




# Olympic Risk

What will the Olympic bid cost Chicago?

By Carolyn Tang



**A**ccording to Chicago 2016, the committee heading up Chicago's bid to host the 2016 Olympic and Paralympic Games, the city would benefit from "enormous visibility on the global stage" if it were to be selected as the venue for these prestigious events. Such an opportunity is expected to enhance Chicago's global reputation by highlighting the city's cultural and educational institutions, strong business community and overall diversity. Tourism dollars would flow, the unemployment rate would shrink and the local population—including the city's youth—would benefit from the long-term use of structures built to house the Olympics. "Through our legacy organization, World Sport Chicago, Chicago 2016 is already making an impact on the city, introducing thousands of kids to Olympic and Paralympic sport by increasing the sheer number of programs available and enhancing those that already exist," says Patrick Sandusky, spokesperson for Chicago 2016.

But at what cost?

"The cost of this bid, as near as we can add it up, is \$5 billion," says Tom Tresser, communications coordinator of No Games Chicago, a coalition of activists that believes hosting the Games would not be the best use of funds, especially given the budgetary health of both the city and the state. "It's a lot of money to spend to get some visitors here."

Tresser's estimate may not be far off. The *Chicago 2016 Economic Impact Analysis*, a report commissioned by Chicago 2016 and issued in February 2009, lists the following costs: For temporary venue construction and operation, \$994 million; Games planning and delivery, \$2.4 billion; and Olympic Village construction, \$1.2 billion. Of this \$1.2 billion, \$100 million would be allocated to constructing the permanent portion of competition venues.

Despite the price tag, Chicago 2016 continues to project economic and financial benefits, with no risk to the taxpayer. "Chicago 2016's Games plan would be entirely privately financed, and no taxpayer dollars will be used," says Sandusky. "Projections that have been the result of careful research put the cost of operating the

Games, from building venues to hiring employees, at \$3.3 billion, and estimated revenue from ticket sales to sponsorships at \$3.8 billion."

In fact, Chicago 2016's report explains that the total incremental economic impact of hosting the Games is expected to be \$22.5 billion. Of that, \$13.7 billion would be realized by the City of Chicago. This number includes total incremental revenues from all sources of income, as well as indirect business taxes and labor income. This report, however, was based on preliminary estimates developed in late 2006 and early 2007. And indeed, with the Olympic/Paralympic Games seven years away, forecasting costs and benefits this far in advance is certainly a risky exercise, especially since the City of Chicago is not best known for accurate forecasting.

"We're talking about construction costs five years from now," says Tresser. "This from the city that brought you Millennium Park overruns, the Monroe Street Parking Lot overrun, the Soldier Field overrun, and the overruns on O'Hare Airport going up to \$10-15 million." He

believes that the potential overrun associated with Chicago hosting the Olympic Games would make those prior estimates look like "chump change."

In response, Chicago 2016 officials point to the strong public-private partnerships in Chicago as proof that the city has what it

takes to host the Games. Some criticize Millennium Park as being over budget. Chicago 2016, however, says the scope of the project changed—an issue that is not a concern for bid planners. "Our Candidate File clearly outlines the costs associated with hosting the Games and the scope of this endeavor is very clearly defined," says Sandusky.

Olympic Games history, though, lends support to Tresser's concerns. Dr. Will Jennings is a research fellow at the University of Manchester, UK. His studies focus on governments' and organizers' management of risk in bidding for, planning and staging the Olympic Games. He points out that there was a deficit of around \$1 billion linked to the 1976 Montreal Olympics. "The financial risks associated with hosting the Games can be significant. Over the past 30 years, staging costs have varied, but typically the final figures have far outreached initial estimates," he says.

The uncertainty associated with the Vancouver 2010 Winter Olympics, due to be held in February of next year, is a case study that hits close to home. Fortress Investment Group, a New York-based hedge fund, dropped financing of the Olympic Village after the city of Vancouver's credit rating was downgraded by Moody's Investors Services in January. Subsequently, Vancouver covered construction costs with a \$100 million bailout loan. "And Vancouver must complete the Village. They have to do it. They have to go into debt and they have to do whatever needs to be done to satisfy the Olympic contract," says Tresser.

In addition to this obligation, the Canadian federal government indicates that the estimated \$175 million cost associated with providing security for the 2010 Games has now soared to \$900 million, more than five times the original projection. Experts suggest that this increase is related to political issues, increased gang violence and potential protests.

Tresser also points out that the London Olympics, to be held in 2012, is over budget by \$9 billion. And, in fact, in May 2009, Tom Russell, the man who oversaw the development of London 2012's Olympic legacy plan, left his post after less than 18 months on the job. No reasons were given for his departure.

Given prior history, Tresser is understandably worried when the Games' track record is extrapolated to include Chicago 2016. "Our federal government is broke today. The State of Illinois is \$12 billion in the hole. The City is \$290 million in the hole," he says. "Yet we can somehow find \$86 million to buy Michael Reese Hospital, and they're going to tear it down when we need more health clinics, we need more doctors, we need more places for people to go."

"The apparent ubiquity of Olympic risk is an inevitable symptom of the increasing complexity of the physical and organizational structure of modern Olympic Games," says Jennings. "Risk casts its shadow through the potential contingency of public support and political and reputational risks attached for government and organizers."

Chicago 2016 bid officials counter that their proposed Games plan is economically responsible and sustainable, even in today's turbulent economic climate. "Chicago is fortunate enough to have the largest convention center in North America—a venue that would be utilized to its fullest potential if Chicago is chosen as host city," says Sandusky. In fact, McCormick Place would be home to 11 Olympic and 8 Paralympic sport competitions, and would be home to the Main Press Center and the International Broadcast Center. "London is essentially building a facility that already exists today in Chicago," says Sandusky.



