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Funding: Short list report

11 August 2021



Funding: Short list report

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1. Purpose and overview

The purpose of this report is to provide a detailed overview of the short list of funding tools available for the Auckland Light Rail (ALR) Project. This builds on the work done to date in developing, evaluating, and short listing the comprehensive long list of funding tools (refer 'Long List to Short List Report'). Further detail on the evaluation of options is provided in [Appendix 1: Detailed evaluation tables](#).

This document is intended to provide a detailed overview of the short list of options and support advice to Ministers. Specifically, it seeks to:

- Introduce the concept of beneficiaries, how they benefit from the project, and how different funding tools can be used to recover costs from the various beneficiary groups. Mapping the benefits to specific beneficiary groups and identifying the applicable funding tools minimises the risk of the tools being implemented in different forms for the same benefits.
- Provide additional detail on the short listed funding tools including:
 - which beneficiaries they target, and which stages of the project they can be applied to;
 - the process required to implement each tool, including policy and legislative considerations;
 - key considerations and trade-offs of using these tools (e.g. potential behavioural impacts, impact on development and other outcomes, affordability, etc.); and
 - order of magnitude (high level indicative estimates).

This report does not recommend a funding solution to take forward. It identifies the potential trade-offs of different options, which should be considered in greater detail once the technical solution, costing, procurement, Delivery Entity and governance arrangements are further developed.

Alongside the preparation of this report, two more focused reports are being prepared, which bring practical insights and perspectives to the theoretical application of funding tools:

1. **Detailed funding advice:** Detailed overview of the capacity for different Crown and Council organisations to contribute to the project, potential levers available to each organisation to fund a contribution, balance sheet considerations and policy / wider trade-offs and considerations.
2. **Value Capture Advice:** Detailed overview of a select range of value capture tools, including the potential application to the project, impact on beneficiaries, and key trade-offs. A couple of case studies will be included, which focus on the practical application of the selected tools. This report will also provide an overview of how different funding tools may be combined as part of the overall funding solution.

These two documents will help inform the basis of advice provided to Ministers alongside the IBC.

2. Executive Summary

The table below summarises the funding tools considered in this report. In particular, it shows:

- Beneficiary groups and potential funding tools** – The funding solution will ultimately seek to allocate the costs of the project to specific national, regional, and local beneficiary groups. When considering the different beneficiary groups, the quantum, timing, and nature of both the project costs and benefits were assessed. The grey shading in the table below indicates the beneficiary groups that could be targeted by each funding tool. The primary beneficiary group targeted by each tool is identified through the 'X'.
- Application of funding tools to the different project phases** – Different funding tools may be applied during different project stages (i.e. pre-delivery¹, delivery, and operations), depending on the nature and timing of the cash flows, legislative/regulatory restrictions, and appropriateness of the tool. Green ticks show the stages that are most likely to be appropriate for the use of each tool.
- Magnitude, certainty, and implementability of the funding tool** – Given the large number of short listed funding tools and size/scale of the project, the magnitude, certainty, and implementability of different tools was considered to enable comparison of different funding tools. A high level overview of the potential magnitude², certainty and implementation of the different tools is outlined in the table below, with further detail provided in the body of the report. *Note that magnitude is based on a number of assumptions and would need to be refined whether there is greater certainty around the scheme.*

¹ Pre-delivery refers to all the activities conducted prior to construction (e.g. the DBC, detailed planning and, consenting, procurement, etc). Given the wide range of activities undertaken in this period, some of the tools in the figure above may only be applied to certain activities in the 'pre-delivery' period.

² The following ranges Red (<\$150m), Amber (\$150m to \$500m), Green (>\$500m) were defined for the magnitude assessment, which is based on the quantification analysis below.



