

Agenda Report

JUNE 19, 2000

TO: City Council
THROUGH: Finance Committee
FROM: Cynthia J. Kurtz, City Manager
SUBJECT: Balancing the Rose Bowl Operating Company June 30, 1999 Cash Position

RECOMMENDATION

It is recommended that the City Council:

1. approve the funding plan/financial relationship described later in this memorandum which will replenish the Rose Bowl Operating Company's (RBOC) negative cash balance to zero as of June 30, 1999 and establish a financial working relationship between the City and the RBOC;
2. authorize the Director of Finance to transfer \$1,883,566 from the City's General Fund fiscal year 2000 budget to the Rose Bowl Fund; and
3. approve the attached schedule substituting various general fund, general fund related and RBOC appropriated dollars with 10% Green Fee set-aside dollars for the capital projects included on the schedule and authorize the Director of Finance to transfer the unencumbered general fund, general fund related and RBOC capital funds to the Rose Bowl Fund.

BACKGROUND

In the October 1999, staff presented to the City Council financial information on the Rose Bowl Fund and Golf Course Fund. At that time, it was pointed out that the combined cash balance of the two funds ended fiscal year 1999 in a negative cash position. It was also discussed that this problem had accumulated over the years and was due to a combination of many factors, including, but not limited to:

1. an increase demand on Rose Bowl funds due to the debt service relating to the 1996 COP's;

2. lower than anticipated Brookside Golf Course green fee revenues due to both a delay in implementing a green fee increase and implementing an increase smaller than originally planned;
3. lower than anticipated net revenues from the Galaxy;
4. an increase in the transfer to the City's General Fund from the Golf Course Fund in the amount of \$500,000 per year in fiscal years 1998 and 1999; and
5. the one-time transfer of over \$3 million from the RBOC to the General Fund from profits generated by the Men's World Cup games.

Since presenting this report to the City Council, staff has performed a more comprehensive analysis of the RBOC's financial condition. In addition, staff has met numerous times with RBOC staff and the Finance Committee of the RBOC, and has developed a series of recommendations that will provide a more stable financial environment for the RBOC and will permit the RBOC to better manage its financial assets and liabilities.

DISCUSSION

During the October 1999 City Council discussion, it was pointed out that the RBOC ended fiscal year 1999 in a deficit position by approximately \$5.2 million. While accurate, this amount did not take into consideration the portion of the cash balance that should have been restricted and thus not available to reduce the negative cash balance. After adjusting the cash balance for the restricted cash, the actual unrestricted negative cash balance was \$5,650,698.

Rose Bowl Fund Cash Balance as of June 30, 1999: The actual negative cash balance within the Rose Bowl Fund was \$6,393,089. Within this amount, there was \$236,594 in restricted funds from the Tournament of Roses (T of R). This is the balance of the funds advanced to the City at the time the current T of R contract was executed. The funds are dedicated for "to-be-determined" capital projects based upon a joint recommendation of the City Manager and the Executive Director of the Tournament. After adjusting for these restricted funds, the adjusted negative cash balance for the Rose Bowl Fund was \$6,629,683.

Golf Course Fund Cash Balance as of June 30, 1999: The actual positive cash balance for the Golf Course Fund as of June 30, 1999 was \$1,175,312. A portion of this amount, \$196,327, should have been designated "restricted for capital projects". Under a revised agreement between the City and American Golf, American Golf collects an extra \$1 per round green fee which is to be dedicated for capital improvements on the golf course. After adjusting for these restricted funds, the Golf Course Fund cash balance is a positive \$978,985.

Other Issues: Two additional issues enter into this discussion. The first relates to the payment of the Luxury Suites Rental Fee. As of June 30, 1999, approximately \$825,000 had been paid to the RBOC for fiscal year 2000 use of the Luxury Suites. This would include all UCLA, New Years Day and Galaxy games. Since this is an ongoing cashflow, staff is recommending the use of this prepayment as an offset against the RBOC's negative cash balance. So long as the events at the Rose Bowl do not change, this prepayment liability will continue to be covered from either next year's prepayment or future RBOC profits. It is recognized, however, that should events go away and/or profits not materialize, this liability could become the responsibility of the City. At this time, staff believes that the risk is low and in order to avoid tying up \$825,000 in additional capital is recommending that the City Council leave this liability on the books as unfunded as of June 30, 1999.

