

Mayor and Councillors
COUNCIL

5 APRIL 2012

Meeting Status: **Public**

Purpose of Report: For Decision

KAPITI COAST RECREATIONAL TURF TRUST

PURPOSE OF REPORT

1. To consider a request from the Kapiti Coast Recreational Turf Trust (“Trust”) for financial assistance to enable the Trust to complete (stage 1 and 2) of their Pavilion.

SIGNIFICANCE OF DECISION

2. The report does not trigger Council’s Significance Policy.

BACKGROUND

3. In the 2008/09 year the Trust completed the building of the artificial turf facility at Mazengarb Park. The total cost of the facility was \$1.83 million of which Council contributed \$650,000 as a grant towards the cost of that project and advanced \$175,000 towards the cost of the artificial turf. Of that \$175,000, the Trust has repaid \$75,000 and the balance of \$100,000 is being repaid over a 10 year period by the Trust including interest at the current interest rates.
4. The Trust has continued to fundraise for a Pavilion at the site because without changing facilities and a Pavilion it is difficult to have regional tournaments or have any teams from outside of the District. Council agreed to provide \$500,000 towards the toilets and changing rooms as part of the 2010/11 Annual Plan and have advanced \$188,000 of that \$500,000 provision.
5. The Pavilion project is split into 3 stages as follows:
 - (a) Stage 1 – changing rooms complete and weathertight Pavilion shell; includes all electrical and plumbing services. External balconies completed;
 - (b) Stage 2 – Internal fitout of Pavilion, linings, internal doors, ceilings kitchen/bar joinery kitchen appliances, bench tops and final finishes (painting/plastering etc);
 - (c) Stage 3 – chiller, offices and utility room.
6. Stage 1 will provide working changing rooms and a shell of Pavilion building that will provide shelter only, but no functions.
7. The Trust believes it is important that stage 2 be completed so that the Pavilion is useable and can be used as a social centre for the users and extend the utilisation of the facility as a whole.

8. The Trust had raised sufficient money to build stage 1 of the Pavilion and was continuing to fundraise for stage 2 when the impacts of the Christchurch earthquake affected the ability to raise funds. This has had a major impact on the abilities of organisations to fundraise, as a lot of the additional funds were being directed towards the recovery from that earthquake event.
9. With the Council commitment of \$500,000 to the changing rooms and toilets and the New Zealand Lotteries commitment of \$600,000, together with other fundraising received, the Trust had put stage 1 and 2 of the project out to tender, conditional on not proceeding with stage 2 until sufficient funds were available. Hawkins successfully won that tender and have started building stage 1 of the Pavilion which is scheduled to be completed by the end April. If the Trust had not proceeded with stage 1 within the required timeframe the New Zealand Lotteries \$600,000 funding would have been lost.
10. The Trust has continued to try and raise further funds from other charities and the Trust is in the process of applying to six Charitable Trusts.

CONSIDERATIONS

Issues

11. The total projected costs of stage 1 and stage 2 is \$1.4 million as per the Trust's Funding Reconciliation stage 2 (Appendix 1 attached) of which the Trust has confirmed funding of \$1.055 million leaving a shortfall of \$345,000.
12. How shortfall is proposed to be funded and is summaries as follows:

a) Request for financial assistance from Kāpiti Coast District Council	\$000
2011/12 - Council grant towards sewer connection/pump Development Levy	50
2012/13 - Council grant towards stage 2 Pavilion	50
Council interest free underwrite loan up to \$150,000	150
Total financial assistance requested from Council	250

b) *Shortfall to be met from other funding sources through funding applications by the Trust	95
Total Shortfall	345

*Funding applications being sent to six Charitable Trusts by Kapiti Coast Recreational Turf Trust	
Potential funding	300

13. The Trust request for financial assistance is attached as Appendix 2.

Request for a \$50,000 Council grant for the 2011/12 year

14. The estimated cost of the sewer pump and connection is \$50,000 and the development contribution charged for the Pavilion is \$15,252 net of GST.

15. The Group Manager Infrastructure Services has reviewed the sewer pump and connection costs to try and establish whether that connection is providing other benefits to the park in terms of other potential connections. At this stage a contribution of \$35,000, from the Paraparaumu Wastewater account, is justified as Council's contribution towards that \$50,000 for sewer pump installation and connection.
16. The \$15,252 development contribution covers roading, water, sewerage and community facilities. The Trust has requested that the development contributions be remitted. In terms of remission of the development contributions, the only development contribution that could be justified would be the \$5,116 for the community facilities contribution.
17. The total development contributions for the Pavilion amount to \$15,252. At this stage the Council can remit the \$5,116 relating to community facilities but the balance, would need to be a Council grant. Currently there is no budget for grants of this nature therefore the \$10,137 balance of the development contribution would have to be funded from Council's Contingency Fund.

