



NARRATIVE SUMMARY OF THE CHICAGO 2016 OLYMPIC BID REVIEW*

August 26, 2009

**Prepared By:
The Civic Federation & L.E.K. Consulting**

* Narrative Summary to the full 90-page Chicago 2016 Olympic Bid Review

*The Civic Federation
would like to express its gratitude
to the following foundations, whose generous grants
made the research and writing of this report possible:*

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

ACKNOWLEDGEMENTS

The Civic Federation would like to express its appreciation to the members of the Olympic Advisory Committee for their service and expert input. We are particularly grateful to Committee Chairman Joseph Starshak for his support and leadership of this crucial oversight body. 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 Federation would also like to acknowledge the invaluable assistance provided by the staff of L.E.K. Consulting. The Civic Federation deeply appreciates the in-kind contributions made by L.E.K. to this project to ensure the analysis would be completed.

The Civic Federation acknowledges and thanks Senior Analyst Peter Matuszak, for researching and writing this report and Senior Analyst Laurie Cohen, for providing exceptional editorial review.

TABLE OF CONTENTS

INTRODUCTION	2
SCOPE OF WORK	3
SUMMARY OF FINDINGS.....	4
ORGANIZING COMMITTEE BUDGET	4
OLYMPIC VILLAGE	5
LOCAL GOVERNMENT REVENUES AND EXPENSES	5
FINANCIAL SAFETY NET	6
RECOMMENDATIONS	7
KEY ANALYSIS	8
ORGANIZING COMMITTEE REVENUES	8
<i>Local Sponsorships</i>	8
<i>IOC Revenue</i>	8
<i>Ticketing</i>	9
<i>Donations</i>	10
ORGANIZING COMMITTEE EXPENSES	10
<i>Venue Construction and Operation</i>	10
<i>Workforce</i>	11
<i>Administration</i>	13
<i>Transportation</i>	13
<i>Technology</i>	14
OLYMPIC VILLAGE BUDGET	14
LOCAL GOVERNMENT COST	17
FINANCIAL SAFETY NET	18
<i>Olympic Budget Contingency Fund</i>	18
<i>Government Guarantees</i>	20
<i>Insurance</i>	20
METHODOLOGY	22

INTRODUCTION

Chicago is one of the final four cities competing to host the Summer Olympic Games in 2016. The International Olympic Committee (IOC) will announce the winner among the candidate cities – Chicago, Madrid, Rio de Janeiro and Tokyo – on October 2, 2009. The budget submitted in support of the candidature documents by Chicago 2016, a nonprofit committee established to prepare and promote Chicago’s bid, totals \$4.8 billion to operate the Games, build sports facilities, provide an Olympic Village to house athletes and host the Paralympic Games.

On June 30, 2009, the Chicago City Council passed a resolution requesting that the Civic Federation undertake an independent and objective review of the financial aspects of Chicago’s bid to host the Summer Olympic Games in 2016. The request for a Civic Federation review came after the nature of the City’s financial obligation for the Games changed. In June 2009, it became clear that the City would have to assume full financial responsibility for all aspects of the Games, as is typically required of host cities by the IOC. Mayor Richard Daley and Chicago 2016 officials had previously requested that the IOC accept a \$500 million financial guarantee approved by the City Council to cover any operating deficit related to the Games. However, the IOC said that it would not accept anything short of a full financial guarantee. Mayor Daley has said that he intends to sign a standard Host City Contract with the IOC under which the City will assume all financial risks.

In a letter accepting this project on July 14, 2009, the Civic Federation took note of the time constraints involved and the need for outside expertise to assist with the analysis. To ensure that the City Council would have adequate time to evaluate and consider the findings of the report, the Civic Federation set a deadline to deliver its review no later than August 28, 2009.

The Civic Federation engaged L.E.K. Consulting to provide assistance with this review. The firm, headquartered in London, is an international strategic financial consulting group that has not been involved in any aspect of the Chicago 2016 bid. L.E.K. has a significant presence in Chicago and has provided a well-qualified team to conduct this review within the defined timeframe. The lead partner on this project, Jamil Satchu, has extensive experience in consulting with other Olympic-size sporting events including World Cup Soccer, Cricket World Cup and other operating committees from past Olympics.

Although L.E.K. has not been involved with the Chicago 2016 bid, the firm disclosed that it has been hired by the City of Chicago in the past and has one outstanding bid pending with the City regarding a concessions project at O’Hare International Airport. However, the Civic Federation does not see such involvement as creating a conflict of interest or jeopardizing the independence of this review.

The Civic Federation is a nonpartisan government research organization working to maximize the quality and cost effectiveness of government services in the Chicago region and State of Illinois. Although some Civic Federation members have individually supported or opposed the Chicago 2016 bid, the Civic Federation has not taken a position on the plan to host the Games in Chicago and does not see its members’ outside interest in the Games as an obstacle to providing an objective and independent review of the bid.

The following report, produced under the guidance of the Civic Federation Olympic Advisory Committee, relied on expert analysis developed by consultants from L.E.K. and the cooperation of Chicago 2016 and officials from the City of Chicago. This review was funded by generous contributions from local foundations. The Civic Federation did not receive any funding from the City of Chicago or Chicago 2016 in support of this project.

SCOPE OF WORK

Given the limited timeframe and the complexity of the proposed financial plan for hosting the Olympic Games, the following report is not a financial audit but rather a high-level review focused on testing the assumptions and analyzing the budget process used to develop the plan. To complete this report in a timely fashion, the scope of the review was limited to an analysis of the fairness and reasonableness of these projections and the extent of the financial risk that hosting the Olympics may pose to the taxpayers of the City of Chicago.

The Civic Federation and L.E.K used the following five specific criteria to determine if a particular assumption or estimate developed by Chicago 2016 was fair and reasonable:

1. Verifying the chain of accountability and ownership in the process of development of budget estimates;
2. Examining the use of expert review and input;
3. Reviewing the comprehensive analytics used to estimate budget costs and revenues and examining the data and methodology to ensure it was consistent and accurate throughout the process;
4. If available and applicable, considering the use of comparable cities' experiences or other analogous data; and
5. Developing and examining sensitivity analysis to examine possible downside risks when applicable.

The goal of this report is not to make a policy recommendation on whether or not Chicago would benefit from hosting the Olympic Games. Rather, the goal is to assess whether or not the proposed plan to host the Games is fiscally reasonable or if it poses financial risks to local taxpayers.

Accordingly, this report will not review the regional economic impact analysis commissioned by Chicago 2016 during the bid process. The assumptions, data and economic models used to develop the regional economic impact and jobs estimates do not fit within the direct cost and revenue that the City will be guaranteeing under the Host City Contract and thus are outside the subject matter of the review undertaken by the Civic Federation.

