



**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

**A PERFORMANCE AUDIT
OF THE**

COLISEUM AND EXPOSITION CENTER BOARD

APRIL 1983

**A REPORT TO THE
ARIZONA STATE LEGISLATURE**



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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

April 29, 1983

Members of the Arizona Legislature
The Honorable Bruce Babbitt, Governor
Mr. William P. Reilly, Jr., Chairman
Arizona Coliseum and Exposition Center Board

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 January 18, 1982, resolution of the Joint Legislative Oversight Committee. The performance audit was conducted as a part of the Sunset Review set forth in A.R.S. §§41-2351 through 41-2379.

The blue pages present a summary of the report; a response from the Arizona Coliseum and Exposition Center Board is found on the yellow pages.

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

Respectfully submitted,

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Enclosure

OFFICE OF THE AUDITOR GENERAL

A PERFORMANCE AUDIT OF THE
ARIZONA COLISEUM AND EXPOSITION CENTER BOARD

A REPORT TO THE
ARIZONA STATE LEGISLATURE

REPORT 83-9

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SUMMARY

The Office of the Auditor General has conducted a performance audit of the Coliseum and Exposition Center Board in response to a January 18, 1982, resolution of the Joint Legislative Oversight Committee. This performance audit was conducted as part of the Sunset review set forth in Arizona Revised Statutes (A.R.S.) §§41-2351 through 41-2379.

The five-member Arizona Coliseum and Exposition Center Board, as custodian of all State fairgrounds and Memorial Coliseum property, directs and conducts the annual Arizona State Fair, directs the annual Livestock Show and leases the Coliseum and fairgrounds facilities. The Board is charged with the responsibility to generate sufficient revenues to defray operating expenses and to pay bond interest and retire outstanding bonds from the \$6.9 million bond issue used for the construction of the Coliseum.

We reviewed State Fair and Coliseum operations to determine 1) whether the Board has fulfilled the purposes for which it was established and 2) whether operations are efficient, effective and within statutory guidelines. We found that the State Fair and Coliseum are generally well run but that several minor improvements would increase the profitability of these operations.

The Board's staff has made several improvements in the State Fair in recent years by 1) encouraging County participation in the State Fair, 2) increasing the number of noncommercial exhibits in the State Fair, 3) establishing tighter controls over midway tickets, and 4) eliminating inequities in the rental rates among ride operators. The 1982 State Fair had a record attendance of 801,651 and a profit of \$860,700.

Although generally effective, State Fair procedures could be improved in the areas of parking, Coliseum entertainment, midway management, rental of commercial exhibit space and purchasing of Fair-related goods and services:

- The State Fair is forfeiting potential parking revenue each year because of the relatively small number of parking spaces available for Fair patrons. Limited parking capacity may also have a negative effect on Fair attendance. The purchase of additional parking areas adjacent to the fairgrounds does not appear to be a feasible solution. However, Board staff should study alternative ways of increasing parking capacity during peak periods, including 1) use of a shuttle between the fairgrounds and parking areas farther away and 2) reevaluation of the number of free parking passes issued to employees and exhibitors (see page 17).
- The Board could recover a substantial portion of entertainment costs by charging a minimal fee for Coliseum events during the Fair (see page 23).
- Several further improvements would enhance the image and profitability of midway operations. First, midway revenues could be enhanced by increasing the rental rate for food booths on the midway and making all potential food vendors aware of the opportunity to rent space on the midway. Second, Board staff should retain documentation relating to the location and evaluation of games, rides and concessions in order to allocate future space assignments more effectively (see page 24).
- The commercial space rental process could be improved by establishing a separate application deadline for prior-year exhibitors and requiring nonrefundable deposits prior to payment of the total rental fee. Board staff should also consider more rental rate differentials as a way of increasing revenues in this area (see page 25).
- Specialized services purchased by Board staff for the State Fair should be obtained through competitive bidding when possible (see page 27).

The Board has been successful in increasing the utilization of the Coliseum and fairgrounds facilities. During calendar year 1982, 155 events were held in the Coliseum or on the fairgrounds (excluding State Fair events). This was a 60 percent increase over the 96 events held in 1981. However, our review of the Board's financial statements for the last five years indicates that, while the State Fair has consistently shown a profit, Coliseum or non-Fair operations have consistently shown a net loss. In effect, the annual production of the State Fair helps to pay for the year-round operation of the Coliseum facility.

The Board's ability to improve the profitability of the Coliseum facilities (non-Fair) is limited by at least three factors: 1) location of the facilities; 2) age of the facilities; and 3) local competition for concerts and other nonsporting events from State, private or municipal facilities.

In addition, profitability from two of the agency's long-term space rental contracts could be improved. Contract documents for the Coliseum Club operation and for video games located on the Coliseum concourse do not adequately control the performance of the parties involved (see Finding II, page 31).

Current legislation proposed by the Board is aimed at increasing the profitability of Coliseum operations by allowing beer and wine to be sold to the public at selected Coliseum events. The Board has unsuccessfully sought such legislation in prior years. The Board claims that the sale of alcoholic beverages to the general public would substantially increase Coliseum revenues and would eliminate the current inequity of allowing a minority of Coliseum patrons (Coliseum Club and Stadium Club members) to purchase liquor.

We identified several potential areas for further audit work that we could not pursue due to time constraints or inadequate data. For a list of these areas, see page 39.

INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Coliseum and Exposition Center Board in response to a January 18, 1982, resolution of the Joint Legislative Oversight Committee. This performance audit was conducted as a part of the Sunset review set forth in Arizona Revised Statutes (A.R.S.) §§41-2351 through 41-2379.

The original agency administering the Arizona State Fair was the Territorial Fair Commission established in 1905. This agency eventually became the Arizona State Fair Commission, which operated under that title until the construction of the Veterans Memorial Coliseum in the mid-1960s. In 1967, an amendment to A.R.S. §3-1006 changed the name of the agency from the Arizona State Fair Commission to the Arizona Coliseum and Exposition Center Board.

The five-member Arizona Coliseum and Exposition Center Board, as custodian of all State fairgrounds and Memorial Coliseum property, directs and conducts the annual Arizona State Fair, directs the annual Livestock Show, and leases the Coliseum and fairgrounds facilities. The Board is charged with the responsibility to generate sufficient revenues to defray operating expenses and to pay bond interest and retire outstanding bonds from the \$6.9 million bond issue used for the construction of the Coliseum.

In past budget documents the Board has stated its goal as follows:

"Maintain, replace and develop the Physical Plant in a manner that will provide for optimal utilization of all facilities in such a manner to make it a showcase of the State of which all of its citizens will be proud."

The Coliseum and Exposition Center Board receives nonreverting legislative appropriations each year in the amount of 100 percent of agency receipts. Major receipts consist of State Fair admissions, rentals of facilities, commissions on ticket sales for Coliseum events, parking, concessions, commercial space rentals (during State Fair), a percentage of midway monies and interest income. In addition, A.R.S. §5-113 grants the Board 5 percent of the State's revenues from pari-mutuel wagering ("racing receipts"), which is used for bond retirement and capital outlay. The same statute grants another 10 percent of the State's racing receipts to a fund

" . . . for the purpose of conducting an annual livestock fair by the Arizona coliseum and exposition center board. . . ."

In several recent years the Board also received special legislative appropriations for repairs and improvements to the buildings and grounds (see Table 1). In February 1981, the Legislature appropriated \$1,335,000 from the State General Fund for the installation of additional permanent seating and the correction of fire and life safety hazards at the Coliseum. Unlike the prior special appropriations, the full amount of this appropriation is to be repaid without interest and at a rate determined by the Board but not less than \$50,000 per year beginning in fiscal year 1981-82.

The Board's 1967 bond resolution requires that the Board set aside money in a bond sinking fund to be used for purchase or redemption of the Coliseum construction bonds. For the last two years the Coliseum Board has set aside more monies for bond retirement than the bond resolution requires. This enables the Board to generate interest income with the excess balance which will effectively decrease the State's contribution to the final retirement of the bonds in 1993.

