Reducing Financial Waste & Improving Governance: Proposed Reforms to the U.S. Olympic Committee

Eli Bremer, Oly
Nancy Hogshead-Makar, J.D., Oly
Steven Sexton, Ph.D., Professor, Economist, Duke University
Andrew Zimbalist, Ph.D., Professor, Sports Economist, Smith College
Dan Marburger, Ph.D., Professor, Sports Economist, Arizona State University

Ben Campbell, Oly, Former U.S. Senator
Ed Williams, J.D., Oly, Former USOC Board Member, Former USOC Athletes Advisory Council Member
Micki King, First Chair, USOC Athlete's Advisory Council, Colonel, U.S. Air Force Retired; Current Vice President of the U.S. Olympians and Paralympians Association (USOPA)
Donna Lopiano, Ph.D., Kathy Johnson-Clarke, Oly, Jennifer Sey, Robert Allard, J.D., Jon Little, J.D., Jennifer Spiegel, J.D., Jessica Armstrong, J.D., Eva Rodansky, Patricia Rodowsky

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I. Summary

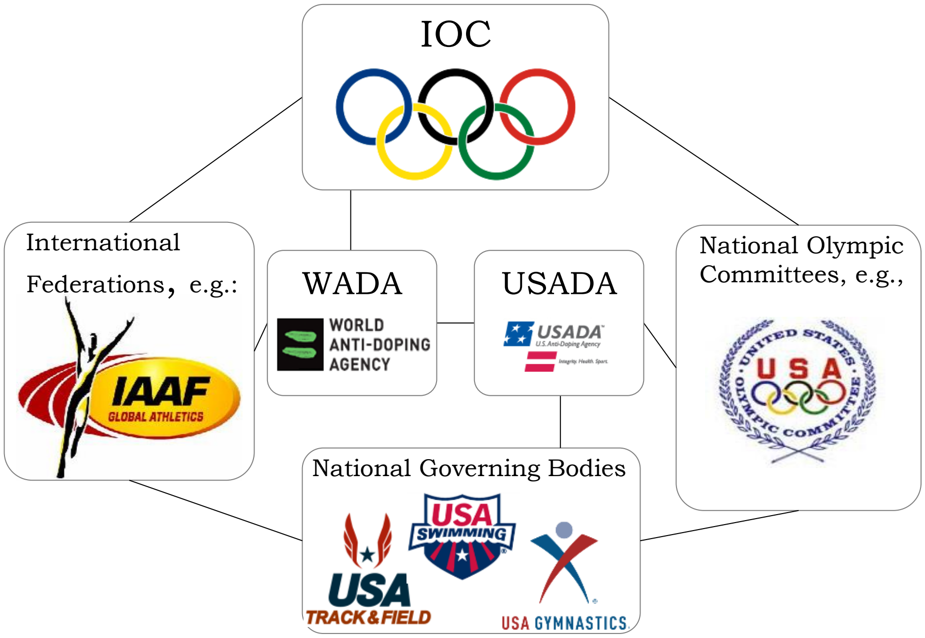
The U.S. Olympic Committee and its National Governing Bodies are under Congressional scrutiny for their long-term, willful failures to protect athletes from sexual abuse. This Report addresses the nexus between all types of athlete abuse, the economics of the Olympic movement, and the USOC's corporate governance. Congress gave the USOC monopoly power over choosing the Olympic Team, along with exclusive use over prestigious and lucrative marks associated with the Games. Over time, the USOC has gained monopsony power over buying the services of the athletes themselves. Predictably, the USOC governing structure has led to runaway executive compensation and the exploitation of athlete labor. Reforms are urgently needed to increase transparency and accountability for spending, limit unnecessary bureaucratic expansion, and shift power to athletes. The USOC must reorient its primary mission towards supporting the nation's Olympic athletes, in service to this nation.

II. Operation of the USOC

A. International Olympic Committee Framework

The International Olympic Committee (IOC) was formed in 1892 to promote international Olympic competition and sportsmanship throughout the world. Under its current structure, the IOC recognizes a single National Olympic Committee (NOC) for each of the 206 countries participating in Olympic athletics. Each NOC is a member of the IOC and interacts directly with the organization. Athletes are eligible to participate in the Olympic Games only if they compete under the authority of their nations' member NOC. In addition to the nation-based NOC system, each sport in the Olympics is also organized under an International Federation (IF). Each IF recognizes a single National Federation (NF) for each country. Only those athletes presented from an NF are able to participate in sanctioned international competitions held by the IF under the Olympic system. Rules heavily restrict movement of athletes between NFs to avoid countries recruiting internationally.

