

Watchdog Report: S.D. marathon runs into controversy

Company that stages event profits from city subsidy, charity payouts

By Eleanor Yang Su 02:00a.m. Feb 1, 2009



UPDATES

Marathon organizer rescinds application for S.D. tourism funds

(<http://www3.signonsandiego.com/stories/2009/feb/05/n41516151318-bn05elite/>) (Feb. 5, 2009)

Cox defends grants to daughter's employer, Elite

(<http://www3.signonsandiego.com/stories/2009/feb/06/1m6cox232118-cox-backs-grants-daughter-elite/>) (Feb. 6, 2009)

Race organizers hire independent auditor

(<http://www3.signonsandiego.com/stories/2009/feb/06/1m6elite232118-race-organizers-pay-audit/>) (Feb. 6, 2009)

Rock 'n' Roll Marathon to end MCRD run

(<http://www3.signonsandiego.com/stories/2009/mar/19/1s19breakout224449/>) (March 19, 2009)

Rock 'n' Roll race organizers to return money

(<http://www3.signonsandiego.com/stories/2009/may/15/1n15marathon001838-rock-n-roll-race-organizers-ret/>) (May 15, 2009)

Marathon organizers finish repaying city, county

(<http://www.signonsandiego.com/news/2009/oct/05/bn05marathon-group-repays/>) (Oct. 5, 2009)

OVERVIEW

Background: Elite Racing Inc. has staged the Rock 'n' Roll Marathon in San Diego for 11 years, drawing about 17,000 runners in recent years.

What's happening: The San Diego-based company profits from the race while receiving city subsidies through its affiliated Elite Racing Foundation. The charity has made questionable payouts to the private company.

The future: On Thursday, the newly formed Tourism Promotion Corp. will consider Elite Racing's application for \$375,000 for its 2010 marathon. The tourism nonprofit gives grants that are funded with fees that guests pay at most San Diego hotels.

Elite Racing Inc. has built one of the nation's largest race promotion and management companies, replicating the success of its flagship San Diego Rock 'n' Roll Marathon in eight markets across the country.

But the privately held company has profited from subsidies from the city of San Diego and questionable payouts from an affiliated charity, The San Diego Union-Tribune has found.

The city has provided discounts worth \$127,000 to the Rock 'n' Roll Marathon over the past three years, according to a city analysis obtained through a public records request.

City officials estimate that throughout the 11-year history of the event, the subsidies have topped \$400,000.

The subsidies stem from a nonprofit charity that San Diego-based Elite Racing created that co-hosts the event. It allows the company to cash in on a city policy to charge nonprofits only about half the cost of police services used at special events.

County Supervisors Greg Cox and Ron Roberts also have provided the charity – Elite Racing Foundation for Children, Education and Medical Research – with about \$20,000 a year in grants from county hotel taxes. In the past decade, the grants total \$208,000.

It's unclear what role the foundation plays in staging the marathon. Its tax records do not mention the race, nor do they reflect the discounted payments to the city for event services.

The foundation also has reported conflicting race revenues to the city and county – the amounts differ by \$1 million.

The charity's purpose, according to its tax records, is to award grants. Yet its subsidy from the city last year – \$41,000 – was three times what the foundation paid in grants in 2007.

The largest recipient of its payouts in the past three years has been the for-profit Elite Racing Inc., which is alarming to nonprofit experts.

Elite Racing officials declined to discuss its finances, providing only brief responses to e-mailed questions. They contend they pay the full cost of police and fire services and did not address the discounts.

The officials emphasized that the city collects more than \$1 million in hotel tax revenue annually from runners and spectators who travel to the marathon.

“The Rock 'n' Roll Marathon has an eleven year history of consistently bringing a \$40+ million dollar economic impact to the city of San Diego,” wrote Bruce Herring, Elite Racing's president and a former deputy city manager in San Diego.

On May 31, about 20,000 runners will race past Balboa Park, loop through downtown San Diego and circle Mission Bay, crossing 26.2 miles of asphalt.

Many in the community embrace the Rock 'n' Roll Marathon and tolerate the street closures because of the millions of dollars that runners raise for the Leukemia & Lymphoma Society and other charities.

Although Elite trumpets the dollar amounts raised by other charities at its events, the foundation is not transparent about its own practices.

Since 2005, the Elite Racing Foundation has donated \$38,000 to Elite Racing Inc. and \$15,000 to its Rock 'n' Roll Arizona races, according to tax records.

Foundation Chairman Tracy Sundlun declined to explain why the money was donated to the for-profit entities. In response to submitted questions, he wrote: “The money was used to support over 1,500 charity runners who raised \$3.3 million net for 8 official race charities in 2005 at Rock 'n' Roll Arizona.”

Officials at the California Attorney General's Office said the practice is unusual, and merits further investigation.

