

MINISTERIAL BRIEFING NOTE

Subject	Tauranga Infrastructure Funding & Financing
Date	10 August 2022
Briefing number	BRI-2526

Contact(s) for telephone discussion (if required)				
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Action taken by Office of the Minister

- ☐ Noted
- ☐ Seen by Minister
- ☐ Agreed
- ☐ Feedback provided
- ☐ Forwarded to
- ☐ Needs change [please specify]
- ☐ Withdrawn
- ☐ Overtaken by events

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10 August 2022

Hon Michael Wood – Minister of Transport

TAURANGA FUNDING AND FINANCING

Purpose

1. This briefing provides you with an update on the background and options available to the Government in respect of the proposed Tauranga City Council (TCC) citywide Infrastructure Funding & Financing Act 2020 (IFF) Levy (the TSP IFF Levy).¹
2. This briefing responds to your request for further information following our discussion on 12 July 2022 and provides you with information to support your discussions with your Ministerial colleagues and TCC on this.
3. This briefing has had input from officials at the Ministry of Transport and the Ministry of Housing and Urban Development.

Background

4. TCC is facing constrained borrowing capacity as it looks to deliver on its Long-Term Plan 2021-31. To relieve this constraint TCC is looking to use alternative methods of funding infrastructure that do not increase its borrowing.
5. TCC are working with Crown Infrastructure Partners (CIP) on a citywide IFF Levy, which would levy every home and commercial property within the TCC boundary in order to fund approximately \$200m towards TCC's share of the costs of 13 transport infrastructure projects. Each of these projects has been shown to deliver a citywide benefit.
6. The table of projects is available in Appendix 1, and their NTP prioritisation is set out in Appendix 2.
7. A separate project specific IFF Levy (the Tauriko West levy) is being developed in parallel with the TSP IFF Levy, to provide further funding for the Tauriko West Enabling Works project.
8. Each of the projects are prioritised and funded in the NLTP for their current phase. However, TCC has known since discussions with CIP began on this that Waka Kotahi would not be able to provide upfront confirmation of the NLTF share for the future phases and the risk on this would need to be carried by TCC. However, with the increasing constraints on the NLTF, and recent project cost escalations, TCC now feels the risk is too significant for it to carry and has asked the Government to step in with the Crown underwrite of the NLTF funding share for the projects, which is estimated as \$230m.
9. TCC does not object to meeting the investment requirements for the NLTF, including going through the business case process. TCC's concern is that it will meet these requirements and

¹ TCC call this levy the "TSP IFF Levy" because the projects included are from the prioritised list of projects identified in the Transport System Plan: <https://www.tauranga.govt.nz/council/council-documents/strategies-plans-and-reports/strategies/transport-plan>

then the NLTF will not have adequate funding available to provide its share. Therefore, TCC is comfortable with a Crown underwrite or endorsement being subject to the projects meeting all standard NLTF investment requirements.

s 9(2)(f)(iv)

10. TCC's total estimated TSP project costs are around \$870m. Waka Kotahi's total forecast funding commitment for the 10 TSP projects is around \$400m, with the uncommitted share for which the underwrite is sought being \$230m as the remaining NLTF share is already approved. The balance of funding is made up of Infrastructure Acceleration Fund and Housing Infrastructure Fund grants, developer contributions and TCC rates.

s 9(2)(f)(iv)

NLTP prioritisation of the projects

12. Each of the projects is in the NLTP and funded for the current phase. The status and prioritisation are in Appendix 2.
13. While the projects are each prioritised within the NLTP, until the business cases are completed no information exists on the benefit cost ratio and how they deliver on the outcomes set out in the GPS.
14. Further, most of the projects are at too early a stage in their development to know whether they will meet the requirements of the Emissions Reduction Plan (ERP), including whether they will deliver a reduction in vehicle kilometres travelled. The exception is the two walking and cycling projects where ERP compliance is expected.

Inability to provide a guarantee of NLTF funding

15. Waka Kotahi is unable to provide an upfront guarantee of NLTF funding for the projects. You have indicated you understand the reasons for this, so they are only summarised very briefly, being:
 - a. There is a lack of available funding in the NLTF, meaning Waka Kotahi cannot be certain there will be funding available for these projects once the business cases are completed.
 - b. Providing certainty of funding at this point would be inconsistent with the processes put in place to ensure compliance with the Land Transport Management Act 2004.