THE OLYMPIC SPORTS STRUCTURE



B. Formation and Administration of the US Olympic Committee

The NOC for the United States is the US Olympic Committee (USOC), a federally chartered non-profit headquartered in Colorado Springs, Colorado. In 1978, Congress granted the USOC substantial powers and benefits under the Amateur Sports Act (ASA or the "Sports Act").[1] Specifically, in lieu of direct government funding, the USOC was given monopoly power over the Olympic rings, certain words like "Olympic", "Olympiad", "Citius Altius Fortius", "Paralympic", "Paralympiad", "Pan-American", "America Espirito Sport Fraternite", or any combination of those words, the brand and marketing of the Olympics within the United States.[2] The Sports Act also established National Governing Bodies

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[1] 36 U.S.C. Sec. 220501 et seq., available at: https://www.teamusa.org/Footer/Legal/Governance-Documents Congressional hearings are the result of a common theme; the lack of athlete's rights. The Sports Act was passed, in part, to protect athletes from exploitative administrators who failed to act in the best interests of athletes. In the 1972 Olympics, officials failed to get America's sprinters to the arena in time, failed to advocate for Jim Ryun when he was tripped during his premiere event, failed to protect Rick DuMont from having his medal withdrawn for using an asthma medication he'd been using since early childhood, and failed to assure that the Soviet Union Basketball team did not get additional time on the clock, pushing back Tom McMillen from guarding the Soviet player. The Soviets scored with the additional time and won the Gold Medal. The U.S. Basketball Team has never accepted its silver medal. In all instances, the USOC was not organized to advocate for athletes in need.

[2] U.S. Olympic and Paralympic Brand Usage Guidelines, available https://www.teamusa.org/brand-usage-guidelines. The USOC also owns many federal trademarks including, but not limited to:

- OLYMPIC, OLYMPIAD, OLYMPIAN and FUTURE OLYMPIAN
- GO FOR THE GOLD and GATEWAY TO GOLD
- LET THE GAMES BEGIN

(NGBs) for all Olympic sports, which serve as the IOC-required National Federations operating under each sport's International Federation. These affiliated organizations are semi-autonomous on paper, but in fact operate as coordinated parts of a single system.

1. Operations under the Amateur Rule (1978-1986)

At the formation of the USOC forty years ago, the Committee only permitted amateur athletes to compete in Olympic competitions, per the policy of the IOC. In its early years of operation, USOC revenues and marketing efforts were relatively small; TV revenue was miniscule, and athletes could not be marketed individually due to their then-"amateur" status.

The amateur rule shaped the mission, organization, and culture of the USOC in a number of significant ways. With uncompensated amateur athletes as its constituency, the system was designed to provide power and money to the Committee (and by extension the NGBs) rather than to athletes. The money flowing into the USOC supported the Corporation and its staff.

The amateur rule also resulted in American Olympians typically being young, as few athletes could support themselves as amateurs into adulthood; athletes stopped competing to find employment. During this period the USOC operated on a relatively modest scale and relied heavily on volunteers, many of whom were parents or supporters of local clubs. With few professional staff, volunteer committees managed the bulk of USOC operations.

With this in mind, the Sports Act created a separate body to represent the interests of athletes. The Athletes Advisory Council's (AAC) mission is, "To communicate the interests and protect the rights of athletes, in cooperative support of the USOC achieving its mission."[3] The Sports Act requires 20% athlete participation on boards and committees, and that provision continues today. [4] To qualify as an "athlete" eligible for AAC membership, the athlete must be within ten years of their last international competition.

The current AAC member athletes serve as volunteers, and have no paid staff to support their work, including administrative tasks, and have no access to USOC-funded professional independent legal advice. In addition, the designated athletes are often chosen by their NGB

- PARALYMPIC, PARALYMPIAD and PARALYMPIAN
- PAN-AMERICAN, PAN AM GAMES
- PYEONGCHANG 2018, TOKYO 2020, BEIJING 2022, PARIS 2024, LOS ANGELES 2028, LA 2028, LA28
- ROAD TO RIO, ROAD TO PYEONGCHANG and ROAD TO TOKYO
- TEAM USA

[3] The Athletes' Advisory Council: https://www.teamusa.org/athlete-resources/athletes-advisory-council

[4] The definition of "Athlete" for purposes of representing other competitors is relatively narrow; "amateur athletes who are actively engaged in amateur athletic competition or who have represented the United States in international amateur athletic competition within the preceding 10 years." §220504. Membership (b)(2). In 1978, as originally conceived, this was a compromise between professional athletes, who enjoyed full labor-law rights, and NCAA athletes, who had almost no rights.

leadership, rather than from their fellow athletes. There are no ethical firewalls for an athlete also being employed by USOC-corporate, or using their time on the AAC as entre into USOC-corporate employment.

Importantly, there is no governance provision for athlete or AAC input on staff hiring or corporate decisions.

The amateur rule also shaped the USOC's mission in a general sense, driving a narrow focus on advocating for the right of American athletes to compete in various "protected" competitions (i.e., the Olympics, Paralympics, and qualifications). As self-supported amateurs, many athletes were unable to compete internationally between Olympic Games and the USOC therefore expended little effort on their behalf outside of protected events. The scope of the USOC was thus relativity limited. The USOC did not protect athletes' monetary interests, who historically had been formally barred from reaping the financial rewards associated with the Olympics.

