May 2007

Recreation Facilities: Public Hits, P3 Misses

Cities and towns across Canada are working to ensure strong and healthy communities. For citizens of all ages, an important means of maintaining health is through physical and recreational activity. The demand is increasing for facilities like recreation centres, arenas, parks, fields and playgrounds that support public health and community engagement.

Local governments can continue to invest in publicly owned and operated facilities that build community assets and ensure access to services for everyone. At the same time, fiscal responsibilities and limited capital budgets can present real challenges that lead municipalities to consider alternatives to public investment.

Some communities have experimented with private funding because initially it looked like a good deal. In the end, such endeavours have been hugely expensive. Private financing costs are higher simply because governments can borrow money more cheaply. Profit margins need to be factored into the bottom line and often community recreation is no longer accessible to everyone. At the end of the day, many private projects have gone awry requiring municipalities to bail-out recreation facilities and to absorb the large debt.

The City of Cranbrook, British Columbia tried a P3 to keep the debt incurred from building a 4250-seat arena off-book. The private partner had problems with securing financing, meeting construction deadlines, and cost overruns that the City had to absorb. The City's borrowing power was reduced substantially as a result of the long-term lease.[i] Ownership changed hands several times and when the project failed the City found itself with the highest debt level in the province. The tax increase to residents of Cranbrook alone for this project was 7% and fees increased considerably from what was charged at the city-owned rinks.[ii] The facility was finally brought in house after several challenging years, when the City signed a termination agreement on March 7, 2007.

The City of Ottawa, Ontario
Two city ice rinks were built through P3's four years ago and were hailed as examples of how the city might do more with less. On April 20, 2007 city management recommended a $1.2 million bail-out for Capital Sports Group who run Bell Sensplex, and termination of the partnership with Serco Facilities Management, operators of Ray Friel Centre, leaving the city with an additional $12 million debt. The businesses underperformed in several areas, including mismanagement, leaving few options for the city.[iii]

Cranbrook and **Ottawa** join a long list of communities like **Guelph, Victoria** and **Port Alberni**, that have run into problems and debt with recreation P3's. Privatization did not solve their fiscal problems and only served to create new ones.

Many communities have successfully lobbied for public recreation. With creativity, innovation and alternative public funding, as well as setting realistic goals in meeting community recreational needs, municipalities have been enormously successful in maintaining publicly owned and operated facilities.

Windsor rejected an unsolicited P3 proposal in October 2006 after consulting with city staff. They concluded that by consolidating several facilities in a new public centre, they would save operating costs and perhaps generate income.

Niagara Falls chose to stay public in December 2006 and built a smaller twin-pad arena for $18 million rather than the $46 million proposed by JDS for a larger facility. JDS wanted to split the cost of building with the city and have the city guarantee $1.8 million in annual revenue. **St. Catharines** city council also voted down a JDS proposal shortly thereafter.

Public Financing Alternatives[iv]

Governments have options. Firstly, the cheapest way to finance any project is through public borrowing, because municipalities typically have the best credit rating around and thus have access to the lowest borrowing rates.[v] Secondly, many new and tried and true mechanisms exist to leverage public funds for infrastructure.

- **Tax-exempt bonds** allow municipalities to borrow funds at lower rates of interest than they would pay on regular bonds.
- **Crown corporations**, like the Canadian Mortgage and Housing Corporation, wholly owned by the federal government, can issue bonds and have significant borrowing power. With sufficient pressure from municipalities, the federal government could create an infrastructure corporation, structured as a wholly owned crown corporation similar to CMHC.
- Municipal financing authorities exist in most provinces, which allow municipalities to benefit from **pooling of debt**. These can be expanded.
- Dedicated infrastructure funds, subsidies from senior levels of government and innovative solutions like Public Interest Companies (PICs), are all viable options.

P3s result in increased public costs, hide public debt, reduce accountability, and allow public funds to be directed away from community priorities.

P3s mean compromises on quality and contribute to increased social inequality by reducing access to City services.

Public debt is more cost-effective and allows municipalities to retain public ownership and control of assets.

Public ownership ensures that there is a process where elected officials can advance community concerns.

For more information please visit:
www.cupe.ca/www/privatization

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[i] Cranbrook Daily Townsman, June 27, 2001, Cranbrook's borrowing decreases."
[ii] Cranbrook Daily Townsman, May 15, 2001, "Cranbrook taxes to go up almost 11%."
[iii] Ottawa Citizen, April 20, 2007, "Rink partnerships are failing, report finds", Jake Rupert.
[iv] For the full report: P3 Recreation Facilities: Who benefits? http://www.cupe.ca/updir/p3arenas.pdf
[v] CUPE Research, Telephone conversations with representative from Niagara Credit Union, August 2004.