

Confidential Report

TO: Finance and Strategy Committee

FROM: General Manager Finance and Corporate Support

MEETING DATE: 28 April 2008

SUBJECT: **UPDATE ON CARISBROOK**

SUMMARY

This report updates the Committee on five separate matters in connection with the proposed stadium. It is important to note that all five matters are, to varying degrees, matters in progress. Final resolution of the matters may give different outcomes from those that are going to be suggested here.

For each of the matters this report will endeavour to give some kind of assessment of the change in risks since the last report.

IMPLICATIONS FOR:

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| (i) Policy: | No |
| (ii) Approved Annual Budget: | No |
| (iii) LTCCP/ Funding Policy: | No |
| (iv) Activity Management Plans: | No |
| (v) Community Boards: | No |

RECOMMENDATIONS

That this report be noted.

DISCUSSION

The five matters for consideration in this report are:

- 1 Land costs
- 2 Agreement on occupation and revenue arrangements
- 3 Satisfaction as to progress on private sector fundraising
- 4 Dunedin City Council debt
- 5 Relationships of Carisbrook Stadium Trust (CST) as a charitable trust with DCC and the proposed CCO that will own the completed stadium.

Each matter will be dealt with in sequence.

1 Land costs

The Council has acquired a valuation of the Otago Rugby Football Union (ORFU) owned land on the basis of a demolished and cleared site, zoned industrial and measuring 35,000 square metres in total. The valuation of this site was given as \$250 per square metre. The valuation used in the CST report to the Council meeting of 17 March 2008 was \$350 per square metre. The effect is to reduce the sum available as an offset to the land costs in Awatea Street by \$3.5 million. And of course that is assuming that the \$3.5 million ever was available in the first place. The valuation of \$250 per square metre is justified by reference to a list of 23 industrial property sales in the last two years. It has been suggested that the sale of the ORFU site in two years time would naturally produce a higher value per square metre than \$250. If the credit squeeze continues then it is more likely that the value will decline. For now the credit squeeze is very real. Anyone contemplating purchasing a substantial area of industrial land would, in all probability, have quite some difficulty securing funding from a lending institution, of any kind. This issue will be expanded upon further when we discuss Dunedin City Council's debt protections.

The conclusion that must be drawn from the valuation is that there is a shortfall of \$3.5 million in providing for the cost of the land at Awatea Street. This conclusion cannot be glossed over or brushed aside.

2 Agreement on occupation and revenue arrangements

This refers to the arrangements between the venue owner/manager and one of the primary event owners, the ORFU. The CST and the ORFU met on 18 April 2008 for the first time to consider and negotiate a set of arrangements that ensured that the Council-owned company that will end up as the sole shareholder of the venue owning and venue management companies will be capable of operating with a reasonable positive cash flow. At the same time the objective is to arrive at a commercial arrangement that ensures the ORFU is successful.

As was pointed out in the report to the meeting on 17 March, the ORFU may well need to retain proceeds from the sale of Carisbrook in order to secure the working capital needed to finance its seasonal cash flows. That requirement may remain but the negotiations between the CST and the ORFU will have a direct bearing on how much the ORFU needs to retain. It was suggested on 17 March that if the ORFU needs \$2 million then that is a further \$2 million that will need to be deducted from the funds available to offset the cost of the land at Awatea Street. That means, potentially, that the funds available for the land will be short \$3.5 million as discussed in No. 1 above, plus the \$2 million required to finance the ORFU cash flows, giving a total shortfall of \$5.5 million.

The risk, therefore, is that the total funding required to acquire the land is going to be short by \$5.5 million, which will have to be found from other sources.

It must be noted, however, that negotiations are in their early stages and it may be that the ORFU does not need \$2 million or even \$1 million. This is a fluid situation.

3 Satisfaction as to progress on private fundraising

As a starting observation, the cold hard reality is that the risks associated with the private sector funding have increased. Since 17 March, further staff discussions have been held internally and on 22 April 2008 a meeting of staff, the chairman of the CST and our tax and legal advisors concluded that the \$45.5 million that is most frequently referred to as private sector funding, is in reality going to be more like \$56-58 million. Again, it must be emphasised that we have no hard data on the uptake of the seats, suites and naming rights opportunities being promoted by the CST.