Figure 1: Funding tools and beneficiaries targeted

	Crown funding sources			Council funding sources										Development sources						Fares		Other sources		
	Crown appropriation	City Deal	NLTF	Council contribution	Tax increment financing	General rates	Targeted rates	IFF levy	Betterment levy	Business rate supplement	Vacant land tax	Workplace parking levy	Increase in parking charges	Development contribution	Negotiated contribution	Increase in the value of public land	Sale of existing land	Development partnering	Development / air rights	Strategic purchase and sale of land	Farebox	Premium farebox	Advertising	Retail / commercial
National	X	X													X	X								
Regional				X	X	X										X	X							
Local – residential							X	X	X		X													
Local – commercial										X													X	X
Local – development													X	X				X	X	X				
PT user																					X	X		
Motor vehicle users			X									X	X											
Pre-delivery	✓	✓	✓	✓		✓		✓					✓											
Delivery	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Operations	✓	✓	✓	✓		✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Magnitude	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
Certainty	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
Implementation	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.

*While a business rate supplement may be applied to fund capital costs, the assumption is that due to construction disruption during delivery, it wouldn't be implemented until the operational phase.

An overview of the key principles, trade-offs and considerations identified throughout this report is provided below:

- **A range of options with similar beneficiaries and magnitudes** – There are a number of available tools that target the same beneficiaries and could generate similar amounts (e.g. IFF, Targeted Rate, Betterment Levy). The relative merits of these will need to be considered in terms of certainty, implementability, balance sheet impact, application and timing of funding, and flexibility. Flexibility may also include consideration of the potential impact on beneficiaries of potential future North West and North Shore stages.
- **Affordability** – Affordability is an important consideration in the implementation of different taxes, levies and rates, particularly in the lower socio-economic portions of the alignment. A high level affordability assessment suggests that an additional \$1,500 levy/rate for properties within station catchments would remain within a 5% affordability threshold³ (total rates/levies to household income) (refer *Infrastructure Funding and Financing Levy*). This would need to be reviewed at a more granular

³ The 5% affordability threshold was identified in the 2007 Local Government Rate Enquiry Report and is considered by Auckland Council when determining the rate settings for its Long Term Plans.



level at the DBC stage. One of the levers available to mitigate affordability constraints is to implement a comprehensive postponement scheme, which would enable land owners to defer levy payments (i.e. until post a sale). The implications of such a scheme (i.e. impact on financing) will be considered at the DBC stage.

- **Value capture and development potential** – Capturing value from landowners may have implications on incentivising development. This needs to be considered in the context of Auckland-wide patterns of intensification. It also has implications on future patronage and mode-shift and associated environmental benefits. The impact on development will depend on the proportion of value captured and how the market prices this in. To the extent the market prices the cost into land markets, the potential impact on Gross Floor Area (GFA) could be estimated through the land use change model that measures the correlation between land value and GFA. However, prices achieved on the Milldale transaction indicate that the levies were not priced into land markets, and did not materially affect development.
- **Precedent setting impact** – The funding allocations and tools selected to deliver ALR may set a precedent for the delivery of future projects (i.e. equitable allocations to regional/local beneficiaries, investigation of alternative funding tools, capturing value from different beneficiary groups).
- **Behavioural impact** – Certain funding tools can be used to manage demand for public transport and private vehicle usage. Increases in fares will need to be balanced against the objectives of driving mode-shift/patronage. Other demand management tools (e.g. workplace parking levy, increasing parking charges) may be worth pursuing to balance/incentivise public transport usage, even where the financial benefit is relatively low.
- **Crown / Delivery Entity role in capturing land value uplift** – There is a spectrum of ways the Delivery Entity and / or the Crown could capture land value uplift on both public and wider land holdings in the corridor. Land ownership and active development provides opportunities to better control urban outcomes and capture value. However, this comes with increased risk, the potential for upfront investment and greater intervention and capability requirements.

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3. Beneficiary identification and mapping

ALR is a city-shaping project of national significance. The ALR outcomes sought are bold and wide-ranging, reflecting the significant benefits it is expected to bring to a spectrum of different beneficiaries.

ALR is also expected to be large and expensive to build and require a range of different funding tools. The ultimate funding solution will need to consider and reflect the link between the funding contributions required from different parties and the quantum, timing and nature of the benefits derived.

This section summarises the range of beneficiaries from the ALR project, and the nature of the benefit they gain. It also maps the shortlisted funding tools that could be used to recover the benefit from them.

