Intelligence MEMOS

From: Glen Hodgson

To: Calgary and Ottawa Taxpayers

Date: February 13, 2023

Re: **Watch Your Wallets When New Rinks Are in the Air**

Interest is ramping up again in Calgary and Ottawa about new NHL arenas for each city's downtown, after earlier projects failed to launch.

Modern downtown arenas have obvious attractions for owners and fans in both cities. If the projects proceed, however, it's likely that taxpayers will be asked to provide financial support. Should they? And, if they do, on what conditions?

The main purpose of a new building is to help the private franchise owners make more money by selling more tickets, luxury boxes, refreshments and advertising, as well as the pricey naming rights bauble. In an ideal world, buildings would be completely privately financed and operate profitably thanks to strong demand, with frequent use for concerts and other events in addition to pro sports.

That's the way it works in large markets, like Montreal, Toronto, and Vancouver where new arenas were largely built with private financing. The New York Islanders' new $1-billion rink is the latest example of private finance using a business model involving up to 100 concerts and commercial events a year in addition to NHL games – 41 regular season dates, plus a pre-season handful and (uncertain) playoffs.

Meanwhile in smaller markets, both the number of days the building generates income and the private sector's financial capacity and taste for risk are more limited. City and provincial governments will therefore face requests from franchise owners, usually backed by fans, to provide financial support of some kind for new buildings.

New facilities do generally provide some benefit to the local economy. The local content of most construction projects is relatively high, often exceeding 80 percent of overall costs. Construction can boost local employment, particularly if labour markets are slack –which of course they currently are not. On the other hand, any multiplier effect will be limited by "leakage" from imports used in construction and interest costs on borrowed money. And for multiplier purposes any construction will do: there's nothing special about arenas.

Professional sports facilities also have some of the attributes of "public goods," in that they benefit society as a whole, not just owners, athletes, and fans. A new arena could raise a community's profile as a place for private capital to invest. It could also encourage local entrepreneurs to create new ventures or attract additional tourists – people who only come because of a game. (Those who take in a game while living there don't count: if the team didn't exist, they would likely spend on restaurants or other local attractions.)

Calgary and Ottawa have their own characteristics and new-arena history. In Calgary, the financing deal between the city and the Flames for a new Saddledome that fell apart last year now appears to have been resurrected. In Ottawa, the National Capital Commission recently indicated it is once more prepared to make land available in LeBreton Flats, where the Canadian War Museum and a few residential towers have already been built and a light rail system and public library are the latest development projects.

If taxpayers do end up supporting new arenas, they should share the benefit and not just the risk – which has been the traditional "socialism-for-capitalists" way of doing these things. Edmonton's impressive new downtown arena was financed using public-private risk-sharing, drawing on projected revenues from an expanded property tax base, ticket surcharges, leasing fees and other arena-related revenue sources.

Public-private collaboration is also being used in Ottawa to renew the city's Lansdowne Park football stadium and junior hockey arena, while developing adjacent commercial and residential property. The city borrowed the funds for construction and is being repaid from multiple pre-defined revenue sources, such as ticket charges and an expanded property tax base. The private partner delivers construction and builds equity in the related commercial and residential property.

In Calgary, a risk-sharing financial partnership that minimizes the call on ratepayers would be the best outcome from current negotiations. The current provincial government has shown interest in the project – an election is coming – but it should emulate Ed Stelmach's government stance in Edmonton in 2012 and not provide core funding.

In Ottawa, the Senators are up for sale after owner Eugene Melnyk's death, so movement on a new arena awaits a new ownership group. The city should make clear that any new building will be financed largely by the private sector, based on a strong commercial model for the facility and surrounding area.

The bottom line? If public dollars end up being needed to ensure project completion, they should be made available only if both risks and benefits are shared between private and public sectors and there is clear designation the specific sources of revenue that will repay any public money.

Glen Hodgson is a fellow-in-residence at the C.D. Howe Institute.

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