

Analysis

**Rose Bowl
Operating Alternatives**

prepared for
The City of Pasadena

Rose Bowl Operations Management Structures

The construction, maintenance and management of a major sports stadium is of concern to many cities. The stadium is a major public asset which brings prestige to the city, and may, when well managed, generate considerable income for the city in question. Therefore cities all over the world have made large capital investments to build such stadiums and to attract major sports franchises and events.

The requirement for a large capital investment for construction, maintenance and on-going enhancements means that most cities issue bonds to cover these costs. Without the city's full faith and credit (even in the case of revenue bonds), the bonds would not be acceptable (or would have to carry such a high rate of interest, they could not be sustained). Therefore governments (usually cities or counties) must be involved in the capital development process.

Operating a stadium, however, is much more like a private enterprise. Contracts must be negotiated, revenue generated from sports franchises, concessions, advertising and other uses of the stadium. There is a need to work quickly and flexibly to build long-term relationships with key customers and to maximize the income generated by the facility. Most governmental entities find this difficult to do. The necessary administrative and political processes preclude rapid decision-making. Particular interests may try to skew the management in ways which are inimical to the general public interest.

Another problem occurs when cities choose to take current revenue out of the stadium to fund other city operations and neglect on-going maintenance and capital expenditures because the lack of these may not be noticed for many years (at which time the costs may be exorbitant but the original decision makers are no longer in office).

Management of a Stadium -- Three Alternatives

1) Manage as a City Department

For the reasons stated above, this form of management often has difficulties. The stadium manager may find himself in conflict with the City Manager and other Department heads over proper management policies and practices. Operating as a government entity, the stadium manager cannot negotiate contracts as effectively, since the negotiators for franchises, concessions or advertisers know the stadium manager does not have the authority to make a deal. This means many opportunities for revenue generation may be lost, or the amount of revenue raised is reduced. Sports franchises and others know how to work political systems to get the best deal for themselves, and the stadium manager finds his position to raise revenues undermined even while facing complaints that he is not generating enough income.

2) Manage as a Not-for-Profit Public Enterprise

The city creates a public enterprise where the City Council approves the charter and appoints the Board of Directors, but keeps hands off day-to-day operations in the interests of competitive advantage. The enterprise operates as a private business, but the business is, in effect, owned by the City.

3) Contract with a Management Company to Operate the Stadium

Boundaries are set in the contract. This takes the burden of management off the city, while ensuring that a significant part of the revenues of the facility are returned to the city (depending upon the terms of the contract). The city becomes reliant upon the competence of the management company to generate adequate revenues.

Each of these alternatives has advantages and disadvantages. The choice of alternative depends upon the purpose to be achieved in owning and operating a major sports facility.

None of the alternatives solves the problem of deferred maintenance and the necessity for capital expenditures. These require hard fiscal decisions. With alternatives 2 and 3, however, it is possible (even necessary) to write into the charter or the contract provisions for maintenance and capital development. These, if appropriately written, will at least preclude further capital deterioration by requiring that revenues first cover these expenses before "profits" are distributed.

Whatever form the operating management takes, long neglected maintenance and capital enhancement will have to be addressed by the City. This becomes urgent with the necessity to build a press box within a year.

The three operating alternatives and their relationship to the city government are shown on the following pages, along with a listing of some of the benefits to be gained from each. There is a more detailed discussion of the requirements for creating a not-for-profit public enterprise because the implementation process changes the way the City is doing business in significant ways.

Developing and negotiating a contract with a sports management company would be similar to existing contracting processes. There is even a model to follow in the contract with North American Golfing Corporation for the management of Brookside Golf Course.

There is also a model for a not-for-profit enterprise in the organization of the Convention Center, but that entity has experienced some difficulties, so further analysis is presented to indicate how such difficulties might be avoided.

Retaining a City Department requires no external changes in the existing organizational form. An earlier study, May 1991, indicated how internal organization changes might improve the effectiveness and efficiency of such a Department.

