Agenda Report

May 19, 2003

TO: City Council

FROM: Cynthia J. Kurtz, City Manager

SUBJECT: **Adoption of Vision Statement and Objectives Related to a Prospective Lease with the National Football League for Use of the Rose Bowl Stadium**

RECOMMENDATION:
It is recommended that the City Council:

A) Adopt the following vision statement related to a prospective lease with the National Football League:

To structure a lease with the NFL that both meets the financial and operating needs of the City of Pasadena (City)/Rose Bowl Operating Company (RBOC) as well as the NFL. The lease will (a) preserve day-to-day control of the stadium with the RBOC consistent with its mission statement, (b) provide for the rehabilitation of the historic Rose Bowl and create a state-of-the-art stadium, (c) free up RBOC cash flow that currently is committed to pay operation and maintenance as well as debt service, and (d) preserve the rights of current tenants and hold them financially harmless as the result of a smaller-capacity stadium.

B) Adopt the following objectives for discussion with the NFL concerning the potential of its use of the Rose Bowl Stadium. Final approval of any agreement will be dependent on compliance with CEQA:

1. The NFL would enter into a 30-plus year lease of the Rose Bowl, which the NFL would rehabilitate according to an approved design in order to maintain the building's designation as a National Historic Landmark. The rehabilitation would be paid for by the NFL and the Rose Bowl would be home stadium for an NFL team;

MEETING OF 05/19/2003 AGENDA ITEM NO. 7.B.(2)

2. The City would continue to own the Rose Bowl and the RBOC would continue its oversight role related to activities at the Rose Bowl Area;
3. The NFL would provide the City/RBOC adequate revenues to pay outstanding Rose Bowl bonds without using golf course revenue;
4. The NFL would pay rent for use of the Rose Bowl Stadium;
5. The NFL would pay for all operations, maintenance, capital, repairs and improvements for the Rose Bowl during the lease term, subject to agreed upon standards;
6. There would be no more than 25 events annually at the Rose Bowl with attendance of greater than 20,000 people. It is contemplated that seven of these events would be for the benefit of UCLA, one for the Tournament of Roses, and 13 for the NFL. The RBOC/City would establish limits and share revenue for the four other major events per year and for events with less than 20,000 attendees. Gathering of less than 2000 people will not require RBOC approval;
7. City reserves the right to impose a user fee, the proceeds to be utilized at the city's discretion to finance improvements related to the Rose Bowl area;
8. The NFL would be required to protect the Tournament of Roses and UCLA from adverse financial impacts caused by alterations to the stadium;
9. The NFL would consider locating a practice facility in Pasadena;
10. The NFL would commit to bringing Super Bowl games to the Rose Bowl throughout the term of the lease. The City would seek to have four Super Bowls during each 15 years of the lease;
11. The NFL would provide public benefits to Pasadena, including participation in local non-profits and youth programs, and local employment during construction and for stadium operations;
12. The NFL would be offered the opportunity to name the Rose Bowl field (i.e. XYZ Field at the Rose Bowl);
13. The City would pursue an exclusive negotiation agreement between the NFL and RBOC/City for a specific period of time.

BACKGROUND:
The Rose Bowl Stadium, built in 1922, has been a valuable asset for the City of Pasadena and provided notoriety throughout the world for 80 years. The stadium is currently facing serious economic challenges however.

Since 1992, the City of Pasadena has invested more than $32 million in stadium improvements. The stadium can't afford to pay these capital improvements from stadium revenue. As a result, golf course revenue (approximately $2 million annually) has subsidized stadium capital improvements. To illustrate this point, since 1986, the golf course has generated a profit to the RBOC/City of Pasadena of $30 million. Only five hundred thousand dollars has been invested into the golf course.

On February 11, 2002, the Pasadena City Council approved a business plan prepared by the RBOC that emphasized the current economic challenges facing the stadium. The plan focused on prospective solutions to stabilize the long-term prospects of both the Rose Bowl and Brookside Golf Course and focused on the need for a long-term, major tenant that would make significant investment into the facilities. The business plan stated that a long-term major tenant would:

- Provide a long-term solution to the financial challenges facing both the stadium and golf course.
- Make it possible for the golf course to use its own operating surpluses to reinvest in its own facilities.
- Provide a substantial economic benefit and visibility for the City of Pasadena.