“It's hard for me to imagine that there is a legitimate reason for making a grant to a for-profit entity,” said Belinda Johns, a senior assistant attorney general.

Andrew Schulz of the Council on Foundations added: “If you see a foundation making multiple payments to a similarly named for-profit business, that's a code orange or red.”

Sundlun said the foundation's role is to give grants and provide support for charities that coordinate with Elite's races.

Its philanthropy, however, has been modest and opaque. In the past nine years, the Elite Racing Foundation has granted an average of \$35,000 a year, according to tax records. Before 2005, it failed to report its beneficiaries, as required.

Sundlun declined to provide documentation of past beneficiaries, writing that to the best of his knowledge, his accountants have provided what was required.

Most of the nation's 600 marathons are not cash cows. Without television rights and luxury boxes, the sport has very tight margins, said Ryan Lamppa of Running USA, the sport's data clearinghouse.

But by marketing marathons as fun endeavors that can be achieved by any dedicated person, Elite Racing helped spur the nation's second running boom, made up of people seeking better health more than record times.

“That 1998 Rock 'n' Roll San Diego is a marker in the history of the sport of when it started to become mainstream,” Lamppa said.

Elite grew aggressively, creating a network of races stretching from Seattle to Philadelphia.

The strength of the brand was on display in November.

The inaugural San Antonio Rock 'n' Roll marathon and half-marathon drew more than 25,000 runners; previous races had drawn about 4,000 participants.

In January 2008, the company was bought by a private-equity firm. It has since announced plans to introduce at least four new events in as many years.

“They're great at building a race that works within the community, and making money off it,” said Andrew Kline, the managing director of Park Lane, a sports investment bank.

Herring, Elite's president, declined to say how much the company makes on the San Diego marathon, but at a public meeting in October, he said the company nets less than \$100,000 on the race.

That dwarfs the \$275,000 profit – and \$4.5 million in revenue – that Elite projected in its county grant application this year.

Both numbers are different from figures Elite presented to the city in its permit application last year. It estimated both revenue and expenses from the event at \$3 million, netting essentially no profit.

Racing experts say event profits can be manipulated, depending on how staff salaries and other overhead expenses are counted.

Generally, the bigger the marathon, the more money made.

The New York City Marathon, which has 38,000 runners and is one of the world's most profitable, has a budget of \$20 million, said Mary Wittenberg, CEO of the New York Road Runners. SportsBusiness Journal estimated that marathon's 2007 profit at \$6 million.

On a smaller scale, organizers of the Carlsbad Marathon, which drew more than 10,000 runners last weekend, said they typically spend about \$300,000 and collect \$700,000 to \$800,000, not counting staff salaries and other overhead.

“They (Elite Racing) should be making pretty good money if their costs aren't too high,” said Lynn Flanagan, president of In Motion Inc., which puts on the Carlsbad Marathon.

In addition to the city subsidy, Elite Racing will receive nearly \$70,000 this year from a newly formed tourism marketing district. The money comes from a 2 percent fee paid by guests at San Diego's larger hotels.

At a meeting Thursday, board members will decide how much to grant Elite for next year's event. Herring requested \$375,000 for advertising to bolster lagging participant figures.

The city subsidy will save Elite an estimated \$40,000 to \$45,000 this year, mostly shouldered by the San Diego Police Department. It charges nonprofits, including Elite, \$55 an hour for police support; the full cost of overtime, including overhead, is about \$110 per hour, said Ronald Villa, the department's chief financial officer.

The city is considering raising its special-event fees, but it wants to strike a balance so that “great events are not priced out of the market,” said San Diego Police Chief William Lansdowne.

Darren Pudgil, a spokesman for Mayor Jerry Sanders, said the city's subsidy to the race is justified.

“The benefits of having an event like this in San Diego, whether it be hotel and sales tax revenue or national exposure, outweigh the offset that is provided by the city,” Pudgil said.

Elite Racing's arrangement with San Diego is less generous than what some other cities provide.

In Phoenix, for example, city officials provide police, fire and barricades for free, rationalizing that the expense is offset by sales tax revenue generated by visiting runners and spectators.

Elite's bargaining chip has been its economic impact reports, which universally estimate that the marathons generate millions of dollars in host cities. Its report on the 2007 San Diego marathon said visiting runners and spectators spent more than \$48 million.

Some academics say the calculations are wildly inflated.

Victor Matheson, an economics professor at the College of the Holy Cross in Worcester, Mass., said the reports fail to consider the full picture, including would-be tourists displaced by runners and the business lost from the crowding effect.

“The general rule of thumb is to move the decimal point one place to the left,” Matheson said.

Herring, Elite's president, and industry experts say it's undeniable that marathons provide cities with considerable benefits.

“Most cities we partner with see value in providing promotional support,” Herring wrote. “In San Diego, . . . we hope to receive the necessary support to continue to deliver 20,000+ participants and provide significant economic impact to the region.”

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