Table 1 contains a schedule of special legislative appropriations received from fiscal year 1977-78 to the present. Table 2 contains actual revenues and expenses for the Coliseum and Exposition Center Board for fiscal years 1977-78 through 1981-82.

TABLE 1

SPECIAL LEGISLATIVE APPROPRIATIONS
FISCAL YEARS 1977-78 THROUGH 1982-83

| <u>Fiscal Year</u> | <u>Date of Appropriation</u> | <u>Amount Appropriated</u> | <u>Purpose</u> |
|--------------------|------------------------------|----------------------------|---|
| 1977-78 | 7/1/77 | \$ 10,076 | Mechanic shop building sprinkler system |
| | 5/1/78 | 233,480 | Coliseum roof replacement |
| | 5/1/78 | 166,520 | Coliseum side risers and chairs |
| | | <u>\$410,076</u> | |
| 1978-79 | | -0- | |
| 1979-80 | 7/1/79 | \$ 120,000 | Roof repairs, fairground |
| | 7/1/79 | 43,000 | Restroom repairs, fairground |
| | 7/1/79 | 65,000 | Non-Coliseum building improvements |
| | 7/1/79 | 550,000 | Demolition and replacement of 4-H building |
| | 7/1/79 | 100,000 | Paving for Youth Activity Center |
| | 7/1/79 | 165,000 | Coliseum seating repair and replacement |
| | | <u>\$1,043,000</u> | |
| 1980-81 | 7/1/80 | \$ 50,000 | Fire sprinkler system |
| | 7/1/80 | 88,000 | Architectural fees, arena seating expansion |
| | 2/21/81* | 1,200,000 | Arena seating |
| | 2/21/81* | 135,000 | Fire and life safety hazards |
| | | <u>\$1,473,000</u> | |
| 1981-82 | | -0- | |
| 1982-83 | | -0- | |

Source: "Detail of Appropriated Funds Expenditures" from financial statements prepared by the Coliseum comptroller's office for the applicable fiscal years

* These funds represent a \$1,335,000 interest-free loan from the State General Fund to be repaid at a rate of not less than \$50,000 per year.

TABLE 2
FINANCIAL DATA
FISCAL YEARS 1977-78 THROUGH 1981-82

| | Fiscal Year (In Thousands) | | | | |
|----------------------------|-------------------------------|---------------|----------------|---------------|---------------|
| | 1977-78 | 1978-79 | 1979-80 | 1980-81 | 1981-82 |
| Operating Income: | | | | | |
| Non-Fair | \$1,918 | \$2,062 | \$2,278 | \$2,643 | \$3,033 |
| Fair | 2,328 | 2,509 | 2,775 | 2,915 | 3,162 |
| Total | <u>4,246</u> | <u>4,571</u> | <u>5,053</u> | <u>5,558</u> | <u>6,195</u> |
| Operating Expense: | | | | | |
| Non-Fair | 2,453 | 2,661 | 2,733 | 3,425 | 4,239 |
| Fair | 1,524 | 1,737 | 1,881 | 2,163 | 2,310 |
| Total | <u>3,977</u> | <u>4,398</u> | <u>4,614</u> | <u>5,588</u> | <u>6,549</u> |
| Operating Profit (Loss) | <u>269</u> | <u>173</u> | <u>439</u> | <u>(30)</u> | <u>(354)</u> |
| Nonoperating Income: | | | | | |
| Racing receipts* | 417 | 434 | 481 | 546 | 548 |
| Interest earned | 77 | 122 | 184 | 268 | 282 |
| Gain on Coliseum bonds | 60 | 37 | 64 | 153 | 133 |
| Sale of land | 0 | 0 | 46 | 0 | 0 |
| Total | <u>554</u> | <u>593</u> | <u>775</u> | <u>967</u> | <u>962</u> |
| Nonoperating Expenses: | | | | | |
| Bond interest expense | 236 | 223 | 209 | 192 | 172 |
| Amortized bond issue cost | 1 | 1 | 1 | 1 | 1 |
| Judgment expense | 0 | 158 | 0 | 0 | 0 |
| Total | <u>237</u> | <u>382</u> | <u>210</u> | <u>193</u> | <u>173</u> |
| Net Profit - All Funds | <u>\$ 586</u> | <u>\$ 384</u> | <u>\$1,004</u> | <u>\$ 744</u> | <u>\$ 436</u> |
| FTE Positions Authorized** | 212 | 212 | 212 | 212 | 222 |

Source: Financial statements prepared by the Coliseum comptroller's office and appropriations reports applicable to fiscal years ending June 30, 1978, through June 30, 1982

* This line item does not include the portion of racing receipts received for the purpose of conducting the annual livestock show, since the monies are restricted for that purpose and are expended by the association which produces the show (with the approval of the Governor's office).

** The majority of the agency's FTE positions are filled by part-time and/or temporary employees. According to the Coliseum's personnel clerk, there are currently 78 permanent, full-time employees.

Scope of Audit

The scope of our audit of the Coliseum and Exposition Center Board included the operation of the State Fair as well as the operation of Coliseum facilities. Our major audit objectives were to determine:

- Whether the Coliseum and Exposition Center Board has fulfilled the purpose for which it was established and
- Whether the Board operates in an efficient and effective manner and within statutory provisions.

Insufficient data prevented us from evaluating staffing levels at the Coliseum. Due to time constraints, we were also unable to examine in detail the Coliseum's concession operations or evaluate the use of Livestock and Breeders' Award funds. This is discussed in Areas for Further Audit Work, page 39.

The Auditor General and staff express appreciation to the members of the Coliseum and Exposition Center Board and the Coliseum staff for their cooperation and assistance during the course of our audit.

SUNSET FACTORS

In accordance with A.R.S. §§41-2351 through 41-2379, 11 factors were considered to determine, in part, whether the Coliseum and Exposition Center Board should be continued or terminated. Not all of the 11 factors were applicable to the Board since it does not perform a regulatory function.

1. Objective and purpose in establishing the agency

State law includes several references to the purposes and objectives of the Coliseum and Exposition Center. The 1967 legislation which changed the agency's title from the Arizona State Fair Commission to the Arizona Coliseum and Exposition Center Board states:

"It is the intent of the legislature to establish an Arizona coliseum and exposition center board of five members who are qualified to understand the unique character of the operation of the Arizona coliseum and exposition center. Moreover, since the center is a facility which belongs to the people of Arizona, the operation thereof should be so administered that it can be used and enjoyed by all of the people of this state."(A.R.S. §3-1001, Historical Notes. emphasis added)

Arizona Revised Statutes §3-1003, Section A, includes among the Board's responsibilities:

"1. Have exclusive custody and direction of all state fair property, construct and maintain necessary improvements in connection therewith, and assist in raising funds therefor.

"2. Direct and conduct state fairs, exhibits, contests and entertainments for the purposes of promoting and advancing the pursuits and interests of the several counties and of the state, and of providing sufficient revenue to defray the expenses incurred by the board in conducting such events."

Thus, in summary, the objective of the Board is to conduct state fairs and operate the event facilities in a way which

- maintains the facilities in good condition,
- provides enjoyment for "all of the people of this state" and advances the "interests of the several counties and of the State," and
- generates "sufficient revenue to defray" operating expenses.

Goals expressed in interviews with the five current Board members were consistent with these statutory responsibilities.

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

Efficiency and effectiveness of the agency's operations may be evaluated by determining how well it has met the objectives stated in Sunset Factor 1.

Maintaining the Facilities - The Board appears to have met the requirements of the law and the bond resolution concerning maintenance of the facilities, with one exception. The bond resolution applicable to the Coliseum's construction requires an inspection of the Coliseum and its surrounding facilities every three years by a consulting architect. The purpose of the inspection is to provide recommendations for repairs and improvements to the facility. The last inspection was conducted in 1979; thus, the next inspection is overdue. The Board has sought legislative appropriations for a number of major repairs and improvements to the facility (see Table 1). The most recent major improvement to the facility was the addition of 1,714 seats to the Coliseum in fiscal year 1981-82, which was paid for by a loan from the State General Fund. Long-term plans for improvements are addressed in the fiscal year 1982-83 Budget Request, which shows proposed improvements totalling \$2,575,000 over a five-year period. Those proposed improvements include upgrading of electrical power, paving, and renovation of box office, horse barn, and grandstand facilities.

