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Assessing Vancouver after facts, accusations, shades of truth

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You may recall almost a year ago when we chided Beijing bureaucrats for glibly announcing the 2008 Olympic Games reportedly made a tidy operating profit of $146 million. We were concerned then about the challenges of assessing true economic impact for a mega-event, the traditional underestimation of "legacy" intangibles and the "circus politics" of these reports.

Well, Vancouver 2010's turn to pontificate is imminent and, although you'll likely hear different, we're confident VANOC and the city of Vancouver lost money but gained equity. In fact, we think, based on information trickling out of Lausanne, Switzerland, that the International Olympic Committee is sufficiently prepared to help compensate VANOC for revenue losses tied to the shattered global economy (2008-10) and pre-Games weather.

Driving this issue is a little-read report given to the Vancouver City Council (heard in late April and based on preliminary data) suggesting that after the Canadian and British Columbia governments picked up a tab of about $175 million (all figures Canadian), the estimated bill for Vancouver would approach, if not exceed, $600 million.

In simple terms, the morning-after economic indicators are clearly pointing south.

But what if various Vancouver parties did lose money? Is that all bad?

Our assessment: It isn't. That's because the cost of building things or growing city reputations can't always be booked as losses. As we noted previously, never underestimate the future economic value of intangibles like city pride and volunteerism, or the indirect benefits like tourism and brand enhancement.

But start with this: If economists were given full access to all Vancouver data, they would likely suggest Vancouver did well from a capital perspective although the city's cash flow analysis and projections were ugly.

Additionally, the fact that none of Vancouver's capital benefits (highways, athletic facilities, social housing, etc.) and intangible gains would have happened when they did without the procurement of the Games is important here. How we determine the value of these benefits drives how independent parties view Vancouver's economic success or failure.

Third, relatively speaking, debt of $600 million, amortized over the long term, is not horrific. Although the city had to take over the athletes village project when its original financier pulled out (thought to be about $1 billion), you must remember Vancouver was Canada's third Olympic Games in 34 years. That gives us two extreme precedents:

GETTY IMAGES
The city of Vancouver took over financing of the athletes village after the original financier pulled out.

- Conservative Calgary, at one end of the spectrum, enjoyed estimated profits in the neighborhood of $100 million, not including government-funded infrastructure projects, which funded many initiatives and grew as an endowment under the Calgary Olympic Development Association.

- Manic Montreal sits at the other end with an estimated debt of $1 billion. Its legacy includes numerous facilities that hung like albatrosses around the city's sagging neck.

But if we benchmark versus other Olympic cities, there are marketing positives to infer. Think of the benefits of putting a city on the map for tourism and economic development (e.g., Sydney, Atlanta), or building unprecedented awareness for a ski resort region (e.g., Lake Placid, Albertville).

City branding as a concept is now well-established and holds the potential to offer long-term benefits for many municipalities, although quantifying is difficult and expensive. Contemporary scholars know this and are working on research showing how sponsors can indirectly benefit from strong city branding via mega-event management.

Finally, as hinted above, keep in mind Vancouver's budget assessment is only one piece of the budget equation. Three other organizations pitched in considerably. The final numbers of VANOC, the province and the federal government are not yet out. Their budgets were $1.75 billion, $763 million and $898 million, respectively. Combined, that's $3.41 billion invested in a region that features a great ski destination, one NHL team and one MLS expansion unit (the Whitecaps start play in 2011).

"It's all fabulous but it was very, very expensive," said Vancouver City Councilor Geoff Meggs, in comments published in April by The (Toronto) Globe and Mail. "The largest part is in the capital costs, and it cost more than it should have. There was no budget control under the [previous] administration."

Vancouver City Councilor Suzanne Anton suggested Meggs was missing the point. She told The Globe and Mail, "The report makes the expenses look exceptionally high because the city's budget office included every project completed in advance of the Olympics, even if it was already on the books to be done."

Wars with words are born in the reality of casual economics. As soon as a city wins a major event bid that requires construction (i.e., the Olympics) the cost of concrete, cranes and crowbars doubles and triples. Why? The simple answer is massive locked-in demand, specialized suppliers and limited supply. Add to that an immovable deadline and global scrutiny, and it's a foreman's dream.

To that end, we looked to the cities of Calgary (1988), Albertville (1992), Nagano (1998), and Salt Lake City (2002) — all in comparable locations to Vancouver. In each case, the local organizing committee broke even or reported a modest profit. However, in all but Salt Lake City, government bodies kicked in substantially for infrastructure.

Despite numerous challenges, we've mixed art with forecasting science to suggest VANOC will ultimately announce a profit of $29 million, not including the capital investments in roads, stadiums, etc. (which we are assuming as a break-even for the city).

So there you have it … we sat on the fence. We've reported the city of Vancouver "lost" money but believe VANOC will announce a "profit" just to make sure the politics of the circus remain friendly.

Call it modern sports economics at work.

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