

DePaul Arena and McCormick Place Entertainment District

This past spring, Mayor Rahm Emanuel announced plans for a 10,000 seat, \$173 million dollar arena located adjacent to McCormick Place. Plans call for the creation of an entertainment district in the area and the construction of two hotels and associated retail, restaurants, and bars. The funding for the proposed arena project would consist of two sources: \$70 million from DePaul University and \$103 million from the Metropolitan Pier and Exposition Authority, known as McPier. The City of Chicago would contribute \$55 million in TIF subsidy to acquire land for a hotel, while McPier would fund an additional \$400 million for the hotel's development. Notwithstanding the inherent policy-based arguments against using \$103 million in public funds for the development of a private arena, this project has several shortcomings that render it as a poor public investment. Citing academic studies, scholarly journals, newspaper articles, Congressional testimonies, and the inaccuracy of the feasibility report used by the Emanuel administration to justify the project, this assessment outlines how the arena and hotel development's cost to the public may greatly outweigh any projected or estimated benefits.

Executive Summary

1. Inaccurate Data and Unreliable Methodology

The Emanuel administration and Metropolitan Pier and Exposition Authority claim that the project will attract new visitors to the City, generating a significant amount of spending. The financial figures projected by the feasibility studies are based on attendance and event numbers that are unjustifiably optimistic. Using inflated and inaccurate data fundamentally skews the estimates formed, and makes it impossible to develop reliable financial projections. The conclusions are further invalidated through the methodology used, as basic economic realities are trivialized or ignored. The feasibility reports do not provide an accurate assessment of the project and its effects.

2. Misrepresentation of Economic Effects

The construction of the arena and hotel near McCormick Place could negatively affect existing businesses in Chicago that currently serve McCormick Place visitors. The economic activity that would take place in the area would not be newly generated but transferred from elsewhere in the City, and would have a negative effect on existing establishments throughout Chicago that generally cater to out of town visitors at McCormick Place. These businesses would not only be harmed, but would fund the very developments that would go to diminish their customer base. The feasibility study conducted by HVS and the AECOM pro-forma statement released by DePaul wholly ignore the negative effects that the overall project could inflict upon existing Chicago establishments.

3. Poor Public Investment

Economists and academic experts who study publicly funded arenas, hotels, and convention centers on a national scale generally regard such public-private partnerships as a poor use of taxpayer money. Rarely do such projects provide a return on investment, and development costs are often significantly higher than original estimates claim. Like many public-private partnerships of this nature, the spending projections for this project are underestimated, and City officials fail to compare the cost-benefit relationship of the overall project to alternative investments; most significantly, the Emanuel administration discounts the positive impact that these public funds could have on easing the City's pension obligations.

Inaccurate Data and Unreliable Methodology

The Metropolitan Pier and Exposition Authority and DePaul University each commissioned studies to justify the project: one conducted by HVS and another conducted by Los Angeles based engineering and design company AECOM (in conjunction to conducting the feasibility report, AECOM also helped to design the facility),¹ respectively. While these two reports come to similar conclusions in justifying the project, they differ from the majority of assessments concerning similar public subsidies.

Both academic and executive studies consistently conclude that publicly subsidized projects of this type do not generate the attendance figures and economic results that are purported. In a separate study regarding the development of an enclosed sporting stadium in New York City, HVS concluded that enclosed sports venues are rarely used as exhibition spaces or to supplement large convention events.² They cannot be counted on to draw new visitors to an area, and as a result do not generate new spending or provide significant economic development.

The New York study looked at multipurpose sporting venues as complements to convention centers. When adjacent to convention centers, they are rarely used as exhibition spaces and host just a small number of non-sports related events—an average of 11.3 per year. The majority of non-sports events that do occur are not conventions or tradeshows, but rather local events such as overflow consumer show exhibitions, band competitions, and entertainment events that do not generate significant economic impact. Furthermore, interviews with event planners revealed that projects such as the DePaul arena have several inherent drawbacks that act as a deterrent to planners. These include scheduling conflicts with sports tenants, difficulty in supplying exhibitors with utilities, higher climate control costs, and difficulty managing sound and lighting conditions. The study concluded that, “The suitability and competitiveness of these enclosed stadiums as convention center spaces is poor, as evidenced by the relative lack of non-sports event activity existing peer stadiums attract.”

Further evidence of this is documented in an academic study completed by economist Dr. Robert R. Nelson, entitled “Convention Centers As Catalysts for Local Economic Redevelopment.”³ Nelson wrote that, “While multipurpose centers can accommodate both exhibitions and spectator sports, they are not ideally suited to either. This makes them increasingly difficult to sell in today’s competitive market where there are so many excellent, single use facilities to choose from.”

In reporting on the McCormick place project, the Chicago Tribune wrote that, “...building such facilities hardly guarantees their success as thriving enterprises that draw business to neighboring convention centers and revitalize dormant areas. There is absolutely no evidence that arena facilities make a

¹ "Chicago's Pier Authority Board Unanimously Approves DePaul Univ. Basketball Arena Design." *Sports Business Daily*. 24 Sept. 2013. Web.

