greater WELLINGTON
REGIONAL COUNCIL

Report	PE 07.397
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Committee	Policy, Finance and Strategy Committee
Author	Mike Timmer, Treasurer

Refinancing of the Stadium Loan

1. Purpose

To advise the Committee of a refinancing opportunity that will potentially lower the cost to rate payers of funding the Stadium loan.

2. Significance of the decision

The matters for decision in this report do not trigger the significance policy of the Council or otherwise trigger section 76(3) (b) of the Local Government Act 2002.

3. Public Excluded

Grounds for the exclusion of the public under Section 48(1) of the Local Government Official Information and Meetings Act of 1987 are:

That the public conduct of the whole or relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists, that is, to carry out without prejudice or disadvantage, commercial activity.

4. Background

The Westpac Stadium construction was funded from a number of sources including a $25.0 million loan from Greater Wellington.

The loan was taken out in April of 1998 for a term of 20 years at a fixed interest rate of 8.55%. It was to be repaid on a table mortgage basis over the 20 year term, with the last payment in July 2018.

This was a somewhat unusual commercial loan with interest and principal being repaid each quarter. The reasoning for this was to spread the cost of the loan over 20 years. This enabled the annual costs to remain the same over the life of the loan and hence the charge to rate payers remaining unchanged over the 20 years.

The more important issue was the historically high fixed rate at which the loan was taken out at.

The interest rate of 8.55% was made up of the underlying rate at the time of 8.05% plus a 50 basis point (0.50%) margin. From the attached graphs of the 90 day bill rate and the 5 year swap rate (refer **Attachments 1 and 2**) a rate of 8.55% has never been achieved over the last 8 years.

5. Comment

5.1 ANZ National Bank

We have been in discussion with the ANZ National bank (the lender) about repayment of this loan. The documentation only allows us to repay this loan in 2005 and 2012. As a borrower, repaying the loan early only becomes an attractive option when interest rates are at levels that are favourable. In other words current interest rates are close to or above issuance interest rate of 8.55 %. Interest rates were not favourable in 2005 and it is uncertain if they will be in 2012, but they certainly are now.

The bank has agreed to allow us to repay the loan now. The current principal outstanding is $18,820,551.

The documentation sets out the early repayment procedure which values the loan. If rates are higher than 8.55% the bank pays us a break fee (or premium) and conversely, if they are lower we pay the bank a break fee (or premium). This is discussed further in Section 5.2 below.

5.2 The costs to break and refinance the loan

With current interest rates at around 8.00% we now have an opportunity to repay this loan at limited cost to Greater Wellington. The cost to Greater Wellington to break the loan is currently $277,000, this compares to $2,000,000 when interest rates were at 6% some 2-3 years ago. Thus Greater Wellington could pay the current principal outstanding of $18,820,551 plus $277,000 to repay the loan.

It should be noted that the break fee of $277,000 is based on interest rates prevailing on 14 June 2007, and this fee will vary with interest rate changes. Therefore, the final cost could be more or less than proposed. The sensitivity to interest rate change is about $9,500 per basis point change (0.01%).

However if interest rates or other circumstances change this break fee may increase significantly. If this occurs then GWRC may not refinance the Stadium loan if it is not economic.

We have used our financial advisors Bancorp Treasury Services Limited (Bancorp) to assist us with calculations and strategy on repaying this loan. Their calculations indicate the break fee should be in the vicinity of $581,000. The ANZ National would appear to be using pricing which gives Greater Wellington the benefit of the 50 basis point margin that they have been charging on the loan. Our current strategy is to repay the loan, pay the break cost, and refinance the loan on a fixed basis for 1 or 2 years.

By doing this Greater Wellington will have an immediate gain as we will be financing the loan at an interest rate lower than we are currently paying.

This leaves us with the next decision point after 1 or 2 years. Bancorp have calculated that we would need to achieve an interest rate of 8.10% for the following 10 years to breakeven. This assumes a similar repayment schedule.

5.3 Risks and benefits

We believe, as do our advisors Bancorp, that financing at under 8.10% on average over the next 10 years is achievable. This judgement is based on historical trends and the requirement of the Reserve Bank of New Zealand to maintain inflation in the band of 1% to 3%. With current interest rate at 8% and inflation running at around 3% New Zealand has positive real interest rates of 5%. These are levels which historically have proved to be unsustainable in the medium to long run as noted in the attached graphs (refer **Attachments 3 and 4**).

Furthermore, we believe that in 1 to 2 years time interest rates should fall and provide Greater Wellington the opportunity to lock into rates lower than the 8.10% mentioned above.