Providing Enjoyment and Advancing the Interests of the Counties and the State - The Board appears to be fulfilling this objective, as evidenced by improvements in the annual State Fair, overall utilization of the facilities and the variety of activities held in these facilities.

The Board's staff has made several improvements in the State Fair in recent years. County participation in the State Fair has been encouraged by providing free booth space to each county and by sending a staff member to each of the county fairs to promote the State Fair. In addition, the Board's staff has increased the number of noncommercial exhibits in the State Fair. Furthermore, the staff has improved midway operations by establishing tighter controls over tickets and eliminating inequities in the rental rates among ride operators. The 1982 State Fair had a record attendance of 801,651 and a profit of \$860,700. Although the Fair appears to be well run generally, our review shows that several minor improvements are needed in State Fair operations (see page 17).

The Board has been successful in increasing the utilization of the facilities. During calendar year 1982, 155 events were held in the Coliseum or on the fairgrounds (excluding State Fair events). This was a 60 percent increase over the 96 events held in 1981.

A wide variety of events are held in these facilities, appealing to a broad section of the public. The events may be broken down into four general categories (excluding State Fair):

- 1) Major events - Events with moderate to sold-out attendances, generally held inside the Coliseum, often longer than one day in duration. Examples of this type of event are the Jaycee Rodeo, Ringling Brothers Circus, Arizona National Livestock Show and Ice Follies.

- 2) Minor events - Events with low to moderate attendance, generally held in outlying buildings on Coliseum grounds. Examples of this type of event are trade shows, small animal or agricultural shows, professional examinations and rummage sales.
- 3) Sporting events - Primarily held in Coliseum but may also be held in outlying buildings. Examples of sporting events are professional basketball, soccer, tennis, boxing and karate.
- 4) Concerts - Musical events, primarily rock-and-roll. Attendance figures vary for these events.

Recovering Operating Expenses - The Board has been successful in generating enough revenues to cover all or most of its operating expenses, although the non-Fair operations incur a substantial loss. Revenues from non-Fair events cover all direct costs but not all overhead costs. The Board's ability to improve the profitability of the facilities, however, is limited by several factors.

Our review of the Board's financial statements for the last five years indicates that, while the State Fair has consistently shown a profit, Coliseum or non-Fair operations have consistently shown a net loss. In effect, the annual production of the State Fair helps to pay for the year-round operation of the Coliseum facility. Table 3 shows the operating profit (loss) of the State Fair and non-Fair activities for the past five years.*

* Table 3 shows only the operating income and expenses. As explained in the Introduction, bond retirement is funded by the Board's percentage of racing receipts, and major improvements to the facilities have usually been funded by special legislative appropriations.

TABLE 3

OPERATING PROFIT (LOSS)
FISCAL YEARS 1977-78 THROUGH 1981-82
(IN THOUSANDS)

| | Fiscal Year | | | | |
|----------------------------|-----------------|-----------------|-----------------|-----------------|-------------------|
| | <u>1977-78</u> | <u>1978-79</u> | <u>1979-80</u> | <u>1980-81</u> | <u>1981-82</u> |
| Non-Fair: | | | | | |
| Operating income | \$1,918 | \$2,062 | \$2,278 | \$2,643 | \$ 3,033 |
| Operating expense | <u>2,453</u> | <u>2,661</u> | <u>2,733</u> | <u>3,425</u> | <u>4,239</u> |
| Operating profit (loss) | <u>\$(535)</u> | <u>\$(599)</u> | <u>\$(455)</u> | <u>\$(782)</u> | <u>\$(1,206)*</u> |
| State Fair: | | | | | |
| Operating income | \$2,328 | \$2,509 | \$2,775 | \$2,915 | \$ 3,162 |
| Operating expense | <u>1,524</u> | <u>1,737</u> | <u>1,881</u> | <u>2,163</u> | <u>2,310</u> |
| Operating profit | <u>\$ 804</u> | <u>\$ 772</u> | <u>\$ 894</u> | <u>\$ 752</u> | <u>\$ 852</u> |

Source: Financial data from Table 2, page 4

* Coliseum personnel cited the loss of several major tenants during fiscal years 1980-81 and 1981-82 as the cause of the increased losses from non-Fair operations during those years--notably the loss of hockey and team tennis in 1980-81 and the cancellations of several major events in 1981-82 due to problems with the Coliseum's roof.

We reviewed rental contracts for events held at the facilities during fiscal year 1981-82 to determine if the Coliseum or non-Fair operating losses were partially due to inadequate rental rates. Rental rates charged appear adequate to recover the majority of the costs associated with holding events; however, the Coliseum's record-keeping system does not capture such costs as utilities and maintenance by event. For example, tenants are charged a flat fee for setup and cleanup; due to the way maintenance staff time is recorded, we were unable to determine if this fee is appropriate (see page 39).

The Board's ability to improve the profitability of the Coliseum facilities (non-Fair) is limited by at least three factors: 1) location of the facilities; 2) age of the facilities; and 3) local competition for concerts and other nonsporting events from State, private or municipal facilities.

According to Coliseum personnel, the Coliseum's location at 19th Avenue and McDowell Road is currently "maximized" with no land available for expansion. Our audit revealed that, during the State Fair, increased parking capacity would provide additional revenue (see page 17). Also, additional acreage would yield more exhibit space which could be rented during the fair. However, expansion appears unlikely since the Coliseum is located in a developed urban area.

The age of the facilities on the fairgrounds causes high maintenance costs which detract from profitability. Most of the facilities on the fairgrounds are between 40 and 50 years old and require renovation in order to increase their ability to produce rental revenue. The grandstand, agricultural and exhibit buildings, for example, were built between 1934 and 1939. In the Board's fiscal year 1982-83 budget request, \$950,000 was requested for improvements to the grandstand and horse barn facilities. The Coliseum building is over 15 years old. In recent years major expenditures have been necessary for roof repairs. These roof problems have also caused a loss in revenue due to the cancellation of several major events.

The Board could possibly recover a greater portion of an event's indirect costs by increasing Coliseum rental rates; however, this does not appear to be a feasible solution because rental rates are already higher than those charged by local competitors. We surveyed five major local entertainment facilities which compete with the Coliseum: Arizona State University's Gammage Center and Activity Center, Phoenix Civic Plaza, Mesa Amphitheater and Compton Terrace. All of the above

facilities have rental rate structures similar to that used by the Coliseum.* Survey responses revealed that the rates for these facilities range between 11 and 26 percent lower than the Coliseum's rental rate (except during the summer months when the Coliseum's rental rate decreases slightly). In addition to lower rental rates, these competitors also offer other incentives--such as the availability of alcoholic beverages to patrons (three of the five facilities), free parking (three of the five) and discounted rates for nonprofit organizations (two of the five). Statutory provisions applicable to the Coliseum prevent the sale of alcoholic beverages to the general public and the Coliseum's bond resolution appears to prevent discounts for nonprofit organizations.

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

The extent to which the Board has operated within the public interest is indicated by the degree to which it has fulfilled its purposes and objectives as stated in Sunset Factor 1. See Sunset Factor 2 for a discussion of how well the Board has achieved these purposes/objectives.

Finding II (page 31) explains how the Board could better protect the State's interests and increase operating revenues by improving the administration of two space-rental agreements.

* Rental rates are expressed as a percentage of gross ticket sales or a minimum charge per event, whichever is higher.

4. The extent to which rules and regulations promulgated by the Agency are consistent with the legislative mandate

A.R.S. §3-1003.A.9. states that the Arizona Coliseum and Exposition Center board shall:

" . . . Promulgate rules and regulations necessary to carry out the provisions of this chapter. . . ."
(emphasis added)

The Board has not promulgated any official rules and regulations. The majority of Board members stated that they saw no need for rules and regulations. According to one Board member, any need was adequately covered by terms of lease/rental agreements and other contracts, guidelines provided by other State agencies (for example, Purchasing, Personnel) and job descriptions of Coliseum employees.

