

**CITY OF PASADENA
ROSE BOWL FUND**

**REPORT ON A
FINANCIAL OPERATIONS REVIEW**

November 15, 1991

McGLADREY & PULLEN

in association with

QUEZADA GODSEY & CO.

I. CREATION OF RBOC

c. McGladrey and Pullen Audit on Financial Operations (1991)

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ROSE BOWL FUND
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McGLADREY & PULLEN

Certified Public Accountants and Consultants

To the Honorable Mayor and
City Council
City of Pasadena
Pasadena, California

The attached report presents the findings and conclusions regarding the financial operations review of the Rose Bowl Fund that you requested. An executive summary is presented to give an overview of the report, followed by the more detailed report of the study objectives, observations, conclusions and recommendations. A substantive set of graphic exhibits and appendices are also presented as separate sections to augment and facilitate understanding of the report.

The assistance and cooperation of City personnel, especially within the Rose Bowl and Finance departments, during the performance of the study has been invaluable and very much appreciated. Extensive information and significant insight were incorporated into the review by their participation. We also wish to acknowledge the assistance of the firm of Quezada Godsey & Co. and thank them for their contribution to the project.

We are pleased to present this report and have enjoyed this opportunity to be of service to the City of Pasadena. If we can provide additional information or assistance regarding the issues in the report, please contact Mr. L. Michael Lynch or Mr. Mark J. Wirth.

McGladrey & Pullen

Pasadena, California
November 15, 1991

REPORT ON A FINANCIAL OPERATIONS REVIEW

EXECUTIVE SUMMARY

The Rose Bowl has become, in its 77-year history, a world famous site of major events. The facility is operated as a department within the City of Pasadena, officially as an enterprise fund with the objective of generating profit on activities.

CONCERN ABOUT REPORTS OF DIMINISHING PROFITS

During the last five years, financial statements for the Rose Bowl Fund have reported losses except when the NFL Super Bowl was held there, causing concern about operational profitability. Recent construction plans and bond financing efforts have focused further attention on profit trends of operations, prompting a sense of urgency to determine why profitability appears to be diminishing. A financial operations review was initiated to analyze the circumstances and factors affecting financial results.

REVIEW OF FINANCIAL TRENDS AND PROFIT FACTORS

The review set out to identify financial trends and to isolate the underlying factors for analysis of major financial segments. The study focused on revenue generation, direct expense of events, overall operating expenses, costs of financing and fund balance changes over a period of nine years. A summary financial operating statement was compiled for each year to highlight and compare profit contributed by activities as well as net operating income and total fund income or loss. Further detailed analysis was performed as explained in the following report.

OBSERVATIONS OF THE STUDY

Net operating income remains positive, though diminished, and has covered assigned overhead charges, as the following analysis and exhibits show. However, the fund balance has decreased such that the income will not fully offset interest and debt obligations, nor provide sufficient cash for maintenance, refurbishment and other purposes.

Revenue

Exhibit 1 (at the end of the Executive Summary, after page 5) highlights the trends of revenue, gross profit after direct event expenses, and income after operating expenses since 1983, not including allocated City expenses, financing and transfer of funds.

Due to the absence of extraordinary events in recent years, revenue and operating income have been lower than in the 1983 to 1987 period when the Super Bowl and Olympic events were held at the Rose Bowl. Revenue from regularly recurring events has shown a gradual upward trend, but event costs and operating expenses have increased faster than income.

The trend chart of Exhibit 1 shows:

- Extraordinary events in certain years, such as the Super Bowl in 1983 and 1987 and the Olympics in 1985, cause spikes in income which makes comparison of results from one year to another difficult.
- Regularly recurring events, such as the Tournament of Roses, UCLA games and swapmeets, provide some underlying consistency in the trends.
- No extraordinary event income has affected revenue volume since the 1987 Super Bowl, which will be at the Rose Bowl again in 1993.
- Revenue trends for recurring events are generally upward, notably from 1989 to 1991, due to increased rental income and billable cost recovery which are 2/3 of overall revenue.

Exhibit 2 shows revenue by type of event as compared to profit contribution by event. Swapmeets and special events show a higher percentage of contribution than percentage of revenue, while UCLA games and New Year's Day show a lower contribution.

Direct Expenses and Gross Profit

Event expenses somewhat parallel revenue trends, especially for extraordinary events. The trends for gross profits from recurring events show some fluctuation from year to year, but at a level generally consistent with revenue.

- Gross profit shows a slightly upward trend from 1989 to 1991, but at a slower rate than revenue, indicating that expenses are rising faster than revenue.
- Event expenses increased \$630,000 between 1986 and 1991, or 42% overall, with 2/3 of the increase for services and supplies and 1/3 for personnel costs. More than 90% of the personnel cost increase was from overtime. Inflation accounted for over 1/4 of the overall increase, or 11 of the 42 points.

Operating Expenses

Operating expenses show steady increases since 1986, as shown on Exhibit 3, in two major categories: 1) personnel and 2) services and supplies.

- Personnel costs for facility operations doubled from 1986 to 1991.
- Services and supplies increased 150% from 1986 to 1991.
- Operating expenses are increasing faster than gross profit, resulting in a flat net income trend.
- Cost control procedures appear not to be stringent and can be improved.

Fixed and Allocated Expenses

Overhead charges for City administrative support personnel and management services are allocated to the Rose Bowl Fund. These expenses are slightly increasing, but they are still covered by operating income. Although diminished, net operating income for the Rose Bowl, as shown on Exhibit 4, remains positive.

- A precipitous slide of both operating income contribution and net operating income are shown between 1987 and 1989, when there were no extraordinary events and a sequence of five different managers directed the Rose Bowl.
- Profit contribution and net operating income for 1989 through 1991 show a flat or slightly upward trend, though at a low level since no extraordinary events nor a significantly higher level of activity was experienced.

Financial Income and Expense

Investment Income and Interest Expense are managed on a City-wide basis through an investment pool and Certificates of Participation similar to bonds, rather than by the Rose Bowl Department. Resulting net fund income and balance changes are shown on Exhibit 5.

- Income is based upon fund balance, which has diminished as funds are provided to other activities.
- Interest expense has remained on a consistent but slightly downward trend as originally predicted, but has exceeded interest income during the last six years.
- Total fund income from all revenue and expense categories has diminished in recent years to show losses from 1989 to 1991.
- Cash flow has been insufficient to pay excess interest expense, provide funds for other activities, or maintain and refurbish the facilities.

CONCLUSIONS

The overall financial trend charts mask many profitability factors which are identified in the following report on the financial operations review. Exhibit 6 displays trends on the same comparative scale for Rose Bowl revenue, net operating income and net fund changes from 1983 to 1991.

The recomputed operating statement, as shown on Exhibit 7, indicates that the Rose Bowl has actually continued to generate positive net operating income, but that it has not generated sufficient funds to cover allocated City overhead, costs of financing and provision of funds for other activities.

- Profits decreased precipitously between 1987 and 1989, during a period when five management changes were made, and have leveled off subsequently at a low volume in the absence of major events like the NFL Super Bowl since 1987.
- Breakeven, to just cover expenses without any provision for capital improvement or refurbishment, is over 22 events per year; more than double that number if refurbishing the facility and park maintenance are also to be funded by operations.
- Increased cash flow is needed to meet existing demands for maintenance and obligations to repay Certificates of Participation; otherwise, additional financing by the City may be needed.

The result is a reduced fund balance which does not provide 1) sufficient investment income to pay debt service charges and 2) adequate funds for refurbishing the facility.

The Rose Bowl operations are profitable and have been paying for other activities, but profitability needs to be improved if debt service, refurbishment, deferred maintenance and allocated expenses are to be paid and/or any contribution to City funds is to be obtained.

Improvements can be made in revenue enhancement, administration and accounting for the Rose Bowl as outlined in the subsequent report.