The chief concern is not so much the rate of uptake but the timing of the receipt of the cash from applicants for various memberships and naming rights. For the early part of this year the central assumption was that applicants for ten-year seats, corporate suites or naming rights would pay lump sums up front, so avoiding cash flow shortfalls during construction. The CST revealed just prior to the 17 March meeting that their view was that the uptake would be much reduced if this approach were taken. Their view changed to one of promoting an instalment-based cash flow. This means there is going to be a sizeable gap between cash-out and cash-in in the construction phase that can only be filled by borrowing. Initially the CST suggested that they would be doing the borrowing. We questioned that on the grounds that the CST cannot give any security for the borrowing and it was suggested instead that DCC, in every likelihood, would have to guarantee that borrowing.

The meeting on 22 April concluded that the CST could not do the borrowing as it has nothing to be offered as security. It should be done by DCC instead. This means that DCC would, for a period of ten years, carry additional debt which would be funded, serviced and repaid out of the annual instalments paid by owners of seats, suites and naming rights. There would be no ratepayer contribution.

The obvious risk with this way of private sector funding is that because these dollars are likely to be the last funding dollars received, the target may not be achieved and construction of the project will get past the point of no return. This would leave the funder of last resort, the Council, to pick up the tab. The risk of this happening is exacerbated by the need to find the extra money from the private sector to fund the debt servicing costs in the interim, ie. \$10-12 million.

The CST has been asked to provide regular updates on the extent of support from seats, suites and naming rights applicants to the Council in order to give a level of comfort about the progress. If necessary the Council should secure third-party verification of the CST's progress in securing private sector funding, by reference to actual documentation of commitments.

The actual mechanics of the cash flows are now much clearer. The CST will invoice applicants for seats, suites and naming rights "as agent for DCC". CST will at no time own assets, carry liabilities, or receive cash from applicants. This in itself will add a degree of administrative cost to DCC but the benefit, which probably exceeds the cost, is that the DCC will have complete control over cash flows.

4 DCC Debt

We have not previously discussed the Council's ability to raise the debt required to fund the stadium. We have all become accustomed to ten years or more of easy credit. Dunedin City Treasury Limited (DCTL) has successfully and efficiently raised tens of millions of dollars at very competitive prices over the last 15 years. We now need to understand that the credit squeeze, for now, is very real. DCTL was able to raise \$40 million early this month but not without quite an effort. Especially noticeable was

the absence of investment in DCC debt by the core banks themselves. While that is expected to change gradually, there are for the moment, risks in actually raising the money required to build not only the stadium but Settlers Museums and secondary treatments plants as well. We have already raised enough to cover the land purchases but there needs to be much more liquidity in the system before we can begin to say with complete confidence that normal operations, in banking circles at least, have resumed.

For now, the risk is real, but a reasonable conclusion is that it will reduce.

5 Relationships of CST as a Trust with DCC and the CCO

Meetings with our tax and legal advisors, along with staff and the CST, are beginning to assist in forming a clearer picture of our respective roles. In part, this is driven by the inability of the Trust to take on liabilities for owner assets. The CST then assumes the role of project managers and promoters of the Stadium. Whilst they will do invoicing, they will do so as agents for DCC and not in their own name.

It became apparent during the 22 April meeting that the role of the CST as a charitable trust may have diminished to the extent that it will have no effective role to play after the stadium is completed. That is not to say that certain members of the Trust will not have a very real contribution to make on the Board of the CCOs that will own and operate the venue.

This increasing clarity of roles inevitably will mean that DCC Finance department will have a much more meaningful administrative and accounting role to play, starting soon.

SUMMARY

While there is still a degree of fluidity in the discussions and negotiations, with outcomes still uncertain, by and large it cannot honestly be said that the funding risks have reduced since 17 March. An objective observer would in fact conclude that they have increased.

The land purchase costs will require at least another \$3.5 million, and possibly a further \$2 million to make up for offsets that were included on the 17 March report but are not in fact available.

The timing and quantity of the private sector funding, caused by the change from upfront lump sum funding to ten-year instalment funding, means certainly that there is increased risk that all of the private sector funding will not be obtained.

There remains some risk that DCC will not be able to secure debt funding owing to the credit squeeze that everybody is experiencing. Without the debt funding, contractors can't get their bills paid and the Stadium can't be built. However, this situation is more likely to improve than worsen – the question is how soon it will worsen.

Overall, risks have increased.

Approved by: Athol Stephens
GENERAL MANAGER FINANCE AND CORPORATE SUPPORT

Date report prepared: 24 April 2008