These concerns have prompted the Rose Bowl Operating Company to recommend that the City Council consider the pursuit of another major tenant, specifically the National Football League (NFL). A driving consideration is that should the NFL locate a team in the Los Angeles area other than the Rose Bowl, there is a chance that UCLA might choose to play at that other facility. While it would depend upon where the NFL stadium was located, the risk is there and must be factored into any City decision. In addition to UCLA, the City's ability to attract special events and maintain other current revenues at current levels would be jeopardized. Attached is a chart that indicates potential scenarios/impacts to the Rose Bowl as it relates to the NFL having a team in the LA market.

The NFL lease objectives are intended to be consistent with the city's objectives to achieve a significant reinvestment into the Rose Bowl while maintaining the historic and cultural value of the Bowl, preserving City control of use of the Bowl and it's environment, and minimizing impacts to surrounding neighborhoods in the Arroyo.

Financial stabilization of the Rose Bowl is a primary concern of the objectives. Revenue streams are needed to pay for past and future investments. The objectives state that the NFL must provide the City/RBOC adequate revenues to pay bonds without using golf course revenue and must pay all operations and maintenance/capital improvements for the Rose Bowl.

Naming rights are an important component of NFL considerations, allowing the NFL an additional revenue stream to recoup investment in the Bowl. Recognizing this importance of this component, the objectives offer the opportunity to name the Rose Bowl field (i.e. XYZ Field) at the Rose Bowl.

In addition to obtaining funding to adequately support the Bowl, the objectives seek additional revenue for improvements to the open areas around the Bowl. For this reason, the objectives address the right to impose a user fee, with the proceeds to be utilized at the city's discretion to finance improvements related to the Rose Bowl area.

Of particular importance is the governance of the Rose Bowl. Under the objectives, there would be no change to the City's ownership of the Rose Bowl or the role of the RBOC in oversight of activities at the Rose Bowl Area.

After more than 80 years as a cultural landmark in Pasadena, and a National Historic Landmark, the Rose Bowl is an important feature in Pasadena's landscape. Another primary consideration in the objectives is the ability to ensure the historic and cultural quality of the Bowl. The NFL would rehabilitate the Rose Bowl in a manner that would maintain the building's designation as a National Historic Landmark. A rehabilitated stadium would maintain these qualities and ensure a future that is as bright as its past.

In 2001, the City Council conceptually approved a Use Plan for the Rose Bowl that limited event exceeding 20,000 people to no more than 25 in a year. The objectives support this Use Plan. It is contemplated that seven of these events would be for the benefit of UCLA, one for the Tournament of Roses, 13 for the NFL.

The objectives also seek to specify the additional ways the NFL could benefit the community. Participation in local non-profits and youth programs would be required, as would local hiring in construction and stadium operations. In addition, a practice facility located in the City could provide additional opportunities for community involvement.

Additional benefit would also be gained by the staging of Super Bowl games in the Rose Bowl. As the largest sporting even in the country on an annual basis, Super Bowls generate in the range of $400 million for the local economy. The Rose Bowl has held five Super Bowls to date and the objectives seek to have four Super Bowls for each 15 years of the lease.

Finally, the objectives seek to protect the Rose Bowl's current tenants, UCLA and the Tournament of Roses, from adverse economic impacts. The rehabilitation of the stadium would result in a reduced capacity. The NFL would be required to protect the Tournament of Roses and UCLA from any diminution in revenue from financial impacts caused by alterations to the Bowl.

ENVIRONMENTAL REVIEW

If the objectives are adopted, and an agreement is negotiated, environmental review would be required under CEQA. The Preliminary Plan Review (PPR) process and the environmental review process would also be initiated.

The PPR will outline the time frames and review process that will include preparation of an Environmental Impact Report. The EIR process will include a public scoping session, an analysis of the impacts, and public review of the identified impacts and mitigation measures.