Chicago 2016 is a bid committee created to develop and promote the City's candidacy to the IOC. If Chicago were selected to host the Games, it would be necessary to form a new governing body known as an Organizing Committee for the Olympic Games (OCOG) to proceed with the proposed budget.

This report focuses on four major areas that drive the potential cost of the Games and the level of risks to taxpayers associated with the Games:

1. The proposed \$3.8 billion operating budget of the OCOG, which covers revenues and expenditures to operate the Games;
2. The construction of an Olympic Village to house athletes, which is proposed to be mostly privately financed and is expected to cost approximately \$1 billion;
3. Direct Olympics-related expenditures of the City and the revenues proposed to pay for them; and
4. The proposed safety net to protect taxpayers from financial risk, which includes an operating budget contingency fund and private insurance to be spent prior to guarantees from the City of Chicago and State of Illinois.

The Civic Federation's conclusions are informed by analysis of each of these areas. A summary of the most significant areas of analysis are included in the Key Analysis section of this document. Also accompanying this report is a detailed presentation from L.E.K. on the specific research and analysis on which the findings of this review are based.

SUMMARY OF FINDINGS

The Civic Federation 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.

Overall, the fiscal viability of hosting the Games depends heavily on continued effective and professional management that adheres to the plan as proposed by Chicago 2016.

Our findings are summarized in four categories, which include the OCOG Budget, the Olympic Village, local government expenditures and the financial safety net.

Organizing Committee Budget

Our review found the \$3.8 billion OCOG budget, as proposed by Chicago 2016, to be fair and reasonable, although several revenue estimates are optimistic compared with previous Games.

Local sponsorships are predicted to be substantially higher than previous Games, and estimated revenues from donations are aggressive when compared to past Olympic budgets. Although Chicago 2016's leadership has raised substantial funds to date, there is no formal fundraising plan established at this stage in the bid development. Achieving sponsorship and donation goals will depend on the performance of the management team during the years leading up to the Games. Chicago 2016 also intends to purchase trade credit insurance to protect against the possibility of losing revenue due to the bankruptcy of a contracted sponsor. Some ticketing totals appear slightly optimistic compared with recent Summer Games but the estimates are fairly conceived and based on a robust ticket revenue model. Despite some aggressive revenue projections, none of these posed significant risk to the financial viability of the 2016 Games when tested for downside sensitivity.

As proposed in the Chicago 2016 plan, the cost estimates for venue construction and operations were found to be fair and reasonable. The costs are built from comparable events and appear to be high enough to account for changes in commodity pricing and other unexpected increases. The cost estimates are lower than previous Games, but the savings projected are based on the use of existing facilities, mostly temporary construction and relatively little infrastructure investment needed to host the Games in Chicago. The use of mostly temporary facilities also reduces the risk of a post-Games burden on taxpayers to support new facilities after the Games.

Olympic Village

It is impossible to eliminate all risks associated with any real estate endeavor including the Olympic Village. As has been recently observed in Vancouver, host of the 2010 Winter Games, turmoil in the global capital markets leading to the loss of developer financing during construction can create considerable risk to taxpayers.

Chicago 2016 proposed several layers of protection from the financial risk associated with construction of the Village. The Bid Committee proposes using a team of developers and notes that the original plan projected to cost around \$1 billion could be altered if it does not attract qualified bids from developers. The strategy of using numerous qualified developers is a fair and reasonable step to reduce some risks of the Village as proposed. Although a sound strategy, this does not fully protect against distressed markets.

The developers would be required to purchase typical construction related insurance such as surety and performance bonds. A new type of insurance, called capital replacement insurance, developed and priced specifically for Chicago 2016, would also provide substantial protection for taxpayers. If developers were to buy the capital replacement insurance, the loss of financing during construction would be covered, reducing the risk to city taxpayers. The OCOG could purchase the capital replacement insurance itself but has not included the policy as part of its proposed \$68.3-million budget for insurance for the Games. If developers proceed with the Village as planned and are not required to buy the insurance, then taxpayers could be exposed to risk.

Local Government Revenues and Expenses

As proposed, local government spending and revenue forecast by the City of Chicago for the Games were found to be fair and reasonable.

The City of Chicago expects to spend \$122 million on direct city services during the Games. The largest portion of city costs would be incurred for police, fire and emergency response services. Most of these public safety expenses would be reimbursed by the federal government under the National Special Security Event Act, which would also cover any increased security cost due to an elevation in the national threat level. The remaining incremental government services cost for the City of Chicago are estimated at \$41 million, which the City plans to cover mostly with direct revenue associated with the amusement tax assessed on ticket sales and some sales tax on Games-specific concessions and merchandise. The City's cost projections are based on local experience with other large-scale events and ticket sales estimated by Chicago 2016. The total

revenues directly related to the Games for the City is estimated to total \$61 million, leaving an additional \$20 million to cover increased expenses.

The amusement tax, as provided for in the City's Municipal Code, includes an exemption for amateur sporting events held by a non-profit organization. The City's Law Department and the general counsel for Chicago 2016 have agreed that the amusement tax would apply to the Olympics and that the Code could be amended if necessary to clarify this point.

The plan also calls for the Chicago Park District to spend \$35 million to help pay for two Olympic venues that would be turned into community sports facilities after the Games. The Park District obtained approval from its Board of Commissioners to provide funds for an earlier Olympic plan and has stated that it would be able to get approval for the current plan. The Park District is considering several different methods of financing the proposed construction expenses but has not provided details on a financing plan.

Financial Safety Net

The financial safety net proposed by Chicago 2016 includes contingency funds in the OCOG budget and several layers of insurance to be used prior to the specific financial guarantees from the City and State and the City's or the unlimited guarantee under the Host City Contract. The insurance package proposed provides adequate protection to taxpayers from financial risk associated with the venue construction and operations of the Games. However, the Olympic Village presents continuing risks unless additional insurance is purchased.

A budgeted contingency of \$451 million represents the first line of protection against cost overruns and taxpayer support for hosting the Games. Although the contingency is likely to decline during the period leading up to the Games, it provides a reasonable starting point for absorbing possible cost overruns and revenue shortfalls. However, any surplus in the OCOG budget remaining after the Games should not be considered as profit to the City. The Host City Contract requires that such funds be divided among the IOC, the U.S. Olympic Committee and the OCOG; the OCOG's portion would be spent on community sports programs and bonuses for Olympic staff.

