
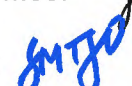


Date: January 13, 2017

To: Honorable Members of the Ad Hoc Committee on the 2024 Summer Olympics

From: Miguel A. Santana, City Administrative Officer   
Sharon M. Tso, Chief Legislative Analyst 

Subject: REPORT ON GUARANTEE TO SIGN HOST CITY CONTRACT FOR THE 2024 SUMMER OLYMPIC AND PARALYMPIC GAMES

## SUMMARY

As the City approaches the International Olympic Committee's (IOC) Stage 3 deadline on February 3, 2017, our Offices, along with the Office of the City Attorney, have conducted an in-depth review of the Host City Contract (C.F. 15-0989-S2) to identify key issues and develop mitigation measures accordingly. As we mark this important milestone in the Candidature Process, this report also summarizes measures undertaken to date to address important risk management considerations associated with hosting the 2024 Summer Olympic and Paralympic Games (Games). Based on these collaborative efforts with the Offices of the Mayor, City Attorney, and the Los Angeles 2024 Exploratory Committee (LA24), this report recommends Council authorize a number of key guarantees that would allow the City to host the Games in the event the City is selected by the IOC on September 13, 2017.

## RECOMMENDATIONS

That the Council, relative to the 2024 Summer Olympic and Paralympic Games:

1. **AUTHORIZE** the Mayor and Council President to provide a written guarantee corresponding to G 2.1 (Attachment A), which confirms that the City is prepared to sign the Host City Contract without reserve or amendment, contingent upon Council's approval of LA24's Stage 3 venue and Ceremonies plans
2. **AUTHORIZE** the Mayor and Council President to provide a written guarantee corresponding to G 3.5 (Attachment A), which provides for a financial guarantee covering any potential economic shortfall of the Organizing Committee for the Olympic Games (OCOG), contingent upon Council's approval of LA24's Stage 3 venue and Ceremonies plans

## BACKGROUND

Upon Council's decision to adopt the Joinder Agreement between the City of Los Angeles and the United States Olympic Committee (USOC) in September 2015, the City was formally

advanced for consideration as a Candidate City to host the 2024 Summer Olympic and Paralympic Games (Games). As such, the Los Angeles 2024 Exploratory Committee (LA24), a private non-profit corporation separate and apart from the City of Los Angeles, developed its bid materials for the International Olympic Committee's (IOC) three stage Candidature Process in collaboration with the City. In parallel, our Offices have remained actively involved in the identification of potential financial risks to the City as a result of its candidacy and have worked closely with the offices of the City Attorney, Mayor, and LA24 to develop mitigation strategies where possible. Highlights of these efforts to date are discussed below.

#### *Development of a Memorandum of Understanding to define City's role in Candidature Process*

In its special meeting on August 28, 2015, the Ad Hoc Committee on the 2024 Summer Olympics directed the City Attorney, with support from the CAO and CLA, to undertake the development of an agreement setting forth the general terms and parameters of the City's role in relation to the Candidature Process. Per this direction, our Offices worked with LA24 to develop a Memorandum of Understanding (MOU) setting forth the general terms and parameters of the City's role in relation to the Candidature Process. The agreement was informed by Council's guiding principles which included efforts to protect the City's existing and future General Fund base, maintain control over decision making processes on all issues affecting the City, subject any public funding commitments to approval by Council and the Mayor, and make the process as transparent as possible. The agreement also provided for the City with an option to retain an independent expert to determine if LA24's Games budget represented a complete and reasonable depiction of potential revenues and expenditures associated with an event of this magnitude.

#### *Collaborative efforts to reduce risk profile of the proposed LA24 Games concept*

LA24's original domestic bid package proposed an Olympic Village concept situated on a site near the Los Angeles River known as the Los Angeles Transportation Center or the "Piggyback Yard." Noting many of the issues raised in a joint CAO/CLA report (C.F.15-0989), however, LA24 initiated a process to identify alternative sites in collaboration with its technical advisor and the City. This process resulted in the identification and selection of the modern residences and world-class facilities of UCLA as the site of the proposed Olympic Village. The selection underscored a shared commitment to deliver a fiscally responsible Games while ensuring that athletes and their Olympic experiences remained the focus of the City's candidacy.