Request for a \$50,000 Council grant for the 2012/13 year

18. Due to the fact that the Trust needs to have certainty about the funding before the 30 April for stage 2 it is proposed that the grant be funded from the contingency fund initially. The funding of this grant would then be referred to the draft Long Term Plan submission process so that Council can consider whether this grant could be funded from other sources e.g. interest savings.

Interest Free Underwriting Loan of \$150,000

19. The Council has a Policy for underwriting the funding of community projects constructed on Council land by community organisations which is attached as Appendix 3 which sets out certain criteria. Set out below is the Policy criteria and how the Trust's application is assessed against that criteria.

Policy on Underwriting

The Council can underwrite the funding of community projects constructed on Council land by community organisations providing that they meet the following criteria:-

28. *Criteria 1*

The underwriting is only for the funding of a proportion (up to 20%) of the total cost of a community project where it is required to complete a community project (i.e. where the majority of the funds for a project have been satisfactorily raised by the organisation and the underwriting of funding is required to meet the funding shortfall while the community organisation continues to fundraise to meet that shortfall).

- a) The total cost of the project is \$1.4 million. The Trust is seeking an underwriting loan for \$150,000 of the total cost which is 10.7% of the project cost (i.e. within the 20% criteria).

- b) The Trust intends to continue to fundraise to pay back this underwrite loan

29. Criteria 2

The underwrite is for a specified short term up to a maximum of 2 years.

- a) The expected timeframe for this underwrite loan is 12 months with the repayment being funded from the Trust's further fundraising.

30. Criteria 3

For Council to provide an underwrite it must be satisfied that in the event that a community organisation is unable to repay the full underwritten amount, that the Council would be prepared to lend the community organisation up to the full amount of the underwrite for a longer term (maximum of 20 years) at current interest rates or the Council is prepared to offer a loan guarantee for the community organisation where they obtain a commercial loan from a bank or financial institution.

- a) In the event that the Trust is unable to repay the full amount of the underwrite, Council needs to consider whether it would be prepared to lend the balance unpaid to the Trust for a period of say up to 10 years providing they fund not only the loan repayments but also interest at Council's current borrowing rates.
- b) The Trust's request for an interest free underwrite loan of \$150,000 does not comply with the Council's criteria in its Underwriting Policy, i.e. that the Community Organisation will pay interest on any loan at Council's current borrowing interest rate.
- c) The Trust has made provision in their budgets for interest to be paid on the loan at Council's current borrowing interest rate of 6.5% from the 2013/14 year onwards.
- d) If the Council wants to provide a loan repayment holiday and waive the interest costs for the first year, it could waive the interest costs amounting to \$9,750 as a grant. At this stage, Council has no provision in its draft 2012 Long Term Plan for a grant of \$9,750. The grant would need to be funded from Council's Contingency Fund.
- e) If Council were to provide an interest free loan of up to \$150,000 for a 10 year period the interest cost to the council would be \$59,000 (if the loan was repaid in equal annual instalments over the 10 year period). These interest costs have not been included in the draft 2012 Long Term Plan and it is not recommended that Council approves a loan on an interest free basis over the 10 year period as it would not comply with Council's Underwriting Policy.
- f) Council has a higher levels of debt projected over the next 5 years and the proposed loan would add to Council's total debt even though the loan servicing costs would be met by the Trust.

- g) The Trust has made enquiries from their Bank as to whether they could have a commercial loan to cover the shortfall with Council acting as Guarantor. As yet they have not had a response from the Bank.
- h) If Council acted as a guarantor for a loan to the Trust the interest on the commercial loan is likely to be at a higher rate than the Council is able to borrow at. In the event that the Trust is unable to meet its loan obligations the Council would be repaying a loan at a higher interest rates than it would be through its normal borrowing arrangements.

31. Criteria 4

For Council to agree to provide an underwrite they must be satisfied with the community organisation's Business Plan/cash flow forecasts and, in the event of the Council having to provide a loan or loan guarantee, that the community organisation can meet the loan servicing costs, as well as its other operating costs from its projected operating reserves.

