

Manly Council proposal to Lease the Whistler St Site to Partially Fund a Car Park under Manly Oval

Review of the Costs

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Executive Summary

This report estimates the costs to Manly ratepayers of Council's proposed car park under Manly Oval, partly funded by the lease revenue from the Whistler Street car park site. It is based on some stated intentions and estimates of Council and has professional financial analysis input by industry experts. The assumptions are realistic but conservative. A risk analysis points to greater costs and loss to ratepayers than the assumptions used herein. The assumptions are detailed in Section 3 and include:

1. the construction of a 500 space car park under the oval costing \$40,000 for each but with extraordinary additional construction costs bringing the total to \$41.6 million;
2. the leasing of the Whistler Street site for a net upfront value of \$15 million; and
3. borrowings of \$26.5 million and repayments over 20 years.

The results are:

1. the loss of positive net cash flow from Whistler Street of about \$1 million per annum;
2. plus an operating loss after interest from an oval car park accumulating to \$17 million by 2034;
3. Council and ratepayers are some \$40 million worse off over 20 years rather than if an improved Whistler Street car park, which has at least that remaining economic life, is retained; and
4. a net gain of only about 40 parking spaces, with many on-street spaces lost.

Conclusions

1. Contrary to Council's claims, the whole proposal does not make economic sense and is against the interest of ratepayers.
2. Contrary to Council's claims, a new car park is not financially feasible. It is a drain on Council finances and has large financial risks to ratepayers.
3. Council may claim it is able to finance the proposal from existing budgets, but that would cause loss of services, under-investment in maintenance of assets and possibly the sale of assets.

1. Background

- Following receipt of the Expressions of Interest (EOI), the Mayor and the Council have claimed publicly that the process of calling for EOIs "has confirmed that this project is economically feasible" (from the Council's full page advertisement in the Manly Daily) and "They are feasible, bankable and can be easily funded without the need for any long term loans" (from the Mayor's blog).
- The precinct sought from Council the same information used by the Council and the Mayor to undertake the analysis and to come to the above conclusions. The Council has refused.
- Using the Motion passed at the June meeting of the Precinct, the Resident Group tasked to review the EOIs that were placed on public display were asked to undertake an independent economic review of the "proposal" that was described in the Council's Advertisement in the Manly Daily and to report back to the residents.
- This "proposal" seems to comprise:
 - The lease of the Whistler St Site to a developer for 99 years.
 - In redeveloping the Whistler St Site, the developer to include (as a cost to the developer):
 - An upgrade and possible expansion of the library
 - Provision (of an unspecified area) of "community space"
 - Refurbished office space for Council staff.
 - An upfront payment to the Council of a lump sum that the Council will use to reduce any debt the Council will require to build a replacement 500 space car park under Manly Oval.
- The construction of a 500 space car park under Manly Oval

2. Objectives

- Undertake an assessment of the economics of the "proposal" in order to come to a view on the potential for financial risk to the ratepayers of Manly.

3. Methodology and Assumptions

- The key aspects of the methodology are:
 - Estimate the annual net cash flows to the Council of implementing this proposal using best efforts to obtain estimates of the important assumptions that will determine the annual net cash flows.
 - The analysis is done over 20 years – this is the time we have assumed in our model for the repayment of any loans required to fund all the costs incurred by Council in implementing the “proposal” and reflects the remaining economic life of Whistler Street.
 - The key metric for the outcome will be the “peak cumulative negative cash flow amount” - this is the value of any loss of services to ratepayers if the annual deficits are paid out of Council's consolidated revenue.
 - For the assumptions for which there is any uncertainty, undertake a sensitivity analysis around a range of input values
- As the currently operating Whistler St Car Park generates net revenue of around \$1 million (in 2014/15), the loss of this net revenue to Manly Council's consolidated revenue needs to be taken into account.
- It is assumed that the car park under the oval is built before the Whistler Street Car Park is demolished and construction starts on the Whistler St Site.
- There has been an attempt to identify and provide for all the costs of implementing the proposal (particularly the costs to build a car park under Manly Oval) – including costs that would not be covered by any contract to build an operational car park.
- The payment to Manly Council for the 99 year lease of the Whistler St Site is assumed to take place when the new car park is operational and this payment is used to reduce any loan required to cover the costs of building the car park under the oval.
- It is assumed that construction of the car park under Manly Oval starts in 2017 and will take 24 months. While the Council is hoping to commence construction in April 2016, we believe this to be unrealistic in light of the following:
 - The application for an Interim Listing of the Manly Oval on the NSW Heritage List.
 - The issue of the ownership of Manly Oval and the permissions that need to be granted by the Minister for Lands to Manly Council in order for a car park for commercial use to be built under the oval has not been resolved and this could take up to 12 months – even assuming the Minister grants these permissions.
 - The need to complete a complex design for the car park and the entrance/exit portals that will need the approval of the Department for Road and Maritime Services.
- Other assumptions used in the economic model as discussed in Section 5.

