

LVA A ROSE BOWL PRO-FORMA REMARKS 3/14/16

COUNCIL FINANCE COMMITTEE

The Linda Vista-Annandale Association (LVAA) has carefully reviewed the Draft Pro Forma, and we have the following comments and observations.

There are some deficiencies in the preparation of the Pro Forma which makes it less useful in decision-making. Most importantly, the Pro Forma does not include detailed assumptions which are used in deriving the revenue and expense projections.

Best practices also would dictate that the projections should include a "Base Case", a "Worst Case" and a "Best Case" scenario. Such an approach, which is standard in businesses, provides decision makers with information needed to evaluate upside and downside risks and allows them to make good financial decisions for future operations.

Also, Pro Formas should include clear "Economic Justifications" for projected Capital expenditures, including prioritizing Capital needs, particularly those deemed required. Again, this approach is typical good business practice to assist decision makers such as Boards, yet we do not see any justification for even the large capital projects included in the Pro Forma.

For example, for the Lighting, Speakers and Seats large Capital line items, how exactly are the numbers determined? Actual bids? How many and from what sorts of bidders? What about a comparison of repairing versus replacing? What choices will minimize future maintenance and repair costs?

To some extent, this Pro forma appears to be the "Worst Case" Net Operating Profit projection. We observe that projected Net Profit numbers from Displacement Events and other events are very conservative and this approach concerns us.

We have asked for, but have not yet seen, strategies and plans to maximize net profits from each of the Displacement Events and small events. We believe that these strategies and underlying assumptions should be encompassed in the Draft Pro Forma.

For example, what about the minimum net profit from Autism Speaks? A worthy charity, certainly, but that is not the issue. An important Displacement Event is being taken up for practically no Net Profit? Why? In the Best Case situation, this event would be dropped and replaced with a Displacement Event yielding a minimum \$300,000 in Net Profit.

We also observe that Net Profit from Displacement and other Events vary widely. We observe no stabilized or reliable trend upward. And, why is this important? Because the need for endless Displacement and small events must come to an end at some point and the Rose Bowl must maximize what is made from each event.

To this regard, what are the criteria, strategies and decision models underlying Event choices and contract negotiations? Are there profitability goals that should drive the Pro Forma, particularly the Best Case scenario?

We observe other issues and questions related to better strategies to maximize the Net Profits from each event, including Concessions -- why have these profit projections gone down and are projected to flatten out? And, what about the management of "small" events, whether Rose Bowl or City small events, which on a cumulative basis are impactful to the neighborhood, but often make next to nothing?

On the expense side, we observe large increases in staffing and salaries without any "head counts" allocated to line items and no analyses as to what levels of staffing are required for Events, including what exactly is needed for Best Case Event management. If additional headcount is projected, what are the roles and responsibilities of the new staff members, and how will they contribute to the bottom line?

This limited discussion and analysis leads to page 32 of the Draft Pro Forma and the projected Net Loss of about \$600,000 in Operations for FY 2020. We question this projection and think that a better operating strategy would erase this number.

And, yes, we would like to work closely with the RBOC to develop a more realistic Pro Forma for further consideration.