

**2010 PRIVATIZATION REPORT  
THE SOUTH OKANAGAN EVENTS CENTRE: A WHITE ELEPHANT IN WINE  
COUNTRY**

**SUMMARY**

Residents of Penticton are paying a high price for the City's decision to enter into a 20-year public-private partnership (P3) to build and operate the new South Okanagan Event Center. The deal, which also includes privatization of the existing Penticton Trade and Convention Centre and Memorial Arena, is exerting a heavy financial toll on the municipality's budget, leading directly to cuts to other public services and reduction in community recreational opportunities.

The following report examines the overall community impact of the SOEC P3. It draws on a combination of publicly-available documents and semi-structured interviews with residents and business-people conducted in June 2010. While the long term consequences of this project continue to unfold, evidence indicates that the privatization of these three facilities will have prolonged negative impacts on both Penticton's ability to weather crises and the quality of life for residents and visitors.

Penticton's experience is not unique. A mounting body of evidence indicates that public-private partnerships do not deliver the cost savings and service improvements they claim to bring. On the contrary, these multi-decade contracts generally cost more than traditional public procurement, are riskier for municipalities and come at the expense of other community services.

Like all P3s, privatization of the three facilities in Penticton was promised to reduce the overall costs and transfer the financial and operational risk from the public to the private sector partner, Global Spectrum. Residents were assured that the project would generate between \$33.9 and \$51.9 million in associated economic benefit over the 20 year contract, up to \$135 million during construction and more than 400 jobs in the regional economy. Local community ice-hockey and skating groups were promised additional opportunities to practice and train. Members of Penticton's much lauded "Steps Out" program were promised access to a year-round indoor walking track. Lastly, and most importantly, residents were promised that the total capital costs of the project were capped at \$56.16 million, the majority of which would be covered by Provincial grants and gaming revenue.

These promises have not manifested. On the contrary, under the private contract:

**Costs increased substantially with "additional" elements:** Despite assurances that costs were contractually capped, capital costs rose by 50% to \$81 million by the end of construction. This increase is linked to delays in contract negotiations, additional elements omitted from the original bid and over one million dollars (or \$1,000,000) in legal, consulting and administrative charges.

**The City of Penticton retains the majority of financial and operational risk:** The City was not only unable to transfer construction risk to the private partner, but the contract substantially limits private sector exposure to operational risk. Global Spectrum determines its own benchmark revenues against which performance penalties are assessed, there is no cap on annual payments, and the City is responsible for any cost overruns. Reflecting on these issues, Mayor Dan Ashton has said that Global Spectrum

has a “can’t lose contract.”

**Access to community recreational opportunities is limited and more difficult:**

Privatization has forced hockey, skating and walking groups to fight for access to the facilities. Despite assurances of a year-round indoor walking track to increase community health, participants in the Penticton Steps Out program had to pressure the private contractor for access to the facility beyond the winter months. Similarly, it took significant pressure from the local hockey association for Global Spectrum to re-institute a program that allows volunteers to run concession stands to offset the cost of children’s recreation. Under the private contract, however, this program generates much less income for community groups, potentially restricting participation by lower income families. At the same time, ice fees increased, cutting into the budgets of community groups.

**Additional economic development is limited:** To date, the SOEC P3 has not spurred the additional business development originally promised. There is currently no plan to expand the airport or build new hotel capacity. Additional out-of region tourist traffic has been similarly lacklustre, with the majority of SOEC users coming from Penticton or the surrounding communities.

Together these issues are weighing heavily on Penticton, leading to a Core Service Review in 2009 and ongoing cuts to services in all sectors. In an effort to offset the cost overruns and operation deficits at the SOEC, the City raised property tax and plans to cut funding to community events, such as Music in the Park, reduce security at the library and museum, and raise admission and rental fees at public facilities, among other actions.

Residents are also witnessing a retraction of public services through job loss. The City is undertaking successive rounds of layoffs, including reductions in RCMP officers, management and non-management positions. Each position lost, either through direct layoff or privatization, represents a further loss to important community functions that contribute to the overall high quality of life in Penticton.

By far the most striking fallout of the P3 is the potential privatization of Penticton’s aquatics facility. If anything is to be gained from the SOEC project it is that privatization will not reduce operating costs without substantial reductions in services.

While Penticton’s experience is not unique, it does offer many lessons. The project illustrates the fallacy that P3s transfer risk to the private sector without substantial financial compensation. It illustrates the near impossibility of negotiating a contract that protects the interests of residents and taxpayers. Most importantly though it highlights the high cost that residents pay when public services are privatized. Costs paid in money, services and the resiliency and quality of their community.

Maintaining public control over the facilities and services, gives municipalities direct oversight over budget decisions, service quality, maintenance standards and employment decisions. City Councils are able to ensure that decisions respond to community priorities and expand, rather than reduce, opportunities for residents to participate in recreation and community activities.