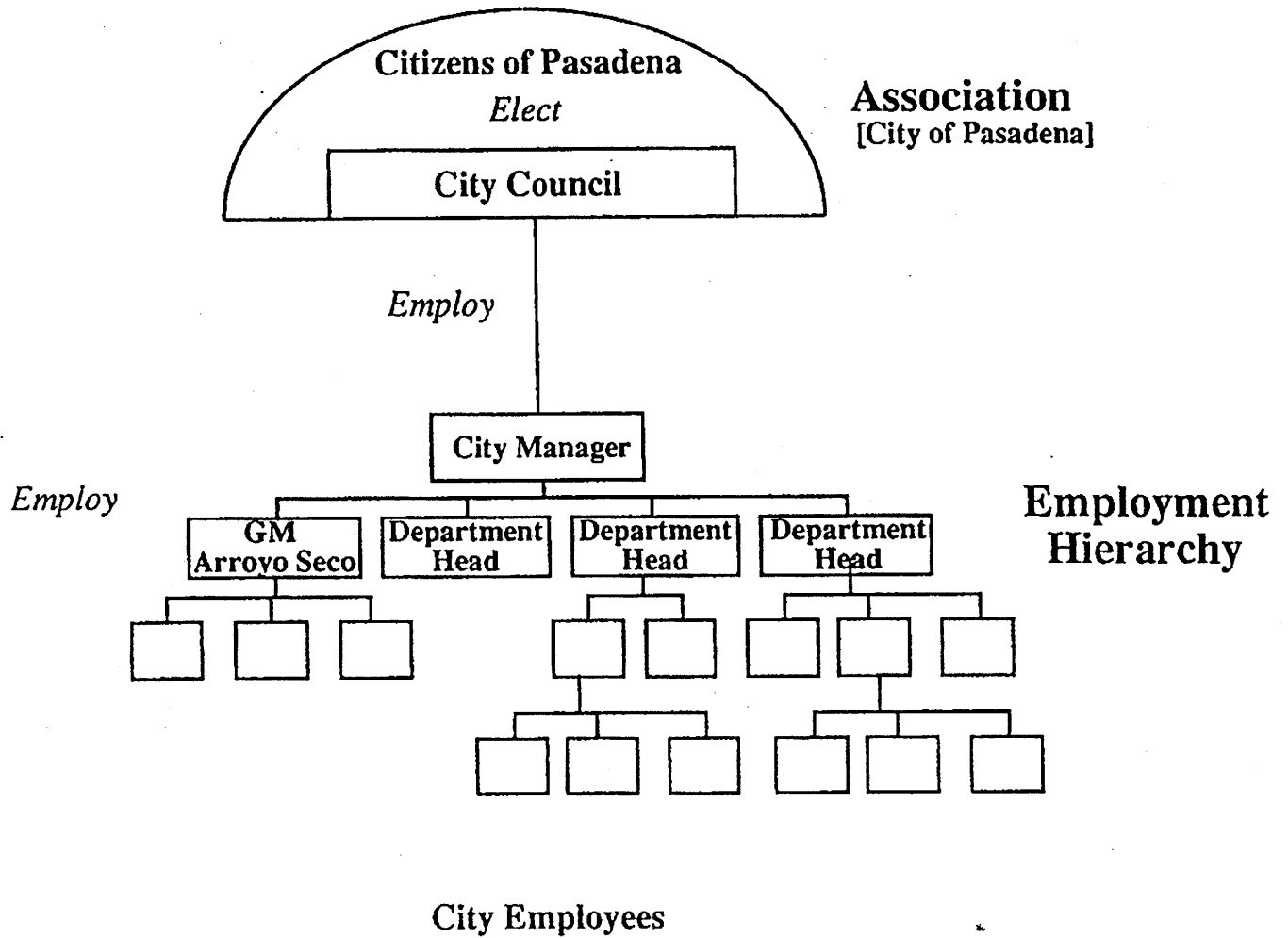
Alternative 1 Rose Bowl as City Department

Intent: To continue to operate the Rose Bowl as a City Department.

Advantages of a City Department

- 1) No change required in way Department is constituted
- 2) City maintains total control over Rose Bowl and its operations, allowing the political demands of residents, business, event sponsors, etc. to be heard and attended to.
- 3) Internal Department managerial changes could improve effectiveness of operations.