4. What is the Value of the Whistler St Car Park ?

- As an operating car park that can continue operating for at least another 20 years, the Whistler St Car Park has financial value to the community and the ratepayers.
- Table 2 contains an estimate of the economic value to the ratepayers of the continued operation of the car park assuming there is an upgrade to improve lighting, rectify any drainage problems and improve the aesthetics of the interior and exterior.
- The upgrade is assumed to be \$5 Mill – this is the amount provided for in the model. Other assumptions used in the model as part of the upgrade are:
 - in the year of the upgrade, the revenue and the operating costs will be reduced by 50% due to construction.
 - after the upgrade, the annual operating costs will increase by \$50,000 per year (increasing at the annual rate of inflation)
 - no additional car parking capacity is assumed, though this could be possible with additional investment
- In estimating the future net revenue from the operation of the car park, the following assumptions are used – ***these are based on data from Council records:***
 - Gross revenue from paying parkers at the car park was \$1.3 Mill in 2013/14
 - Operating costs for the car park were \$400,000 in 2013/14.
- Gross revenue from paying parkers is assumed to increase at 3% per year from 2013/14 and the operating costs will increase at the assumed rate of inflation (2.5% per year).
- Based on the above assumptions, the estimated value to the ratepayers of the continued operation of the Whistler St Car Park – under the two scenarios – is given in Table 1. The Present Value (PV) estimates assume a discount rate of 4% over 22 years of operation.

Table 1: Economic Value to the Council and Ratepayers of the Continued Operation of the Whistler St Car Park.

Assumption	Unit	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
<i>Assumed rate of growth of revenue</i>	%/year	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Revenue from Whistler St Car Park	\$ Mill	1.46	1.50	1.55	1.60	1.65	1.70	1.75	1.80	1.85	1.91	1.97	2.03	2.09	2.15	2.21	2.28	2.35	2.42	2.49	2.56	2.64	2.72
Cash Operating and Maintenance Costs for the Car Park	\$ Mill	0.44	0.45	0.46	0.47	0.48	0.49	0.50	0.51	0.52	0.53	0.54	0.55	0.56	0.57	0.58	0.59	0.60	0.62	0.64	0.66	0.68	0.70
Net Profit from Whistler St Car Park	\$ Mill	1.02	1.05	1.09	1.13	1.17	1.21	1.25	1.29	1.33	1.38	1.43	1.48	1.53	1.58	1.63	1.69	1.75	1.80	1.85	1.90	1.96	2.02
Upgrade:																							
Capital Expenditure				-5.00																			
Loss of Parking Revenue				-0.78																			
Reduction in Operating Costs in Year of Upgrade				0.23																			
Increase in Operating Costs after Upgrade					0.051	0.052	0.053	0.054	0.055	0.056	0.057	0.058	0.059	0.060	0.062	0.064	0.066	0.068	0.070	0.072	0.074	0.076	0.078
Net Cash Flow	\$ Mill	1.02	1.05	-4.48	1.18	1.22	1.26	1.30	1.35	1.39	1.44	1.49	1.54	1.59	1.64	1.69	1.76	1.82	1.87	1.92	1.97	2.04	2.10
NPV in 2017 of Net Profit from Whistler Street Car Park	\$ Mill	\$15.19																					
Over	Years	22																					

- If the Whistler St Car Park is closed down, the annual contributions from the operation of the car park are lost. It can be seen from Table 1 that the annual contributions to Council's consolidated revenue are currently just over \$1 million per year and can be expected to rise to \$2 million over 22 years
- With an upgrade, the Net Present Value of the car park is \$15 million with an upgrade in 2019.

5. Net Cash Flows from Building and Operating a Car Park under the Manly Oval

5.1 Costs of Building a 500 Space Car Park under Manly Oval

- All the costs to Council and ratepayers that need to be taken into account in building a car park under Manly Oval are identified in Table 2. The values given in this table are the best estimate of the residents and industry experts consulted in the course of this evaluation.
- It needs to be pointed out that the costs spent to date by Council on the Manly2015 Masterplan have not been included as they are considered "sunk costs".

Table 2: Estimate of the Costs that Need to be Included in Building a Car Park under Manly Oval.

