## 20. JADE STADIUM REDEVELOPMENT

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| Corporate Plan Output: Trading Activities Liaison | |

The purpose of this report is to update Councillors on the revised redevelopment proposal of Jade Stadium Ltd including financial projections relating to the redevelopment and ongoing operation and to seek Council approval to commence the physical works.

When Jade Stadium last reported to the Council on 23 September 1999, the Council confirmed its original commitment to a multi-purpose stadium to enable both rugby and cricket to be played. Jade Stadium Ltd was requested to continue to develop concept plans and financial projections based on a multi-purpose venue as previously resolved by the Council on 27 May 1999. (Copies of the Council minutes are attached for information.)

The concept plans, including costings for the project and the estimated revenue and expenditure streams are now available for consideration by the Council to enable a final decision to go ahead with the redevelopment project. The attached letter received from the Jade Stadium Chairman states that the Board is confident the project can be completed within the $40M budget and that revenue expectations from operations after completion are sufficient to meet outgoings and service borrowing requirements.

### GENERAL COMMENT ON FINANCIAL STRUCTURE OF BUSINESS PLAN

The financial model which supports the business plan provides for a capital project of $40 million including a $3 million contingency, the subsequent operating costs and revenues of the existing and enhanced facility, income from naming rights and sale of corporate suites and seats spread over a period of fifteen years, equity funding from CCC of $4 million, grants from other funding bodies of $2.3 million and the balance by way of loan.

Jade Stadium took over the responsibility for the liabilities of Victory Park Board in 1998 and part of the portion of the equity funding contributed to date has been applied to the repayment of some of those existing loans to provide a better platform for the commencement of the project.

The Plan provides for income of $64.7 million from naming rights, key money and the sale of suites and club seats but this income is spread over a period of 15 years. It is therefore necessary to fund the greater part of the project initially from loan with the income from these sources enabling the loans to be reduced and paid off over a 16 year term following completion of the project.

### STRUCTURE AND REVIEW OF BUSINESS PLAN

The detailed financial model has been thoroughly prepared by professional staff contracted from Deloittes. It is readily apparent that it has been comprehensively prepared with extensive detail lying behind the main summaries. The model is logical and the level of detail provides considerable comfort that there has been care exercised to include all known aspects of the business and the project.

It has not been practical for CCC staff to vet the relevance of all the individual items of data used in the model as this clearly requires input from specialists in the field. However it has been reassuring to see that most data has been included on a conservative basis. This is especially the case in respect of the projections for the sale of seats and suites where the projected prices have been established with reference to the prices charged at other venues in NZ but adjusted to allow for the Christchurch market. In other words the revenue budgeted in the model is assessed conservatively. The assurances given by the directors of the company provide additional comfort.

The business plan reviewed is based entirely on the financial model and does not provide any additional narrative relating to issues such as marketing and SWOT analysis but from discussions with representatives of Jade at the Council seminar it is clear that the board have such issues in hand. It is therefore reasonable to accept the material provided as a valid assessment of project viability.

**LEVEL OF DEBT**

The company commenced with term liabilities of $7.68 million before the project. This comprised loans which had previously been borrowed by the Victory Park Board (VPB) from a number of sources. Since that time Jade Stadium Limited has reduced the debt to $5.50 million principally through the application of the early instalments of equity funding from CCC.

The model provides for borrowing a total of $39.1 million by way of a commercial bridging loan as the project proceeds. Progressive repayments continue on the residual VPB loans during the project period and repayments commence on the commercial project loan in 2002 when the project is complete. At the end of 2001 the total term debt for the company is $42.96 million which is an increase over the pre-existing debt of $37.46 million.

The company will clearly be highly geared during these early periods with debt to debt plus equity ratio in the peak year of 89%. However 12 years later this will have reduced to 69%. It is clear from this that Council support for this debt will be necessary as envisaged in the original Council conditions. The method of support is dealt with separately below.

**INTEREST RATE ASSUMPTIONS**

The financial model is based on interest throughout the period of the model on new borrowing of 8.5%. This is a reasonable assumption based on current market conditions but the Council needs to be aware that there is a trend of rising interest rates in New Zealand and overseas although this relates primarily to short term rates.

An increase in interest cost of this order of 0.25 to 0.5% can be coped with in the plan through an extended period of the loan by an additional one year if this should become necessary.

**EFFECT ON THE COUNCIL**

From a Council perspective we need assurance that the redevelopment can be managed to ensure it comes within the $40M specified for the project. The Council's Major Projects Co-ordinator, Albert Louman who is overseeing the redevelopment on behalf of the company, reports:

"Various design solutions and options have been explored and a value management session held to ensure that the budget target of $40M can be met, costs are minimised and function is optimised. The concept as now presented matches the $40M budget according to the Quantity Surveyor's latest budget estimate. Stringent cost control will be required throughout the project to ensure delivery within budget."

From a financial perspective the redevelopment will have an effect on the Council in a variety of ways. The expectation is that the Council will stand behind the project and may in fact lend the money to the company to enable the project to proceed. This will impact on overall Council debt and financial ratios whether Jade Stadium Ltd borrows in its own name or the Council lends to the company. From an operating perspective the Council will wish to ensure that the prospect of future calls on rates to cover operational shortfalls are minimised and unlikely to occur.

