

Overview of IFF Model

For Waikato District Council

10 August 2023

Not CIP or Government Policy - For discussion purposes only

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CIP Background



Ministers have appointed CIP as 'IFF Facilitator' – CIP's role is to bring the key parties together to develop and execute IFF transactions

● Background

- Crown owned company established to implement Government policies
- Two shareholders: Ministers of Finance and Minister of State Owned Enterprises
- Started life as Crown Fibre Holdings Limited in 2010 - negotiated transactions with private sector to build ultra-fast fibre optic network around New Zealand.
- Since then, CIP's purpose has broadened to include design and implementation of alternative funding tools for infrastructure.
- CIP delivered its first infrastructure financing pilot project in Milldale, Auckland. This was an SPV levy model based on contractual arrangements to support delivery of ~4000 houses.
- CIP delivered the first transaction under the Infrastructure Funding and Financing Act 2020 (**IFF Act**) with Tauranga City Council in December 2022 to raise ~\$175m to part-fund up to 13 projects included in the Western Bay of Plenty Transport System Plan (**TSP**)

● CIP's Role in IFF

- CIP has been appointed by Ministers as the 'IFF Facilitator' and is responsible for testing the feasibility of potential IFF projects, working with stakeholders to develop IFF transactions, raising finance and owning and operating IFF SPVs.

IFF Model

Key Aspects of the IFF Model

- **IFF Model**

- Enabled by the Infrastructure Funding and Financing Act 2020.
- A 'Special Purpose Vehicle' (**SPV**) is used to finance infrastructure to support urban development. SPVs will repay any finance raised by charging a levy to those who benefit from the infrastructure.
- Water and transport infrastructure (including cycleways and public transport projects) can be funded using the tool, as well as certain community amenities/ facilities and environmental resilience infrastructure, such as flood protection ("eligible infrastructure" - defined in the IFF Act).

Key Benefits of IFF

An IFF solution will provide Local Authority with a number of benefits relative to existing funding options. These include:

1

Cost to rate payers

Rates would need to be higher than the IFF levy to service the same amount of debt and avoid any impact on covenants.

2

Longer term finance

IFF gives Local Authority access to longer term finance than is traditionally available.

3

Certainty for ratepayers

IFF provides an absolute cap on the cost to ratepayers (however the levy may reduce).

4

Borrowing capacity

IFF finance is excluded from Local Authority's key debt calculations, leaving borrowing capacity free for other projects.

IFF Model

Key Aspects of the IFF Model

● Order in Council (OIC)

- Cabinet will approve an OIC to empower the CIP SPV to levy beneficiaries.
- This levy revenue stream will be used to raise debt.
- The IFF Act sets out requirements for the OIC including details of the infrastructure and the beneficiaries.
- Cabinet approval of OIC will rely on a Recommendation Report provided by the Ministry of Housing and Urban Development.

● Local Authority Endorsements

- The IFF Act requires two key endorsements from Local Authority (prior to an OIC being approved):
 - Endorsement of the Infrastructure (S.20): endorse the technical specifications of proposed eligible infrastructure provided:
 - compatible with any wider infrastructure network
 - necessary operational and maintenance costs can be met by the Local Authority post vesting
 - Endorsement of the Levy (S.21) - the proposed levy will not compromise the Local Authority's ability to collect rates during the proposed levy period

IFF Model

Key Aspects of the IFF Model

● Categories of IFF Transaction

- Through work to date three general categories of IFF transaction developing:
 - Multi asset/ wide beneficiary group (e.g. TCC TSP)
 - Single asset/ wide beneficiary group (e.g. WCC Sludge Minimisation Facility)
 - Greenfield/ narrower beneficiary group

LGFA vs IFF



LGFA and IFF are fundamental different products – comparing on a like for like basis is difficult

There will always be a ‘premium’ for IFF debt. However, the trade off is the fundamental benefits of IFF:

- Set & forget nature of the levy – not subject to the political cycle or changes in decision making over time
- Long tenor which spreads the cost of projects more equitably over life of the projects
- **Most importantly – IFF frees up capacity to invest in projects with positive social and economic outcomes for the local authority**

Source	LGFA	IFF
Type of credit / security	Aggregated borrowing solution across most NZ Councils. Ultimately secured through rights to impose and collect rates	Secured by rights to impose and collect IFF Levy only
Tenor	Up to 15 years	~30 years
Off balance sheet	No	Yes
Ability to leverage	2.8x debt / revenue (before covenants are impacted)	10-12x debt to revenue
Underlying credit ratings	LGFA: AAA / AA+	SPV rating profile expected A to AA-
Local Authority exposure to downside shocks	Potential covenant breach (likely to require Local Authority to increase rates or face downgrade)	None. All downside risk sit with SPV
Draw downs through time	Exposed to changes in interest rates	No exposure to changes in interest rates
Cost of debt	Market rate based on security & structure	Market rate based on security & structure

