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What went wrong with Etobicoke's state-of-the-art arena?

June 25, 2011

Robyn Doolittle

Two dozen members of the Lakeshore Lions Club were scattered throughout the crowd that morning on Sept. 8, 2009.

Despite strong community support, the enthusiastic backing of pro teams, city-guaranteed loans and even a naming-rights deal, the Lakeshore Lions' arena is in deep financial trouble.

RICK EGLINTON/TORONTO STAR

A beaming Brian Burke walked to the podium as cameras flashed. The Lions looked on, marveling at what they done.

Ten years earlier, the volunteer group had wanted to add a second ice pad to their humble rink in south Etobicoke. Now, they were unveiling a $44 million, state-of-the-art, 260,000-square-foot, four-rink complex that Burke, general manager of the Toronto Maple Leafs, would dub the "Cadillac" of training facilities.

The MasterCard Centre for Hockey Excellence was the city's first new rink in more than a quarter-century. And the Lions had done it without a cent of government funding, only a city-guaranteed loan.

Less than two years later, the Lions are in imminent danger of losing everything.

City staff predict they will shortly be in default. The mayor's executive committee voted Monday to take over the building, strip the Lions' name from it and rescind a promise to help fund their children's camp.

The Lions need to be punished, argued Councillor David Shiner. Mayor Rob Ford said he was "furious" and regretted voting to support the project.

How had things gone so bad, so fast?

The city had approved the business plan, with staff involved at every stage. The Leafs, Marlies, Hockey Hall of Fame and MasterCard were partners. Ice rentals and naming rights revenues were "slightly better" than projected.

The reasons for the unraveling are complicated. A city staff report blames a spike in interest rates and delays in "maximizing commercial opportunities." But at its core, this is a story about a volunteer community group pushed in over its head by the city, the sports community and its own ambition.

Lakeshore Lions president John Cherrie calls this week's committee decision upsetting.

"The punitive nature of that motion, removing the name and the removal of the agreed $50,000 that would be put towards the children's camp we've run for years — for kids that can't afford camp — it makes me sad," he said.

The Lions recently celebrated their 80th anniversary. Over the past 50 years, the group has put $3.5 million into the community. At the unveiling event, it presented five $1,000 cheques to local schools in need of sports funding.

"That is what we're about," Cherrie said.

He declined to comment further about the arena controversy. But a clearer picture emerged in interviews with former club members, individuals involved with the project and city officials.

The financial woes, it seems, began early and piled up. By the time the parties understood the gravity of the situation, they were in too deep. When the rink opened its doors, even the best-case scenario had the Lions teetering on the edge.

The story begins in 1949, the year New Toronto, later to become south Etobicoke, asked the Lions to build a single-rink arena on town land. The facility was a financial success, but soon couldn't meet demand.

In the late 1990s, the Lions began thinking about adding a second rink. Then-councillor Irene Jones encouraged them to think bigger. An adjacent lot owned by the public school board could support a larger complex. A land swap was possible.

Now the Lions were thinking three rinks.

A business consultant determined an ever larger facility would be more cost-effective. More ice pads meant more ice rentals, making it easier to pay down debt. The sports community, starved for ice, was pressuring the Lions to go big.

And then there were the Leafs. The franchise, which had been practising at the Lions' single rink, wanted a world-class facility. And if they couldn't get it in Toronto, they were willing to go to Mississauga.

"People wanted to make this arena work," Jones said. "Toronto didn't want to see their team have to go outside Toronto to practise."

By the early 2000s, the Lions were considering a four-rink, $20 million arena. The Hockey Hall of Fame got on board. Mastercard was interested. The Etobicoke Dolphins women's hockey league was interested.

"South Etobicoke had been neglected for years," Jones said. "My thinking at the time was: If the Lions club can move forward and make a success of a four-pad arena, the worst thing that happens is that the city has a brand new, state-of-the-art facility that would not have been built otherwise. At worst, south Etobicoke is home to one of the best rinks in the country."

The city got involved officially in 2003, the school board the following year. The Lions worked on a site plan and negotiated with the city for three years.

"This took way longer to get approved than it should have," said Davis. And all the while, the cost of materials was rising.

City council finally approved the business plan in fall 2006 and agreed to back a loan of $29 million. Davis believes they should have gone further.

"These guys had the moxie and entrepreneurial spirit to make this happen…. The city could have and should have put in $5 million or $8 million. Today, the economics would be totally different," he said.

By the next year, inflation had driven costs up 5 per cent more. A heat recovery system added $4 million. The Lions hoped council would approve the final number — a total of $33 million — in April. It didn't happen until September. By the time the final contract was signed, costs had gone up again.