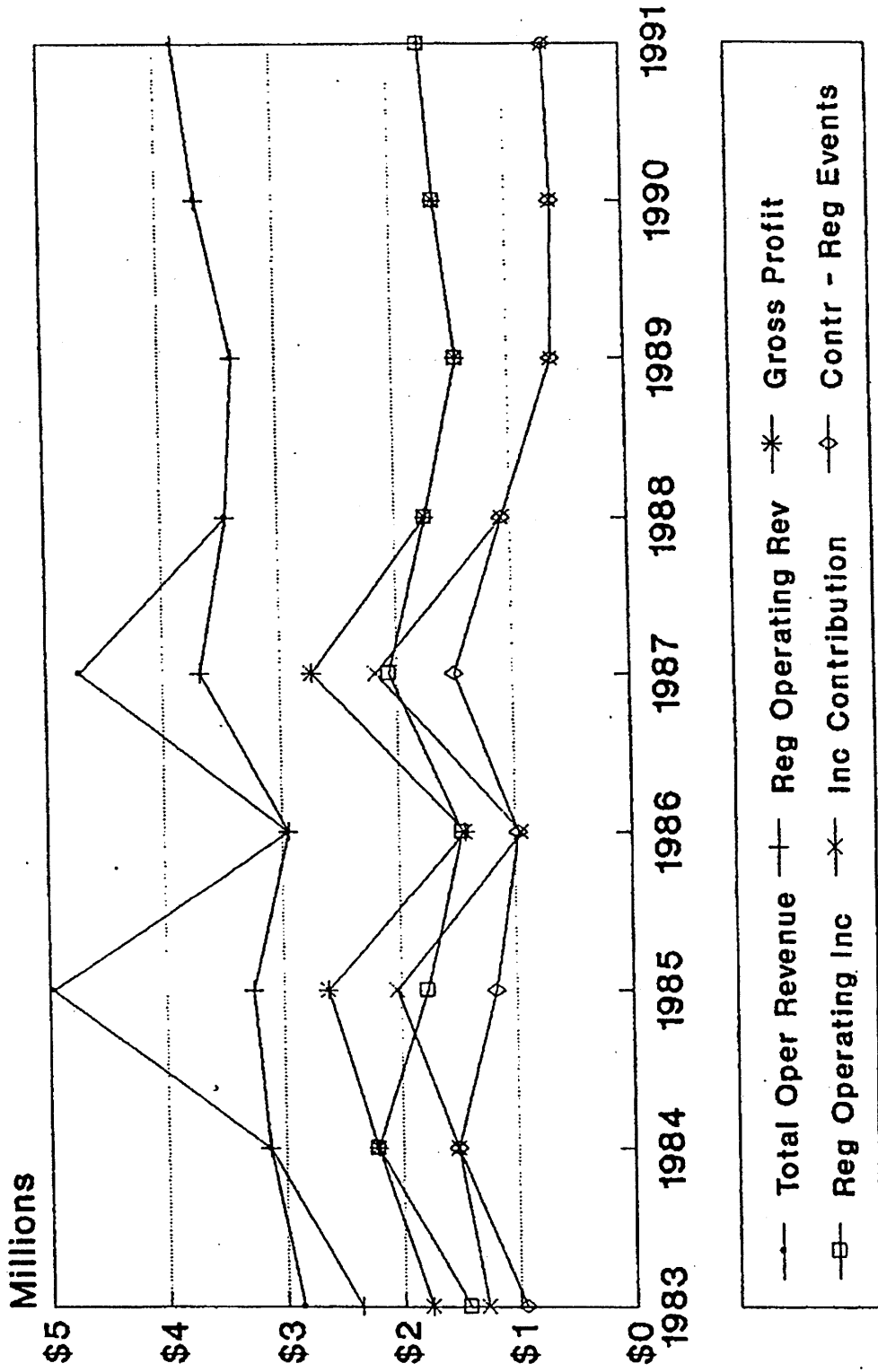
- Revenue shows a positive trend but can be enhanced by better utilization of the facility.
- Cost control procedures are not sufficiently effective to prevent expenses from increasing faster than revenue.
- Management accounting and control improvements are needed to facilitate more profitable operations.
- Administrative improvements will be needed to enhance performance whether operated as a City department or under alternative management approaches. Improvements of the same type will be needed in either case.

RECOMMENDATIONS

An aggressive and substantive program should be pursued to improve the profit picture for the Rose Bowl. Cost - volume - profit relationships need to be improved through better cost control, enhanced utilization of the facility, and increased management planning in a program which will:

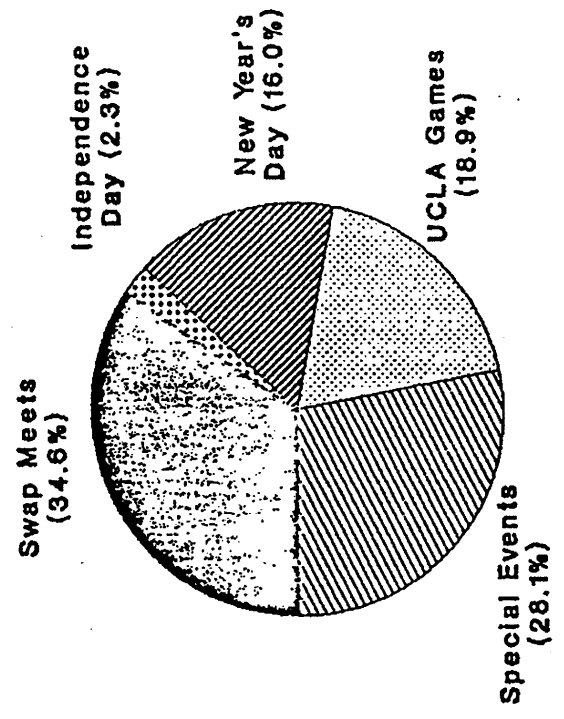
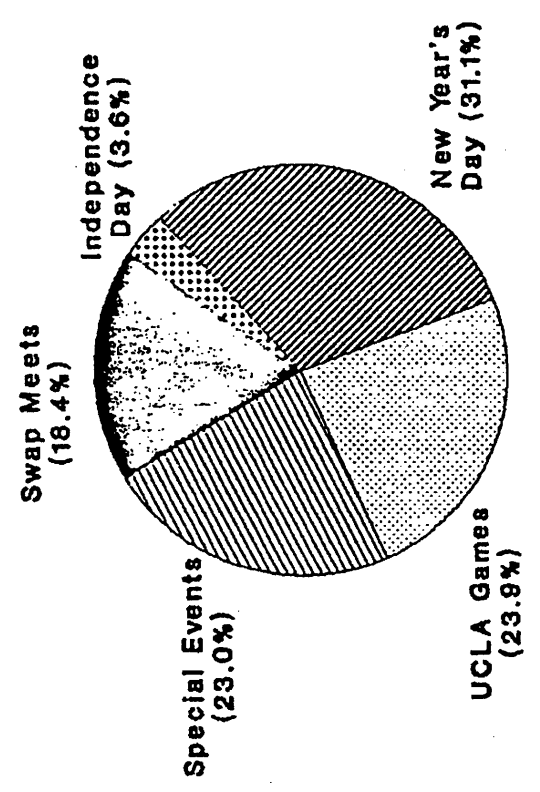
- Institute a judicious cost control/expense reduction program within both Rose Bowl operations and event projects, especially as to supplies, contract services and overtime.
- Increase utilization of the facility, preferably with high gross profit margin activities, to achieve the volume of profit and cash flow to meet financial goals and commitments.
- Develop long-term funding plans for deferred maintenance and capital improvement.
- Enhance revenue by exploiting additional sources.
- Set enterprise objectives and guidelines, stabilize existing operations and develop business plans prior to (and in preparation for) consideration of alternative organizational structures and management approaches.
- Develop organizational charts and job descriptions to support the business objectives and plans of the Rose Bowl.
- Set up accounting coordination and control within the Rose Bowl Department easily accessible to the managers, including formal budget documents, interim progress reporting and financial statements geared to management control.
- Initiate improvements to administrative management and consider the potential benefits, limitations and implications of operating concepts which may be alternatives to the current organization as a department of the City.

