

7 November 2019

Hon Phil Twyford
Minister of Transport
Parliament Buildings
Wellington

Dear Minister

Quarterly Report on Borrowing Facilities and Public-Private Partnerships (PPP)

The NZ Transport Agency is required to report quarterly to you and the Minister of Finance on the status of its borrowing facilities and the funding position under public private partnership agreements.


Please find attached the report for the period 1 July to 30 September 2019 on: the use of the borrowing facilities available to the Transport Agency to manage the cash flows of the National Land Transport Fund; and the specific loan facilities available for the Auckland Transport Package, the Tauranga Eastern Link and the Housing Infrastructure Fund. Also included in the report is the funding position of the Transmission Gully and the Pūhoi to Warkworth public private partnership projects and the related interest rate swaps. Since the previous report, the loan for reinstatement of earthquake damaged local roads in Christchurch has been fully repaid.

The Board continues to review each of the debt facilities on a quarterly basis. Agency officials certify that the facilities are, in each case, being used for their intended purposes and that the terms and conditions of each of the borrowing facilities, as set by Ministers, continue to be met.

As at 30 September 2019, the Transport Agency PPP agreements in place are for the Transmission Gully and Pūhoi to Warkworth projects. The funding position for both projects is materially consistent with the amount included in the Cabinet approvals dated 11 July 2014 and 26 October 2016 respectively. Based on the National Land Transport Fund's long-term forecast, the Transport Agency expects to be able to pay the unitary charges to the contractors as they fall due.

Should you require any further funding details of the borrowing facilities or public private partnership agreements or any additional background information, this can be supplied on request.

Yours sincerely



Mark Ratcliffe
Interim Chief Executive

Copy to: Office of Hon Grant Robertson, Minister of Finance
 Treasury, Vote Transport, Gerald Lee
 Ministry of Transport, Paul Laplanche, Robert Anderson

BORROWINGS AND SERVICE CONCESSION LIABILITIES REPORT

1 JULY 2019 TO 30 SEPTEMBER 2019

Details of Current and Forecast Borrowing Requirements

The attached report covers the following:

- details of each loan facility and public-private partnership agreements approved for use by the Transport Agency
- the planned usage, the activity during the period and the balance of those facilities/agreements
- assurance that the loan conditions in each facility have been and will continue to be met
- how we are managing the future cash flows.

LOANS				
Loan Facility		Total Facility Available	Balance as at 30 September 2019	Amount drawn/(repaid) in the quarter ending 30 September 2019
		\$m	\$m	\$m
Revolving Loan Facility	Seasonal variation	175.0	0	0
	Revenue/expenditure shock	75.0	0	0
Auckland Transport Package		375.0	370.0	0
Tauranga Eastern Link		107.0	107.0	0
Housing Infrastructure Fund		357.0	3.0	0

PUBLIC PRIVATE PARTNERSHIPS		
Project	Total Facility (Crown Guarantee)	Cost incurred up to 30 September 2019
	\$ m	\$ m
Transmission Gully	1,100.0	840.3
Pūhoi to Warkworth	950.0	553.3

Based on our long-term forecast for the National Land Transport Fund (NLTF), the Transport Agency expects to be able to pay all debts and unitary charges to the contractors as they fall due.

Certification

Management certifies to the Board the following:

- Each loan facility is being used for the purpose that it has been approved and that the terms and conditions of each loan facility are being met
- The National Land Transport Fund's long-term forecast shows that the Transport Agency expects to be able to pay the borrowing servicing costs and unitary charges to the operators as they fall due.



