



OFFICE OF THE CITY MANAGER

May 8, 2006

TO: City Council  
FROM: City Manager  
SUBJECT: Independent Analysis

Attached is an independent analysis prepared by Deloitte Financial Advisory Services, of the updated pro forma for the City/RBOC with and without the NFL.

During its review Deloitte made a number of suggestions in regard to the pro forma. Exhibit 3, which is attached to Deloitte's report, illustrates how these suggestions would alter the pro forma.

Respectfully submitted,

CYNTHIA J. KURTZ  
City Manager

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Attachments

**Deloitte.**

**CONSULTING SERVICES  
PROVIDED TO  
THE CITY OF PASADENA**

**Deloitte Financial Advisory Services**



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May 3, 2006

Steve Mermell  
Acting Director of Finance  
City of Pasadena  
Rose Bowl Stadium  
1001 Rose Bowl Drive  
Pasadena, CA 91103

*Re: Financial Consulting Services*

Dear Mr. Mermell:

Pursuant to your authorization, Deloitte Financial Advisory Services LLP (“Deloitte FAS”) has completed its financial consulting services for the City of Pasadena (the “City”) with regards to assisting the management of the City (“Management”) in its assessment of the economic benefits related to a potential National Football League (“NFL”) franchise entering into a lease (the “Lease”) with the City.

## **BACKGROUND**

The City of Pasadena and its Management assembled data and prepared two sets of financial projections (the “Projections”) related to the Rose Bowl Stadium (the “Stadium”). The Projections were provided to Deloitte FAS. One set of Projections shows an estimate of future cash flows for the City assuming the City does not enter into the Lease with an NFL tenant. The second set of Projections shows an estimate of future cash flows for the City assuming it does agree to the Lease (minimum 25 years) with an NFL tenant. The future cash flows estimated in Management’s two scenarios are compared against each other for the purpose of estimating the net benefit to the City of entering into the Lease.

## **PURPOSE AND SCOPE**

Deloitte FAS was asked by Management to analyze the Projections from 2007 through 2023 that were prepared by the City and provide observations on certain methodologies and assumptions used to develop the Projections for Management’s internal planning purposes. Our analysis, observations and this report may not be used for any other purposes or by other parties without the prior written authorization of Deloitte FAS.



*Financial Advisory Services*

The scope of our engagement included the following:

- Analysis of the Projections prepared by Management, including:
  - Revenues received from the Flea Market, Golf Course, UCLA, Tournament of Roses, Filmings, Parking, and other Special Events as a result of securing a NFL tenant beginning in 2008;
  - Operating expenses related to Stadium Administrative Costs, Debt Service, Stadium Maintenance, UCLA, Tournament of Roses, Filmings, Parking, and other Special Events; and
  - Analysis of the estimated city share of taxes related to sales, construction, possessory interest ("PIT"), and transient occupancy ("TOT").
- Discussions with Management regarding certain assumptions used to develop the Projections; and
- A reading of the "Proposal for the National Football League Renovation of the Rose Bowl Stadium for Professional Football Use" ("NFL Petition") initiative measure.

## OBSERVATIONS

Upon analyzing the Projections prepared and provided by Management, we made a number of observations. We recommended that Management review those observations and consider, where applicable in their judgment, adjustments to the Projections accordingly or collection of documentation that provides support for certain of the assumptions reflected in the Projections. Management has reviewed our observations and has made certain adjustments and/or provided support for certain assumptions used in the original Projections. Those adjustments are reflected in the revised projections ("Revised Projections") provided by Management (see Exhibits). We believe the Revised Projections prepared and provided by Management are not unreasonable in reflecting a potential economic outcome as a result of securing an NFL tenant.

As discussed previously, the scope of services described above was not intended to identify and capture all issues with regards to the potential scenario outlined in the set of projections provided by Management but rather was intended to be performed at only a high-level analysis. If we were to perform a thorough analysis of all the assumptions, further issues could arise that could have a significant impact upon the results of Management's analysis.