- a) The Trust's Business Plan and cash flow forecast (Appendix 4) have been reviewed. The Business Plan and cash flow forecast are based on a series of assumptions that revenue will increase substantially once the Pavilion is built. The Trust has suggested that the Pavilion would ensure that there are more regional tournaments at the facility and that the number of participating local hockey teams would increase with the improved facility.
- b) An analysis of the revenue and expenditure budgets is attached as Appendix 5.
- c) There is a risk that the revenue figures may not meet their projected targets which could mean that they would be unable to meet their loan interest and loan repayment obligations.
- d) The Trust's Business Plan, based on their revenue and expenditure forecasts and assumptions, shows that the Trust meets their operating costs and from the 2013/14 year and can also meet the loan interest and repayment costs on the \$100,000 advance relating to the turf and the proposed \$150,000 underwrite loan for the Pavilion over a 10 year period.
- e) The risk is that the budgeted increased revenue levels for the 2013/14 year are not achieved.
- f) The risk for the Council is that it could end up paying the debt servicing costs itself without having any budgets to cover it.

The estimated costs for the 2013/14 are as follows:

Interest @ 6.5%	\$9,750
Loan Repayment	<u>\$15,000</u>
Total Annual Debt Servicing Costs	\$24,750

- g) Over the ten year period the interest costs would amount to \$59,000 with loan repayments of \$150,000 which Council could potentially be facing if the Trust is unable to meet its loan repayments.

32. Criteria 5

For Council to approve an underwrite, the community organisation must be prepared to sign a Deed of Indemnity giving Council security over the community project in the event that the community organisation defaults on its repayment of the underwrite or on its loan repayments.

- a) The Trust has indicated they would be prepared to sign a Deed of Indemnity giving Council security over the Pavilion and changing rooms in the event that the Trust is unable to meet the repayments of any funds advanced under the Underwriting Agreement with the Trust.

33. Criteria 6

The community organisation will also need to provide a set of audited financial statements to the Council each year of the underwrite/loan or loan guarantee.

- a) The Trust has provided a set of audited accounts for the year ended September 2010. The September 2011 accounts are currently being audited and will be supplied as soon as possible.

All legal costs associated with a Deed of Indemnity and Deed of Guarantee need to be met by the community organisation.

- b) The Trust has acknowledged they will pay all legal costs associated with the Deed of Indemnity.

Conclusion

- 34. The budgeted cost of stages 1 and 2 of the Pavilion is \$1.4 million. The Trust has committed funding of \$1.055 million towards this project, which leaves a shortfall of \$345,000. The Trust has requested financial assistance from Council by way of grants and loans totalling \$250,000 which still leaves a shortfall of \$95,000 to be raised by the Trust from other sources.
- 35. Council approvals of grants or loans will need to be subject to the Trust having committed funding of \$95,000 from other sources to ensure that stage 2 can be completed and paid for on a timely basis.
- 36. The Council could approve a grant of \$45,137 for the 2011/12 year based on a \$35,000 contribution towards the costs of the sewerage pump and connection funded from Paraparaumu wastewater and \$10,137 to cover the cost of the development contributions (excluding community facilities) funded from the Contingency Fund. The Chief Executive has approved a remission of \$5,116 for development Contributions for community facilities relating to the Pavilion project.
- 37. There is no provision for a grant of \$50,000 for the 2012/13 year budgeted for this purpose in the draft 2012 Long Term Plan. The grant could be approved and

funded from the contingency fund initially subject to the Trust being able to fund the \$95,000 project shortfall from other sources. The Trust need certainty of funding now before the end of April if stage 2 is to proceed straight after stage 1 is completed. The funding of the \$50,000 grant could be referred to the draft Long Term Plan to see if it could be funded from other sources e.g. interest savings etc.

- 38. The request for a loan of \$150,000 to be provided on an interest free basis is not in accordance with Council’s Underwriting Policy. Underwriting loans are charged interest at the current Council borrowing rate.
- 39. Council could provide interest free status for the first 12 months by increasing the rates contribution from the contingency fund by \$9,750.
- 40. The Trust’s Business Plan shows that based on the revenue assumptions provided by the Trust that the Trust can meet their budgeted operating costs together with the annual loan interest and loan repayments on both the \$100,000 Turf loan and the \$150,000 Underwrite loan from the 2013/14 year onwards. There is a risk that the Trust cannot meet its revenue budgets and meet the loan repayments.
- 41. The Underwrite loan would be granted on the condition that the Trust sign a Deed of Indemnity that in the event of the Trust defaulting on its loan servicing costs that the Council would have sufficient security over the Trust’s Pavilion at Mazengarb Park.