2. The Professional Era

In 1986, the IOC voted to allow some professional athletes to compete in the Olympics. By 1991, all restrictions on amateurism were removed from the Olympic movement. This policy change served to increase revenues to the USOC with more recognizable athletes competing. In addition, it increased the potential longevity of athletes' competitive careers by providing new sources of financial support.

The rules regarding professionalism also had a subtle but profound effect on the business model of the USOC and the NGBs. Though athletes were now theoretically able to "sell" their labor, the USOC and NGBs leveraged their monopoly powers over Olympic marks and protected words to prevent athletes from acquiring substantial outside support. Sponsors wanted to hire "Olympians" – but were unable to designate their spokespeople as such. Athletes cannot use the five rings, or the magic words, "Olympics" or "Olympic" when they sell their services to sponsors. Moreover, the USOC, NGBs and athletes are squarely in competition with each other over who will get a sponsorship deal with a company. As a result, it is the rare athlete that can support themselves free and clear of their NGB.

By limiting athletes' access to outside sponsorships, the USOC effectively became the sole acquirer of their services. Set up originally as single-seller monopoly to preserve and bolster revenue, Olympic organizations now inadvertently became single-buyer monopsonies as well – an extremely rare position of market dominance.

In 1998, Congress updated the Amateur Sports Act with passage of the Ted Stevens Olympic and Amateur Sports Act (TSOASA). The new statute addressed a number of budding problems in the Olympic movement, including the need for an Athlete

Ombudsman to give athletes independent advice.[5] There was no consideration to sharing the value of the marks with the athletes.

Despite the fundamental change to the financial premises of Olympic athletics since the abandonment of the amateur rule, little to no attention was given to the financial structure of American Olympic administration, the governance model needed to oversee it, or the problems that could arise if finances and power were improperly managed.

Other reorganization efforts that followed also neglected to address financial management, even as they addressed other structural issues. In 2003, the USOC Board was reformed and dramatically streamlined with an approximate 90% reduction to 11 board members. A further reform in 2010 restored four members to the Board, for a total of 15 directors, at the recommendation of an independent commission led by former NFL commissioner Paul Tagliabue. Additionally, the USOC added its CEO to the board as an ex-officio member and extended term-limits in an attempt to give the Commission more international clout in the wake of the Chicago 2016 bid fiasco in 2009.[6]

Throughout these years of reform and restructurings, the USOC did not alter its financial governance.

III. The Business Culture of the 21st Century USOC

A. Abandoning the Non-Profit Model, While Retaining Non-Profit Status

In the early 2000's, the USOC saw considerable turnover in executive leadership. This tumultuous period brought a critical transformation of the Committee's organizational culture, particularly under CEO Lloyd Ward. A former CEO of Maytag Corporation, Ward's tenure at USOC was relatively short, from 2001 to 2003; its impact was profound, however. Combining tremendous charisma with the ardent belief that the USOC should operate more

[5] The Athlete Ombudsman position was supposed to provide an advocate for athletes' rights, as guaranteed to them by Congress under the Sports Act. The Ombuds position was supposed to solve the recurring problem of athlete conflicts with their NGB or the USOC; athletes were repeatedly disadvantaged as they tried to resolve conflict with professional staff and lawyers. As a result, they often lost the conflict, even when the Sports Act protected their participation. The Ombudsman currently reports directly to the CEO of the USOC; the USOC has co-opted the Ombudsman position so that it cannot function as Congress intended. See https://www.teamusa.org/Athlete-Resources/Athlete-Ombudsman

[6] The U.S. Olympic Committee bid for the 2016 Olympics in Chicago finished last, out of the running in the first round of voting, with a paltry 18 of a total 94 votes, despite in-person support by President Obama and First Lady. Juliet Macur, *Rio Wins 2016 Olympics in a First for South America*, New York Times, October 2, 2009, available at: https://www.nytimes.com/2009/10/03/sports/03olympics.html In addition, the bid cost nearly $76 million dollars and it left a pricey legacy for taxpayers. "The city is on the hook for about $140 million in principal and interest on the purchase of property for an Olympic Village to house athletes, and it was saddled with costly, 10-year union contracts that were hammered out to ensure labor peace during the Games." See, Kathy Bergen and Stacy St. Clair, *Chicago's bid for 2016 Olympics leaves pricey legacy 7 years later*, Chicago Tribune, July 15, 2016, available at http://www.chicagotribune.com/news/ct-olympics-chicago-2016-met-20160715-story.html

like a for-profit corporation than a non-profit, Ward brought an overtly corporate mentality to the USOC. This included policies such as increasing USOC staff and executive compensation, allegedly in an effort to attract top national talent. USOC personnel soon observed major changes in compensation policy, such as the same staffers receiving large pay raises that were unrelated to improved performance, and senior staff being replaced by less qualified junior candidates at highly inflated salaries. Athletes did not see the same level of compensation for their efforts. After the 2016 Rio Olympics, the USOC's board of directors gave five executives $100,000 or more in bonuses, many already making mid-six figures. Meanwhile, an athlete winning a gold medal received just $37,500. It was during this time that NGB compensation also hit an inflection point and began to spike as well.