The overall funding solution is likely to require the implementation of a combination of different funding tools that canvass the full range of beneficiaries (e.g. the funding solution may include a Crown appropriation, an Auckland wide targeted rate, an IFF levy within certain station catchments, and a workplace parking levy). The potential implications of applying multiple different funding tools will be explored in greater detail in the case studies prepared as part of the Detailed Funding Advice.

3.1 Who benefits from ALR and how?

Benefits are being assessed and quantified through the Economic Case and include the areas noted below:

- **Direct transport benefits** – Travel time savings, reduced accidents, improved reliability.
- **Economic benefits** – Agglomeration impacts, increased productivity, and land values.
- **Environmental benefits** – Reduced fuel consumption and emissions.
- **Social benefits** – Accessibility to jobs, centres, and improved liveability.

These benefits are being quantified as part of the economic case and therefore outside the scope of this report.

These benefits impact a range of beneficiaries throughout New Zealand as summarised in the table below.

Table 1: Beneficiary identification and mapping

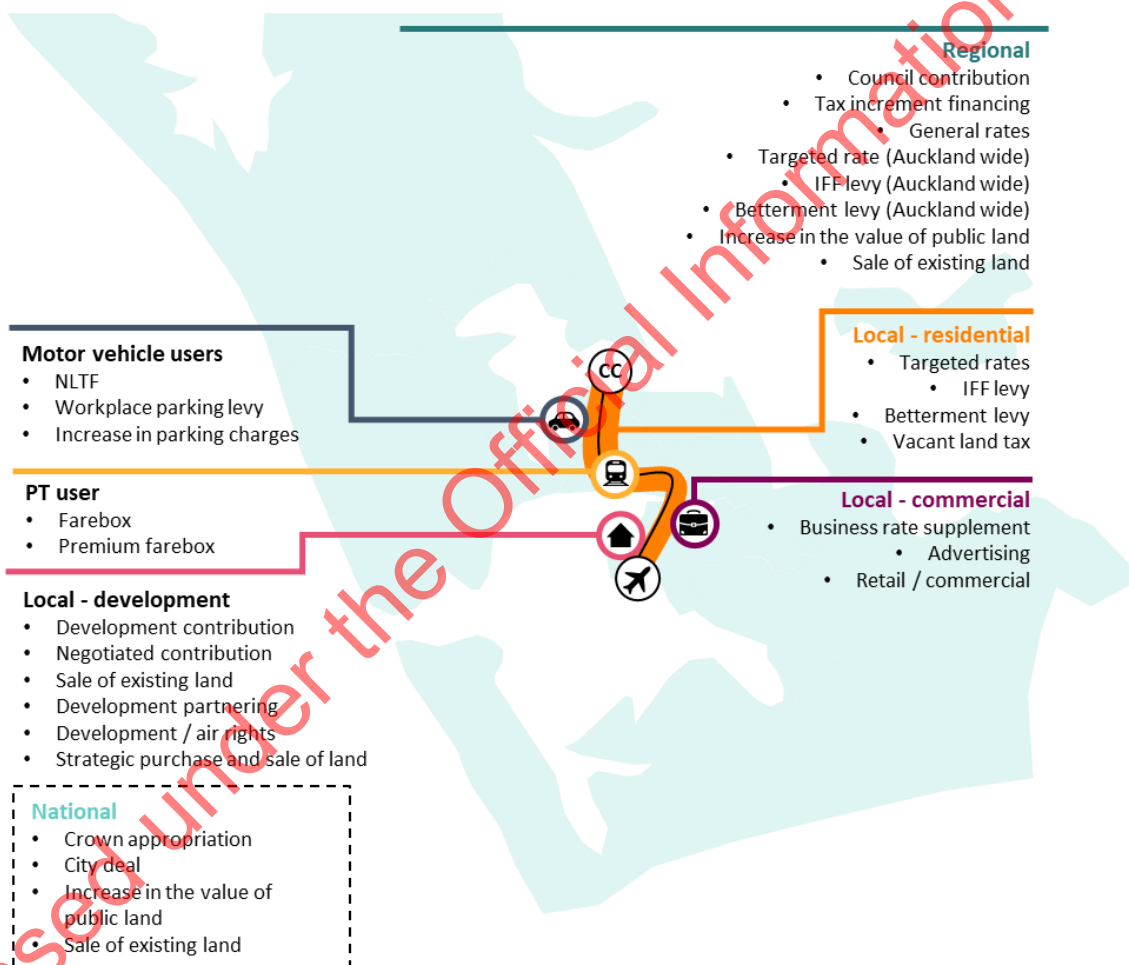
Beneficiary group	Benefit
National beneficiaries	
Crown	<ul style="list-style-type: none"> Higher tax revenues, through agglomeration impacts, increased productivity, and imperfect competition.
New Zealanders (taxpayers)	<ul style="list-style-type: none"> Reduced consumption and emissions.
Regional beneficiaries	
Auckland Council	<ul style="list-style-type: none"> Increased growth in the region, which may improve affordability for rate setting. Reduced emissions and improved air quality. Potential for a more efficient capital programme (i.e. avoided spend) through increased densification.
Public transport users	<ul style="list-style-type: none"> Faster, higher capacity and more reliable public transport network across Auckland.
Motor vehicle users	<ul style="list-style-type: none"> Improved accessibility through a reduction in congestion across the region.
Auckland ratepayers	<ul style="list-style-type: none"> Improved accessibility to jobs, education, health infrastructure and social infrastructure. Improved air quality through reduced emissions.
Local beneficiaries	
Crown	<ul style="list-style-type: none"> Increase in the value of public land holdings within the corridor.
Landowners within station catchments	<ul style="list-style-type: none"> Increased land value due to the transport intervention. Increased land value due to regulatory / zoning changes.
Business owners within station catchments	<ul style="list-style-type: none"> Increased business value and stronger revenues from greater accessibility to businesses (e.g. greater foot traffic through the business). Access to a broader labour catchment and reduced travel time to key centres including the airport and city centre.
Private sector developers	<ul style="list-style-type: none"> Opportunities to develop around proposed stations to capitalise on increased accessibility. Development of transit infrastructure improves accessibility and promotes urban regeneration, allowing increased development and intensification within the station catchments and/or priority development areas.
Māori developers	
Direct users of ALR	<ul style="list-style-type: none"> Improved accessibility to jobs, education, and social infrastructure as a result of ALR.