Concerns have been raised regarding traffic impacts resulting from the proposed NFL use of the Rose Bowl. Traffic analysis of these events has been initiated. Traffic impacts will be analyzed as part of the EIR and traffic mitigation measures proposed. The City will impose appropriate mitigation measures and mitigation monitoring plan to address identified traffic and other environmental impacts.

FINANCIAL OVERVIEW

The financial picture and economic solvency of the Rose Bowl has been tenuous at best with some very good and very poor financial performing years over the past decade. While having two solid long term tenants committed to play at the Rose Bowl provides a certain degree of stability, since 1996 and the issuance of the 1996 Certificates of Participation, the Rose Bowl has relied heavily on golf course revenues to cover its debt service. This has occurred even with the addition of the Los Angles Galaxy as a tenant. Now that the Galaxy has relocated to a new stadium, the ability of the Rose Bowl to be self-sufficient is even more in question.

The attached discussion presents a recap of the financial picture of the Rose Bowl and Golf Course Funds since 1996. The projections for the Rose Bowl include revenues associated with the Galaxy that will not continue in the future. In addition, the revenues at present also include UCLA that represents over $1.2 million annually to the Rose Bowl.

With the long-term financial uncertainty of the Rose Bowl, coupled with future capital needs of the stadium and the golf course, the City needs to explore alternative financial and operational models for the stadium. The non-binding objectives before the City Council tonight address many of the objectives approved by the City Council when it adopted the Rose Bowl Business Plan. There is no specific fiscal impact with tonight's decision but rather it sets the foundation for discussions with the NFL.

The amount of revenue that could be realized from a lease of the Rose Bowl to the NFL cannot be estimated at this time as it remains subject to negotiations.

Respectfully submitted,

Cynthia J. Kurtz
City Manager

Concurrence:

Darryl Dunn, General Manager
Rose Bowl Operating Company

Attachment A – Economic Impact to the Rose Bowl
Attachment B – Financial Overview

Attachment A

Impact of NFL Franchise in Los Angeles Area

SCENARIO	A	B	C	D
NFL TEAM				
Comes to L.A. Area	No	Yes	Yes	Yes
Team Home Stadium	n.a.	Rose Bowl	Coliseum	New Stadium
ROSE BOWL UTILIZATION				
Rose Bowl Game	Yes	Yes	Yes	Yes
Flea Market	Yes	Yes	Yes	Yes
UCLA Football	Yes	Yes	Yes	No
NFL Team	n.a.	Yes	No	No
Other Sports	Good Prospects	Excellent Prospects	Poor Prospects	Poor Prospects
Special Events	Good Prospects	Excellent Prospects	Poor Prospects	Poor Prospects
LONG TERM FINANCIAL IMPACTS				
Rose Bowl Stadium				
Meet Operating Costs	Yes	Yes	Marginal	Marginal to No
Fund Capital Improvements	Marginal	Yes	No	No
Pay Existing Bond Debt	Marginal	Yes	Marginal to No	No
Brookside Golf Course				
Meet Operating Costs	Yes	Yes	Yes	Yes
Fund Capital Improvements	Marginal	Yes	Marginal to No	No

ATTACHMENT B
FINANCIAL OVERVIEW

Attached are several financial documents that highlight the financial picture of the Rose Bowl and Golf Course Funds since 1996.

The Debt

In 1991, the City Council issued Certificates of Participation (COP) in order to construct the current press boxes and suites. The original issue amount was $13.0 million, while the current outstanding balance is $7.4 million. In 1996, the City issued additional COPs in the amount of approximately $22.0 million in order to complete numerous capital improvements at the Rose Bowl. The current outstanding balance is $16.0 million. Combined as of April 29, 2003, the combined outstanding principal balance is $23.4 million, with annual debt service ranging from a projected $2 million for fiscal year 2003 to as high as $2.8 million in fiscal year 2012, the year that the 1991 COPs are fully retired. Under the current structure, the 1996 COPs will not be fully paid off until December 2016. Because of concerns relating to the tax-exempt status of these bond issues, both COP transactions were issued in a variable rate mode. While interest rates have fluctuated over the years and the Rose Bowl has benefited tremendously from unusually low interest rates (in the 1% range), traditionally the rates have been in the 3% to 4% range.