Implications of not providing a Crown underwrite are primarily around pace and certainty

16. The TSP IFF Levy will provide two key benefits:
 - a. Reduce the extent of TCC's funding obligations, enabling more transport infrastructure to be delivered across the city faster
 - b. Secure certain delivery of the specified projects, because the IFF Levy will provide a legislative requirement that the projects be delivered, as there will be a legal obligation to deliver the levied benefits.

17. If a city-wide IFF Levy is not able to be put in place the projects are still likely to be delivered, but at a slower pace given TCC's funding constraints and the limitations on NLTF funding.

Potential solutions

18. Given the significant pressure on the NLTF there is a genuine risk that the NLTF would not have sufficient funding available for the future phases of the included projects.
19. If Government wishes to enable the TSP IFF to proceed now, allocation of the associated risk between central government and TCC could be allocated appropriate to the ability to carry risk and the benefits attributed to the projects. Options include:

Option	Estimated timeframe to put IFF in place	Benefits	Risks
Crown underwrites the full NLTF share, with the underwrite flexible based on the final NLTF share of the projects' cost	2022 as planned	Allows TSP IFF levy to proceed immediately. TCC does not need to carry risk, thus avoiding impact of that ongoing liability.	Value of underwrite is unknown and likely to be much higher than stated by TCC. Risks and outcomes of the underwritten projects are not yet known with any certainty.
Crown underwrites the full NLTF share, capped at the current estimate (approximately \$230m)	2022 as planned	Allows TSP IFF levy to proceed immediately. TCC does not need to carry risk, thus avoiding impact of that ongoing liability.	Expected that significantly more funding will be required than the currently estimated project costs. This means there is likely to be a significant gap between the underwrite and actual cost, which the Crown / NLTF will be expected by TCC to meet.
Crown underwrites a portion of the currently estimated NLTF share (e.g. \$150m only) with TCC carrying the remainder of the risk	2022 as planned	Shares the risk between TCC and Crown. If TCC accepts this share then allows TSP IFF levy to proceed immediately.	Expected that significantly more funding will be required than the currently estimated project costs. This means there is likely to be a significant gap

Option	Estimated timeframe to put IFF in place	Benefits	Risks
			between the underwrite and actual cost, which the Crown / NLTF will be expected by TCC to meet.
Pause the TSP IFF levy process for 12-18 months while the business cases are completed	12-24 months from now	<p>This would provide Waka Kotahi and the Government much greater visibility of the true costs, benefits and risks associated with the projects.</p> <p>Once business cases are known there will be a better understanding of whether the NLTF will be able to fund its share.</p>	Delays providing certainty of funding for delivery of the projects.
Project specific IFF levies for individual projects once the business cases are complete	12-24 months for project specific IFF levies	Greater level of detail will be known to support IFF levies.	<p>Timeframes to put levy in place during TCC Commissioners' terms will be right.</p> <p>Viability of such a levy to be confirmed.</p>
Increase the IFF levy component to create a contingency for any NLTF funding shortfall	Approx. 6 months	Levy payers taking increased risk on delivery of these projects, reducing the call on the NLTF (or Crown funding).	<p>Current levy has been calculated based on benefits allocation. May be difficult to justify increased burden on levy payers as benefits may not support this.</p> <p>Community may oppose a higher level of levy.</p>
Increase the debt/revenue limits imposed on TCC by the LGFA to allow the	Approx. 6 months	No Crown underwrite needed	Significant risk carried solely by TCC

Option	Estimated timeframe to put IFF in place	Benefits	Risks
Council to raise the debt and for TCC ratepayers to take the risk on these projects			
Letter of support to Tauranga City Council	2022 as planned	If TCC Commissioners consider this enough certainty, TSP IFF can proceed immediately.	Ongoing negotiations with TCC will ensue so future risk and commitments required remain unknown.

20. Each option comes with risk to the Crown. In particular, any form of Crown underwrite carries significant risk given the severe constraints on the NLTF and the lack of certainty about the actual costs of the projects.

s 9(2)(f)(iv)

Further option – Letter of support

22. Since the initial discussions, TCC has indicated it may accept a letter of support from Ministers in lieu of an underwrite. A draft letter has been provided to the Ministry of Housing and Urban Development (MHUD) (called a "Letter of Partnership Commitment" by TCC) (copy included in Appendix 3).
23. The letter seeks for Ministers to agree:

The parties will make best endeavours to jointly achieve the agreed outcomes and more specifically to deliver the jointly agreed initiatives to secure those outcomes.

The Crown and Council commit to actively work together to resolve any funding gap associated with the delivery of the TSP IFF projects.