Over the years, USOC and NGB leaders have justified the shift towards dramatically increased salaries with the claim that revenues grew during the same period. There is little evidence that increased salaries have driven increased revenue, however. Two outside factors provide a more plausible explanation for the rapid financial growth associated with the American Olympic movement, neither of which is related to the performance of the USOC itself.

B. External Factors Driving USOC Revenue Growth; Broadcasting Deals and University Sport Sponsorship

One major external factor driving increased USOC revenue through the 1990's and 2000's was a series of large broadcast deals with NBC, which funneled money to the USOC and NGBs via agreement with the IOC. The impact of broadcast rights was shaped in part by the IOC's decision in 1986 to stagger the winter and summer Olympics, resulting in events every two years. With a long-term investment in the Olympic brand, NBC promoted the events with a saturation marketing strategy that had a ripple effect. Corporate sponsors soon observed the massive investment by a major media entity and increased their commitments accordingly, banking on seemingly guaranteed media exposure. This rapid inflation of financial investment and growth in the value of the Olympic brand occurred with virtually no action by the USOC or NGBs; it simply followed from strategic moves by a mega media conglomerate and other corporate interests. In effect, the broadcasting value of the Olympics brought a windfall to the USOC, on a scale that fundamentally changed the nature of the organization. With little or no effort, the Committee reaped 12.75 percent of multi-billion dollar television contracts and 20 percent of international sponsorship deals during this period. From 1996 to 2008 alone, for example, NBC reportedly paid the IOC $3.5 billion for Olympic broadcasting rights. Worldwide disgruntlement with the USOC large share of these contracts led to a negotiated decrease in these shares to 7 percent of TV rights and 10 of sponsorship revenue beginning in 2020; however, the USOC was guaranteed a minimum quadrennial payment of $410 million from the IOC.

Another factor driving USOC revenue in recent decades was the growth and maturation of NCAA sports. Years before Olympic revenues rose, the proliferation of lucrative broadcasting contracts steadily increased NCAA revenue. The NCAA invested this money into a variety of Division I sports; its bylaws required member schools to support a required minimum number of men's and women's sports.[7] Many of these sports are also Olympic sports. College athletic scholarships have become one of the largest sources of all scholarship dollars; enabling athletes to continue to train at a high level with substantial housing, living expenses, quality coaching, training and medical care. NCAA member schools provide $2.9 billion in athletics scholarships annually to more than 150,000 student-athletes.[8]

With expanding opportunities for paid athletic scholarships and quality collegiate coaching, participation in these youth sports rose. The NCAA thus created a pipeline funneling talented athletes from youth and college programs onto a variety of U.S. Olympic teams.

This means that the top predictor of medal potential for a Summer Olympic Sport for the United States is its status as an NCAA Division I program. As an additional bonus, many clubs feeding into the NCAA system opted to affiliate with NGBs rather than other organizations (such as the YMCA or AAU) and drove membership and dues to these Olympic organizations. With increased resources and participation, NGB brand value increased; logo and co-branding values saw a rise as well.

USA Swimming provides a vivid case study for how American Olympic organizations have capitalized on the value of the NCAA system, which they do little to create or maintain. This once-small NGB experienced exponential growth in the early 2000's when Michael Phelps became a competitive and promotional superstar. USA Swimming and the USOC had played no direct role in cultivating Phelps' success, however. He came up under the North Baltimore Aquatic Club system, which is oriented towards the pursuit of college scholarships rather than the Olympics. When his coach, Bob Bowman, accepted a lucrative job coaching at University of Michigan, Phelps followed him there to train for a number of years. In 2004, Phelps won the first gold medal in a career that would eventually make him the most decorated athlete in Olympic history. Phelps' performance drove TV viewership and sponsorships that filled the coffers of USA Swimming, to its tremendous one-way benefit. Little, if any, of the growth during this period was due to effective business management or leadership acumen yet executive compensation soared – in 18 years, USA Swimming increased its CEO compensation by an estimated 700% (based on interviews with insiders as USA Swimming does not publicize historical numbers).[9] In short, Chuck Wielgus and his staff reaped the benefits of the Michael Phelps phenom; the new revenues that went to the USOC and USA Swimming did not flow to Phelps himself or his teammates.

