STANDARD & POOR'S

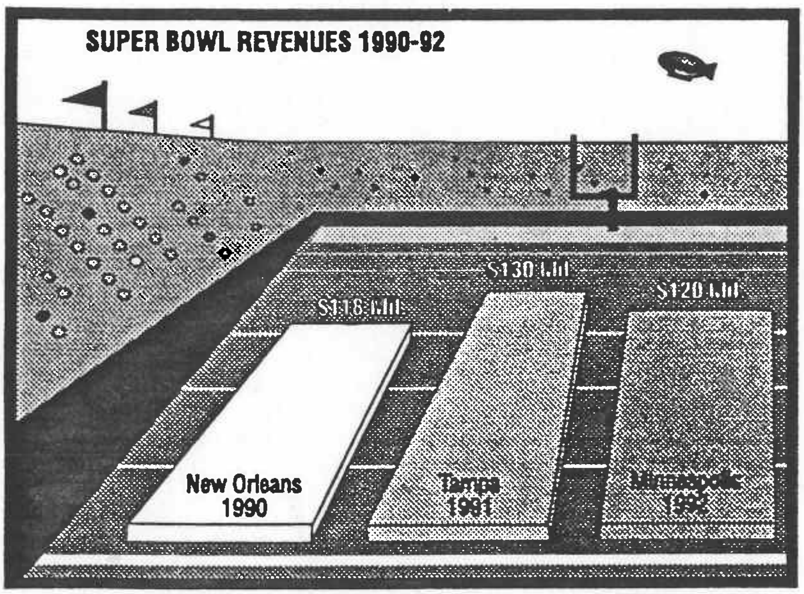
CREDITWEEK

SUPER BOWL TO GIVE L.A. A MUCH NEEDED ECONOMIC BOOST

The Los Angeles area should receive a much needed economic boost from the Super Bowl, which will take place Jan. 31 at the Rose Bowl in Pasadena, 10 miles northeast of Los Angeles. The last 10 Super Bowls have, on average, infused approximately $110 million into the host region's economy, according to economic impact studies.

Los Angeles area officials have estimated that the upcoming Super Bowl could spinoff up to $180 million in extra revenues for the area. This is due, in part, to the size of the Rose Bowl, which has a capacity of 102,000. The game is expected to attract more than 100,000 visitors to the region, each of whom is expected to spend $200 per day.

Major sporting events often generate significant economic benefits for the host cities that can have positive, although very modest, rating implications. Because the overwhelming majority of attendees come from outside the host region, sporting events held at neutral sites, such as the Super Bowl and the NCAA Final Four Basketball Tournament, tend to have a greater impact than events such as the World Series, held at the home venues of the participating teams. However, this year's Super Bowl will not have any rating implications for the City of Los Angeles ('AA' G.O., negative outlook), Los Angeles County ('AA-' G.O., negative outlook) or Pasadena ('AA' G.O., stable outlook), given the challenges they face.



INTANGIBLE BENEFITS

Although the short-term economic boon is noteworthy, the intangible benefits of hosting a Super Bowl usually provide the greatest long-term advantages. The game is an opportunity to showcase the region as a tourist and convention destination to a worldwide audience of hundreds of millions of television viewers. Hosting the Super Bowl could not come at a more opportune time for the Los Angeles region, given its tarnished image following last year's riots. Tourism, one of the region's most important economic sectors, suffered a substantial drop after the events of last spring and has yet to fully recover.

In addition, a significant number of corporate executives who are influential in selecting sites of conventions, trade shows, and even the relocation of business enterprises attend the Super Bowl. The Los Angeles region, which has experienced a loss of companies over the last few years due to the high cost of doing business there, clearly needs the sort of boost hosting the Super Bowl can provide. For example, the City of Los Angeles may use this opportunity to showcase its new convention center, which is scheduled to open later this year. Both Minneapolis, Minn. and Tampa, Fla. had marked increases in convention business after hosting the 1992 and 1991 Super Bowls, respectively.

However, being chosen to host the Super Bowl does not come free. Increased competition for these lucrative sporting events has forced cities to offer substantial financial incentive packages. Pasadena's winning bid included approximately $4 million in enticements, among them rent-free use of the Rose Bowl ($1.5 million), game day expenses ($0.25 million), and the city's full share of concession revenues. It should be noted, however, that the costs associated with the underwriting of this year's Super Bowl are being borne by corporate sponsors and not the organizing cities, thereby sparing already strained local budgets.

AILING LOCAL ECONOMY

Southern California is currently experiencing its most severe economic decline since the Great Depression. The region has lost more than ▶

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derivative bonds fall faster than regular bonds when short-term interest rates rise, according to Ms. Fleischman.

The slump in the tax-exempt market has affected individual investors the most. They own more than 75% of all municipal bonds, a sizable portion through mutual funds, according to Sandy Bragg, head of S&P's Managed Funds Group. During the first quarter of 1994, tax-exempt funds had their poorest performance since 1981, declining 5%, while taxable funds experienced their worst decline since 1987, down 3% on a total return basis, notes Mr. Bragg.

The municipal market's troubles have, in turn, spurred investors to pull out of municipal bond funds—more than $500 million was taken out during the last week of March alone. The influx of money from bond funds was critical to the run-up of the market; by pulling out in such large numbers, investors clearly have exacerbated the market's decline.

Municipal bond funds were particularly hard hit in the first quarter, according to Mr. Bragg. This occurred, in large part, because these funds have longer durations than equivalent taxable funds and the municipal market is not as liquid as the corporate debt market.

Long-term municipal funds had average durations of 8.3 years, compared with 6.8 years for long-term government funds. A fund with a duration of 8 years will experience an 8% decline during a 1% increase in interest rates, with all else being equal, says Mr. Bragg.

RATED BOND FUND PERFORMANCE

While the financial markets' severe reaction to the Federal Reserve's latest move has thrown many investors into uncharted waters, S&P-rated bond funds responded as expected during the run-up of interest rates, according to Mr. Bragg. Funds rated 'aaa' and 'aa+' experienced the lowest volatility, declining 0.2% compared with the 3% decline of the market overall. Funds rated 'aa' and 'aa-' declined 2.3%, while funds rated 'a' and 'a+' performed the same as the market.

On the other hand, high-yield bond funds, although extremely volatile during deteriorating economic conditions, are less sensitive to interest-rate rises than other bond funds when the economy is improving. This was made evident during the first quarter, as they declined by only 1%.

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