



Agenda Report

June 8, 2021

TO: Honorable Mayor and City Council

FROM: Rose Bowl Operating Company (RBOC)

SUBJECT: RBOC AT-A-GLANCE: PRESENTATION OF FIVE-YEAR PRO FORMA AND REVENUE OPPORTUNITIES PLAN

RECOMMENDATION:

This is presented for information only; no action is required at this time.

BACKGROUND:

This report and the two accompanying reports (1. a five-year pro-forma and 2. a Revenue Opportunities Report) communicates the current status of the Rose Bowl Stadium. While the operations of the RBOC were strongly affected by the pandemic, other factors have caused a permanent impact. Among these factors are declines in revenue from major tenants, the opening of a major venue in Inglewood, increases in operating costs such as security, increasing debt payments and the capital needs of a 99-year-old stadium. To address these, the RBOC has developed a Revenue Opportunities Report. As detailed in the accompanying reports, it should be understood that it is unlikely that increased revenue alone will enable the Rose Bowl Stadium to continue as a world class facility and a source of economic activity for the community.

We believe that the operating company structure is the best way to manage the two major assets of the RBOC. The operating company enables more entrepreneurial day to day management while maintaining appropriate control at the City Council level. We look forward to working with the City Council to secure a bright future for the Rose Bowl stadium.

While the work by the RBOC over the past several years has positioned the organization to meet anticipated challenges head on, the pandemic was not anticipated and is challenging the RBOC in many ways. And while there are significant current and future challenges, there have also been numerous successes, among them:

- The iconic Stadium underwent a major renovation, substantially completed in 2013. This action enabled UCLA and the Tournament of Roses to sign 30-year agreements which provided the Rose Bowl with two anchor tenants.
- Legacy Connections (d.b.a. Legacy Foundation) was created and has raised millions of dollars in much-needed capital funds for the Rose Bowl.

- The use of the Stadium has expanded well beyond college football, as music, international soccer and minor events (enterprise events) have proven to be successful.
- Brookside Golf Course continues to have an outstanding reputation and serves as a venue for other key revenue sources (e.g. music festival). The resurgence of the golf industry during the pandemic resulted in an increase in Brookside revenues and it continues to be one of the most successful public golf properties in Southern California.
- Relationships with the Rose Bowl neighbors have improved, a very important step if the RBOC is going to be successful in the long-term.
- Since 2018, available operating cash has been reduced from \$14M to \$8.2M as of June 2021 mainly due to trends in decreasing attendance/revenues, gradually increasing event expenses and COVID-19 impacts.

The effort to ensure that the Rose Bowl Stadium and Brookside Golf Course remain great and invaluable assets to Pasadena will take careful planning, vision, consensus-building and execution on behalf of various parties. While much attention is paid to the Stadium, the challenges of Brookside Golf Course are equally as important, as the recent uptick in usage during the pandemic may be an outlier, increasing labor costs for operations of the courses, the transition to a management agreement, the uncertain supply and increasing costs of water, and the difficulties of running and maintaining a 50-year-old plus Clubhouse, are all pressing concerns.

The business of the RBOC continues to evolve and the organization and its leadership must adapt to changing dynamics in the marketplace. For example, through 2019, approximately \$4 million of major special event revenue was realized annually by the Rose Bowl but is now threatened by a renovated LA Memorial Coliseum and SoFi Stadium coming into the market.

SWOT ANALYSIS

Strengths

The Rose Bowl brand is among one of the most recognizable and admired in all of sports. Its history and unmatched setting put the Rose Bowl Stadium brand above and beyond virtually every stadium in the world. There is great value to that brand and its uniqueness.

Sitting close to one of the United States' largest cities, Los Angeles, provides great opportunities as key major sporting and entertainment properties must be able to access Los Angeles' large population. With the Rose Bowl Stadium nestled in the Arroyo, there are additional significant advantages, including the perception that the Rose Bowl is safe for families and children; that there is plentiful parking (20,000 spaces); and holds a reputation as one of the greatest tailgating/festival locations in the country.

The emotional connection that many have to the Rose Bowl has been evident over the past 10 years, as generous donors have pledged approximately \$40 million in gross

private gifts and pledges through the Rose Bowl Legacy Foundation. Founded in 2010, Legacy has transferred \$17.6 million to the RBOC earmarked for the venue's much-needed capital improvements. Legacy continues to fundraise and is led by a volunteer board of community members with its focuses set on the needed capital improvements to prepare the venue for the potential 2026 World Cup and the 2028 Olympic Games – the third of each for the stadium.

