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Los Angeles' Bid for the 2024 Olympics and Paralympics



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LAO 

AN LAO REPORT

EXECUTIVE SUMMARY

State Policy to Support Los Angeles' Bid for 2024 Games. Los Angeles, Budapest, and Paris are bidding to host the 2024 Olympic and Paralympic Games. Earlier this year, the Legislature passed and the Governor signed SB 1465 (de León), which essentially makes it the state's policy to support Los Angeles' Olympic bid. Many of the key decisions about hosting the Games will be made over the next few months as the Los Angeles bid is refined in preparation for the International Olympic Committee (IOC) choosing the winning city in September 2017. Among these decisions may be the Governor's negotiation of a financial guarantee contract for the Games under the terms of SB 1465—for up to \$250 million in state monies to support any Games financial deficits, after all other possible sources have contributed.

Bid Aims to Minimize Public Financial Risk. In recent years, several major cities have chosen not to bid for the Olympics, fearing massive sports venue and infrastructure cost overruns that have plagued prior host cities. Recognizing this problem, the IOC recently has put in place mechanisms intended to favor bid cities that propose low-cost, low-risk plans that primarily utilize existing or already-planned facilities. Los Angeles' 2024 bid benefits from this low-cost, low-risk approach, as all of its planned venues already exist or are on track to exist by 2024. The bid also needs no new major public infrastructure to proceed. Short-term economic gains from the Games likely would generate additional state and local tax revenues that would offset some or all public costs. Compared to many past Olympic bids, the current proposal by the LA 2024 organizing group is a relatively low risk one.

Strict Limits on Public Financial Exposure Should Continue. While the Los Angeles bid aims to minimize financial and execution risks, history tells us that there may be no way to completely eliminate these sorts of risks for a “mega-event” like the Olympics. State and city leaders have, to date, adopted a firm approach concerning the Los Angeles bid: aiming to strictly limit public financial exposure. We believe this is a sound approach and advise state leaders to continue this stance. If problems develop in organizing the Los Angeles Games, state leaders can push organizers to develop privately funded alternatives at minimum cost and minimum risk for state and city taxpayers.

Role for Legislative Oversight. If Los Angeles is awarded the 2024 Games, public attention will focus on planning for the event, and the state will have a few hundred million dollars of taxpayer funds on the line. We advise the Legislature to develop an oversight framework for the Games. (This would be in addition to the much more intensive oversight expected to be provided by Los Angeles city leaders.) Legislative leaders may want to appoint one or more oversight committees to oversee the Governor's contract negotiations with Games organizers, as well as learn of key decisions concerning refinement of the bid before September 2017. If Los Angeles is chosen, legislative oversight committees could hear of any later issues that develop in the planning of the Games and prod state departments, if needed, to help Games organizers. This report is intended to provide background information that could be useful for the Legislature in planning its oversight efforts.

AN LAO REPORT

THE OLYMPIC MOVEMENT

Olympic and Paralympic History. The first modern Olympic Games were held in 1896 in Athens, Greece. The first Olympic Winter Games were held in Chamonix, France in 1924. About two dozen countries—in every inhabited continent except Africa—have hosted summer or winter Olympics. The U.S. has hosted eight summer or winter Games—most recently in Atlanta during the summer of 1996 and in Salt Lake City during the winter of 2002. Since the 1988 Games in Seoul, the Paralympic Games—an international sports event involving athletes with a range of disabilities—have been held soon after each Olympics.

The Olympic Movement. The Olympic Movement, as it is called, consists of three main groups:

- ***International Olympic Committee (IOC).*** The IOC, the Olympics’ highest decision-making bond, consists of up to 115 members. The IOC President—currently Thomas Bach of Germany—presides. The IOC chooses host cities for each Olympic Games. The committee is headquartered in Lausanne, Switzerland.
- ***International Sports Federations.*** Federations are responsible for the integrity and administration of one or more sports at the international level. For

example, gymnastics are governed by the International Gymnastics Federation.

- ***National Olympic Committees (NOCs).*** NOCs manage and promote Olympic activities in individual countries. NOCs choose a nation’s athletes for each Games and decide which cities in their countries can bid to host the Games. Team USA is managed by the U.S. Olympic Committee (USOC), with headquarters and a training center in Colorado Springs, as well as two other training centers (Lake Placid, New York and Chula Vista, California). A federal law—the Ted Stevens Olympic and Amateur Sports Act—designates the USOC as the coordinating body for international amateur athletics in the U.S. The law gives the USOC exclusive rights in the U.S. to govern use of certain Olympic symbols and brands (like the Olympics’ five interlocking rings).

These three groups all have a stake in the successful staging of each Olympics. They provide feedback to cities hosting the Games or bidding to host the Games concerning venues and facilities. City leaders set up their own Organizing Committees for the Olympic and Paralympic Games (OCOGs) to manage the massive logistics needed to host the Games, once their city is selected to host them.

CALIFORNIA’S OLYMPIC GAMES

California has hosted two summer Games (Los Angeles 1932 and 1984) and one Winter Games (Squaw Valley 1960). In each case, the Games were successful in terms of providing a good experience for athletes and spectators. The two Los Angeles Games, however, were financial successes, while

the Squaw Valley Games required significant state financial assistance.

1932 Los Angeles Games. In 1923, Los Angeles was awarded the 1932 Games. In 1927, the Legislature passed Senate Constitutional Amendment 24 (Lyon), which placed before voters

a \$1 million state general obligation bond proposal to help fund the Games. (This \$1 million is equal to about \$18 million today.) Voters approved the bond—Proposition 2 on the November 1928 ballot—with 73 percent voting yes. Amid the Depression, organizers used existing facilities, including the Memorial Coliseum, for 12 of 14 events. New facilities were built for swimming (near the Coliseum) and rowing (Long Beach Marine Stadium). Equestrian events were at the Riviera Country Club, and a cycling track was built at the Rose Bowl. Over 1,000 male athletes from about 40 countries were housed at an Olympic Village—with portable houses (sold after the Games)—in Baldwin Hills. About 125 women athletes were housed at a hotel on Wilshire Boulevard. Two days after the Games concluded, organizers announced that enough revenues were generated to pay off the bonds.