² *Commentary on the Suitability of the Proposed Jets Stadium as a Convention/Tradeshow Facility*. Rep. HVS Convention, Sports & Entertainment. Print.

³ Nelson, R. R. (2000). *Convention centers as catalysts for local economic development*. (Order No. 9952272, University of Delaware). *ProQuest Dissertations and Theses*, , 221-221 p. Retrieved from <https://login.ezproxy1.lib.depaul.edu/login?url=http://search.proquest.com/docview/304584539?accountid=10477>. (304584539).

difference in the performance of convention centers, said convention expert Heywood Sanders, a professor at the University of Texas at San Antonio. Faced with an enormously competitive market, every city tries to do the same thing...it's an arms race. Stadium expert Marc Ganis, president of Chicago-based SportsCorp, believes operating expenses will run upward of \$10 million per year, outstripping revenue potential and demand. Despite a sky bridge that would connect the facilities, he sees little synergy with McCormick Place. It's simply a basketball arena that's adjacent to a convention center...it's an incompatible use."⁴

As such, facilities like the proposed DePaul arena cannot be counted on to draw a significant amount of new visitors and events. Therefore, the project would not inspire significant economic development or generate the financial figures projected in the feasibility reports.

The HVS report and AECOM pro forma statement used to justify the construction of the arena and development of an entertainment district differ as to the estimated costs and revenues; however what they do have in common is a gross overestimation of the number of events to be held, attendance figures, and associated revenue streams. Crain's Chicago Business reported that, "Despite promises from city officials, DePaul has refused to release anything more than a one-column pro forma financial statement drawn from the study..."¹ A summary of the financial conclusions of the two studies (obtained from Crain's Chicago Business) can be seen on the following page.

The financial conclusions that both studies come to use data that is misleading and not entirely accurate. The HVS study concludes that the project will generate \$251 million a year in Gross Spending and \$108 million in Net Spending. Gross Spending refers to all new spending generated by the projects in the McCormick Place Entertainment District while Net Spending includes only new spending imported into Chicago from outside sources.⁵

According to the studies, a significant percentage of the spending generated in the area would come from attendance at DePaul basketball games. The HVS study claims that the DePaul men's basketball team will host 16 games at the arena with an attendance of 9,500 per game, for a total yearly attendance of 152,000. This would constitute roughly 41% of the total amount of yearly attendees for all events at the arena, which HVS predicts will be 370,000. These conclusions are not realistic, as the attendance numbers reported to HVS are significantly higher than the actual attendance figures. The HVS study does not account for DePaul women's basketball games, which will be played at the arena—if included however, the conclusion of this assessment would be the same.

⁴ Hirst, Ellean J., and Kathy Bergen. "McCormick Place Entertainment District Proposal Gets Makeover." *Chicago Tribune* 25 Jan. 2014. Web.

⁵ *Neighborhood and Economic Impact Analysis: McCormick Place Entertainment District*. Rep. Chicago: HVS Convention, Sport& Entertainment Facilities Consulting, 2013. Print.

	HVS FINAL	AECOM INITIAL	VARIANCE
Total Number of Events	68	113	-45
Total Annual Attendance	380,000	559,191	-179,191
<u>Event Income</u>			
Net Rental Income	\$764,000	\$874,000	\$-110,000
Ancillary Income:			
Food and Beverage	\$633,132	\$796,143	\$-163,012
Novelty	\$104,119	\$167,660	\$-63,541
Parking	\$774,500	\$925,439	\$-150,939
<u>Total Ancillary Income</u>	<u>\$1,511,750</u>	<u>\$1,889,241</u>	<u>\$-377,491</u>
Other Event Related:			
Ticket Incentives	\$189,727	\$229,812	\$-40,084
Facility Fees	\$375,500	\$501,450	\$-125,951
<u>Total Other Event</u>	<u>\$565,227</u>	<u>\$731,262</u>	<u>\$-166,035</u>
<u>Total Event Income:</u>	<u>\$2,840,977</u>	<u>\$3,494,503</u>	<u>\$-653,526</u>
Other Operating Income			
Advertising/Sponsorship		\$1,230,000	\$-1,230,000
Luxury Seating	\$558,000	\$368,730	\$189,270
Club Seating	\$171,000	\$120,000	\$51,000
Miscellaneous	\$15,000		\$15,000
Total Other Operating	\$744,000	\$1,718,730	\$-974,730
<u>Adjusted Gross Income:</u>	<u>\$3,584,977</u>	<u>\$5,213,233</u>	<u>\$-1,628,256</u>
Indirect Expenses:			
Full Time Sals & Wages	\$1,308,450	\$1,219,979	\$88,471
Part Time Wages	\$310,750	406,660	\$-95,910
Benefits	\$418,499	\$390,393	\$28,106
Other Indirect Expenses	\$524,500	\$474,436	\$50,064
Utilities	\$650,000	\$587,397	\$62,603
General & Admin	\$283,000	\$257,551	\$25,449
Insurance	\$112,097	\$101,213	\$10,884
Repairs & Maintenance	\$125,000	\$180,738	\$-55,738
<u>Total Indirect Expenses</u>	<u>\$3,732,296</u>	<u>\$3,618,366</u>	<u>\$113,930</u>
Adjusted Gross Profit	\$-147,319	\$1,594,867	\$-1,742,186