ROSE BOWL INCOME CONTRIBUTION TRENDS



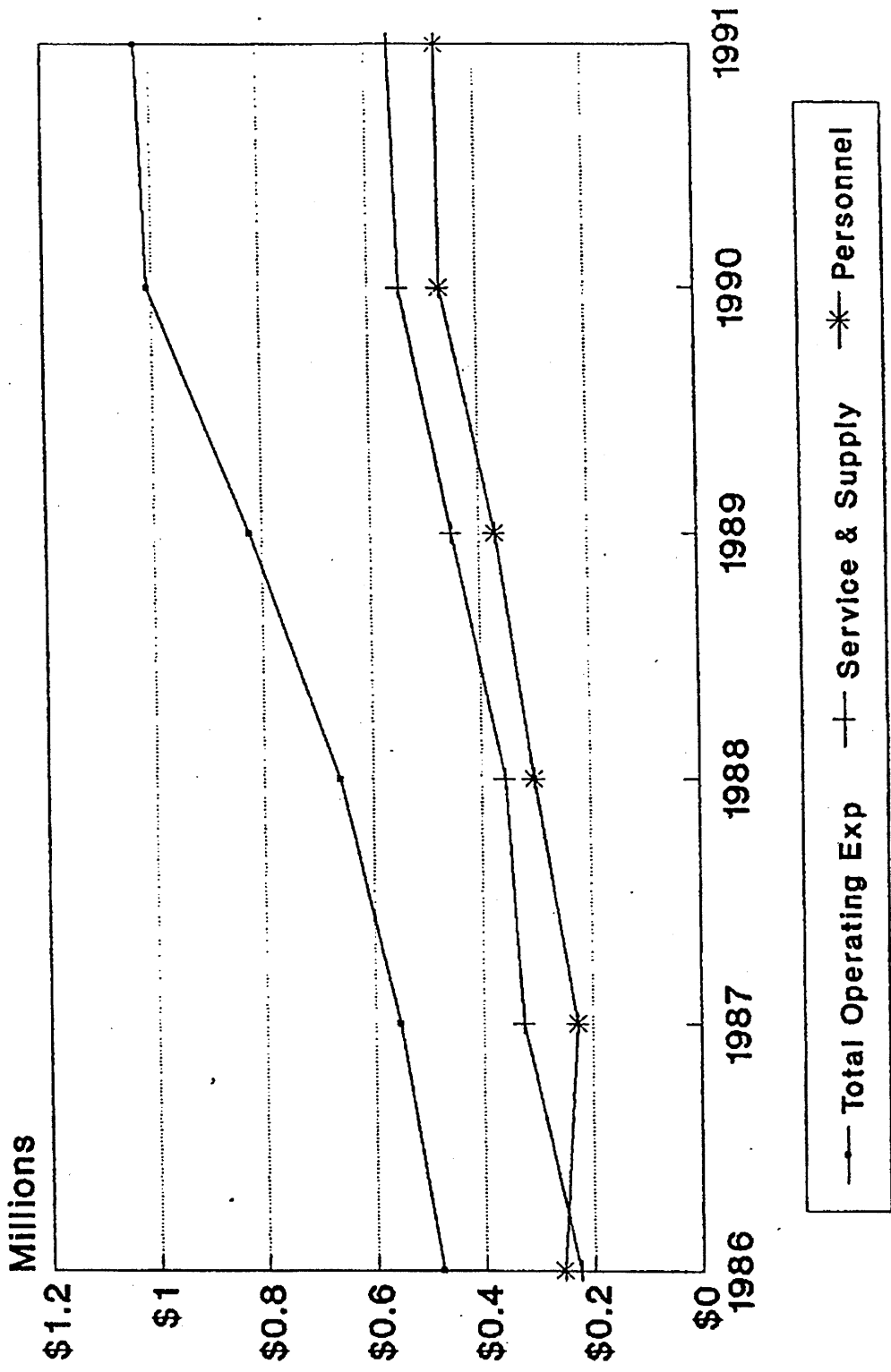
REVENUE

GROSS PROFIT

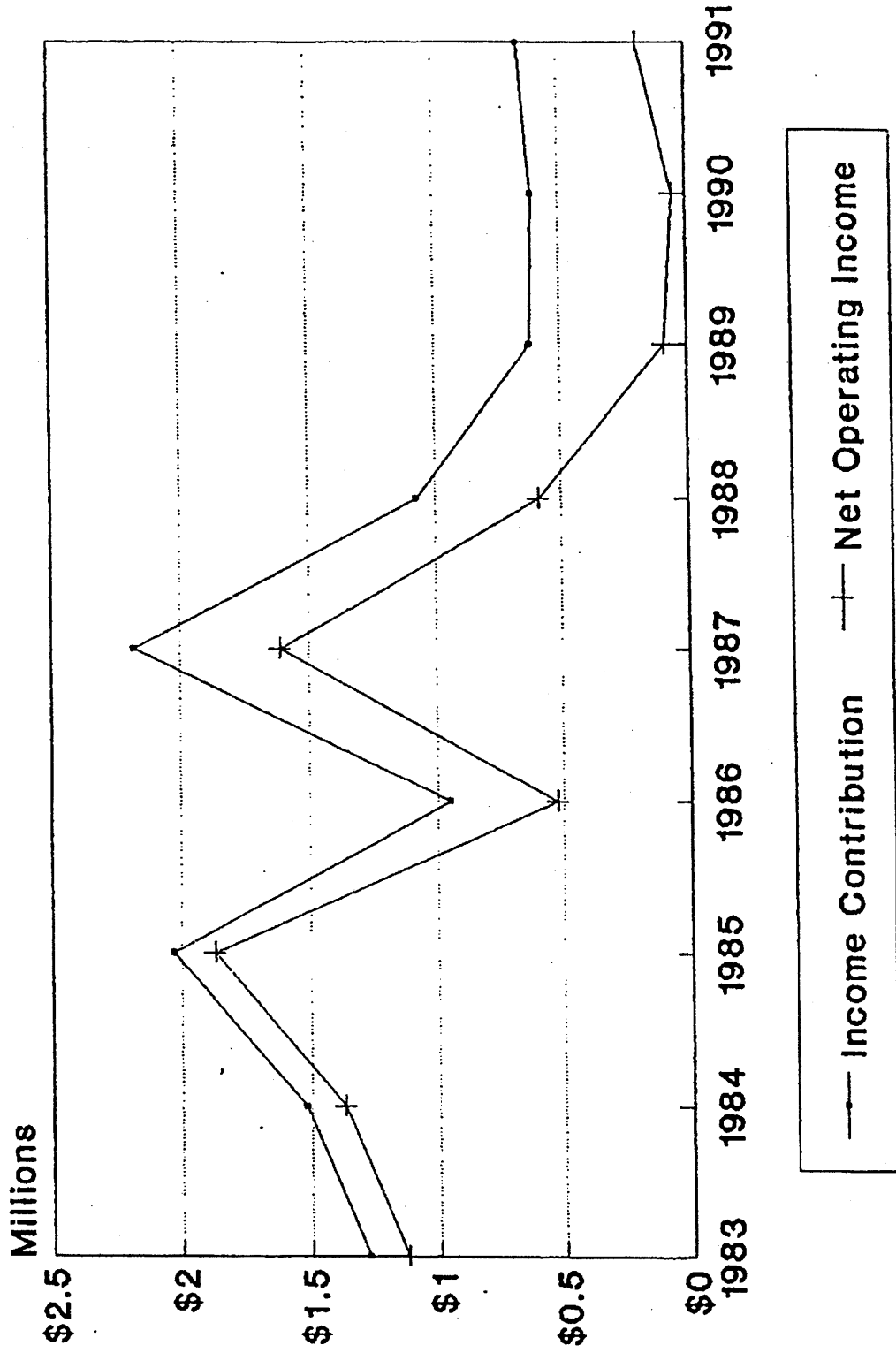


6-YEAR AVERAGE BY TYPE OF EVENT (1986 - 1991)