1960 Squaw Valley Games. The 1960 Olympic Winter Games, which hosted around 700 athletes from 30 countries, were a success in developing Squaw Valley’s winter sports infrastructure. The Games, however, were heavily subsidized by the state and generated controversy as costs escalated. In 1955, the Legislature appropriated \$1 million from the State Beach and Park Fund to support the Games, and lawmakers anticipated private support to help develop facilities. In January 1956, however, the IOC said it would move the Games to Austria unless an additional \$4 million was provided. The 1956 state budget package appropriated the \$4 million. An added \$3 million was provided by the state in 1957 and \$1 million more was appropriated from the General Fund in a special legislative session convened less than three weeks before the Games. (The total state support of \$9 million is equal to about \$75 million today.)

A 1961 Department of Finance (DOF) audit noted Squaw Valley’s history of cost overruns (including costly permanent housing construction

required by the IOC) and noted the Games were “financially unsuccessful revenue wise due to poor spectator attendance.” The audit found that ticket sales were not well controlled.

1984 Los Angeles Games. The 1984 Games hosted about 5,500 male and 1,600 female athletes from 140 countries, using existing, temporary, and new facilities throughout the region. Athletes were housed at three universities (University of California campuses in Los Angeles and Santa Barbara, as well as the University of Southern California). Attendance—the number of tickets used to attend events in the region—totaled 4.7 million. About two thirds of ticket users were area residents. Over 600,000 visitors came from outside the area and attended, on average, several events each.

The 1984 Games budget exceeded \$400 million (the equivalent of over \$950 million today). While boycotted by the Soviet bloc, the Games were a huge financial success, attracting unprecedented sponsorship and broadcast revenues and generating a significant surplus that continues to support youth athletics in the region. These private funding sources were needed because Los Angeles voters approved a 1978 measure prohibiting city capital expenditures for the Games that would not be paid back. To offset Games-related operating costs, the city approved a 6 percent Olympic ticket tax (generating \$8.7 million) and a 0.5 percent hotel tax surcharge (generating \$9 million), which went into effect in 1978.

State budget analyses, including our own, anticipated tens of millions of dollars of state revenue due to the Games. An April 1984 DOF analysis estimated total state costs related to the 1984 Games at about \$22 million (the equivalent of over \$50 million today). According to that analysis, half of that \$22 million cost was addressed through shifting existing departmental appropriations to Olympic purposes instead. The analysis said the

federal government would provide \$5 million to reimburse California Military Department costs for public safety operations related to the Games. The California Highway Patrol (CHP) incurred

an estimated \$3.6 million in costs for personnel reassignments and overtime (including \$484,000 from the General Fund for dignitary protection).

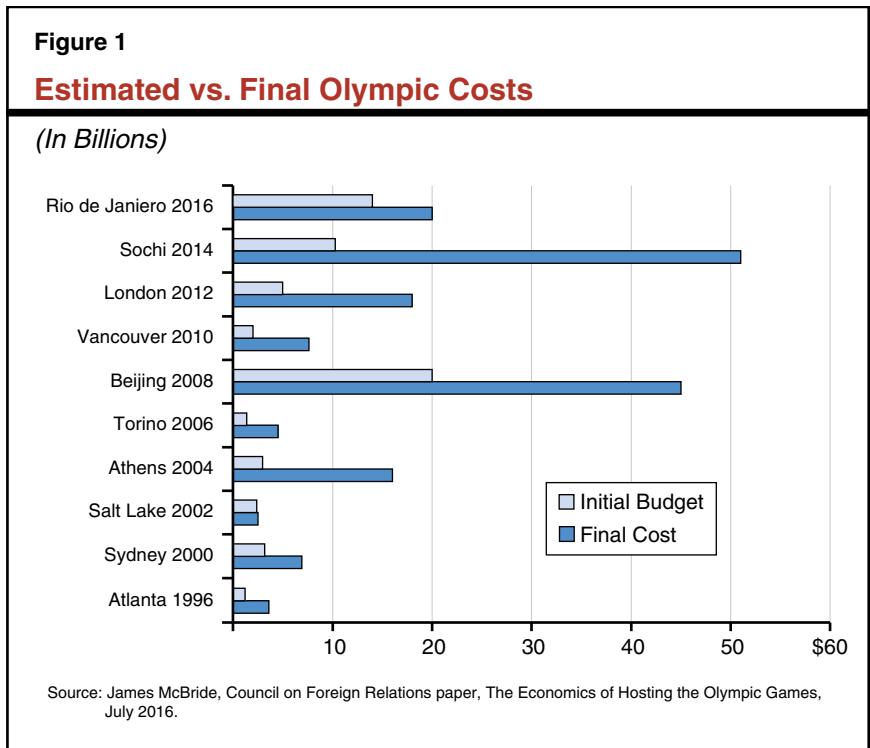
THE OLYMPIC BID PROCESS

Prior Cost Overruns. Cost overruns have been common for cities hosting the Olympics. Exact figures vary because studies focus on different aspects of Olympic costs. Figure 1 displays data compiled in one recent report, which provides data from public sources concerning initial budgets and final costs for Olympics since 1996. It shows that final costs for almost all recent Olympics greatly exceeded initially budgeted expenses. Another recent paper published by University of Oxford researchers found that sports-related cost overruns for 19 Olympics since 1960 averaged 156 percent. These averages are elevated due to the Montreal 1976 Games’ 720 percent cost overrun and the 324 percent cost overrun for the Lake Placid 1980 Winter Games, such that the median cost overrun reported for the 1960-2016 period was 90 percent.

A 2015 study of the economics of the Olympics and soccer’s World Cup described several reasons for cost overruns at such events, including the following:

- The pressure to “low ball the cost estimates with a bare-bones plan” in order to convince the public and leaders to support a city bid effort.

- The long duration of the competitive Olympic Games bid process, which brings growing pressure over time for “ever more elaborate and expensive plans.”
- The long lag time between initial planning and the event itself, which brings many years of intervening inflation. Inflation can affect various categories of local costs. For example, “when a lot of production is concentrated in a few areas, the increasing demand for construction materials, engineers, and manual labor pushes up the prices of all the inputs.”



- The tendency to fall behind construction schedules, which can lead to higher prices to ensure projects are finished prior to the event.

Largely due to this history of financial risk, several major cities have explored and ultimately rejected opportunities to bid for the Games in recent years. There has been a steady decline in the number of applicant and candidate cities to host the Olympics since the 2002 Games.

Olympic Agenda 2020. In December 2014, the IOC approved 40 recommendations—known as Olympic Agenda 2020—as a “strategic roadmap for the future of the Olympic Movement.” The recommendations aim to address various issues that have emerged in recent years, including the concerns noted above about financial risks of hosting the Games. Olympic Agenda 2020 resolves that the IOC will “consider as positive aspects for a bid the maximum use of existing facilities and the use of temporary and demountable venues where no long-term venue legacy need exists or can be justified.” This resolution aims to reduce financial risk for Olympic host cities. The agenda also speaks of a “new philosophy” for the IOC, one “to invite potential candidate cities to present an Olympic project that best matches their sports, economic, social, and environmental long-term planning needs.”