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[7] The Football Bowl Subdivision (FBS) requires at least 16 varsity intercollegiate sports. These schools must "Annually offer a minimum of 200 athletics grants-in-aid or expend at least four million dollars on grants-in-aid to student-athletes in athletics programs." Available at: https://www.ncaa.org/sites/default/files/Football%20Bowl%20Subqa%2012%208%2014.pdf

[8] Scholarships, NCAA; available at http://www.ncaa.org/student-athletes/future/scholarships

[9] According to USA Swimming's 990s, USA Swimming's Executive Director Chuck Wielgus was paid $1,032,978.00 in 2016. https://www.usaswimming.org/docs/default-source/accounting/2016-form-990.pdf?sfvrsn=2

C. Recent NGB Funding Policy

In 2010, the USOC hired Scott Blackmun as its new CEO. Under Blackmun's leadership, the Committee adopted new strategies for allocating funds and continued to increase executive compensation. Within two years of his arrival, Blackmun and Chief of Sport Performance Alan Ashley led the adoption of a multi-tiered NGB funding policy. Under the new system, top-tier sports would be given substantial funding, while bottom-tier sports would only receive funding for business development. Many athletes and members of the athletic community criticized the tier system as unfair and misguided. The USOC stood by the model, however, apparently convinced that winning the medal count drives revenues and that sports with existing medal-potential should therefore be the organization's top priority.

IV. A Fresh Look at USOC Financials: Unearned Revenue & Wasteful Spending

Well-run businesses routinely evaluate revenues and expenses to determine where value is created. A look at recent USOC financial reports provides important insight into how the Committee's operations currently drive unearned revenue and wasteful spending.[10]

A. Unearned Revenue

In its most recent publicly available financial statement, the USOC 2016 Annual Report, the Committee reported revenues of $339M. This figure reflects the typical spike in years when the Games are held (in this case, the Summer Olympics); when averaged over 2013-2016, USOC annual revenue average is substantially lower at approximately $230M per year. Interestingly, while total annual revenue fluctuated significantly during this four year period, the relative percentage of revenue categories remained essentially constant. The USOC 2016 Annual Report breaks revenues into five broad categories: Broadcast Rights ($169M), Marks Rights ($104M), Other ($30M), Licensing Royalties ($21M), and Contributions ($15M). A closer look at the context for these figures reveals that the USOC generates little of the value from which it reaps financial benefit.

For 2016, as in the previous three years, broadcast rights make up the single largest revenue stream, bringing the USOC nearly 50% of its gross funds. This revenue is largely comprised of a percentage of the enormous NBC contract with the IOC, distributed to the USOC per agreement. Relative to the size of the distribution it receives, the Committee is obligated to provide only negligible deliverables under this arrangement.

Marks Rights and Licensing Royalties taken together account for $125M, or 37% of 2016 revenues. These categories represent the money generated by the market value of the US Olympic brand in the United States. As with broadcasting revenue, the USOC makes a

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[10] USOC Audited Financial Statements can be found here: https://www.teamusa.org/footer/finance

disproportionately small contribution relative to its share of this value. It is NBC, not the USOC, that undertakes the largest share of Olympic marketing efforts; much of the robust brand equity that benefits the Committee is therefore attributable to the network.

As the 2016 Annual Report makes clear, the monopoly rights granted to the USOC – i.e., broadcast rights, marks rights, and licensing royalties – are extraordinarily lucrative, generating 87% of its total revenue. This value holds steady even accounting for non-event years – for 2013-2016, these categories still constituted 87% of total revenue (with slightly different ratios among categories). The current system directs huge amounts of money, $294M in 2016 alone, to the USOC simply for serving as the congressionally designated national Olympic organization. The Committee receives this revenue regardless of its administrative efficiency or competence at supporting the value of the Olympic brand.

In summary, the vast majority of revenue received by the USOC requires very little effort or expenditure on the organization's part. These funds derive from value created and maintained by other Olympic stakeholders and the Committee's privileged legal status. In a sense, this arrangement is a feature of the U.S. Olympic system, not an abberation. Congress established the USOC as a monopoly over the Olympics for the benefit of achieving oversized revenues relative to expenses.

B. Wasteful Spending

The USOC not only benefits disproportionately from the value of the Olympics, its expenditure of this unearned revenue is also poorly managed. According to the 2016 Annual Report, the USOC had annual expenses totaling $260M: Sport programming ($110M), Athlete & Member Support ($80M), Other Programming ($23M), Marketing ($22M), Administration ($15M), and Fundraising ($10M).

At first blush, the USOC appears to spend a substantial amount of money on its primary mission of supporting Olympic athletics; the USOC reports 73% ($190M) of its 2016 expenses attributed to Sport Programming and Athlete and Member Support. If that figure were accurate, the USOC would operate with an overhead of around 27% - at the higher end of acceptable norms for a properly run non-profit. The USOC has unique qualities, however, that make its actual operational costs *lower* than a conventional non-profit.