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

As noted above, the Board has not promulgated rules and regulations.

The Board complies with statutory requirements regarding the posting of meeting notices. We found, however, that the Board did not keep minutes of 25 executive sessions held between July 31, 1979, and July 7, 1982. This is contrary to A.R.S. §38-431. During the course of the audit we discussed this noncompliance with the Board's staff and learned that they were not aware of this requirement. Since then minutes have been taken of all executive sessions.

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

The Board does not have statutory authority to handle complaints, since it does not perform a regulatory function. Complaints by patrons or tenants regarding Coliseum operations or policies may be

handled by the Coliseum's Public Relations Department, applicable department heads, Executive Director's office or, as a final resort, by the Board. The Board also has no statutory authority to impose disciplinary actions.

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

No violations and penalties are established by the Board's enabling statutes.

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

The Board has unsuccessfully sought legislation in prior years to allow beer sales to the general public on the Coliseum premises during sporting events. Alcoholic beverages are currently available to members of the Coliseum Club and Stadium Club but not the general public (see page 31). The Board claims that the sale of alcoholic beverages to the general public would substantially increase Coliseum revenues and would eliminate the inequity of allowing a minority of Coliseum patrons to purchase liquor.

9. The extent to which changes are necessary in the laws of the Agency to adequately comply with the factors listed in this subsection

The Board is not complying with A.R.S. §3-1001(C), which requires that the Board meet monthly and elect officers in February of each year. Board meetings have not been held every month and officers were usually elected in July of each year. If the Board determines that it is not necessary or practical to meet on a monthly basis and elect officers in February, then the statutes should be changed accordingly.

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

The Board is not a regulatory agency; therefore, the "public health, safety and welfare" concerns of this factor are largely unapplicable.

Termination of the Board could affect the public welfare, in a sense, because the Board is responsible for repaying all Coliseum construction bonds by 1993. If the Board were terminated, it would be necessary to make some other agency responsible for the repayment of those bonds.

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

The Board does not perform a regulatory function, except in the broadest sense, in its administration of the facilities.

FINDING I

IMPROVEMENTS ARE NEEDED IN STATE FAIR OPERATIONS.

We identified a number of improvements which should be made in State Fair operations, including several changes which would increase Fair revenues. These improvements fall into five categories: 1) Fair parking, 2) Fair entertainment, 3) midway operations, 4) commercial space rentals, and 5) purchasing of goods and services.

1) Fair Parking

The State Fair is forfeiting substantial amounts of parking revenue each year because of the relatively small number of parking spaces available for Fair patrons. Limited parking capacity may also have a negative effect on Fair attendance. The purchase of additional parking areas adjacent to the fairgrounds does not appear to be a feasible solution. However, Board staff should study alternative ways of increasing parking capacity during peak periods, including a shuttle between the fairgrounds and parking areas farther away.

Inadequate Parking Capacity - Existing parking lots cannot accomodate all Fair-goers on most days, particularly on weekends. Therefore, many patrons park on the streets and on the premises of businesses and private residences in the surrounding neighborhoods.

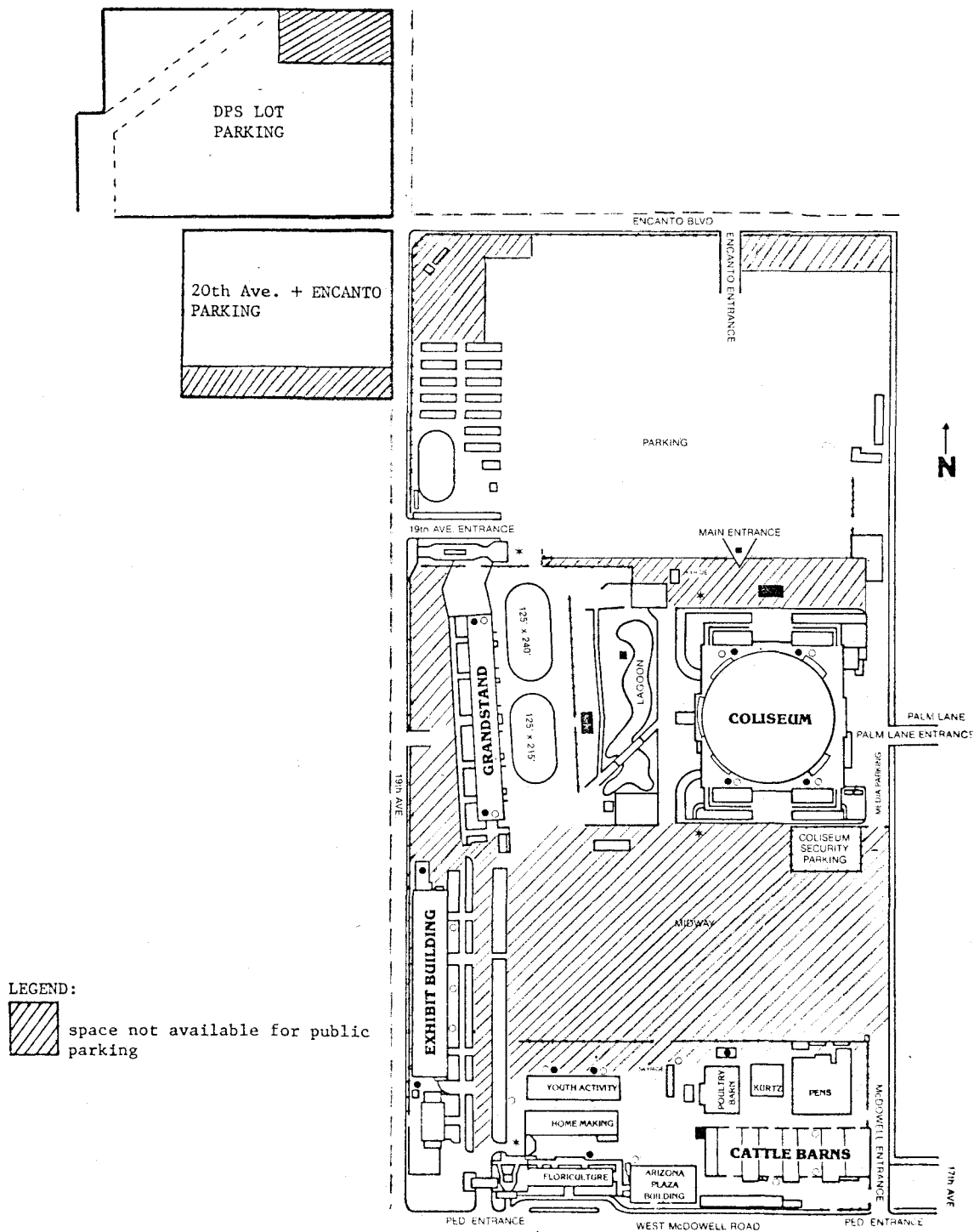
Board staff have not had accurate information on the total number of parking spaces--either during the Fair or at other times. The parking supervisor estimated that 15,000 spaces are available when the fair is not being held. Another source lists parking capacity at 6,200. However, during our audit the architectural firm which designed the Coliseum and performs periodic inspections of the facilities gave us an estimate of only 5,883 total spaces in the four main parking lots. This latter estimate appears to be the most reliable. This total of 5,883 is substantially reduced, though, during the fair because much of the parking area is occupied by trailers, stock trucks and the midway.

Figure 1 shows the layout of the fairgrounds, including parking areas. Note that when the fair is not being held, the four main parking lots are available with the following capacities:

| | |
|---------------------------|--------------|
| South | 1,687 |
| North | 2,286 |
| 20th Ave. & Encanto Blvd. | 1,160 |
| DPS | 750 |
| Total | <u>5,883</u> |

As shown in Figure 1, when the fair is being held, none of the south lot is available to the public because it contains the midway and reserved parking. In addition, portions of the north lot and the 20th Avenue lot are reserved for credentials parking and trailers and stock trucks belonging to exhibitors/concessionaires. This reduces the number of spaces available to Fair patrons to well under 4,000. This is then further reduced by hundreds of employees and exhibitors which have passes to park in unreserved areas (see page 22).