LA24's use of planned and existing facilities continued throughout its Games plan and effectively served to substantially mitigate construction, financing, and delivery risks typically associated with new large capital projects. It also closely aligns with the IOC's Agenda 2020 recommendation which stresses the maximum use of existing facilities where possible.

Another important component of LA24's strategy to reduce the risk-profile of its proposed Games concept is a comprehensive insurance program. This would include, but may not be limited to, the procurement of insurance products designed to ensure the timely delivery of quality facilities, protect against cost overruns, and guarantee revenues. Examples of policies

to be procured include protection against natural disasters, terrorism, event cancellation, and coverage for reduced ticket sales and other revenue sources should the events become less appealing than anticipated. These policies would also address public liability and indemnity insurance to protect against the financial risk associated with death, bodily injury or damage to property suffered by any third party, including members of the general public, as well as to protect the OCOG and City against the cost of defending any third-party claim and any compensation or damages that are awarded.

#### *Independent review of LA24's proposed Games budget*

On May 19, 2016 the Office of the CAO released a Request for Proposals from qualified firms and institutions to provide independent budget analysis services to assist with the review of LA24's proposed 2024 Games budget. After receiving a number of qualified proposals, a selection panel comprised of representatives from both the CLA and CAO recommended KPMG to conduct the review. The independent review served to analyze projections along with all underlying assumptions to determine if LA24's proposed budget represented a complete and reasonably accurate depiction of potential revenues and expenditures associated with hosting the Games.

In early December 2016, KPMG submitted its report which found the \$5.3 billion budget prepared by LA24 to be substantially reasonable, complete, and adhered to a conservative approach in its projections of forecasted revenues and expenditures. KPMG also noted that the level of rigor employed by LA24 in the development of the budget was particularly detailed at this stage of the bid process. The report further suggested that the strategy of leveraging existing infrastructure significantly reduced the risk profile of the proposed Games concept.

#### *Development of a MOU to address risk management considerations and guide a post-selection scenario*

The MOU submitted for Council review and approval in the January 11, 2017, CAO/CLA report addresses a number of key risk management considerations, including City representation on the OCOG Board of Directors and any related Executive Committee, Council oversight of the OCOG's financial performance, a substantial contingency account, and other important reporting and transparency measures. The agreement requires the OCOG to secure a range of insurance policies and include the City as an additional insured. The proposed MOU also provides Council with consent rights over any amendments to the LA24 venue plan, submitted as part of Stage 3, which would result in the relocation of events currently hosted in the City to venues outside of the City.

### **CANDIDATURE PROCESS: STAGE 3 OVERVIEW**

During Stage 3, entitled "Games Delivery, Experience and Venue Legacy," Candidate Cities develop operational plans around delivering the proposed Games concept. They also develop legacy plans and design Games experiences for all stakeholders with a special focus on the athlete experience. Detailed financial projections are developed to reflect the anticipated delivery costs and projected revenues of the proposed Games concept. As with each previous

stage, a number of guarantees are required to be obtained from relevant authorities and organizations, including the City of Los Angeles. The completed Candidature File – Part 3 should be submitted on or before February 3, 2017. The IOC Evaluation Commission's working group will then analyze each bid in addition to visiting each Candidate City. They will then publish an Evaluation Commission Report, scheduled for release in July 2017. After a 2024 Candidate City briefing, the IOC Executive Board will designate cities to be submitted to the IOC Session for an election scheduled in Lima, Peru, on September 13, 2017.

## **GUARANTEES**

According to IOC documents, the successful Candidate City OCOG will receive grants and benefits with an estimated value of \$1.7 billion from the IOC to support the planning, organizing, financing, and staging of the Games. In exchange, the IOC seeks a number of guarantees from the Host City and or other parties to protect itself from financial exposure resulting from OCOG commitments above and beyond technical Games requirements.