Even a cursory look at its purported expenses reveals the Committee's significant inefficiencies. As discussed above, unique market conditions inflate the value of the Olympic brand for the USOC relative to its marketing expenditures. While reported annual marketing expenses of $22M would be reasonable for a normal business generating $125M from marks rights and licensing royalties, the Committee benefits from exceptionally strong brand value that is largely funded externally, and from unusually advantageous logo and licensing deals. Recall that the USOC is not the primary marketer of the Olympics (NBC) or Olympic sports (NCAA).

It is a well-known fact that sealed bidding or similar simple strategies can often produce a higher net proceed than a complex bidding process. This is because the simplified

acquisition process nets a cost reduction to the bidder and thus an increase in bid amount. It also can increase bid participation and reduce potential for staff bias that is inherent in complex bidding processes. With that in mind, it is entirely possible that a substantial portion of the $22M spent on marketing is not only unnecessary, but it may also decrease gross and net profits from licensing due to the nature of the agreements.
The marketing problems associated with the current USOC model are apparent in the Deloitte sponsorship. The following is a quote currently found on the Deloitte website: "*Deloitte has been a proud sponsor of the U.S. Olympic Committee since 2009, providing professional services that help enable Team USA to successfully compete on the global stage. As a trusted advisor, Deloitte has worked to shape long-term strategy and improve operational efficiency for Team USA.*"[11]

Though the terms are not public, the USOC has repeatedly acknowledged that the sponsorship with Deloitte is largely "in-kind" consulting services, rather than sponsorship fees. One of those "in-kind" services provided to the USOC is consulting on executive compensation; Deloitte validates USOC executive pay. These same USOC executives then determine the terms of the Deloitte Olympic sponsorship agreement. At a minimum, this is an enormous optical problem. Utilizing a sealed bid proposal would likely net more cash, as well as remove the problem of staff bias in choosing a sponsor which validates their pay scales.

The USOC reports that Administration and Fundraising combined for around 10% of its 2016 expenses ($25M), a figure that would, again, be appropriate if accurate. Anecdotal evidence strongly suggests that the USOC in fact spends far more on these overhead expenses due to bureaucratic sprawl and inflated executive compensation. With no publicly available detailed breakdown of these expenditures, the USOC's accounting of its overhead costs falls well short of transparency. There are considerable incentives for the Commission to provide vague, or even misleading, information regarding its administrative spending – independent rating systems such as Guidestar and Charity Navigator monitor such figures to determine whether non-profits are fraudulent.

Regarding the 73% of total expenses ($190M) reportedly spent on the USOC's mission of Sport Programming and Athlete and Member support, this figure raises two red flags. First, the USOC does not directly train or support any individual athletes, providing funding instead through other organizations (i.e., NGBs for various sports). Funding NGBs, however, is not synonymous with actually supporting athletes. Instead, much of the money goes to pay the salaries of the staff and operations at the NGB.[12]

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[11] https://www2.deloitte.com/us/en/pages/about-deloitte/topics/team-usa-olympic-sponsorship.html

[12] Will Hobson and Steven Rich, "USA Track and Field CEO has alarmed some insiders with his spending and style," Washington Post, October 7, 2016. USA Track and Field CEO Max Siegel is given $1.7 million in salary and bonuses, a compensation package seven times the average for the CEO of a nonprofit with a similar budget. Available at: https://www.washingtonpost.com/sports/olympics/usa-track-and-field-ceo-has-alarmed-some-insiders-with-his-spending-and-style/2016/10/07/ca470956-8a35-11e6-875e-2c1bfe943b66_story.html?utm_term=.b3aa7b8e314b

Moreover, the USOC's numbers simply don't add up. If we divide $190M by the total number of Olympians and Paralympians in a quad (approximately 1150), then each athlete would receive an average of $165k/year in funding. Even if you assume three athletes need to be supported for every athlete (Olympic and Paralympic) who actually make it to the Olympic Games, the average support from just the USOC would be $55k/athlete/year. The indisputable reality is that typical Olympic athletes receive a fraction of this amount in support. Moreover, the USOC only targets those athletes who can earn medals; it does not support three athletes for every one that simply makes the Olympics. So where is the money reported as athlete support actually going? A logical conclusion, particularly in light of the unique structure of the USOC, is overhead and Committee staffing.

C. Inefficient by Practice and Design

Monopolies and monopsonies left unconstrained do not follow the same economic rules as competitive businesses. Like all corporations, these organizations will seek profit maximization, but without normal market forces shaping their actions they achieve it in a different way from a competitive firm. For non-competitive businesses, bureaucratic growth and enrichment of management at the expense of the other stakeholders is the norm. As the only "purchaser" of Olympic athletes' labor, the USOC can also pay bottom-dollar for these services. (In contrast, administrative employees benefit from wage competition because the Committee has no monopsony power over staff labor).