The City and State guarantees of \$500 million and \$250 million, respectively, apply to deficits in the OCOG operating budget and to any legal liability for the IOC associated with hosting the games in Chicago. The proposed insurance package provides between \$475 million and \$500 million of coverage in the early years leading up to the Games, increasing to \$975 million to \$1 billion in 2016 to be used before both the OCOG contingency funds and government guarantees. This would cover risks including events cancellation, public liability and the required indemnification of the IOC from legal liability associated with the Games. This plan, if purchased as proposed, could reasonably protect taxpayers from most risks associated with venue construction and operations of the Games. It is impossible to eliminate all risk, such as the possibility of lower than expected revenue due to reduced ticket or sponsorship sales.

It has not been determined what level of insurance would be purchased to protect taxpayers from risks associated with the private financing of the Olympic Village. A new type of insurance called capital replacement insurance would reasonably protect taxpayers from loss of lender

financing during construction. Cost overrun and other construction-related insurance are also available for the Village. These policies were not included in the expanded OCOG risk management budget for the total insurance package and may be purchased by the final development team chosen. Chicago 2016 explained that the development team would probably be required to buy the insurance, but which policies are purchased and the level of coverage would depend on market conditions, developers' financial stability and whether they agree to fixed price contracts. If Village construction begins without capital insurance in place, taxpayers would not have protection against the loss of developer financing due to distressed capital and real estate markets.

RECOMMENDATIONS

The Civic Federation 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. In order to effectively carry out this plan and manage the risk associated with construction of the Village, the Civic Federation and L.E.K. recommend the following:

- The Organizing Committee for the Olympic Games 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 all 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.

KEY ANALYSIS

The following section contains summary details of the areas determined to be most critical to the analysis of the financial projections. A complete report including all data analyzed during this review is available in the accompanying presentation produced by L.E.K.

Organizing Committee Revenues

The major revenue sources analyzed and presented in this summary include local sponsorships, IOC revenue, ticketing and donations. These areas make up 85% of the total estimated OCOG revenue. All revenue streams were analyzed during this review, but these line items showed the largest potential to influence the financial viability of hosting the Games.

Local Sponsorships

The largest single source of revenue for the Games is local sponsorships, in which companies contract with the OCOG to market their brands in connection with the Olympics. These sponsors pay the OCOG either in cash or in-kind, through the provision of goods or services.

Chicago 2016 estimates that sponsorships will account for one-third of its total budgeted revenues, or \$1.2 billion. This is a net number, after subtracting expenses and mandatory amounts paid to the IOC and the USOC under a joint venture with the OCOG. The total gross sponsorship revenue is estimated at \$1.8 billion. To develop this estimate, the Bid Committee reviewed the implied growth rate from several previous Games, designated sponsorship levels or “tiers” based on past pricing levels and identified potential sponsors in each tier by industry.

Chicago 2016 is projecting local sponsorship revenue to be significantly higher than at past Summer Games. This was pointed out by the IOC in earlier stages of the bid process.

The Bid Committee’s gross sponsorship estimate reflects an increase of 3.8% per year, after adjusting for inflation, from the \$828 million in sponsorship revenues at the 1996 Summer Games in Atlanta. Chicago 2016 believes that Chicago has several advantages over Atlanta, including the location of 29 Fortune 500 companies in the Chicago area compared with 10 in Atlanta. In recent years total U.S. and global sponsorship spending by corporations has grown at about 6% a year, and total North American sponsorships grew at 7% annually from 1996 through 2008. Other comparisons of sponsorship revenues suggest an annual growth range of about 2% to 7%, excluding the 2004 Summer Games in Athens, which had an unusually low level of sponsorships.

Overall, the Chicago 2016 estimate is aggressive and depends on the participation of many companies at historic levels of sponsorship. Nevertheless, the projection is reasonable, based on Olympic sponsorship trends and general U.S. and worldwide sponsorship growth.

IOC Revenue

The OCOG budget includes two categories of funding from the IOC that amount to approximately \$1 billion or 27% of the total budget. This contribution is dictated to the local host committee by the IOC and has been set at \$675 million in direct IOC funding as a local pass through from the sale of international television rights. The remaining \$335 million revenue contribution comes from The Olympic Partners (TOP) sponsorships, an elite category of companies that partner with the IOC directly for marketing rights.

Although this represents a significant portion of total revenues, the amounts are assigned directly by the IOC and do not lend themselves to data analysis or sensitivity testing. In the development of the budget, they are treated as given amounts.

One cause for concern in this area arises from IOC guidance in December 2008 that its contribution should remain static at a combined \$1 billion as cities converted their bids to 2016 dollars. This implied an assumption of 0% per year growth in IOC contribution amounts. If not resolved in negotiations after the bid phase is complete, this could lead to a substantial reduction in IOC contribution in 2008 dollars from the amount in Chicago 2016's bid budget. Chicago 2016 officials are confident that if Chicago were awarded the Games this matter would be resolved. Communications between Chicago 2016 and the leadership of the London 2012 OCOG has indicated that IOC contributions to its budget have been increased to account for inflation since the end of the bid phase.

Chicago 2016 contacted the London Organizing Committee of the Olympic Games for the Summer Games of 2012 to inquire how its bid contribution from the IOC was treated in the organizing phase. London officials confirmed that its contribution from the IOC was increased for inflation between the bid phase and the organizing phase.

Ticketing

Chicago 2016 expects to sell 7.6 million tickets to the Olympics. Projected prices vary widely across events, from \$20 a seat for modern pentathlon to \$1,645 for the Opening Ceremony. More than half of tickets to competitive events would be priced below \$50. Chicago 2016 did not include in its demand estimates Chicago's 9% amusement tax or any other taxes or fees that may be added to the face value of tickets at the point of sale.

The Bid Committee estimates that ticket sales will bring in \$705 million, or 19% of total revenue. Estimates of ticket sales and pricing were based on comparable events and previous Summer Games. Nearly half of the revenue is expected to come from prime events and Opening and Closing Ceremonies, which account for about 20% of all tickets. Ticket prices for these events were set at higher levels than previous Games. Non-prime event ticket pricing is on average marginally higher or similar to other Games, and the number of non-prime tickets reduces the overall average ticket price. Only top-tier tickets in each category were analyzed as part of our review for downside risk to the budget.

Chicago 2016's ticketing projections are conservative in terms of estimated number of tickets sold and total ticket revenue. Estimated ticket revenue is in line with ticket revenue generated at the 2000 Summer Games in Sydney. Chicago may be overestimating ceremony ticket prices and ticket prices for prime events, but the budget impact of any overestimation of these prices is relatively low. Chicago 2016 explained that to control risk, sales of event tickets are released to the public incrementally beginning several years in advance of the Games. If initial demand does not meet projections then ticket prices can be adjusted to make up for any lost revenue. As ticket prices are reduced to create demand, the price of other tickets can be increased to make up the difference.

