First and Goal at Last: Arizona Authority Closes in on Stadium Deal

By Richard Williamson

DALLAS - The end zone may finally be in sight for the **Arizona Tourism and Sports Authority** and its long-awaited inaugural sale of $225 million of revenue bonds to finance a new football stadium for the Arizona Cardinals.

Officials at the TSA said yesterday they are now planning to the sell the bonds within the next two weeks as they work to clear up final details regarding insurance for the deal. They are hoping for a much warmer reception from the investment community than they received from some of the potential host cities for the stadium. The facility will be located west of Phoenix in Glendale.

In a negotiated deal with **RBC Dain Rauscher** Inc. as its financial adviser and lead underwriter, the TSA pushed back the sale, which was originally planned for today. As a new issuer, the authority's first outing on the market is seen as critically important.

"I think anyone who's going into the marketplace wants to have as good a sale as possible, not only so that we get the rates we want, but so that the bondholders are pleased with them as well," said chief finance officer **Chuck Foley**.

Foley said the TSA agreed to delay the issue to resolve questions raised by **MBIA Insurance** Corp., which is insuring the bonds to provide a triple-A rating.

While Foley expects strong demand for the TSA bonds, **Kenneth Salinger**, portfolio manager for the Arizona Fund at **American Century** in Kansas City, Mo., said making predictions in the current market is tricky.

"We seem to swing from one extreme, where no one wants a bond, to the other, where no one can find one," Salinger said. In general, he said, the demand for stadium bonds is not as strong as for other issues.

"It will probably trade a little cheaper than most Arizona deals," Salinger said.

If the pricing had occurred today as planned, it could have conflicted with the **Maryland Stadium Authority**'s competitive sale of $23 million of lease revenue bonds.

The competition for capital is likely to increase as major cities across the nation consider building costly stadiums for their own teams after an unprecedented construction spree in the last decade.

If all plans come to fruition, U.S. cities could issue $5 billion to $7 billion of bonds to build stadiums in the next few years, according to a recent report from **Fitch Ratings**.

Fitch analyst **James S. Gilliland** warned that municipalities looking to sell bonds backed by project revenues will have a difficult time achieving investment-grade ratings in the coming years, partly because the market will be saturated with stadium debt.

The TSA last month targeted Jan. 14 as the date to sell the bonds for the Cardinals stadium. A subordinate $33 million issue was to be sold a week later to finance Cactus League stadiums for Major League Baseball teams that hold spring training in the Phoenix area. The Cactus League deal likely will still sell a week after the bonds for the football stadium.

The TSA originally hoped to issue the bonds in August 2001, but legal, political, international, and economic factors intervened.

"We've had 15 months to prepare for this," Foley said.

John F. Long, a prominent Arizona developer, filed suit to stop the bond issue, saying it was unconstitutional. He exhausted his appeals in December when the Arizona Supreme Court refused to hear his challenge to the TSA's constitutionality.

The lawsuit was only one in a series of major hurdles faced by the authority over the past two years. After the Sept. 11, 2001, terrorist attacks, tourism fell, and so did hotel occupancy rates. Rental car lots were stuck in idle. Hotel and rental car taxes are expected to account for 60% of the revenue supporting the stadium bonds.

Phoenix and the Federal Aviation Administration earlier threw a wrench in the works for a planned site in **Tempe**. The regional FAA office claimed that the stadium would interfere with traffic from Phoenix Sky Harbor Airport.

With that cloud hanging over Tempe, TSA officials began looking for another site as a backup. The next best prospect in the East Valley of the Sun, as Phoenix's eastern suburbs are known, was **Mesa**, the third largest city in Arizona. Mesa borders Tempe.

After some Mesans began petition drives seeking a vote on the stadium, a TSA official acknowledged the stadium had "a snowball's chance" of winning approval in Mesa. Thus, the authority went scouting for another location last year, facing a site-selection deadline of Sept. 11.

While the TSA struggled to work out details for a possible deal to locate the stadium on an Indian reservation far from the metro area's center, the western suburb of Glendale took up the TSA's invitation to bid for the stadium after having bowed out of the competition earlier in the year.

With a $180 million Phoenix Coyotes National Hockey League arena planned as the anchor for a new major retail and entertainment center, Glendale had the land to offer the Cardinals right next door. For Glendale, the attraction was to bring the center of gravity in Arizona's sports world from the East Valley to the West Valley. Glendale was also able to issue bonds to build the Coyotes arena with little citizen opposition.

Working hastily, the TSA and Glendale reached agreement just days before the deadline for final site selection. Throughout the process, Long's lawsuit haunted the TSA, keeping the bonds bottled up. After Glendale won the stadium, some pushed Long to drop his suit. He had once proposed building the Cardinals stadium himself, but now refused to play along.

"Contrary to our constitution, the TSA statute allows the TSA today to pledge hundreds of millions of dollars of future state taxes to repay its 30-year bonds," Long wrote. "These taxes would otherwise be used for education, health care, and other state purposes."

Long also contended that the authority violated the state constitution's ban on "special laws" that benefit only a single county or group, rather than the state as a whole.

Once the state's high court rejected Long's last appeal, the stadium finally began to receive attention from the rating agencies. Fitch was the first to issue an opinion, with an A-minus on the Cardinals stadium revenue bonds and a BBB on the Cactus League bonds. **Moody's Investors Service** followed with an A2 rating on the Cardinals stadium Series A bonds and a Baa1 rating on the Series B Cactus League bonds. **Standard & Poor's** will not rate the bonds.

The TSA decided against insuring the Cactus League bonds because the cost was deemed unnecessary, Foley said.

Despite a dramatic downturn in 2002, the analysts said tourism revenues have demonstrated some resiliency year to date, particularly in car rental surcharges.

"**Maricopa County** and the Phoenix metro area demonstrated stable, steady tourism-related revenue growth in the five- to seven-year period prior to fiscal 2002," Fitch analyst Jose Hernandez wrote. "However, for fiscal 2002, lodging excise tax revenues declined 14% and car rental surcharges were down 4.5%, both attributable in part to the national economic recession and the effects of Sept. 11."

Foley said he's pleased with how the TSA fared at the credit agencies after the series of cliffhangers.

"Considering everything that's transpired, we're only one notch down from where we would have been before Sept. 11," he said.