FIGURE 1
LAYOUT OF STATE FAIRGROUNDS



The existing parking areas will not accomodate all Fair-goers on most days of the Fair, according to our analysis. Table 4 shows the paid attendance and paid parking for each day of the 1982 State Fair. If we assume that each vehicle had an average of three to four occupants, then we can estimate the number of vehicles which did not park in State-owned lots each day. Table 4 shows these calculations.

TABLE 4
ANALYSIS OF PARKING AT 1982 STATE FAIR

| Day | Daily Attendance | Number of Paying Cars Parked | Number of Cars Not Parking in State-owned Lots* | |
|----------|------------------|------------------------------|---|------------------------------------|
| | | | Case 1: Three Persons Per Car | Case 2: Four Persons Per Car |
| 1 Fri | 36,132 | 3,914 | 8,130 | 5,119 |
| 2 Sat | 71,256 | 5,997 | 17,755 | 11,817 |
| 3 Sun | 54,619 | 5,211 | 12,995 | 8,444 |
| 4 Mon | 30,126 | 3,663 | 6,379 | 3,869 |
| 5 Tues | 29,296 | 3,693 | 6,072 | 3,631 |
| 6 Wed | 29,912 | 4,041 | 5,930 | 3,437 |
| 7 Thurs | 30,620 | 4,164 | 6,043 | 3,491 |
| 8 Fri | 50,400 | 4,952 | 11,848 | 7,648 |
| 9 Sat | 88,827 | 6,745 | 22,864 | 15,462 |
| 10 Sun | 63,335 | 6,500 | 14,612 | 9,334 |
| 11 Mon | 23,492 | 3,489 | 4,342 | 2,384 |
| 12 Tues | 28,256 | 4,314 | 5,105 | 2,750 |
| 13 Wed | 32,238 | 4,118 | 6,628 | 3,942 |
| 14 Thurs | 32,894 | 4,748 | 6,217 | 3,476 |
| 15 Fri | 41,650 | 4,654 | 9,229 | 5,759 |
| 16 Sat | 80,149 | 6,818 | 19,898 | 13,219 |
| 17 Sun | 78,565 | 6,361 | 19,827 | 13,280 |
| | | | <u>183,874</u> | <u>117,062</u> |

* These numbers do not reflect actual spaces needed since they do not take into account the following factors: 1) the possibility of turnover in parking spaces (e.g., more than one car in a space per day) and 2) the probability that some patrons would continue to park on the street or the premises of surrounding homes and businesses even if sufficient parking spaces were available on the fairgrounds. In addition, parking spaces needed are not evenly dispersed throughout the day because of the greater demand for spaces during peak periods (evenings and weekends).

Parking and Attendance Revenue Lost - A substantial amount of parking revenue is lost each year because of limited parking capacity. If we assume that each car had an average of four occupants, then according to Table 4 a total of 117,000 cars did not park in State-owned lots during the 1982 Fair. At the rate of \$2 per car, this represents \$234,000 in potential parking revenues.*

The unavailability of parking spaces may also have a negative effect on Fair attendance and related revenues, although the extent of this effect is not measureable. Limited parking is a recurring problem each year and usually receives attention in the news media. This may discourage some potential Fair-goers.

Purchasing Additional Parking Areas Not Feasible - The purchase of additional land adjacent to the fairgrounds does not appear to be a feasible solution to the shortage of parking areas. First, the amount of land needed may not be available; and second, the cost of purchasing land for parking only may not be justified by the limited use of that land throughout the year.

The amount of land needed for additional Fair parking may not be available adjacent to the fairgrounds. The architectural firm which designed the Coliseum estimates that one acre would provide 132 parking spaces. At this rate, each additional 1,000 spaces desired would require approximately 7.5 acres of land. This much land may not be available since the fairgrounds are located in a developed urban area.

Even if that much land could be purchased, the cost would probably not be justified by the use of the land throughout most of the year. The land would be needed for parking only during the State Fair and thus would not be used the rest of the year.

* Even if sufficient parking spaces were available in State-owned lots for all Fair-goers, some patrons would probably still park on the streets or the premises of surrounding homes and businesses. Therefore, this total of \$234,000 may be overstated.

Alternatives for Increasing Parking Capacity - Board staff should study alternative ways of increasing parking capacity, particularly during peak attendance periods. One possible solution might be to run a shuttle between the fairgrounds and existing parking lots farther away. For example, perhaps arrangements could be made with Phoenix College, West High School or State Capitol officials to use these parking lots* on weekends and run shuttles to the fairgrounds. If the shuttles were frequent and convenient, this alternative should appeal to many Fair-goers who are frustrated by the current parking shortage.

In addition, Board staff should carefully reevaluate the number of parking passes issued to employees and exhibitors. As mentioned earlier, these passes, along with spaces occupied by trailers and stock trucks, substantially reduce the already limited number of parking spaces available to the public. Table 5 shows the types and number of parking passes issued to employees and exhibitors for the 1982 Fair.

TABLE 5

PARKING PASSES ISSUED FOR 1982 STATE FAIR

| <u>Type of Pass</u> | <u>Number of Passes Issued</u> |
|---------------------|------------------------------------|
| Employee parking - | |
| Season* | 287 |
| Daily | 6,755 |
| Guest parking - | |
| Season* | 496** |
| Exhibitor parking - | |
| Season* | 2,365*** |
| Daily | 1,748 |

* "Season" means the 17-day Fair period.

** Most of these passes are issued to employees, at the discretion of department heads, to be given to "guests" (generally families of employees).

*** The number of season passes issued to exhibitors depends on the number and/or value of exhibit spaces rented. Exhibitors may exchange season passes for an equivalent number of daily passes.

* These lots are all within two miles of the fairgrounds.

According to Board staff, giving free passes to employees and exhibitors is a common practice at other fairs and we assume that most of the passes issued for the Arizona State Fair are necessary. However, in light of the severely limited parking areas for the paying public, we suggest the Board staff reevaluate the number of free passes issued in each category during future fairs.

2) Fair Entertainment

The Board could recover a substantial portion of entertainment costs by charging a minimal fee for Coliseum events during the Fair. However, the effect of this action on Fair attendance--and thus on overall Fair profits--is not known and therefore should be tried on a selective, experimental basis.

Each State Fair in recent years has included free "big-name" entertainment in the Coliseum. The 1982 Fair featured 16 concerts by well-known performers. No admission fee was charged for these concerts; attendance was open to all Fair patrons. The Executive Director claims that this free entertainment is one of the major drawing cards for the fair. Most of the 1982 Fair concerts were well attended. In fact, according to estimates by Board staff, 9 of the 16 concerts were each attended by 13,000 or more people,* and approximately 5,000 were turned away at one concert.

Coliseum entertainment is the second largest cost category of the Fair, after employee salaries. Fees paid to Coliseum performers for the 1982 Fair totaled \$478,500. Related overhead expenses of Coliseum entertainment (ushers, security, instrument rentals, limousine service, etc.) increased the total cost to at least \$562,000. Under current practices, this cost is paid for by all fairgoers; although according to estimates by Board staff, only 25 percent (204,000) of those attending the 1982 Fair attended Coliseum entertainment.

* Coliseum capacity for these concerts was approximately 16,000.

Some fairs in other states charge admission for "big-name" entertainment acts--between \$4 and \$10 per seat--according to our survey of other fairs. For example, the 1982 Minnesota State Fair charged \$6 and \$8 for reserved seats for two shows by the Beach Boys (the same group for which approximately 5,000 people were turned away during the 1982 Arizona State Fair).

