



Agenda Report

September 8, 2016

TO: Rose Bowl Operating Company (RBOC)
FROM: Darryl Dunn, General Manager
SUBJECT: Approval of Contract Amendment with IMG College

RECOMMENDATION:

It is recommended that the RBOC:

1. Find that the actions proposed herein are exempt from environmental review pursuant to State CEQA Guidelines Section 15061(b)(3), the general rule that CEQA only applies to projects that may have an effect on the environment; and
2. Authorize the General Manager to finalize negotiations and enter into a contract amendment with IMG College in order to increase the guaranteed rights fee payments and value by over \$10,000,000, with a minimum of \$3.5 million being paid for and dedicated to capital improvements over the course of the next ten years.

BACKGROUND:

In November, 2010, the RBOC entered into an agreement with IMG College that provided IMG the exclusive rights to specific permanent sponsorship and advertising sales in the Rose Bowl Stadium that guaranteed the RBOC \$27 million through 2026.

In addition, there have been a few outside factors that have come into play since signing the 2010 agreement that make now an opportune time to renegotiate the deal with IMG. The RBOC business has increased considerably in the past six years with the increase in one off concert and soccer events, as well as the recent negotiation and execution of the long term Arroyo Seco Music and Arts Festival agreement with AEG. In addition, the RBOC had a termination right in the IMG Agreement for \$2-\$3 million, which could have been detrimental for IMG related both to future business with the RBOC as well as its relationship with UCLA, as they are also the rights holder for the Bruins.

Our current deal with IMG is a rights fee guarantee with a threshold payment based on sales reaching certain levels. This model has been challenging as reaching a threshold payment has proven to be difficult since all expenses are taken out of sales numbers before a threshold is paid. The new amendment being presented is a “greater of” model with the RBOC receiving the greater of a blended percentage of gross sales (53-60%) or a new higher guarantee amount. Staff believes this new model will not only provide higher financial upside for the RBOC, but also improve the business relationship and structure between our two groups. A detailed outline of the two guarantee models is in the chart in the Financial Impact portion of this report.

To support the higher guarantee and revenue share projections there is a need for additional inventory and categories so that IMG can make the new deal work for them financially. Most notably, and outlined below in the deal points, are the addition of the casino category as well as additional signage locations on the back of the north video and LED boards as well as Pavilion LED locations. It should be noted that the Pavilion LED was planned in the original Pavilion construction plan but eliminated due to budget constraints.

With regard to the casino category, Section 5.01 of the current Agreement specifically prohibits certain specified sponsorship categories including gambling in any form, and specifically casinos.

This type of opportunity was contemplated in September, 2015 and one consideration reviewed at that time was to try and determine if there would be an impact to the Rose Bowl brand by associating with a casino. To that end, staff retained the services of SBMLZ, a firm that specializes in brand analysis to determine the impact to the Rose Bowl brand. To summarize the report, casinos, specifically gaming, are accepted by a majority of the American public and is very prevalent at sporting venues, particularly professional venues throughout America, inclusive of Southern California. Recognizing that the Rose Bowl is home to both UCLA and the Rose Bowl Game, it should also be noted that IMG has existing casino agreements with 15 colleges spanning nine conferences, including seven Pac 12 schools.

Another component of the amendment relates to the installation of stadium wifi or alternate capital improvements. Currently the Rose Bowl has wifi only in the Terry Donahue Pavilion and at entry gates for ticketing operations. As part of this amendment IMG has agreed to fund \$3.5M for capital improvements to be used at the RBOC’s discretion or to fund a \$6M wifi installation at the stadium, to be undertaken at some future date. They are willing to fund the wifi as they feel they can find partners to help them fund the installation (potentially a cellular provider that would like to offload bandwidth) and also sell advertising on the system itself. This decision around this component, by IMG and the RBOC, doesn’t need to be made at the time of execution of the deal, and will come back to the RBOC board for decision within 60 days of signing the amendment.

Finally, please note that this would be the second amendment to the original 2010 IMG deal. As outlined in the chart below another amendment was approved previously to increase the RBOC annual guarantee when the field level construction and LED was completed. This amendment is listed as “Amendment #1” in the chart below, while the amendment outlined in this agenda report is “Amendment #2” in the chart below.

ENVIRONMENTAL:

The action proposed herein, a contract amendment with IMG, is exempt from CEQA pursuant to State CEQA Guidelines Section 15061 (b)(3), the General Rule that CEQA only applies to projects that may have an effect on the environment. Any environmental effects of the proposed wifi system will be analyzed and disclosed when that project is fully funded and approaching construction and permitting approvals.

FISCAL IMPACT:

Total minimum incremental value to the Rose Bowl: **\$10,775,000** (\$3,500,000 dedicated for capital improvements, \$5,500,000 increase to Guaranteed Rights Fee, an estimated \$275,000 cost savings from installation of new LED fascia at Terry Donahue Pavilion, and an estimated \$1,500,000 cost savings from Field Level LED signage).

Below is an overview of the new agreement deal points:

- 1) Revised terms shall begin with the 2016-17 season and continue through the end of the current term (2025-2026).
- 2) IMG to deliver a state-of-the-art Wi-Fi system, estimated to cost \$6,000,000, to the Rose Bowl. Alternatively, RBOC to receive \$3,500,000 to be used for capital projects at the RBOC’s discretion. RBOC shall notify IMG of its decision within 60 days of the execution of the amendment. Should RBOC elect to receive the \$3.5 million, IMG shall make such payment upon the latter of the signing of amended agreement or notification of its decision.
- 3) RBOC to receive the greater of 53.5% of Gross Royalties up to \$6,000,000, 57.5% of Gross Royalties from \$6,000,001 up to \$7,000,000, and 60% of Gross Royalties above \$7,000,001, or the Guaranteed Rights Fee. Gross Royalties shall include any consideration received as a result of IMG’s exploitation of its rights under the License Agreement.
 - a) The Guaranteed Rights Fee shall be increased by a total of \$5,500,000 over the remaining years of the deal as outlined below.

