

# Agenda Report

**TO:** CITY COUNCIL  
**THROUGH:** FINANCE COMMITTEE

**DATE:** OCTOBER 4, 2010

**FROM:** CITY MANAGER and ROSE BOWL GENERAL MANAGER

**SUBJECT:** CITY COUNCIL WORKSHOP ON ROSE BOWL RENOVATION PROJECT

## RECOMMENDATION

The following report is intended to provide an information only overview intended to set the framework for the detailed presentation of the Rose Bowl Renovation Project and financial plan. On October 11<sup>th</sup> staff will present to the City Council and the Pasadena Public Financing Authority a series of actions/recommendations related to the Rose Bowl Renovation Project.

## BACKGROUND

The iconic Rose Bowl Stadium, a National Historic Landmark constructed in 1922, is one of the oldest football stadiums in the country. The stadium has played host to five Superbowls, the World Cup of Soccer, the Women's World Cup, the 1984 Olympic Games, and countless other special events.

Recognizing the changing and increasingly competitive marketplace in which the Stadium operates, in 2006, the Rose Bowl Operating Company and the City of Pasadena joined with the Stadium's primary football tenants, the Tournament of Roses and UCLA, to develop a strategic plan aimed at ensuring the Stadium's long-term use and financial viability through the implementation of numerous capital improvements and upgrades. The initial plan was estimated to cost over \$300 million and was determined to be infeasible from a financing perspective without the addition of another anchor tenant.

In 2007, Rose Bowl staff visited officials at Fenway Park in Boston who had recently completed a renovation that restored historic elements of that stadium while creating modern amenities. The project leader, Janet Marie Smith, was intrigued with the idea of undertaking a similar renovation of the historic Rose Bowl and arranged to visit Pasadena. Eventually Ms. Smith was hired to develop

the renovation plan for the Rose Bowl. The primary project objectives of which were to:

- Improve public safety
- Develop long-term revenue streams to pay for improvements
- Maintain the stadium's designation as a National Historic Landmark
- Enhance the fan experience
- Improve facility operations

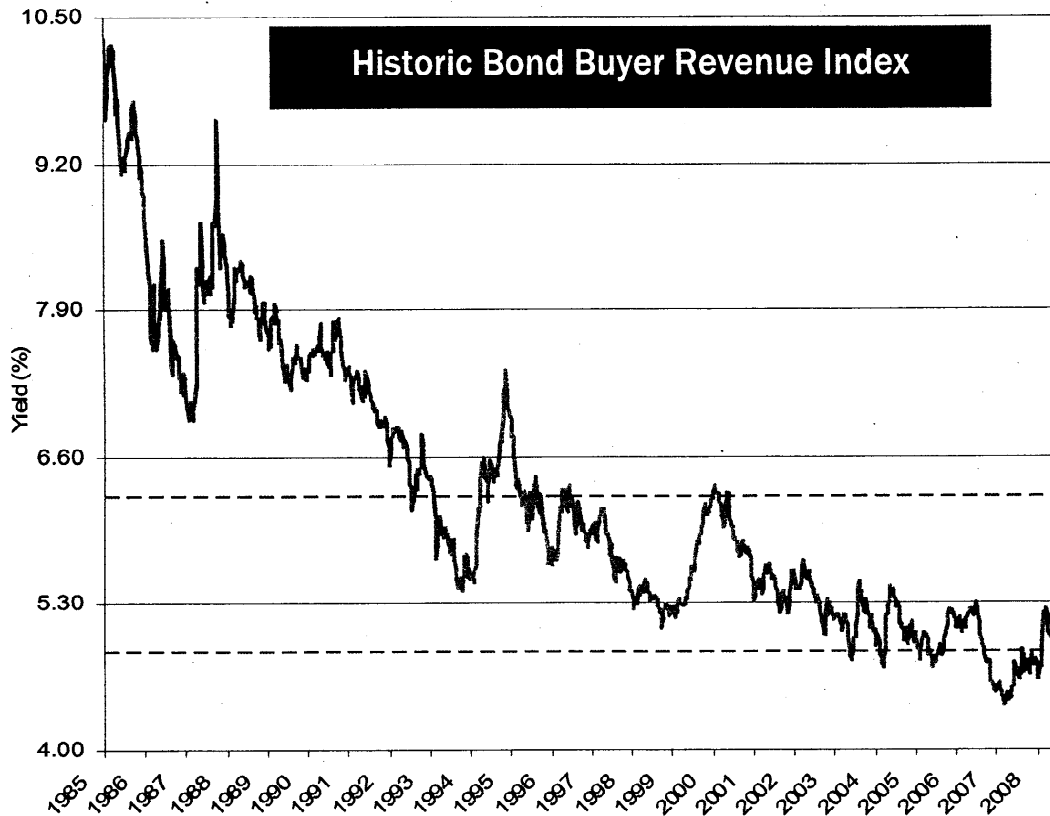
The improvements outlined in the renovation plan developed by Ms. Smith and her team were estimated to cost roughly \$177 million. The current proposal would implement the priority elements of the plan at an estimated cost \$152 million, and consist of the following improvements:

- **Public Safety**
  - Widening of up to 12 tunnels at end zones
  - Added exit aisles and cross aisle at end zones
  - Field-level exiting
  - In combination these features will reduce the approximate exit time from 30 minutes to 17
- **Concourse Improvements**
  - Expansion from 2.5 square feet per person to 4.5 square feet
  - Increase restroom fixtures by 30%
  - Increase points of sale by 50%
  - New 17kV electrical system
- **New Press Box and Premium Seating**
  - Loge boxes
  - Club seating
  - Suites
  - Horizon Club Lounge
  - Updated Broadcast and Control Facilities
- **New entry gates, scoreboard and video board**

The proposed \$152 million Rose Bowl renovation project is in-line with other major City projects, specifically the City Hall restoration (\$117 million) and the Pasadena Center Expansion (\$148 million). More importantly, a variety of factors have created a unique window of opportunity to pursue the project at this time.

- Historically low interest rates
- Availability through the end of the year of Build America Bonds (BABs) associated with the American Reinvestment and Recovery Act of 2009
- Competitive construction bidding environment as a result of current economic conditions
- Agreement with key Rose Bowl Partners—UCLA and Tournament of Roses

As indicated by the following chart, interest rates for tax-exempt bond financing have averaged 6.24% since 1985. However, current rates are averaging 4.87%, thus greatly increasing the affordability of the project; for every 1% increase in rates, the amount that can be borrowed with the same payment amount is decreased by \$15-19 million. While rates are likely to stay low over the near term, they will likely rise as a result of macroeconomic factors such as the federal budget deficit and the significant supply of Build America Bonds anticipated in the market during December.



In addition to low rates for traditional financing, through the American Reinvestment and Recovery Act the project can take advantage of Build America Bonds (BABs); a unique offering that provides a 35% interest rebate to municipal bond issuers or bond holders. BABs provide a true interest cost even lower than tax-exempt rates and if applied to the Rose Bowl renovation project will yield between \$10-15 million in additional bond proceeds. In order to take advantage of the BABs the bonds must be issued by December 31, 2010.

Current economic conditions have created a very favorable bidding climate for construction projects. Nevertheless, as recovery continues and the pace of federal stimulus spending quickens, the cost of labor and materials will rise. Already the cost for materials such as steel has begun to increase.

The final key element relates to the unique relationship between the Stadium and its primary tenants. A major renovation is only possible through the cooperation and participation by the City/RBOC, UCLA and Tournament of Roses Association. Fortunately, as a result of months of discussions, analysis, and negotiations the parties have reached a series of agreements that would enable the project to proceed.

As indicated above, the current estimated cost of the Rose Bowl Renovation Project is \$152 million. The following table identifies the major elements and associated estimated costs:

Element	Cost in Millions \$
Concourses	10.30
Concessions	12.10
Restrooms	3.70
Ingress/Egress	24.90
Scoreboards	18.40
Infrastructure	10.70
Stadium Seating/Concrete Repair	0.80
Press Box	60.80
Horizon Level	10.10
<b>Total Estimated Cost</b>	<b>151.80</b>

As proposed, the City would issue approximately \$160 million in bonds, which after required reserves are sequestered, capitalized interest expense and cost of issuance are accounted for would yield approximately \$130 million in proceeds available for construction.

In addition to the bond issue, the City, Rose Bowl Operating Company and Tournament of Roses Association would in combination provide direct equity contributions of approximately \$15 million, of which \$9.34 million would come from RBOC/City sources and \$5.72 million from the Tournament, as follows:

		Contribution \$
T of R	BCS revenues (2006 & 2010)	4,000,000
	Ticket surcharge	1,720,000
RBOC	RBOC retained earnings	1,000,000
	RBOC share of BCS proceeds (2010)	2,000,000
	Sale of brick pavers	1,000,000
	Concessionaire investment	2,000,000
	ISP construction period surplus	504,135
City	Public Art Fee	945,176
	Construction Tax	1,890,353
<b>Total</b>		<b>15,059,664</b>

As it relates to the contributions from the City, staff is recommending that the construction tax generated by the project, which is received by the General Fund, be programmed back to the project in the same manner as was done with the City Hall retrofit project. As indicated above, construction tax is estimated at \$1.89 million.