Key Participants

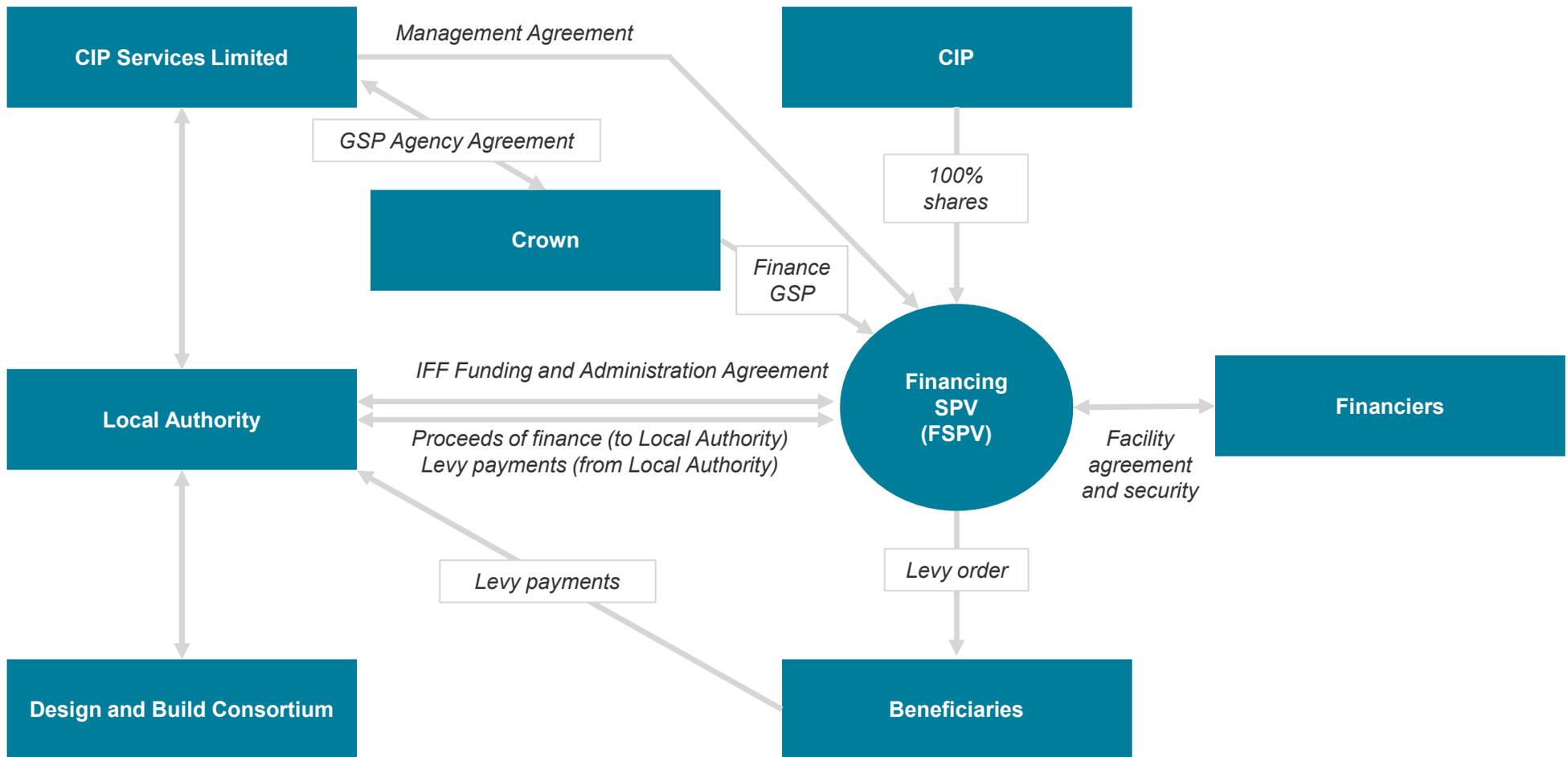


The success of IFF will depend on participants working collaboratively and outside ‘business as usual’. In most cases, partners are resource constrained and operating within large systems.

IFF participant	Approvals provided by	IFF Processes
Crown Infrastructure Partners (CIP)	CIP Board	<ul style="list-style-type: none"> Facilitation - Overall programme management and development Commercial Structuring (Due Diligence, Negotiations) Finance Process
Local Authority	Elected Members	<ul style="list-style-type: none"> Proposer Construction/Delivery Programme (including land acquisition, design, consenting, procurement) Local Authority IFF Approvals/ Endorsements Local Authority involved in Levy collection and enforcement (to a limited extent)
Waka Kotahi (Project specific)	Waka Kotahi Board	<ul style="list-style-type: none"> Construction/Delivery Programme (including land acquisition, design, consenting, procurement) Funding contributor (under FAR and for State Highways)
Ministry for Housing & Urban Development (supported by CIP)	Cabinet, Responsible IFF Minister, Governor General	<ul style="list-style-type: none"> Recommender under the IFF Act and responsible for the process to obtain OIC (must be comfortable with overall levy on rate payers – i.e., affordability) Monitor under the IFF Act and responsible for ongoing monitoring of SPV.
Treasury (supported by CIP)	Minister of Finance Minister for SOEs	<ul style="list-style-type: none"> Government support package – Process to obtain GSP under Public Finance Act Shareholding Minister Approvals & Equity Draw
Financier	Credit committees - CIP	<ul style="list-style-type: none"> Preferred debt provider(s) appointed post Finance Process
<p><i>Other stakeholders will include; Developers and landowners. The IFF Act also requires consultation with a number responsible Ministers (and their advisors) for certain acts (e.g. Commerce Act, Local Government Act, Local Government (Rating) Act)</i></p>		