Among other goals of Olympic Agenda 2020 are:

- Fostering gender equality by working with federations to achieve 50 percent female participation and to encourage mixed-gender team events.
- Focusing on protecting and honoring “clean” athletes, including continued anti-doping efforts.

- Strengthening IOC governance, transparency, and ethics practices.

2024 Bid Process. The bid process for the 2024 Games is the first full process under Olympic Agenda 2020. It is summarized in Figure 2. Following an initial “invitation phase,” candidate cities entered Stage 1 of the bid process to consider the vision, concept, and strategy of their bid late in 2015. Stage 1 submissions were due to the IOC in February 2016, and four cities—Budapest, Los Angeles, Paris, and Rome—submitted files then. Stage 2 of the bid process consisted of further clarifying bids’ governance and legal issues, as well as venue funding. While all four cities submitted Stage 2 documentation on October 7, 2016, Rome subsequently announced a suspension of its 2024 bid, leaving only Budapest, Los Angeles, and Paris as active 2024 bid cities. The IOC later will confirm the cities advancing to Stage 3 of the bid process—in which more details are to be provided about how the cities intend to execute their plans and ensure that the Games leave a positive legacy for their regions and countries.

In the coming months, cities advancing in the bid process will finalize their last submissions to the IOC—the Stage 3 submissions that are due on February 3, 2017. By that time, Los Angeles and other bid cities must commit that, if selected to host the Games, they will sign the IOC’s Host City Contract. That contract formalizes the responsibility of the city, along with their NOC and the city’s organizing committee for the Olympic Games (OCOG), to finance and stage the 2024 Games. According to Los Angeles City Council documents, City Council approval will be required to make this commitment.

Following the Stage 3 submissions in February, the IOC Evaluation Commission will visit each candidate city and publish an evaluation report in

Figure 2

Time Line for 2024 Olympic and Paralympic Candidate Cities

STAGE 1: VISION, GAMES, AND STRATEGY

2015

September LA 2024 launches bid

2016

January City MOU with LA 2024 | Olympic Village at UCLA announced

February Budapest, Los Angeles, Paris and Rome submit Stage 1 files to IOC

STAGE 2: GOVERNANCE, LEGAL PLANS, AND VENUE FUNDING

July IOC workshops with each candidate city

August Through September Candidate cities observe Rio de Janeiro Games | LA 2024 revises venue plan

October Stage 2 files to IOC | Rome suspends bid

STAGE 3: GAMES, DELIVERY, EXPERIENCE, AND VENUE LEGACY

2017

Now Through February Candidate cities clarify bid plans

February Stage 3 files due to IOC | LA city government must commit to sign IOC Host City Contract if selected

February Through June IOC Evaluation Commission visits

July IOC Evaluation Committee report published

September Host City for 2024 chosen at IOC meeting in Lima, Peru

PLANNING AND DELIVERING THE 2024 GAMES

2017-2024



July. In September 2017, the IOC will choose the host city for the 2024 Games at its meeting in Lima, Peru. Implementation of the winning city's plan to host the Games in 2024 then will commence. Los

Angeles, if chosen, plans to host the 2024 Olympic Games from July 19 to August 4, 2024, followed by the 2024 Paralympic Games from August 21 to September 1, 2024.

THE LOS ANGELES BID

Los Angeles' Selection by USOC. Boston originally was chosen by the USOC over Los Angeles, San Francisco, and Washington, D.C. to be the U.S. bid city for the 2024 Games. Community concerns about potential cost overruns plagued the Boston bid, and that city withdrew from the process on July 27, 2015. On September 1, 2015, the Los Angeles City Council voted unanimously to support a bid. LA 2024, a local bid committee led by various community leaders and former Olympians, proceeded at that time to develop its current bid for the Games. (LA 2024 is a private organization that essentially will become the city's Organizing Committee for the Olympic Games, or OCOG, if Los Angeles is selected by the IOC to host the 2024 Games.) The USOC chose Los Angeles as the U.S. bid city on September 16, 2015. From its beginnings, LA 2024's bid has opted to reduce city financial risks by enhancing its reliance on existing or already-financed venues.