In this regard Deloitte Touche Tohmatsu who were retained by the company to develop the financial projections have had discussions with the Director of Finance and Director of Business Projects to brief them on the underlying assumptions relative to the projections and to clarify business risks involved and sensitivities of the revenue streams.

The key issues which need to be considered by the Council are the reasonableness of the assumptions relating to the main income streams; naming rights, corporate suites, club seats, grants, rentals and attendances and also the impact of the company borrowing on key financial ratios.

We know a stadium naming sponsor is in place and there is strong interest in secondary stand naming rights. The design allows for an additional 38 corporate suites which we understand can be accommodated in the Christchurch market with both key money and rental components. The $2.3M budget for grant income is less than received in the other main centres. Substantial agreement has been reached with the sporting codes on future rental which leaves the club and reserve seats and future attendances as the unknowns. Our discussions with Deloittes indicate the figures included are well researched, conservative and realistic with the attendance figures less than those achieved in recent years. Take up of the club and reserve seats is phased in over a three year period.

In addition the redevelopment will be staged with the new South stand costing approximately $3.1M commencing in March 2000 which will give the company time to progress sales of corporate suites and club and reserve seats in the new west stand, which is due to commence later in the year.

It will be important for the company to get approval for the whole project at this time so that the marketing of the corporate suites, club seats, etc, can take place with some certainty that the full project is going ahead. Without this, support from sponsors and tenants will not be able to be successfully achieved prior to the commencement of the second stage of the project.

**FLEXIBILITY OF REPAYMENTS**

The model shows that the borrowing for the project can be fully repaid in 16 years from completion of the project (2002 to 2017). This is a relatively short period given that the assets have a life of 50 years. While there is no reason to doubt the validity of any of the projections in the model it would not be unreasonable for the term of repayment to be extended out to 20 or even 25 years. This provides a flexibility which would allow for a reasonable variation from some of the operating estimates. The following table provides a simple sensitivity analysis which indicates the extra term which would need to be added to the loan if certain events occurred:

| **Variation** | **Increased Loan** | **Annual cost** | **Extension to loan repayment period** |
|---|---|---|---|
| Grants not received | $2.3M | $0.3M | 1.5 years |
| Income under/costs over by $0.25M p.a. | $2.0M | $0.25M | 1.5 years |
| Capital costs over | $1M | $0.12M pa | 1 year |
| Interest rate increase by 0.5% | $1.0M | $0.14M pa | 1 year |

**SOURCE OF DEBT FINANCE**

The Board of Jade Stadium have requested that the Council act as a borrowing conduit for the company because of the borrowing strength of the Council. This makes sense as a way of providing the "underwriting" of the project as envisaged in the earlier Council resolutions since the Council is not permitted to guarantee the financial arrangements of a LATE.

There is, however, a requirement in the Local Government Act that any lending to a LATE be on terms which are no more favourable than if the local authority were borrowing without charging a rate or rate revenue as a security. This means that there will need to be a margin charged to Jade to reflect such a condition. The interest range referred to in the preceding paragraph should be sufficient to cover this requirement depending on market conditions. However, if a further 0.5% needed to be added this could be accommodated by extending the loan term. External advice will be needed on this issue before the borrowing arrangements are finalised.

An alternative source of debt finance could be for Jade to borrow direct from a commercial source but this is likely to be more expensive given the high gearing of the company and the limited type of security which would be offered.

**EQUITY CONTRIBUTIONS**

The CCC has to date provided to the company equity funding of $1.5 million. Further contributions of $1.0 million in 2000 and $1.5 million in 2001 are scheduled to provide the Council's promised $4 million equity funding. This is the total amount which the Council is expected to invest in this business (the loan funding is a commercial transaction for which interest will be paid).

It should be noted that there is no current plan to provide a return on this equity to the Council. The financial model shows that from 2008 the company will generate profits and these will be fully directed to the repayment of debt and reinvestment. In the period up to 2008 there is a positive cashflow although for accounting purposes the company shows an accounting loss due to the depreciation on the new assets. Nevertheless, in the initial years provision has been made for debt repayment on a normal commercial basis. This is similar to the investment in any community asset and is comparable with the expectations from Christchurch City Facilities which operates the Convention Centre and WestpacTrust Stadium. In the long term following the loan repayment a return may be possible although this will depend on whether re-development of the eastern stands takes place.

**Recommendation:**

1. That the Council authorise Jade Stadium Ltd to proceed with the full redevelopment as outlined in their proposal on the understanding that:

   (i) Capital cost not exceed $40M.

   (ii) The contract not be let for the second stage of the project until the company confirms to the Council that it is satisfied revenue assumptions relating to naming rights grants and corporate suites, are achieved.

2. That the Director of Finance be requested to further investigate the most appropriate lending mechanism to provide the debt finance to Jade Stadium Ltd and report back to the Council as soon as possible.

**Chairman's Recommendation:** That the above recommendations be adopted.