"There is no reason why this Games should not be 'the best games ever' in keeping with the post-Olympic proclamation of the International Olympic Committee (IOC) in recent times. However, with continued growth in the scale and complexity of organizing the Games, this most recent installment may also be the riskiest yet," says Jennings.

Jeff Owen is an assistant professor with the economics and management department of Gustavus Adolphus College in St. Peter, Minn. He specializes in sports economy and previously studied the cost and benefits associated with the 2008 Olympic Games in Beijing.

"Even if the Olympics could be part of a fiscal stimulus, the time delay between when you bid for the Games and when they are held is so long that you could never plan the Olympic building program for when the economy is slow," he explains. "The winning city is announced seven years in advance. No one can forecast how the economy will be doing that far into the future."

Owen states that there are several misconceptions associated with forecasting the economic benefits of being an Olympic Games host city. Of these, one of the biggest is treating costs as benefits when trying to determine economic impact. "The expense of the stadium, which does include local labor and materials, is a cost. It is resources devoted to one purpose that can no longer be used for something else," he says.

Owen also explains that, in many cases, the cost of constructing stadiums is largely comprised of hiring construction workers and purchasing materials from local suppliers. These costs are often considered a benefit to the local economy. According to Owen's study of the Beijing Olympics, which was published in *The Industrial Geographer*, "This is arguably the most egregious error in economic impact studies. It is backward-looking in that it looks at the production aspect of the project and ignores the effect of the actual consumption of the product."

Another example of cost being portrayed as benefit is the claim that winning the Olympic bid and hosting the Games would result in a decrease in unemployment. Chicago 2016's commissioned report states that 315,000 job-years would be created between 2011 and 2021.

Owen says that a period of unemployment can reduce the opportunity cost of the stadium by utilizing labor and other resources that would not otherwise be employed, but, he adds, this is not a justification for the Olympics.

"The Keynesian economic theory on which this is based is a macroeconomic theory. The benefit of public spending exists no matter what it is spent on and should not be credited to a particular project," he explains. "Those resources could be spent on other infrastructure projects such as roads, etc."

Tresser agrees, and says that funds from Chicago's philanthropic community would be of better service to the local community if applied to other projects. "In times that are so hard, when people are so stressed out, the economy is collapsing and the social safety network is completely frayed," he says. "For Chicago's philanthropic community to put their money into the Games is reprehensible."

"The way you get economic growth is by building roads and infrastructure. Build another El line. Build a school. These are the things that bring long-lasting benefits to a local economy," Tresser adds.

He is also concerned that civic resources are being diverted toward bid preparation. He suggests that the staff of Chicago 2016 is comprised of former City Hall employees who were reassigned

from Mayor Daley's administration to run the Games. Of note is Lori Healey, who was the Mayor's chief of staff, and is currently president of the Chicago 2016 committee. Earlier this year, Arnold Randall left his post as commissioner of the Department of Planning and Development to become director of neighborhood legacies for Chicago 2016. "So, essentially, the 2016 committee is an adjunct of the fifth floor of City Hall, just privatized," Tresser contends.

Chicago 2016 responds that having former city staffers on the team ensures that the bid's proposed Game plan meets the needs of the city and its residents. "Lori and others bring a tremendous amount of insight and expertise to the table that helps us put a beneficial legacy plan in place so that residents, and particularly youth, realize the long-term benefits of hosting the Games," says Sandusky.

Tresser also argues that the city is redirecting resources from other offices to support the bid, without public approval. "The Chicago Park District has signed a master contract with the committee basically turning over park land to be used for the Games should we get them, with no oversight, no discussion. Washington Park, Douglas Park, Lincoln Park, Jackson Park and the harbors will all be turned over to the Olympic Committee for construction, more construction and complete disruption," says Tresser.

According to the Chicago 2016 Committee, though, any disruption is worth it. The committee points to its publicly available reports, in which one of the main benefits it touts is an increase in tourism dollars before, during and after the Games. In its February 2009 report, specifically, the committee references Games in Atlanta, Athens and Barcelona, and cites relevant financial gains:

- Atlanta: "[C]urrently has almost 280 more international businesses in the region than it did prior to the 1996 Games."
- Athens: "Since the 2004 Games in Athens, the number of tourists visiting Greece increased by 5.6 percent and 8.4 percent in 2005 and 2006, respectively."
- Barcelona: "[F]rom 1990 to 2002, the number of hotels nearly doubled to 215 from 118, and the number of overnight stays grew to 8.7 million."

As both Tresser and Owen point out, however, this may not be the case for Chicago. "Chicago's economy, and its place in the world economy, is already well established. The Olympics are not necessary to spur any infrastructure investment," says Owen. "Instead they are more likely to divert resources away from more practical needs."

Additionally, Tresser believes that the Olympics may dissuade companies from doing business in Chicago. "Research indicates that when the Games come to town, the convention business stays away. Chicago is already a major destination for tourism, for both business and pleasure, but when it's known that the Games are coming, all your convention business will avoid that time period," he says.

While the fiscal viability of hosting the Games is still in question, Owen feels that the Olympics don't have to be economically beneficial for people to support hosting them. "Personally, I would find being in an Olympic city a fascinating and memorable experience, and would be willing to see some of my tax dollars go toward making that happen," he says. "As an economist, my point is not that a city should never want to host the Olympics, but that we should be more honest to local residents by saying, 'If you want to be an Olympic city, you are going to have to pay for it.'"

As the debate wears on, both supporters and naysayers anxiously await the looming IOC decision on October 2, 2009. □