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**CITY COUNCIL OF THE CITY OF CHICAGO,
COMMITTEE ON FINANCE:
CHICAGO 2016 OLYMPIC BID REVIEW**

Laurence Msall – President, The Civic Federation

Jamil Satchu – Partner, L.E.K. Consulting

September 1, 2009



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CITY COUNCIL RESOLUTION:

The City Council passed a resolution on June 30, 2009 requesting that:

*“Chicago 2016 grant the Civic Federation, or an entity designated by the Civic Federation, access to the revenue and expenditure projections regarding Chicago’s bid for the 2016 Olympics and that the **Civic Federation review those projections and prepare a report and recommendations regarding the financial aspects of Chicago’s bid, including insurance,** and make such report available to the City Council prior to the execution of the Olympic Host City Contract.”*



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The Civic Federation's review of the Chicago 2016 Bid was made possible through generous grants from the following foundations:

- **The Chicago Community Trust**
- **The Field Foundation of Illinois**
- **The John D. and Catherine T. MacArthur Foundation**
- **The Joyce Foundation**
- **McCormick Foundation**
- **Polk Bros. Foundation**
- **Woods Fund of Chicago**

The Civic Federation did not seek or accept any funding from the City of Chicago or Chicago 2016 in support of this review.



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The Civic Federation Olympic Advisory Committee members include:

- **Bill Bennett**
- **Douglas Cameron**, President, HIGroup, Inc.
- **Kevork Derderian**, President, Continental Offices, Ltd.
- **Martin Eisenberg**
- **Deborah Harrington**, President, Woods Fund of Chicago
- **Thomas McNulty**, Partner, Neal, Gerber & Eisenberg, LLP
- **Chunka Mui**, Consultant
- **Holly O'Connor**, Consultant, True Partners Consulting LLC
- **Aurie Pennick**, Executive Director, Field Foundation of Illinois
- **Joseph Starshak**, President, Starshak Winzenburg & Co.
- **William Testa**, Vice President, Federal Reserve Bank of Chicago

The staff of L.E.K. Consulting provided invaluable dedication and expertise to this review and the Civic Federation appreciates the in-kind contributions from L.E.K. that ensured this analysis would be completed.



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ABOUT THE CIVIC FEDERATION

- Non-profit government research organization founded in 1894.
- Funded by major corporate and professional service firms in the Chicagoland region.
- Purpose:
 - To serve as a technical resource, providing nonpartisan research and information.
 - To promote rational tax policies and efficient delivery of quality government services.
 - To offer solutions which guard against excessive taxation, enhance financial reporting and improve the quality of public expenditures.

www.civiced.org for more information




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L.E.K. Consulting is a leading global strategy consulting firm

L.E.K. Consulting is a global strategy consulting firm that specializes in corporate strategy, transaction services, and performance improvement. Founded in 1983, L.E.K. currently employs over 900 professionals in 20 offices worldwide. Global clients include Fortune 500, FTSE 100, Eurotop 300, and many of the largest firms in Asia-Pacific. With a reputation for solving the most complex issues, L.E.K. collaborates with business leaders to accelerate the pace and precision of strategic decision-making.

| Overview | Global Network |
|---|---|
| <p>Established in 1983</p> <p>Clients include 25% of the largest 200 companies globally, as well as innovative start-ups and leading private equity firms</p> <p>Areas of expertise include:</p> <ul style="list-style-type: none"><i>Mega Sport Event Bid & Planning Strategy</i><i>Transaction Services</i><i>Finance</i><i>Marketing and Sales</i><i>Operations</i><i>Organization</i> <p>Worldwide over 900 staff, led by 92 Vice Presidents in 20 offices</p> <p>In North America over 300 staff, led by 36 Vice Presidents - all heavily involved in delivering client assignments</p> |  <p>The map displays the global network of L.E.K. Consulting offices. The cities are marked with red dots and labeled: San Francisco, Los Angeles, Chicago, Boston, New York, London, Paris, Milan, Munich, Wroclaw, Beijing, Tokyo, Shanghai, New Delhi, Mumbai, Bangkok, Singapore, Sydney, Melbourne, and Auckland.</p> |



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OVERALL FINDING

The Civic Federation and L.E.K. found that the operating budget, including venue construction, proposed by Chicago 2016 is fair and reasonable and provides adequate protection against financial risk to Chicago taxpayers.

However, the development of the Olympic Village exposes the City to continuing real estate risks that must be managed.



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RECOMMENDATIONS

- The Organizing Committee for the Olympic Games (OCOG) that will replace the Bid Committee **must be led by a professional and experienced management team** that understands and executes the proposed Chicago 2016 plan.
- Contractors and employees must be chosen based on **objective, non-political criteria**.
- The **proposed insurance coverage must be purchased to manage the risk to taxpayers** that comes with guaranteeing delivery of the Games. The **capital replacement insurance should be purchased to cover the financing for the Village** by either the developer or the OCOG to ensure the taxpayers do not have to pay to complete the project.
- **Increased public transparency about Olympic finances is needed** to safeguard taxpayers' interests because many areas of the Olympic plan are subject to change in the years leading up to the Games.
- The **City Council must exercise its oversight role and require regular reporting** on the status of the Games, including public disclosure of budgets, contracts and construction updates to the City Council.
- **Any financial reports submitted to the IOC should also be filed with the City Council**, with reasonable exemptions for competitive sponsorship details and other proprietary information.