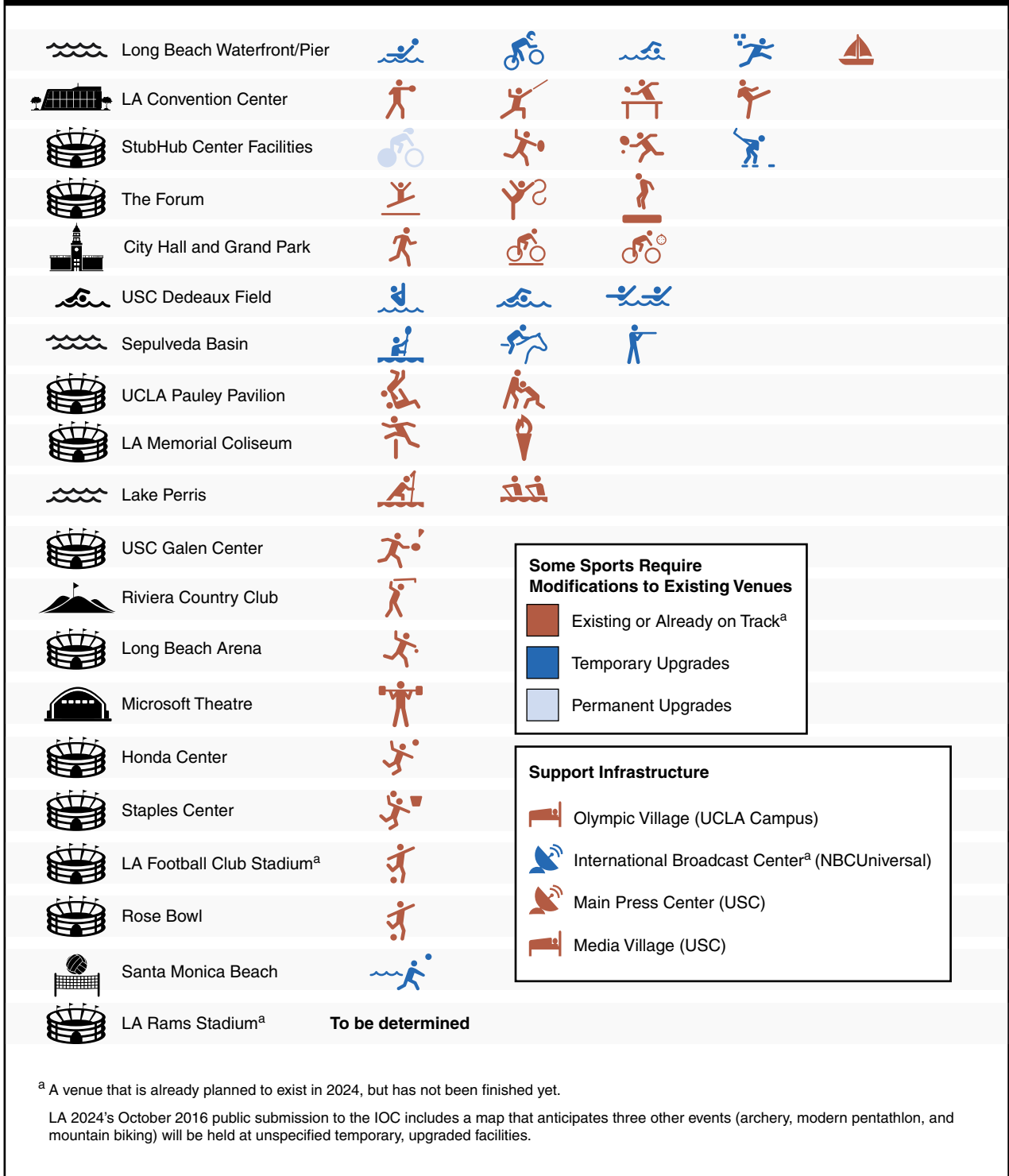
Reduced Risk Concerning Olympic Village. LA 2024's original bid plan proposed an ambitious \$1 billion (or greater) Olympic Village plan. That plan would have developed a downtown site (the Union Pacific's "Piggyback Yard" between the Los Angeles River and the county's medical center) as a new residential neighborhood and a major post-Olympics legacy project for the city. City leaders voiced concerns about the plan's financial risks, and it was dropped as a component of the Olympic bid. On January 25, 2016, bid leaders announced that the residence facilities at the

University of California, Los Angeles (UCLA) would host the Olympic Village and University of Southern California (USC) residential facilities would host the Media Village. The universities would likely be reimbursed for certain costs associated with housing attendees during the Games. This switch in plans for the Olympic Villages reduced significantly the financial risk associated with the bid.

No New Permanent Sports Venues Planned. As illustrated in Figure 3, Los Angeles' bid features no new permanent venues built specifically to host Olympic sports, ceremonies, or villages. Instead, in the current venue plan (which remains subject to change), events will be hosted at facilities that (1) already exist or (2) are already planned to exist by 2024. In some cases, temporary facilities or temporary upgrades to existing facilities will transform venues into ones that are Olympic-ready. An example of an existing facility that will require temporary upgrades is the USC baseball field, Dedeaux Field, which will have temporary pools installed to host swimming and diving events. Similar temporary pool facilities have been used at arenas in the past. USC's aquatics center, adjacent to Dedeaux Field and the site of the 1984 swimming events, will be the place where swimmers and divers practice. Nearby, the Coliseum will house warm-up and operations facilities under a temporary "athletics deck," and this surface will be removed after the Paralympics for use by USC football that fall. The beach

Figure 3

All Planned Olympic Venues Exist or Already on Track to Exist in 2024



volleyball venue in Santa Monica also will be temporary. Only one venue, the existing VELO Sports Center at StubHub, requires permanent upgrades under the current bid plan.

A few planned Olympic facilities, such as the Los Angeles Football Club’s new 22,000-seat Banc of California Stadium (planned host of soccer preliminaries) and the Rams Stadium in Inglewood (not slated for any specific event yet), are already on track to be opened by 2024 but not yet finished. In addition, LA 2024’s submissions to the IOC anticipate that the Games’ International Broadcast Center in Universal City would consist of sound stages and offices to be built as part of improvements to NBCUniversal’s facilities there, including temporary broadcasting facilities for the Games. Venues and all other elements of the bid plan are subject to change between now and when Stage 3 bid documents are submitted to the IOC in February 2017.

This approach—with no new permanent sports venue or infrastructure construction needed specifically for the Games—greatly reduces the risk of financing expensive permanent venues. In adopting this approach, LA 2024 aims to avoid the mistakes of various host cities in recent decades that have experienced major cost overruns for venues or infrastructure, often eventually paid by national or local taxpayers.

Olympic Action to Be Centered in Four “Sports Parks.” As shown in Figure 4, the current bid plan envisions that Olympic events will be centered primarily in four areas described as sports parks. Each sports park is described by LA 2024 as a multi-sport and entertainment experience within a secure perimeter where all attendees will be able to walk from one venue to another. The sports parks include: (1) Downtown (including the Coliseum, the Banc of California Stadium that is under construction, Staples Center, the Convention Center, and the Games’ largest “live

site” for fan entertainment along Figueroa Street); (2) Valley (including the Sepulveda Dam Basin in the San Fernando Valley); (3) South Bay (including StubHub Stadium in Carson); and (4) Long Beach (including the Long Beach Arena and Pier). Other events would be held elsewhere in the region, such as gymnastics events at the Forum in Inglewood, volleyball at the Honda Center in Anaheim, and rowing and canoe-sprint competitions at Lake Perris in Riverside County. In recent IOC submissions, LA 2024 stated that they continue to work with the ownership team of the new Rams Stadium in Inglewood to identify opportunities for Olympic activities there.

Beyond Southern California, the plan is for some preliminary soccer matches to occur in selected cities across the United States. The Olympic torch relay also may cross the country and many parts of California, as it did in 1984.