Note: The values are in 2015\$

Factor	Unit	Value
Capacity of Car Park	Spaces	500
Design Costs	\$ Mill	\$1.2
Bare Build – Civils	\$/car space	\$40,000
	\$ Mill	20.00
Excavation, water control, internals, exhaust fans, lifts, toilets and all ancillaries to allow for a fully compliant and operational car park	\$ Mill	10.00
Project Management	\$ Mill	1.00
Insurance during Construction	\$ Mill	0.50
Reimbursement to Rugby and Cricket Clubs for Loss of Revenue and the Cost of Using Alternate Fields during Construction	\$ Mill	2.00
Return of the Oval Field to its Original Condition and Construction of Safety Fencing	\$ Mill	0.50
Entrance and Exit Ramps from Sydney Rd + Entrance from Raglan St	\$ Mill	2.50
Streetscape Modification and Landscaping	\$ Mill	0.75
Total Construction Costs	\$ Mill	\$38.45
Contingency for Unforeseen, Force Majeure and Uninsurable events	%	8.00%
	\$ Mill	\$3.08
Anticipated Costs of Building Car Park “under” the Oval	\$ Mill	\$41.53
	\$/space	\$83,060

- The anticipated cost of \$83,000 per space is consistent with the estimates developed by the precinct residents when researching the capital costs for the the original 760 space car park that the Council proposed in 2014. It reflects the engineering challenges, uncertainties and risks associated with what is a very complex project.
- It should be noted that the “build cost for an operational and functioning” above ground car park in Dee Why is costing \$55,000 per car space. That car park does not have the following engineering or operational challenges:

- major excavation in an area prone to flooding;
- need for water control and flood mitigation pumps;
- the need for ventilation systems at very significant capital and operating costs;
- a complex entrance and exit arrangement – particularly to ensure that there is no flooding into the car park of rain water coming down Sydney Road during periods of heavy rainfall;
- an expensive water proofing membrane between the playing field and the concrete roof of the car park;
- reinstatement of the playing field on top of the structure and installation of proper drainage; and
- the need to reimburse the rugby and cricket clubs for costs due to the loss of their regular playing field.
- As there are many “uncertainties” relating to a number of assumptions in Table 2, it is possible that if the Council proceeds with building the car park “under” Manly Oval, the final cost to ratepayers could be even higher than the estimate of \$41.5 million. We are confident that the total costs to ratepayers of building a car park under Manly Oval will not be less than \$41.5 million.

5.2 Payment to Council for the Redevelopment of the Whistler St Site

- It has been assumed that the developer will pay an upfront amount of \$15 Mill to the Council before commencement of the redevelopment of the Whistler St Site. This amount will be used to reduce the debt for the costs of building a car park “under” Manly Oval.
- This is approximately the value provided by KPMG in their report to Council in 2013 if it was sold to a developer.
- While we believe the value of \$15 Mill is unrealistically high, we have used it because it is assumed to be similar to the Council's own assumptions. What is uncertain is the Council's claim that in the redevelopment of the Whistler St Site the developer will include (at no additional cost to the Council or ratepayers):
 - an upgraded and possibly larger library;
 - refurbished Council Offices; and
 - an unspecified amount of community space.

These could amount to many millions of dollars potentially reducing the developer’s payment to Council significantly.

5.3 Net Amount of Debt for the Cost of Building the Car Park “under” Manly Oval

- Table 3 shows that the amount of money the Council needs to borrow to cover all the costs to build a 500 space car park “under” Manly Oval.

Table 3: Estimate of Borrowings Required by Council to Provide a 500 space Car Park “under” Manly Oval

Factor	Unit	Value
Total Construction Costs for an Fully Compliant and Operational Car Park “under” the Oval	\$ Mill	\$41.5
Anticipated Payment from the Developer of the Whistler St Site	\$ Mill	\$15.0
Amount of Loan	\$ Mill	\$26.5

- The Council will challenge the quantum of the total cost, because it will attempt to propose that many of the costs can be covered from existing operating budgets. This might be the way Council would like to justify its claim that the car park under Manly Oval can be financed. Ratepayers want to see the economics and finances of a car park under the oval in isolation in order to understand and assess its potential impact on the future financial risks for ratepayers.

7.4 Loan Repayment Schedule

- Table 4 sets out the Loan Repayment Schedule – assuming an interest rate of 5% and repaying the loan over 20 years. Equal annual payments of the principal are assumed.