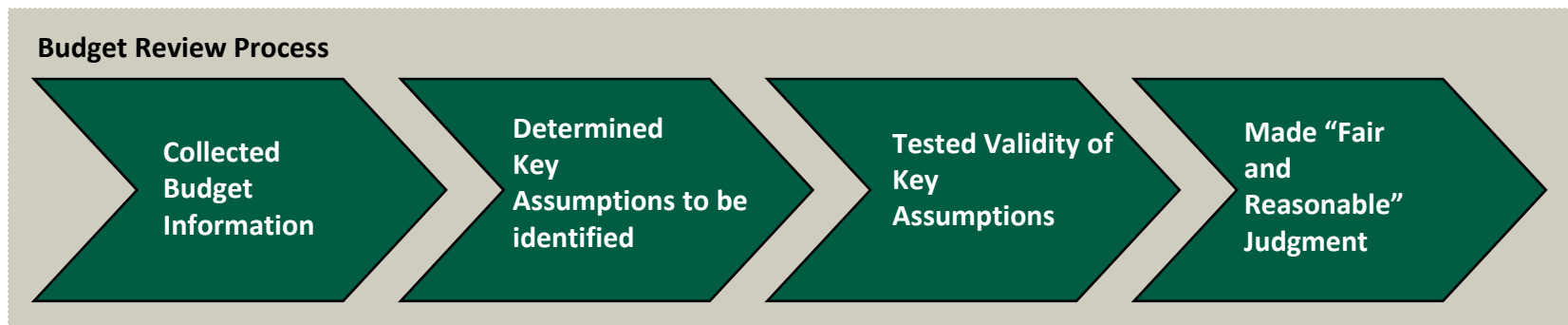


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SCOPE OF WORK

- **Given the short time to complete the analysis, the bid was reviewed at a high level, focusing on the testing and vetting of major assumptions that had material impact on the budget**
- **The budget development process, revenue and expense line items were assessed to determine if they represented a “fair and reasonable” view of the potential economics of the Summer Games**
- **Expenses to the City of Chicago and insurance coverage were also evaluated to gauge the potential impact on and level of protection for Chicago taxpayers**
- **The work was guided by the Civic Federation Olympics Advisory Committee and was compiled in close conjunction with the Civic Federation**