Financial Considerations

- 43. The potential cost of the Trust’s request is as follows:

Financial Request	Council Sewerage Pump Contribution	Funded from Contingency Fund	Development Contribution Community Facilities Remitted	Underwriting Loan
	\$	\$	\$	\$
\$50,000 grant 2011/12 year	35,000	10,137	5,116	
\$50,000 grant 2012/13 year		50,000		
Interest costs on \$150,000 loan for 1 year from April 2012 at 6.5%		9,750		
Underwriting Loan				150,000
	35,000	59,887	5,116	150,000

Legal Considerations

- 44. The underwriting agreement and Deed of Indemnity will be prepared by Council’s Solicitor and the cost met by the Trust.

Delegation

45. Only Council has authority to consider and approve the financial issues in this report.

Consultation

46. There has been extensive consultation with the Trust over their Business Plan, Financial Modelling and request.

Policy Implications

47. There are no changes to Council's Policy.

Publicity Considerations

48. A press release will be prepared in relation to the outcome of this report.

RECOMMENDATIONS

49. That the Council make a grant to the Kapiti Coast Recreational Turf Trust in the 2011/12 year amounting to \$45,137, funding \$35,000 from Paraparaumu wastewater as a contribution towards the sewerage pump and connection and \$10,137 from the contingency fund to fund the costs of the development contributions owed to the Council (excluding the community facilities development contributions).
50. That the Council approves a grant of \$50,000 for the 2012/13 year to the Kapiti Coast Recreational Turf Trust to be funded from the contingency fund initially to ensure that stage 2 can proceed subject to the Kapiti Coast Recreational Turf Trust raising \$95,000 from other sources to cover the shortfall for stage 2.
51. That the Council refer the funding of this \$50,000 grant, funded initially from the contingency fund, to the draft Long Term Plan process for Council to consider whether the grant could be funded from other sources. At this stage there are no budgeted funds available for this purpose in the draft 2012 Long Term Plan.
52. That the Council agrees to provide for a loan up to \$150,000 to the Kapiti Coast Recreational Turf Trust for stage 2 of the Pavilion and that for the first 12 months this loan is to be interest free, but if the loan is not repaid by the end of the 12 months then interest would be charged at Council's current borrowing rate.
53. That the Council agrees that the interest cost to Council of \$9,750 of providing the interest free loan to the Kapiti Coast Recreational Turf Trust for 12 months would be funded from the Contingency Fund.

54. That the Council approves the underwriting of up to \$150,000 of funding for a period of 12 months from 5 April 2012 to 5 April 2013 to enable the Kapiti Coast Recreational Turf Trust to complete the Pavilion construction stage 1 and stage 2 while it continues to fundraise to fully fund the project funding shortfall subject to the following conditions:
- a) The Kapiti Coast Recreational Turf Trust provide evidence of firm commitments for the funding of the \$95,000 shortfall from other sources to enable the completion of stage 2 of the Pavilion project;
 - b) the interest rate charge, if funds are advanced, will be zero for the first twelve months;
 - c) an Underwriting Agreement and Deed of Indemnity are signed between the Kapiti Coast Recreational Turf Trust and the Council, giving the Council sufficient security over the Kapiti Coast Recreational Turf Trust Pavilion on Mazengarb Park in the event of a default in the repayment of any funds advanced under the Underwriting Agreement by the Kapiti Coast Recreational Turf Trust;
 - d) that in the event that the Kapiti Coast Recreational Turf Trust is unable to fully repay the underwritten amount from its fundraising programme, that the Council is prepared to consider entering into a longer term Council loan arrangement, with interest charged at Council's current borrowing rate, subject to being satisfied with the Kapiti Coast Recreational Turf Trust's Business Plan and their ability to meet loan servicing costs at the time of application;
 - e) the Kapiti Coast Recreational Turf Trust provides a set of audited financial statements to the Council within three months of their financial year each year until any loan is repaid;
 - f) that all legal costs involved in drawing up the Underwriting Agreement and the Deed of Indemnity Agreement be met by the Kapiti Coast Recreational Turf Trust.

Report prepared by:



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Appendix 1	Kapiti Coast Recreational Turf Trust's Funding Reconciliation stage 2
Appendix 2	Kapiti Coast Recreational Turf Trust's Request for financial assistance
Appendix 3	Council's Underwriting Policy
Appendix 4	Business Plan/Cash flow forecasts
Appendix 5	Analysis of the revenue and expenditure budgets