Table 4: Loan Repayment Schedule

		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Loan at Beginning of Year	\$ Mill			26.50	25.17	23.84	22.51	21.18	19.85	18.52	17.19	15.86	14.53	13.20	11.87	10.54	9.21	7.88	6.55	5.22	3.89	2.56	1.23
Principal paid during Year	\$ Mill			1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33	1.33
Balance of Loan at Year End	\$ Mill			25.17	23.84	22.51	21.18	19.85	18.52	17.19	15.86	14.53	13.20	11.87	10.54	9.21	7.88	6.55	5.22	3.89	2.56	1.23	-0.10
Interest on Principle at Beginning of Year	\$ Mill			1.33	1.26	1.19	1.13	1.06	0.99	0.93	0.86	0.79	0.73	0.66	0.59	0.53	0.46	0.39	0.33	0.26	0.19	0.13	0.06
Interest and Loan Principal Payments – Actual	\$ Mill	0.00	0.00	-2.660	-2.590	-2.520	-2.460	-2.390	-2.320	-2.260	-2.190	-2.120	-2.060	-1.990	-1.920	-1.860	-1.790	-1.720	-1.660	-1.590	-1.520	-1.460	-1.390

- Assuming a constant interest rate of 5% over the 20 year period of the loan is a simplification. Most economic commentators predict that at some time in the next ten years the interest rates in Australia will rise above the current historical lows. Even a small increase in the interest rate will increase loan repayments significantly.

5.5 Net Cash Flow from Operating the Car Park under Manly Oval

- The net cash flow from operating the Manly Oval Car Park in any year is the sum of:

- Gross income from paying parkers
- less**
 - Car Park Operating Costs
 - Payment of Annual Principal of the Loan
 - Payment of Interest
- **Gross Income from Paying Parkers:**
 - This is assumed to be linked/related to the gross income from paying parkers in the Whistler St Car Park prior to its demolition
 - A provision of 100% Transfer in the first year of operation is used in the model. This assumption is likely to be challenged as it is feasible that not all of the paying parkers would transfer to a less convenient car park. However, it is being assumed that these parkers will look for alternate paid parking in Manly and essentially the Council would receive payment, though not necessarily for use of the Manly Oval Car Park.
 - In recognition of the fact that the new car park has better features, the rate of growth in income from paying parkers will be 0.5% per year higher than the rate of income growth from paying parkers in the Whistler St Car Park.
- **Car Park Operating Costs:**
 - The new car park will have operating costs higher than the costs for operating the Whistler St Car Park – see Table 1 for the assumptions on the operating costs for the Whistler St Car Park. The higher costs arise from the need to have ventilation systems, flood control pumps, lifts and moisture ingress control systems.
- **Payment of Annual Principal of the Loan:**
 - In the model it is assumed that the loan is paid off in equal annual amounts
- **Payment of Annual Interest:**
 - In the model it is assumed that the annual interest bill is set by the interest rate (assumed to be 5%) and the outstanding amount of the loan at the beginning of the year.
- The estimate of the future net cash flows from the operation of the car park “under” the oval is set out in Table 5.

Table 5: Net Cash Flow from Operating the Car Park “under” Manly Oval (2018 - 2038)

Factor	Unit	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
<i>Assumed rate of growth of revenue</i>	%/year			3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Gross Revenue	\$ Mill			1.55	1.60	1.68	1.72	1.78	1.84	1.90	1.97	2.04	2.11	2.18	2.26	2.34	2.42	2.50	2.59	2.68	2.77	2.87	2.97
Operating Costs for the New Car Park “under” the Oval	\$ Mill			0.82	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84
Net Revenue – before payment interest and loan principal	\$ Mill			0.73	0.76	0.82	0.88	0.94	1.00	1.06	1.13	1.20	1.27	1.34	1.42	1.50	1.58	1.66	1.75	1.84	1.93	2.03	2.13

		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Net Revenue from the Operation of the Car Park “under” the Oval – before payment interest and loan principal	\$ Mill	0.00	0.00	0.73	0.76	0.82	0.88	0.94	1.00	1.06	1.13	1.20	1.27	1.34	1.42	1.50	1.58	1.66	1.75	1.84	1.93	2.03	2.13
Payment of Principal on Loan				-1.33	-1.33	-1.33	-1.33	-1.33	-1.33	-1.33	-1.33	-1.33	-1.33	-1.33	-1.33	-1.33	-1.33	-1.33	-1.33	-1.33	-1.33	-1.33	-1.33
Payment of Interest on the Loan				-1.33	-1.28	-1.19	-1.13	-1.06	-0.99	-0.93	-0.88	-0.79	-0.73	-0.66	-0.59	-0.53	-0.46	-0.39	-0.33	-0.26	-0.19	-0.13	-0.06
Interest During Construction		-0.80	-1.10																				
Net Cash Flow for the Oval Car Park	\$ Mill	-0.80	-1.10	-1.93	-1.83	-1.70	-1.58	-1.45	-1.32	-1.20	-1.08	-0.92	-0.79	-0.65	-0.50	-0.36	-0.21	-0.06	0.09	0.25	0.41	0.57	0.74
Net Cash Flow for the Oval Car Park – Cumulative	\$ Mill	-0.80	-1.90	-3.83	-5.68	-7.36	-8.94	-10.39	-11.71	-12.91	-13.97	-14.89	-15.68	-16.33	-16.83	-17.19	-17.40	-17.46	-17.37	-17.12	-16.71	-16.14	-15.40