Crain's Chicago Business reports that, "DePaul University's men's basketball team would have to more than triple its annual attendance to meet the estimates made by the Metropolitan Pier and Exposition Authority (McPier) for a new event center near McCormick Place...the practice of inflating attendance numbers based on ticket sales is not new among private institutions and professional teams, particularly those that own their facilities. The problem in this case, though, is that the economic impact study

prepared by Mineola, N.Y.-based hospitality consulting firm HVS and commissioned by McPier to validate the demand for an event center appears to be based on DePaul's reported number, not the actual number."⁶

According to Crain's Chicago Business, the total attendance number for the last season was 44,771 and the average attendance per game was in fact 2,610. This is in stark contrast to the numbers projected by the HVS feasibility report, which misguidedly project a yearly attendance of 152,000. In reality, this number would be much closer to 41,760—the average yearly attendance for the last 3 years. The HVS study used by the Emanuel Administration and McPier to justify the project overestimates attendance at DePaul games by 110,240. Instead of constituting 41% of the overall yearly attendance (like the study projects), DePaul basketball attendance would in all likelihood account for just 11% of the total yearly attendance.

While the construction of the development and nearby Green Line stop may help increase attendance figures, it is highly unlikely that the actual attendance will reach the projected numbers. As the data used in the studies was highly inflated, it stands to reason that the final projections are inflated in kind. The economic activity and actual amount of spending generated would be significantly less than estimated.

Each study assumes that the arena will lease 22 "executive suites," priced at \$45,000 a year and 300 "club seats" priced at \$1,500 a year. The AECOM study further assumes that \$1.2 million in naming rights will be collected each year by DePaul. These figures are misleading. The naming rights have yet to be sold, and while suites and seats purchasing would contribute some money, there is little to indicate that the project will generate the revenue estimated. These figures could be much lower than projections claim.

Simply put, the financial projections used to justify this project rely on misleading, inaccurate data, and an unreasonable expectation of a full events calendar.

Misrepresentation of Economic Effects

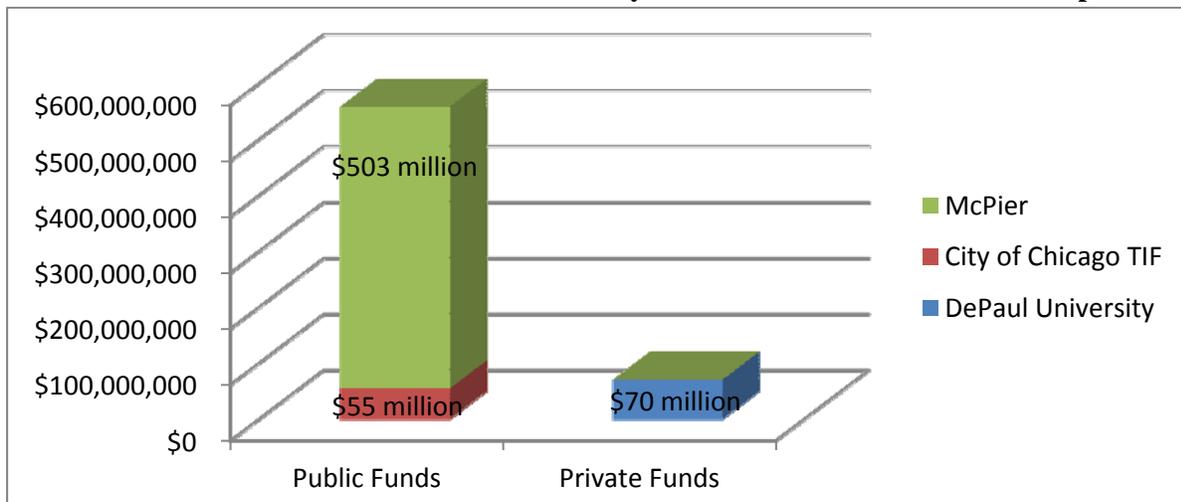
Supporters of the project justify the arena and entertainment district by claiming it will generate economic development in the area by bringing new spending into the city. While the project may increase overall attendance numbers for McCormick Place and the arena, it would not draw a significant amount of new visitors and new spending, and would therefore not generate much economic development. The project would merely displace already existing expenditures and could negatively affect existing Chicago establishments. The people spending money in the area would be individuals who are already in the City, and who would already be spending their money in other parts of Chicago. The businesses outside the immediate McCormick Place area that currently cater to these individuals would be negatively affected, as that spending would be transferred to elsewhere in the City.