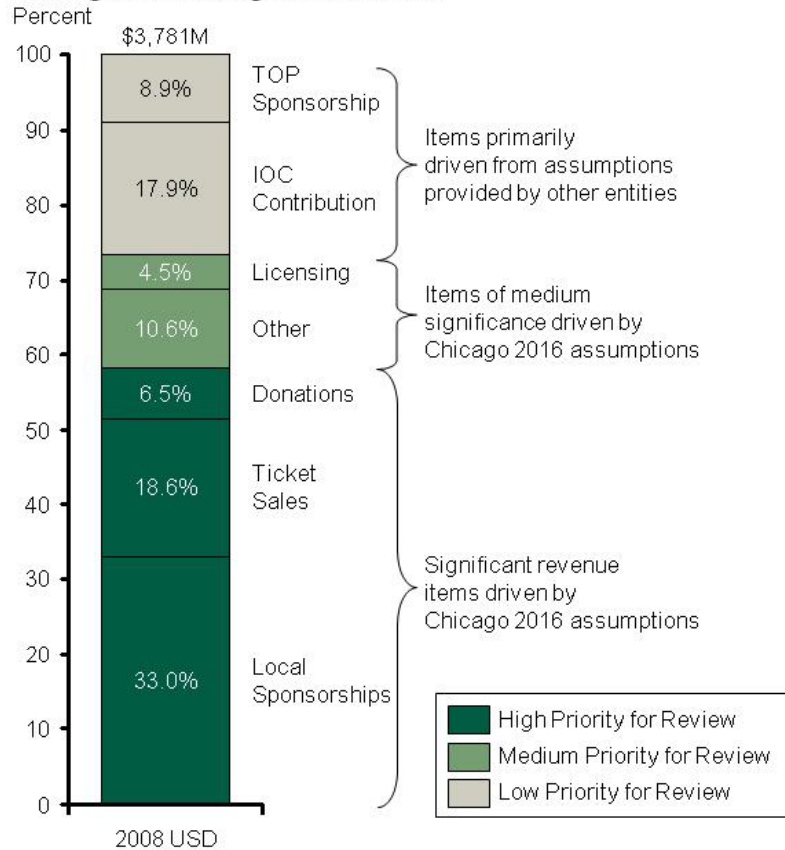


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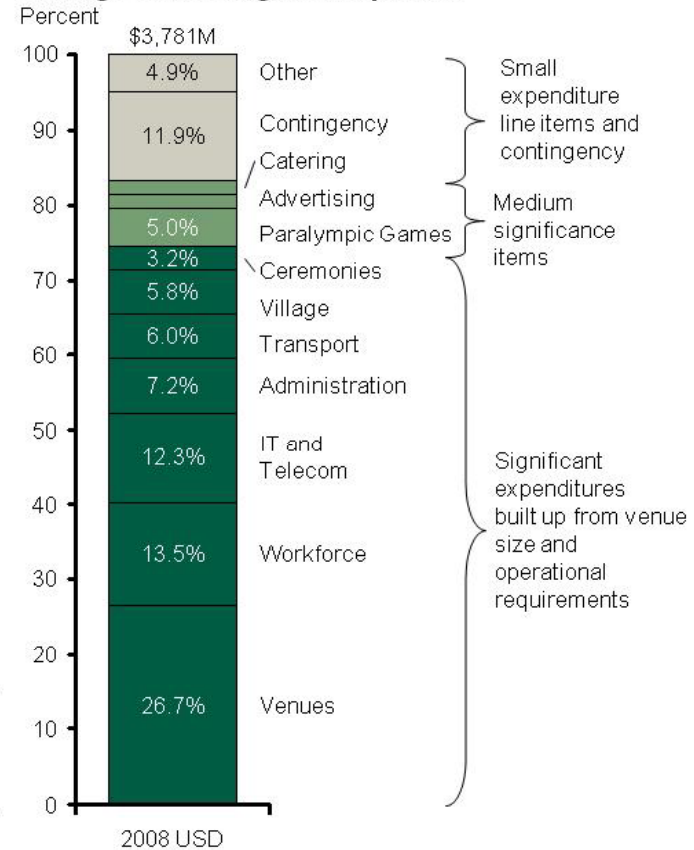
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ORGANIZING COMMITTEE BUDGET

Chicago 2016 Budgeted Revenue*



Chicago 2016 Budgeted Expenses*



Note: * The Chicago 2016 Olympic budget is displayed in 2008 dollars and all dollars are defined in 2008 dollars unless specified otherwise; Percentages may not sum to 100% due to rounding



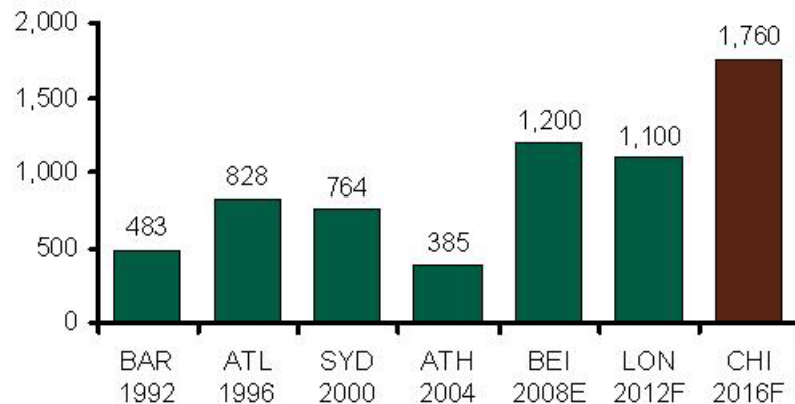
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LOCAL SPONSORSHIPS

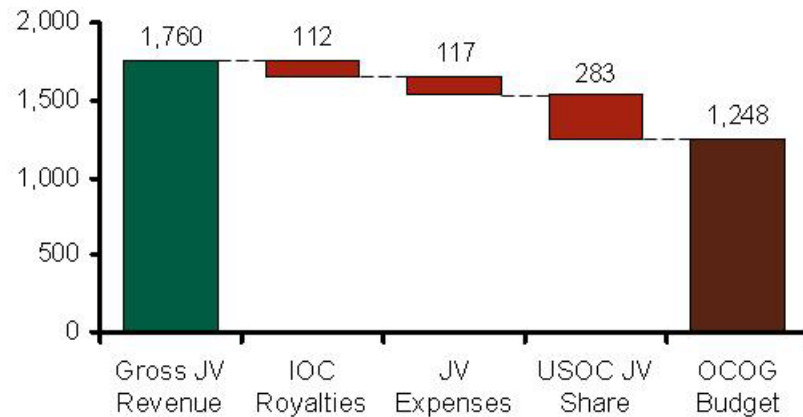
Total Gross Local Sponsorship Revenue

Millions of 2008 dollars



Local Sponsorship Net Revenue

Millions of 2008 dollars



- To obtain local sponsorship revenue, a Joint Venture (JV) will be formed between the U.S. Olympic Committee (USOC) and the host city organizing committee (OCOG)
 - The OCOG share of revenue is calculated after issuing IOC royalties, JV expenses, and USOC share, which were all built in a bottom-up manner
- The USOC share of revenue will be calculated based on levels needed to maintain sponsorship revenue observed by the USOC during non-hosting periods
 - Past U.S. Olympic Games have agreed to 30% of sponsorship revenue for USOC
 - The revenue sharing for the Chicago 2016 Games would provide a return of ~18% to the USOC
- The IOC has agreed to the sponsorship revenue sharing agreement between Chicago 2016 and in the case of sponsorship underperformance the USOC will absorb the first \$70 million loss