At least a portion of Fair entertainment costs could be recovered by charging a minimal admission fee (\$3 to \$5). For example, had \$3 per ticket been charged for the nine most popular concerts at the 1982 Fair, more than \$351,000 in additional gross revenue might have been generated.* The Board and its staff have considered this possibility in the past but are concerned that an additional charge for Coliseum events might decrease Fair attendance and consequently the overall profits of the fair. The extent of this effect is unknown and is impossible to predict. However, an informal survey conducted by Board staff at the 1982 Fair indicated that 74 percent of the respondents** would be willing to pay a "minimal fee" for Coliseum events. A charge of \$3 to \$5 per ticket would still appear to be a bargain when compared to normal concert prices of \$9-\$12 per ticket.

In our opinion, the Board should experiment with this concept during the 1983 Fair. For the most popular shows, all seats could be put on sale or a combination approach could be tried, in which some reserved seats are sold and the rest are open to all Fair-goers.

3) Midway Operations

Although the Board staff has improved midway operations in recent years (see page 9), several further improvements would enhance the image and profitability of midway operations.

* Net revenue would be somewhat lower due to the additional costs of tickets (\$.35 each) and the need for ticket takers.

** Total number of respondents was 621.

First, midway revenues could be enhanced by increasing the rental rate for food booths on the midway and making all potential food vendors aware of the opportunity to rent space on the midway. The midway appears to be a prime location in the Fair for food booths because of the heavy traffic through that area. However, presently the rental charge for a food booth on the midway is only \$5 per foot more than that charged for some spaces off the midway (\$85 per foot versus \$80 per foot). In our opinion, the rate differential could be higher and still attract enough quality concessionaires for the midway spaces since each year the Fair receives many more applications than available spaces. In addition, materials sent to all prospective concessionaires do not indicate that some spaces are available on the midway. Informing all applicants of this possibility would heighten the competition for those spaces and thus allow higher rates to be charged.

Second, documentation should be retained regarding the location and evaluation of games, rides and concessions in the midway. Beginning with the 1981 Fair, midway rides and booths are evaluated for appearance of units and personnel, safety factors, etc., and these evaluations are taken into account the following year when deciding which operators and concessionaires will be a part of the midway. When we asked to review the 1981 evaluations, however, Board staff could not find them. This documentation would be beneficial to Board staff when deciding on future space assignments.

4) Commercial Space Rentals

The commercial space rental process could be improved by establishing earlier application deadlines and requiring nonrefundable deposits prior to payment of the total rental fee. Board staff should also consider more rental rate differentials as a way of increasing revenues in this area.

In order to secure a space at the Arizona State Fair, a prospective exhibitor/concessionaire first completes an application requesting space. Prior-year exhibitors are mailed applications first so that they

may be given preference for spaces; however, no specific deadline is established for return of those applications prior to the deadline for all applicants.* If selected by the Board staff, an applicant is then sent a contract which he must sign and return within approximately one month. He must also remit the total rental fee by the end of that one-month period. No deposit is required prior to that time. Therefore, an applicant can cancel his reservation without any monetary loss up to a month after receiving the contract. This allows the later applicants to cancel without penalty just a few days before opening day of the fair.

We noted two practices in our survey of other fairs across the country** which would improve the commercial space rental process for the Arizona State Fair. First, earlier application deadlines for prior-year exhibitors would allow the remaining spaces to be filled in a more timely manner, well before opening day. Second, Board staff could discourage last-minute cancellations and improve cash flow by requiring a nonrefundable deposit prior to the due date for the total rental fee. In our opinion, these are good business practices which should be adopted by the Board's staff.

Our survey of other fairs also revealed that some fairs have more rental rate differentials than Arizona. Some fairs charge a higher space rental rate for direct sales privileges (as opposed to only displaying a product or service). For example, the Iowa State Fair charges an additional \$300 per exhibitor for direct sales privileges. We also noted that some fairs charge a higher rate for food concessions than for nonfood (for example, Iowa State Fair, Houston Livestock Show) or charge food concessionaires a percentage of gross receipts rather than a flat fee (for example, New Mexico State Fair, Dade County Fair). Board staff should review the feasibility of adopting additional rate differentials as a way of increasing revenues from this part of the Arizona State Fair.

* Deadline for all commercial space applications is two weeks before the Fair opens.

** We received responses from 29 state and county fairs.

5) Purchasing of Goods and Services for State Fair

We found two areas of concern in the purchasing of goods and services for the State Fair:

- 1) Not all purchases for the 1982 Fair were approved by the State Purchasing Office (SPO) as required, and
- 2) Bid advertisements were used inappropriately to obtain specialized services.

Not All Purchases Approved by SPO - Not all Fair-related purchases made by the staff were authorized in advance by the SPO. State law requires that SPO act as the purchasing representative for State agencies except when SPO authorizes an agency to purchase their own goods or services. Each year the Board staff request authorization to purchase on its own a number of fair-related items; all other purchases are to be handled by SPO. We found, however, that 9 out of 79 purchases by the staff for the 1982 Fair were not authorized by SPO. Unauthorized purchases included typesetting services, display cases, pennants and money boxes. According to the Board's purchasing staff, this was due to oversight and not intentional noncompliance.

Inappropriate Use of Bid Advertisements - Board staff have inappropriately used newspaper bid advertisements for obtaining some specialized professional services. Their use of advertising was inappropriate because 1) it was not effective in providing a wide selection of prospective contractors and fees and 2) in most instances advertising was not necessary.

Each year Board staff wish to contract with many of the same persons who performed identical services in prior years. In order to obtain the services of these individuals, an advertisement is placed annually in one of the smaller newspapers in the Phoenix metropolitan area. Then the individuals whom the Board staff wish to hire are notified of the advertisement so they can apply. Board staff said the smaller newspaper is used because advertising costs are less than a paper with larger circulation.

Specialized services obtained in this manner include an artist, a photographer and photographic supplies, a stage manager, ticket sales supervisors, electricians and a motorized events promoter. Fees for these services ranged between \$900 and \$29,000.

This process is not effective in providing a wide selection of prospective contractors and fees. Board staff received few responses to the advertisements, apparently because of the paper's relatively low circulation. Also, since the contractors know they have been hired previously and will be hired again, they may be able to set higher prices for their services than if more competition was present.

Newspaper advertising was also unnecessary for most of these services because other acceptable means were available. In instances where specific knowledge of the Fair or its facilities is required, the Executive Director appears to be justified in wanting to hire the same person each year and should have an alternative to the competitive bidding procedures for obtaining such services.* One alternative would be for the State Personnel Division to create temporary State positions for these areas.**

Services which do not require specific knowledge of the fair or of the facilities should be obtained through a competitive bidding process. However, fees for most of the services were less than \$5,000. State law requires newspaper advertising only for contracts over \$5,000. Therefore, Board staff could have obtained informal bid quotes instead of advertising for bids. For contracts over \$5,000, however, Board staff should advertise in a newspaper "of general circulation."

* For example, the Fair stage manager is also the Coliseum manager during the rest of the year.

** Most of the other State Fair positions are already temporary positions which can be filled without going through the State Personnel Division and the normal competitive recruitment process.

CONCLUSION

State Fair procedures, although generally effective, could be improved in the areas of parking, Coliseum entertainment, midway management, rental of commercial exhibit space and purchasing of Fair-related goods and services. Some of these improvements would substantially increase Fair revenues.

RECOMMENDATIONS

1. Board staff should thoroughly study alternatives for increasing parking capacity during peak periods of the Fair. Alternatives reviewed should include the use of a shuttle service to other existing parking areas in reasonable proximity to the fairgrounds.
2. Board staff should reevaluate the number of free parking passes issued for the Fair.
3. The Board should consider charging a minimal fee (\$3 to \$5) for selected Coliseum events during the 1983 Fair.
4. Board staff should retain documentation relating to the location and evaluation of games, rides and concessions in order to allocate future space assignments more effectively.
5. The Board should increase the rental rate for food booths on the midway and inform all prospective food concessionaires that spaces are available on the midway.
6. Board staff should establish a separate application deadline for prior-year exhibitors and require a nonrefundable deposit prior to payment of the total rental fee.
7. The Executive Director should establish procedures which will help ensure that all purchases made by Board staff are authorized by the State Purchasing Office.