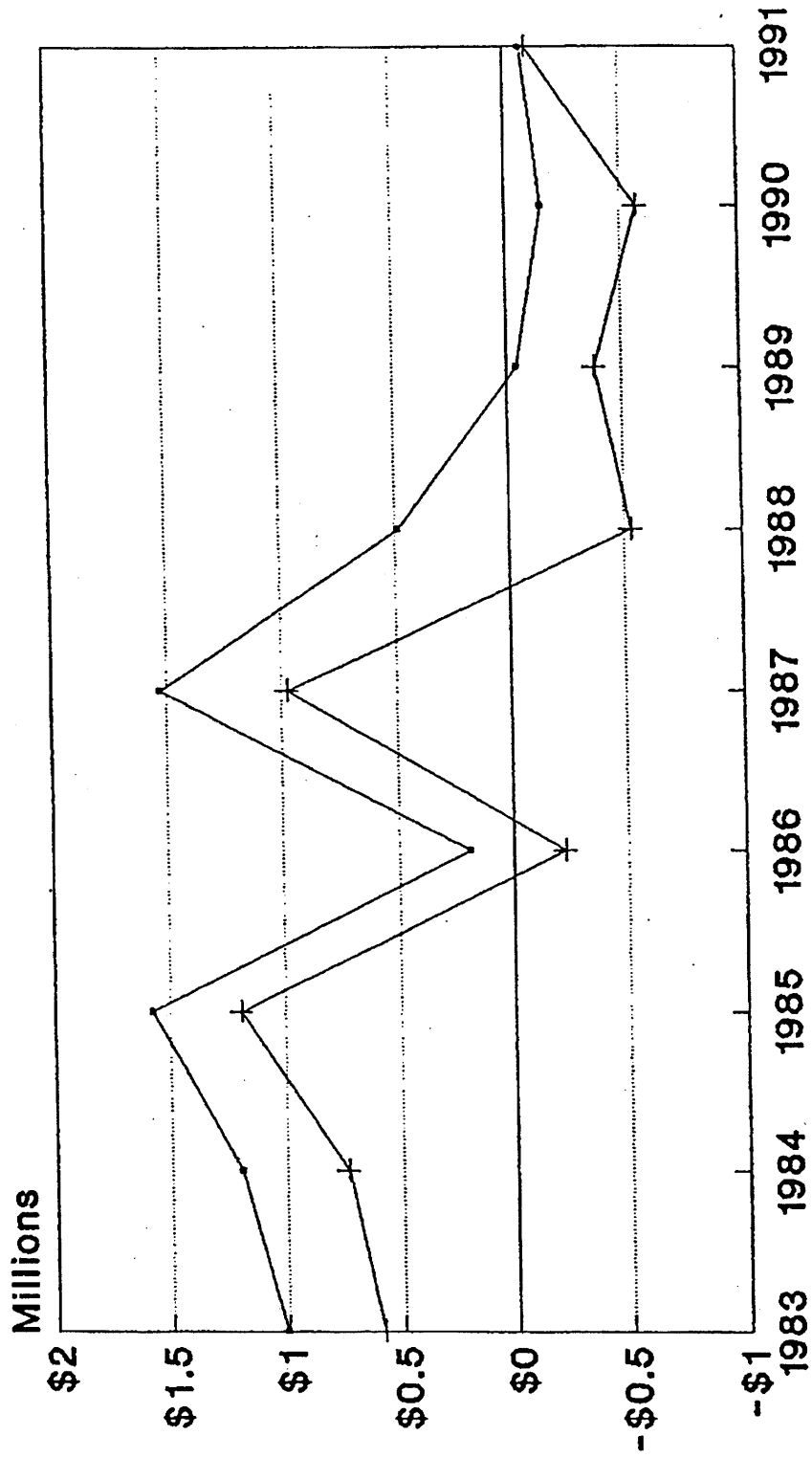
OPERATING EXPENSES



NET OPERATING INCOME TRENDS

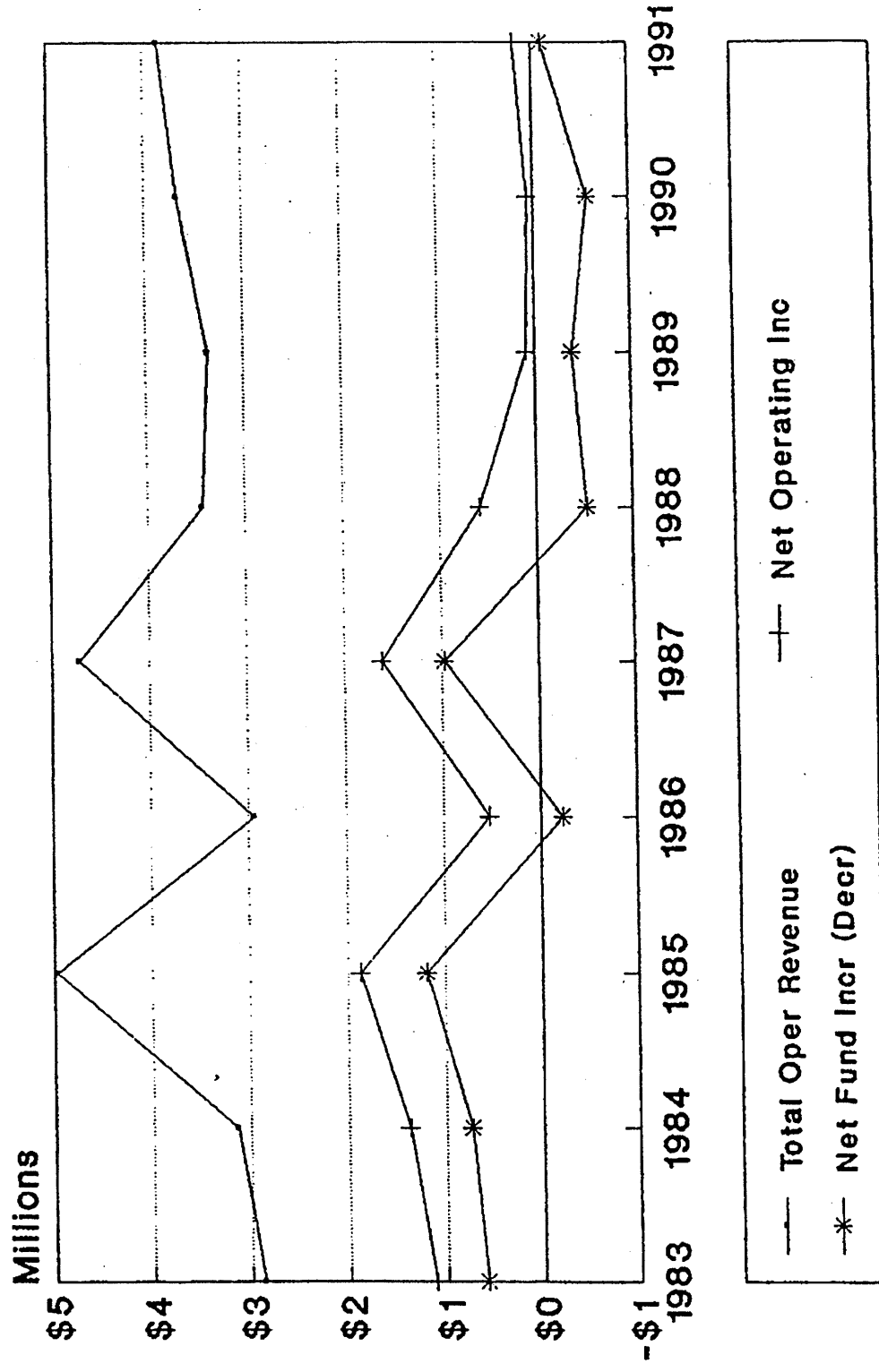


ROSE BOWL FUND BALANCE CHANGES



—●— Total Fund Income —+— Net Fund Decrease

FINANCIAL OPERATING RESULTS TRENDS



CITY OF PASADENA
Rose Bowl Fund

Comparison of Operating Statements

For the Years Ended June 30, 1983 - 1991

Description	1983	1984	1985	1986	1987	1988	1989	1990	1991
OPERATING REVENUE	\$2,863,223	\$3,130,957	\$4,963,608	\$2,943,157	\$4,711,179	\$3,439,486	\$3,370,863	\$3,663,814	\$3,850,292
Direct Event Expense	(1,101,000)	(917,204)	(2,339,095)	(1,514,272)	(1,979,794)	(1,705,893)	(1,927,766)	(2,047,789)	(2,121,295)
GROSS PROFIT	1,762,223	2,213,753	2,624,513	1,428,885	2,731,385	1,733,593	1,443,097	1,616,025	1,728,997
Operating Expense	(486,870)	(694,200)	(595,021)	(479,843)	(553,979)	(659,285)	(821,920)	(1,008,154)	(1,070,199)
INCOME CONTRIBUTION	1,275,353	1,519,553	2,029,492	949,042	2,177,406	1,074,308	621,177	607,871	658,798
Fixed & Allocated Expense	(152,494)	(152,593)	(160,036)	(423,747)	(567,925)	(482,813)	(532,694)	(553,987)	(470,950)
NET OPERATING INCOME	1,122,859	1,366,960	1,869,456	525,295	1,609,481	591,495	88,483	53,884	187,848
Financial Income & Expense	(117,605)	(172,608)	(297,117)	(335,604)	(86,195)	(103,202)	(131,743)	(214,627)	(264,341)
TOTAL FUND INCOME (LOSS)	1,005,254	1,194,352	1,572,339	189,691	1,523,286	488,293	(43,260)	(160,743)	(76,493)
Provision of Funds From (For):									
Capital Projects					(5,486)	(407,791)	(5,442)	(73,916)	(23,554)
Arroyo Maintenance	(416,145)	(460,206)	(384,091)	(419,919)	(544,259)	(656,020)	(337,008)	(335,754)	(500)
Golf Course/Gen Fund Transfer						45,350			3,222
NET INCREASE (DECR) TO FUND	\$589,109	\$734,146	\$1,188,248	(\$230,228)	\$973,541	(\$530,168)	(\$385,710)	(\$570,413)	(\$97,325)
Number of Events	27	25	38	26	29	26	24	26	25
Major Events	(Super Bowl)		(Olympics)	(Pasadena (Super Bowl) Centennial)			(Rose Bowl Anniversary)		

REPORT ON A FINANCIAL OPERATIONS REVIEW

EXISTING SITUATION

The Rose Bowl, over its seventy-seven year history, has become established as a world renowned site of major public events, especially the New Year's Day Tournament of Roses with all of its activities.

- UCLA football home games, International Soccer tournaments, Olympic events and other major events are held there.
- The Rose Bowl facility is operated as a department of the City of Pasadena.
- In 1993, the NFL Super Bowl football game will be played in the Rose Bowl as it was in 1983 and 1987.
- New press box quarters are to be built to accommodate the needs of major tenants and to become a competitive venue for national and international events, including the Tournament of Roses, UCLA football games, Super Bowl and other major events.
- Financing requirements associated with press box improvements as well as previously deferred maintenance of the facility have focused attention on the fiscal results of Rose Bowl operations.
- Questions about the profitability of the Rose Bowl Fund have prompted initiation of a financial operations review.

OBJECTIVES OF THE FINANCIAL OPERATIONS REVIEW

The study was undertaken to:

- Determine why losses appear to be occurring and profitability declining in recent years.
- Explain causes and/or identify deficiencies.
- Recommend improvement and corrective action.

ANALYTICAL APPROACH USED IN THE REVIEW

A series of analytical steps were taken in the study to:

- Acquire an understanding of the situation by review of available materials.
- Interview selected personnel from City Council, the City Manager's office, Department of Finance and the Rose Bowl Department.
- Obtain accounting and financial reporting data from the Department of Finance.
- Reconstruct and analyze available data to develop a financial profile of Rose Bowl operations.
 - Verify data.
 - Reformat financial presentation in reports to clarify issues.
 - Analyze fluctuation of data flow and balances.
 - Reconstruct statement of operating results.
 - Develop and analyze trend lines over nine years.
 - Identify factors in profitability.
 - Review revenue segments and history.
 - Study expenditure patterns in operations and allocated costs.
 - Obtain orientation to operations represented in statements of operating results.
 - Compute breakeven for Rose Bowl operation.
 - Identify problems in financial reporting and Rose Bowl operations.
 - Investigate causes of diminished profits.
- Review operations in light of financial profile.
- Record observations, derive conclusions and develop recommendations.

OBSERVATIONS AND CONCLUSIONS

Annual financial reports for the Rose Bowl Fund from 1986 to 1991 have shown net losses except in 1987, when the NFL Super Bowl game was played there. This has prompted a sense of urgency to determine why the profitability appears to be declining. In order to identify financial trends and the causes for apparently diminishing profits, the underlying factors must be isolated for analysis. Accordingly, the financial statements were recast with the acquisition of more detail, and the factors most affecting profitability were analyzed in descending order.

TRENDS IN REVENUE AND GROSS PROFIT CONTRIBUTED BY EVENTS

Closer study of financial detail reveals that Rose Bowl operations have actually continued to generate positive net operating income, but that cost - volume - profit relationships have shifted. The amount of revenue, cash and profit generated by activities during the mid-eighties are not being generated at current activity levels, costs have risen and the Fund Balance has decreased in recent years.

The effects and implications of cost - volume - profit shifts are outlined in the following observations and conclusions relative to operations, financial data, accounting and financial reporting, financial administration and planning, capital improvements and maintenance of the facilities.

Operating Revenue

Rose Bowl events are designated as individual projects in accounting for revenues and expenses. This accumulation of data provides the opportunity to analyze both gross and net revenues by category as well as source. The trends of total operating revenue and regular event revenue are shown on Exhibit A.

Revenue data for Rose Bowl operations fluctuates significantly from year to year because of variations in the number and types of events, ranging from 38 in 1985 to 24 in 1989, for such diverse activities as the Olympics, Super Bowl and swapmeets.

- Significant spikes on Exhibit A represent the 1984 (fiscal year 1984 - 85) Olympics and the 1987 Super Bowl.
- An upward trend is shown for regularly recurring (comparable) events.