The Public Art guidelines, adopted by the City Council in October 2004, includes a provision designated as the "Conservation Clause" which allows public art funds generated by a project involving a historic structure to be reinvested in the project for the purpose of conserving or restoring historic art and design elements. The proposed renovation will involve a number of qualifying elements including but not limited to; the restoration of the 1928 Arroyo stone wall, preservation of the original 1928 locker rooms and modifications to the 1936 Myron Hunt administration building. Programming these funds for this purpose is consistent with the adopted policy.

The remaining \$7 million (less than 5% of the overall project cost) represents a projected funding gap which is expected to be eliminated through a combination of factors including: construction bids being more favorable than current estimates, revenues from future expected events such as a 2014 Bowl Championship Series, further improvement in interest rates prior to final bond issuance, and philanthropic efforts.

The bonds issued by the City would have a term of 30 years plus two years of capitalized interest and based on current market conditions, expected to have an average blended fixed interest rate of 4.87%. The bond financing includes three types of instruments in the following approximate amounts: 1) Build America Bonds - 60%, 2) Tax Exempt Current Interest and Capital Appreciation Bonds - 20%, and 3) Taxable Current Interest Bonds - 20%. While these bonds would be a General Fund obligation, as with a number of other City financings, such as that for the expansion of the Pasadena Center, the renovation project itself is expected to generate sufficient revenues to cover the debt service 1.475 times.

Specifically, the revenues available for debt service would come from six primary sources: premium seating, horizon/lounge memberships, advertising/ sponsorships, ticket & parking surcharges/premium ticket revenue, concessions, and miscellaneous revenues from meetings, banquets and other minor events. Additional funding would be received in the form of a \$100,000 annual gift from the Tournament of Roses Association. Moreover, the proposed financing has been tailored, through the use of the Capital Appreciation Bonds, to take advantage of revenues which will be available for debt service once existing Rose Bowl debt is paid off in 2023. **Attachment A** outlines the anticipated revenue stream.

The following table classifies the project revenues between those applied upfront and those to be generated over time as well as indicating their source.

Sources of Funds \$			
	Net Bond Proceeds	Upfront Investment	Total
Project Sources	75,149,481	0	75,149,481
City/RBOC	26,532,255	9,339,664	35,871,919
UCLA	16,493,153	0	16,493,153
Tournament of Roses	11,819,995	5,720,000	17,539,995
Additional Needed Funding (Gap)	0	7,000,000	7,000,000
			152,054,548

Included in project sources revenues above and the project proforma are revenues to be received through a new advertising and sponsorship rights agreement with International Sports Properties, Inc. While the details are still being finalized and are expected to be presented to the City Council on October 11<sup>th</sup>, the agreement will provide for the payment of a Guaranteed Rights Fee as well as annual revenue sharing of amounts exceeding specified thresholds. The term of the agreement is expected to be through 2026.

The revenue projections for the renovation project have been developed by Barrett Sports Group (BSG), a highly qualified firm in the area of sports facility financing. BSG's analysis has been reviewed by the independent firm CSL International, which is a leading advisory and planning firm specializing in consulting services for the convention, sport, entertainment, and visitor industries. CSL found that the revenue assumptions used in the financing model were reasonable and appropriate. Copies of the BSG report and the peer review report provided by CSL are attached as **Attachment B and C** respectively. BSG's analysis, which uses a 3% overall revenue and expense growth rate, indicates that at just 74% of anticipated revenues, the project will generate sufficient revenue to cover forecasted costs, including bond payments. Should revenues surpass what is necessary to pay debt service and incremental expenses the conceptual agreements with the tenants call for this surplus to be distributed 50% to the RBOC/City, with the remaining 50% split equally (25%/25%) between the Tournament of Roses and UCLA. In the event such distributions are made the City/RBOC would reserve its share to be used for additional Rose Bowl capital maintenance and improvements and/or a supplemental debt service reserve.

While the financial analysis prepared for the project indicates that it should be self-supporting, as in any project of this nature there are risks. The City Council will be required to make an accurate disclosure of risks in the Official Statement which is a part of the financing documents anticipated for adoption by the City Council on October 11<sup>th</sup>. Among the primary risks associated with the Rose Bowl Renovation Project are the following:

- Construction cost overruns
- A downgrade of the City's credit rating
- Lower than estimated revenue collection

#### *Construction Cost Overruns*

The current economy has provided a very favorable construction environment for projects and the risk of higher than anticipated bids has been greatly diminished. Recent bids for construction projects completed by other entities in the area have seen results millions of dollars below original engineering estimates. However, there is the risk that as the economy improves, construction costs will rise beyond estimates. After the bonds are issued, the City would be assuming any construction cost overruns under this financing plan. To help address this risk, the construction plan includes a 10% construction contingency and efforts to lock in material costs as early as possible will be undertaken.