Donations

Chicago 2016 plans to raise substantial funds from private donors, who are expected to contribute either for purely philanthropic reasons or in exchange for naming rights at Olympic sports venues. This revenue is in addition to sponsorship revenue and outside the joint marketing venture set up by the USOC and the OCOG.

When the bid budget was submitted to the IOC, Chicago 2016 estimated that donations would account for about 7% of total revenue, or \$246 million. Of that amount, \$177 million was projected to come from naming rights deals. However, the total targeted donation amount has recently increased to cover the cost of additional insurance needed to provide a full financial guarantee as part of the Host City Contract. The Bid Committee expects to cover additional insurance costs, which may range from \$20 to \$40 million, by raising more money from donations.

Chicago 2016 management is confident in its ability to secure the forecasted level of donations. The Bid Committee believes the projected donation amount is within reason, given other Chicago-area philanthropic contributions to projects such as Millennium Park. Over the seven years leading up to the Games, the targeted donation amount would represent about 4% of the more than \$1 billion in current annual giving to Chicago institutions. Chicago 2016 has already attracted significant philanthropic support, raising about \$72 million in donations to support the bid effort as of mid-summer 2009. Although there is no detailed charitable fundraising strategy at this time, an internal team would be assembled if Chicago were awarded the Games.

Because there is no detailed fundraising strategy in place at this stage of the bid process, the effectiveness of the effort is hard to predict and may consume a substantial portion of management's time. The OCOG will need to rely on the skills of current Chicago 2016 officials or attract other staff with significant Chicago-area fundraising expertise. The donation targets associated with naming rights were based on venue costs and not necessarily on the market's willingness to donate. Benchmarks suggest that the naming rights revenue projections might be aggressive. For example, the target of \$19 million for the shooting and rowing venues is similar to the amount paid annually for naming rights at New York's CitiField, currently the most expensive naming rights deal for sports stadiums in the U.S. At CitiField, exposure is over a span of 81 Games a year for seven months. Given the mainly temporary nature of many of the planned Olympic venues, it is uncertain whether Chicago 2016 would be able to attract the projected naming rights agreements for all of the proposed venues.

Organizing Committee Expenses

Included in this section are major expense categories analyzed within the OCOG budget including venue construction and operations, workforce, transportation and technology. These categories total \$2.5 billion in cost, which is 66% of the total budget and showed the greatest potential to affect the financial viability of the Games if overly sensitive to change.

Venue Construction and Operation

The construction and operation of Olympic sports venues represents the largest expense in the OCOG budget. Chicago 2016's plan calls for the use of 27 venues, many of which would either

be temporary facilities or already exist. For example, the largest proposed facility, the Olympic Stadium to be built in Washington Park on the South Side of the city, is planned to be a temporary 80,000-seat venue that would be dismantled and replaced by a 3,500-seat permanent facility after the Games.

Chicago 2016 estimated the total cost of venue construction and operation at about \$1 billion, or approximately 27% of the OCOG budget. Of that amount, more than 80% would go toward construction, with the Olympic Stadium budgeted at \$397.6 million. The general contingency fund includes about \$81.5 million for potential construction cost overruns. Quotes for construction materials were obtained during a period of relatively high prices, between July and October of 2008.

Both the venue construction and operation budgets appear to be conservatively estimated. Chicago 2016's construction budget is lower than previous Olympics largely due to the temporary nature of most of the proposed construction, which is less expensive than permanent construction. The venue plan also relies heavily on using existing facilities. Unlike permanent stadiums, the proposed stadium in Washington Park does not include offices, suites, concessions and other major capital costs that are necessary for permanent stadium structures. When the actual features of the Stadium are taken into account, its budgeted costs are conservatively estimated at about 14% above those of comparable structures.¹

Workforce

In the year the Games are held, Chicago 2016 estimates the OCOG will directly employ 4,964 permanent and temporary staff. This total is built up incrementally through a detailed 7-year plan that includes increasing permanent employees who will work from their hire dates through the completion of the Games and temporary employees who will only be added the year of the Games. The following chart shows the increase in employees by year:

Chicago 2016 Workforce Plan Annual Employment Estimates			
Year	Permanent	Temporary	Total
2010	43	0	43
2011	112	0	112
2012	244	0	244
2013	425	0	425
2014	681	0	681
2015	1105	0	1105
2016	1388	3576	4964
2017	9	15	24

The cost associated with this plan accounts for 13% of the proposed OCOG expenditures totaling \$509.1 million.

¹ Average Benchmark Stadium used by Chicago 2016 is based on M&T Bank Field, Lincoln Financial Field, Qwest Field, and Paul Brown Stadium. Source: Chicago 2016 Supporting Documentation; Discussions with management

Chicago 2016 also estimates the availability of 36,200 to 44,000 volunteer workers to supplement paid employees. This is lower than the average of recent Summer Olympics Games and actual volunteer need averages 83% of the amounts usually estimated in Olympic bids historically. This suggests that actual Chicago 2016 volunteer headcount could range between 30,000 and 36,500.

The cost of between 73,000 and 102,000 contract workers in security, transportation, food services and accommodations is not included in the workforce budget but is instead budgeted under those individual categories in the budget.

According to Chicago 2016 expert advisors, there has been a substantial amount of variability among recent Olympic Games staffing with Sydney and Atlanta both having several thousand permanent employees but Los Angeles only hiring a few hundred employees, and less than a thousand believed to be budgeted in London.

In an attempt to limit unnecessary hiring, Chicago 2016 determined the specific timing of hires, sizes of the staff needed at each venue and operational site and estimated salary levels. This data was used to develop an organizational structure of venue management teams. Each functional area then developed a ramp up based on a three-phase organizational diagram where managers are hired in early years to plan the operations and then move into Games-time operational positions.

Costs were most heavily determined by headcount, salary, benefits and incentive plans. Salaries were estimated based previous Games for equivalent positions and adjusted for current market levels. Annual salaries begin at \$25,000 for basic crew, assistants and venue workers' and top at \$550,000 per year for the highest paid executives.