Transportation During the Games. The IOC requires organizers to focus on how athletes and officials will move from the Olympic Village to events, as well as how spectators and others will get around during the Games. Bid documents state that Los Angeles will not require any additional transport infrastructure to host the Games beyond infrastructure already planned. LA 2024 plans for each sports park to connect to the public transit system. In addition, the already-planned LAX Landside Access Modernization Program (including a new automated people mover system between terminals, rental car facilities, and new connections to the regional Metro rail and bus system) will help the process of moving arriving visitors elsewhere in the city, but these improvements are slated to happen whether the Olympics are awarded to Los Angeles or not. Bid documents, however, have hinted that acceleration of elements of the Metro Purple Line extension to Westwood and some LAX improvements might be helpful in planning for the Games. These

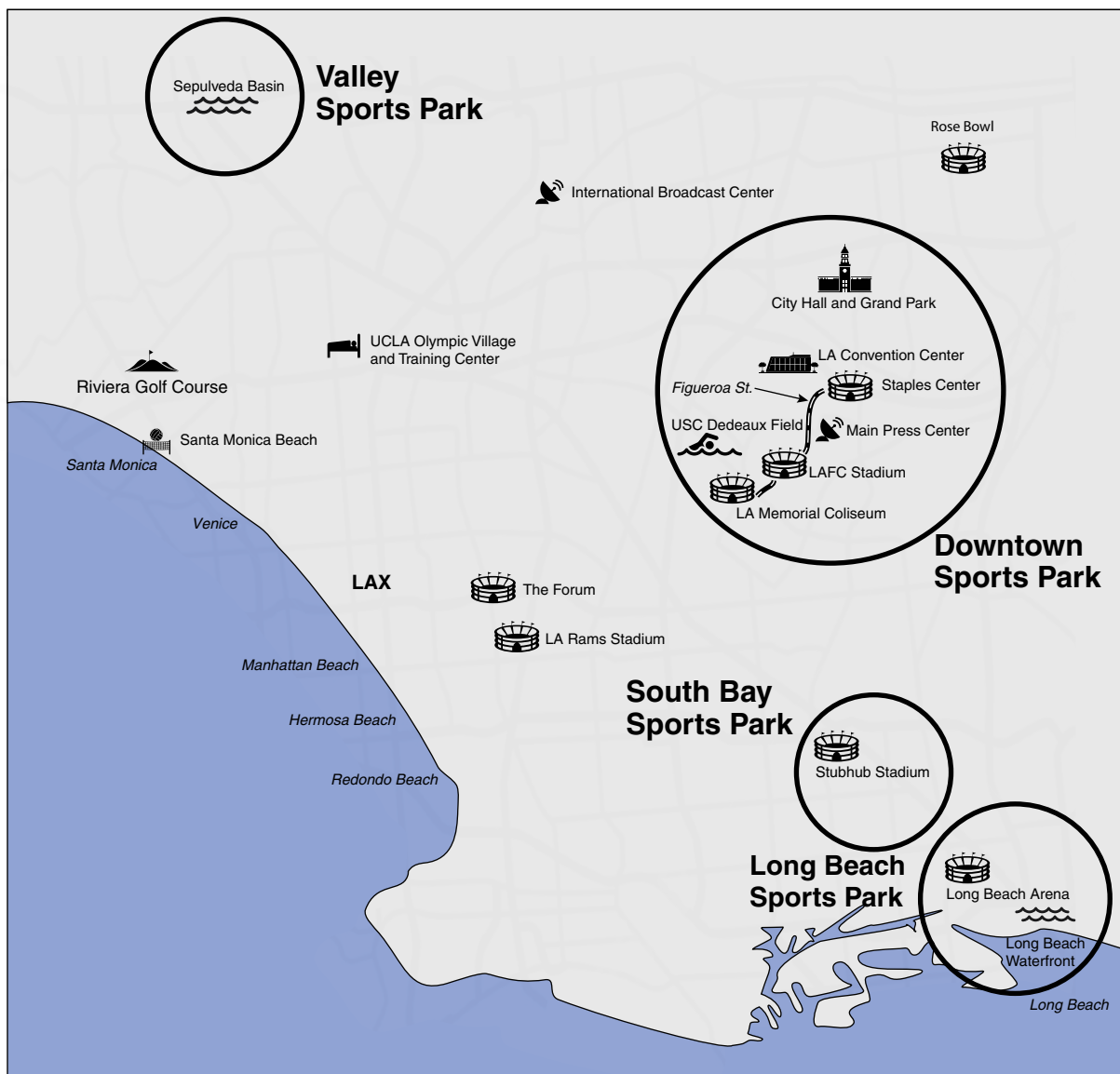
documents, for example, mention the possibility that federal help could help accelerate these two projects.

Bid documents envision use of a controlled Olympic Route Network (ORN) system to move athletes and officials. “Our system,” bid organizers have reported to the IOC, “already consists of 16 major freeways and over 550 kilometers of

High-Occupancy Vehicle (HOV)/High-Occupancy Toll (HOT) Express Lanes.” “These freeways,” the report continued, “will easily be converted to an extensive ORN system that connect venue clusters within 30-minute drive-time,” with more HOV/HOT lanes to be added by 2024 “allowing for more bus rapid transit and an even more extensive ORN.” The bid plan anticipates that spectators and

Figure 4

Selected Venues for Los Angeles’ 2024 Olympic Bid



Note: Circles indicate the general location of sports parks—not the areas of their planned secure perimeters.

the Games workforce will be encouraged to use public transportation—including already planned transit expansions—to access Olympic sites. New technologies for ridesharing and parking are to be emphasized as the Games approach. Regional traffic officials are expected to use their significant public outreach experience—such as Los Angeles’ “carmageddons” and the relatively traffic-free 1984 Games period—to help manage traffic flow during the Games. During the 1984 Games, commercial deliveries often were made only during nighttime hours, and these types of strategies could be used again in 2024 to keep traffic moving.

Security for the Games. Ensuring that Los Angeles is secure during the Olympics is an important consideration, especially considering the acts of violence that affected the Munich Games of 1972 and the Atlanta Games of 1996. If Los Angeles is selected, the 2024 Games will be designated a National Special Security Event (NSSE) by the U.S. Department of Homeland Security. (Other recent NSSEs include the Democratic and Republican National Conventions, State of the Union addresses, and presidential inaugurations.) The U.S. Secret Service is the mandated lead agency for design and implementation of an NSSE’s operational security plan. The Secret Service will work in partnership with other federal, state, and local agencies, including the Federal Bureau of Investigation (which leads the regional Joint Terrorism Task Force), the Los Angeles Police Department, and the CHP.

Labor and Tax Commitments. In recent bid documents, LA 2024 organizers have committed to work with area labor unions to secure agreements that prohibit strikes and work stoppages during the Games. This type of commitment is customary and may be a prerequisite to winning IOC support.

Similarly, bid cities must report to the IOC about the effect of national, state, and local tax laws on payments to foreign parties associated with the

Olympics. For example, Los Angeles organizers have committed to work with U.S. tax authorities to avoid “potential forms of double taxation” for certain Olympic stakeholders. These commitments seem to raise the possibility that federal, state, and/or local officials will be asked to approve additional tax legislation or regulations related to the 2024 Games.

