

# Agenda Report

**DATE:** OCTOBER 11, 2010

**TO:** CITY COUNCIL and PASADENA PUBLIC FINANCING AUTHORITY

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

**SUBJECT:** APPROVAL OF THE ROSE BOWL STADIUM RENOVATION PROJECT AND FINANCING PLAN

**RECOMMENDATION:**

It is recommended that the City Council take the following actions related to the Rose Bowl Stadium Renovation Project:

1. Approve the Rose Bowl Stadium Renovation Project and Financing Plan;
2. Find that the proposed License Agreement with the Regents of the University of California, expiring in 2042, is exempt from the California Environmental Quality Act (CEQA) per Section 15301 Existing Facilities;
3. Find that the proposed License Agreement with the Pasadena Tournament of Roses Association, expiring in 2043, is exempt from the California Environmental Quality Act (CEQA) per Section 15301 Existing Facilities;
4. Adopt a resolution approving the negotiation, execution and delivery of a license agreement with the Pasadena Tournament of Roses Association, a California non-profit corporation, and certain other actions relating thereto in essentially the form attached hereto;
5. Adopt a resolution approving the negotiation, execution and delivery of an advertising agreement with ISP Sports LLC, a Delaware limited liability company, and certain other actions relating thereto in essentially the form attached hereto;
6. Adopt a resolution approving the negotiation, execution and delivery of a license agreement with the Regents of the University of California, a California public corporation, on behalf of the University of California Los

Angeles and certain other actions relating thereto in essentially the form attached hereto;

7. Adopt a resolution amending the General Fee Schedule to add new fees to the schedule of minimum rents, charges and fees to be charged for the use of the Rose Bowl Stadium levied pursuant to Section 3.32.280 of the Pasadena Municipal Code in essentially the form attached hereto;
8. Adopt a resolution of the City Council of the City of Pasadena authorizing the issuance of lease revenue bonds in an amount not to exceed \$180,000,000 and the execution and delivery of a first amendment to lease, first amendment to sublease, purchase agreement and certain other actions relating thereto;
9. Find that the application of public art fees to be generated by the proposed project to conserving/restoring historic art and design elements of the Rose Bowl Stadium is consistent with the Conservation Clause of the Public Art Guidelines;
10. Amend the FY2011-2015 Capital Improvement Program by increasing appropriations for the Rose Bowl Renovation Project (Project #84002) by a total of \$5,835,176 consisting of: \$3 million in funds from the Rose Bowl Fund, \$1.89 million in estimated construction tax revenues and \$945,176 in public art fees.

It is recommended that the Pasadena Public Financing Authority:

1. Adopt a resolution of the Board of Directors of the Pasadena Public Financing Authority authorizing the issuance of lease revenue bonds in an amount not to exceed \$180,000,000 and the execution and delivery of a first amendment to lease, a first amendment to sublease, bond indenture, bond purchase agreement and an official statement and certain other actions relating thereto.

**RECOMMENDATION OF THE CITY COUNCIL FINANCE COMMITTEE:**

On October 4<sup>th</sup> the Rose Bowl Stadium Renovation Project and Financing Plan were presented to City Council Finance Committee as an informational item. Although no formal action was requested, the Committee indicated its endorsement of the Project and Plan.

## **RECOMMENDATION OF ADVISORY BODIES:**

A regular meeting of the Rose Bowl Operating Company (RBOC) is scheduled for October 7<sup>th</sup> at which time the RBOC is expected to approve actions 1 through 7 outlined above and to recommend the same to the City Council. Staff will report on the outcome of the RBOC meeting at the City Council meeting.

At a special meeting, held on October 6<sup>th</sup>, the Arts and Culture Commission voted not to recommend to the City Council the staff recommendation to apply public art funds to be generated by the proposed project to conserving/restoring historic elements of the Rose Bowl Stadium, as provided for in the Public Art Guidelines.

## **BACKGROUND:**

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

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

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

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

The improvements outlined in the renovation plan developed by Ms. Smith and her team were estimated to cost roughly \$177 million.

