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Markham's power play: Does a major arena with no pro sports team make sense?

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The mayor of Hamilton wonders why the city of Markham is planning an NHL-size arena without any assurance of an NHL team.

Mayor Bob Bratina should know a little about arenas and what it takes to make one financially viable. His city "got caught up" with the idea of building Copps Coliseum in anticipation of getting an NHL franchise.

That was 27 years ago. The city is still hoping for a team and taxpayers are still paying an average annual subsidy of \$2.8 million for the arena's operation.

"If you're building it without an NHL team, you are wasting taxpayers' money," said Bratina, while acknowledging the circumstances and funding structure for the two arenas differ.

The prospect of an NHL team inspired the idea of a big league 20,000-seat arena. But when the city and private partner announced plans for the proposed facility near Kennedy Rd. and Highway 407 in April, city officials and the private partner quelled all talk of another hockey franchise coming imminently to the GTA.

Instead, they said, the arena would be a "sports, entertainment and cultural centre" to rival the Air Canada Centre. And a centre, according to their consultants, that could be viable without an NHL team or a major league team.

"We have identified 131 events a year at this time that we are very comfortable with," said Graeme Roustan, the chairman of GTA Sports LP, the private group promoting the project. "It's a number based on Global Spectrum's (a venue management company) experience in operating these facilities all over the world, and their research in this market."

Roustan offers a long list of events, shows and sports events that could fill the arena — from rodeos to wrestling — and draw anywhere from 3,000 to 20,000 guests. The arena would also be open to community groups for nominal fees. Some walking and running clubs could use it free, he said. He is also exploring the idea of housing a team from the National Basketball League of Canada.

But Frank Russo, senior vice-president of business development for Global Spectrum, says that if the arena doesn't have an NHL team, it will still need a hockey tenant in some form such as an American Hockey League or East Coast Hockey League franchise to be viable.

Roustan, who has unsuccessfully pursued numerous pro hockey teams during the last 25 years, said there are no current opportunities for an NHL team in Markham. But he says he would be willing to work toward a team, if the opportunity arose.

But many arena experts, industry insiders and civic officials say the business model for an NHL-size arena without an NHL team just doesn't add up, and history shows that it is always taxpayers who end up with the bill.

"As I said to the Markham folks, you look at the other cities in North America that have built an arena and don't have an anchor tenant, it's not a pretty sight," said Humphreys, a sports economist at the University of Alberta who provided consulting services to the Markham on the arena project.

Those people with experience in the business say the same.

"It makes no business sense," added Richard Peddie, former chief executive officer of Maple Leaf Sports and Entertainment (MLSE) and ex-president of SkyDome now called Rogers Centre.



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COLIN MCCONNELL/TORONTO STAR FILE PHOTO

"With their estimate of 130 event days annually, some of them will not be profitable, many of them will be modestly profitable and the remaining few will produce profits anywhere between \$100,000 and \$200,000 each time," he said.

He said the only explanation for Markham moving forward is they know something no one else does.

"You've got to think that they (the city) strongly believe they're going to get an NHL franchise at some point to have any hope of making this work," he said.

All of Markham arena's potential competitors have some type of anchor tenant including Air Canada Centre, Rogers Centre, Ricoh Coliseum in Toronto and Copps Coliseum in Hamilton and to a lesser degree the GM Centre in Oshawa, Powerade Centre in Brampton and Hershey Centre in Mississauga.

The GTA's mid-size arenas, such as Mississauga's Hershey Centre with 5,400 seats, all have Ontario Hockey League tenants but still receive an annual subsidy from their cities.

The Hershey Centre manages to break even on operational costs primarily because of the OHL Steelheads. The club makes up at least 40 of the 160 events the arena hosts each year.

"We consider the OHL team to be an important part of the building and the way it operates," said Paul Mitcham, Mississauga's community services commissioner. "If you take away the major tenant, you would have a very significant gap to fill and you would have a lot of fixed costs that would not be covered."

Across the country, Edmonton is also in the midst of building a new arena — using a mix of public and private funding. But it's a project that has significant support from the community because of the presence of the Edmonton Oilers NHL team and a Western Hockey league club, said Rick Davis, executive director of the Edmonton Arena District.

The two teams give the arena a guarantee of almost 80 bookings a year. "Their presence is significant," Davis said.

Markham officials and Roustan say they are "simply listening to the experts" who say there is pent-up demand for event space in the GTA. Many concert acts that come to the ACC, have already expressed interest in performing in Markham when the arena opens, Roustan noted.

Proponents of the Markham project point to Kansas City's 5-year-old Sprint Centre, one of the busiest in the U.S, as an example of a public arena operating well without a major tenant.

However, the Sprint Centre is the dominant venue in its region.

And while the Sprint Centre generates enough business to produce an operating profit, the city still posts a net annual loss because of millions of dollars in annual payments for construction costs.

Roustan said it is impossible to compare the Markham situation to any other place in North America. The city has ideal demographics, income, growth forecasts and transit for an arena, he said.

In an April staff report on the arena, city officials told council, that the arena will be an economic boon for the city. They determined the arena (with 130 annual events and 780,000 guests a year), would generate 600 construction jobs, 886 permanent full- and part-time-construction jobs, \$13.2 million in provincial taxes per year and a \$61.1 million annual boost to the local economy.

Under the deal's proposed financial structure, the city will borrow \$325 million for construction costs and Roustan-owned GTA Centre will pay half of the cost. GTA Sports will be responsible for any construction overruns and operate the landmark building. The city would own the arena. Markham plans to raise its share of the cost through development charges and surcharges on arena users.

Humphreys, the sports economist, challenges the argument that arenas bring economic benefit to a community.

"There is no rationale based on tangible economic benefits based on jobs, income, to support any sort of significant public subsidy for the construction of a new sports facility," he said.

The Markham staff report also says researchers concluded "there will likely be an increase in property values and demand for residential properties within the vicinity of the Centre. But Humphreys said the evidence of that, looking at other cities, is not conclusive.

How much Markham might gain or lose in this deal is under negotiation behind closed doors. Terms that could impact the city's bottom line include lease length, lease amount, naming rights, termination clause and profits if an NHL team arrives. The two parties also have to work out who pays for arena maintenance and renovation costs which would be about \$3 million to \$5 million annually, according to experts.

The city says it plans to share the "essence" of the lease with the public before the final council vote on the arena during the next few months.

If an NHL franchise arrived, it also won't automatically produce a financial bonanza for the city because the league and team owners would want to assure a favourable lease for stability, according to experts. Furthermore, those owners could use arenas in other cities as leverage to gain those terms.

But Markham Mayor Frank Scarpitti says an arena is not only about making profits. He believes the facility will be a catalyst for Markham's new downtown and help make the city a destination point in the GTA.

"Is it something that makes you a whole lot of money in terms of the facility itself?" said Scarpitti, referring to the event estimate for the arena. "No it doesn't make you a whole lot of money. But what it brings to Markham in terms of investments, and jobs and opportunities and building a vibrant downtown — that is valuable too."

Back in Hamilton, Mayor Bratina said civic pride should not come at such a high price. He believes private entrepreneurs should build big arenas, and the city's money could be better spent being put directly back into the community.

"There are a lot of great cities in the world that don't have NHL or NFL franchises," he added. "They are not a requirement for a world class city."

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