to reduce the effect of a fee increase on food vendors, ACEC might consider gradually increasing fees over a period of a few years.

Sponsorship revenue can be increased — Finally, ACEC could generate an estimated additional $40,000 to $50,000 in profits by dedicating more resources to soliciting sponsors. As mentioned earlier, sponsorship revenue has decreased over 33 percent since 1990 to approximately $160,000. By contrast, other states have generated more revenue from this function. For example, other state and county fairs, similar in size and attendance to the Arizona State Fair, generated an average of $417,000 in sponsorship revenue during the 1995 fair season, over $250,000 more than was generated by the Arizona State Fair.

However, to achieve greater sponsorship revenue, ACEC needs to dedicate more resources to this function. While ACEC does not have any full-time employees seeking sponsors, other fairs dedicate one or more full-time employees to sponsorship solicitation. For example, in 1993, the Del Mar County Fair in California hired a full-time employee to solicit sponsors and increased its sponsorship revenue by $160,000 the first year, and a total of over $500,000 in 1995.

In addition, the Kentucky State Fair's four full-time employees dedicated to soliciting sponsors generated over $1 million in revenue in 1995. To encourage this level of sponsorship revenue, some fairs pay their staff commissions based on the amount of revenue raised.[1] While ACEC has attempted to create a commissioned sales position in the past, current statutes do not provide for the employment of commission-based personnel.

Personnel costs need analysis — In addition to considering various revenue enhancement options, ACEC should also analyze the Fair's personnel expenses to determine if opportunities exist to decrease costs. As previously mentioned, personnel costs have increased over 30 percent in the last 6 years and currently account for over 32 percent of total operating costs, thus representing a significant opportunity for cost reduction. To date, no such analysis has been performed.

RECOMMENDATIONS

1. ACEC should consider hiring a full-time employee to solicit sponsorship revenue.

2. The Board should consider a variety of options to increase the State Fair's profitability, including:

   - Increasing entertainment ticket prices to cover a greater portion of entertainment costs.
   - Increasing the fees charged to food vendors at the Fair.
   - Analyzing the State Fair's personnel needs to determine if and where reductions are possible.

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1 Two of the 22 fairs we contacted use commissioned personnel. One was a county fair designated as a non-profit corporation and one was a state agency.

SUNSET FACTORS

In accordance with A.R.S. §41-2954, the Legislature should consider the following 12 factors in determining whether the Arizona Coliseum and Exposition Center Board should be continued or terminated.

1. The objective and purpose in establishing the agency.

Since 1905, the State of Arizona, through the Arizona Coliseum and Exposition Center, has sought to provide its citizens with an outlet to showcase its industries and provide various other events for overall public enjoyment. Specifically, the five-member Coliseum and Exposition Center Board is required by statute to "direct and conduct state fairs, contests and entertainment for the purposes of promoting and advancing the pursuits and interests of the several counties of the State, and of providing sufficient revenue to defray the expenses incurred by the Board in conducting such events."

In addition to conducting the annual State Fair, ACEC hosts a variety of other events, including ice hockey games, trade shows, family shows, merchandise sales, and, occasionally, concerts. It also hosts an annual livestock fair as required by statute, to further promote the State's livestock resources. For almost 50 years, the Board has contracted with the Arizona National Livestock Show, Inc. (ANLS), which plans and conducts the livestock fair. The Board's involvement with the ANLS is limited to oversight activities such as approving the show's budget, planned events, and building requirements, and providing ACEC facilities at reduced rental rates.

2. The effectiveness with which the agency has met its objective and purpose and the efficiency with which it has operated.

The Board has generally been effective in meeting its overall purpose by operating and maintaining its facilities in a safe and serviceable manner to conduct the annual State Fair and other events. In doing so, it has been able to operate without legislative appropriations since fiscal year 1981-82 and has actually contributed a total of $3 million to the State's General Fund. Additionally, through its successes in conducting the State Fair and other events, the Board was able to repay a fiscal year 1980-81 legislative loan 20 years early.