Operating Revenue, Continued

- Extraordinary events, such as the Super Bowl and Olympics, substantially impact revenue and expense in certain fiscal years - 1983, 1985 and 1987 - causing dramatically different totals which confuse the operational profit picture.
- Regularly recurring events provide some underlying consistency to annual revenue and expense contribution, including the activities of:
 - Swapmeets
 - UCLA football games
 - New Year's Day Tournament of Roses
 - Independence Day - July 4
- Comparison of average revenue, profit margins and gross profit contributed by events from 1986 to 1991 are shown on Exhibit B.
- Revenue and gross profit by types of events are also shown on Exhibit C, with more detail by type of event in Appendix I.
 - Swapmeets and special events have provided 63% of income contribution from only 41% of the revenue.
 - New Year's Day and UCLA games provided only 35% of the income contribution from 55% of the revenue.
 - Contribution trends for swapmeets and July 4 have been stable.
 - UCLA game income contributions have oscillated, in part due to varying numbers of games each year.
 - Special events income has fluctuated significantly due to the 1987 Super Bowl and varying numbers of events per year, shown by the dip in 1989 for a decline to 24 events.
 - Tournament of Roses event income has decreased and expenses have increased to the point of virtually breaking even for the 1989 75th anniversary, and has seen recent upward movement in profits for 1990 and 1991.
- Exhibit D shows the gross profit trends from 1983 through 1991 which display the gross profit contributed by types of events.

Operating Revenue, Continued

- The relative importance of revenue sources is shown on Exhibits E and F.
- Rental fees for the facility and Billable Cost Recovery, which are operating costs negotiated to be paid by event sponsors, constitute approximately 2/3 of total revenue.
- Rental fees have shown a significant upward trend, while other trends are basically constant.
- Billable Cost Recovery shows notable improvement during the period from 1989 to 1991.
- Concessions are a significant revenue source, but Parade Fees, Admission Tax and Parking have been relatively minor.
- Trends for Rentals, Concessions and Billable Cost Recovery shown on Exhibit G are visibly affected by the 1987 volume of 29 events including the Super Bowl, while minor sources are not.

Direct Event Expense

Expenses related to a specific event are charged directly to the event project and, in many cases, billed as a recoverable cost to the event sponsor. They are generally grouped as Personnel, Services and Supplies, and General Services (GSA) expenditures.

- Extraordinary events, such as the Super Bowl and Olympics, have similarly affected expense levels and revenue for fiscal years ended in 1983, 1985 and 1987.
- Event expenditures have consistently increased for the regular events, disregarding extraordinary events, from 1986 through 1991 by a total of \$630,000, for 42% overall.
 - Expenses for Services and Supplies increased over \$400,000, nearly 2/3 of the nominal dollar increase.
 - Contract Service increases of \$200,000 in 1989 and \$100,000 in 1991 combined for nearly 75% of the increase.
 - Leasehold improvements in 1990 and 1991 account for most of the remainder.
 - Events causing 75% of the increases were UCLA games, and 25% for others (not including New Year's Day).
 - Personnel costs increased over \$200,000, nearly 1/3 of the nominal dollar increase.
 - Overtime payments were increased \$90,000 between 1986 and 1988 and nearly \$90,000 between 1989 and 1990, and represented more than 90% of the total Personnel cost.
 - Personnel costs for UCLA games more than doubled between 1986 and 1989 and accounted for approximately \$122,000 of the increased overtime, for 66% of the cost.
 - New Year's Day activities accounted for about \$44,000 of the increased overtime and over \$8,000 for Workers' Compensation Insurance, for 26% of the increased cost.
- Inflation, based on U.S. Bureau of Labor Statistics, caused only 25% of the increase (about 11 of the 42%).

Gross Profit - Contribution of Activities

- Gross profit (after direct event expenses) is charted on Exhibit H. Direct expenses separate the revenue and profit lines on Exhibit I.
- Gross Profit trends for regular events have been relatively stable.
 - Ranges have been between \$1.4 and \$2 million, as shown on Exhibit H, reflecting the number of events and volume of activity.
 - When Gross Profit is compared to total revenues on Exhibit I, a parallel (but slightly widening) band indicates that direct expenses are increasing at a slightly higher rate than event revenue.
 - After adjustments for inflation, the trends are essentially the same but with slightly flatter trend lines.
- Total revenue and profit contribution by type of event is shown on Exhibit C pie charts for comparison. This shows that New Year's Day and UCLA games provide a smaller portion of profit than other events, even though they generate more revenue.
- Exhibit J presents a summary format to compare annual operating results of the Rose Bowl reported for fiscal years 1983 through 1991, as a basis for analyzing profitability.
- Operating revenue, direct event expense and gross operating income (gross profit) trends are very visible in the more detailed classifications of Exhibit K (itemization of Exhibit J), which is Part 1 of a revised operating statement showing income contribution of regular and extraordinary events.
- Detailed schedules of annual expenses and revenue by year for event types and total events are shown in Appendix II. (Compiled figures are not adjusted for relatively minor items to reconcile with financial statements.)

PROFIT TRENDS

Part 2 of the revised operating statement on Exhibit L (itemization of Exhibit J) provides the basis for analyzing operating expenses controlled by the Rose Bowl Department, as well as revenue and expense categories allocated to it.

Operating Expenses

Operating expenses show steady increases since 1986 in two major categories: 1) Personnel related costs, and 2) Services and supplies, as charted on Exhibit M and shown on Exhibit N.

- Personnel costs doubled during the period 1986 to 1991.
 - Costs increased at an increasing rate until 1991, when the rate decreased to 6%.
 - Fringe benefits cost experience is between 55% and 70% of base pay during that period, which compares to an expected 35% to 40% in the private sector.
- Personnel cost increases as shown on Exhibit O result from:
 - Increases in full-time equivalents from 7.75 to 11.05 between 1987 and 1990, representing 56% of the increase, in connection with organizational changes and transfer of people from Arroyo Park to Rose Bowl operations. Although this appears to increase cost, it is simply a transfer of cost from expenses previously paid by the Rose Bowl Fund in "Provision of Funds" for Arroyo Park maintenance.
 - Inflation, based on U.S. Bureau of Labor Statistics, accounting for 25% of the increase.
 - More utilization of nonbenefit employees, representing 16% of the increase.
 - Additional overtime cost, causing 3% of the increase.
- Personnel charges are allocated directly to event expense by payroll time charge entries made by employees, in part causing the appearance of fluctuations in expenses and confusing cost control by limiting information as to the source of expenses.

Operating Expenses, Continued

- Services and supplies expenditures increased nearly 150% between 1986 and 1991, primarily in five items, as shown on Exhibit P.
 - Contract and consulting services were up 162%, for 52 points, or about 1/3 of the 150% increase.
 - Materials and supplies were up 147%, for 24 points of the 150% increase.
 - Tenant improvements were up 100%, for 44 points of the 150% increase.
 - Gas, water and electric were up 57%, for 15 points of the 150% increase.
 - Conferences and meetings, in part promoting the Super Bowl and International Soccer events, were up 732%, for 9 points of the 150% increase.
 - Various other items of expense accounted for 6 points of the 150% increase.
- Increases in operating expenses have decreased Rose Bowl profitability.
 - Results are a nearly flat trend line for operating income on increasing revenues, as shown on Exhibit Q.
 - Expenses cause a slightly widening band between gross profit and operating income contribution, as displayed on Exhibit R, due to a greater rate of increase for operating expense than for gross profit.
- The overall trends for items primarily controlled by Rose Bowl operations display a consistent pattern of increasing revenue with direct costs and operating expenses increasing at a slightly faster rate, but with operating income turning slightly upward.

Fixed and Allocated Expenses

Fixed and allocated expenses are those charged to the enterprise fund which are not directly controlled by the enterprise management.

- Trends of these charges from 1986 to 1991, as shown on Exhibit S, generally increase except in 1991, with fluctuations ranging from a \$144,000 increase in the first year to an \$83,000 decrease in the last year.
- Allocations are comprised primarily of City administrative service charges, allocated City overhead expenses and depreciation of capital improvements and equipment (a "book" or "paper" entry), as shown on Exhibit T.
- Charges include computed amounts for personnel costs (percentage of one full-time equivalent) shared with Golf Course, including:
 - City Manager (10%)
 - Administrative Assistant to City Manager (10%)
 - Administrative Assistant to Mayor (10%)
 - Deputy City Attorney (50%)
 - Accountant (85%)
 - Treasurer (2.5%)
 - Budget Analyst (15%)
 - Space rental (minor)
- Charges for services are based on the ratio of employees to total work force (1%), including:
 - Payroll
 - Personnel
 - Affirmative action
 - Official records
 - Records management

▪ When fixed and allocated expenses are deducted from earlier income contribution, net operating income remains positive, but the sharp slide from 1987 is dramatically shown on Exhibit U.

Financial Income and Expense

Financial impacts on the Rose Bowl Fund result from the Investment Income and Interest Expense shown on Exhibit V, which are managed on a City-wide basis rather than by the Rose Bowl Department.

- Investment income is allocated from the City investment pool managed by the City based upon the participation of Funds in the pool, i.e., providing investment funds on a pro rata share for each Fund Balance.
- Interest expense is paid on Certificates of Participation used earlier to fund Rose Bowl capital improvements.
- A net negative impact of financial income and expense, as shown by figures on Exhibit W, results from investment income being less (to begin with) and decreasing faster than interest expense as the fund balance diminishes.

Fund Balance

Subsequent to earning income, the Fund Balance is affected directly by disposition of funds through transfers to other purposes as shown on Exhibit L, particularly for Arroyo Park maintenance and capital projects. If income had been retained, investment income from the Fund Balance and refurbishment of the facilities could have been better.

