

## **THE SECRET ARENA REPORTS: WHAT WE WERE NEVER TOLD**

### **INTRODUCTION**

After years of struggle to obtain the secret consultants' reports on the proposed Markham arena, the last report has finally been released by the City thanks to the efforts of Councillor Karen Rea, via the Freedom of Information and Protection of Privacy Commission. You can read all the released reports on Councillor Rea's website at <http://karenrea.ca/arena-documents/>. We recommend three reports in particular – “Concerts”, Mason and Humphreys (M & H) and Raymond James (R J...the second shorter version).

However to save you time the Markham Citizens Coalition for Responsive Government (MCCRG) has selected the following points from these three reports. These points contradict the glowing accounts of the project, as reported at the time by some on Council, staff, and by the promoter, Graeme Rouston, points which were included in reports from 2011 and 2012 but which were withheld from the public until now.

As you will see there was a litany of problems with the project, most of which would have affected the bottom line and increased risk in a major way. Many costs were excluded, underestimated or understated while some revenues were overstated. There were serious concerns about inadequate returns for investors. Furthermore the reports indicate that adequate due diligence was lacking.

There were numerous concerns about too much financial risk and inadequate financial protection for the Town, both short term and long term. Some forecasts were described as "not useful" while others made "unrealistic assumptions". The Town's estimate for increasing the Gross Domestic Product (GDP) was \$39 million while Professor Humphreys' assessment was zero uplift. Furthermore, projections for attendance and ticket sales were described as “too aggressive” and “overly ambitious”.

Overall there was a huge downside to the arena project of which the public was not made aware. Little wonder that some at the City did not want the reports released. Professor Humphreys himself said his reports had been "cherry picked". It is our firm belief that Markham residents and businesses deserved to hear the whole truth, not just that part of the truth some on Council and others wanted us to hear. We feel the public was very poorly served by the Town's (City's) one-sided approach to this very risky project, a project which we, many of our members, and many other Markham residents opposed from the beginning.

(Note: When some of the consultants' reports were written Markham was still designated as a Town, not a City.)

## **SUMMARY OF POINTS FROM MAJOR CONSULTANTS' REPORTS**

### **Understated/Excluded Construction Costs and Financing and Investment Problems Flagged Early On.**

1. Total construction costs estimated at \$416 million not \$320 million as we were told (R.J: January 2011, p8)
2. The construction firm **excluded** \$42 million of identified infrastructure costs from the cost estimates, costs which the equity investors (Roustan et al) were not proposing to cover and which therefore would have to be paid for by Markham.(RJ January 2011 p.8-9)
3. \$14 million of development charges were **excluded** from the Equity Investors' (Roustan et al) estimate of soft construction costs.(R J: January 2011, p.8)
4. The equity investors (Roustan et al) "**understated** non-construction related costs by \$10 million." (RJ: January, 2011. P.8)
5. Capital reserves were **not accounted for**. (R J: January 2011, p.11)
6. The equity investors' (Roustan et al) forecast of \$10-11 million EBITDA contribution opportunity was determined to be "**unfounded**". Global Spectrum's estimate was \$ 3.1 million. (R J: January 2011, p.11) (Note: EBITDA is a measurement of a company's operating profitability and is the abbreviation for "Earnings Before Interest, Tax, Depreciation and Amortization".)
7. No (property) tax payments were to be paid to the Town. (R J: January 2011, p.6)
8. Based on a \$175 million equity investment, funding requirements expected to be borne by the Town were approximately \$241 million, not \$160 million as we were told. (R J: January 2011, p.16)
9. Annual funding cost to be paid by the Town was \$10 - \$17 million (with and without principal amortization respectively). (R J: January 2011, p.17)
10. "... the Town does not appear to be earning an adequate return for its involvement in extending or facilitating the debt raise." - In other words if the Town increased its debt. (R J: January 2011, p. 26)
11. "The project does not appear to provide adequate equity like returns to the proposed Equity investors...." (RJ: January 2011, p26)
12. Financial qualification due diligence of equity investor group absent. (R J: January 2011. P.26)

13. Substantial equity investment by lead proponent of equity investor group (Roustan) absent. (R J: January 2011, p.26)

14. The debt under the Proposal would place significant annual cash flow burden on Markham and carries significant risk." (R J: January 2011, p.26)

15. Structured protections for the Town such as first lien and foreclosure right absent. (R J: January 2011, p.26)

### **Operational Financing Problems**

16. "The most significant risk involved in the proposed project relates to the uncertainty surrounding the lack of a major league tenant." (M & H April 2012 p.19)

17. "...that a lease agreement be entered into with the lessee for a sum considerably higher than is currently being contemplated." In other words lease payments were set too low. (M & H: April 2012 p. 21)

18. The authors were concerned that the terms of the lease did not sufficiently protect the immediate or the long-term financial interests of the Town. (M & H April 2012)

### **Expected Tangible Economic Benefits**

19. The Town's forecasts of expected tangible economic benefits contained in the PowerPoint presentation entitled ' Exploratory Economic Impact Analysis' were heavily criticized by Humphreys for providing "**No supporting documentation.**"(p.1) More specific comments include the following:

20. "Based on the economic performance in other cities in North America over the last 30 years, building a new arena did not generate any tangible economic benefits for cities." (M&H – Slide 10, April 2012)

21. The Town treated construction as a benefit but the experts say that construction should always be treated as a cost and treating it as a benefit "**overstates** the actual tangible economic benefits." (Humphreys, April 2012 p.1)

22. Forecasts of attendance, food and beverage sales, hotel room rentals and real estate values by the Town were presented as exact values with no assessment of the expected accuracy of the forecasts and as such "**are not useful forecasts**". (Humphreys, April 2012 p.2)

23. "The (Town's) forecasts of food and beverage sales and hotel room rentals..... make **unrealistic assumptions.**" (Humphreys, April 2012 p.2)

24. The Town claimed that property values increased 12 times in Columbus Ohio after Nationwide Arena was built but Humphreys states he is not aware of any such study and his own research showed a 10% increase. (Humphreys April 2012: p.3)

25. The economic impact of a new sports facility based on the Provincial Input-Output Model was also presented by the Town. Humphreys stated that such models are generally regarded as a "**poor tool**" (Humphreys April 2012 p.33) for evaluating the economic impact of new sports facilities despite their heavy use by the proponents of such facilities. He goes on to state, "the general consensus in the scholarly, peer-reviewed literature is that estimates of the direct, indirect and induced economic impact of a new sports facility based on regional input-output models will be much larger than the actual realized economic impact." (Humphreys, April 2012 p.3)

26. The Town's estimate of the impact on GDP from the Input-Output Model was \$39 million. Humphrey's response to this finding was as follows, "a significant body of research published in peer-reviewed journals carried out over 30 years finds **zero economic impact** in terms of the effect **on GDP**." (Humphreys, April 2012 p.3)

**Humphreys was also asked to review the Barry Lyons' Report on the effect of a major sports complex on land and property values. He felt the Lyons' report was poorly researched and overly favourable towards property value increases:**

27. One paper cited by Lyons looked at property values in Berlin Germany. Humphrey's comment on this was that European results may not generalize to property values in Canada. (Humphreys April 2012 p.4)

28. Humphreys criticizes Lyons for failing to examine the North American literature which was available and relevant and calls his literature review "**incomplete and unfocused**". (Humphreys April 2012 p.5)

29. He states that Lyons only examines residential property values but still manages to conclude that Markham can expect an increase in commercial property values. (Humphreys April 2012 pp. 4 &5)

30. Humphreys points out that no research has been done on property values where there is no major league tenant. Lyons' report assumed there was such a tenant. (Humphreys April 2012 p. 6)

31. Humphreys also indicated that no research had been done on potential negative effects such as traffic, crowds, noise, trash and crime on quality of life which would mitigate against an increase in property values. (Humphreys: April 2012 p. 5)

**Another item the experts were asked to review was the Operating Pro Forma provided by Global Spectrum. Comments follow: (It is not clear who wrote this section, possibly Mason)**

32. The projections for attendance and ticket revenues for a Junior Hockey tenant appear to be "**very ambitious**" at 5000 per game based on average attendance elsewhere. Humphreys suggests 3500 per game dropping to 3000 is more realistic, reducing projected attendance by 72,000 annually. (Concert #s, April 2012, p.1)

33. "The projections for concerts and other non-sports related events also seem to be **ambitious**." Compared to ticket sales at the Air Canada Centre the projections are deemed "**likely too aggressive**". (Concert #s, April 2012, p.2)

34. Acts and artists attracting more than 20,000 attendees cannot be accommodated. (Concert #s, April 2012 p.3)

35. In competition with the Air Canada Centre, it is clear that to host enough acts "less popular performers will need to be booked." (Concert #s, April 2012, p.4)

36. **Overly ambitious projections** will affect parking, concession and ticket revenue estimates, all of which will be too high. (Concert #s, April 2012, p.6)

## **CONCLUSION**

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MCCRG's directors and many concerned residents did their own research on the economics of arenas at the time and managed to come up with some of these same points and even some of the methods used by Mason and Humphreys, although we could never match their in-depth knowledge. The taxpayers of Markham paid over \$700,000 for these reports and we feel that if they can be released now, they should have been released back when they were most needed. The reasoning that the City used for not releasing the reports was obviously not good enough for the Freedom of Information and Protection of Privacy Commission and, in the end, after years of protesting, the City was required to release the reports in order to comply with the Commission's decisions.

The struggle over the arena gave birth to MCCRG. The Town wasn't listening to the legitimate concerns of the residents and we wanted them to be more responsive. We actually announced the formation of our organization at one of the arena meetings in Council Chamber. Since then we have continued to work on your behalf, monitoring Council agendas, investigating issues of importance, and questioning decisions of staff and Council where those decisions might not seem to be in the best interests of the residents of our City. We thank you for your input and encourage you to remain active for the benefit of all.

We hope you find this report enlightening and informative. Feel free to forward it and to support our efforts by visiting our website at <http://mccrg.org/secret-reports/> If you would like to comment on this issue please do so at [admin@mccrg.ca](mailto:admin@mccrg.ca).

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