However, despite its success and profitability in past years, the Board is currently faced with a decreasingly profitable State Fair and overall agency losses in the last three fiscal years. Particularly, the losses incurred by the Coliseum, averaging $1.3 million per year for the past four fiscal years, have placed the Agency's self-sufficiency in jeopardy. The Board has recently taken action to address this problem by signing a lease agreement for the Coliseum with Valley Iceplex Professionals (VIP). Through a five-year contract, the lessee will assume complete financial and operational control of the Coliseum. This contract should effectively reverse the Agency's history of financial losses for its operation of the Coliseum. However, the Board should reconsider options for closing the Coliseum if the lessee fails to fulfill its obligations under the contract. (See Finding I, pages 7 through 12.) Additionally, although the Board produces a successful, nationally recognized state fair, it can do more to achieve its overall mission as well as realize future plans by considering several revenue-increasing options (see Finding II, pages 13 through 20).

3. The extent to which the agency has operated within the public interest.

The Board generally operates in the public interest by providing affordable entertainment for the enjoyment of all Arizona citizens without the benefit of taxpayer support. Specifically, it conducts a nationally recognized state fair and is host to a variety of other events, including ice hockey games, trade shows, family shows, merchandise sales, and concerts. However, as ACEC has focused on conducting successful state fairs each year, it has somewhat diverged from achieving its overall mission of "promoting and advancing the pursuits and interests of several counties" by showcasing the State's agricultural, livestock, and other industries. Generally, space restrictions inhibit the Board's ability to fully achieve this mission. As such, the Board would like to reemphasize this mission and is currently considering relocating to another site or restructuring the current site.

4. The extent to which rules adopted by the agency are consistent with the legislative mandate.

The Board has established rules that are consistent with its legislative mandate. Specifically, in response to gaming legislation passed in 1987, the Board adopted rules regulating certain state fair amusement games. These rules detail how the games of skill are to be played at the State Fair midway.

5. The extent to which the agency has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

The Board followed procedures set forth by the Secretary of State before officially adopting the rules discussed in Sunset Factor 4. In addition, Board meetings are held in accordance with all open meeting laws as defined in A.R.S. §38-431.

6. **The extent to which the agency has been able to investigate and resolve complaints that are within its jurisdiction.**

While the Board has no statutory authority to investigate complaints, it handles any complaints regarding its operations or policies through the Executive Director or his designee.

7. **The extent to which the Attorney General or any other applicable agency of state government has the authority to prosecute actions under the enabling legislation.**

The Board enabling legislation does not establish such authority.

8. **The extent to which the agency has addressed deficiencies in its enabling statutes which prevent it from fulfilling its statutory mandate.**

Our review did not identify any deficiencies in the Board's enabling statutes which prevent it from fulfilling its statutory mandate.

9. **The extent to which changes are necessary in the agency's laws to adequately comply with the factors listed in the subsection.**

The Legislature should assess the continuing need for the Board to conduct a livestock fair as mandated by A.R.S. §5-113.C.

10. **The extent to which termination of the agency would significantly harm the public health, safety, or welfare.**

Termination of the Board would not significantly harm the public's safety, health, or welfare. However, without ACEC facilities, Arizona's citizens would lose a valuable entertainment and educational resource. Through its multi-purpose facilities, ACEC has become home to many events that serve to promote the interests of many Arizona citizens. For example, the Agency has been a source for civic groups, such as the Goodwill Women's Auxiliary and the Phoenix Jaycees, to hold events such as merchandise sales and rodeos at affordable rates. In addition, agriculture and other interests of our State are generally served by the State Fair, ANLS, and the Maricopa County Fair, all held at ACEC's facilities.

11. The extent to which the level of regulation exercised by the agency is appropriate and whether less stringent levels of regulation would be appropriate.

This factor does not apply as the Board has no regulatory authority.

12. The extent to which the agency has used private contractors in the performance of its duties and how the effective use of private contractors could be accomplished.

The Board extensively uses private contractors in conducting the many events it hosts throughout the year. For example, the Board contracts with a private food and beverage concessionaire to manage the public food stands within the Coliseum and on the grounds during non-fair events. For the State Fair, ACEC has implemented an independent midway concept in which it individually contracts with many different carnival ride and game vendors instead of just one, as many fairs around the country do. The independent midway concept, pioneered by ACEC in the early 1970s, has proven to be highly successful and has since been adopted by several other states. In order to produce a state fair with an independent midway and an excellent variety of food and entertainment, ACEC contracts with over 750 ride, game, food, and commercial vendors as well as the various entertainers who perform during the Fair.

In addition, the Board has recently entered into a lease agreement for the operation and management of the Coliseum. Through this five-year contract the Board should significantly reduce its losses associated with the facility.