Financial Structure

Example of a single financing SPV structure



IFF Act Legislative Process

The process of obtaining an Order in Council (OIC) under the IFF Act, and the substance of that OIC, is core to any IFF transaction

Order in Council

- An Order in Council (OIC) is a legislative instrument which gives effect to an Act of Parliament – in this case the IFF Act
- Setting of an IFF levy is enabled by an OIC
- The OIC sets out the key parameters of the levy – including:
 - The levy area
 - The maximum amount of the levy
 - The duration the levy will be paid for
 - How the levy is calculated
 - How the levy is allocated
- The OIC imposes a legal obligation on beneficiaries to pay levies
 - The levy will form part of the beneficiaries' rate bill and be included as a separate line item
 - Levies are secured against the levy payer's land (on a subordinated basis to rates, in priority to any mortgages / encumbrances)
 - Unpaid levies will be subject to the same enforcement regime as general rates as set out Local Government (Rating) Act 2002
- The relevant Local Authority is responsible for collecting the levy, however it is not responsible for non-payment

Levy proposal (s18)

- Developed by the relevant authority in conjunction with CIP (as Facilitator)
- Local Authority as **Proposer** (Proposer could be anyone local councils, iwi, or private developers)
- Proposal will include all material terms of the OIC

↓ Delivered to MHUD
(Recommender)

Recommendation Report (s26)

- Prepared by MHUD for responsible Minister
- Must take into account mandatory considerations (s27) and other practicality/efficiency matters
- Also requires the following provided by Local Authority:
 1. Infrastructure Endorsement (s20) addressing infrastructure compatibility
 2. Levy Endorsement (s21) addressing affordability

↓ Delivered to Minister

Order in Council (s29)

- Minister must, when considering recommendation report/ deciding whether to recommend levy order be made, only consider matters listed in s27
- Requires consultation with other listed Ministers (s28)
- Terms of OIC finalised by Parliamentary Counsel's Office
- Cabinet approval of OIC
- Submission of OIC to Governor General for approval

IFF TSP Transaction - Summary

- Tauranga City Council (**TCC**) - first IFF transaction
- The Infrastructure Funding and Financing (Western Bay of Plenty Transport System Plan Levy) Order 2022 (TSP Levy Order) was the first Order in Council established under the IFF Act
- TSP Levy Order allows a CIP owned SPV to charge a levy to most rate paying properties in TCC's rating area for 30 years, from 1 July 2024 to 30 June 2054.
- This levy has enabled the SPV to raise approximately \$175 million from private financiers to reimburse the construction costs of up to thirteen transport projects in Tauranga, selected from the wider Western Bay of Plenty Transport System Plan (TSP).
- The SPV raised this funding from CIP, Westpac New Zealand Limited, and the Bank of New Zealand.
- The TSP levy partially replaces a targeted rate TCC is charging to fund its transport projects. The benefits of the levy replacing the targeted rate include:
 - The use of the levy frees up debt headroom for TCC, creating capacity for additional infrastructure investments benefiting Tauranga residents.
 - Levy payers' total rates bills (inclusive of the levy) are not expected to change materially with the inclusion of the levy and the reduction in the targeted rate.

IFF TSP Transaction – Summary continued

- The capital value (CV) of a rating unit will be used for assessing the annual levy liability of that rating unit:
 - It is estimated that a median CV residential rating unit will be charged a levy of \$68 in the first levy year (2024/25), increasing to \$80 in 2029/30 and \$95 in 2034/35.
 - It is estimated that a median CV commercial property will be charged a levy of \$521 in the first levy year, increasing to \$618 in 2029/30 and \$730 in 2034/35.

Process for Application of IFF

August 2022

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IFF Process



CIP has established a process to progress potential IFF proposals from feasibility through to provision of finance. The first phase involves a ‘fast fail’ approach to test the applicability of IFF.

● Preliminary Assessment

- Local Authority and/or Developers will complete a comprehensive IFF Workbook.
- The IFF Workbook provides key project, timing and beneficiary information.
- CIP will use the completed IFF Workbook to understand the timing of a potential IFF solution, the size of a potential levy and the beneficiaries that will be charged.
- Landowner appetite and support for the model will be tested at this stage (for Greenfield projects).
- Elected officials confirm support in principle

● Commercial Framework

- If CIP and Local Authority and/or Developers consider the project to be feasible, parties will begin the preparation of a detailed (~50-70 page) document outlining the structure and commercial terms of the IFF transaction.
- All parties will be expected to endorse this non-binding document.
- CIP will seek Board Approval (and Ministerial feedback) of the Commercial Framework.
- Once approved, the transaction will be fully resourced to complete the ~12 month transaction phase.

Indicative high level steps in IFF Process

Phase 1: Preliminary Testing of IFF

