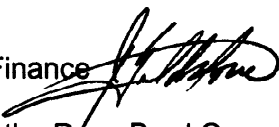


MEMORANDUM

CITY OF PASADENA
Department of Finance

June 2, 2005

TO: Cynthia J. Kurtz, City Manager

FROM: Jay M. Goldstone, Director of Finance 

SUBJECT: Financial Impact of the NFL to the Rose Bowl Operating Company and City of Pasadena

Last calendar year, as part of the City Council's consideration of a 20 year extension of the UCLA contract, I prepared a pro-forma of the Rose Bowl and Golf Course operations. This pro-forma was presented to both the Rose Bowl Operating Company (RBOC) and the City Council at the time the UCLA contract was considered and has subsequently served as the point of reference for analyzing the financial benefit to the RBOC/City of Pasadena of securing a long term relationship with the National Football League (NFL). While not taking into consideration every benefit, the following represents the key areas worth noting. Please note that some of the benefits are the result of cost avoidance.

Rose Bowl Operating Company

Under the current operations of the RBOC, the Rose Bowl loses nearly \$1.5 million to \$2 million annually on a cashflow basis. The exact amount varies from year-to-year based upon the number and type of special events. The primary reason for this loss is due to the high level of annual debt service associated with the 1991 and 1996 Certificates of Participation issued for various Rose Bowl improvements. On an annual basis, this deficit is covered by a comparable positive cashflow from the Golf Course. Should the City be successful in securing a long term lease with the NFL based upon the terms and conditions being negotiated, some of the key economic benefits would:

1. Allow the City to avoid significant costs in connection with the maintenance and operation of the Rose Bowl, thus freeing RBOC/City funds for other important public purposes.
2. Alleviate the City's obligation to expend approximately \$12 million towards Stadium improvements that is required under the current lease agreement with UCLA. If the City does not have to restructure the RBOC's current outstanding debt by extending its final maturity and does not have to incur the additional \$12 million in debt, the RBOC will save an estimated \$18 million in incremental debt service costs.
3. Mean that the RBOC will avoid spending approximately \$550,000 per year for ongoing capital maintenance improvements to the stadium.

4. Ultimately result in a management agreement with the NFL for the Rose Bowl Stadium. The management agreement is projected to reduce the RBOC's annual operating expenses by approximately \$3,000,000 per year. In recognition of the NFL's commitment to manage the Stadium on a day-to-day basis and the corresponding obligation to cover all operating and maintenance expenses, the RBOC would assign its rights to its portion of revenues received from UCLA and Tournament of Roses activities. The accumulative net savings to the RBOC operating budget from a potential management agreement would be approximately \$2.8.
5. Beyond the contractual obligation to UCLA, there are no current plans to put any additional funding into the Rose Bowl except for routine maintenance dollars and the capital maintenance dollars discussed in item 3, above. The Project calls for the update and modernization of the Rose Bowl to be financed with private funds. The Project provides that the NFL will pay for these improvements as well as other improvements to modernize the stadium and to provide increased amenities for Rose Bowl patrons. Improvements planned by the NFL are expected to result in an investment of between \$500 million and \$600 million in this public facility. Without many of these improvements, it is expected that the City would have to identify other sources or redirect existing resources towards Stadium improvements. While it is not expected that these improvements would be in the \$500 million to \$600 million range, based upon improvements completed or under construction at other older college stadiums, there is little doubt that some level of stadium improvements will be required in the future at the Rose Bowl. For everything \$10 million in capital improvements financed through the issuance of debt, the annual debt service payment (interest and principal) is approximately \$864,500.

The net cashflow to the Rose Bowl Operating Company based upon the terms and conditions of an NFL lease and management agreement for the first five years of such agreement is projected to be \$6.7 million and \$92.9 million over the proposed initial 25 years.

City of Pasadena

1. Under a long term lease with the NFL, the NFL would be obligated to pay a possessory interest tax (property tax paid by a private entity lease public property). The tax rate imposed would be comparable to the property tax rate paid by any private property owner with property located in this tax rate area of the Rose Bowl (approximately 1% of the market value of the leasehold interest). Approximately 22% of this 1% would come to the City. This is estimated to be approximately \$840,000 in the first year of the agreement and would equal nearly \$27 million during the initial 25 year lease period.
2. The City of Pasadena would be entitled to other taxes, fees and charges both on a one-time as well as ongoing basis. These include construction taxes, increased sales tax and increased transient occupancy tax revenues. A projection of these revenues over a the initial 25 year lease period suggests that the City may receive in excess of \$13.8 million.

Exhibit 1 represents an addendum to the Economic Impact Study prepared by the UCLA Anderson School of Management and evaluates the anticipated incremental revenues the City would receive from property taxes and the construction tax should the NFL select the Rose Bowl as its venue. The net cashflow to the City based upon the terms and conditions of an NFL lease agreement for the first five years of such agreement is projected to be \$13.3 million and \$40.8 million over the proposed initial 25 years. In aggregate, the project local benefit of the proposed transaction is \$20 million over the first five years and \$133.7 million over the initial 25 years.

Based upon economic projections of the proposed agreements, the RBOC/City of Pasadena will see a continual positive cashflow that would be more than sufficient to cover the \$2.5 million in annual debt and free up the Golf Course revenues for other needs throughout the City.