The overall effect on the Fund Balance of financial income and expenses along with transfers is shown by the trend lines on Exhibit X. This is the result of the Rose Bowl funding Arroyo maintenance for many years.

CAPITAL IMPROVEMENTS

Capital improvements are needed at the Rose Bowl to maintain a competitive national and world class facility. Deferred maintenance is a common term discussed among the Rose Bowl staff. Management has identified a ten-year improvement program, including substantial construction and refurbishment.

- No capital improvement reserve is found to be currently funded, provided or planned.
- Previous earnings have been used to fund capital projects, facility improvements or park maintenance.
- Funding from operations would require significant increases in the volume of income and cash generation.

CASH FLOW ANALYSIS

A summary analysis of cash flow indicates that, although a positive cash flow is generated by operations, it has been inadequate to meet principal payments since 1985, except in 1987 and (barely) in 1988, as charted on Exhibit Y and shown on Exhibit Z.

- Cash available for interest payment includes:
 - Net operating income
 - Depreciation, a noncash expense item, to add back cash
 - Investment income
- Interest expense has been covered each year, but payment leaves insufficient cash for principal payments which increase each year.
- If park maintenance is to be paid by annual proceeds of the Rose Bowl, greater income by more than \$500,000 would be needed each year.
- Operations burdened by fixed overhead, interest and park maintenance expenses have resulted in a diminishing fund balance, thus reducing investment income to further exacerbate the situation.
- The good faith and credit of the City and lower cost of capital from the General Fund will apparently be needed to meet existing financial commitments and to fund future capital improvements, unless dramatic increases in revenue and profitability are generated.

DIMINISHED PROFIT EXPECTATIONS

Previous Rose Bowl Statements of Revenue and Expenses have presented part of the picture, but clouded the issue of profits in using the prescribed Enterprise Fund report format, classifications and terminology.

- Profit expectations may have been heightened by the income experienced during the mid-eighties, when the Rose Bowl was the site of several extraordinary events generating high revenue and net income. As a result, the current disappointment over lower income levels may be even greater than it otherwise would be. Regardless, absence in recent years of extraordinary event income has limited profits to the lower volume provided by regular events.
- The precipitous fall of net income during the 1987 to 1989 time frame is most apparent on Exhibit U.
 - The drop of income is accentuated by the 1987 Super Bowl volume, although not as steep as slide if only regular income is considered as shown on Exhibit Q.
 - Five Rose Bowl manager changes were made between January 1987 (Super Bowl weekend) and May 1989, which likely prevented the continuity of strategy and management direction necessary to maintain effective operations.
 - Higher expenses increasing at a greater rate than revenue have further diminished profitability.
 - Reduced profit has resulted in deferred maintenance and, as a logical extension, diminished competitive position.
 - The total picture of financial trends is placed in perspective on the same scale as shown by Exhibit AA, which displays:
 - Total Revenue,
 - Gross Profit,
 - Rose Bowl Income Contribution,
 - Net Operating Income,
 - Total Fund Income, and
 - Net Fund Decrease.
- Exhibit AB displays the same financial trends for recurring events only, as if extraordinary events like the Super Bowl and Olympics were not held in the Rose Bowl.

BREAKEVEN

A breakeven level of operations can be determined by comparing the contribution per event to the fixed costs to be covered. Without the benefit of defined costs for more refined analysis of fixed and variable expenses, operations expenses along with fixed and allocated costs can be designated as the costs to be covered. Since New Year's and Independence Day activities are unique single events with unique levels of contribution that are likely to continue in this community, they are deducted from the computation but included in the event total.

- For 1986 operational contribution and expense levels, more than 13 events were required (at \$40,840 contribution per event for 11 events plus \$454,356 income from New Year's and July 4 events) to cover \$903,590 of expenses.
- At average (or 1991) contribution and 1991 expense levels, 22 events are needed to cover expenses.
- If provision for a capital improvement program (amortized over 25 years at 8%) were included, significantly more events would be needed per year at current contribution levels.
 - Prospectively, double the number of events for a program of approximately \$20 million.
 - Prospectively, quadruple the number of events for a more aggressive program over \$40 million.

POSSIBLE REVENUE ENHANCEMENT

- Additional or enhanced sources of revenue are possible from several activities, if deemed desirable in light of enterprise and/or community interests, such as:
 - More special and athletic events, either large or small, to improve utilization of capital facilities, although large event negotiations are perceived to be increasingly difficult and competitive, and profit prospects more uncertain.
 - Additional parking charges or shuttle buses, since this has been a small portion of revenue generated with relatively little active emphasis, limited in part by concern about traffic considerations.
 - Increased utilization of press and auxiliary facilities for restaurants or catered conferences, either in connection with events or separately.
 - Tourism facilitated by historical displays, scheduled tours, concessions and souvenir marketing.
- Profit potential of major extraordinary events is perceived to be diminishing.
- Further analysis of activities in light of profit contribution and market potential will contribute to long range business planning.

ADMINISTRATIVE IMPROVEMENT

Improvement of operational administration may be accomplished by means of several steps to focus and direct effective programs.

- Objectives of the City for the Rose Bowl Department need to be more clearly defined to provide consistent strategic direction and avoid ambiguity.
- Administration is frustrated and sometimes confused by conflicting goals and the need for additional administration to obtain approval from a legislative body or committee on operational matters, which tends to limit flexibility, delay reaction to opportunities needing timely response, and constrain efforts to obtain profitability.
- New organization charts and job descriptions for the Rose Bowl Department are needed.
- More streamlined purchasing administration is desired to overcome perceived constraints of control orientation and bureaucratic processes in contract administration and material acquisition.
- Accounting and financial analysis activities are currently assigned to several individuals at the Rose Bowl and Department of Finance offices, rather than being focused to provide capable and timely financial information to management.

ACCOUNTING AND FINANCIAL REPORTING FOR OPERATIONAL MANAGEMENT

Existing accounting records appear to be complete and consistently recorded and to have significant accounting controls in place. However, since governmental fund accounting is applied to Rose Bowl operations, Statements of Revenues and Expenses have classified and presented items in terms of fund balance and appropriation control rather than operating income.

- Fund accounting used for government agencies tends to focus on custodial responsibility and budgetary control, which are manifested in the Rose Bowl Fund accounting and financial reports, even though it is treated as an Enterprise Fund.
- The Department of Finance focus is broader than operational activities, with significant responsibility and workload for appropriation control and custodial duties.
- Rose Bowl accounting operations track appropriations and expenditures rather than profit contribution.
- Management information and profitability are not as readily apparent when obfuscated by concentration on Fund Balance in financial statements rather than on operating results and cash flow.
- Fund Balance increase (or decrease) is shown as Net Income (or Loss).
- Allocated charges for overhead beyond Rose Bowl control are included in Net Operating Income.
- Advertising and other income are reflected as nonoperating revenue rather than ordinary enterprise income.
- Operational profitability and management information are needed to augment custodial fund records.
- Expenses of related cost center entities, the Arroyo and Brookside Parks, are included in the profit picture rather than as disposition of funds by transfers to them after income determination.
- Financial management of investments is included in profit computations for the Rose Bowl, though investments are managed by the City beyond Rose Bowl control and more closely associated with fund balances than operations.

- Several improvements can be made in accounting operations and financial reporting for the Rose Bowl.
 - Report formats and management information categories may be more beneficially defined.
 - Project forecasts and budgets are informally prepared and recorded within the Rose Bowl Department and not used for accounting control.
 - Management accounting and reporting are not applied to profit motivated activities in terms of fixed and variable costs, controllable and uncontrollable factors, or comparison to budgets.
 - Financial data is available in magnetic media for the current year, but historical data is not easily available in that form for analysis and review. Compilation of analytical information requires a good understanding of City accounting procedures and diligent followup on journal entries and adjustments from different sources.
 - Monthly reports are purported to be not available at the Rose Bowl soon after month end, but data is available from computer terminals or by download of files, if requested.
 - Some charges from other City departments are purported to be submitted long after incurred, some instances of which were observed, causing some timing problems for management information.
 - Some confusion or disagreement appears evident regarding the administrative means to monitor and control charges from other departments, making cost control difficult, since the Rose Bowl Department appears to expect the Department of Finance to maintain control, and Finance needs to have control and corrective action initiated by the Rose Bowl.

MANAGEMENT ALTERNATIVES

Some consideration is currently being given to establishing contract management or a separate agency to improve the efficiency and profitability of the Rose Bowl, rather than to operate as a department of City government. Profits can be achieved by either method, as shown by previous Rose Bowl and Arroyo Golf Course operations. The profitability of Rose Bowl operations can be improved in the current mode of operation as it can in other structures.

Whether improved operations is to be pursued to achieve the best results possible as a City department or under alternative management organization, a number of issues will need to be considered, analyzed and resolved, including:

- Public interest
- Ownership role
- Facility utilization policies
- Management control
- Responsibility and delegation of authority
- Financial management
- Marketing parameters
- Cost control
- Flexibility and latitude of organizational activities

These issues need to be considered further in order to achieve effective operations and desired financial results regardless of the form of organization. Very attractive arrangements, based upon a stringent definition of policy and clear statement of objectives, will be needed to obtain any alternative management structure to develop the operations and achieve the desired financial results.