The cost estimates for the workforce plan in the Chicago 2016 bid appear to be reasonable when compared to the Atlanta, Sydney, and Athens Games and the more recent New York bid for the 2012 Summer Olympic Games. The workforce expense appears most sensitive to the ability of Chicago 2016 to attract employees to a job that will end after the Games with stated salaries, benefits and incentive plans. Market forces largely determine appropriate levels of compensation, which may make it difficult for Chicago 2016 to control personnel costs. In addition, inexperience in the early hiring of management could lead to personnel creep or additional consulting costs. The benefits as a percentage of employee salary in the region averages 30%, indicating that the 25% for benefits projected in the budget for permanent staff might be slightly optimistic.²

² Percentages for the East North Central Census division, which includes Illinois, Indiana, Michigan, Ohio, and Wisconsin, source: Bureau of Labor Statistics; Chicago 2016 Supporting Documentation; Discussions with management

Administration

Administrative expense covers numerous items needed for the operation of the Games, including running the headquarters office, overseeing procurement and contracts, managing the OCOG workforce and paying for legal services and insurance.

Chicago 2016 estimates total administrative costs at \$272.6 million, or about 7% of the OCOG budget. The largest component, estimated to cost about \$61 million, involves renting, outfitting and buying supplies for the headquarters office. The budget includes \$9 million for outside legal services, despite an analysis by Bid Committee legal staff that put the cost at between \$25 million and \$40 million for up to 10,000 hours of legal assistance. Chicago 2016 reduced that amount in the bid budget because salaries for 12 staff attorneys were also included in the workforce budget. If additional outside legal assistance is needed, and pro bono services are not available, our review shows the possibility of a \$10 million to \$22 million increase in legal costs.

The administration budget includes \$44.9 million for insurance. After the IOC made clear that the City would need to provide a full financial guarantee as part of the Host City Contract, Chicago 2016 began to consider purchasing additional insurance that could increase costs between \$20 million and \$40 million. This increased cost is not included in the bid budget. Chicago 2016 officials have said they plan to cover additional insurance costs by raising more money from private donations. The insurance plan for the Games is analyzed in a separate section of this report.

Our review shows that the overall budget methodology was fair and reasonable, with most critical components supported by detailed line-item analysis. Although there is a risk of increased legal expenses, if situations arise that are not within the expertise of staff attorneys, this cost would not rise to the level of magnitude of a significant threat to the viability of the administration budget or the budget as a whole.

Transportation

A key component of Chicago 2016's Olympics plan is the transportation needed to take athletes, officials, spectators and sponsors to the Olympic venues. Chicago's plan is based on a series of "Park and Ride" locations outside the city center that will bring spectators into the Olympic zone. The plan relies heavily on existing public transit systems to transport spectators and Olympic employees. No permanent transportation infrastructure investments are proposed as part of the plan for hosting the Olympic Games in Chicago. The plan proposes creating a temporary overlay of buses and shuttles to augment the existing available transportation in the region.

Chicago 2016 estimated that transportation will cost \$225 million, or 6% of total OCOG expenditures. Calculating these expenses required estimating the number of vehicles to be used, the number of days of use and the daily costs.

The plan also relies on the ability of existing local transportation providers including the CTA, Metra and Pace to run at peak capacity for extended hours during the Games. A working group of regional transportation officials determined that this requirement for the Games was feasible. Chicago 2016 proposes including fares for local transit in the sale of tickets for the Games.

Standard fares do not cover all operational costs of the local service boards, which rely on tax subsidies for nearly half of their operational funding. Running at these peak rates could risk increasing the need for additional subsidies. However, the working group did not estimate the potential magnitude of the increase in operating cost during the Games but would determine if there is a risk after the IOC votes. Officials from the RTA who manage the subsidies of the local service boards explained that the additional cost could be negotiated with the OCOG to increase the fares sold to Olympic spectators and that the sales taxes that support the RTA subsidies would also most likely see enough increase to cover additional operating costs.

Our analysis found that the cost estimates associated with the transportation plan are reasonable. Vehicle rental costs used in the estimate were on the higher end of the possible range of values, while other key assumptions are mixed in terms of their conservatism. However, management flexibility might help mitigate any possible cost pressures. Chicago 2016 is focusing on ensuring that athletes and Games officials are transported efficiently and waiting times for spectators could be increased to avoid cost overruns, if necessary.

Technology

Information technology (IT) and telecommunications consist of the computer systems and hardware and other technology needed to run the Games. Among other items, Chicago 2016 plans to buy 4,400 cell phones, 7,000 computers and 8,000 televisions.

IT and telecommunications expenses are budgeted at \$463.2 million, or about 12% of total OCOG expenditures. The budget covers \$184.7 million in items to be purchased in cash and \$278.5 million to be obtained through value-in-kind agreements with sponsors.

Our analysis found that Chicago 2016 budgeted conservatively for IT and telecommunications products and services. The cost estimates used are generally within or higher than a probable range of prices. At the same time, management's skill in negotiating with sponsors for value-in-kind resources will be critical and will determine whether the OCOG will have to increase cash expenditures. The total estimates are based closely on total workforce estimates and could be sensitive to any dramatic changes in staffing.

Olympic Village Budget

The Olympic Village is the most expensive proposal in the Chicago 2016 plan. It is a massive redevelopment project that will convert a former hospital site on the City's Near South Side into a new mixed-use neighborhood. The Village has caused concerns because of its size and because of financial problems involving the Olympic Village in Vancouver, the host of the 2010 Winter Games.³ Vancouver was forced to provide financing for the project after the developer fell behind on payments and the lender backed out. Questions have arisen about whether Chicago could face a similar situation.

Chicago 2016's plan calls for the project to be privately financed by a team of developers. As originally proposed in the bid budget, the Village plan would have cost \$976.6 million, or

³"Warning from Vancouver," Chicago Tribune Editorial, January 15, 2009.

approximately 20% of the total \$4.8 billion cost of hosting the Games. However, the original projections were based on building more than 90% condominiums. Chicago 2016 has recently projected that the actual figure could be higher, reflecting the inclusion in the plan of affordable housing, market-rate rental units and student dormitories. The cost of the reconfigured Village could reach \$1.2 billion, according to a recent estimate by Chicago 2016 consultants. The actual total cost will not be determined until the bidding process for the project is complete and the developers are selected.

If chosen to host the Games, Chicago intends to build the Village on the site of the shuttered Michael Reese Hospital on a prime piece of real estate near Lake Michigan. The City has already acquired the site for about \$90 million and is in the process of demolition, the cost of which is expected to be covered by a donation from the property's seller. The seller, an affiliate of Medline Industries, also provided a loan to the City to finance the sale. The loan would be transferred to the private development team; principal and interest payments are not due until June 30, 2014.

The Village plan calls for a two-phase development project with low-rise buildings constructed on the south section of the property for athlete housing during the Games. The second phase is expected to consist of high-rise buildings constructed after the Games on the north end of the property where temporary facilities would sit during the Games. According to City records, the site was rezoned after the City agreed to buy the property to allow for up to 7,500 dwelling units and 1,000 hotel rooms; the hotel rooms could be converted to dwelling units under the ordinance.⁴ The original Village plan only includes the cost of building around 2,500 units and allows the developers to determine how many to build on the northern portion of the site after the Games.