24. TCC seeks for agreement to be reached ahead of the next NTLP and Long-Term Plan processes. We note with the Commissioners' term having been extended, TCC is doing a new LTP in 2023. This would mean resolution would be required within approximately six months. This will be ahead of the completion of the next Government Policy Statement for Land Transport and National Land Transport Programme, so information will not yet exist on NLTF funding availability.

25. s 9(2)(g)(i)

s 9(2)(g)(i)

Broader considerations – future of UFTI and TSP

26. By way of context to the future prioritisation of these projects, it is worth acknowledging the need to update both the SmartGrowth Urban Form + Transport Initiative (UFTI) and Transport System Plan (TSP).
27. There have been a number of changes in Government direction since UFTI and TSP were completed in 2020, as well as changes in the broader context for these documents, such as updated growth and land use assumptions. We consider both documents remain a solid base for the Crown and local government partners move forward with and should continue to be supported. However, given the changes since their endorsement it is appropriate for both to be updated.
28. The TSP Partnership² has just agreed to start work on the next version of the TSP, which will take into account these changes, and in particular the requirements of the Emissions Reduction Plan (ERP) and VKT reduction expectations. This will provide an updated prioritised list of projects that will address the agreed outcomes in UFTI, the updated land use assumptions, and the updated Government policy position including the ERP. A further update will likely occur ahead of the finalisation of the RLTP, and also may be required after the Western Bay of Plenty VKT Reduction Plan is completed in 2024.
29. With respect to UFTI, discussions are underway within SmartGrowth on how this should be updated to respond to these changes.

s 9(2)(f)(iv)

Next steps

31. We understand discussions are underway between Ministers, in particular yourself and Ministers Woods and Robertson. TCC requires a decision on Ministers' support for the TSP IFF ahead of the Council meeting on Monday 15 August 2022, where the Commissioners will consider the preferred bid terms and conditions and approve the TSP IFF levy.
32. You are meeting with the other Urban Development Ministers and the TCC Commissioners on 22 August 2022.

It is recommended that you:

1. **Note** the contents of this briefing.

² Made up of TCC, Waka Kotahi, Bay of Plenty Regional Council, Western Bay of Plenty Regional Council, KiwiRail, Priority One, Port of Tauranga and mana whenua representatives.



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Brett Gliddon

General Manager Transport Services

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Hon Michael Wood, Minister of Transport

Date: 2022

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Appendix 1: Table of projects

Reference	Project Description
TSP 002 (Hewletts Road sub access area)	Series of works in relation to transport infrastructure in the Hewletts Road project study area in the vicinity of the Port and Mount Industrial area including on Hewletts Road, Totara Road, Hull Road, Maunganui Road, other existing local roads and potential new roads / connections, and related works to the rail network and utilities to improve access to the Port of Tauranga and Mt Maunganui and make it safer to move through and around this part of town. Works to Council-owned water services infrastructure in the vicinity of the transport infrastructure.
TSP 007 & TSP 011 (Connecting the People Fifteenth Avenue to Welcome Bay)	Series of works in relation to transport infrastructure on the route between City Centre fringe (e.g. Devonport Road/ Fraser Street) and Fifteenth Avenue, Turret Road and Welcome Bay to improve the public realm and access to and from the Te Papa Peninsula and City Centre including increasing ease and safety of access to homes, schools, businesses, and shopping areas and related works to utilities. Works to Council-owned water services infrastructure in the vicinity of the transport infrastructure.
TSP 009 (Tauriko West Enabling Work Package)	Transport infrastructure works (including improvements) to support new urban development and housing developments in Tauriko West and employment within the Tauriko Business Estate while also supporting the inter-regional freight movement function of SH29 and related works to utilities. [The works do not include the construction of a roundabout planned at Redwood Lane referred to in the business case for this project as the 'Southern Connection']. Works to Council-owned water services infrastructure in the vicinity of the transport infrastructure.
TSP 013 (Cameron Road Multi Modal Upgrade stage 1)	Delivery of transport infrastructure works including public transport, cycling, walking and public realm improvements to Cameron Rd between Harington Street and towards Tauranga Hospital to move people safely and support urban developments and related works to utilities. Works to Council-owned water services infrastructure in the vicinity of the transport infrastructure.
TSP 018 (Cameron Road multimodal upgrade stage 2)	Delivery of transport infrastructure works including public transport, cycling, walking and public realm improvements to Cameron Rd between 15th Avenue - Tauranga Hospital area and through Barks Corner to integrate with Pyes Pa Road towards Cheyne Road to move people safely and support urban developments and related works to utilities. Works to Council-owned water services infrastructure in the vicinity of the transport infrastructure.
TSP 019 (Cameron Road corridor connections (cycle, PT and pedestrian))	Delivery of transport infrastructure works to improve access to Cameron Rd to support the use of bus, walking and cycling facilities delivered in the Futureproofing Cameron Rd Stage 1 and 2 projects and related works to utilities. Works to Council-owned water services infrastructure in the vicinity of the transport infrastructure,