While each stage requires a number of guarantees from relevant authorities and organizations, the third and final deliverable to the IOC, due on February 3, 2017, requires LA24 to submit eight guarantee letters. The guarantees are presented in full in Attachment A, though a summary of each can be found below:

- **G 2.1:** Guarantee from LA24, the City, and the USOC confirming that they are collectively prepared to sign the Host City Contract without reserve or amendment
- **G 3.1:** Guarantee from the appropriate authority confirming that construction authorizations have been issued for all planned new hotels specified in the submittal
- **G 3.2:** Guarantee from the relevant private entities confirming the financing and delivery of any hotels or other accommodation facilities included in the submittal
- **G 3.3:** Letters from all hotel or other accommodation owners listed in the submittal guaranteeing room availability, room rates, timelines for any planned upgrades, price control mechanisms regarding other services, fixed rates for function space, and provisions to transfer the terms of the guarantee to any future owners in the event of a transfer of ownership
- **G 3.4:** Transportation related guarantee from the relevant authority confirming that a priority Games Lanes system can and will be implemented
- **G 3.5:** Guarantee from the City covering any potential financial shortfall of the OCOG, including potential refunds to the IOC of any advance payments to the OCOG by the IOC in the event of a contingency such as a full or partial cancellation of the Games
- **G 3.6:** Guarantee from all funding sources obtained for the financing of the Paralympic Games



- **G 3.7:** If material changes have been made to plans or guarantees submitted in Stages 1 or 2, the impacted guarantees must be resubmitted with the relevant updates

The Office of the City Attorney has determined that at least four of these guarantees, G 2.1, G 3.1, G 3.4, and G 3.5, fall within the purview of the City. Of these four, guarantees G 2.1 and G 3.5, are directly related to the City and will require formal Council approval prior to their submission to the IOC.

## **HOST CITY CONTRACT: OVERVIEW**

Given the size, scale, and complexity of the Games, the IOC has developed the Host City Contract (HCC) to help the various parties understand their roles and responsibilities with respect to delivering an event of this magnitude. The HCC has been built on the operational experience of previous Olympiads to clarify expectations and timing requirements in order to help the Host City successfully deliver its Games concept. The agreement will guide Games planning efforts and serve as the legal foundation upon which all City-related obligations are established.

The HCC itself is comprised of two primary documents, the HCC Principles and the HCC Operational Requirements. Games delivery plans submitted in each stage of the Candidature Process, along with a number of guarantees submitted by a wide range of parties, including the City, are also considered to be components of this agreement.

The Office of the City Attorney has reviewed the HCC and highlighted a number of relevant provisions for continued City oversight in addition to mitigation measures identified to date. Several highlights of this detailed analysis, including key issues and related mitigation measures are discussed below.

### *OCOG Formation*

The HCC requires that within five months of the execution of the HCC, the OCOG shall be formed. Furthermore, all agreements and changes to the OCOG are subject to IOC approval. The HCC also requires that the OCOG's governing body include at least one member designated by the City to represent the Host City.

Consistent with KPMG guidance on continued City oversight, the MOU submitted for Council approval on January 11, 2017, serves to increase the City's representation on the OCOG governing body and its related committees.

### *Joint and Several Liability*

Under the terms of the HCC, the City, OCOG and USOC will be jointly and severally liable for all commitments made as part of the agreement.

Based on this provision, the City envisions continued oversight to ensure compliance with all HCC related terms. Moreover, insurance policies to respond to instances of non-compliance

with provisions of the HCC have been contemplated as part of LA24's insurance and risk management strategy.

### *Financial Responsibilities*

The HCC stipulates that the City, OCOG and USOC shall be responsible for all expenses relating to obligations imposed by the HCC. These include but may not be limited to costs associated with operational requirements, Olympic products and experiences, stakeholder services, venues, and Games services.

In accordance with the City's interest in protecting its financial standing and LA24's commitment to staging a fiscally responsible Games, LA24 engaged a specialist firm to advise on the development of a Games-specific insurance program. This program will cover the risks of many Games-related expenses. Additional policies have been contemplated to address risks around event cancellation, trade credit if a sponsor fails to pay, and unforeseen events impacting ticket sales.

### *Security*

According to the Host City Contract, the City, OCOG, and USOC are responsible for ensuring that the relevant authorities provide all aspects of Games-related security. Moreover, the agreement requires the Host Country to take all necessary measures to guarantee the safety of the Games.

It is anticipated that the Federal Government will designate the Games as a National Special Security Event (NSSE), which will provide the resources necessary to fulfill this requirement. Furthermore, the comprehensive insurance program currently contemplated by LA24 would ensure the OCOG is equipped with sufficient insurance policies to cover a range of security risks including but not limited to terrorism, natural disasters, and cyber-attacks.