What's more, the publicly funded Metropolitan Pier and Exposition Authority would use money from a bond fund backed by hotel-motel taxes to fund \$503 million of the land acquisition and development costs.⁵ McPier is funded by a variety of Chicago taxes, including a 1% tax on restaurant sales, a 2.5% tax

⁶ Ecker, Danny. "DePaul Basketball Attendance Well Short of McPier Projections." *Crain's Chicago Business*. 29 May 2013. Web.

on hotel and motel rooms, a 6% tax on auto rentals, and a variety of fees for taxi/livery departures from O’Hare and Midway airports (a \$4, \$9, \$18, or \$27 charge depending on the type of vehicle). The hotel-motel tax, which was raised in 2012, specifically backs the money from the bond fund used for the developments. The businesses that are funding the project through their tax payments would be negatively affected by the development of the McCormick Place hotels. Pulling or capturing visitor spending in a new district created around McCormick Place would harm the very businesses that subsidize the annual operating losses of the convention center. Joe Cahill of Crain’s Chicago Business wrote that, “A new hotel near the convention center might keep its rooms full, but only at the expense of other city hotels.”⁷

Public and Private Investment for Currently Planned McCormick Place Development



At a Congressional Hearing entitled *Build It and They Will Come: Do Taxpayer-Financed Sports Stadiums, Convention Centers, and Hotels Deliver As Promised For America’s Cities?*, expert witness Dr. Heywood Sanders (a professor at the University of Texas and the former Senior Program Analyst at the Office of Evaluation, Community Planning and Development of the U.S. Department of Housing and Development) testified that, “...these publicly owned hotels are directly competing with privately owned and privately financed hotels...The result has often been to seriously impact the local hotel market, reduce rates, reduce returns and intriguingly, in the case of Houston, force a Hyatt hotel in the downtown area to foreclosure. So we, in essence, have a situation where having made an investment that has proven remarkably modest in terms of its economic impact and productivity, cities now pour even more money into the hotels that were supposed to be generated privately.”⁸

As Dr. Sanders explains above: the development of publicly funded hotels in lieu of private investors can ultimately contribute to a negative economic effect.

⁷ Cahill, Joe. "Why You Should Doubt McCormick Plans." *Crain's Chicago Business*. Crain's Chicago Business, 17 June 2013. Web. <<http://www.chicagobusiness.com/article/20130615/ISSUE10/306159977/why-you-should-doubt-mccormick-plans>>.

⁸ United States. Cong. House. Committee on Oversight and Government Reform. *Build It and They Will Come: Do Taxpayer-Financed Sports Stadiums, Convention Centers and Hotels Deliver As Promised for America's Cities?* 110 Cong., 1 sess. H. Doc. HRG-2007-CGR-0017. *Proquest Congressional*. Web.

Specific to Chicago, the construction of the arena and entertainment district would also have a negative economic effect on the UIC Pavilion—a similarly sized and thus far financially sustainable facility. The proposed DePaul arena would act as a competitor to the UIC Pavilion and could harm its financial sustainability. Crain’s Chicago Business reported “some acts decamped for larger competitors, which include the 20,000-seat United Center, 16,500-seat Allstate Arena in Rosemont and 8,500-seat Sears Centre in Hoffman Estates. Now the Metropolitan Pier and Exposition Authority and DePaul University are moving closer to building a 10,000-seat arena next to McCormick Place—setting up a potential showdown for the midsize concerts, amateur sporting events and other shows that keep the state-owned UIC Pavilion afloat.”⁹

Given the fact that the UIC Pavilion is experiencing market-based scheduling difficulties, it is apparent that the DePaul arena—as a similarly sized facility in the same market—would experience those same difficulties. This is especially true considering that “more than half of the events the new facility [DePaul Arena] is targeting to offset its operating costs are similar to those that UIC Pavilion draws, including concerts, graduations, conferences, boxing events, and religious gatherings.” Each arena’s scheduling difficulties would be compounded when they are forced to compete with each other for events. As a result, overall attendance numbers at both venues would suffer, as would the businesses in the area that generally serve visiting event audiences. The businesses currently surrounding the UIC Pavilion would be negatively affected and the businesses that would come to make up the entertainment district surrounding McCormick Place would not generate as much spending as project supporters tout. As Crain’s Chicago Business reports: “UIC will have a very difficult time competing, says Jerry Mickelson, co-owner of Chicago-based Jam Productions Ltd., one of the largest local concert promoters, which has booked six concerts at the pavilion this year. He says fewer acts are making the jump from clubs and theaters to arenas because they’re expensive and hard to fill. For each venue to expect 8 to 10 shows a year would be very difficult.”

This goes to further show that the justification for the overall development rests on inflated event and attendance information, and that the development may indeed have an overall negative effect on the economy of Chicago.

Publicly subsidized sports arenas and stadiums are generally regarded by economists to be poor investments, as they incur higher than estimated costs and do not provide a return on investment. Despite this, feasibility reports commissioned to justify these projects notoriously predict positive outcomes, even when relying on inaccurate data and unreliable methodologies.

This is especially true of the commissioned feasibility report that the Emanuel administration uses to justify the arena and entertainment district development.

