

ANOC vs. SDEF: “Bump, Set, Spike”
Special Judge’s Instructions for ROUND TWO

Background Information:

-Round two is a negotiation regarding the *2019 World Beach Games* (“Games”) in San Diego, California. The parties have agreed to postpone the event until 2019 so that both sides can sit down to resolve the issues that were presented in the first negotiation.

- *Association of the National Olympic Committee (“ANOC,” pronounced A-NOCK)*
Responsible for protecting and advancing the interests of the world’s National Olympic Committees and promoting Olympic values.

- *City of San Diego, represented by the San Diego Exploratory Foundation (SDEF)*
Leading the efforts to ensure the entire San Diego region is successful in planning for the Games.

There will be eight issues negotiated, which are: (1) budget; (2) a shortfall agreement; (3) the Village and other venues; (4) transportation; (5) broadcasting rights; (6) sponsorships; (7) timing of the Games; and (8) tourist and guest accommodations/hotels:

1. The Budget: Given the two-year extension, the ANOC is looking to increase the initial budget of \$150 million to \$150-\$200 million, with a foreseeable profit of \$50 million and potential retention of approximately 60-80% of the profits depending on the deal. SDEF is not willing to put its taxpayers at risk for the Games. The SDEF has a budget of \$150-180 million and is looking to retain 20-40% of the profit split depending on the deal..
2. The Shortfall Agreement: The ANOC will require a shortfall agreement and will not back down regarding this issue since it is required in almost every major sporting event. The ANOC will recommend that the shortfall agreement can be covered by: (1) Measure C—the 4% tax increase on hotels; or (2) broadcasting rights revenues. The SDEF needs to stay within its budget in order to avoid the potential impact of a shortfall agreement.. SDEF will agree to the shortfall agreement contingent on Measure C passing and prospective revenue/profit from broadcasting and sponsorships.
3. Village and Venues: The ANOC is looking for San Diego to offer and provide athletes and spectators with world-class venues. The ANOC will push the “long term” effects of the venues. The SDEF is unwilling to agree to permanent structures and wants the ANOC to forgo this requirement. The SDEF teams may spend the majority of their time negotiating sustainable pop-up venues and parking structures. These are crucial negotiation points for both parties.
4. Transportation and Parking: The ANOC wants to build two parking structures in Downtown San Diego and Mission Beach with a budget of \$40 million. The ANOC is willing to eliminate the Downtown parking lot if Measure C passes, and is willing to

agree to pop up parking structures that are currently being developed in China, which will only cost \$1-5 million per unit. The SDEF is aware that San Diego does not have enough parking for the Games but does not want to build parking structures for (1) financial reasons and (2) limiting the environmental and economic impacts of the Games.

5. Broadcasting Rights: The ANOC wants a big time network to broadcast the Games, however, until the host city is secured and negotiations are met, the ANOC cannot reach a deal. The ANOC believes it can sell the broadcasting rights for approximately \$150 million. The broadcast revenue is imperative to the Games revenue. The SDEF is aware that the major broadcasting networks are offering \$150 million but cannot secure a deal until a date is chosen. This should be an easy point of negotiation as to a major network being significant for the Games and essential to the deal.
6. Sponsorships: The ANOC wants major sponsors, but is willing to listen to the SDEF's proposal of incorporating local, national, and international sponsors. The SDEF is focused on using local sponsors for the Games, but is willing to negotiate major sponsors if the ANOC is willing to eliminate the Village, other permanent structures, and a more even profit split. This issue is to be negotiated further and finalized at a later date, but it needs to be addressed in the negotiation.
7. Timing of the Games: The ANOC will require that a date for the Games is decided during the negotiation and will require the City/SDEF to ensure that no major event (baseball, football, conventions, etc.) be held during the Games. The SDEF will need to present the potential calendaring conflicts and make sure that the Chargers will not be hosting a game on Sunday or Monday night, or that the Padres will not be hosting playoff games. A date range must be chosen during the negotiation in order for other future negotiation points to move forward, but scheduling will be an issue because the team schedules are not yet available. The best teams will agree to a date range quickly and table the issue until schedules are made available.
8. Tourist and Guest Accommodations/Hotels: The ANOC will need the SDEF to step in and help with accommodations for the Games. The ANOC is looking to get a standardized rate for the spectators to ensure maximum attendance. The SDEF has hit a roadblock with securing hotel rooms because a date has not been selected. However, the SDEF is working with Airbnb and with the passing of Measure C, so this should be a quick negotiation point after securing a date. If Measure C does not pass, the parties will have to revisit this point at a later negotiation.