City of Pasadena Arroyo Seco as City Department



Alternative 2 Rose Bowl Business Enterprise

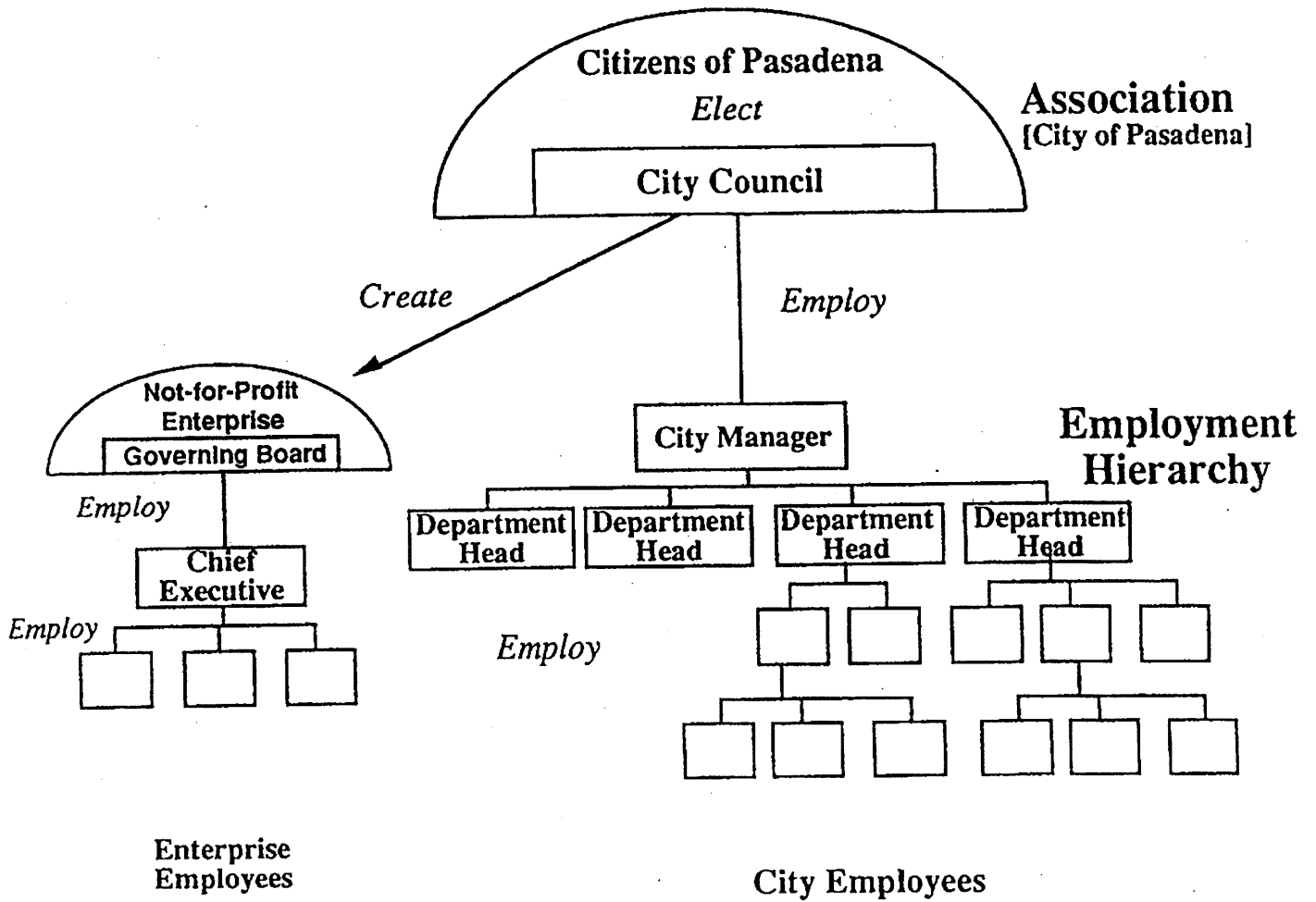
Intent: To operate the Rose Bowl and Brookside Golf Course as a business enterprise by creating a Not-for-Profit enterprise.

What is to be included in Enterprise:
Rose Bowl, Golf Course, Brookside Park.

Advantages of a Not-for-Profit Corporation

- 1) Easier to manage -- faster reaction time, adaptability to change.
- 2) Provides enterprise environment for the operating company.
- 3) Faster response to opportunities
- 4) Additional opportunities for generating income
- 5) Manage capital on business level. Golf course revenues can support bonds to make necessary capital improvements to the Rose Bowl.
- 6) Reduce operating costs
- 7) Reduce deferred maintenance requirements burden to the City
- 8) Leases on press box to reside in the operating company, providing a neutral body to protect the interests of all concerned parties -- Tournament of Roses, UCLA, other event sponsors, the City of Pasadena
- 9) Will operate within the rules and policies set by City and corporate charters to ensure it serves the interests of the Citizens of Pasadena
- 10) Have experience with a similar and successful enterprise (Convention Center) which can be used as a model for the proposed enterprise

City of Pasadena Rose Bowl as Not-for-Profit Public Enterprise



Not-for-Profit Enterprise

Mission = Purpose + Essential Tasks

Purpose of the Pasadena Sports/Entertainment Company: Why does it exist

To return economic and civic value to the City of Pasadena

Essential Tasks: What must it do to achieve its purpose

Operate a world class stadium
Operate professional quality municipal golf course
Develop value-adding services (facilities)
Maintain and schedule Brookside Park for the City

What do we mean by Value?