The feasibility report commissioned by McPier and performed by HVS outlines three categories of expenditures when calculating the economic impact the overall project could generate. These expenditures include direct, indirect, and induced spending, and their total represents the amount of spending that would take place in the area. As the HVS feasibility report for the project explains: “HVS

⁹ Ecker, Danny. "UIC Pavilion's Empty Feeling." *Crain's Chicago Business*. Crain's Chicago Business, 18 Nov. 2013. Web.

enters the gross direct spending estimate into the IMPLAN input output model of the local economy to estimate the realized direct, indirect, and induced spending... Indirect spending impacts are generated from the business spending resulting from the initial direct spending. For example, an event attendee's direct expenditure on a restaurant meal causes the restaurant to purchase food and other items from suppliers. The portion of these restaurant purchases that remain within Chicago are counted as an indirect impact. Induced spending impacts represent the change in local consumption due to the personal spending by employees whose incomes are affected by direct and indirect spending. For example, a waiter at a local restaurant may have more personal income as a result of an event attendee dining at the restaurant. The amount of the increased income that the waiter spends in the local economy is considered an induced impact... IMPLAN also estimated the jobs created based on the direct, indirect, and induced spending estimates... Indirect and induced impacts are often referred to as multiplier effects."

The overall economic impact projected by the feasibility study is grossly misrepresented, as the spending impacts are based in their entirety on the overly estimated event and attendance numbers. This is also true of the amount of jobs that the report projects will be generated by the developments. The methods used to calculate the financial projections are questionable—inflated attendance informs inflated spending impacts, which in turn informs inflated job projections, which are then used to further calculate spending impacts. The HVS report clarifies that, "Estimation of new spending... involves three sets of assumption 1) the number of visitors, 2) the percent of visitors new to the market, and 3) the amounts typically spent by each of the sources." As these assumptions are overly optimistic at best, the conclusions are fundamentally unreliable.

The overall economic impact of the McCormick Place development is further misrepresented in a variety of ways. The realized spending impacts that are projected include the amount of money that a business would need to spend on supply needs. The HVS report not only estimates that supply needs reflect an establishment with high inventory turnover, but also that those needs would be completely met within Chicago. They reason this, despite a proviso that in reality this would not be the case.

According to the HVS report, "to accurately measure spending impacts, HVS counts spending on products and services located in the market area. Some of the direct spending demand in the market area cannot be accommodated within the City. For example, an advertiser may need to buy novelty items for all attendees, but these items are not produced in the market area. The direct spending leaks outside the market area to the extent that services and products are produced outside the market. HVS uses IMPLAN SAM values to track the percentage of a good that is purchased within the market area. As a result, the realized direct spending in a region is lower than the initial spending in the market area. HVS assumed that all McCormick Place Entertainment District spending would occur within the City of Chicago. Local purchase percentage was assumed to be one hundred for all gross spending calculations."⁵

Despite providing a disclaimer that all purchasing needs for McCormick Place establishments could not be met within the City, the HVS feasibility report concludes that every establishment in the district—from the hotels, to the arena, to the restaurants—would make all supply purchases within Chicago.

This is further evidence of the shaky assumptions that are used to justify the overall developments. The financial projections touted by the Emanuel administration and McPier are inherently invalid.

The HVS report used by the Emanuel administration and McPier to justify the developments cites Cleveland's Gateway Project as "an example of sports venue investment that served as a catalyst for urban redevelopment" and claims that "the public investment in the sports venues created a critical mass of demand that was necessary to support retail and restaurant projects." This is an egregious inaccuracy. At a Congressional hearing in 2007 on publicly financed sports stadiums, convention centers, and hotels, Congressman Dennis Kucinich said that, "...Cleveland's economy does not show the appropriate progress. We have among the highest poverty rates in the Nation and one of the highest foreclosure rates...The Gateway Project, which promised to generate tens of thousands of new jobs ushered in a period of net jobs lost since its construction. The Gateway Project neighborhood is particularly striking because the neighborhood is even more vacant and has even fewer jobs after the construction of the Gateway Project than before."⁸

In his study for the *Journal of the American Planning Association*, entitled "Sports Facilities as Urban Redevelopment Catalysts," Timothy Chapin wrote, "Does Gateway satisfy the "but for" criterion to qualify as a successful urban redevelopment catalyst? As for the residential and hotel projects, the Gateway project cannot be said to have catalyzed the initial demand for new housing and for new hotel space...It is also important to recognize that the Gateway district has thrived at the expense of other areas in downtown Cleveland. Critics of sports facility economic impact studies have noted that a substitution effect negates many of the projected benefits of any project...while district redevelopment has occurred, downtown Cleveland's fundamental problems remain."¹⁰

The feasibility report attempts to justify the project by claiming examples of success in other cities, however it is apparent that developments of this nature require an unjustifiably expensive public cost.

In addition, the Emanuel administration and McPier emphasize that the McCormick project will spark the revitalization of Motor Row. As explained at a public meeting held at McCormick Place West on January 28th, the revitalization of Motor Row would be completely contingent upon private investment. City officials (including Alderman Pat Dowell, representatives from the City's planning department, and McPier CEO Jim Reilly) explained that the presence of the Green Line extension and planned hotels would spark investment in the area. While possible, this logic is faulty in that it relies on a variety of assumptions. For one, the City assumes that it will come to be in possession of the McHugh property located just west of the McCormick Place West building. If acquired, the City then assumes that a private developer will wish to build a hotel on the property. (According to the Chicago Tribune, the City would pay for the land, and then sell it to McPier, who would in turn attempt to recoup the land acquisition costs from the developer-to-be.)¹¹ Following this, it is assumed that increased visitation to the area will inspire private development along Motor Row. To be clear; if the City acquires the land, and if a developer wishes to build a hotel, and if that hotel does indeed contribute to increased attendance in the area, then the City assumes developers will invest in Motor Row and privately revitalize the area.