Here is a visual to see where the two sides can agree:

Issues	<u>ANOC</u>	<u>San Diego</u>	<u>Zone of Possible Agreement (ZOPA)</u>
<i>Budget</i>	Budget: \$150- \$200 million with a foreseeable profit of \$50 million and potential retention of approx. 60-80% of the profits.	Budget: \$180 million with a potential retention of 20-40% profit split.	Budget: \$175 million with a 70% to ANOC and 30% to SDEF.

<p><i>Shortfall Agreement</i></p>	<p>The ANOC will require a shortfall agreement (“SFA”) in place to ensure financial security. If the ANOC is met with hesitation about the SFA it will recommend it be covered by (1) Measure C-- the 4% tax increase on hotels or (2) Broadcasting rights revenues and sponsorships.</p>	<p>The SDEF is hesitant about signing a shortfall agreement because it is the first World Beach Games ever and to protect the taxpayers. However, the SDEF is aware that if Measure C passes, \$50 million will be set aside for the Games. SDEF will only agree to the shortfall agreement if Measure C passes and prospective revenue/profits from broadcasting and sponsorship are properly outlined.</p>	<p>The SDEF will agree to a shortfall agreement only if Measure C passes and if profit/revenues projections are adequately outlined so it will ensure its taxpayers are not at risk for losing money.</p>
<p><i>Village/Venues</i></p>	<p>The ANOC wants an Olympic style village to be built for the athletes, but it has some creative options. The ANOC has an estimated budget of \$60 million for the venues.</p>	<p>The SDEF is unwilling to agree to permanent structures and wants the ANOC to forgo this requirement. It is unwilling to build a village unless the ANOC is creative. SDEF wants to house the athletes at SDSU, USD, UCSD and in hotels because it is cost effective. SDEF is looking into building sustainable structures for the Games that will not leave an impact on SD.</p>	<p>This will be one of the biggest negotiation points because the ANOC wants to build a Village given the two-year extension to 2019. The best agreement will include building a structure in Mission Valley that can be utilized after the Games.</p>
<p><i>Transportation & Parking</i></p>	<p>The ANOC is looking to build two permanent parking structures in Mission Beach and Downtown. It currently has a budget of \$40 million. The ANOC is willing to eliminate the downtown parking structure if Measure C passes because spectators will then be able to utilize the Chargers parking. The ANOC is also willing to use pop up structures that are currently being developed in China for \$1-5 million per unit.</p>	<p>The City/SDEF does not want to build a parking structure. The SDEF does not want to build structures for (1) Financial reasons and (2) limiting the environmental impact of the Games.</p>	<p>The SDEF will not agree to a parking structure in Mission Beach and will agree to the use of the new Chargers stadium parking if Measure C passes. SDEF will agree to the use of the pop up module structures that will reduce the ANOC budget to roughly \$10 million. This agreement will be (1) Financially savvy and (2) have very little economic impact on the City.</p>

<i>Broadcasting Rights</i>	The ANOC wants a big time network to broadcast the Games, however until the host city is secured and negotiations are met the ANOC cannot reach a deal. The ANOC believes it can sell the broadcasting rights for approximately \$150 million. The broadcast revenue is imperative to the Games revenue.	The SDEF is aware that the major broadcasting networks are offering \$150 million, but the sides cannot secure a deal until a date is chosen.	This will be an easy point of negotiation. The SDEF will want to secure broadcasting rights with the highest revenue. The ANOC has a projected price of \$150 million, but it cannot be agreed upon until a date is selected. Both teams should agree that a major network would be ideal for the Games.
<i>Sponsorships</i>	The ANOC wants major worldwide sponsors as well as domestic sponsors for the Games. The ANOC feels as though it will bring in the most revenue and allow the ANOC to engage in heavy marketing with big sponsors. The ANOC is willing to listen to the SDEF pitch ideas for local sponsors, but ideally would like to stick with big names.	The SDEF is focused on using local sponsors for the Games, but is willing to negotiate major sponsors if the ANOC is willing to eliminate the Village, other permanent structures, and a more favorable profit split.	ANOC will have the upper hand in this aspect because its larger sponsors have more money, but SDEF can push to have the local companies as long as they explain to the ANOC that they can make up for the lost profits through broadcasting and sponsorships.
<i>Timing of the Event</i>	The ANOC will require that a date for the Games is decided during the negotiation and will require the City/SDEF to ensure that no major event (Baseball, Football, Conventions) be held during the timing of the Games.	The SDEF will need to not schedule major events during the Games.	Only a date range may be agreed to for this negotiation as the schedules for major events are not available. The best teams will agree to a date range and move on quickly agreeing to revisit the topic at a later discussion.
<i>Tourist & Guest Accommodations</i>	The ANOC is looking for the SDEF to step in and help with accommodations for the Games. The ANOC would ideally like to secure standardized hotel rates for the spectators to ensure maximum attendance.	The City/SDEF will offer a deal with Airbnb, which will be millennial friendly and allow people the opportunity to see San Diego like a local. If Measure C passes there will be 2,000,000 new hotel rooms in the first 10 years of operation, which would lend approximately 225,000 rooms per year.	This will be a quick and easy negotiation point. The ANOC and SDEF will have to secure a date for the event to continue future negotiations with the hotels. The ANOC and SDEF will rely on the passing of Measure C as well as Airbnb. If Measure C does not pass, the parties will have to revisit this issue at a later date.