Other strengths for the RBOC that bode well for the future are the long-term agreements in place with:

- Tournament of Roses (2048) (No termination rights except for breach of the agreement)
- UCLA (2044) (No termination rights except for breach of the agreement)

In addition, there are key short-term agreements in place which are vital to the RBOC's future, including agreements with AEG (both for music festival programming as well as international soccer), and the R.G. Canning Flea Market.

The past strengths of Brookside Golf Course, one of the most successful municipal courses in the country over the past 30 years, is still a strength despite rising costs. In addition to its location, the course is considered challenging and desirably long, and is in one of the best settings for a public golf course in the region. The RBOC's use of the golf course for alternative revenue generating activities (parking, festivals, food events, etc.) is the envy of many other golf course operators in the region. These activities are vital to the continued fiscal health of the RBOC, while it is recognized that these ancillary events cause disruption to the course.

The Arroyo is also a strength, as the setting and park-like conditions provide an atmosphere that is appealing, and which attracts thousands of daily users. The other users in the Arroyo, particularly Kidspace and the Aquatics Center, are a draw for the area and enhance the reputation as a safe, family-friendly area that is a recreation haven.

Weaknesses

Many of the weaknesses confronting the RBOC have not changed over the decades and, in some cases, have become more evident. The pandemic has accelerated those weaknesses and its impact on the RBOC. Among the most glaring weaknesses faced by the RBOC are:

- The arrival of new competition for critical major events in the Los Angeles region.
- The lack of stable funding for capital improvements for the Stadium, golf course and Clubhouse.
- The ever-increasing costs of operations (both the Stadium and Brookside)
- Uncertainty related to attendance as the pandemic ceases.
- Uncertainty if the recent resurgence of golf will continue.
- The aging Clubhouse facility.

The increasing operating costs are a significant concern. Two areas involving the Stadium that have seen rising costs are security/public safety and the costs of neighborhood management. Since 2015, security/public safety costs have increased 40% or approximately \$70K per major events. Key drivers of the increase include public safety management (such as magnetometers) and neighborhood/street management viable.

In addition, the cost of water for the golf course continues to increase as despite significant water conservation efforts, the water bill for Brookside Golf Course alone is approximately \$1 million annually. The supply of water on a long-term basis is also a significant concern for the RBOC.

Opportunities

As noted above in *Strengths*, the Rose Bowl Stadium and Brookside Golf Course locations and history provide significant opportunities moving forward, as they have in the past. The opportunity to explore additional long-term tenants, likely in the form of music/entertainment remains, as does the stability of our current tenants. It is likely that traditional large sporting events and concerts, given new competition facing the RBOC, will be more challenging to secure. Hence, it is imperative that a strategy be developed to address how best the RBOC can maximize revenue, both in the short and long-terms.

To that end, enterprise events such as corporate/social events and film shoots have been a tremendous success. In FY19 alone (period ending June 30, 2019), approximately \$1.5 million in net new revenue will be created through these events and film/TV shoots, a significant growth over the past five years. However, to put in context, the annual revenue from corporate/social events and film shoots is equivalent to the income produced by just two or three major events. During the peak of the pandemic, in 2020, the RBOC took an aggressive approach to continue hosting events while following all health guidelines. The result was approximately 250 enterprise events and \$1.7M in enterprise event revenue, which was a record for the organization.

The RBOC is seeking alternatives to make the Stadium more flexible in terms of its configuration, by exploring ways to eliminate some seating that normally goes unsold, while at the same time having the ability to increase capacity for large scale concerts. The ability to adjust capacity could lead to increased opportunities to host more mid-sized events.

With the Legacy Foundation doing tremendous work, there are many opportunities for further revenue generation through private philanthropy. These opportunities for giving are being explored by Legacy, which is more than 50% complete with a \$40M capital campaign for the Stadium's centennial. Legacy has grown beyond a local donor base to connect with donors nationwide through capital improvement giving, heritage protection (statues, historical markers) and educational programming for youth and the community through the Rose Bowl Institute. Recently, \$1.5M was pledged to support the development of a California High School Football Hall of Fame to be housed at the Rose Bowl.

A new focus of Legacy is to raise funds that will be needed for capital improvements related to potentially hosting the 2026 FIFA World Cup and 2028 Olympic Games, the third of each for the venue. The task of fundraising is critical to the financial health of the RBOC, especially as large event revenue is expected to decline sharply and the significant ongoing capital needs of the Stadium remain, in addition to the capital needs of the golf course and Clubhouse.