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LOCAL SPONSORSHIPS

- **Current sponsorship goals would indicate a historical growth from the Atlanta Games of 3.8%, per annum**
- **The lowest non-outlier sponsorship revenue growth between Summer Games was 1.8% p.a.**
- **Overall Global and North American sponsorship spending has grown annually at 6% and 7% respectively**

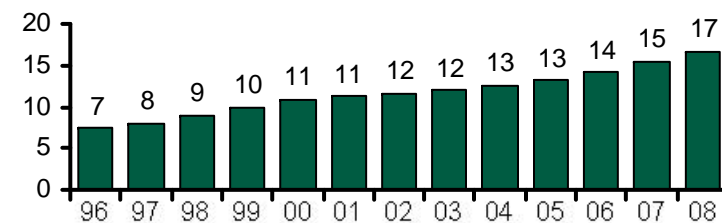
Chicago 2016 Sponsorship Tiers

| Tier | Potential Sponsors | Company Screen Parameters |
|------|--------------------|--|
| 1 | 84 | > \$10B in annual sales, > \$100M in advertising spend |
| 2 | 159 | > \$10B in annual sales, between \$10M and \$100M in advertising spend |
| 3 | 362 | Between \$2B and \$10B in annual sales, > \$10M in advertising spend |

Total North American Sponsorship Revenue

Billions of 2008 dollars

CAGR %





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DONATIONS

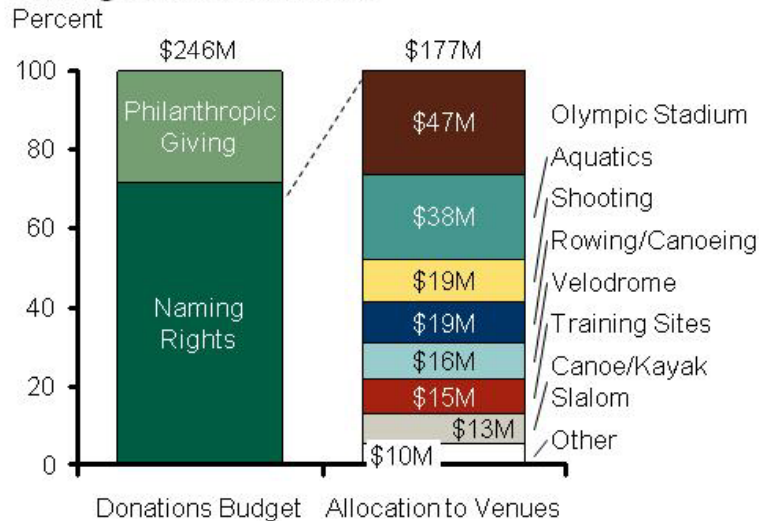
Chicago 2016 expects to procure 7% of Olympic revenue from charitable contributions and venue naming rights.

Chicago 2016 divided donations into philanthropic giving and naming rights.

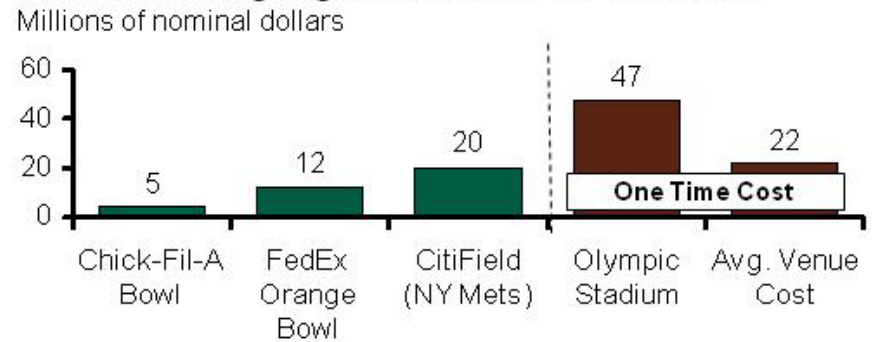
- Atlanta's philanthropic giving for the Games in 1996 was adjusted to generate expected levels in Chicago, totaling \$69 million.

- The average expected donation amounts to less than 4% of Chicago-area's annual giving, or around \$35M per year.
- The Chicago 2016 Bid Committee raised ~\$72M in cash donations to support the bid
- Chicago 2016's targets for naming rights are high when compared to naming rights for other stadia but are one-time costs versus typical annual deals.