8. The Executive Director should consult with the State Purchasing Office and State Personnel Division to find an acceptable alternative to competitive bidding--when justified--for obtaining specialized services for the Fair. In all other cases the Board's staff should fulfill the intent of the competitive bidding requirements by 1) advertising for bids in a newspaper of general circulation for contracts over \$5,000 and 2) obtaining informal bid quotations for services under \$5,000.

FINDING II

THE BOARD SHOULD IMPROVE ITS ADMINISTRATION OF TWO LONG-TERM SPACE RENTAL AGREEMENTS.

The Coliseum Board should improve the administration of two agreements governing the rental of space for the Coliseum Club and video games. We found a lack of sound business practices in the administration of these agreements, including inadequate control over concessionaires' receipts, incomplete contract documents and a lack of competitive bidding of rental rates. As a result, the Board does not have adequate control over the performance of the parties involved.

Coliseum Club

The Board needs to improve its administration of the Coliseum Club contract. Administration of the contract is inadequate because 1) no provision exists for audit of the concessionaire's receipts, 2) all revenues due the Board have not been collected, and 3) the contract was extended without adequate revisions to the contract documents.

In October 1977, the Board entered into a four-year contract with a concessionaire for the lease of the areas within the Coliseum known as the Coliseum Club and the Stadium Club. The Coliseum Club is a private club where dinners and alcoholic beverages are served to paying club members only. The Stadium Club serves sandwiches and alcoholic beverages to Phoenix Suns season ticket holders. The concessionaire obtains special permits from the Department of Liquor Licenses and Controls, and his clubs are the only places on the Coliseum premises where liquor is sold. The concessionaire also uses the Coliseum Club facility to provide catering services to many of the entertainment acts which perform in the Coliseum. According to the contract, the Board is to receive a percentage of the net receipts (after sales taxes) for food and liquor sales and a percentage of the gross receipts for Club memberships. The Board received approximately \$23,000 in fiscal year 1981-82 as its portion of the concessionaire's receipts.

No Audit of Concessionaire's Receipts - The Coliseum/Stadium Club (referred to hereafter as the Coliseum Club) contract does not contain a provision for verifying the accuracy of the receipts reported by the concessionaire. The contract requires only that each month the concessionaire furnish the Board with a letter--signed by the concessionaire--setting forth the amount of net daily receipts, deductions for taxes and calculations of monies due to the Board. The Board relies on the concessionaire to report his receipts accurately.

Good business practice dictates some provision for audit in the contract. Such provisions could include Board access to concessionaire records, authority to observe cash counts on a surprise basis or an independent CPA audit at the concessionaire's expense. Apparently the absence of such a provision in the contract was due to oversight.

Board Was Not Collecting Percentage of Catering Receipts - Until recently the Board was not collecting a percentage of the concessionaire's receipts for catering services. This appears to be contrary to the intent of the contract, which states in part:

"RENT: [Concessionaire] shall pay to the Board, as rent, the sum of eleven percent (11%) of the net receipts for food, twelve and one-half percent (12-1/2%) of the net receipts for liquor sales and ten percent (10%) of gross receipts received for the Clubs memberships. "Net receipts" are intended to mean all revenues from the sales of food or beverage, less any and all sales or excise taxes and customer refunds."

According to Coliseum personnel, since the contract does not mention catering specifically, no attempts were made to collect a portion of the catering receipts.

The concessionaire agreed to begin paying the Board a portion of his catering receipts after audit staff recommended this to the Coliseum Executive Director in December 1982. Records were inadequate to allow us to estimate how much revenue was lost prior to this change.

Contract Extended Without Adequate Revisions to Contract Documents - In 1980 the Board approved a five-year extension of the Coliseum Club contract without making appropriate revisions in the contract document. At that time the concessionaire wanted to make certain improvements to the Club facility but would not do so without an extension of the contract. The Board agreed to extend the contract for five years on the condition that the improvements would be made. However, the contract document was not revised to include a description of these improvements. Furthermore, as of January 1983 the Board had not verified the nature or value of the improvements actually made. In summary, then, the contract was extended without sufficient controls over the performance of the concessionaire.

Video Games

An agreement governing the operation of video games in the Coliseum is also inadequate because 1) no provisions exist for audit of the concessionaire's receipts or for cancellation of the agreement and 2) competitive bidding was not used prior to making the agreement.

A video game concessionaire contacted Board staff and requested the privilege of placing video games in the Coliseum. The Executive Director agreed to the arrangement on a trial basis for one year. A contract was signed in January 1982. The concessionaire agreed to pay "... 50 percent of the gross sales after taxes for the purpose of operating Video Machines prior to, during and after Coliseum events." As of December 8, 1982, the concessionaire had paid the Coliseum \$10,827 as a result of this agreement.

No Provisions for Audit or Cancellation - Like the Coliseum Club contract, the video games agreement does not contain a provision for verifying the accuracy of the concessionaire's reported receipts. The agreement states that the concessionaire will "present an accurate money count on all machines and present these figures to the Coliseum representative at the time of payment." These terms in effect put the concessionaire on the "honor system" for reporting monies due to the Board. The interests of the

Board would be better served by including a provision which gives them right of access to concessionaire records and the right to observe and count money as it is withdrawn from the machines. An alternative to these controls would be to establish a flat rental fee for the privilege of placing video games in the Coliseum.

In addition to the lack of a provision for audit, the agreement does not contain a clause which allows cancellation of the agreement for nonperformance. Since the agreement was entered into on a trial basis, it would have been advisable for the Board to have the authority to cancel the agreement in the event of nonperformance by the concessionaire.

The absence of these provisions appears to be due to oversight. The agreement was made without involvement of either the Board or the Attorney General. In the future, the Board should approve the terms of the agreement and the Attorney General should approve the contract documents as to form. Involvement by these parties should help improve the quality of the contract documents.

Competitive Bidding Not Used - The Board's staff did not use competitive bidding procedures before entering into this agreement, despite the presence of many potential bidders in the Phoenix area. As a result, Board income from this source may not be maximized.

State law does not require the Board to obtain bids in this situation because it is receiving rental monies from the concessionaire rather than paying for his services with State funds. However, good business practice suggests that competitive bidding should be used to obtain the best terms for this rental agreement - that is, to maximize the Board's portion of receipts. The Phoenix Yellow Pages lists 20 businesses that sell or rent video games, indicating there would be a number of potential bidders for the right to place video games in the Coliseum. No attempt was made to obtain bids because there was no requirement to do so, and the arrangement was undertaken on a trial basis at the suggestion of the concessionaire.

In February 1982, the Director of the State Purchasing Office recommended that competitive bids be obtained for any future contracts for video games. However, in January 1983 the agreement was extended for six months to allow time for Board staff to write bid specifications. According to the Executive Director, competitive bidding will be used at the end of the current contract.

CONCLUSION

The Board needs to improve its administration of two long-term space rental agreements. The contract documents do not adequately control the performance of the parties involved. In addition, competition has not been utilized to maximize revenues from one of the agreements.

RECOMMENDATIONS

1. The Coliseum Board should see that all future long-term contracts contain the provisions necessary to control the performances of the other parties involved. Such provisions include, as appropriate:
 - Provisions for access to records and/or audits for contracts in which the Board receives a percentage of receipts as the rental fee,
 - Cancellation clauses for nonperformance, and
 - Complete descriptions of the conditions or terms upon which an extension is granted.
2. The Board should collect a portion of all catering receipts from the Coliseum Club concessionaire.
3. The Board should use competitive bidding for future contracts covering video games in the Coliseum.

OTHER PERTINENT INFORMATION

Annual Livestock Fair

State law requires the Coliseum Board to conduct "an annual livestock fair," which traditionally has been the Arizona National Livestock Show.* The show is held in January each year and runs for about 10 days. The show is funded largely by a portion of the State's revenues from horse racing. Although the statutes make the Board responsible for conducting the livestock fair, in reality the Board has only limited involvement in the planning and direction of this event.