ANOC CONFIDENTIAL FACTS

The Budget

Given the mutually agreed upon two-year extension of the Games, ANOC is looking to increase the initial budget of \$150 million. ANOC believes with the additional two years and the possibility of Measure C passing, ANOC and SDEF will be able to secure lucrative broadcasting rights, and thus ANOC has a projected budget of \$150-200 million. ANOC is looking to spend \$60 million on a new Athlete's Village and venue structures and \$40 million on permanent parking structures. ANOC would like to set aside an additional \$50 million for a possible shortfall and/or unforeseen expenditures.

The Beach Games are relatively inexpensive compared to other large sporting events because they utilize the beach, ocean, waterways, and land as places for competition. With broadcast rights and sponsorship dollars, ANOC and SDEF could conceivably split an additional \$50+ million in profits to be used for the next Games event and development in San Diego, while having additional wiggle room for any shortfall. ANOC wants to retain between 60-80% of the profits depending on structure of the deal because it is handling the planning and organization.

Timing of the Games

ANOC would like the Games to be held during September or October 2019, with the exact week timeframe to be decided at this meeting with the SDEF. There can be no major events scheduled during the week of the Games (seven days, Sunday through Sunday). Major is defined as football or baseball games and convention center events.

The Shortfall Agreement

ANOC wants to cover any potential economic shortfall of the SDEF, including refunds to ANOC for advances in payment or other contributions made by ANOC to the SDEF, which

ANOC may have to reimburse to third parties in the event of any contingency such as full or potential cancellation of the World Beach Games. ANOC wants to ensure the financial security of the World Beach Games and thus requests the host city to cover any shortfalls in the operating budget. A shortfall clause is required in any Games contract and the ANOC is not willing to waive this clause for the City.

The shortfall agreement can be covered in one of two ways, if not both. The first is the successful passing of ballot Measure C on November 8, 2016. Measure C is the “San Diego Chargers” proposition that would place a 4% tax increase on the hotels, which would be transferred to tourists to San Diego, raising the hotel tax in City of San Diego to 16.5% placing it in line with most major cities.

The second source of revenue to cover the shortfall is from the broadcasting rights, which will be discussed in detail.

Village & Venues

ANOC wants to build two permanent venues in the Games locations and wants to build an Olympic style Village for the athletes for \$60 million. It wants to make sure that the athletes have access to the top of the line training facilities and housing accommodations. ANOC is aware that hotels are available for the athletes, but given the new two-year extension, it wants to build the Village. ANOC wants to build the Athlete’s Village in Mission Valley (not to be confused with Mission Beach) that can eventually be converted into a student housing center for local universities in the area (University of San Diego and/or San Diego State University) and therefore will not go to waste. ANOC does not think housing the athletes and coaches in dorms is a practical housing option, given that the schools will be in the middle of their semesters while the Games are taking place.

ANOC believes that San Diego can benefit from new venue structures near the beaches and Downtown, where the Games will take place. ANOC is looking to build permanent structures that can be disassembled after the Games and used to build two public schools within San Diego County. The projected cost of the new venue idea is \$60 million, but will have a

lasting positive effect on the community of San Diego making it different from past Olympic-type game events.

Tourist & Guest Accommodations

ANOC wants to contract with hotels and/or other vendors for 20,000 rooms for the Games, but ANOC needs the City to help with this tall task in order to expedite the process and standardize the rates. With new hotel growth from 2016 to 2019, there will be plenty of hotel rooms, but the Games need to secure a Games rate for spectators.