As a non-profit, the USOC has no individual owners to capture the significant profits generated by its monopoly/monopsony structure. Its revenues have instead fed into bureaucratic bloat, unguided by planning or foresight, to the detriment of deliberate growth of its core mission. As revenues rise, managers grow departments and increase budgets. Expansion in turn increases apparent managerial responsibility and thereby "justifies" higher compensation. This cycle has repeated over the past 20 years as USOC/NGB bureaucracy ballooned and executive compensation skyrocketed. In essence, as revenue grows, the administrative system acts like a giant sponge, absorbing a disproportionate share of new funds. The phenomenon has become so entrenched that many athletes perceive the job of Olympic administrators as little more than creating and keeping those very jobs, with few employees having any real connection to their sport performance.

The USOC Sport Performance group illustrates how inefficiency pervades American Olympic administration. This department, historically comprised of 50-60 employees, adjudicates funding and support requests from NGBs and makes annual grants accordingly. This means dozens of full-time USOC employees analyze various sports and determine how to allocate Committee resources. The NGBs, nominally independent entities that function in fact as an integrated part of the Olympic system, engage in a mirror image effort on their side of the process to produce annual funding requests. All told, around 100 full-time employees are involved in the resource allocation juggernaut, at an estimated cost of approximately $10M each year. For this substantial outlay, the result is a bureaucratic maze widely acknowledged to add little value for its high cost. The allocation process plays out every year without any feedback loop for quality assurance, virtually ensuring that inefficiency persists.

The bonus compensation system at the Sport Partnership group also demonstrates a troubling management culture. According to the USOC Director of Sport Performance, staff are rewarded for successfully funding medal-winning sports. The allocation process thus functions as a kind of betting pool for employees, with staff incentivized to fund sports already likely to win medals rather than taking risks to grow new medal-potential sports.

V. USOC's Unique Structure Warrants Unique Governance

By federal law and decades of practice, the US Olympic Committee is both a monopoly and a monopsony. Despite their self-proclaimed independent nature, the NGBs that manage each individual Olympic sport program also operate as a component of this monopoly/ monopsony system. For practical reasons, including cooperation with the International Olympic Committee and compliance with International Federation rules, altering the fundamentally unitary structure of the USOC is impractical, perhaps even impossible. Reforms aimed at realistically reducing financial waste and improving governance should therefore focus on ensuring that stakeholders are protected from the immense power and potential for abuses inherent in a monopoly/monopsony system.

The monopoly power of the USOC was central to its original design and has brought many intended benefits to the nation's Olympic program. A single-seller structure primarily serves the crucial function of coordinating the nation's participation in the international Olympic movement. As the commercial power of the Olympics has grown, it has also enabled the Committee to generate large, sustained profits, relative to a normal business, from deep-pocket sponsors competing robustly for brand rights. These are the benefits. But protected from market forces that drive bureaucratic efficiency and accountability, the major risk from the monopoly-side of USOC operations is wasteful overhead spending that funnels money away from the organization's mission.

In contrast, the USOC's monopsony on Olympic athlete labor and services emerged only after the repeal of the amateur rule in 1986, and individual athletes have unfortunately borne its most egregious harms. With total control over the market for access to Olympic competition, the USOC and NGBs hold inordinate power over athletes, many of whom are particularly vulnerable due to the demands of elite-level competition. As recent events make plain, the power imbalance between American Olympic organizations and the athletes they are supposed to serve has resulted in exploitation that includes sexual, physical, emotional, and financial abuse. While athletes are ostensibly the true stakeholders of the Olympics, the USOC monopsony creates systemic opportunities for harm. Put simply, the institutions charged with supporting America's Olympic athletes have, over time, developed to take advantage of them.

VI. Improving USOC Governance: Oversight & Financial Reform

Exempt from normal market forces, monopolies and monopsonies both require outside regulation to function in productive and ethical ways. The current lack of USOC regulation has led to the predictable failures associated with these unconstrained business models. Waste and abuse in Olympic administration will continue, perhaps even worsen, without meaningful governance and financial reform.

A. Board Reform: Increasing Accountability

Congressional authority over the USOC justifies and warrants active oversight of the Committee's governance and operation. Congress has two credible options for exercising an effective level of oversight without causing undue or harmful influence into the practical aspects of national Olympic governance.

Option 1: Independent USOC Oversight Committee

One option for improving supervision of USOC operations is to preserve the current USOC Board structure and establish a new standing oversight committee, appointed by the Commerce Committee, with full audit authority over the USOC and NGBs. An independent USOC Oversight Committee should consist of well-respected non-profit or civic leaders with the requisite expertise to evaluate the business practices of the USOC and NGBs and report directly back to Congress on a routine basis. To bring about meaningful reform, any such committee would require a grant of significant authority over certain aspects of USOC administration, including involvement in overhead management, such as employee compensation policy and staffing levels. Congress must support this authority with robust enforcement measures, in order to incentivize compliance.