Our efforts were consultative in nature and were intended to assist Management in its evaluation of the financial impact of a NFL tenant. While Deloitte FAS has provided consultative services, Management is solely responsible for the validity of the pro-forma projections and is solely responsible for any decision made regarding a potential transaction and the specific terms of any such potential transaction relating to the Lease. Moreover, Management is responsible for making any significant judgments or decisions (including development of assumptions supporting future operating performance estimates) associated with the Revised Projections and the proposed Lease transaction.

In performing our consulting services we have used and relied on the financial information provided to us by Management. We have assumed that such information is accurate and complete, to the best of

Mr. Steve Mermell  
May 4, 2006  
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Management's knowledge and belief. We have not independently investigated or otherwise verified the data provided and do not express an opinion or other form of assurance regarding its accuracy or completeness.

We appreciate this opportunity to have provided consulting services to the City of Pasadena. If you have any questions regarding our analysis or if you require additional assistance, please do not hesitate to contact Nick Florio at (213) 688-5421 or Guy Churchill at (213) 966-5760.

Very truly yours,

Deloitte Financial Advisory Services LLP  
By: Nicholas M. Florio, Principal

### **Assumptions and Limiting Conditions**

Deloitte FAS may have used information and data furnished by parties other than the City in good faith and believes that such information and data are reliable. Deloitte FAS, however, shall neither be responsible for, nor provide any assurance regarding, the accuracy or completeness of any such information or data.

Deloitte FAS has assumed, without independent verification that all assumptions provided to Deloitte FAS by or on behalf of the City for purposes of completing this analysis is accurate and complete.

This report is intended solely for the informational purposes and internal use of the City and is not intended to be and should not be used by any other person or entity. No other person or entity is entitled to rely, in any manner, or for any purpose, on this report.