Transportation & Parking

ANOC is looking to build and develop new parking structures Downtown and in the Mission Beach area near the Games. The parking structures will cost \$40 million according to the experts ANOC has consulted. ANOC believes San Diego will need to create more parking for the high volume of tourism that will take place during and after the Games in the specified areas. Moreover, parking will be needed and will be built Downtown if the San Diego Chargers football team builds their new stadium with the passing of Measure C. If no events are scheduled (specifically football games), the Chargers proposal already includes a parking structure that the Games could utilize for the downtown events.

ANOC is focusing on securing the old and unused Mission Beach Elementary School and its 2.23 acres of prime coastal real estate for \$20 million with \$10 million for construction of lot or structure. Located just a block from Mission Bay and two blocks from the beach, it is rare for such a piece of coastal property in that area to go on the market and to be available in general. Residents and community planners oppose high-density development, such as condominiums, that will lead to congestion, crime, traffic and other problems facing the neighborhood, but ANOC feels that a parking lot will be extremely beneficial for the Games and future use for the community as parking is already at a premium and will be needed during the event.

ANOC would like to build parking structures, if permanent ones, similar to the Millennium Point parking structure in Birmingham, England, the Miami Ballet Valet Parking

garage, the Santa Monica Civic Center Parking Structure, or the Kansas City Library Parking Garage. However, ANOC wants convenient and reliable parking for the participants and the spectators.

If ANOC is met with hesitation on the parking lot proposal and it receives a larger share of the profits, it is willing to build pop-up parking structures being developed in China for \$1-5 million per unit.

Broadcasting Rights

ANOC is going to want to go with a big name through the sale of the Games broadcast rights. Long-term marketing initiatives play a key role in the promotion of the Games, while generating revenue in order to ensure the future financial security and stability for future Games. ANOC wants the Games to be broadcasted on primetime major networks such as NBC, CBS, ABC or Fox. ANOC believes a national platform on a primetime network would engage the highest level of spectators and viewers and feels without this platform the Games will not be successful. The big name broadcasting networks will offer bids dependent on the passing of Measure C and/or securing a host city. ANOC does not have exact figures, but the SDEF does.

ANOC needs to lock down the host city in order to reach agreements with a network. ANOC believes the rights can be sold for \$150 million to a network who will cover all of the events, airing broadcasts on multiple sub-networks, social media platforms, through various streaming services. ANOC needs the broadcast revenue in order to make the Games a success, and this requires getting the deal completed.

Sponsorships

Sponsorship money is icing on the cake and provides for additional funding should costs run high and/or a shortfall is needed. Sponsorship revenues are not a part of today's discussion, but the split between local, national, and international sponsors is of importance in the broader structure of the deal.

ANOC wants major, international sponsors involved, specifically McDonalds, Nike, and others. However, ANOC will allow local sponsorship. ANOC is hoping that the SDEF can provide details on how it will mix generate local, nation, and international sponsorship partners. ANOC is willing to be lean on international sponsors if the revenue split is more in its favor.

CITY OF SAN DIEGO CONFIDENTIAL FACTS (SDEF)

The Budget

The public is well aware that the two-year extension is primarily based on issues pertaining to the \$150 million budget and the passing of Measure C. The San Diego community is unwilling to use its own taxpayer's dollars for the Games because there is a public perception that the Games will not be lucrative and the history of Olympic-type event overspending.

The SDEF has a budget of \$150-180 million for the World Beach Games. The City is looking to make a profit based on revenue from the Games. It is extremely important that the SDEF stay within budget based on the potential impact of a shortfall agreement. SDEF wants to retain 20-40% of the profit split depending on the broader structure of the deal.

Timing of the Games

SDEF would like the Games to be held during September or October 2019, with the exact week timeframe to be decided at this meeting with ANOC. The Games last seven days, Sunday through Sunday. Scheduling wise, if Measure C passes, the San Diego Chargers will have Sunday/Monday games during those months, while the San Diego Padres will play in September home games and possibly October should they make the playoffs in 2019. SDEF and ANOC agreed that major events are defined as football or baseball games and convention center events. The goal here is to set aside a schedule where football, baseball, and convention center games and events do not interfere with the Games to increase profits and exposure.