Option 2: Political Appointments to the Current USOC Board

A second option for making the USOC more accountable for its financial operations is to reconfigure the membership of its current Board to include political appointees. Congress could enact a hybrid model wherein the legislative and executive branch name, for example, one-third to one-half of USOC Board members (between 5 - 8 total), with the remaining spots appointed under the existing system.

Partisan concerns could be minimized under such a system by distributing the assignments between majority and minority leaders – one seat each determined by the Speaker of the House, House Minority Leader, Senate Majority Leader, Senate Minority Leader, and President. The participation of political appointees would ensure that the USOC Board answered to and was connected with political leadership.

B. Financial Reform: Reducing Wasteful Spending

Today's American Olympic program generates enormous revenue that arises, in large part, from the symbiotic relationship between extraordinary athletic performances and mass marketing. While the USOC does perform some unique functions in the process, such as submitting athletes to the Olympics, selling the Olympic logo, and monitoring NGB compliance, the USOC does not train athletes nor does it provide substantial value to the brand. Financial reforms are needed to keep the USOC supported in its limited mission as efficiently as possible. The overarching goals should be to prevent the USOC from unnecessarily absorbing funds into its own bloated administration and to instead direct funds through the system to competitors, the real constituency of the Olympic program. Effective financial reform of the USOC to this end must take a multi-prong approach.

1. Mission and Institutional Competency Assessment

This effort must begin with a thorough analysis of USOC operations to determine which of its current actions and responsibilities come within its unique capacity. Currently, accounting measures that may conform to industry standards nevertheless obscure the institutional competencies and inefficiencies of the USOC.

2. Streamlining USOC Operations

Once the Committee's operational competencies have been identified, financial reform must focus on limiting the USOC to an optimal size and scope. Committee spending should be restricted to its unique institutional duties and to activities where a national organization can provide economies of scale that are impossible for lower-level groups. Reform should also include external auditing procedures to address unnecessary administrative growth. With no internal controls or efficiency incentives in place, the USOC will remain prone to wasteful bloat.

3. Redirecting Funds from Management to Athlete-Level

Along with shrinking the USOC to a more efficient operational size, financial reform must also adjust the flow of funds within the organization. Regulations should discourage revenue pooling at the management-level and require the flow of resources to athletes, to the maximum extent possible. Accounting practices should state the amount of money going to athletes for them to live and train; rather than "athlete support" – a term that includes many staff positions that currently do not benefit athletes training and competing.

4. Improving NGB Governance and Equitable Funding of All Sports

NGBs play a major role in the allocation of Olympic revenues and should be held to the same transparent, non-profit best practices as the USOC, including adherence to employee compensation standards and efficient administrative scale. To ensure that NGBs comply with these requirements, organizations that fail to do so should face decertification.

To improve funding equity across the full range of Olympic sports, all NGBs in the monopoly system that comply with the operating standards set by the USOC and meet outside non-profit finance and governance criteria should receive a minimum financial distribution from the monies generated in the Olympic monopoly. A reasonable benchmark would be .5% of gross revenues into the USOC on an annual basis. This share comprises just over 20% of gross revenues from the monopoly and would allow the USOC substantial discretion for additional agile spending. With guaranteed minimum funding, NGBs can reduce the administrative costs associated with funding core functions at a basic level. An equal distribution system would help provide all American Olympic athletes with their fair share of support, helping to close some of the most extreme funding disparities in the system.

5. Establishing a USOC Inspector General

Effective financial reform of the USOC must include establishing an independent, secure authority empowered to receive complaints, investigate facts, and make determinations of wrongdoing. For example, the USOC could create an Inspector General position that would provide athletes and NGBs with an official forum to raise concerns about wasteful spending and other athlete abuses by the USOC. Recent events have shown the unquestionable imperative for providing clear, accessible paths to report malfeasance within the Olympic system. An independent Inspector General would signal a commitment to transparency in USOC operations sorely needed to restore the trust of athletes and the American public.

6. Require Excellence in Business Management

The USOC should have an overtly stated aspirational goal of becoming the best-run non-profit in the country. This should be a cultural driver throughout the organization and should direct the financial and governance decisions of the corporation. If athletes are expected to be the best in the world, the organization which serves them should strive for the same.

VII. Conclusion

The U.S. Olympic movement has seen explosive growth in recent years, with unparalleled prestige, public support, and commercial investment. But the outdated organizational structure of the USOC has led to significant inefficiency in the distribution of revenue, including its failure to spend money to protect athletes from sexual abuse. The USOC has also adopted the practice of runaway executive compensation and the exploitation of athlete-labor; our Olympians. In its current state, the Committee operates with significant weaknesses from both a monopoly and free market model – unresponsive to forces that normally lower bureaucratic costs. Congressional reforms are urgently needed to increase accountability for spending, limit unnecessary bureaucratic expansion, and reorient the USOC to its primary mission of supporting the nation's Olympic athletes.