### *Protection of IOC Rights*

The HCC stipulates that the OCOG must ensure that adequate legal protections and enforcement mechanisms are in place to protect IOC intellectual property rights. This includes protections against ambush marketing, unauthorized street trading, ticket resale, the manufacture and sale of counterfeit merchandise, and unauthorized broadcasts, coverage, and exhibition of the Games. The HCC further requires the OCOG to secure binding options on a number of specified public and private advertising spaces.

It is important to note that the federal government, the State of California, and the City all have existing laws and enforcement capabilities in place to adequately protect against these concerns.

## OTHER ISSUES

*Stage 3 Venue Plan:* Our Offices anticipate the release of LA24's updated venue plan early next week. Upon its release, our Offices expect to review its contents and provide recommendations for Council's consideration in advance of the next meeting of the Ad Hoc Committee on the 2024 Summer Olympics.

*Ceremonies Plan:* Our Offices anticipate the release of LA24's plan for the Opening and Closing Ceremonies early next week. Upon its release, our Offices expect to review its contents and provide recommendations for Council's consideration in advance of the next meeting of the Ad Hoc Committee on the 2024 Summer Olympics.

## NEXT STEPS

We anticipate next steps and upcoming milestones to include:

Milestone	Timing
Release of LA24 venues and Ceremonies plan	<i>Week of January 16, 2017</i>
Council consideration of Host City Contract, LA24's venue and Ceremonies plans, and Stage 3 guarantees	<i>Late January 2017</i>
Stage 3 Candidature File due to the IOC	<i>February 3, 2017</i>
IOC Evaluation Commission analysis including a visit to the City	<i>February – June 2017</i>
LA24 Briefing for IOC / International Federations (IF) in Lausanne, Switzerland	<i>July 2017</i>
IOC Host City Selection in Lima, Peru	<i>September 13, 2017</i>

## FISCAL IMPACT STATEMENT

There is no General Fund impact as a result of recommended actions however the City, by agreeing to sign the HCC, will be providing a financial guarantee to cover any net financial deficit of the OCOG. While financial risk is inherent in such endeavors, our Offices have worked collaboratively with the Offices of the Mayor, City Attorney, and LA24 to identify potential risks and develop mitigation strategies where possible. Based on LA24's proposed Games plan and independently verified budget, the City does not anticipate any OCOG shortfall. Going forward, our Offices will continue to actively monitor candidature related activities and report to Council upon its request or as needed.

### Attachments

Attachment A: Related Guarantees

MAS:BC:AH

**Attachment A**  
**Related Guarantees**



## 2.4 Guarantees

Please find below a list of guarantees to be included as a component of Stage 2. A Guarantee is a legally binding commitment. If certain events are held in another country, additional guarantees should be provided by the appropriate authorities of that country(ies).

Number	Subject	Guarantees
G 2.1	Legal – Undertaking	<p>The <b>Candidature Committee, the City and the NOC</b> (hereinafter collectively referred to as the “Parties”) recognise and declare that they are aware of the contract which shall be executed with the International Olympic Committee (“IOC”) if the City is elected for the organisation of the XXXIII Games of the Olympiad (such contract, including all annexes and other documents forming part thereof, being referred to herein as the “Host City Contract” and such Games as the “Games”) and, the City and the NOC confirm that they are prepared to sign the Host City Contract without reserve or amendment.</p> <p>In consequence thereof, the Parties declare that, during the period of the candidature of the City, they will refrain from becoming a party to or approving or consenting to any act, contract, commitment or any other action contrary to or which might affect any of the obligations stipulated in the Host City Contract. Should the Parties have already entered into or approved or consented to a commitment which would be in conflict with, jeopardise, prevent or make impossible the fulfilment of any provision of the Host City Contract, the Parties shall bring to the attention of the IOC Executive Board all such commitments, no later than 7 October 2016.</p> <p>The Parties declare that all such commitments shall be neither enforced nor enforceable vis-à-vis the IOC and that such commitments shall be deemed, as regards the IOC and any party with which the IOC may enter into an agreement with respect to the Games, to be null and void, unless specifically requested and/or approved in writing by the IOC. Furthermore, the Parties shall take all steps necessary to terminate or cause to be terminated all such commitments which would be contrary to the obligations stipulated in the Host City Contract.</p> <p>The Parties undertake to abide by the Olympic Charter and, in particular, the Rules and bye-laws regarding the use of the Olympic Properties and confirm that they have ensured, or shall ensure, that the Olympic symbol and the terms “Olympic” and “Olympiad” and the Olympic motto are protected in the name of the IOC. The NOC confirms that, in accordance with the Olympic Charter, should such protection exist in the name of or for the benefit of the NOC, the NOC shall exercise any such rights in accordance with the instructions received by the IOC Executive Board.</p> <p>The Parties declare that any dispute arising during the period of the candidature of the city, in connection with this Undertaking, shall be definitively settled by the Court of Arbitration for Sport in Lausanne, pursuant to the Code of Sports-related Arbitration. Swiss law shall be applicable to this Undertaking.</p>