Reference	Project Description
TSP 034 Primary cycle route facilities (Accessible Streets programme - Area A Mount / Papamoa / CBD)	Delivery of transport infrastructure improvements to walking, cycling and public transport facilities to make it safe, convenient, and more attractive to ride to or take public transport to places like schools, work, parks etc and related works to utilities. This is in combination with TSP 035. Works to Council-owned water services infrastructure in the vicinity of the transport infrastructure.
TSP 035 (Primary cycle route facilities (Accessible Streets programme - Area B Otumoetai / Bellevue / Brookfield))	Delivery of transport infrastructure improvements to walking, cycling and public transport facilities to make it safe, convenient, and more attractive to ride to or take public transport to places like schools, work and parks and related works to utilities. This is in combination with TSP 034. Works to Council-owned water services infrastructure in the vicinity of the transport infrastructure.
TSP 028 (Tauranga Crossing bus facility improvements)	Delivery of transport infrastructure, including public transport hub to support multimodal access to / from the Tauranga commercial area in or around Tauranga Crossing and includes associated passenger facilities and active travel facilities like shelter or cycle storage to make public transport an attractive transport choice and related works to utilities. Works to Council-owned water services infrastructure in the vicinity of the transport infrastructure.
TSP 032 (City Centre Transport Hub)	Delivery of transport infrastructure, including a public transport hub to support multimodal access to / from the City centre and includes associated passenger facilities and active travel facilities like shelter or cycle storage to make public transport an attractive transport choice and related works to utilities. Works to Council-owned water services infrastructure in the vicinity of the transport infrastructure.
Barkes Corner to Tauranga Crossing Multi-modal Local Road component	Series of transport infrastructure works to improve public transport connections on the local road section (generally Taurikura Drive) and their integration with the state highway network (SH36) on the corridor between Cameron Road and the Tauranga commercial centre in and around Tauranga Crossing and includes associated walking and cycling and urban realm improvements and related works to utilities. Works to Council-owned water services infrastructure in the vicinity of the transport infrastructure.
SH2 Revocation – Cameron Road to Bethlehem	Series of transport infrastructure works to support improvements to local networks (e.g. roads, cycleways, public transport facilities like shelters) to integrate with the revocation of the existing State Highway 2 associated with Stage 1 of the Takitimu North Link project and related works to utilities. Works to Council-owned water services infrastructure in the vicinity of the transport infrastructure.
Maunganui Road Future Proofing	Transport infrastructure upgrades to roading, cycling & pedestrian facilities to improve safety, and speed management (e.g. Shared footpath/cycleways, drainage improvements, raised pedestrian crossings, new roundabouts) and related works to utilities. The project will also provide improved connections & parking amenities to Blake Park & Mt Maunganui

Reference	Project Description
	College as well as changes to the public transport network to future proof for clearways and bus lanes. Works to Council-owned water services infrastructure in the vicinity of the transport infrastructure.

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Appendix 2: Prioritisation and Outcomes

The current prioritisation is based on:

- the outcomes and prioritisation set out in the SmartGrowth Urban Form + Transport Initiative (UFTI)
- the point of entry documentation setting out the outcomes to be sought
- information provided by TCC.

However, as for most projects the business cases have only recently started, the prioritisation is preliminary only.