Chicago 2016 Donations



Annual Naming Rights Revenue for Stadiums



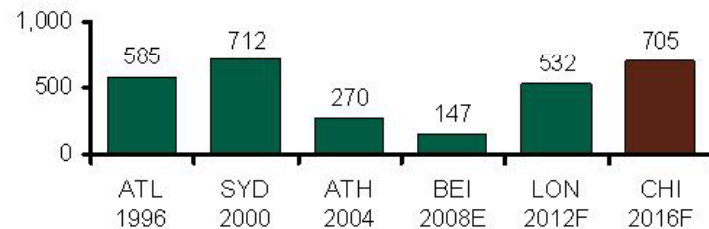


TICKETING

Revenue received through the sale of tickets to events represents the second largest revenue item in the budget at \$705M

Total Ticket Revenue

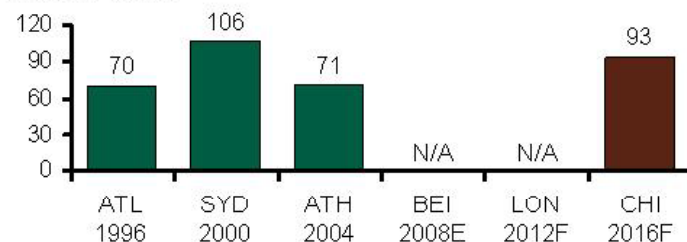
Millions of 2008 dollars



| Tickets Sold | ATL 1996 | SYD 2000 | ATH 2004 | BEI 2008E | LON 2012F | CHI 2016F |
|--------------|----------|----------|----------|-----------|-----------|-----------|
| Tickets Sold | 8.3M | 6.7M | 3.8M | N/A | N/A | 7.6M |

Average Ticket Price

2008 US dollars

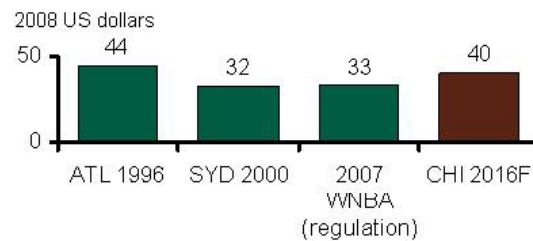
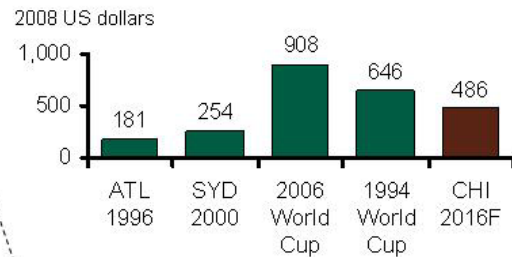
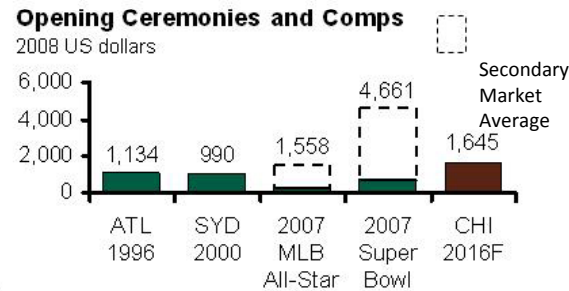
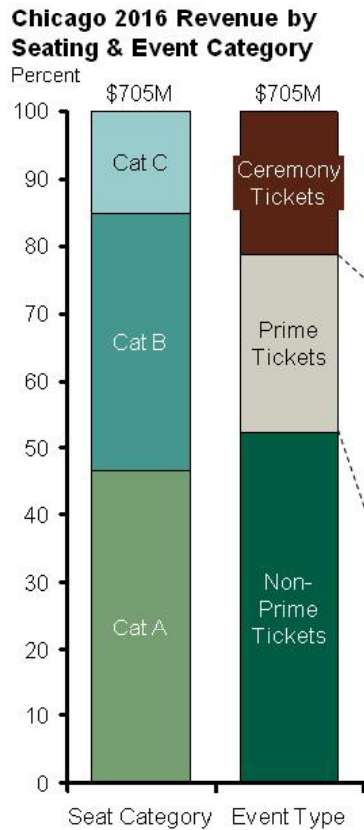


- **Chicago 2016 built a comprehensive ticket sales model on an event-by-event basis which included multiple price tiers**
- **Comparable events and previous Summer Games were used as proxies for seat kills, utilization and pricing**
- **Chicago 2016 aims to sell approximately 1 million more tickets than the Sydney Olympics, yet at a ~12% lower average price per ticket**
- **Similarly, Chicago 2016 plans to sell fewer tickets and achieve higher ticket revenue than Atlanta**