Signed by the
Chief Financial Officer

Howard Cattermole



Signed by the
Interim Chief Executive

Mark Ratcliffe

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PART 1: LOANS

Revolving Loan Facility

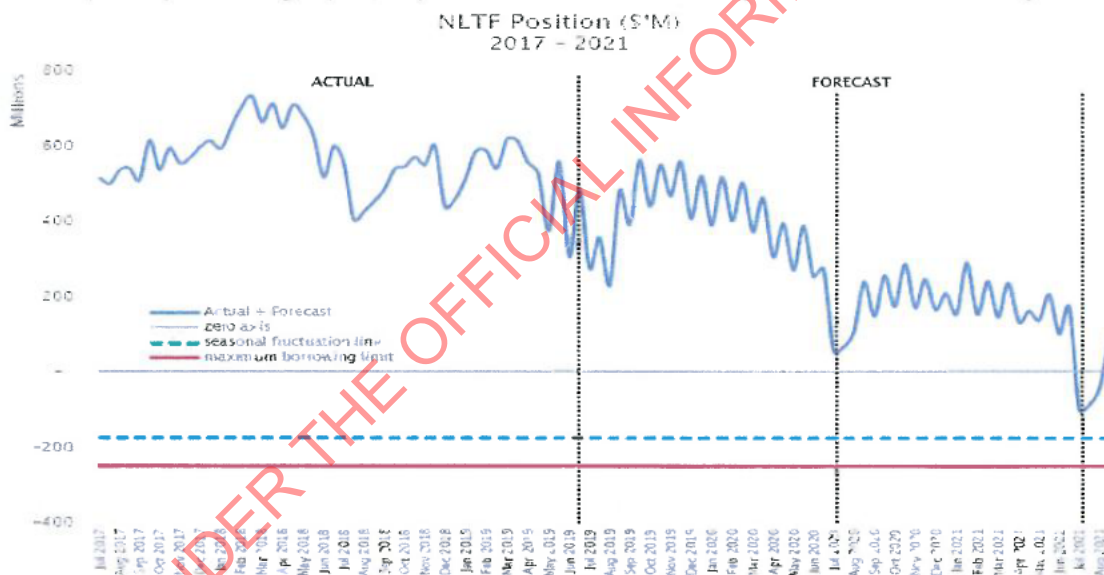


The following represents the purpose for the \$250.0 million revolving loan facility:

- \$175.0 million facility for seasonal variations
- \$75.0 million facility for unexpected and unfavorable fluctuations

We did not require drawdown on the facility for the quarter ending 30 September 2019 and have not drawn down on the facility since September 2015.

The graph below reflects the updated revenue forecast based on the GPS revenue line, i.e. assuming 3.5 cents per litre increase in Fuel Excise Duty (and equivalent increase for RUC) for the next 3 years. The impact of the increase from 1 July 2019 to 30 June 2021 is estimated at \$75.0 million. The expenditure is based on the Transport Agency's forecast using the GPS funding ranges, as revised in October 2019. Based on these forecasts, the seasonal facility is expected to be utilised by up to \$100.0 million during the remainder of this National Land Transport Programme (NLTP) period subject to delivery against forecast cashflows by Approved Organisations (including the Transport Agency).



LOAN CONDITIONS

CONDITION	COMMENT
1	Borrowing must be used solely for the purposes of managing cash flow variations between the hypothecated revenue inflows and expenditure outflows of the National Land Transport Fund as provided for under section 10 (1) (b) of the Land Transport Management Act 2003 (LTMA). Condition met
2	Up to \$175.0 million to manage regular seasonal cash flow cycles. This cash flow component of the facility must be fully repaid at least once per financial year. Currently not being used
3	Up to \$75.0 million to cover any revenue or expenditure shocks. Drawdowns under the shock component of the facility must be fully repaid within three years of the drawdown date. Currently not being used

Auckland Transport Package

TOTAL FACILITY	\$375.0m
UTILISED	\$370.0m
OUTSTANDING BALANCE TO REPAY	\$370.0m

The Auckland Transport Package, with a total loan facility of \$375.0 million, has been established to accelerate the programme of priority roading projects. The loan is split to \$370.0 million State Highways and \$5.0 million local roads, which is unlikely to be drawn down by Auckland Transport.

We have fully drawn down the \$370.0 million package as at 30 September 2019.

Vote Transport Minister of Transport	\$m				Total
	2015/16 Actual Drawdown	2016/17 Actual Drawdown	2017/18 Actual Drawdown	2018/19 Actual Drawdown	
Non-Departmental Capital Expenditure: Auckland Transport Package Loan	122.0	116.2	100.0	31.8	370.0

The loans will be paid off over time based on the following schedule. All of these repayments are from the NLTF.

2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total
\$15.0m	\$66.0m	\$61.2m	\$76.0m	\$75.0m	\$27.0m	\$36.0m	\$13.8m	\$370.0m

LOAN CONDITIONS

	CONDITION	COMMENT
1	Borrowing must be used solely for the purposes of managing cash flows of the National Land Transport Fund for the acceleration of projects in the Auckland Transport Package as per the Notice of Loan Facility dated 27 June 2014.	Condition met
2	Up to \$375.0 million for the purpose of managing the advancement of cash flows for the National Land Transport Fund. (i) Specifically, borrowing is permitted up to \$375.0 million as per the approved appropriations below. (ii) The Minister of Finance and the Minister of Transport are authorised to transfer forward capital expenditure, if required, within the total loan amount of \$375.0 million. (iii) The loan must be repaid by 30 June 2027.	Condition met

Tauranga Eastern Link

The full \$107.0 million of this facility was drawn down on 30 June 2015. This facility is a series of fixed rate loans ranging from 4.99% to 5.14% being repaid from 2034 with a floating rate loan of \$20 million due to be repaid in 2050. Toll revenue will be used to cover repayments with any short-fall covered from the National Land Transport Fund. Any shortfall would ultimately be recovered from future toll revenues. Current modelling shows that the loan will be repaid by 2044.

Housing Infrastructure Fund (HIF)

TOTAL FACILITY	\$357.0m
UTILISED	\$3.0m

The \$1 billion Housing Infrastructure Fund (HIF), was established to accelerate infrastructure projects and support housing development in New Zealand's high growth urban areas. The Transport Agency's approved share of the HIF loan facility amounts to \$357.0 million.