It is estimated that more than 16,000 participants need to be housed in the Village during the Games. The OCOG would rent the entire site from the developers for the year of the Games as well as construct the temporary facilities needed for the athletes. The OCOG budget includes \$150 million for these costs. Athlete quarters for the games are typically sparse, do not include kitchens and only require basic amenities. As planned, temporary walls and simple inexpensive finishes would be removed and retrofitted after the completion of the Games before Village units are sold or rented.

Chicago 2016 based its construction cost and sales price estimates on projections from experienced developers and local market experts. The construction cost estimates for the condominiums are slightly higher than other projects in the city. The Village plan estimates a \$236 cost per square foot and the market ranges between \$175 per square foot for low-end units up to \$221 per square foot for a high-end project. The estimated sales price for the Village units after the Games is \$425 per square foot, which appears slightly higher than the \$401 per square foot average new construction projects in the South Loop but is less than projects considered to have excellent lake and park views, which average \$567 per square foot. Chicago 2016 expects the Village properties to command premium prices given their proximity to the Lake and the new bridge connecting the site to the lakefront. These sales projections were estimated on data from 2007 and 2008 and do not take into consideration the current depressed state of the real estate

⁴ The Journal of the Proceedings of the City Council of the City of Chicago, Jan. 13, 2009, pp. 54395-54417.

market. The estimated sales price was based on a project with mainly condominiums and does not include apartments, affordable housing and student housing.

Infrastructure improvements will be paid for by a new Tax Increment Financing (TIF) District. In a TIF District, incremental property tax revenues above the base value of the property within its borders are diverted from regular uses and used to pay for redevelopment costs. As proposed, the TIF would be created in 2009 and exist through 2033 and is not predicted to begin generating any significant revenue until after the Games in 2017. The property is being removed from the borders of the existing Bronzeville TIF and placed in a new TIF. The borders of the TIF District will only include the Olympic Village; the base value of the property is currently projected to be set at \$22.7 million but is also subject to change. The TIF is expected to cover all costs for municipal improvements required for the Village, such as sewer expansion and curb and sidewalk construction. It is also expected to pay for a 60-foot-wide pedestrian bridge across Lake Shore Drive that would link the site to the Lake Michigan shore and would cost \$12.9 million to build. The total expense of the public improvements at the site has recently been estimated to total \$111.2 million. As proposed, the TIF is projected to generate at least \$116 million but is subject to change if the mix of real estate products or number of units at the site changes the future estimated value of the property in the TIF District.

City ordinances require that 20% of units in TIF-subsidized residential developments must be affordable and that this provision applies specifically to the property intended for the Olympic Village.⁵ On April 22, 2009, the City Council approved an ordinance expressing support for a Memorandum of Understanding between Chicago 2016 and its Outreach Advisory Council. The Memorandum sets a higher goal of 30% for affordable housing in the Village.⁶ The Chicago Housing Authority has expressed interest in purchasing 15% of the Village units to be used as public housing.

Chicago 2016 has also projected that developers could obtain low-income housing tax credits to help finance the project. Developers who are granted these tax credits typically sell them to investors and use the proceeds to help finance affordable housing projects. Investors use the credits to reduce their federal tax bills. Most of the housing tax credits allocated by the Internal Revenue Service go to state housing agencies, including the Illinois Housing Development Authority. Chicago and New York City are the only cities in the U.S. that also get allocations of tax credits to distribute to developers. In Chicago, the City's Department of Community Development distributes the tax credits. These tax credits are not guaranteed to the Village developers.

The Bid Committee has said that public financial assistance is warranted because the redevelopment project will proceed even if Chicago is not chosen to host the Games. Twenty developers expressed formal interest in participating in the Village construction under the original \$976.6-million plan for mostly condominiums. All but one of these developers also agreed they could obtain financing for the project.

⁵ City of Chicago Municipal Code 2-44-090, Affordable Requirements Ordinance; Journal of the Proceedings of the City Council of the City of Chicago, December 17, 2008, pp. 50835-50980.

⁶ Journal of the Proceedings of the City Council of the City of Chicago, April 22, 2009, pp. 57250-57264.

Using a team of developers, rather than a single company, is intended to decrease the City's risk associated with completing the project on time as well as the post-Games conversion and sales of the units. The developers will be required to purchase typical construction related insurance such as surety and performance bonds. In an attempt to further limit the City's risk, Chicago 2016 has proposed buying insurance to cover the financing of the project once the development team has been chosen. The capital replacement policy is estimated to cost \$17.5 million to insure each \$250 million worth of loans taken out to build the Village. This type of insurance is a new product developed specifically for Chicago 2016's Olympic Village plan. The policy cannot be purchased until developers are secured. After that, Chicago 2016 said, it would be up to the OCOG to decide whether to buy the insurance coverage or require the developer to buy it depending on each developer's upfront equity stake in the project and credit worthiness.

Chicago 2016 contends that if private developers cannot be found or if financing is not available that it could substitute a less expensive Village plan. In that case, the City and the OCOG might have to pay for the loan and related debt service cost on the Michael Reese site. The Host City Contract does not require the city to provide the specific development. However, the IOC would need to approve any major changes to the Village plan as proposed.

If financing dries up for a developer during construction, as occurred in Vancouver, Chicago 2016 believes that the City would be in part protected by its strategy of using numerous developers. Although it is a sound strategy, it does not fully protect against severely distressed markets. If developers were required to buy the capital replacement insurance this would mitigate much of the risk to city taxpayers associated with the Village plan. If developers proceed with the plan and do not have the insurance in place then the taxpayers would still be exposed to risk.

Local Government Cost

The federal government would be expected to reimburse the City of Chicago for most government services required for the Games because the Olympics would be designated as a National Special Security Event. However, the City would have to pay for certain services required by the IOC to be provided without charging the OCOG. In addition, the Chicago Park District plans to help fund the construction of two sports venues.

Chicago 2016 estimates the total cost of incremental government services required for the Olympics at about \$122 million. The federal government would be expected to fund approximately \$81 million of the total, consisting of police, fire and emergency services. The City would pay the remaining \$41 million, which includes certain costs for the above services as well as other services such as garbage removal. If more security were needed due to an increased threat level associated with the Games, all additional costs would be reimbursable by the federal government.

The City estimated its staffing needs based on its previous experience with recent events, such as the World Series in 2005 and the annual Taste of Chicago. According to the City, its workforce is large enough to staff the Olympics with existing personnel by paying overtime wages.