Agency Response

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ARIZONA VETERANS' MEMORIAL COLISEUM

Mailing Address: P.O. Box 6728 Phoenix, AZ 85005-6728
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GARY D. MONTGOMERY, C.F.E., Executive Director

August 2, 1996

Mr. Douglas R. Norton
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Re: Response to Draft Sunset Audit Report

Dear Mr. Norton,

Please consider this the Arizona Coliseum and Exposition Center Board's ("Board") response to the July 23, 1996, draft Sunset audit report ("report"). On behalf of the Board I would like to thank the Auditor Generals Office (AGO) and staff for its analysis and recommendations concerning agency operations. The Board has benefited from the AGO's input and sincerely appreciates its help. The report has come at a most opportune time as we prepare the agency for the challenges ahead. As the AGO has discovered during its review of the agency, the Board was already in the process of implementing many of the recommendations ultimately suggested by the AGO. Regarding each of the AGO's recommendations, the Board's comments and observations are as follows:

- ***Coliseum Recommendations (P.12)***

1. *Should the contract with the lessee prematurely terminate, the Board should again consider options for closing the Coliseum.*

   The Board entered into a lease with the Arizona Sports and Entertainment Group (ASEG) with the expectation that ASEG would fulfill all of its obligations under the lease. The Board negotiated for and received various and substantial monetary protections in the event of ASEG's default under the lease. To the extent that another Lessee cannot be found to lease the Coliseum under the same or similar conditions and terms, the Board agrees with the AGO's recommendation for closure of the Coliseum during the non-fair period.

2. *The Board should develop a mechanism to identify and track costs for the services it may provide to the lessee. Specific costs it should capture include employee hours, maintenance, and equipment usage.*

   Prior to signing the lease with ASEG, the Board analyzed many of the costs associated with ASEG's use of the Board's staff and equipment. The Board attached to the lease as an exhibit hourly rates for staff and equipment that cover the Board's costs. The Board agrees with AGO's recommendation and will continue to refine the system by which it tracks costs associated with the lease.

- ***Fair Recommendations (P. 20)***

1. *ACEC should consider hiring a full-time employee to solicit sponsorship revenue.*

   The Board agrees with the AGO's recommendation concerning a sponsorship person, and has hired a full-time person to pursue sponsorship opportunities for the fair. However, to maximize the number of sponsorships received, the ability to pay the sponsorship person a percentage of sponsorship dollars generated is of paramount importance. An example is the Puyallup Fair in Western Washington. Puyallup has watched its sponsorship revenues nearly double over the past several years since hiring and paying a sponsorship salesperson a percentage of the overall sponsorship dollars generated. Many industries pay salespersons a percentage of gross dollars generated which in turn offers a tremendous incentive to sell. The agency would undoubtedly benefit from the ability to pay a percentage of the sponsorship dollars generated.

2. *The Board should consider a variety of options to increase the State Fair's profitability, including:*

   - *Increasing entertainment ticket prices to cover a greater portion of entertainment costs.*

     Over the past several years, staff has increased both the number and cost of reserved seats in the Coliseum for entertainment. A critical balance exists, however, in recovering some dollars to offset the cost of the entertainment and driving attendance through the gates to see free entertainment. The fair is already criticized for its cost to patrons. Consequently, any change in the cost of entertainment must be accomplished gradually, taking into account the price sensitivity of fair guests.

   - *Increasing fees charged to food vendors at the Fair.*

     Presently, management is increasing the cost per foot for all food vendors at the fair. This is another area where management must be careful to balance the need to earn sufficient income from the fair with the need to keep the fair affordable for patrons. Any substantial increase in footage cost will find its way to increased product cost for all food items. The agency believes, of the three options proposed by the Auditor General, the second option of raising footage costs (gradually) is the most viable. The other suggested options have been studied by the Board and staff and should a system be found that ensures the fair is receiving a true percentage of a vendor's actual sales, the Board will revisit this issue.

- *Analyzing the State Fair's personnel needs to determine if and where reductions are possible.*

  The Board has analyzed and continues to analyze personnel usage during the State Fair. The Board has directed staff to aggressively investigate staffing needs and where possible, recommend reductions for the Board's consideration during the first part of 1997.

If the Board or management can supply you with any additional information or answer any further questions, please do not hesitate to call.

Sincerely,

Yolanda Kizer
Chair
Board of Directors

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