TICKETING

Top Category (A) Ticket Pricing

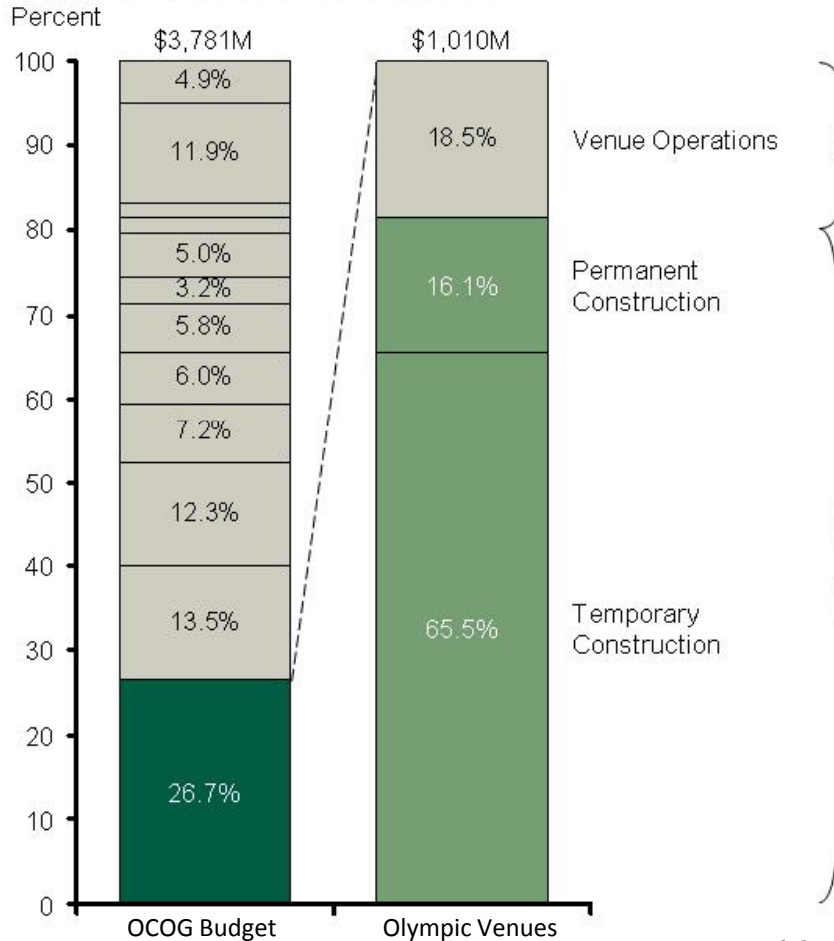


- **Chicago 2016's ceremonies and prime events prices are higher than past Olympics**
- **The plan calls for selling more than half of the total tickets at a price of \$50 or less.**



VENUES

Chicago 2016 Budgeted Expense



- **Venue Operations includes primarily composed of logistics and power consumption.**
- **Line items were built with a bottom-up methodology that estimates the requirements of each venue and a corresponding unit price**
- **Construction costs were forecast using a detailed model for each venue**
- **Some inputs were relatively standard, such as back-of-house requirements (i.e. accreditation offices) and commodity costs**
- **Other inputs were developed specifically for the venue (i.e. Olympic Stadium roof)**



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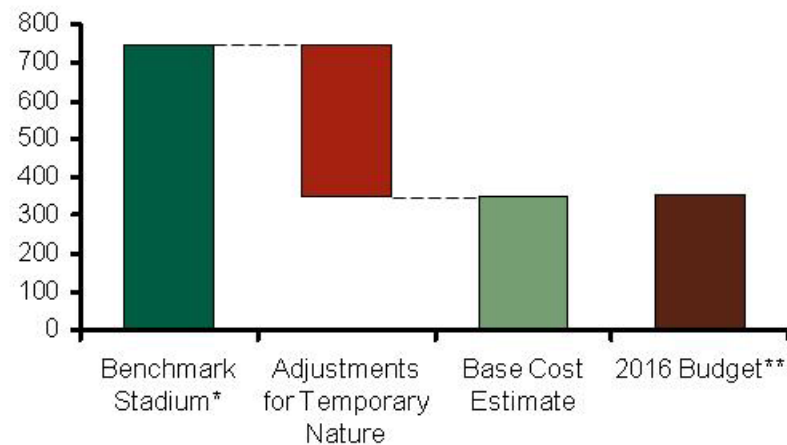
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VENUES

- **Total venue construction cost estimates are lower than previous Games because the plan calls for using existing facilities and building mostly temporary facilities.**
- **If the plan is changed and additional permanent venues are built, it would dramatically increase the cost of hosting the Olympics.**

Olympic Stadium Budget Comparison

Millions of Dollars



- **Commodity price inputs were also selected near a peak in the Materials Cost Index, suggesting that these prices were conservatively estimated**



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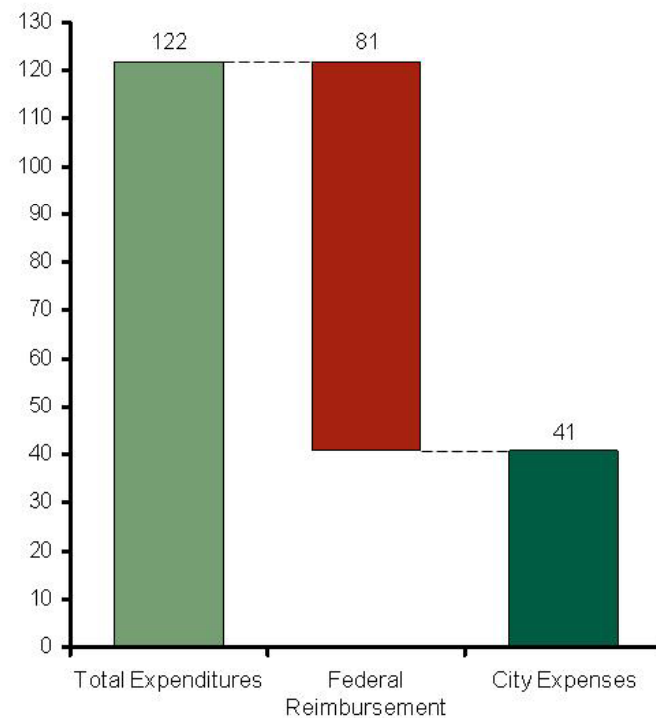
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LOCAL GOVERNMENT