We have drawn down \$3.0 million in 2018/19 and have no drawdown yet for the quarter ending 30 September 2019.

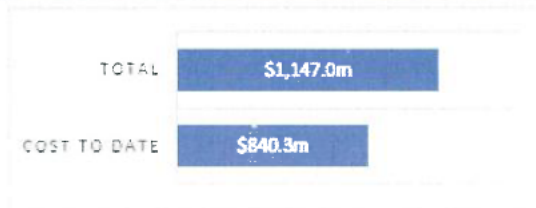
Vote Transport Minister of Transport	\$m					Total
	2018/19 Actual Drawdown	2019/20 Forecast Drawdown	2020/21 Forecast Drawdown	2021/22 Forecast Drawdown	2022/23 Forecast Drawdown	
Non-Departmental Capital Expenditure: Housing Infrastructure Fund Loans	3.0	34.5	52.0	135.8	131.7	357.0

LOAN CONDITIONS

	CONDITION	COMMENT
1	Borrowing must be used solely for the purposes of managing cash flows of the National Land Transport Fund for the financing of infrastructure to facilitate residential development in relation to the Housing Infrastructure Fund Loans as per the Notice of Loan Facility dated 27 June 2014.	Condition met
2	Transport Agency agrees to the drawdown terms including: <ul style="list-style-type: none"> (i) The amount of the drawdown must not be more than the available facility; (ii) Must not be less than \$1.0 million; (iii) Must be a multiple of \$500.0 thousand; (iv) The drawdown date must be business day; and (v) The drawdown maturity date must be specified. 	Condition met

PART 2: PUBLIC PRIVATE PARTNERSHIPS

Transmission Gully



The Transport Agency has entered into a public-private partnership agreement for the delivery of a stretch of state highway through Transmission Gully. The contractor will design, build, finance, operate and maintain the section of state highway.

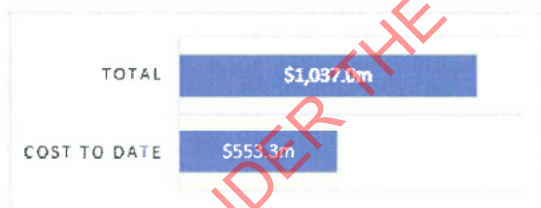
The construction cost of \$840.3 million as at 30 September 2019 is recognised as a service concession asset and a service concession liability.

The project was due to be completed by May 2020. s 9(2)(g)(i)

The Transport Agency has received a substantial claim from the Wellington Gateway Partnership in relation to the Transmission Gully project of \$352.0 million. The claim relates to delays in the commencement works. The Transport Agency has disclosed the Transmission Gully claim as a contingent liability in its Annual Report.

Based on our long-term forecast for the NLTF, the Transport Agency expects to be able to pay unitary charges to the contractor as they fall due.

Pūhoi to Warkworth



The Transport Agency has entered into a public-private partnership agreement for the Pūhoi to Warkworth project which will extend the four-lane Northern Motorway (SH1) 18.5km from the Johnstone's Hill tunnels just south of Pūhoi to a point north of Warkworth.

The total project costs recognised for the Pūhoi to Warkworth funded by the public-private partnership was \$553.3 million as at 30 September 2019. The construction phase is expected to be completed by October 2021. The operational agreement runs for a period of 25 years from the service completion date.

Based on our long-term forecast for the NLTF, the Transport Agency expects to be able to pay unitary charges to the contractor as they fall due.

INTEREST RATES SWAP AGREEMENTS FOR PUBLIC-PRIVATE PARTNERSHIPS

The operational agreements for both the Transmission Gully and Pūhoi to Warkworth projects require the Transport Agency to pay a unitary charge to the contractors from the time the section of state highway becomes operational. The unitary charge has an interest component which the contractor has provision to re-price at intervals during the repayment period commencing in financial year 2020/21. The Transport Agency has entered into interest rate swap (IRS) contracts with NZ Debt Management Office as a hedge against fluctuating interest rates.

Transmission Gully

The total forecast payments exposed to interest rate risk is fully hedged with a fixed interest rate of 5.58%. The total notional amount of the IRS contract is \$857.8 million, effective from 22 February 2021 to 22 October 2043.

Pūhoi to Warkworth

The total forecast payments exposed to interest rate risk is fully hedged with a fixed interest rate of 4.16%. The total notional amount of the IRS contract is \$765.0 million, effective from 29 August 2023 to 28 August 2045.

Swap Valuation

Based on the NZDMO valuation at 30 September 2019 the swaps have a combined value of \$461.7 million liability (unchanged from 30 June 2019 value).

Hedging

The Transport Agency has designated the IRS contracts as hedging instruments to avoid material direct impact on its surplus or deficit, if market interest rates fluctuate materially between periods. The Transport Agency measures the effectiveness of the hedging relationship on a semi-annual basis.