Fiscal Year End	Original Guaranteed Rights Fee	Amendment #1	Current Guaranteed Rights Fee	Amendment #2	Proposed Guaranteed Rights Fee
2017	\$2,400,000	\$50,000	\$2,450,000	\$450,000	\$2,900,000
2018	\$2,450,000	\$50,000	\$2,500,000	\$465,000	\$2,965,000
2019	\$2,525,000	\$50,000	\$2,575,000	\$480,000	\$3,055,000
2020	\$2,600,000	\$50,000	\$2,650,000	\$505,000	\$3,155,000
2021	\$2,675,000	\$50,000	\$2,725,000	\$530,000	\$3,255,000
2022	\$2,750,000	\$50,000	\$2,800,000	\$555,000	\$3,355,000
2023	\$2,825,000	\$50,000	\$2,875,000	\$580,000	\$3,455,000
2024	\$2,900,000	\$50,000	\$2,950,000	\$610,000	\$3,560,000
2025	\$2,975,000	\$50,000	\$3,025,000	\$645,000	\$3,670,000
2026	\$3,050,000	\$50,000	\$3,100,000	\$680,000	\$3,780,000
	\$27,150,000	\$500,000	\$27,650,000	\$5,500,000	\$33,150,000

- b) IMG shall be entitled to deduct \$175,000 per year from Gross Royalties; however, the Proposed Guaranteed Rights Fee will not be reduced below the amounts referenced in the table above. The deduction reflects 50% of the \$3,500,000 cash contribution (\$1,750,000) amortized equally over the 10 year term. No other deductions shall be applied or reductions made to the calculation of Gross Royalties.
- c) IMG shall pay on execution of the amendment to Rose Bowl any outstanding balances due (if any) as a result of the Amendment approved on March 7, 2013.
- d) RBOC shall retain the right to approve contracts, not to be unreasonably withheld.
- e) RBOC right to terminate for convenience at any time shall be eliminated.
- f) RBOC shall have the right to terminate the contract in year 8 of the term with payment of \$2,079,000.
- g) To the extent permitted by law, and in the RBOC's discretion, RBOC shall commit, outside of UCLA, to explore allowing IMG to participate in the stadium RFP process for potential stadium vendors/partners.
- h) IMG Right of First Refusal to extend the agreement shall be eliminated. IMG shall retain its Right of Negotiation.
- i) RBOC shall be required to continue to provide a maximum of 200 UCLA

football season tickets each year to IMG at no cost during the term of the Agreement. The requirement to increase the number of UCLA football season tickets provided each year (20/year) shall be eliminated.

- 4) IMG to provide for the Rose Bowl's use, and pay any and all costs associated thereof, Field Level LED signage (starting in 2017-18), an estimated \$1,350,000 cost savings over the term. IMG shall reimburse the Rose Bowl \$15,000 per year over years two through ten of the term for the 2016-17 Field Level LED signage cost that Rose Bowl will incur, an estimated \$150,000 cost savings. IMG's assumption of Field Level LED signage shall result in an estimated \$1,500,000 overall cost savings to the RBOC.
- 5) This proposal is contingent upon the RBOC agreeing to allow IMG to sell one sponsorship in the casino category for RBOC inventory and one sponsorship in the casino category for UCLA temporary inventory at the RBOC. The casino shall not have rights to signage on the field corners, on Gate A, fascia on pavilion, or in game vignettes during the Rose Bowl Game.
- 6) The RBOC agrees to allow IMG to sell sponsorships on the back of Stadium north-end rim signs including on the back of the Stadium video board (total of seven (7) locations currently), on a permanent basis, for the term of the Agreement. The back of the rim signs shall be restricted to the same partners as the front of the same rim sign, and the back of the Stadium video board shall include the Rose Bowl logo as the primary logo and will also include the logos of the Stadium founding partners on the lower portion of the video board. The Rose Bowl shall retain the right to approve the partners and design of such exterior signage, not to be unreasonably withheld. IMG shall pay for the installation of new back signage. All revenue generated shall be included in Gross Royalties.
- 7) IMG to commit a dedicated full-time account representative/business manager to the RBOC property at IMG's expense.
- 8) IMG private stadium events to be reduced from 12 to 6.
- 9) IMG shall pay for the installation of new LED fascia at Terry Donahue Pavilion, an estimated \$275,000 cost savings to the RBOC. All such revenue generated shall be included in Gross Royalties. IMG is not committing to fund any additional investment in new stadium signage, except as noted herein. This signage will not be installed until after the 2017 Rose Bowl Game.
- 10) The Parties shall work in good faith to explore additional revenue generating opportunities (e.g. additional assets, categories, etc.) RBOC shall have sole discretion in approval of such additional revenue generating opportunities. All such

revenue shall be included in Gross Royalties.

- 11) RBOC shall work with IMG in good faith to deal with Legacy related inventory.
- 12) IMG shall continue to use good faith efforts to sell premium seating products as part of their sponsorship offerings.

Respectfully submitted by:

A handwritten signature in black ink, appearing to read 'D Dunn', written in a cursive style.

Darryl Dunn
General Manager