RECOMMENDATIONS

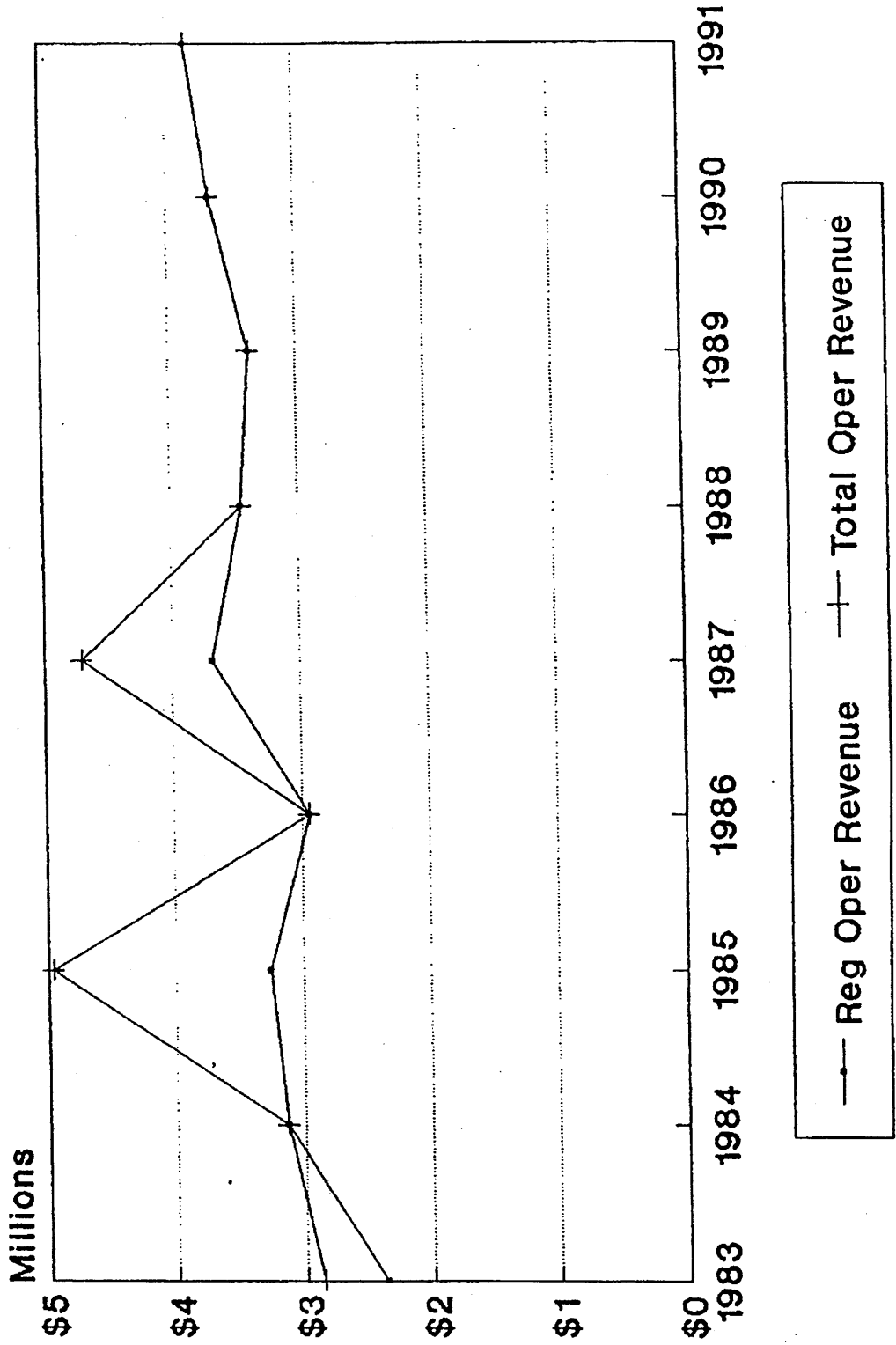
An aggressive and substantive program should be pursued to improve the profit picture for the Rose Bowl. Cost - volume - profit relationships need to be improved through better management planning, cost control and facility utilization.

- Institute a judicious cost control/expense reduction program within both Rose Bowl operations and event projects, especially as to supplies, contract services and overtime.
- Establish a stringent event project control program, including formal budgets and reports.
- Establish purchasing and operating expense control procedures within Rose Bowl operations.
- Increase utilization of the facility, preferably with high gross profit margin activities, to achieve the volume of profit and cash flow to meet financial goals and commitments.
- Enhance revenue by exploiting additional sources, as outlined earlier.
- Set up accounting coordination and control within the Rose Bowl Department.
 - Consolidate accounting operations to one place within the Rose Bowl Department which is easily accessible to the Managers.
 - Develop formal budget documents and interim progress reporting.
 - Utilize account object data to manage the source of costs as well as disposition.
 - Develop and issue financial statements formatted to emphasize management control.
- Set enterprise objectives and guidelines, stabilize existing operations and develop business plans prior to, and in preparation for, consideration of alternative organizational structures and management approaches.
- Develop organizational charts and job descriptions to support the business objectives and plans of the Rose Bowl.
- Develop long-term funding plans for deferred maintenance and capital improvement.
- Consider management alternatives, including semiautonomous and private approaches, in conjunction with implementing improved management techniques.

LIST OF EXHIBITS

A	-	Total Operating Revenue Trend
B	-	Event Revenue and Gross Profit Comparison
C	-	Revenue and Gross Profit - 6-Year Average by Type of Event (1986 - 1991)
D	-	Gross Profit by Event Type
E	-	Comparison of 1991 Revenue by Source
F	-	Revenue Detail by Source
G	-	Revenue Trends by Source
H	-	Gross Profit Trend
I	-	Event Revenue and Profit Trends
J	-	Comparison of Operating Statements
K	-	Comparison of Operating Statements - Part 1
L	-	Comparison of Operating Statements - Part 2
M	-	Operating Expenses
N	-	Operations Expenditures by Category
O	-	Operating Expenses - Personnel
P	-	Operating Expenses - Service and Supply
Q	-	Rose Bowl Income Contribution Trend
R	-	Income Contribution Trends
S	-	Total Fixed and Allocated Costs
T	-	Fixed and Allocated Costs by Category
U	-	Net Operating Income Trends
V	-	Financial Income & Expense
W	-	Financial Income and Expense
X	-	Rose Bowl Fund Balance Changes
Y	-	Cash Available
Z	-	Cash Flow Analysis
AA	-	Financial Operating Results Trends
AB	-	Financial Trends of Recurring Events

TOTAL OPERATING REVENUE TREND



CITY OF PASADENA
Rose Bowl Fund

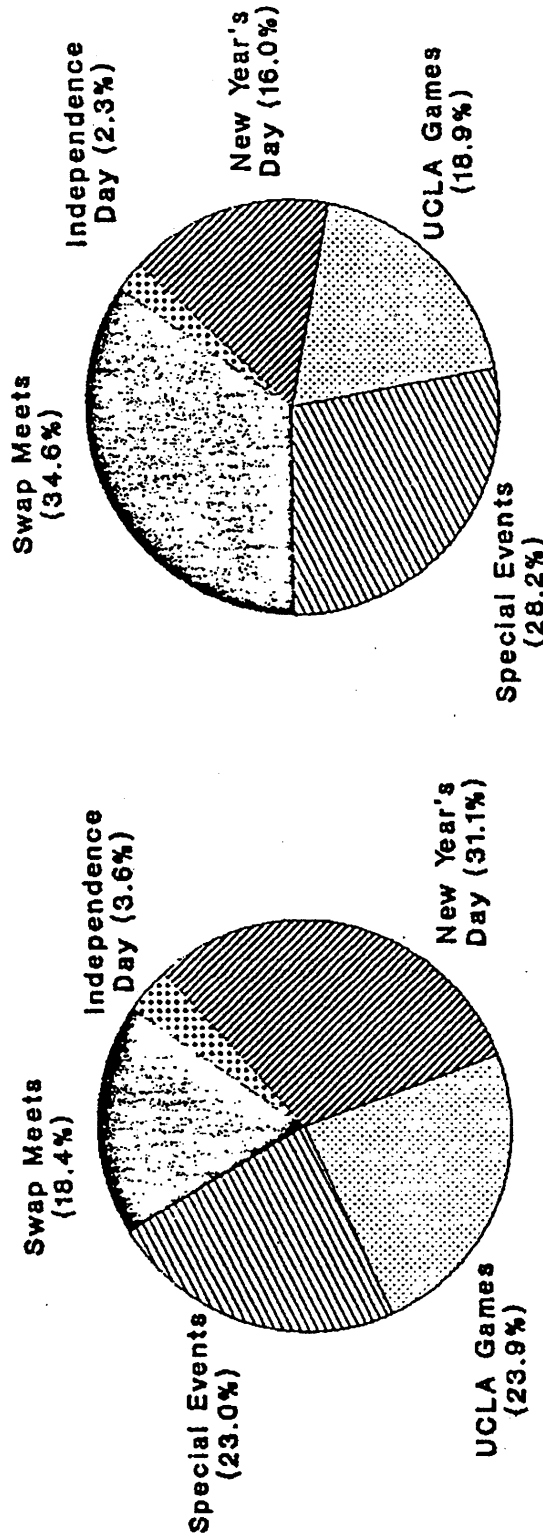
Event Revenue and Gross Profit Comparison
 Annual Average for the Years Ended June 30, 1986 - 1991

Average # Events	Type of Event	% Profit Margin		Annual Revenue		Gross Profit	
		Percent	Average	Average	Percent	Average	Percent
13	Swap Meets	91.36%	\$674,351	18.41%	\$616,070	34.61%	
5	Special Events	59.40%	843,451	23.02%	501,050	28.14%	
6	UCLA Games	38.51%	873,966	23.86%	336,585	18.91%	
1	New Year's Day	25.03%	1,138,831	31.09%	285,072	16.01%	
1	Independence Day	31.35%	132,534	3.62%	41,552	2.33%	
26	Total Event Activity	49.13%	\$3,663,133	100.00%	\$1,780,329	100.00%	