The fundamental unanswered question still pertains to future capital needs of the stadium and how much and when additional debt will have to be undertaken in order to meet these needs. If it is before the current bonds are paid off, it is questionable whether or not the golf course will be able to expand its support to the Rose Bowl Fund. If it is after 2016, it means that the Golf Course Fund will be a long term funding source for the Rose Bowl. In either event, Golf Course revenues will not be available for significant capital needs of the Golf Course or program needs of the City. All of this assumes, that the current mix of tenants does not change.

Balance Sheets (Attached)

The attached balance sheet reflects that the Rose Bowl Fund has maintained a negative cash balance over the past six years. In fiscal year 1999, the City Council approved a plan to transfer $8.5 million from the General Fund to the Rose Bowl Fund. A portion of this amount was in recognition that in prior fiscal years, the City transferred Rose Bowl revenues to the General Fund without sufficient cash being available in the Rose Bowl Fund. The balance was to cover the combined cash deficit of the Rose Bowl and Golf Course Funds. The $8.5

million transfer was spread over three fiscal years, with the final payment being made in fiscal year 2002.

The restricted cash on the Rose Bowl balance sheet represents unspent bond proceeds as well as required bond reserves and is not available to cover operating expenses. The accrued accounts receivable and payable accounts tend to offset each other over the years and represents timing between the staging of an event and the reimbursement to the Rose Bowl by the promoter of the event.

The Golf Course Fund, on the other hand, has a cash balance as of June 30, 2002 of $2.1 million. The equity position of the Golf Course Fund has improved between fiscal year 2001 and 2002. This is primarily due to improvements made, primarily to the Clubhouse and the fact that the funds came from previously unspent bond proceeds and unspent Rose Bowl capital dollars originally earmarked for 1996 stadium improvements.

Income Statements (Attached)

The income statements tell a bigger story of the strain the current debt service places on the Rose Bowl Fund and the need for the Golf Course Fund to provide financial assistance.

On a full accrual basis, the Rose Bowl Fund loses money most years. After including non-operating income and expenses and operating transfers in and out, the Rose Bowl Fund appears to have made a slight profit in FY2002. The reality is that without the $2.8 million operating transfer in from the General Fund, there would have been a loss of over $400,000. This does reflect a larger cashflow deficit due to the fact that the amount expensed for depreciation was approximately $200,000 less than the amount paid in principal for the 1991 and 1996 COPs and the fact that the UCLA reimbursements for the 2001 season were not received until July 2002. In addition, fiscal year 2002 reflects the last full year of the Galaxy playing at the Rose Bowl that will reduce net income by approximately $500,000 annually.

The Golf Course Fund, on the other hand, reflects consistent net income since 1996 with $1.4 million in net income realized in fiscal year 2002. After factoring the operating transfers out, however, overall net income is reduced significantly. In most years, the operating transfers out reflect transfers to the Rose Bowl Fund in order to cover cashflow deficits of the Rose Bowl Fund. The amount of the transfer is fairly close to the amount of the annual debt service of the Rose Bowl.

Statements of Cash Flow (Attached)

The Statement of Cash Flow compares results for fiscal year 2001 and 2002. As described above, reflected in these numbers is two-thirds of the $8.5 million in cash transferred from the General Fund to the Rose Bowl Fund. But for the approximate $2.8 million annually during these two years, the Rose Bowl Fund would have experienced a negative cashflow of approximately $2 million in fiscal year 2001 and $1 million in fiscal year 2002, excluding cash used for Capital improvements.

On the other hand, the Golf Course Fund continues to produce positive cashflow that has been used to stabilize the Rose Bowl Fund.