### 3.13 Guarantees

Please find below a list of guarantees to be included as a component of Stage 3.

A guarantee is a legally binding commitment.

If certain events are held in another country, additional guarantees should be provided by the authorities of that country/ies.

Number	Subject	Guarantees
G 3.1	Accommodation	Provide a guarantee from the <b>appropriate authority</b> confirming that construction authorisations have been issued for all planned new hotels as specified in <a href="#">Table 95 (Total Guaranteed Room Inventory and Allocation)</a> .
G 3.2	Accommodation	Provide a guarantee from the <b>relevant authority or private entities (e.g. hotel owner)</b> confirming the financing and delivery (including delivery dates) of any new hotels or other accommodation facilities that are included in <a href="#">Table 95 (Total Guaranteed Room Inventory and Allocation)</a> .
G 3.3	Accommodation (model guarantee provided separately)	Provide guarantees from <b>all individual hotels and other accommodation (villages, apartments, etc.) owners</b> listed in the guaranteed accommodation <a href="#">Table 95 (Total Guaranteed Room Inventory and Allocation)</a> guaranteeing, for all stakeholder groups: <ul style="list-style-type: none"> <li>• Room availability (from 14 nights prior to the Opening Ceremony until 2 nights after the Closing Ceremony)</li> <li>• Room rate in USD (from 14 nights prior to the Opening Ceremony until 2 nights after the Closing Ceremony)*</li> <li>• Minimum stay/room block waves, if applicable</li> <li>• Timelines and financing of hotel upgrades, if applicable</li> <li>• Price control mechanism/formula for services other than room rates</li> <li>• Fixed rates for function room space</li> <li>• Obligation to transfer the terms of the guarantees provided to future owner(s) in case of sale – up to and including the Olympic Games.</li> </ul>

### 3.13 Guarantees

Number	Subject	Guarantees
G 3.3 continued	Accommodation (model guarantee provided separately)	<p>*The guarantee must state that if the actual room rate in 2024 is lower than the guaranteed room rate provided, the lower rate shall apply.</p> <p>Please mark the unique accommodation facility number as per <a href="#">Table 95 (Total Guaranteed Room Inventory and Allocation)</a> on each guarantee and provide the guarantees in numerical order.</p> <p>Please note that, following the election as Host City, the OCOG will be required to develop a detailed contract with each hotel/ accommodation owner. Furthermore, a different contract will be required for the Olympic hotel(s), to be selected by the IOC.</p>
G 3.4	Transport	Should your project involve dedicated or priority Games Lanes, please provide a guarantee from the <b>relevant authorities</b> that such a system can and will be implemented.
G 3.5	Finance – OCOG shortfall	Provide a financial guarantee from the <b>competent bodies</b> , or other forms of financial guarantees, covering any potential economic shortfall of the OCOG, including refunds to the IOC of advances in payment or other contributions made by the IOC to the OCOG, which the IOC may have to reimburse to third parties in the event of any contingency such as full or partial cancellation of the Olympic Games.
G 3.6	Finance – Paralympic Games	Provide guarantees from <b>all funding sources obtained, including the government – national, regional, local or others</b> – for the financing of the Paralympic Games.
G 3.7	General	If material changes have been made to plans or guarantees submitted in Stage 1 and 2, resubmit the impacted guarantee with any relevant updates.