In addition, during the pandemic Legacy launched the Rose Bowl Institute, which is an organization that focuses on sports being a great unifier and has enabled the Rose Bowl to become involved in key societal issues in a positive manner. The RBOC is proud of the work of Legacy, as developing a civic philanthropic organization to support a stadium is unique and speaks volumes about the importance of the Rose Bowl to local and national communities.

If the RBOC can modernize and rejuvenate the existing golf Clubhouse to serve more than just the daytime golfing community, there is ample opportunity for additional revenue from hospitality and food and beverage. Identifying funding is very challenging and, although the Clubhouse needs are important, it is unlikely that the RBOC will be in a position to invest in Brookside without assistance from third parties. The RBOC looks at the golf course and Stadium as a “campus,” one that can be maximized, while still being respectful of the environment. Potentially holding more events on the golf course akin to the Arroyo Seco Weekend, Vegan Festival, and/or food and cultural events, is another opportunity that must be pursued.

Threats

Despite the recent successes of the RBOC and its inherent strengths, the threats to the current RBOC business model are extensive and should be the focus as the RBOC plans for its future. The reality is that the RBOC has a fragile business model, and one or two significant events can cause short and long-term damage, including exposure to the City’s General Fund. Most recently, the unexpected pandemic has caused major damage to the organization, that must be immediately addressed.

Major threats, include, but are not limited to the following:

- The RBOC has significant debt service.
- The most competitive stadium market in the United States.
- In order to remain competitive, substantial additional capital is needed for both the Stadium and Clubhouse, as well as for the golf course.
- Water expenses at the golf courses continue to significantly increase and reliance on potable water as the only golf course supply cannot be relied upon in the long-term.
- Security expenses continue to rapidly increase with the need to constantly change with regard to public safety.
- The College Football Playoff continues to evolve and could have a significant impact on the Rose Bowl Game, which is, by far, the most lucrative event of the year for the RBOC.

- Attendance at college football games throughout the country has been declining, and the presence of two NFL teams in Los Angeles means increased competition for ticket sales for UCLA, which impacts concession and parking revenue as well. UCLA performance/attendance will have a very significant impact on RBOC net revenues.
- Limited development rights for ancillary types of revenue opportunities, that are viable at similar venues.

One final threat to the business of the RBOC has been—and continues to be—the relationships of the Rose Bowl with the adjacent neighborhoods, though the relationships have improved over the years with a commitment by RBOC staff. These relationships impact the RBOC's ability to secure events and cause an increase in operational expenses. Given the Stadium and golf courses' locations, it is critical that community and neighborhood relations remain a top priority for the RBOC and the RBOC must strive to manage neighborhood impacts associated with events in a fiscally responsible manner.

SEGMENTS OF THE BUSINESS ORGANIZATION

While there are significant challenges that lie ahead, until 2020, revenue streams for the Stadium have shown significant growth. Much of that growth is attributable to the opening of the Pavilion in the Stadium and the sale of premium seating, as well as the RBOC adjusting deal structures with its partners.

Ancillary revenue for the Stadium essentially makes up the revenue streams:

- Premium Seating sales
- Sponsorship sales
- Ticket rebates
- Food and Beverage sales
- Admission Tax
- Parking

It is anticipated that Premium Seating revenue is expected to grow only slightly, due to the competitive venues in Inglewood and the Coliseum. It is expected that the price points in those venues will be significantly higher than the Rose Bowl, so the impact on Premium Seating revenue may not be extreme. Sponsorship revenue will remain steady as the RBOC has a minimum guarantee annually through 2027, however adding additional sponsorship inventory may be a way to grow ancillary revenue through threshold payments. Parking is not as strong of a revenue producer as it once was due to increased expenses related primarily to protecting the neighborhoods, and the common use of ride share (UBER, Lyft), which has been a source of significant costs without revenue to offset these additional expenses. It is unlikely that the model of ride share companies will alter the current financial model without significant operational compromises. The RBOC must continue to identify ways to reduce expenses that it can control, without compromising the integrity of the events and of the facility. Food and beverage revenue will be a byproduct of attendance at events.

As previously referenced, the RBOC is fortunate to have long-term anchor tenants in the Tournament of Roses (2048) and UCLA (2044). Their successes are critical to the RBOC's success and the RBOC must continue to enhance their abilities to succeed. For example, the RBOC could assist UCLA regarding ticket sales in the Pasadena/San Gabriel Valley area.