Most city services expenses are expected to be reimbursed by the federal government as the Olympics will be designated a National Special Security Event (NSSE)

Forecasted City Services Expenditures*

Millions of 2008 Dollars



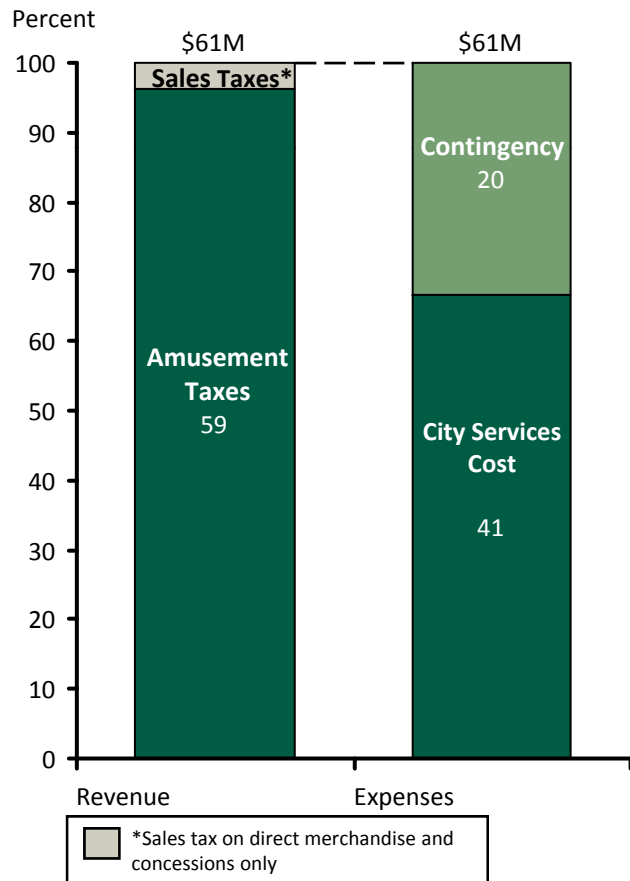
- **Government services for the Games are expected to cost \$122 million**
- **The City of Chicago expects to pay \$41 million after federal reimbursement**
- **Federal security agencies assisted the City in determining security requirements and estimating resources needed**
- **The Olympics are a National Special Security Event, which qualifies for federal reimbursement for incremental public safety expenses at all levels of government directly resulting from the Games**



LOCAL GOVERNMENT

The City of Chicago worked with a Chicago 2016 committee to assess the incremental revenue and expenses resulting from the Games

City of Chicago Projected Budget



- **The City of Chicago plans to collect \$61 million in revenue, which would provide \$20 million in additional funds beyond estimated expenses to cover cost overruns**
- **The vast majority of revenue will be derived from a 9% amusement tax applied to ticket sales applicable to Chicago venues**
- **Representatives from the city's Law Department believe that the amusement tax will be applicable to the Olympics, despite current language suggesting amateur sporting events held by a non-profit organization are exempt**
- **The city believes that if the tax needed clarification, City Council would codify the rule into an ordinance**
- **A 2.25% sales tax will be levied on an estimated \$100M of merchandise/concessions expected to be sold by the Games, producing an incremental \$2.25 million**



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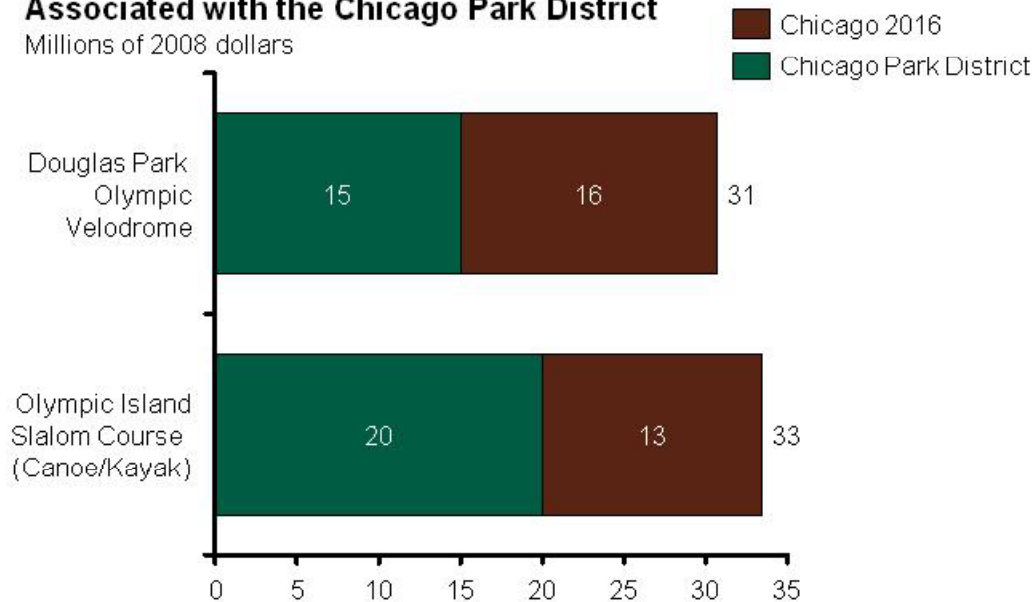
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LOCAL GOVERNMENT