6. Impact and proposed annual alteration to rates

The original loan was taken out on a fixed interest rate basis to ensure that the special purpose stadium rate remained constant over the 20 years of the loan.

The stadium rate per $100,000 of capital value for residents ranges from $2.66 in the Wairarapa to $4.88 in Lower Hutt in respect of 2006/07. While the total amount collected for the stadium rate is constant ($2,675,555 excluding GST), the allocation to individual ratepayers changes from year to year, depending on the movements in capital value across the region.

Therefore, in respect of individual ratepayers the Stadium loan is not fixed. However, Greater Wellington can use a number of measures to keep the stadium rate fairly constant over the life of the remaining period. This would allow for interest rates on any new loans to be both above or below the current 8.55%.

The current payment to the bank involves a mix of principal and interest. To keep the stadium rate relatively constant then the amount of principal and interest can be altered. For example, if interest rates rise then the amount of principal repaid can be reduced. Alternatively if interest rates fall then the amount of principal repayment could be increased.

If interest rates, as expected, are lower over the next 10 years than current rates then the loan would be repaid earlier and the stadium rate would cease.

7 Other considerations

7.1 Increase in the Commercial Paper programme

The Council will recall, the Chief Financial Officer sought approval to borrow up to $50.0 million of debt via a commercial paper programme to finance Council activities (refer Report PE 05.412).

Documentation to enable this has been completed and the first draw down of $30.0 million was made on 15 June 2007. The pricing was successful at the Bank Bill mid rate and indicates a saving to us in the vicinity $50,000, being 17 basis points (0.17%) under traditional bank funding.

We will use the balance of the approved funds to finance this year's capital expenditure programme. If the Stadium loan is refinanced using commercial paper, then an additional $19.1 million is required.

We are therefore seeking an increase in this facility to $90.0 million being made up of:

	$ Million
Existing core debt	30.0
Stadium Advance	19.1
Next two year's capital expenditure	39.0
Subtotal	88.1
Additional amounts	1.9
Total Commercial Paper required	90.0

7.2 Legal opinion

A legal opinion has been obtained from Simpson Grierson which supports our view that Greater Wellington can refinance the Stadium loan.

7.3 Treasury Management Policy – Ratio of Fixed to Floating rates

The policy requires that a minimum amount of our debt portfolio must be priced at a fixed interest rate cost as noted in the table below extracted from the Treasury Policy.

FIXED INTEREST

Treasury Management Policy parameters			Forecast
Term Years	Minimum Fixed %	Maximum Fixed %	Stadium floating less $10m Swaps
0-3	30%	90%	40%-50%
3-5	20%	80%	34%-37%
>5	0%	70%	14%-25%

For the next three years GWRC must maintain a minimum of 30% of our debt as fixed interest rates with a maximum of 90%.

If the Stadium loan is converted to a loan with a floating interest rate and $10.0 million of our longer dated swaps are sold we do not breach our policy in any of the periods in question.

This is reliant upon timely receipt of the Government loan funding for the train upgrades in respect of additional capacity. Should the timing of this vary from plan then we can enter into other swaps to bring us back into policy or to seek dispensation from Council.

8 Communication

No communications are necessary.

9 Recommendations

That the Committee recommends that Council:

1. ***Receives** the report.*

2. ***Notes** the content of the report.*

3. ***Agrees** with the intention to repay and refinance the Stadium loan and to enter into such documents, acts, matters or things as are necessary, appropriate or desirable for the purpose of, or in connection with, or give effect to, any document, act or acts, matters or things in relation to the Council's Stadium loan.*

4. ***Agrees*** *to pay a break fee of up to $500,000 to ANZ National Bank in repaying the Stadium loan.*

5. *Subject to the Stadium loan being repaid,* ***approves*** *the increase in the Commercial Paper Facility to $90,000,000 and to enter into such documents, acts, matters or things as are necessary, appropriate or desirable for the purpose of, or in connection with, or give effect to, any document, act or acts, matters or things in relation to the Council's Commercial Paper Programme.*

6. ***Notes*** *that if circumstances change and/or the break fee exceeds the limit in recommendation 4, then the Stadium loan will not be repaid.*

7. ***Authorises*** *the Chief Financial Officer to approve such documents and actions as required by recommendations 3, 4, and 5 above.*

Report prepared by:	Report approved by:
Mike Timmer Treasurer	Barry Turfrey Chief Financial Officer

Attachment 1: 90 day bank bill rate since OCR introduced
Attachment 2: 5 year swap rate since OCR introduced
Attachment 3: 90 day bank bill rate less CPI
Attachment 4: 5 year swap rate less CPI