One of the great successes of the RBOC over the past few years was securing an agreement with AEG for the establishment of music festivals within the Arroyo. The first three years were an overall success from a community standpoint; however, attendance was not maximized. AEG owns the rights to festivals on the golf course and the RBOC will continue to help them be successful, managing expenses and advocating for their success in the Pasadena community. The agreement with AEG was amended, as there were opportunities to terminate the contract after Year 3 and the RBOC is now assured more content (a minimum of six dates per year versus previously two) although the minimum guarantee was reduced from \$3M to \$2M annually.

The RG Canning Flea Market has proven to be a stable source of revenue for the RBOC at approximately \$1 million per year. The RBOC should examine how the revenue stream can be increased, though limited parking constrains the potential upside.

As previously mentioned, enterprise events at the Rose Bowl have approached the \$2 million net revenue level, a long-term RBOC goal. Given the likelihood of fewer major events due to facility competition, it will be imperative that some of the financial loss be lessened by an increase in net revenue of enterprise events.

RBOC staff are constantly seeking additional revenue opportunities. An agreement was reached with AEG on a soccer alliance over a ten-year period, increasing the likelihood that the Stadium will continue to host high-profile soccer matches in the years to come. In addition, Brookside Golf Courses could host additional events in the food and music areas, taking advantage of one of our greatest strengths—the beauty of the Arroyo.

Operations

The RBOC is widely respected for how it operates the facilities and should take pride in the improvements over the past five years, continually learning from events and adjusting.

With the new regional venue competition, the Rose Bowl is viewed in a different way than it has been for decades. The Rose Bowl is approaching 100 years of age and does not have the same type of infrastructure and amenities as \$5.5 billion SoFi Stadium or some of the amenities in the \$320 million renovated LA Memorial Coliseum. Yet the entertainment and comfort expectations of those attending events at the Rose Bowl will continue to rise given the elevated comparable experiences, particularly at SoFi Stadium.

Despite the beautiful setting, the Rose Bowl will have continuous challenges inherent to its location, including traffic management, neighborhood relations, noise control, etc. The priority moving forward is to identify and secure new revenue streams, attract new funding

and limit expenses to maintain world-class operations and to make long-term reinvestments to the Stadium.

Expense Management

Managing expenses is critical, as it is unlikely that the RBOC will attract all of the funds necessary to meet its goals. For example, one initiative that is being explored is the issuance of parking permits valid on Rose Bowl event days on the streets and in the areas within one mile of the Stadium, streets currently restricted by barricades and personnel at significant expense to the RBOC (If successful, the implementation of permits could significantly decrease costs and improve operational efficiencies. Balancing the guest experience, public safety, neighborhood relations and expense management is a challenge.

Legacy Foundation

The creation of the Legacy Foundation in 2010 is a key accomplishment for the RBOC, with approximately \$40 million in gross gifts and pledges raised by Legacy for capital improvements to the Stadium since its creation. Legacy provides critical resources and its work has been tremendous. The RBOC must continue to fully support Legacy, as its fundraising efforts are likely the only funding sources for capital improvements going forward for the Stadium.

Legacy is a private non-profit but works daily with the RBOC. A full-time staff of three are RBOC employees and the RBOC has funded Legacy staffing costs (approximately \$400,000 annually) while at the end of each year Legacy transfers funds it has raised for RBOC capital improvements. Since 2010, the RBOC has paid \$1.8 million for Legacy base salaries and Legacy has transferred \$17.6 million to the RBOC.

Legacy has attained success based on naming rights provided by the RBOC and City Council (e.g. Terry Donahue Pavilion, Spieker Field, tunnels), educational programs (such as Honda Field Trip to the Field), and in the creation of statues and historical markers to recognize the venue's rich heritage. RBOC staff work closely with the City staff to determine the appropriate processes related to each of these areas/opportunities.

Retained Earnings/Operating Budget

The RBOC has had significant success building up retained earnings over the past eight years. The RBOC utilized virtually all of its reserves to help fund the Renovation Project, and as a result, in 2013, the RBOC's fund balance was zero. Due to Legacy contributions as well as prudent agreements with third parties in exchange for Rose Bowl assets (e.g. IMG – sponsorship rights, AEG – music festival) and success from events that were booked, as well as strong years (during 2014-2016) from core tenants UCLA and the Tournament of Roses, the overall available operating cash balance increased to \$14 million in 2018, and the 2021 current available balance is approximately \$8.2 million.

Community Engagement

As noted earlier, the RBOC relationships with area neighborhoods are critical and, if they falter, could become an impediment to future success.