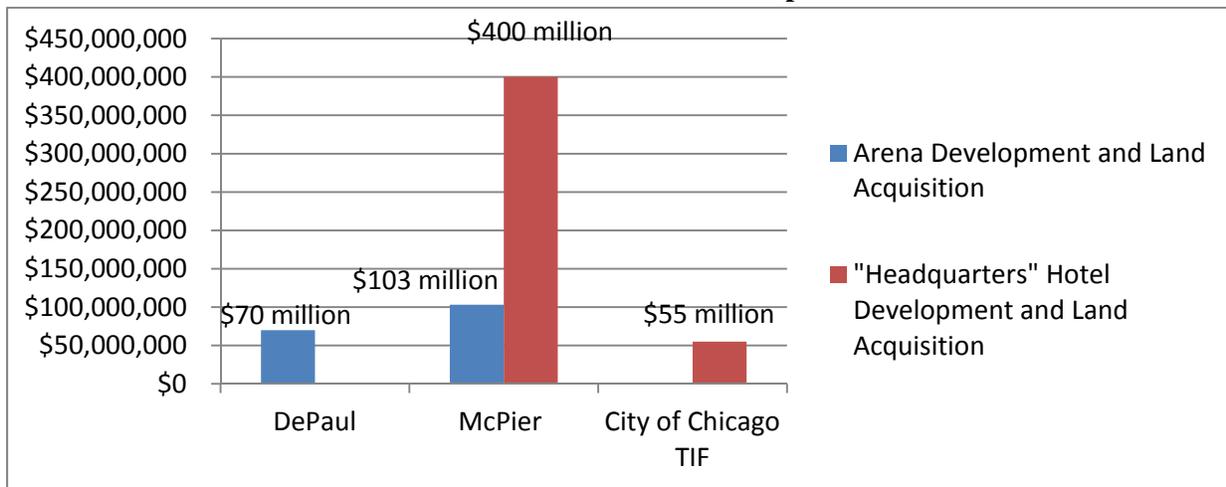
¹⁰ Chapin, Timothy S. "Sports Facilities as Urban Redevelopment Catalysts." *Journal of the American Planning Association* 70.2 (2004): n. pag. Web. <[http://www.cdfa.net/cdfa/cdfaweb.nsf/48fc5ad035ef5f7b882578e7005f7d66/e9e4f2ed094eee8988257936006414064/\\$FILE/SportsFacilities1.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/48fc5ad035ef5f7b882578e7005f7d66/e9e4f2ed094eee8988257936006414064/$FILE/SportsFacilities1.pdf)>.

¹¹ Hirst, Elean J., and Kathy Bergen. "McCormick Place Entertainment District Proposal Gets Makeover." *Chicago Tribune* 25 Jan. 2014. Web.

Though this chain of events is possible, it is unwise to spend massive amounts of public funds based on several questionable assumptions.

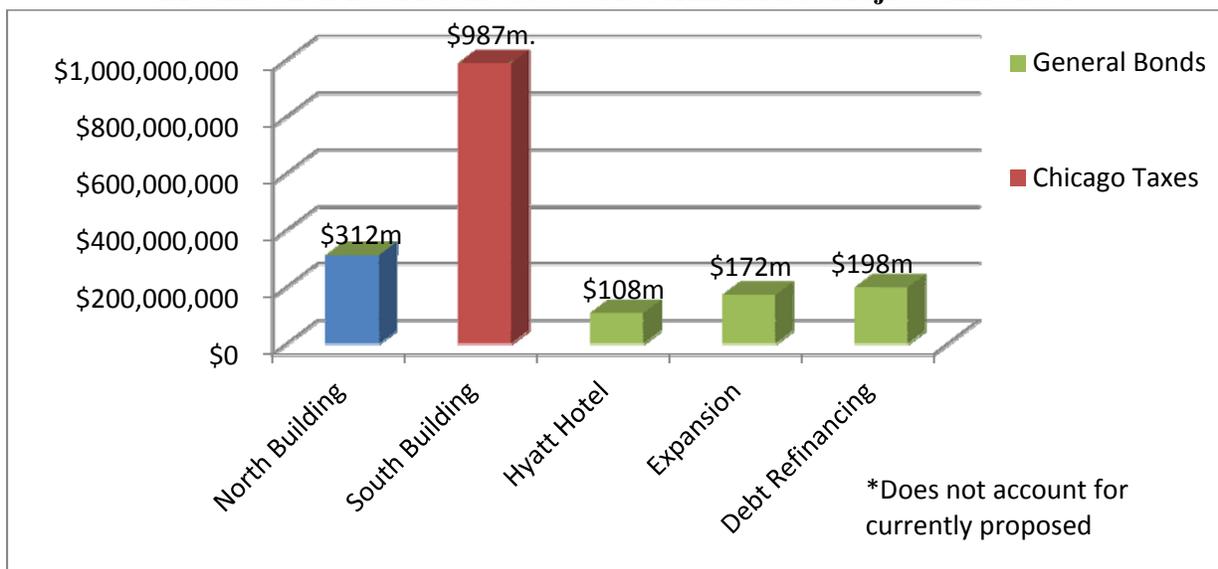
According to the HVS report, the only development currently planned in the Motor Row area is a 12-story data center, and a TIF-financed microbrewery. “The 2.5 million, 8,700 square foot project... would include brewing operations, distribution space, and a tasting room on the building’s first floor. Support and office space would be housed on the second and third floors.” The feasibility report also cites a recording studio as a complement to the proposed hotel development in revitalizing the area.