Privately Financed Budget Plan Yet to Be Finalized. Los Angeles’ city government, along with the city’s OCOG and the USOC, would have important contractual obligations if the Games are awarded to the U.S. The LA 2024 organizing group, however, has committed itself to funding the Olympics from private sources. In August 2015, bid officials released a rough sketch of what a privately financed LA 2024 Games budget would look like. The portion of the budget to be financed by the OCOG (and not other private entities) is summarized in Figure 5. Revenue would be received primarily from three sources: IOC contributions from broadcast and sponsorships, domestic sponsorships, and ticketing revenue. Costs would include payments for goods, services, and personnel to operate the Games, hundreds of millions of dollars for venue costs (including costs for temporary facilities and upgrades), \$200 million of payments to the city for Games-related operating costs, and a \$150 million insurance premium. This initial plan envisioned about \$560 million left over for unexpected contingencies (unexpected costs or revenue shortfalls) and an operating profit for the Games. (A bill passed by the Legislature this year to support the Games—described later in this report—envisioned that operating profits would be devoted to “legacy programs for youth and citizens of California.” This is similar to how the 1984 Games’ profits were given to the LA84 Foundation, which supports youth sports programs in Southern California.)

While the August 2015 budget is useful in giving a sense of the broad categories of costs and revenues associated with the Games, it will be refined and revised in the coming months. The City Council is engaging independent analysts to review the bid plan before it takes a final vote on the bid by early 2017. A final proposed Games budget is expected to be completed prior to the submission of Stage 3 bid documents to the IOC in February 2017. City leaders, in particular, have a major stake in ensuring that the final bid plan minimizes public sector financial risk because the city must agree to execute the IOC’s Host City Contract, which involves key financial and operating guarantees related to the Games.

Bid leaders also have repeatedly committed themselves to minimize risks of cost overruns. In a “Frequently Asked Questions” section of its website, LA 2024 says the OCOG “will indemnify the city for all of its incremental costs and obligations related to the operation of the Games,”

SB 1465

Direct Federal Subsidies Not Available. Often, national governments provide significant financial support for their cities’ Olympic bids. While the U.S. Congress passed a resolution supporting Los Angeles’ 2024 bid, the federal government typically has not provided a direct financial subsidy to

including budgeting for private funds to buy “a substantial insurance package to protect the city against unexpected liabilities.” According to a September 29, 2016 press release from LA 2024, “significant private insurance payouts” and an up to \$250 million payment by the city would be the first lines of financial defense. After these and any other available sources are exhausted, the state could be on the hook for certain payments under the terms of recent legislation, as summarized below.

Olympics’ capital and operating costs. The federal government does provide important security and intelligence services, in partnership with state and local law enforcement agencies, for Olympics hosted in this country.

Figure 5
August 2015 Rough Sketch of LA 2024 Games Budget

<i>(In Billions)</i>	
Revenues	
IOC contributions (broadcast revenues and worldwide sponsors)	\$1.5
Domestic sponsorship revenues	1.4
Ticket revenues	1.2
Torch run, coin, and stamp revenues	0.2
Licensing revenues	0.2
Donations	0.1
Other revenues	0.2
Total	\$4.83
Expenditures	
Personnel and services costs	\$1.5
Venue costs, including operations	1.3
USOC and other joint venture payments	0.6
Technology services	0.4
City operations payments	0.2
Ceremonies costs	0.2
Insurance premiums	0.2
Facilities maintenance costs	0.0
Total	\$4.27
Amount Left Over (Including Contingency Budget)	\$0.56

IOC = International Olympic Committee and USOC = U.S. Olympic Committee.

SB 1465 Dedicates Up to \$250 Million in State Support if Needed. State governments in the U.S. often support Olympic organizing efforts with financial assistance. As noted earlier, California provided a large share of the funding for the 1932 and 1960 Games, while the Los Angeles Games in 1984 were almost entirely privately funded. In recognition of the IOC’s expectation of governmental support, the Legislature passed and the Governor signed SB 1465 (de León) earlier this year. Senate Bill 1465 allows the Governor to enter into a contract with Los Angeles’ OCOG for the state to accept financial liability of up to \$250 million of financial debts related to the 2024 Games. The bill anticipates that the exact funding mechanism will be determined at or about the time Los Angeles is selected to host the Games next year. The legislation states that this “state security,” whether provided by a cash appropriation, an insurance policy, or other instrument, will be deposited into a state Olympic Games Trust Fund. This fund will be maintained until the Director of Finance determines that the

state’s contractual obligations to the Los Angeles OCOG have concluded.

State’s Liability Clearly Limited. Senate Bill 1465 specifies the uses of the state security and the conditions that must be met to access the funds. In particular, the funds may be used for certain payments to third parties for costs related to the games and OCOG deficits resulting from the Los Angeles Games. Funds may only be accessed, however, if all other funding mechanisms have been exhausted, including insurance purchased by OCOG and at least \$250 million of city funds. The state must be listed as an “additional insured” on any OCOG insurance policy related to the preparation and conduct of the Games. In the final analysis, the state is obligated to pay no more than \$250 million under SB 1465. The state most likely would provide funding only if the Games experienced significant financial problems. Further, under the authority provided in SB 1465, the contract negotiated by the Governor could place further limits on the state’s payments.

ECONOMICS OF THE GAMES

Short-Term Economic Gains Likely. As discussed above, Los Angeles’ selection to host the 2024 Games would result in billions of dollars of Olympic revenue—from international broadcast rights, sponsorships, and ticket purchases from the rest of California and elsewhere around the world—flowing into the Southern California economy. While the Los Angeles bid assumes no new permanent sports venue or major public infrastructure construction, it would require billions of dollars of spending—paid from Olympic revenues—to construct temporary venues, pay for temporary venue upgrades, and build the technological and other improvements needed to host large numbers of athletes and other visitors. This billions of dollars of spending—funded

largely from out-of-state sources—would generate economic activity in the Los Angeles region during the Games and in the few years before the Games, as preparatory activities occurred. Moreover, hundreds of thousands of visitors, including spectators, athletes, officials, and members of the media, would arrive for the Games in 2024, spending money for food, lodging, and other goods and services.