EXHIBIT 1

Economic Impact Study:

*An Addendum Evaluating
Incremental Property Tax and
Construction Tax Revenues*



February 18, 2005

Prepared for: The Rose Bowl Operating Company

UCLAAnderson
School of Management

**Tommy Bligh
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Stephen Gray**

The purpose of this addendum is to demonstrate the incremental property tax and construction tax revenues that could accrue to entities within the City of Pasadena (“the City”) and Los Angeles County (“the County”), including both the City and County themselves, should the NFL be required to remit these taxes. Previously, the study excluded these incremental tax revenues due to their contingent nature, maintaining that their realization could be jeopardized as part of a stadium deal.

1. Incremental Property Tax (Possessory Interest Tax) Revenues

The incremental property tax revenues listed below are based on estimates of the assessed property value of a renovated Rose Bowl and are provided to serve only as estimates. Since the assessed property value could be materially different and pursuant to the fact that the City and/or County could rebate all or part of their share of property tax revenues to the property owner as part of a stadium deal, the realization of the property tax revenues listed below could be subject to change and/or elimination.

Based on a range of estimated assessed property values of \$350 to \$600 million, a 1% property tax, and the allocations listed in the table below, entities within the City and County could expect to generate the following revenues from a possessory interest tax. Please note that these revenues are reported on a gross basis before the allocation of the County’s administrative fee.

As such, entities within the City could expect to generate between \$2.4 and \$4.2 million. Of that amount, the City itself could expect to generate between \$730 thousand and \$1.3 million.

Incremental Property Tax Benefits: Stadium Renovation			
Study Area	% of Property Tax Accruing	Amount Allocated based on Assessed Value of 350,000,000	Amount Allocated based on Assessed Value of 600,000,000
Pasadena-Based Entities			
<i>Property Tax Allocation</i>			
City of Pasadena	21.09%	\$730,769	\$1,265,400
Pasadena Unified School District	44.84%	\$1,569,400	\$2,690,400
Pasadena Area Community College	3.33%	\$116,550	\$199,800
		From	To
Incremental Property Tax Benefits to Pasadena-based Entities		\$2,416,719	\$4,155,600
Study Area	% of Property Tax Accruing	Amount Allocated based on Assessed Value of 350,000,000	Amount Allocated based on Assessed Value of 600,000,000
Los Angeles County-based Entities			
<i>Property Tax Allocation</i>			
County of Los Angeles	27.88%	\$975,800	\$1,672,800
County Flood Control	1.02%	\$35,700	\$61,200
County Sanitation District	1.19%	\$41,650	\$71,400
Other Districts	0.65%	\$22,750	\$39,000
		From	To
Incremental Property Tax Benefits to Los Angeles County-based Entities		\$1,075,900	\$1,844,400
<small>1. These calculations are merely illustrative of property tax revenue potential to City of Pasadena and County of Los Angeles-based entities. 2. Actual assessed value could differ materially from the ranges utilized above. 3. Tax benefits reported do not account for a county administrative fee.</small>			

2. Incremental Construction Tax Revenues

The incremental construction tax revenues listed below are provided to serve only as estimates. Since the assessment of the construction tax could be waived or rebated as part of a stadium deal, the estimates are presented for illustrative purposes only.

Based on conversations with a City finance official, the basis for the assessment of the construction tax revenues was adjusted since the construction tax is assessed based upon the value of the structures, excluding plumbing, heating and air conditioning, electrical, automatic fire-extinguishing system, demolition and grading. Pursuant to these exclusions, the items highlighted in the graphic below were eliminated for the purposes of calculating the construction tax basis.

Summary of Construction Cost Allocations		
Implan Sector	Name of industry/commodity	% costs
39	Highway, street, bridge, and tunnel construction	0.51%
40	Water, sewer, and pipeline construction	0.09%
40	Water, sewer, and pipeline construction	0.37%
45	Other maintenance and repair construction	17.80%
99	Carpet and rug mills	0.07%
117	Wood windows and door manufacturing	2.24%
161	Paint and coating manufacturing	0.25%
186	Ceramic wall and floor tile manufacturing	0.16%
191	Cement manufacturing	17.39%
199	Cut stone and stone product manufacturing	0.01%
203	Iron and steel mills	2.48%
206	Rolled steel shape manufacturing	1.82%
235	Metal window and door manufacturing	2.31%
237	Ornamental and architectural metal work manufacturing	0.92%
259	Construction machinery manufacturing	1.14%
278	AC, refrigeration, and forced air heating	5.97%
291	Elevator and moving stairway manufacturing	0.89%
309	Audio and video equipment manufacturing	2.95%
312	All other electronic component manufacturing	6.41%
326	Lighting fixture manufacturing	0.04%
366	Institutional furniture manufacturing	1.80%
381	Sporting and athletic goods manufacturing	0.16%
384	Sign manufacturing	0.31%
428	Insurance agencies, brokerages, and related	0.35%
428	Bonds	1.01%
457	Investigation and security services	0.05%
Spread	Contingencies	0.00%
Spread	Fees	0.00%
10006	Labor Expense	32.50%
Total		100.00%

With an adjusted taxable base of nearly \$293 million, the City could expect to generate approximately **\$5.6 million**.

Construction Tax Benefit	Pasadena
Total Spent	\$350,000,000
% on Labor	32.50%
% on Taxable portion	51.24%
% on non-taxable portion	16.26%
Taxable Portion	\$293,106,272
Tax Rate	1.92%
Tax Revenue	\$5,627,640