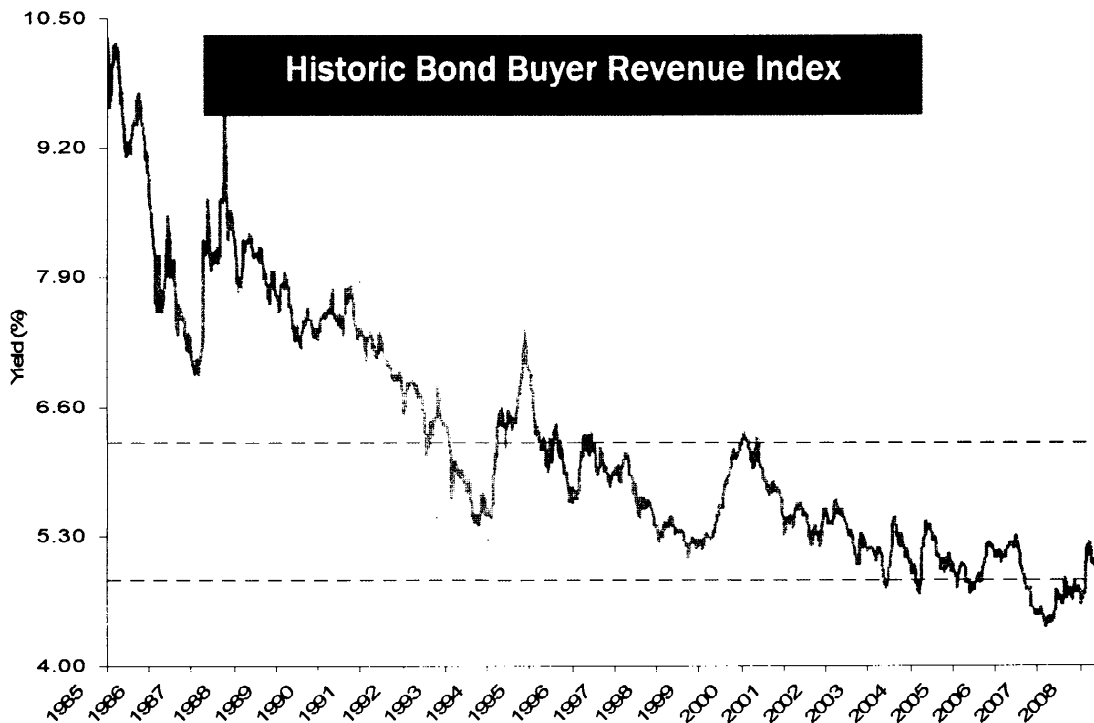
On October 4<sup>th</sup> the City Council held a workshop to discuss the proposal and plan to finance the priority elements of that plan at an estimated cost of \$152 million, consisting of the following improvements:

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

The proposed project is in-line with other major City projects, specifically the City Hall restoration (\$117 million) and the Pasadena Center Expansion (\$148 million). More importantly, and as discussed on October 4<sup>th</sup> a variety of factors have created a unique window of opportunity to pursue the project at this time:

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

As indicated by the following chart, interest rates for tax-exempt bond financing have averaged 6.19% since 1985. However, current rates are averaging 4.8%, thus greatly increasing the affordability of the project; for every 1% increase in rates, the amount that can be borrowed with the same payment amount is decreased by \$15-20 million. While rates are likely to stay low over the near term, they will likely rise as a result of macroeconomic factors such as the federal budget deficit and the significant supply of Build America Bonds anticipated in the market during December.



In addition to low rates for traditional financing, through the American Reinvestment and Recovery Act the project can take advantage of Build America Bonds (BABs); a unique offering that provides a 35% or 45% interest rebate to municipal bond issuers or bond holders. BABs provide a true interest cost even lower than tax-exempt rates and, if applied to the Rose Bowl Renovation Project, will yield between \$10-15 million in additional bond proceeds. In order to take advantage of the BABs, the bonds must be issued by December 31, 2010.