- After consulting with operators of commercial car parks in Sydney, it can be confidently assumed that the additional costs for operating an underground car park with the constraints and challenges resulting from its location, the operating costs for the new car park will be \$360,000 per year higher than the operating costs for the Whistler St Ca Park.
- It can be seen from Table 5 that:
 - The car park under Manly Oval has a negative net cash flow until 2034, by which time the cumulative net cash flow deficit from the operation of the car park under Manly Oval is \$17 million.

5.6 The Relevance of Closing the Whistler St Car Park

- Currently, the operation of the Whistler St Car Park generates around \$1 million (after accounting for all costs for operating the car park)
- Once the Whistler St Car Park is closed, the loss of the net income to Council's consolidated revenue needs to be taken into account because a debt-free revenue-producing asset is being replaced with one that is loan-financed and its loan amount has been reduced by a lump sum payment by the developer of the site on which the Whistler St Car Park stood.
- An estimate of the impact of the loss of net revenue from the closure of the Whistler St Car Park (assuming an upgrade of this car park) and the operation of the new car park under Manly Oval is set out in Table 6.

Table 6: Estimate of the Net Annual Cash Flows to Council from Loss of Net Revenue from the Whistler St Car Park and from Operating a new Car Park under the Oval (2017 – 2038)

		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Net Cash Flow from the Oval Car Park	\$ MIII	-0.80	-1.10	-1.93	-1.83	-1.70	-1.58	-1.45	-1.32	-1.20	-1.06	-0.92	-0.79	-0.65	-0.50	-0.36	-0.21	-0.06	0.09	0.25	0.41	0.57	0.74
Loss of Net Revenue from the Whistler St Car Park – Upgrade Assumed	\$ MIII	1.02	1.05	4.46	-1.18	-1.22	-1.26	-1.30	-1.35	-1.39	-1.44	-1.49	-1.54	-1.59	-1.64	-1.69	-1.76	-1.82	-1.87	-1.92	-1.97	-2.04	-2.10
Combined Impact:																							
	Annual \$ MIII	0.22	-0.05	2.53	-3.01	-2.92	-2.84	-2.75	-2.67	-2.59	-2.50	-2.41	-2.33	-2.24	-2.14	-2.05	-1.97	-1.88	-1.78	-1.67	-1.56	-1.47	-1.36
	Cumulative \$ MIII	0.22	0.17	2.70	-0.31	-3.23	-6.07	-8.82	-11.49	-14.08	-16.58	-18.99	-21.32	-23.56	-25.70	-27.75	-29.72	-31.60	-33.38	-35.05	-36.61	-38.08	-39.44
NPV of Net Cash Flow for the Oval Car Park + Loss of Revenue from the Operation of the Whistler St CP	\$ MIII	-24.14																					
Peak Cumulative Deficit for Council and Ratepayers	\$ MIII	-39.44																					

- Of relevance to the ratepayers is that the Peak Cumulative Deficit for the Council over 20 years is of the order of \$39 million assuming there is an upgrade to the Whistler St Car Park.
- If a borrowing interest rate of 6% is assumed, the Peak Cumulative Deficit rises from \$39 million to \$43 million.
- We strongly challenge any claim by the Council that the annual cash flow shortfalls can or should be paid out of Council's consolidated revenue.

6. Conclusions

- The proposal to build a car park under Manly Oval and part fund the construction of the car park with funds from the redevelopment of the Whistler St Site does not make economic sense and is not in the interests of the ratepayers.
- Contrary to the claims by the Mayor, the new car park is not financially feasible. Rather, it is a drain on Council finances and is a financial risk for ratepayers.
- Council may claim it is able to finance the proposal, but this would be at the expense to ratepayers of a loss of services, under-investment in the maintenance of Council assets and the sale of Council assets.