GOLF COURSE FUND
BALANCE SHEET

	FY 2002	FY 2001	FY 2000	FY 1999	FY 1998	FY 1997	FY 1996
ASSETS							
Cash & Investments	2,127,261	477,523	0	0	87,500	0	0
Restrict Cash and Investments	794,683	567,726	1,189,407	834,804	1,757,443	1,787,083	2,287,924
Accounts Receivable	1,137,419	1,175,567	802,221	701,543	670,632	572,430	505,348
Less: Allowance for Uncollectable Amounts	0	(120,300)	0	0	0	0	0
Due From Other Funds		0	767,149	1,175,312	335,921	2,476,624	1,447,419
Inventories		0	0	0	0	0	0
Prepaids and Other Assets		0	0	0	0	0	0
Property, Plant and Equipment	3,020,548	1,914,884	1,949,365	6,246,039	6,227,962	6,508,554	6,480,311
Less: Accumulated Depreciation				(4,288,434)	(4,301,338)	(4,112,391)	(4,060,117)
Total Assets	7,079,911	4,015,400	4,708,142	4,669,264	4,778,120	7,232,300	6,660,885
LIABILITIES							
Accounts Payable & Accrued Liabilities	86,329	35,593	0	13,565	8,711	15,878	20,494
Deposits	0	0	0	0	34,582		
Due to Other Funds	0	0	0	0	0	0	0
Current Portion of Long Term Debt	0	0	120,000	0	0	0	0
Deferred Revenue	0	0	0	0	0	0	19
Unamortized Discount	0	0	(351,000)				
Certificates of Participation	0	0	2,120,000	1,977,000	2,055,000	2,155,000	2,250,000
Total Liabilities	86,329	35,593	1,889,000	1,990,565	2,098,293	2,170,878	2,270,513
EQUITY							
Contributed Capital	3,020,548	494,421	494,421	494,421	494,421	494,421	494,421
Retained Earnings (Accumulated Deficits)	3,973,034	3,485,386	2,324,721	2,184,278	2,185,406	4,567,001	3,895,951
Total Equity (Deficit)	6,993,582	3,979,807	2,819,142	2,678,699	2,679,827	5,061,422	4,390,372
Total Liabilities and Equity	7,079,911	4,015,400	4,708,142	4,669,264	4,778,120	7,232,300	6,660,885

Attachment B-2

GOLF COURSE FUND
INCOME STATEMENT

	FY 2002	FY 2001	FY 2000	FY 1999	FY 1998	FY 1997	FY 1996
OPERATING REVENUES							
General Revenues	2,050,443	2,021,940	2,101,074	2,061,981	2,202,890	1,835,360	1,785,712
Advertising Revenues	0	0	0	0	0	0	0
Total Operating Revenues	2,050,443	2,021,940	2,101,074	2,061,981	2,202,890	1,835,360	1,785,712
OPERATING EXPENSES							
Operating Expenses	646,063	547,102	587,155	349,566	556,527	633,097	699,675
Depreciation	0	0	0	88,022	88,022	52,273	52,273
Total Operating Expenses	646,063	547,102	587,155	437,588	644,549	685,370	751,948
INCOME (LOSS) FROM OPERATIONS	1,404,380	1,474,838	1,513,919	1,624,393	1,558,341	1,149,990	1,033,764
NON-OPERATING REV (EXP)/TRANSFERS IN (OUT)							
Investment Earnings on Bond Proceeds	236,900	319,873	333,291	14,911	0	14,910	14,910
Gains (losses) on Bond Investments	0	0	0	0	0	0	0
Bond Interest Expense	0	0	(163,060)	(141,959)	(147,209)	(151,959)	(156,471)
Capitalized Interest Expense on Bonds	0	0	0	0	0	0	0
Capitalized Bond Expenses	0	0	0	(27,000)	0	0	0
Net Bond Interest (Expense)	236,900	319,873	170,231	(154,048)	(147,209)	(137,049)	(141,561)
Investment Earnings on Pooled Cash	0	0	0	77,908	142,685	92,408	75,766
Gains (losses) on Pooled Cash	0	0	0	(18,164)	8,571	9,789	7,984
Other Interest Income (expense)	0	0	0	0	0	0	0
Net Pooled Interest (Expense)	0	0	0	59,744	151,256	102,197	83,750
Other Interest Expense							
Maintenance of Arroyo Park & Facilities	0	0	0	(525,000)	(534,153)	(588,472)	(551,774)
Loss on Disposal of Assets	0	0	0	0	0	0	0
Other Non-Operating Revenues (Expenses)	598,705	985,052	438,439	416,422	208,596	184,545	222,532
Loss on Defeasance of Bonds Payable	0	0	0	0	0	0	0
Operating Transfers In	773,790	0	94,490	0	0	0	0
Operating Transfers Out	0	(2,575,823)	(2,076,635)	(1,422,639)	(3,236,908)	(40,161)	(337,297)
Total Non-Operating Rev (Exp)/Transfers In (Out)	1,609,395	(1,270,898)	(1,373,475)	(1,625,521)	(3,558,418)	(478,940)	(724,350)
NET INCOME (LOSS)	3,013,775	203,940	140,444	(1,128)	(2,000,077)	671,050	309,414