This sort of short-term economic boost—an increase in jobs, for example—directly linked to the Games is visible when looking at jobs data for the Atlanta and Salt Lake City regions during the period they hosted the Olympics in 1996 and 2002, respectively. As shown in Figure 6, seasonally adjusted employment in the Atlanta region

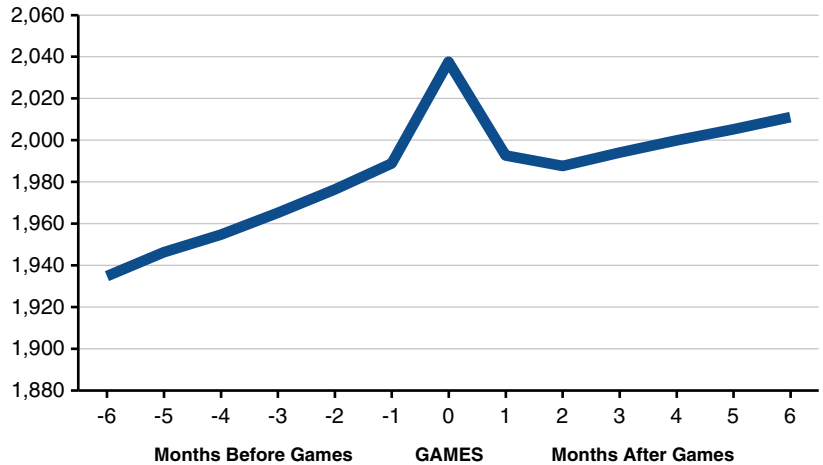
jumped by nearly 50,000 (up 2.4 percent) in July 1996 when it hosted the Olympics. Salt Lake City’s Games took place in the economic downturn of the early 2000s as jobs declined there and elsewhere in the country. That being said, as shown in Figure 7, the February 2002 jobs data for the Salt Lake City region jumped by about 4,000 (up 0.7 percent) after it had been dropping for several months previously.

In 1984, economic analysts estimated that Los Angeles experienced net economic gains due to the Games. A June 1986 post-Games report by Economics Research Associates (an economics analysis firm) found that the direct economic impact of the Games in terms of Olympic venue operations, visitation, capital improvements, and governmental revenue totaled over \$1 billion. The Games produced an estimated employment increase of 37,500 jobs (primarily short-term), with additional income also generated for 37,500 others who already had jobs. “Induced” economic activity—the “ripple effect” in the economy from that initial spending—exceeded \$1.5 billion, the report found. The total economic impact of the Games represented 1.6 percent of the total gross product (output) in Los Angeles County that year, the study found.

Figure 6

Short-Term Employment Boost of Atlanta's 1996 Games

Seasonally Adjusted Nonfarm Payroll Jobs in Thousands

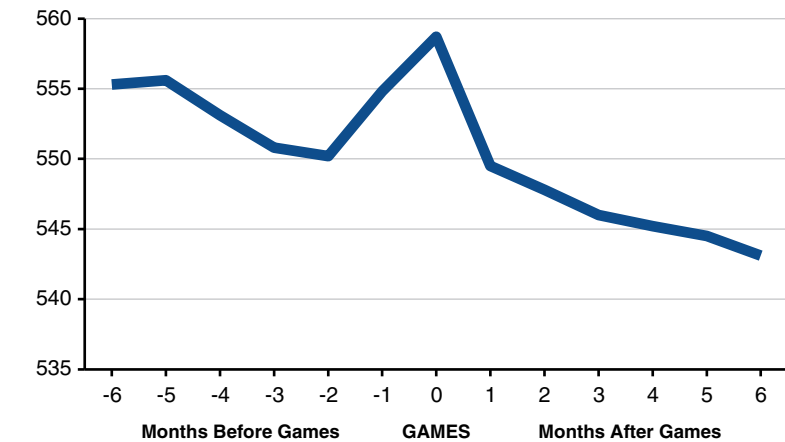


The report also made an attempt to estimate how much the Olympics “displaced” other spending in the economy—that is, how much economic activity *did not occur* due to the Olympics. For example, it is believed that many visitors to other Los Angeles attractions stayed

Figure 7

Short-Term Employment Boost of Salt Lake City's 2002 Games

Seasonally Adjusted Nonfarm Payroll Jobs in Thousands



away that summer, fearing traffic congestion, and some residents left the region during the Games. These types of economic displacement were estimated at over \$330 million of lost economic activity, according to the report, partially offsetting the short-term gains noted above. We note that such displacement estimates are difficult to develop and must make a variety of assumptions, such that different analysts could come up with larger or smaller economic displacement estimates.

In addition to these analyses, both our office and the DOF estimated that the state experienced additional economic activity and state revenue growth in 1984 specifically due to the Games. Similarly, if Los Angeles is chosen to host the 2024 Games, a short-term boost in state and local tax revenues is likely, which would offset some or all public costs associated with the Games.

Lasting Economic Gains Unlikely. While the Games likely would produce a short-term economic boost for Los Angeles around 2024, there is little basis to assume that the Games would improve the region's economy substantially over the long term.

When hosting events like the Olympics, some cities hope to achieve positive economic gains by building new athletics or other community facilities. Studies of sports facilities in host communities generally find little or no net long-term economic benefit associated with stadiums and arenas. Further, the specialized nature of some Olympic venues has left some cities with “white elephants”: new facilities with little use after the Olympics. An advantage of Los Angeles' 2024 bid—in terms of minimizing public finance risk—is that no new permanent sports venues are to be built specifically because of the Olympics. Accordingly, for Los Angeles, there is less of an argument than usual that the Olympics

will generate future economic gains related to new sports facilities.

General infrastructure improvements can produce long-term economic gains for a region. Here too, Los Angeles' low-risk financial bid assumes no new major infrastructure specifically related to the Games. Accordingly, for Los Angeles, the Olympics probably would not generate much or any long-term economic gain related to new infrastructure.

Finally, some argue that the Olympics help “put a city on the map” in terms of tourist visitation or economic investment. Some Olympic hosts—including the relatively new ski development, Squaw Valley, in 1960—seem to have benefited over the long term due to visibility provided by the Olympics. Assuming that this type of long-term economic gain will materialize, however, seems problematic in the case of Los Angeles, a city already well known to people and businesses all over the world because it has hosted the Olympics before and appears constantly in films and on television. While we cannot rule out the possibility that the 2024 Games would provide a temporary boost in Los Angeles' attractiveness to visitors and businesses, the chances that this boost will be substantial or lasting seem small.

Conclusion. If Los Angeles hosts the 2024 Games, some short-term net economic gains in 2024 and in the years just before the Games are likely. Lasting economic gains, however, appear unlikely. That being said, the low-risk financial strategy of the bid greatly reduces the risk that the Southern California economy will bear large, long-term taxpayer expenses related to the Games. For these reasons, under the current bid plan, the long-term economic effect of the 2024 Games probably would be close to neutral.