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

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

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

<b>Element</b>	<b>Cost in Millions</b>
Concourses	10.30
Concessions	12.10
Restrooms	3.70
Ingress/Egress	24.90
Scoreboards	18.50
Infrastructure	10.70
Stadium Seating/Concrete Repair	0.80
Press Box	60.80
Horizon Level	10.10
<b>Total Estimated Cost</b>	<b>151.90</b>

As recommended the City will issue an amount not to exceed \$180 million in bonds, which after required reserves are sequestered, and capitalized interest expense and cost of issuance are accounted for, would yield approximately \$129.4 million in proceeds available for construction.

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

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

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

The Public Art guidelines, adopted by the City Council in October 2004, includes a provision designated as the "Conservation Clause". This provision allows public art funds, generated by a project involving a historic structure, to be reinvested in

the project for the purpose of conserving or restoring historic art and design elements. The proposed renovation will involve a number of qualifying elements including, but not limited to, the following: the restoration of the 1928 Arroyo stone wall; preservation of the original 1928 locker rooms; and modifications to the 1936 Myron Hunt administration building. Programming these funds for this purpose is consistent with the adopted policy.

On October 6<sup>th</sup> a special meeting of the Arts and Culture Commission was held to consider this proposal. While comments from Commissioners were generally favorable towards the project, the consensus was that by reprogramming public art funds for restoration, an opportunity to create new, iconic public art at the Stadium would be missed. Consequently, the Commission voted not to endorse the staff recommendation.

The remaining \$7.5 million (less than 5% of the overall project cost) is expected to be addressed through a combination of the following elements:

<b>Contributor</b>	<b>Source</b>	<b>Anticipated Amount</b>
TOR	BCS capital maintenance fee (2014)	\$ 900,000
RBOC/City	RBOC revenue from 2014 BCS	\$2,000,000
	Additional bond proceeds due to reduction of taxable bond requirement	\$3,000,000
	Favorable construction bid and/or philanthropic efforts	\$1,600,000
	<b>Total</b>	<b>\$7,500,000</b>

In the event these additional funds/greater economy does not materialize, either as a result of higher construction bids, reduced bond proceeds or a combination thereof or other factors, staff will return to the City Council with recommendations to reduce the project scope so as to not burden the General Fund and conform to the financing plan.

The bonds issued by the City will have a term of 30 years plus two years of capitalized interest and, based on current market conditions, are expected to have an average blended fixed interest rate of 4.8%. The bond financing includes four types of instruments in the following approximate amounts: 1) Build America Bonds - 53%, 2) Tax Exempt Current Interest and Capital Appreciation Bonds -18%, 3) Taxable Current Interest Bonds - 24%, and 4) Recovery Zone Economic Development Bonds – 5%. While these bonds would be a General Fund obligation, as with a number of other City financings such as that for the expansion of the Pasadena Center, the Renovation Project itself is expected to generate sufficient revenues to cover the debt service 1.475 times.

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

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

Sources of Funds	Net Bond Proceeds (in millions)	Upfront Investment (in millions)	Total (in millions)
Project Sources	74.8	0	74.8
City/RBOC	26.4	9.3	35.7
UCLA	16.4	0	16.4
Tournament of Roses	11.8	5.7	17.5
Additional Funding	0	7.5	7.5
			151.9

Included in the table above, as well as the project proforma, are revenues to be received through the proposed advertising and sponsorship rights agreement with International Sports Properties, Inc., that provides for the payment of a Guaranteed Rights Fee as well as annual revenue sharing of amounts exceeding specified thresholds through the year 2026. The specific terms of this agreement is set forth in **Attachment D**.

During the October 4<sup>th</sup> workshop the City Council had a number of specific questions and requests. The following is intended to respond to the issues raised.