The City plans to cover the \$41 million in Olympic service costs through its 9% amusement tax on ticket sales and a 2.25% sales tax on an estimated \$100 million in Games-related merchandise and concession sales. The amusement tax is expected to bring in \$58.8 million and the sales tax \$2.3 million. The estimated total of about \$61 million would be \$20 million in excess of projected costs.

The Chicago Municipal Code states that amateur sporting events held by non-profit organizations are exempt from the amusement tax.⁷ Nevertheless, representatives from the City's Law Department said they have reached an agreement with Chicago 2016 that the tax would apply to tickets sold for the Olympics. If the applicability of the tax needed clarification, City officials said the City Council would amend the Municipal Code.

The Chicago Park District plans to help fund the construction of two venues that would continue to be used as sports facilities after the Games. The Park District would contribute \$20 million to build a slalom canoe and kayak course on Northerly Island. The rest of the estimated cost of the \$33.4 million facility would be paid for by the OCOG. After the Games, the Park District would turn the venue into a fee-based kayaking and paddling course open to the public.

The Park District would also contribute \$15 million to construct a velodrome in Douglas Park on the City's West Side to house cycling events. The remainder of the estimated cost of the \$30.7 million facility would be paid through the sale of naming rights. The venue would be used as a velodrome and a multi-sport community facility after the Olympics.

To date, the Park District's Board of Commissioners has not officially approved these plans or established a financing plan for the facilities. The Board approved an earlier plan to provide \$15 million in funding for an Aquatics Center in Douglas Park, contingent on \$65 million from Chicago 2016, but current plans call for that facility to be located in Washington Park and to be financed entirely through the sale of naming rights. Chicago 2016 estimates that improvements to current Park District facilities and the new facilities remaining after the Games would be worth \$250 million.

Financial Safety Net

The City of Chicago will be responsible for all financial aspects of the Games through the Host City Contract. This broad financial guarantee to the IOC covers a variety of potential risks including insufficient revenues for the construction of venues and operation of the Games, any additional funding necessary for the construction of the Olympic Village, legal liability associated with the Games, and any financial obligations caused by an unexpected cancellation of the Games. Several levels of financial backing exist that would be used to protect taxpayers from these risks.

Olympic Budget Contingency Fund

The proposed OCOG Budget estimates surplus revenues totaling \$451 million. These funds are the first line of financial protection against the need for public funding to ensure the delivery of

⁷ City of Chicago Muni Code 4-156-020(B) (4) – City of Chicago Amusement Tax Exemption

the Games. Any of the revenues left over after the Games should not be considered profit for the host city. The Host City Contract dictates that any remaining revenue from the Olympics would be divided among the IOC, the USOC and the OCOG. Under the Host City Contract, the OCOG's share of any leftover revenue is to be used to benefit sport in the U.S. in consultation with the USOC. Chicago 2016 officials have said they expect to spend all available revenues generated by the Games on event-related costs.

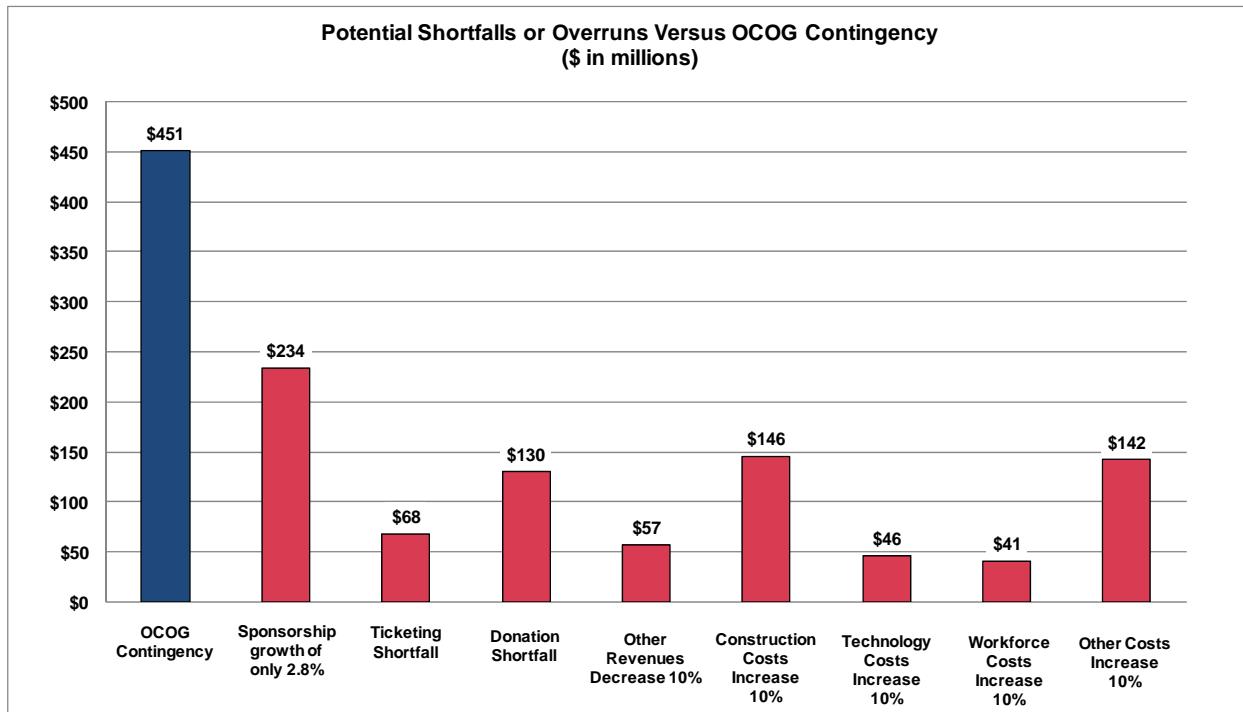
A large part of the contingency as described in the budget comes from a 10% construction cost cushion to account for potential overruns, which totals approximately \$81.5 million. Other contingencies throughout the expense budget are included within individual line items as well. The transportation plan, for example, includes a 10% contingency on fleets for the athletes, media, IOC guests and spectators totaling \$10 million. Overall, expenses in the OCOG budget are conservatively estimated and have adequate protection against overruns built in above and beyond the \$451 million contingency line item.

The contingency also could increase if certain cost savings and revenues not included in the budget are realized. Most expense items contain options for "value engineering" that could reduce cost and quantity discounts on materials that are not included in the venue construction estimates. Chicago 2016 estimated that luxury suite sales at the United Center and Soldier Field during Olympic events could increase revenue by \$50 million, which is not included in the current budget.