NOTE:

Fixed assets and accumulated depreciation were adjusted by $537,000 as a restatement of fiscal year beginning balance.

Beginning Fund Balance for FY98 was restated downward as compared to FY97 by $381,518 to reflect a restatement of fixed assets due to a fixed asset inventory review.

Attachment B-3

	FISCAL YEAR 2001 & 2002			FISCAL YEAR 2002			FISCAL YEAR 2001		
	Rose Bowl	Golf Course	Total	Rose Bowl	Golf Course	Total	Rose Bowl	Golf Course	Total
Cash flows from operating activities:									
Cash received from customers	16,831,995	5,318,938	22,150,933	8,497,101	2,566,996	11,064,097	8,334,894	2,751,942	11,086,836
Cash paid to employees for services	(2,025,546)	(563,001)	(2,588,547)	(1,163,460)	(304,485)	(1,467,945)	(862,086)	(258,516)	(1,120,602)
Cash paid to suppliers of goods and services	(11,070,695)	(363,152)	(11,433,847)	(6,235,517)	(200,663)	(6,436,180)	(4,835,178)	(162,489)	(4,997,667)
Net cash provided by (used for) operating activities	3,735,754	4,392,785	8,128,539	1,098,124	2,061,848	3,159,972	2,637,630	2,330,937	4,968,567
Cash flows from noncapital financial activities:									
Transfers (to) from other funds	(400,000)	400,000	0	(400,000)	400,000	0	0	0	0
Transfers (to) from the City of Pasadena, net	3,073,467	(2,367,159)	706,308	2,833,778	373,790	3,207,568	239,689	(2,740,949)	(2,501,260)
Net cash provided by (used for) noncapital financing activities	2,673,467	(1,967,159)	706,308	2,433,778	773,790	3,207,568	239,689	(2,740,949)	(2,501,260)
Cash flows from capital and related financial activities:									
Acquisition and construction of capital assets	(3,234,742)	(1,251,866)	(4,486,608)	(1,982,296)	(1,195,843)	(3,178,139)	(1,252,446)	(56,023)	(1,308,469)
Principal payments on certificates of participation	(2,584,386)	0	(2,584,386)	(1,359,554)	0	(1,359,554)	(1,224,832)	0	(1,224,832)
Interest payments on certificates of participation	(1,436,640)	0	(1,436,640)	(533,400)	0	(533,400)	(903,240)	0	(903,240)
Net cash provided by (used for) capital and related financing activities	(7,255,768)	(1,251,866)	(8,507,634)	(3,875,250)	(1,195,843)	(5,071,093)	(3,380,518)	(56,023)	(3,436,541)
Cash flows from investing activities:									
Investment earnings	328,129	558,777	886,906	140,450	236,900	377,350	187,679	321,877	509,556
Net cash provided by (used for) investing activities	328,129	558,777	886,906	140,450	236,900	377,350	187,679	321,877	509,556
Net increase (decrease) in cash and cash equivalent	(518,418)	1,732,537	1,214,119	(202,898)	1,876,695	1,673,797	(315,520)	(144,158)	(459,678)
Cash and cash equivalents at beginning of year	2,750,044	1,189,407	3,939,451	2,434,524	1,045,249	3,479,773	2,750,044	1,189,407	3,939,451
Cash and cash equivalents at end of year	2,231,626	2,921,944	5,153,570	2,231,626	2,921,944	5,153,570	2,434,524	1,045,249	3,479,773