Project	GPS Alignment	Investment Priority	Key outcomes identified
Hewletts Road Sub-Area (local road aspects only)	Very High	2	Mode shift via public transport and walking & cycling Freight Environment
15th Avenue and Turret Road (includes former "Welcome Bay multi modal project")	Very High	3	Mode shift via public transport and walking & cycling – but TBC.
Tauriko West Enabling Works	Very High	2	Growth Safety Mode shift via public transport and walking & cycling
Cameron Road Stage 1	Very High	2	Mode shift via public transport and walking & cycling
Cameron Road Stage 2	Very High	2	Mode shift via public transport and walking & cycling improvements
Cameron Road corridor connections (cycle, PT and pedestrian))	Very High	2	Part of Cameron Road Stages 1 and 2

Accessible Streets area A – Mount Maunganui	Very High	2	Mode shift via public transport and walking & cycling improvements
Accessible Streets area B – Otumoetai Peninsula	Very High	2	Mode shift via public transport and walking & cycling improvements
Tauranga Crossings bus facility improvements	High	5	Mode shift via public transport
City Centre Transport Hub	Very High	2	Mode shift via public transport
Barkes Corner to Tauranga Crossings multi modal local road component	High	5	Mode shift via public transport and walking & cycling improvements
SH2 Revocation – Cameron Road to Bethlehem	None	None	New activity that has not yet been assessed.
Maunganui Road Future Proofing	High	Approved	Mode shift via walking & cycling.

Appendix 3: Draft “Letter of Partnership Commitment” provided by TCC

Letter of Partnership Commitment

Background and Context

The Crown and Tauranga City Council (TCC) jointly through the SmartGrowth Partnership have agreed to the Urban Form and Transport Initiative (UFTI) and the Transport System Plan (TSP). Both parties acknowledge that Tauranga currently does not meet the sufficient residential and business land supply requirements of the National Policy Statement – Urban Development (NPS-UD). Both partners are committed to action to address the urgent housing and transport needs of the city.

The Crown has introduced initiatives to provide financing and funding tools which enable Councils in high growth areas to invest in infrastructure essential to underpin increased housing supply. Government agencies and TCC have worked together to develop funding stacks for projects which deliver on the agreed UFTI and TSP outcomes, utilising all available funding sources.

The funding stack for agreed TSP projects includes rates, development contributions, Infrastructure Financing & Funding (IFF), Infrastructure Acceleration Fund (IAF), Waka Kotahi subsidy, and Waka Kotahi (WK) State Highway funding. TCC proposes to introduce an IFF levy which will deliver \$200 million of funding for specified eligible transport projects (refer attachment 1) which is part of a wider programme of more than \$1 billion to deliver on the TSP. Once introduced this is an irreversible statutory charge for 30 years across most properties in Tauranga. At this point in time only some of the WK share for these IFF TSP projects have been through the business case and approval processes such that funding is confirmed.

The parties acknowledge that each project to which the TSP IFF applies must have completed business cases and have approval of the parties. It is foreseeable however, that post the business case approval stage, WK may be unable to commit their full funding share of agreed TSP projects at the required point in time. This will result in a funding gap preventing the agreed projects from being delivered.

Commitment Statement

The parties will make best endeavours to jointly achieve the agreed outcomes and more specifically to deliver the jointly agreed initiatives to secure those outcomes.

The Crown and Council commit to actively work together to resolve any funding gap associated with the delivery of the TSP IFF projects.

This commitment will be based on the following principles:

- Working in the manner and in the spirit of partnership,
- Sharing of the financing and funding risk (with recognition of Crown responsibility associated with the Waka Kotahi share).
- Urgency and pace to address the agreed desired urban growth and transport outcomes; and
- Actively exploring in parallel a range of solutions.

Solutions could include but are not limited to:

- Securing alternative financing and funding solutions
- Deferring or rescheduling projects (taking into account associated risks and impacts)
- Substitution and/ or additional projects to achieve agreed outcomes

The parties agree to work together to develop an agreed process in advance of the next National Land Transport Plan (NLTP) and Long-Term Plan (LTP) cycle to determine extent of confirmed funding, extent of any likely shortfall, and progressing shortfall solutions.

The parties look forward to jointly securing the agreed housing and transport outcomes for the community.

Signed

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Ministers

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Commissioners

Attachment 1

- Cameron Road Multimodal Upgrade – Stage 1
- Cameron Road Multimodal Upgrade – Stage 2
- Tauriko West Enabling Works Package
- Papamoa East Interchange
- Cameron Road Corridor Connections (cycling PT and pedestrian)
- Hewletts sub-area (Totara, Hull, Maunganui)
- Turret Road
- Welcome Bay Road Multi-modal upgrade
- Primary Cycle Route Facilities (Accessible Streets programme – Area A Mount/Papamoa/CBD)
- Primary Cycle Route Facilities (Accessible Streets programme – Area B Otumoetai, Bellevue, Brookfield)
- City Centre PT Transport Hubs
- Tauranga Crossing Bus Facility Improvements
- Barks Corner to Tauranga Crossing multi-modal
- SH2 revocation – Cameron Road to Bethlehem