#### *Potential Credit Rating Downgrade*

The City has a credit rating of AAA, which is the highest credit rating possible. This means that the City can issue debt at a very low if not the lowest borrowing cost available. The project proforma is conservatively based on a AA rating, which means the City will receive additional bond proceeds should the City maintain a AAA rating for this project. The impact of a lowered credit rating on borrowing costs depends on market conditions at the time of issuance.

Previously the credit rating agencies have raised some concern regarding the City's per capita debt levels, but have also taken into consideration the City's strong financial management policies and practices, reserve levels as well as the self-supporting nature of many projects. Should the project proceed, staff will meet with the rating agencies to review the particulars of the project and the City's overall financial position to determine what, if any, impact there will be on the City's credit rating. Related to this, there will also need to be disclosure of the City's liabilities including those related to the Fire and Police Retirement System and CalPERS pension obligations along with a discussion of the plan to address these issues.

#### *Lower than estimated revenue collection*

A number of factors beyond the control of the City, such as a worsening economy, competition from a new stadium or changes in college football, ranging from reconfiguration of the conferences and the championship series to a decreasing fan base, could affect the revenues used to pay debt service. As the bonds would be a City obligation, the General Fund would be legally required to make up any shortfall. The 1.475 times coverage factor mentioned above along with supplemental reserves would be expected to offset any relatively brief shortfalls, however, a sustained loss of revenue could ultimately impact the General Fund.

Beyond the risks directly associated with the project, taking no action also carries its own, possibly greater risk to the City. The Rose Bowl Game is the only Bowl series game still played in its original stadium. As an example, after local authorities refused to reinvest in the Orange Bowl in Florida, the Miami Dolphins owner built a new stadium and eventually the Dolphins, University of Miami, and the Orange Bowl game all moved to the new modern stadium and the old Orange Bowl stadium was demolished. The Rose Bowl Strategic Plan recognized that significant reinvestment in the Stadium is necessary in order to ensure its future. The Rose Bowl Stadium provides a significant direct and indirect economic impact to the City of Pasadena, and in many ways Pasadena's past and future are dependent on its success. The financing plan that has been developed has been structured in such a way as to mitigate risk, to the extent possible, and take advantage of the unique market conditions that exist today. For the reasons outlined in this report, this project was not economically feasible two years ago and it is not likely to be economically feasible two years from today as interest rates and construction costs rise. The window of opportunity is now.

### **ACTIONS TO BE TAKEN AT THE OCTOBER 11, 2010 MEETING**

At its regular meeting of October 11, 2010, the City Council will be asked to consider and to approve the following documents, all of which will be discussed in the course of the October 4, 2010 workshop:

- Rose Bowl Renovation Project Financing Plan
- Rose Bowl Renovation Project Scope (**Attached as Attachment D**)
- Agreement with the Regents (UCLA Agreement)
- Master License Agreement with the Tournament of Roses Association
- Agreement with International Sports Properties, Inc. (Advertising)
- Resolution Creating New Facilities and Parking Fees at the Rose Bowl
- Bond Financing Documents, including the Official Statement and various related documents
- Amendment of the RBOC Operating Agreement related to philanthropic opportunities (**Attached as Attachment E**)

### **COUNCIL POLICY CONSIDERATIONS**

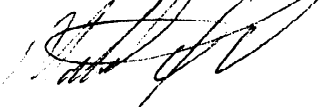
By ensuring the long-term use and economic viability of the Rose Bowl Stadium the Rose Bowl Renovation Project and its various components further a number of the City Council's strategic plan goals including: maintaining fiscal responsibility and stability, improving, maintaining and enhancing public facilities and infrastructure, support and promotion of quality of life and the local economy and ensuring public safety.



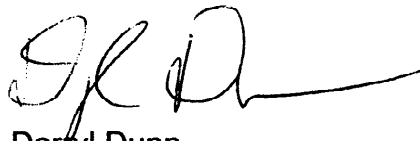
**FISCAL IMPACT**

The total estimated cost of the proposed Rose Bowl Renovation Project is \$152 million. The sources for these funds include a gross \$160 million lease-revenue financing issued by the City (net bond proceeds \$128 million), \$15 million equity contribution from the RBOC, Tournament of Roses and City, and \$7 million of yet identified funding.

Respectfully submitted,



Michael J. Beck  
City Manager



Darryl Dunn  
General Manager – Rose Bowl