The Shortfall Agreement

The shortfall agreement can be covered in one of two ways, if not both. The first is the successful passing of ballot Measure C on November 8, 2016. Measure C is the "San Diego Chargers" proposition that would place a 4% tax increase on the hotels, which would be transferred to tourists to San Diego, raising the hotel tax in City of San Diego to 16.5% placing it

in line with most major cities. The tax increase will provide \$50 million in revenue for economic development that has been set aside for the Games by the City.

The second source of revenue to cover the shortfall is from the broadcasting and sponsorship rights, which will be discussed in detail. Of course, the larger the shortfall, there will be less profits to share so keeping costs down is important.

Village & Venues

SDEF is looking to incorporate a sustainable and transformative Games concept unlike anything that has ever been done before in any Olympic-style event. The SDEF understands the vision is modern and unexpected, but it hopes the ANOC will understand the importance of maintaining the natural beauty of San Diego—with preexisting infrastructure and temporary environments that will allow for the maximum Game experience for this first rendition of the World Beach Games.

The City is unwilling to build a Village for the Games and instead has suggested that all of the athletes, coaches, spectators, and media stay in hotels and dorms throughout the City. The City does not want to build a Village to house approximately 5,000 athletes for a ten-day period. The SDEF is looking to the ANOC to abandon its requirement for a Village because it is an inaugural event and an Olympic-style athletic Village is unwarranted.

SDEF is aware that ANOC wants to build permanent venues for the Games, but the SDEF is looking for structures that are temporary. The SDEF, City, and community as a whole would like to see temporary structures that do not leave a lasting footprint on the environment and visual aesthetics of the City. The SDEF has been working closely with different civil engineers and environmental firms in establishing a structural plan that will benefit both the City and the Games.

Bosa Development, the Vancouver, British Columbia-based developer has proposed an idea of temporary ‘pop-up’ venue and parking structures that can be assembled and disassembled quickly and efficiently, while virtually having no negative environmental effect. In addition the City does not want to build hulking structures and tall towers which had been erected in many

other cities. The City wants to use inflatable and modified scaffolding to build simple colorful landmarks. The City wants the structures to be effective, inexpensive, and completely ephemeral.

Tourist & Guest Accommodations

The SDEF has tried to negotiate deals with local hotels to secure hotel rooms for spectators, athletes, coaches and media personnel, but has hit a roadblock because a date needs to be secured to block out rooms for the Games. Thus, SDEF has partnered with Airbnb to secure rates for people attending the Games, and will give an additional tax break to local's listing their homes for the Games. Although this is a great plan, Airbnb can only guarantee 3,000 available homes and apartments within a 20 mile radius of the venues.

The City has also proposed the idea of housing the athletes and coaches at local universities, which would cost a total of \$20 million.

Again, the passing of ballot Measure C is of key importance. Based on the Hunden Strategic Partners (HSP) analysis, the downtown project will induce and retain more than 2,000,000 new hotel room nights for City of San Diego hotels in the first 10 years of operation and average approximately 225,000 room nights per year by stabilization.

Transportation and Parking

The City currently has funds established for The Fiscal Year 2017 to implement improvements with public transportation and infrastructure investments. These improvements will lend a helping hand to the issues previously brought up in the first negotiation. The current Capital Improvements Program budget will allocate available revenue to rehabilitate, restore, improve, enhance, and increase public transportation with a budget of \$40 million over the next two-years. This will alleviate stress related to the ANOC wanting to use money to make improvements to public transportation and infrastructure.

Currently, the two main locations picked for the Games are approximately ten miles apart from one another and are not currently linked by the trolley system. The only means of public

transportation that connects the two communities is the bus system. The SDEF and City are well aware that commuting and parking for the Games is going to be an issue.

Broadcasting Rights

Given the Games concept, global broadcasting rights will expose and transform the Games for a new generation across a number of important themes: personalized athlete experience, Games presentation and spectator experience, Games promotion and distribution, and Games operations.

Big name broadcasting networks will offer official bids once the date schedule of the Games and/or after the passing of Measure C. However, currently the major networks are offering \$150 million for full broadcast rights.

Sponsorships

Olympic sports are one of the most effective international marketing platforms in the world, reaching billions of people in over 200 countries. Support from the business community is crucial in staging of the Games. Exact dollar amounts are not at issue in today's meeting, but are considered icing on the cake and potential revenue for a shortfall or unforeseen expenditures. The SDEF wants to work with ANOC to ensure the strength of the Olympic marketing program continues, while looking to integrate a new local approach.

The SDEF is willing to bend on moving towards a more national and international sponsorship approach through major brands, but it will depend on how flexible ANOC is with regard to building a Village, other permanent structures, and the profit split.