Cash flow could also affect the amount of contingency funds available. The bid budget does not include interest income that may be earned from funds received in advance of expenses such as the IOC contribution, advance ticket sales and early sponsorship revenue. Cash flow projections suggest in the early years leading up to the Games the OCOG could earn up to \$35 million of interest. Conversely, expenses could increase if revenues are delayed and it becomes necessary to borrow money; no financing costs are included in the budget.

Chicago 2016 management performed an internal analysis that considered the most likely changes in budget. Officials assessed the potential dollar-value impact of a variety of scenarios and assigned a probability to the likelihood of each event. Under a worst-case scenario, the analysis by Chicago 2016 produced a contingency of \$65 million as opposed to the \$451 million currently projected.

Our review of the budget for potential increases in costs and decreases in revenue for each line item show that the contingency in the OCOG budget is sufficient to cover reasonable downsides for individual revenue and cost line items. The following chart shows some of the potential cost increases or revenue shortfalls compared to the total OCOG contingency:



If multiple items in the scenario analysis occur simultaneously, the contingency may not be sufficient to cover all conceivable risks in the budget. The largest possible decrease to the contingency fund considered in our risk analysis was the potential for lower than projected revenue from the sale of local sponsorships. Currently it is projected to grow at a rate of 3.8 % annually from the last Summer Games. If the growth rate dropped 1%, revenue would drop by \$234 million. If Chicago sponsorship sales only grow at the lowest previous annual rate between Summer Games of 1.8%, it could reduce operating income by \$440 million. Underperforming sponsorship sales coupled with a shortfall in donations or ticketing and rising costs could create a budget deficit.

Although it is apparent that the contingency is more likely to shrink from original estimates than to grow, our analysis of the OCOG budget shows a reasonable level of protection from cost overruns and revenue declines.

Government Guarantees

Chicago's City Council previously approved a guarantee of up to \$500 million to cover any operating deficit or legal liability to the IOC. The State of Illinois approved a similar \$250 million guarantee for the Games that would be used after the City's first \$250 million is spent.

Insurance

Because the City would be required to provide a full financial guarantee and complete indemnity for the IOC for any legal liability associated with the Games, Chicago 2016 has proposed purchasing several additional insurance policies that could provide financial protection before any taxpayer funding would be needed. Insurance packages do not protect against revenue

shortfalls such as lower than projected ticket sales or donation shortfalls but could be put in place to protect against natural disasters, event cancellation and loss of development financing for the Olympic Village.

Chicago 2016 cannot purchase insurance policies unless the City is chosen as the host city for the Games. Internationally recognized leaders in the insurance industry have formally committed to having the capacity to provide the insurance for the Games with an estimated cost of \$68.3 million, an increase from the originally estimated \$44 million included in the proposed operating budget. Chicago 2016 intends to raise the additional funds needed to pay for the new insurance plan through donations rather than spending the projected contingency funds. The new coverage proposed was estimated to cost up to \$100 million if all the policies are purchased immediately after the IOC October 2 decision. However, since most of the risks are not incurred until construction begins and later during the actual events start, Chicago 2016 proposes phasing in insurance coverage until the year of the Games. Some coverage was also removed from the OCOG costs and is expected to be paid for by developers.

The proposed insurance package includes \$500 million of insurance for public liability that would be used before OCOG contingency funds or funds from the government guarantees. In 2016, the public liability coverage increases to include another \$500 million of risk coverage. A separate policy to cover against event cancellation also was proposed that would be used before City and State guarantees. The IOC's event cancellation insurance totaling \$375 million will be extended to cover the 2016 Games after the completion of the 2010 Vancouver Winter Games. The Chicago 2016 insurance plan also budgets for an additional \$100 million in event cancellation coverage. The proposed additional coverage for the year of the Games would add another \$500 million to cover event cancellation. The policy that covers the City's indemnification of the IOC is also worth \$500 million in the years leading up to the Games. However, the additional risk coverage in the year of the Games, of an additional \$500 million, would only be available for IOC indemnity after the first \$250 million of the City guarantee and all the State funds were used to cover the policy's deductible (for a detailed description and graph of the entire proposed insurance plan, see page 81 of the L.E.K. report). The total insurance plan as proposed would reasonably protect taxpayers from most risks associated with the venue construction and the operations of the Games, including public liability, event cancellations, natural disasters and indemnification of the IOC.

Chicago 2016 recently added trade credit insurance that would protect against the loss of sponsorship revenue due to the bankruptcy of a company contracted to buy marketing rights. This would not protect against any inability to sell sponsorships. The coverage would be for \$50 million in the early years leading up to the Games and increase to \$100 million in 2013 until 2016. The annual cost for this insurance is \$500,000 in the early years and \$1 million after the coverage expands. Trade credit is a common insurance product but this is the first time it is being purchased in support of sponsorship revenue for the Games.

Capital replacement insurance is a new type of coverage developed specifically to protect taxpayers from the potential loss of development financing for the Olympic Village. This coverage was designed after the City of Vancouver was forced to pay for the development of its Village for the 2010 Winter Games when the developer ran into financial difficulties. If

purchased, the policy is estimated to cost \$17.5 million to insure each \$250 million of development loans. The policy cannot be purchased until developers are secured. If purchased, the insurer would replace any lost development financing during the Village construction and take an equity stake in the final development. No funding was budgeted for these policies as part of the \$68.3 million insurance package. Chicago 2016 did not include this in the overall total because it intends to have the developers pay for the coverage if it is deemed necessary. Chicago 2016 said it would be up to the OCOG to decide whether to buy the insurance coverage depending on each developer's equity provided at the onset of the project and the developer's credit worthiness.

Chicago 2016's insurance strategy is still being developed. The Bid Committee has no contractual obligation to buy the proposed insurance, and has said it would decide which policies to purchase only after October 2. The policies would have to be purchased as proposed for the safety net to be effective.

METHODOLOGY

The financial projections developed by Chicago 2016 to host the Olympic Games in Chicago have been under development since 2006 and are based on large volumes of data as well as advice from a number of experts. To complete this review, L.E.K. consultants and Civic Federation staff collected and interpreted data used to construct each budget item, interviewed individual experts and developed an understanding of the major drivers behind the budget estimates. The Civic Federation and L.E.K. also met with City officials and experts from Chicago 2016 to review the estimates of direct costs for City services. In order to understand the insurance package, Chicago 2016 leadership and representatives from AON Risk Services were interviewed regarding these insurance policies and their applicability to the Games.

Rick Ludwig, the chief financial officer of Chicago 2016, was the lead contact for the Civic Federation and L.E.K. during the review and arranged for meetings with more than 30 contributors to the bid budget projections, including paid consultants, pro bono experts, internal executives and staff. Chicago 2016 cooperated fully with this review.