The Coliseum Board receives funds for the production of the Arizona National Livestock Show through the Governor's Office pursuant to A.R.S. §5-113 which states in part:

"A. All revenues derived from permittees, permits and licenses, as provided by this article, shall be paid to the state treasurer, who shall credit . . . ten per cent of the revenue to a fund known as the county fairs livestock and agriculture promotion fund.

"C. The county fairs livestock and agriculture promotion fund shall be under the control of the governor and shall be used for the purpose of promoting the livestock and agricultural resources of the state and for the purpose of conducting an annual livestock fair by the Arizona coliseum and exposition center board to further promote livestock resources. The direct expenses less receipts of the livestock fair shall be paid from this fund, but such payment shall not exceed thirty per cent of the receipts of the fund for the preceding fiscal year. All expenditures from the county fairs livestock and agriculture promotion fund shall be made upon claims approved by the governor." (emphasis added)

* According to a 1957 statement of legislative intent from the Journal of the Senate, "the Arizona National Livestock Show held annually in Phoenix" was one of the intended recipients of monies from the livestock, agriculture and breeders' award fund. A 1979 opinion issued by the Arizona Attorney General noted that the fund may be used to conduct a livestock show other than the Arizona National, so long as the livestock show is for the purpose of promoting the livestock resources of the State.

Thus, the livestock fair is supported by up to 30 percent of the previous year's revenues from the governor's "county fairs livestock and agriculture promotion fund," plus any receipts from the fair itself.

Although the statutes appear to give the Coliseum Board responsibility for conducting the livestock fair, in reality, the Board has only limited involvement in the planning and direction of the livestock fair. For many years the fair has been planned and conducted by the Arizona National Livestock Show, Inc. (ANLS), a nonprofit organization established to promote the livestock industries of Arizona. Each year the Governor's Office notifies the Coliseum Board and ANLS officials of the amount in the fund available for the livestock show. ANLS staff then prepare a budget, a time frame plan and an events schedule which must be approved by the Coliseum Board. The main purpose of the Board's review is to see that all expenses--including costs incurred by the Coliseum for the event--will be covered by either the governor's fund or receipts from the show.

The January 1982 show cost a total of \$464,861 to produce. Show-related receipts were \$136,385, and the governor's fund provided \$328,117. The only admission fees charged for the show are for the Turquoise Rodeo. According to the show's manager, an annual audit performed by a local independent CPA firm is submitted to the Coliseum Board and the Governor's Office. The audit is not required by statute.

AREAS FOR FURTHER AUDIT WORK

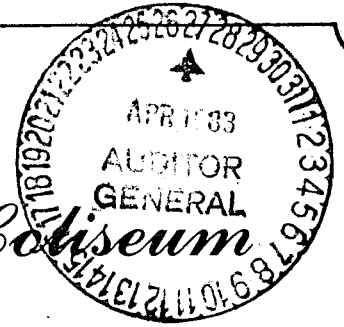
We identified three areas for further audit work that we could not pursue due to time constraints or inadequate data. These areas are:

Coliseum Concessions Operations - We did not research the feasibility of contracting out Coliseum concessions which are currently handled in-house. A survey of the Coliseum's local competitors (exposition/concert facilities) indicated that most of those entities contract out their concessions operations.

Staffing Levels in the Maintenance Department - The Coliseum's Operations Department has 45 permanent employees (approximately 58 percent of the 78 permanent employees on Coliseum staff). Due to inadequate data we were unable to determine if the number of permanent maintenance employees--skilled and nonskilled--are justified by the work load. This evaluation could be performed in the future, however, if more complete records of employees' daily activities were maintained.

Currently the Coliseum's Operations Department has a system of "work slips" which are completed by its employees for the purpose of charging tenants for event-related expenses incurred by the Department. Information provided on the work slips includes: employee name, department, description of work performed and hours charged. Work slips are not completed by employees whose duties are primarily custodial (since tenants are charged a flat rate for setup and cleanup), employees whose tasks relate to general maintenance of the facility and grounds and any employees during periods when all effort is devoted to production of a major event such as the State Fair. Many work slips examined by audit staff were incomplete as to the description of work performed. Therefore work slips could not be used to determine: a) whether current staffing levels are appropriate, b) the percentage of time spent by skilled workers on tasks which might be performed by less skilled staff, and c) the validity of flat-rate charges to tenants. Those determinations could be made in the future if work slips were completed by all employees and specific tasks were recorded on all work slips.

Livestock and Breeders Award - As explained on page 37, the Coliseum Board receives a portion of racing receipts each year to sponsor an annual livestock fair. We did not evaluate the benefits of this practice and whether such funding should be continued.



Arizona Veterans' Memorial Coliseum & Arizona State Fair

Thaxter R. Trafton
Executive Director

April 27, 1983

Mr. Douglas R. Norton
Auditor General
111 West Monroe, Suite 600
Phoenix, Arizona 85003

Dear Mr. Norton:

The Arizona Coliseum and Exposition Center Board would like to thank the Auditor General's staff for their professional manner and cooperation during the sunset audit of our agency.

We believe that during the past several years many improvements have been made to upgrade the quality of the Coliseum and the Arizona State Fair, and that in future years more and better improvements will be made. We appreciate any suggestions that will help us make these improvements.

Enclosed you will find our comments which reflect our views on the audit findings.

If you have any questions, please don't hesitate to call me.

Sincerely,

THAXTER R. TRAFTON
Executive Director

TRT:gw

Enc.

P. O. Box 6745 — 1826 W. McDowell — Phoenix, Az. 85005

ARIZONA COLISEUM AND EXPOSITION CENTER BOARD
RESPONSE TO PERFORMANCE AUDIT

FINDING I IMPROVEMENTS ARE NEEDED IN STATE FAIR OPERATIONS

1. Fair Parking

On the busiest days of the fair there is a definite parking space shortage on the fairgrounds. There is no way to judge how this shortage affects our admissions, but it does. In an effort to park as many vehicle as possible we are looking at shuttle bus service between parking lots in the near vicinity of the fairgrounds. We are only in the planning stages, but it looks like a feasible alternative to our problem.

It wouldn't be financially feasible for the fair to purchase more land because

- a) there is no land available in the immediate area surrounding the fairgrounds;
- b) the cost of the land would be too expensive to justify its limited use.

The Arizona State Fair staff has made every effort to give out as few free passes during the fair as possible. Between our own employees and exhibitors there are a great number of free but necessary passes given out. Each exhibitor is limited to what we feel is the bare minimum and must purchase any additional passes needed. The only way to further limit passes would be to make everyone pay for every pass issued.

2. Fair Entertainment

In order to reduce the cost of entertainment for the 1983 State Fair, a \$3.00 ticket for admission to the Coliseum Show will be sold for three different shows during the fair. Entertainment costs could be reduced by as much as \$135,000.00 due to this action.

3. Midway Operations

As in the past two years, the staff will be doing evaluations of all exhibitors at the State Fair. These evaluations help greatly in exhibitor placement from year to year. These evaluations are kept on file in the Executive Office and are available for review.

4. Commercial Sales

As suggested, a separate application deadline for prior year exhibitors has been set for the 1983 State Fair. We are not requesting a deposit be applied, but are requiring that the contracts be paid in full at an earlier date than in past years.

5. Purchasing of Goods & Services for State Fair

It is always the policy of the State Fair Board to follow State Purchasing rules and regulations and will continue to make every effort in the future to do so.

FINDING II THE BOARD SHOULD IMPROVE ITS ADMINISTRATION OF TWO LONG-TERM RENTAL AGREEMENTS

Coliseum Club

The Board concurs with the audit findings. When the present contract period expires, a new contract will be negotiated and will include the provisions necessary to control the performance of the concessionaire.

The concessionaire is now paying the Board a percentage of catering receipts.

Video Games

Competitive bidding is now being used to obtain the vendor for the up-coming year (Bid #83-0429H). We did not feel we could ask the contractor to pay a flat fee each month because we could not guarantee a certain number of events during that month. The contractor will prepare and deliver a monthly financial report, prepared by the contractor's accountant, that clearly reflects the gross sales by machine.