Breakdown of Overall Planned Development Costs



The Emanuel administration and City officials are adamant that no more public funds will be used on the project, though many have expressed concerns that the City may use further TIF funds to incentivize redevelopment. The use of TIF funds for the overall project in general constitutes an unnecessary contribution, especially when considering the historic use of public funds in the McCormick Place area.

Breakdown of Total Public Cost to McCormick Place Projects Since 1984



Since 1984, the public has funded roughly \$1.8 billion worth of renovations, refinancing, expansions, and construction in and around the McCormick Place.¹²

Poor Public Investment

It is highly likely that the overall development will cost significantly more than original estimates claim. At face, the projected payoffs of the overall project do not justify the investment, and it is highly likely that the City, DePaul, and McPier will spend even more on the development as time goes on. Publicly subsidized developments such as the DePaul arena and hotel developments are notorious for costing significantly more than projections claim.

In a study conducted by Harvard urban planning professor Judith Grant Long, it was determined that, “The real cost of public subsidies for sports facilities is significantly higher than popularly reported, and, as a result, governments and taxpayers underestimate the magnitude of their financial commitment...the real cost of public subsidies is underreported by an average of \$51m per facility, representing a 40% increase in the total public subsidy. Whereas industry sources report an average public subsidy of \$125m per facility based on a total development cost of \$222m...the real total public subsidy is \$175m. Across all 99 facilities...[she found] the total value of the underreported public subsidy to be \$5 billion dollars. The impact of adding these unreported costs is to increase the average public share of total development costs from 56% to 79%.”¹³

Long found that convention industry sources have been drastically underestimating the true costs of such publicly subsidized projects. “They fail to consider public subsidies for land and infrastructure, the ongoing costs of operations, capital improvements, municipal services, and foregone property taxes...these estimates of public cost indicate the public/private partnerships underlying these deals are in fact highly uneven.”

The Regional Economist also reported that, “Between 1987 and 1999, 55 stadiums and arenas were refurbished or built in the United States at a cost of more than \$8.7 billion. This figure, however, includes only the direct costs involved in the construction or refurbishment of the facilities, not the indirect costs—such as money the cities might spend on improving or adding to the infrastructure needed to support the facilities. Of the \$8.7 billion in direct costs, about 57 percent—around \$5 billion—was financed with taxpayer money. Between \$14 billion and \$16 billion is expected to be spent on these post-'99 stadiums and arenas, with somewhere between \$9 million and \$11 billion of this amount coming from the public coffers.”¹⁴

¹² "McCormick Place Chicago History." *McCormick Place*. Metropolitan Pier and Exposition Authority. Web.

¹³ Long, J. G. (2002). *Full count: The real cost of public subsidies for major league sports facilities*. (Order No. 3051226, Harvard University). *ProQuest Dissertations and Theses*, , 537-537 p. Retrieved from <https://login.ezproxy1.lib.depaul.edu/login?url=http://search.proquest.com/docview/305529272?accountid=10477>. (305529272).

¹⁴ Zaretsky, Adam M. “Should Cities Pay for Sports Facilities?” *The Regional Economist* (2001). *Should Cities Pay for Sports Facilities?* Federal Reserve Bank of St. Louis, Apr. 2001. Web.

The difficulties the City is facing in acquiring the land slated for the project further indicates that heightened development costs are probable. The Chicago Tribune reported that, “Unable to assemble key parcels near McCormick Place to develop the DePaul arena and adjoining entertainment district, city officials have revised plans, a move that could increase the cost of the project.”¹⁰ The taxpayer funds used for the project may come to contribute even more to an exceedingly high overall national public cost.

These development costs constitute an even larger loss when considering the payoff alternative investments could provide. Those supporting the McCormick Place development projects fail to account for the return that other investments would bring about. This cost must be considered when dedicating massive public funds to seemingly unjustifiable developments such as the arena and hotel developments.

The realistic impact of the overall project must be weighed against the returns other investments could provide. Social costs and benefits, though not always quantifiable, should be weighed as well. Comparisons of this sort are absolutely and fundamentally necessary to truly assess what the impact of the overall McCormick developments would be. A detailed summary of acquisition and develop costs is missing from both the HVS report and the AECOM pro-forma statement released by DePaul. When closely examined, evidence indicates that the social and economic costs of the project greatly outweigh any benefit.