**COMPARISON OF PROJECTED ECONOMIC BENEFIT OF NFL VERSUS NO NFL**

	Actuals FY 2001	Actuals FY 2002	Actuals FY 2003	Budget FY 2004	Projected FY 2005	Projected FY 2006	Projected FY 2007	Projected FY 2008
<b>NET INCOME (EXPENSES)</b>								
RBOC Net Income (Expense) without NFL						(216,734)	(84,083)	(468,819)
RBOC Net Income (Expense) with NFL						744,213	936,647	162,365
Net Gain (Loss) From Operations						950,947	1,020,730	631,184
Estimated City Share - Possessory Interest Tax					0	0	5,627,640	1,054,500
Estimated City Construction Tax (One Time)					0	0	1,310,855	873,903
Estimated City Share - Sales Tax from Construction (One Time)					0	0	0	191,000
Estimated City Share - Sales Tax & TOT					0	0	0	0
Estimated City Share - Sales Tax & TOT - Super Bowl					950,947	950,947	7,959,225	2,750,587
Net Benefit (Loss) To City						<b>1,743,891</b>	<b>1,787,807</b>	<b>1,870,410</b>
<b>Golf Course Revenue</b>								
RBOC Net Income (Expense) without NFL	(490,431)	(162,632)	569	318,965	57,004	283,851	389,835	211,090
RBOC Net Income (Expense) with NFL	(18,228)	391,784	414,435	789,730	781,653	816,842	855,142	975,387
Net Gain (Loss) From Operations	472,203	554,366	413,866	470,765	724,649	532,991	465,307	764,297
Estimated City Share - P.I.T.	1,075,590	1,097,102	1,119,044	1,141,425	1,164,253	1,187,538	1,211,289	1,236,515
Estimated City Construction Tax (One Time)	0	0	0	0	0	0	0	0
Estimated City Share - Sales Tax from Construction (One Time)	0	0	0	0	0	0	0	0
Estimated City Share - Sales Tax & TOT	192,910	194,839	196,787	198,755	200,743	202,750	204,778	206,826
Estimated City Share - Sales Tax & TOT - Super Bowl	0	0	0	100,000	0	0	0	0
Net Benefit (Loss) To City	1,740,703	1,846,327	1,729,697	1,910,945	2,089,645	1,923,279	1,881,374	2,208,637
<b>Golf Course Revenue</b>								
	<b>1,898,686</b>	<b>2,242,100</b>	<b>2,277,153</b>	<b>2,627,268</b>	<b>2,886,536</b>	<b>2,706,392</b>	<b>2,748,937</b>	<b>2,787,876</b>
<b>Accumulative Cashflow FY07 - FY23</b>								
RBOC Net Income (Expense) without NFL	441,302	462,320	181,301	396,329	396,521	117,108	304,826	2,355,056
RBOC Net Income (Expense) with NFL	1,017,127	1,061,965	1,109,893	1,160,907	1,214,997	1,193,323	1,256,318	14,120,254
Net Gain (Loss) From Operations	575,825	599,645	928,592	764,578	818,476	1,076,215	951,492	11,765,198
Estimated City Share - P.I.T.	1,260,225	1,285,430	1,311,138	1,337,361	1,364,108	1,391,390	1,419,218	19,655,126
Estimated City Construction Tax (One Time)	0	0	0	0	0	0	0	5,627,640
Estimated City Share - Sales Tax from Construction (One Time)	0	0	0	0	0	0	0	2,184,758
Estimated City Share - Sales Tax & TOT	208,894	210,983	213,093	215,224	217,376	219,550	221,745	3,296,252
Estimated City Share - Sales Tax & TOT - Super Bowl	105,101	0	0	0	0	110,462	0	315,563
Net Benefit (Loss) To City	2,150,045	2,096,058	2,452,823	2,317,162	2,399,960	2,797,617	2,592,455	42,844,538
<b>Golf Course Revenue</b>								
	<b>2,828,616</b>	<b>2,871,764</b>	<b>2,914,628</b>	<b>2,968,114</b>	<b>3,002,228</b>	<b>3,046,979</b>	<b>3,092,373</b>	<b>46,040,645</b>

## A Question of Value

### Valuation Services for the Sports Industry

#### Contact Us:

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A professional sports team is a unique enterprise; a business that is at the same time an entertainment business and a passion. Combine that with dynamic facilities and compensation issues, and it is easy to see that professional sports is unlike any other enterprise on earth. The valuation of any unique property or business requires more than proficiency in the art of valuation, it requires a level of familiarity with the industry that enables the professional to understand at a base level how value is created. Deloitte Financial Advisory Services, LLP (“Deloitte FAS”) brings a unique perspective and experience set to the complex questions of value that arise in this most unique of businesses.

#### Experience: The Deloitte Difference

While most valuation practices are composed of professionals that are at best valuation specialists and industry generalists, we have chosen to evolve our team, deploying senior practitioners into the industries they love. The Sports & Entertainment Valuation practice is a result of this initiative.

All of the professionals in the Sports & Entertainment Valuation practice are committed to serving clients in the following industry segments:

- **Professional Sports** – teams, leagues, arenas and related assets
- **Entertainment & Media** – film, television, games, music, publishing, advertising, home entertainment, theme parks and related assets

For a client, this means that the engagement team will comprise professionals who have committed themselves to this industry group, with on-point experience and an in-depth understanding of the client’s unique business issues. As a practical matter, bringing focused professionals can mean the difference between a successful engagement resulting in a defensible analysis and one that fails under regulatory scrutiny.

Within the Sports & Entertainment Industry, we have served a broad spectrum of participants, ranging from owners to arena operators to municipalities. We have valued teams and facilities, including a wide range of intangible assets from player contracts and beneficial leaseholds to broadcast rights. The reasons driving our work have been equally diverse and include transaction due diligence, financing support, tax and financial reporting, dispute resolution and assessment of financial feasibility.