The second issue relates to the 10% Green Fee revenues received by the Golf Course Fund. As part of the agreement between the City and American Golf, the RBOC receives 35% of gross golf course revenues. Of this percentage, 25% of gross golf course revenues go to the RBOC free and clear to be used for any lawful purpose. The remaining 10%, however, is to be used for capital improvement related expenses within the Arroyo. While tracked separately, the funds were never restricted or set aside and were counted as available to offset the Rose Bowl Fund deficit. In the future, these funds will be separately tracked and booked as restricted funds on the Golf Course financial statements.

As part of the solution to re-establish financial stability for the RBOC, staff is recommending using the June 30, 1999 10% set aside balance, approximately \$2.2 million. On the attached schedule, staff has identified a number of projects either recently completed, in progress or funded but not yet started that have General Fund, General Fund related or RBOC funds as the source of funding. As a means of utilizing the \$2.2 million, staff's recommendation is to replace the originally proposed unrestricted funding with the 10% set aside funds and then use the unrestricted funds as a source for funding the negative cash balance.

CONCLUSION

If the City Council approves staff's recommendation, the net RBOC cash deficit will be \$5,650,698. Staff would then transfer one-third of this cash deficit or \$1,883,566 from the General Fund to the Rose Bowl Fund in fiscal year 2000. There are available funds in the fiscal year 2000 budget due to savings realized from the issuance of the Pension Obligation Bonds. The second year transfer has been included in the recommended fiscal year 2001 budget.

During this transitional period, staff will treat the RBOC's cash position as if all of the funds had been transferred as of July 1, 1999. As such, the RBOC will not be charged any interest expense against its negative cash balance. The General Fund will absorb this expense as an offset to investment earnings.

Finally, under the proposed new fiscal relationship between the RBOC and City and in lieu of providing additional cash to the RBOC, staff is proposing several additional actions be taken. These include:

1. Providing the RBOC with an interest free line of credit up to \$500,000. This will remain in affect until further notice.
2. Eliminating the routine transfer of surplus funds from the RBOC to the City. Beginning in fiscal year 2001, the RBOC will only transfer funds to the City to cover agreed upon abatement charges. Any other transfers will be mutually agreed upon between the City and RBOC.
3. Beginning in fiscal year 2001, the RBOC will be allowed to retain any surplus funds generated during the fiscal year. It is staff's recommendation that these funds be restricted for two purposes. Fifty percent (50%) of any surplus funds should be used to retire exiting outstanding debt and 50% should be used to support capital needs of the RBOC.
4. The 10% green fee set-aside will be separately tracked and booked as restricted funds and will be appropriated as part of the City's capital improvement budgeting process.
5. The \$1 per round green fee revenues will be separately tracked and booked as restricted funds and will be appropriated as part of the City's capital improvement budgeting process.

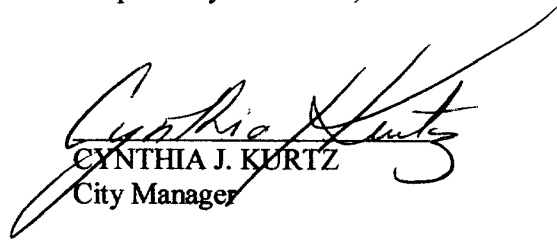
The RBOC has met to discuss these recommendations and is in agreement with these recommendations with the exception of two areas. First, the RBOC Board is recommending that 100% of any surplus funds generated by the RBOC be used to fund needed capital improvements. Second, the RBOC Board is requesting that the City replenish the prepaid Luxury Suite liability and that the RBOC would then not ask for an interest free \$500,000 line of credit from the City.

Attached is a memorandum from the RBOC to the Finance Committee discussing its position. Should the City Council agree the RBOC's recommendation regarding the Luxury Suites, the City would have to identify an \$825,000 funding source. This would require the City to either reduce the General Fund reserve by this amount or spread the repayment over a longer period of time.

FISCAL IMPACT

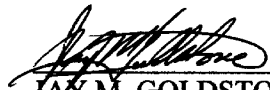
Since the RBOC funds are separately reported on the City's financial statements, the recommended transaction will reduce the cash balance of the City's General Fund by \$1,883,566 per year for three years. This is a total of \$5,650,698. While an actual reduction to budgeting capacity for the General Fund, this corrects a problem that has not been addressed for several years and represents the return of funds to the RBOC which were not available in the first place. Staff believes that this action will put the RBOC in a position whereby it will be able to cover its own operating expenses and debt obligations and should be able to begin setting funds aside to address its long list of capital needs.

Respectfully Submitted,



CYNTHIA J. KURTZ
City Manager

Approved:



JAY M. GOLDSTONE
Director of Finance

Attachment