Generate income to:

- 1) Fund city budget
- 2) Maintain and improve the natural and capital assets of the Arroyo for present and future generations
- 3) Provide facilities for city programs in the Arroyo

Enhance image of City to:

- 4) Generate tourist visits to the City
- 5) Increase civic pride
- 6) Attract business development

To carry out these essential tasks -- the tasks which must be accomplished if the purpose of the company is to be achieved -- requires that they be assigned to an individual (or manager of an organizational unit). Where the volume of work is light, a single individual may be accountable for more than one essential task.

Not-for-Profit Enterprise

Implementation Accountabilities

City Staff

- 1) Prepare business plan
 - Mission Statement
 - Capital Plan
 - Marketing Plan
 - Cash Flow Analysis
 - Value Received for Cost Expended
- 2) Recommend governance model and rationale for Governing Board
- 3) Formulate a recommended business charter with appropriate authorities and accountabilities
- 4) Create a recommended operating agreement with the City
 - Distribution of profits
 - Transition of existing contracts
 - Insurance
 - Bonding
 - Operating agreements with various City Departments
- 5) Plans to be provided to:
 - Ensure rights and benefits of City employees
 - Initial management structure
- 6) Prepare resolution for Council action

City Council

The City Council must bring the enterprise into existence and set its mission.
The City Council is the constituting body and as such has the following authorities and accountabilities.

- 1) Define the identity and main activities of the enterprise.
- 2) State why the enterprise exists and stabilize it by providing for internal consensus (based on the mission statement for the enterprise).
- 3) Secure a continuing existence and identity for the organization.
- 4) Provide for the resourcing of executive work and the structures created by it.
- 5) Gain community sanction for the mission of the organization -- ensure larger goals of the society (citizens of Pasadena) are being pursued.

To be successful the constituting body must have people who have the drive to promote certain values actively and systematically and who benefit directly from the existence of the enterprise.

Not-for-Profit Enterprise

Functions, Accountabilities and Authorities

Governance Function

Board of Directors: Accountable for the governance function of the enterprise.
Decide main political issues and priorities.

Must act corporately. Corporate accountability.

Orient and control overall operation of the organization so that it meets the aspirations of the constituting body and its members.

Governance -- mediates, interprets, promotes the wishes of the constituting body so as to realize the mission within the resources available and in light of the pressures from social and political environment.

Missionary and ideological zeal must be tempered pragmatically in light of irremovable environmental factors and major conflicts of interest among stakeholders.

Executive Function

Chief Executive Officer: Given Mission from Board, decides a feasible direction for action.
Individual Accountability

- 1) In deciding on actions to be taken, must take into account the complexity and uncertainty of the outer world and value preferences of the governing board.
- 2) Formulates policy for Board consideration.
- 3) Sets operating policies within limits set by Board, Enterprise Charter.
- 4) Leads the people and manages the resources of the employment hierarchy.
- 5) Must have managerial authorities in relation to staff if the CEO is to accept accountability for own work and performance of subordinate staff. [Minimum managerial authorities include, veto selection, assign tasks, review and recognize performance, initiate removal from role.]
- 5) Decides and carries out specific projects and tasks.

Requires political sensitivity -- an ability to weigh and synthesize multiple factors intuitively -- capacity to mobilize and direct full range of human, financial and physical resources within the organization.

Executive Staff: Managers and Workforce

Decide and carry out specific projects and tasks as set by the CEO or their managers.
Individual accountability.

- 1) Use resources to produce specified outputs by a given deadline.
- 2) Level of work relates to the complexity of tasks they are asked to carry out.
- 3) Managers must have VARI authorities if they are to accept accountability for their own work and the performance of their subordinates over time.

Alternative 3
Contract for Rose Bowl Management
with Sports Business Enterprise

Intent: To operate the Rose Bowl as a private business enterprise by contracting with a private sports management company to handle all operations.

Advantages of a Business Contract

- 1) Removes burden of management from the City. Contractor makes the hard decisions about day-to-day operations.
- 2) Private business has faster reaction time, can adapt to changing business environment quickly.
- 3) Faster response to opportunities
- 4) Additional opportunities for generating income
- 5) Provision for capital expenditures, maintenance and enhancement can be written into the contract. This ensures that short-term municipal budget concerns will not lead to siphoning funds for other purposes while maintenance and capital enhancement are neglected.
- 6) Reduce operating costs
- 7) Leases on press box to reside in the operating company, providing a neutral body to protect the interests of all concerned parties -- Tournament of Roses, UCLA, other event sponsors, the City of Pasadena
- 8) Will operate within the rules and policies set by City and corporate charters to ensure it serves the interests of the Citizens of Pasadena
- 9) Have experience with a similar and successful contract (management of Brookside Golf Course) which can be used as a model for the proposed contract.

Rose Bowl Operated by Private Enterprise under Contract to City of Pasadena