*Reducing exposure to the City's General Fund.* The City's General Fund is ultimately responsible for the debt service set forth in the funding plan; however, a number of measures outlined in the presentation and summarized below are in place to minimize the exposure:

- A debt service coverage factor of 1.475x which will create an additional reserve beyond the debt service reserve fund to cover potential unanticipated revenue shortfalls.



- Inclusion of terms in tenant license agreements that require use of the stadium and continued revenue contributions that are co-terminus with the bonds.
- Inclusion of terms in tenant license agreements that provide an incentive for the Tournament of Roses and UCLA to help maximize revenues.
- Inclusion of terms in the UCLA license agreement that allows the retention of revenue amounts over \$250,000 of UCLA's share of revenues received from Horizon Level seating to be used for debt service, if necessary, on an annual basis.
- Inclusion of a pre-funded debt service reserve.
- Conservative revenue assumptions (74% breakeven point) that have been subject to independent peer review.

*Impact on the City's overall debt-capacity.* For the reasons set forth above, it is expected that there will be minimal impact on the City's non-self supporting debt capacity, which is estimated to be between \$75-\$100 million. Nevertheless, the development of the funding plan for the Rose Bowl Stadium renovation has highlighted the importance of ongoing efforts to examine the City's overall debt profile and address such issues as reinvesting in critical infrastructure, implementing new municipal improvements and funding the City's obligations to the Fire and Police Retirement System.

*Capital Reserves for RBOC.* At present the RBOC does not have a reliable source of funding to undertake needed capital improvements to the Stadium. As discussed previously in this report, the 1.475x coverage factor is anticipated to generate sufficient funds to provide for additional capital improvements over and above those included in the proposed Stadium Renovation Project.

*Public Benefit and Incentives for Non-profits to utilize the Rose Bowl Stadium.* The City Council has requested that the RBOC develop a program of public benefit and incentives for local non-profits to utilize the stadium. Staff will proceed as directed and return subsequently to report on these efforts/actions.

*Local Hiring of Construction Project Workforce.* A project of this magnitude offers opportunities for local residents to obtain employment/training during the course of construction. Similar to initiatives undertaken as part of the seismic retrofit of City Hall and the expansion of the Pasadena Center, the Rose Bowl Stadium Renovation project will include a program, approved and monitored by the RBOC, aimed at maximizing employment opportunities for local residents.

**COUNCIL POLICY CONSIDERATIONS:**

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

**ENVIRONMENTAL REVIEW:**

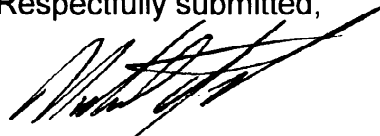
The proposed lease extensions for continued use of the Rose Bowl by UCLA and the Tournament of Roses have been determined to be exempt from CEQA per Section 15301, Existing Facilities. Section 15301 allows for the continued operation, leasing etc. of an existing facility involving negligible or no expansion of the use. The lease agreements are a continuation of existing agreements between current users of the Rose Bowl facility. There will be no expansion of operations beyond those already occurring as a result of the leases.

The balance of recommendations are related to the financing of the Rose Bowl Renovation Base Project. The Project has been subject to review in which the Council is asked to find that on May 24, 2010, the City Council made findings pursuant to the California Environmental Quality Act, adopted a Statement of Overriding Considerations, and approved the Rose Bowl Renovation and Improvement Project; and that there are no changed circumstances or new information which would trigger further environmental review. The financing plans do not require separate CEQA review from the Project

**FISCAL IMPACT:**

The total estimated cost of the proposed Rose Bowl Renovation Project is \$152 million. The sources for these funds include a gross \$160 million lease-revenue financing issued by the City (net bond proceeds \$129.4 million), \$15 million equity contribution from the RBOC, Tournament of Roses and City, and \$7.5 million of funding that will be generated from a combination of items such as construction bids being more favorable than current estimates; revenues from future expected events such as a 2014 Bowl Championship Series; further improvement in interest rates prior to final bond issuance; and philanthropic efforts.

Respectfully submitted,



Michael J. Beck  
City Manager



Darryl Dunn  
General Manager – Rose Bowl