LAO COMMENTS

In this section, we provide some of our perspectives concerning the state's role in Los Angeles' 2024 Games bid.

Negotiations Delegated to the Governor.

Senate Bill 1465 gives broad authority to the Governor to negotiate a contract with Los Angeles' OCOG to provide the state's back-up financial support for the possible 2024 Games in Los Angeles. The decisions of the Governor in executing this contract will affect the likelihood of the state eventually paying out any or all of the maximum \$250 million authorized in the bill. The Governor and his advisers will need to devote considerable effort to understanding how Olympic and Paralympic Games are financed and operated in order to represent the state government's interests well in this negotiation.

State Liability Capped, but Other Costs Are Possible. In considering SB 1465, the Legislature had to balance its desire to demonstrate the state's support for the Los Angeles bid with the need to limit state financial support for the Olympics. In light of this, we think the Legislature's decision to strictly cap state financial support for any Games deficits was a sound one. Under SB 1465, the state's liability to cover cost overruns or Games revenue shortfalls is capped at \$250 million. That being said, the state can be expected to incur some other, potentially small, operating costs if Los Angeles is selected to host the Games. In negotiating with Games organizers, the Governor may want to keep these costs in mind. Among the questions that the Governor may face in contract negotiations are the following:

- ***Realistic Budget Projections?*** How realistic are LA 2024's budget projections concerning costs, as well as ticket, sponsorship, and other revenues? (Los

Angeles city officials also are studying these projections intensively.)

- ***CHP Cost Reimbursements?*** Will added CHP costs related to the Games be reimbursed from Olympic revenues? We understand that these costs were not reimbursed in 1984, and the Governor could opt to forego seeking reimbursements in 2024. Alternatively, the state could seek reimbursements for CHP costs over a given amount or only for "special requests" for CHP assistance from the OCOG or local officials. In addition to CHP costs, other state public safety entities, such as the Military Department, also could incur costs related to the Games.
- ***Other State Cost Reimbursements?*** Will state departments insist on reimbursements of few, some, or all state costs related to the Games? State facilities used for the Games, such as those at UCLA and Lake Perris, would be covered by agreements negotiated between Olympic organizers and the state. The agreements would specify how state entities will be reimbursed for the Olympics' use of the venues. In negotiating the SB 1465 contract, the Governor may want to consider a clear framework for determining which types of state venue expenses will be reimbursed by the OCOG—including those in the current bid plan and those added to the plan in the future. Given their proximity to the Coliseum, the roles of the California Science Center and the California African American Museum in the Games also may need to be discussed at some point in the future.

- ***City Payment Requirements?*** Senate Bill 1465 requires the City of Los Angeles to spend at least \$250 million of its “security” for the Games prior to any of the state’s \$250 million being disbursed. At a recent City Council committee meeting, questions were raised about how exactly this \$250 million of city funds would be measured. For example, if the city acquires an insurance policy to cover certain financial risks, would insurance proceeds under that policy count toward the city’s payment requirement in SB 1465? In contract negotiations, the Governor may be able to help resolve such uncertainties.
- ***Natural Disasters and Terrorist Events?*** What would be the state’s financial exposure if natural disasters or terrorist threats hamper the Games, damage venues, or threaten athletes and other visitors?
- ***Cost Overruns at Private Facilities?*** Could the state be on the hook for a portion of cost overruns at private facilities, such as those of NBCUniversal or USC?
- ***Tax Legislation?*** Will the state be asked to pass tax legislation related to the Games?
- ***Accelerated Public Infrastructure Improvements?*** Will the state be asked to contribute funds to help accelerate any public infrastructure improvements related to the Games?

Full answers to these questions will not be available until after the 2024 host city is chosen next year. The Governor, however, can set important benchmarks for future discussions even in early negotiations with Games organizers.

Timing of Future Appropriations Depends on Contract Details. Consistent with the

Legislature’s role in the State Constitution, future state payments under SB 1465 are available only upon appropriation by the Legislature. All parties, however, will expect the state to provide funds as envisioned in the contract the Governor negotiates with the Los Angeles OCOG. The timing of any such payments will depend on the details of the contract the Governor negotiates. For example, after the Games conclude, the OCOG could be required to certify to the Governor that conditions for a state payment have or have not been met, and the Governor could then be required under the contract to request an appropriation to provide any anticipated payment. (This is similar to a mechanism in state law for the Governor to ask the Legislature for funds if tobacco settlement revenues are insufficient to meet debt service and other related costs on certain bonds issued after 2003.)

Need for Legislative Oversight. We advise the Legislature to provide some oversight related to the Games—in addition to the much more intensive oversight expected to be provided by the Los Angeles City Council and the Mayor. Recognizing the need for state oversight of the 1984 Games, the Assembly then appointed a Select Committee on Olympic Oversight, and the Senate Governmental Efficiency Committee had a subcommittee dedicated to Olympic oversight. Legislative leaders may want to appoint similar oversight committees—or a joint legislative oversight committee—to oversee the Governor’s negotiations, to hear of issues that develop in the planning of the Games, and to prod state departments, if needed, to help Games organizers. These committees may find it helpful to meet even before the IOC awards the Games in September 2017, since key bid plans—which could affect the Games’ financial success—will be finalized prior to that date and the Governor may be negotiating with bid organizers concerning the SB 1465 contract.

Dealing With Financial Risks. Los Angeles' 2024 bid seeks to minimize financial risks for the city and the state government. The \$250 million back-up state financial guarantee in SB 1465 may not be needed. There is, however, some chance that city and state taxpayers could be called on to provide additional funds. Today, the Olympic and Paralympic Games are "mega-events" even for the world's largest cities. Mega-events are among the most complex events to organize: huge undertakings that require years of preparation, billions of dollars, and involvement by every level of government. Many Olympics have experienced large venue or infrastructure cost overruns and delays, and some have had disappointing ticket sales. While a Games plan can try to minimize financial risks, there is probably no way to completely eliminate these risks.

We recommend that the Legislature stick by the firm stance reflected in SB 1465, which provides support for the Games, but strictly limits the state's financial exposure to Games deficits. We advise state leaders to consistently make it known that no additional funds beyond those committed in SB 1465 will be provided. If problems develop in organizing the Games, state leaders can push organizers to develop privately funded alternatives at minimum cost and minimum risk for state and city taxpayers.

AN LAO REPORT

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This report was prepared by Jason Sisney and Carolyn Chu. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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