EXHIBIT B

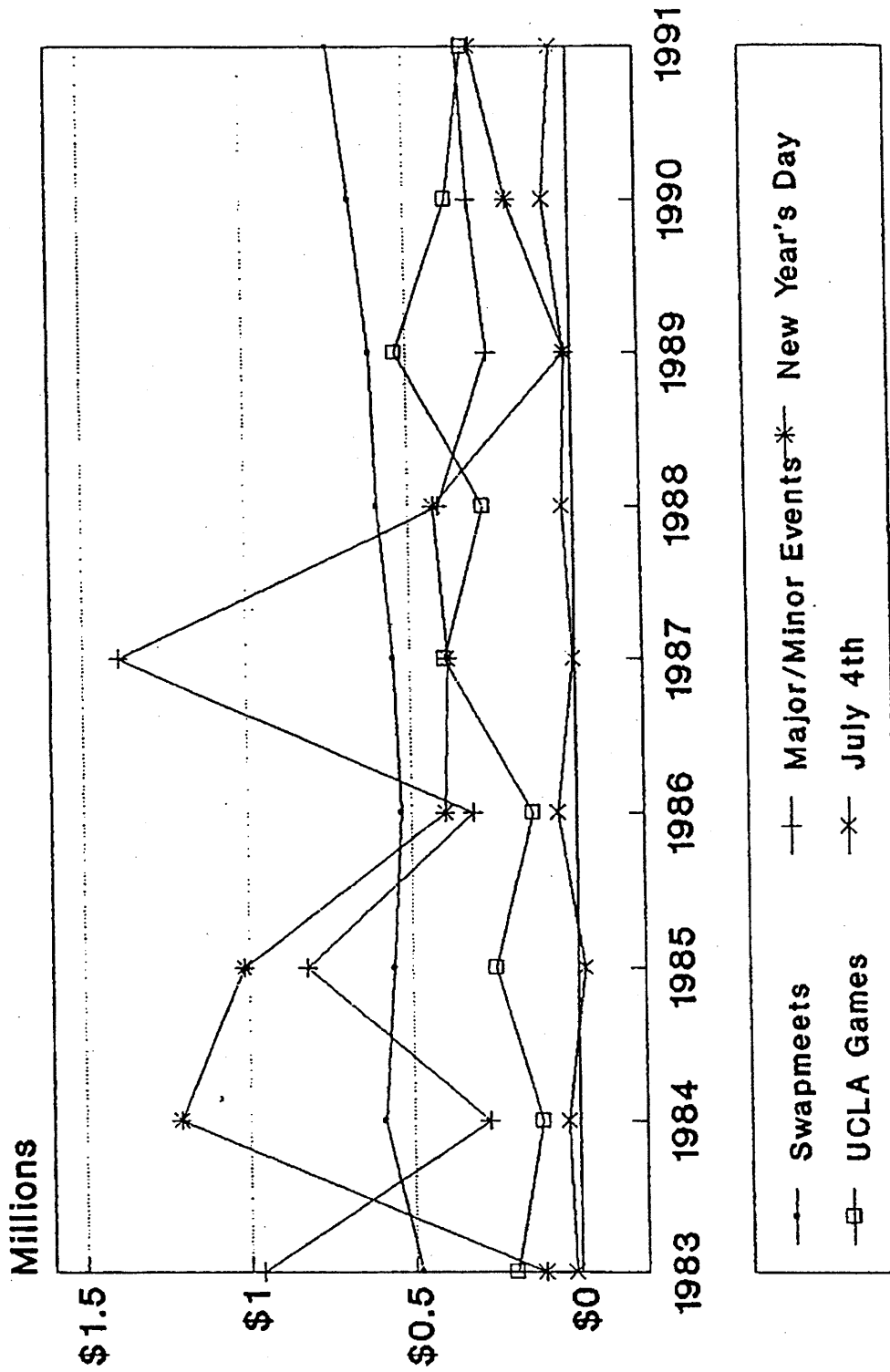
REVENUE

GROSS PROFIT

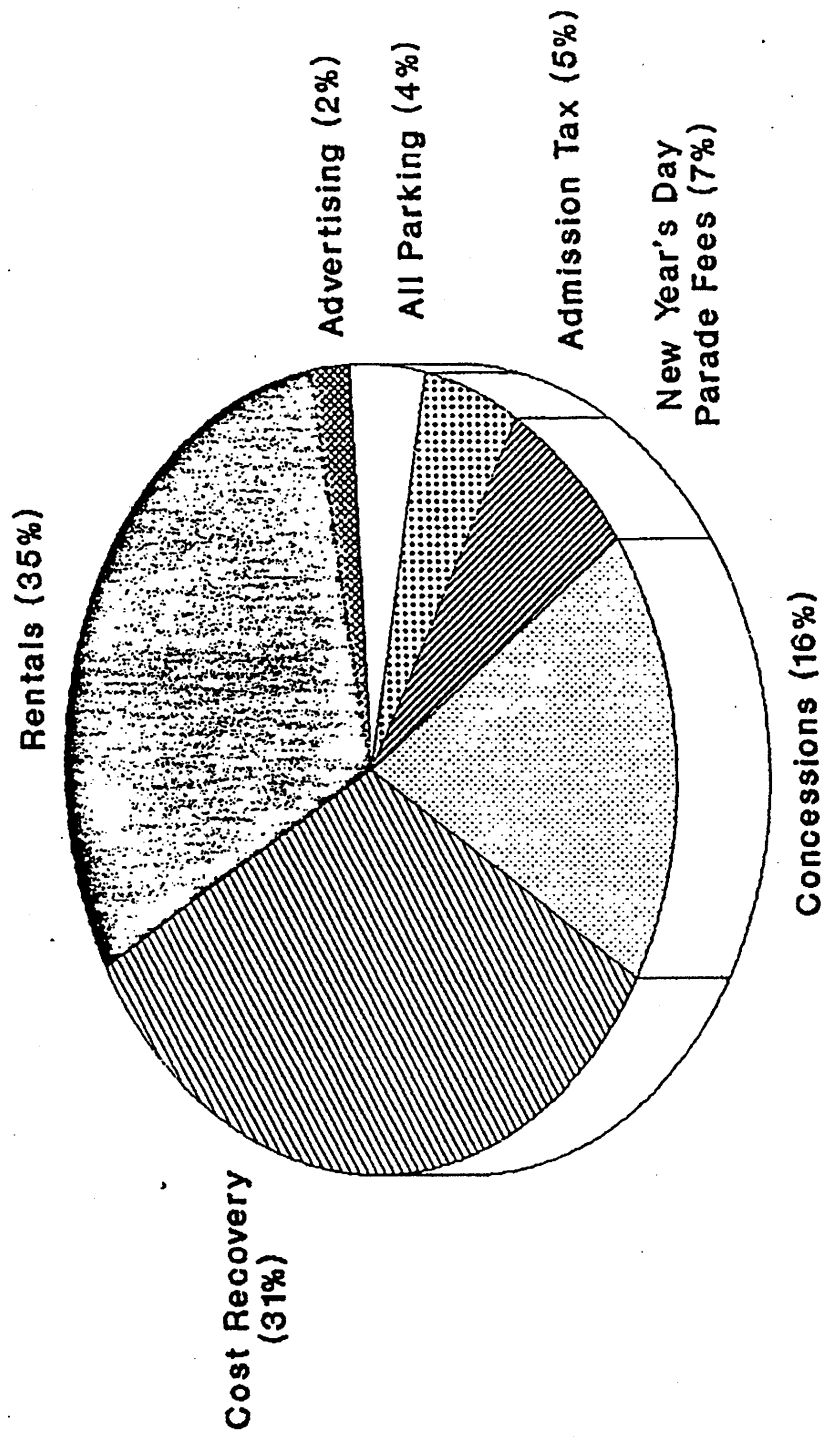


6-YEAR AVERAGE BY TYPE OF EVENT (1986 - 1991)

GROSS PROFIT BY EVENT TYPE



COMPARISON OF 1991 REVENUE BY SOURCE



CITY OF PASADENA
Rose Bowl Fund

Revenue Detail by Source

For the Years Ended June 30, 1986 - 1991

Description	1986	1987	1988	1989	1990	1991	Average	Percentage
							1991	1991
Rentals	\$780,083	\$1,258,648	\$936,807	\$1,083,277	\$1,100,052	\$1,361,193	29.7%	35.4%
Billable Cost Recovery	1,235,376	1,398,029	1,187,121	955,090	1,235,147	1,198,571	32.8%	31.1%
Concessions	416,501	1,189,307	617,336	609,802	602,754	592,828	18.3%	15.4%
New Years Day Parade Fees	238,097	295,840	299,219	273,805	258,551	268,371	7.4%	7.0%
Admission Tax	147,505	200,148	211,745	176,227	197,487	201,943	5.2%	5.2%
All Parking	33,858	148,803	157,839	176,688	186,773	156,186	3.9%	4.1%
Advertising	12,877	170,400	29,419	95,974	83,050	71,200	2.1%	1.8%
Private Contributions and July 4, 1986 Admission Fees	78,860	50,004					0.6%	0.0%
TOTAL REVENUE	\$2,943,157	\$4,711,179	\$3,439,486	\$3,370,863	\$3,663,814	\$3,850,292	100.0%	100.0%

EXHIBIT F

REVENUE TRENDS BY SOURCE