There has been significant progress in community outreach and engagement over the past few years, which in large part has been facilitated by Rose Bowl Stadium staff and supported by Legacy. Recent engagement initiatives include: the Honda Field Trip to the Field, which provides each 7th grader in the Pasadena Unified School District with a tour of the Stadium; the Robo Rally, which is held in conjunction with PUSD and Cal Tech; the Easter egg hunt (Egg Bowl) which enables 8,000+ Pasadena children and their families to come to the Rose Bowl for a family celebration; flea market tickets provided to those who live within a one-mile radius of the Rose Bowl once per year; and the Mayor's Holiday Party which hosts underprivileged youth at the Rose Bowl for a holiday celebration. During the pandemic the Rose Bowl was the sight for COVID testing, FEMA trailers for first responders, raised funds and volunteered for meals for needy Pasadena families, hosted high school football games and graduations.

In addition, RBOC staff, along with members of the Pasadena Police Department, have been having regular meetings with Rose Bowl Stadium neighbors and district representatives to cultivate and strengthen the relationships. Those will continue as will engaging and educating residents on the business and/or operational challenges facing the RBOC. How current and future Rose Bowl events are managed will likely be one of the determining factors in neighborhood reaction to the potential expansion of business opportunities at the Stadium and golf courses.

Inherent Business Risks

The principal business of the RBOC is the operation of a very large sports and entertainment venue on behalf of a public agency. While the organization works very hard to minimize the risks, there are certain inherent risks that cannot be avoided. For example, the RBOC business is heavily revenue-dependent upon a relatively small number of events with large attendance. The loss of any of such major event, or a significant diminution of attendance for one or more of these events, will have a tremendous impact on RBOC revenue. Beyond the pandemic, the decline in attendance at UCLA football games over the last several years, is an example of factors outside the control of the RBOC that can have a huge impact on the financial health of the organization.

Significant strides have been made in developing other revenue sources to reduce the risks to total revenue. Enterprise event revenues have grown nicely, and the RBOC will continue to seek more such events. Music festivals have also become an excellent source of revenue and other events that use the overall "campus" will be aggressively sought.

The bottom line, however, is that the RBOC's main business carries risks that cannot be totally avoided. At the same time, the revenue risks of our principal secondary businesses (operation of a golf course and related Clubhouse) are very real.

Financial Needs

The financial health of the RBOC is the primary focus moving forward. Challenges are significant as several revenue streams are under attack and could conceivably decrease. UCLA (approximately \$4.4 million annually), the Tournament of Roses (\$4.5 to 5 million

annually), Brookside Golf Courses (\$1.5 million annual net) and music festivals (\$2 million plus annually) are four of the RBOC's most important revenue streams and must remain so, although all have significant challenges.

Fiscal Year	2015	2016	FY2017	FY2018	FY2019	FY2020	FY2021
Net Event Income	Actuals	Actuals	Actual	Actual	Actual	Actual	Revised
Total # of Major/Displacement Events	19	16	15	17	16	11	4
Tournament of Roses	4,523	4,791	5,040	4,999	4,934	4,440	611
UCLA	6,439	5,419	5,081	5,113	4,431	4,347	455
Music Festival	-	(411)	1,981	2,228	-	2,833	-
Major Tenant Sub-total	10,961	9,799	12,102	12,340	9,365	11,620	1,065
# of Other Major Events	8	7	5	7	7	2	-
Other Major Events-Soccer and Concert	3,526	4,033	3,577	3,782	4,351	1,169	500
Flea Market	1,038	1,045	1,138	1,112	1,058	867	148
Enterprise Events	921	950	1,508	1,623	1,562	1,297	1,750
July 4th - Americafest	192	141	94	(52)	(171)	(169)	-
Other, Flea Market, Enterprise Sub-total	5,678	6,170	6,317	6,465	6,800	3,165	2,398
Stadium Net Event Income	16,639	15,969	18,419	18,805	16,165	14,785	3,464

FISCAL IMPACT

As referenced previously there are key attachments that directly address fiscal impact, a five-year pro-forma as well as a Revenue Opportunities report both of which were authored by CAAICON, one of the country's leading financial strategic consultants in the sports and entertainment industries.

Respectfully submitted,



Steve Haderlein
President of the Rose Bowl Operating Company

A handwritten signature in black ink, appearing to read 'Darryl Dunn', is positioned above the printed name.

Darryl Dunn
CEO / General Manager of the Rose Bowl Stadium

Attachments:

- A. Pro Forma
- B. Revenue Opportunities Plan