The city was already on the hook for the loan guarantee when the project hit another snag: With the club already over budget, the city and bank refused to allow the planned $300,000 restaurant to be built on the second floor.

The Lions believed the eatery, overlooking all four rinks, could generate several hundred thousand dollars a year. Losing it "is what killed us," said a former member.

Since 2009, interest on the loan has jumped from 2.25 per cent to 3 per cent. Even though the arena has hit its targets for ice rentals and fees — MasterCard pays $525,000 a year to display its logo on the building — the rate hike strained an already fragile budget.

Also, a portion of the Lions' loan was locked into a floating interest rate. A common practice in construction financing, according to corporate finance director Len Brittain, is an arrangement with interest-only payments and no set schedule for repaying the principal.

"For the purposes of paying off the principal, a share of the net operating income of the arena was to be dedicated to the debt repayment each year," Brittain said.

The amount was determined by the arena's financial health. Once a year, the lender would execute a "cash sweep" of the club's account for a principal payment.

It was around the time of this cash sweep last December that city staff began to worry the Lions were at risk of default, Patterson said.

"Minor fluctuations in the rates might have been reasonable for them to manage if they'd been able to achieve the additional (restaurant) revenues," Patterson said.

So, was it unreasonable to expect a volunteer group to manage a $45 million complex? "I think maybe the more appropriate question might be: Is it possible to build an arena and have it fully financed by debt?" Pattern said. Before the debt payments, she said, the arena brings in $1.6 million in profit each year.

Adds Brittain: "Despite what has happened, the original business case was sound. There's no question about it."

Many people say the Lions' community ties were both an asset and a liability. The new arena absorbed many of the old arena staff, and new hires were often associated with the club or staff.

"It's hard because they're such nice people — of course. But there is potential to generate more revenue if you had the best and brightest working there, someone with experience running that kind of big operation," said one observer.

Brian Hoskins, past president of the Lions, called such criticisms "categorically wrong." There is a "lineup across the country" to hire the Lions' manager, Paul McCarron, he said. "He is second to none. MLSE would hire him in a second. We would never have even thought about embarking on this without Paul."

On Monday, the executive committee agreed to bail out the embattled arena. Subject to the full council's approval, the city will take control. The cash problem will be taken care of with a line of credit and the city will seek a new operator.

Bob Hunter, MLSE's executive vice president of venues and entertainment, said the company — which already runs BMO Field and Ricoh Coliseum — will compete for the contract.

"The Lions did a good job servicing the Leafs and Marlies," he said. "A four-pad arena; a $40 million debt service. It's a big business and a big operation, and were they ready to take that on? I guess they weren't. But again, as tenants we were well taken care of."

ARENA TIMELINE

1931: The Lakeshore Lions Club, a not-for profit organization run by volunteers, is founded in Etobicoke.

1951: The Lions begin operating a single-pad rink at Don Russell Memorial Park.

Late 1990s: Lions approach local councillor about building a second ice pad. The city is enthusiastic and encourages a four-pad expansion on an adjacent lot, arguing it's better for the community, more cost-effective, and will preserve parkland.

2003: Discussions begin with city staff.

2004: Toronto District School Board is approached about property it owns at 400 Kipling Ave. The Lions submit a business plan to the city.

2005: Extensive negotiations begin among the Lions, city and TDSB. A land swap is arranged. The Lions agree to give students free ice. The city compensates TDSB with other land. City staff begins working with the Lions on community consultations, project planning and financing.

2006: The city agrees to guarantee $29 million in construction loans.

2009: Council increases the loan guarantee by $5 million after construction costs balloon. By year's end, 20 construction firms have filed liens against the project.

September 2009: The nearly 300,000-square-foot, state-of-the-art complex opens on schedule. Hailed as the "Cadillac of training facilities" by Leafs GM Brian Burke.

Late 2010: City staff conclude the Lions will default on their loans within the next two years without intervention.

June 2011: Executive committee agrees to take over operations, stripping the Lions logo from the building as punishment. A commemorative plaque will be left inside.

July 2011: Issue will go to city council. If approved, the city will get the operation back on its feet and then seek an outside operator, with the intention of selling at some point.

FOLLOW THE MONEY

$19 million: Cost of the original plan for a second ice pad, presented to local councillor in 2003

$29 million: Council loan guarantee in 2006, after years of back and forth on design.

$35.5 million: Current city loan guarantee

$44 million: Current debt and cost of the project.

$25.6 million: Cost of Ottawa's Sensplex four-pad rink, completed in 2004. This was also privately financed with a city loan guarantee.