The Chicago Park District (CPD) has agreed to help fund the construction of two venues that will function as Chicago Park District community facilities after the Games

Proposed Financial Commitments for Venues Associated with the Chicago Park District

Millions of 2008 dollars



- Overall, Chicago 2016 is expected to invest \$250M in new facilities and improvements, which the Chicago Park District will inherit after the Games
- The Douglas Park velodrome will house cycling events during the Olympic and after the Games become a multi-sport community facility.
- The Olympic Island slalom course will be constructed for the slalom canoe and kayak events and may represent a commercialization opportunity after the Games.

CPD Board approved the original \$15 million in funding for a Douglas Park Aquatic Center, contingent on \$65M from Chicago 2016, supporting an earlier version of the Olympic plan. The CPD will need to approve the new plans if Chicago wins the bid.

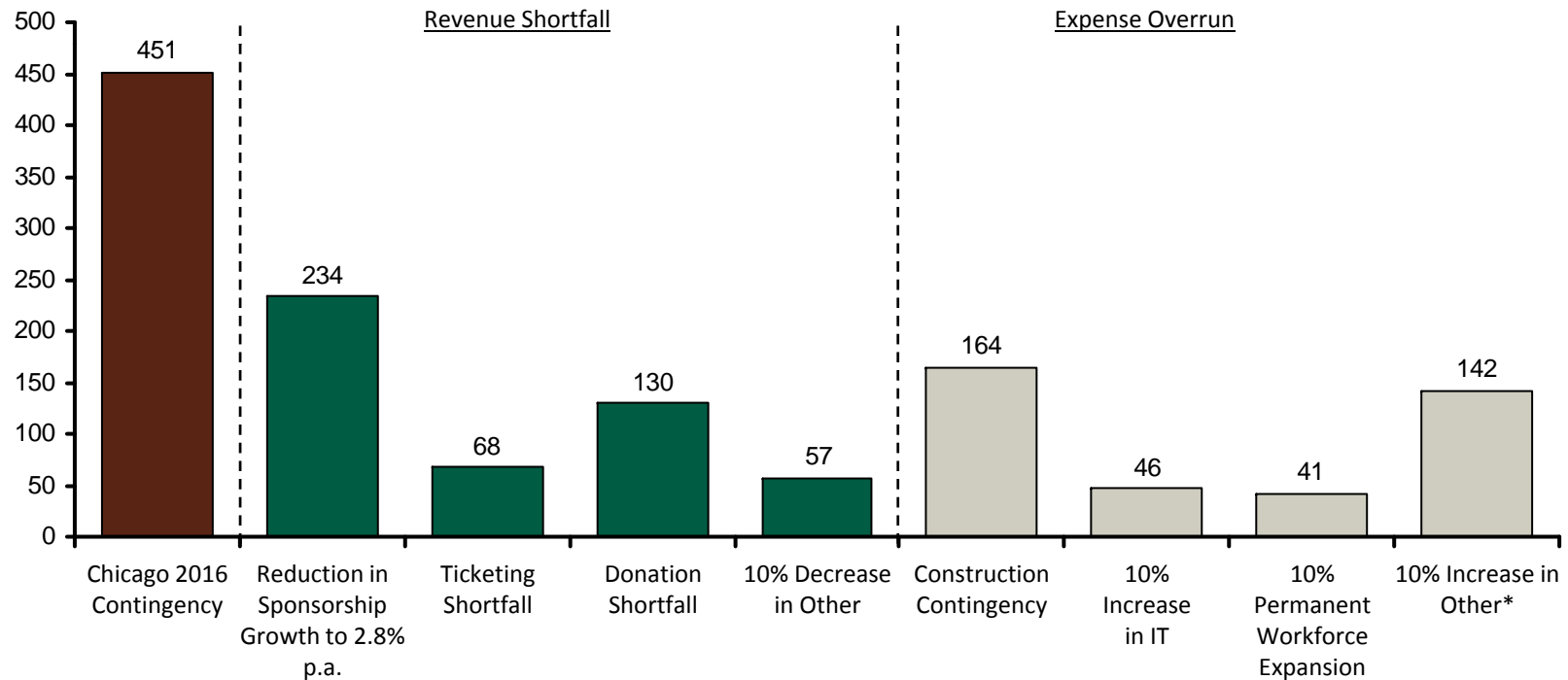


OCO² CONTINGENCY

The contingency in Chicago 2016's budget is sufficient to cover reasonable downsides for individual major revenue and cost line items

Chicago 2016 Contingency and Possible Impact of Various Scenarios

Millions of Dollars





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FINANCIAL SAFETY NET

Chicago 2016's has proposed several layers of insurance to be used prior to the specific financial guarantees from the City and State and the City's unlimited guarantee under the Host City Contract.