The Regional Economist wrote, “When studying this issue, almost all economists and development specialists (at least those who work independently and not for a chamber of commerce or similar organization) conclude that the rate of return a city or metropolitan area receives for its investment is generally below that of alternative projects. In addition, evidence suggests that cities and metro areas that have invested heavily in sports stadiums and arenas have, on average, experienced slower income growth than those that have not.”¹³

In his Congressional testimony at a hearing entitled *Build It and They Will Come: Do Taxpayer-Financed Sports Stadiums, Convention Centers, and Hotels Deliver As Promised for America’s Cities?*, expert witness Dr. Heywood Sanders testified that, “While consultant market and feasibility studies for these hotel projects indicate little public risk, with hotel operation forecast to generate sufficient net income to pay for debt service, those forecasts have almost invariably proven incorrect...The title poses the question, do these facilities deliver as promised? To that, we can give a fairly clear answer. With only the rarest of exceptions, absolutely no.”⁸

TIFs and Pensions

The arena and hotel development plan, while being an individual example of publicly-funded development in the City, is indicative of the overall fiscal mismanagement that has put Chicago in dire financial straits and contributed to a credit rating downgrade. Chicago’s increasingly unfavorable financial standing is due in very large part to an overall level of mismanagement that consistently manifests itself through a lack of transparency, debate, and reasonable evidence regarding public finance. The DePaul arena and hotel developments are prime examples of the types of misguided developments that are a direct result of this mismanagement. The Emanuel administration, while steadfastly claiming

that these developments are a wise use of taxpayer money, has yet to provide solid evidence that the return will be worth the large public investment.

The consistent lack of debate, transparency, and public input that accompanies public finance in Chicago is also evidenced through Mayor Emanuel's proposed plan to hike property taxes to pay for pensions. Despite previous declarations of enacting significant TIF reform, and consistent calls from several public officials for necessary reforms, Mayor Emanuel has thus far refused to consider decreasing Chicago's behemoth TIF program in balancing pension liabilities. On the contrary, the administration's plan to increase property taxes would significantly raise the amount of money diverted towards the TIF program. This would be done to the continued detriment of the Chicago Public School system, even when considering that a miniscule declared surplus would return some of those diverted funds back to the taxing bodies. TIF money (such as the funds that would finance the proposed McCormick Place hotel) may be more effective if directed towards balancing Chicago's massively underfunded pension system, as opposed to spending it on taxpayer subsidized hotels and private arenas.

As evidenced by Cook County Clerk David Orr's consistent and most recent assessments of the TIF program, "...there is a way to restructure TIF funds to ease the pension burden at no additional cost to taxpayers...the ways in which TIF dollars are managed and distributed must be debated before the city passes a tax increase."¹⁵ Auditing TIFs and requiring the Emanuel administration to provide details to taxpayers would be a first step in this process.

This call for TIF audits has been echoed by members of the City Council, the taxpaying public, and other individuals with knowledge of Chicago's TIF program. John McCormick, a former city manager responsible for overseeing the TIF program, has suggested issuing "TIF expiration bonds" in order to balance pension costs—showing yet another example of ways in which Chicago can responsibly utilize TIFs in order to balance pensions and avoid raising property taxes.¹⁶

Pension reform must be examined within the context of Chicago's larger financial landscape. Any plan for financial reform must include an examination and scaling back of TIFs, and a discussion of how these funds are not used to their fullest public benefit potential. In-depth audits and serious reform, which does not entail abolishment of the TIF program, is necessary to ensure Chicago's fiscal solvency.

Conclusion

In conclusion, the feasibility report used by the Metropolitan Pier and Exposition Authority and the Emanuel administration to justify the DePaul arena and McCormick Place entertainment district developments uses inflated data to inform unrealistic financial conclusions, while discounting the negative effects that such developments will have on existing establishments, and underestimating

¹⁵ Cook County Clerk's Office. *Orr: TIF Reform Worth \$44M Annually at No Cost to Taxpayers: With Pension Vote Looming, Clerk Urges Renewed TIF Debate*. Cook County Clerk. Cook County Clerk David Orr, 15 Apr. 2014. Web. <[http://www.cookcountyclerk.com/newsroom/newsfromclerk/Pages/OrrTIFreformworth\\$44Mannuallyatnocosttotaxpayers.aspx](http://www.cookcountyclerk.com/newsroom/newsfromclerk/Pages/OrrTIFreformworth$44Mannuallyatnocosttotaxpayers.aspx)>.

¹⁶ Hinz, Greg. "Former TIF Chief: Pay Pension costs with TIF-expiration Money." *Chicago Business*. Crain's Chicago Business, 16 Apr. 2013. Web. <<http://www.chicagobusiness.com/article/20140416/BLOGS02/140419815>>.

potential development costs. A wealth of objective evidence and independent analysis indicates that the arena and hotel developments may fail to generate significant economic impact, and could negatively affect the existing economy of the City. The development of the DePaul arena and McCormick Place entertainment district would constitute a gross misuse of taxpayer funds, and could incur a public cost that is far too great. What is certain is that this project requires closer examination, a more transparent explanation, and absolutely demands further public input; especially when considered within the context of Chicago's overall financial state.