## End-to-End Service Capability

Our worldwide network has enabled the Sports & Entertainment Industry group to develop a top-notch complement of sports consulting services, including

- Authentication
- State and Local Tax Incentives Consulting
- Operating Financing
- Stadium Financing and Lease Negotiations
- Financial and Tax Due Diligence
- Economic Impact Analysis
- Tax Structuring
- Compensation Planning
- Franchise/Stadium Feasibility
- Stadium Construction Audits
- Expansion Franchise Planning
- Appraisals and Valuations
- Royalty Auditing

## Credentials

The following provides a summary of selected engagements in the major league sports team segment:

### **Baseball Teams**

- SFAS 142 Step One goodwill impairment test for a MLB National League team.
- Valuation of a minority interest in a franchise for estate tax purposes.
- Valuation of intangible assets related to initial public offering.
- Valuation of a franchise and the intangible assets related to acquisition of the franchise.
- Valuation of an enterprise and the intangible assets related to acquisition of the franchise.
- Valuation of a franchise in connection with an arbitration matter.
- Cost segregation analysis of a baseball stadium located in the Midwest region of the U.S.

### **Football Teams**

- Valuation consulting for tax planning purposes regarding specific intangible assets and tangible assets of an NFL team.
- Valuation of various intangible assets for tax dispute resolution purposes.
- Business valuation of a team due to a change in ownership.
- Valuation of an enterprise and the intangible assets related to acquisition of a franchise.
- Business valuation for tax planning purposes.
- Business valuation for financial reporting purposes.

### **Basketball Teams**

- Due diligence and valuation of an enterprise and the intangible assets related to acquisition of the franchise.
- Business valuation for financial planning purposes.
- Due diligence and valuation of the intangible assets related to the acquisition of a franchise.

### **Hockey Teams**

- Valuation of a franchise for financing purposes.
- Due diligence and valuation of the intangible assets related to acquisition of a franchise.
- Due diligence and valuation of a team and the intangible assets related to acquisition of the franchise.

### **Other**

- For a major university, consulting services related to arena lease terms, scenario planning, financial due diligence and tangible asset identification and classification.
- Valuation of the intangible assets of a major sports and media management company for financial reporting purposes.

## About Deloitte

Deloitte is a leading provider of audit, tax, consulting and financial advisory services to a wide range of clients. Our global network of member firms, each of which is a separate legal entity, provides a broad range of services to clients in more than 150 countries. Deloitte is a member of the Ernst & Young Global Limited network, which is a global network of independent member firms affiliated with the Ernst & Young Global Limited ("EYGL") network. EYGL is a Swiss entity that does not provide services to clients. EYGL is not a member firm and is not a separate legal entity. EYGL is a network of independent member firms affiliated with the EYGL network. EYGL is a Swiss entity that does not provide services to clients. EYGL is not a member firm and is not a separate legal entity.

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## **Guy C. Churchill**

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### Profile

Mr. Churchill is a Manager in the Valuation practice of Deloitte Financial Advisory Services LLP. He has experience in the valuation of privately held businesses, public companies and intangible assets and is a member of our national Sports, Media & Entertainment industry practice. Within the Sports segment, Mr. Churchill has performed valuation work for a variety of different purposes including: (i) transaction due diligence, (ii) strategic planning, (iii) financial reporting, (iv) tax-related issues, (v) dispute resolution, and (vii) assessment of financial feasibility.

### Experience

Mr. Churchill has performed valuation and financial consulting services for a broad spectrum of participants ranging from owners to arena operators and municipalities. He has valued teams and a wide range of intangible assets including player contracts, beneficial leaseholds, suite and season ticket holder relationships, sponsorship agreements, and broadcast rights.

### Professional Affiliations

Candidate – American Society of Appraisers

### Education

M.B.A. in Finance, University of Southern California  
B.S. in Organizational Behavior, Vanderbilt University