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3.2 Which tools could be used for different beneficiaries?

The short list of funding tools has been mapped to specific beneficiary groups which enables a range of different alternatives to be considered as the funding solution is developed. Ultimately, consideration will need to be given to ensuring beneficiaries are not being 'taxed' multiple times and which of the tools is most appropriate, taking into account the timing of the benefits, affordability, equity, complexity of implementing the tools and certainty of cash flow, amongst other things. Accordingly, the funding available through the different funding tools is not the aggregate of each of the individual tools, but the combination of the select funding tools preferred for each beneficiary group.

Figure 2: Beneficiaries and applicable tools



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4. Detailed assessment of shortlist options

The following section provides detail on the shortlisted options. Further work will be undertaken on each of the options taken forward as part of the Detailed Business Case (DBC), once a preferred technical solution has been identified and detailed.

The funding tools have been classified into Crown funding, Council funding, Development, Fares and other tools for ease of navigating this document. An IFF levy and betterment levy have been classified as Council funding sources, despite requiring Ministerial approval, because of the overlap of beneficiaries targeted (e.g. Auckland ratepayers).

High level indicative estimates have been prepared to provide an order of magnitude for the tools. These are based on assumptions (noted in each section) and could change materially as underlying assumptions are altered. This will be considered in more detail for some tools in the Value Capture Report. Ultimately, the quantum for each funding tool will need to be reconsidered and validated at the DBC stage.

The NPV of different funding options has been calculated for each of the funding options to enable the different magnitudes to be compared between each tool on a consistent basis. A 6% discount rate was used to reflect the Treasury BBC discount rate.

The figure below provides the relevant page references for each of the different funding tools.

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Figure 3: Funding tools by category



Crown funding sources		Council funding sources		Development sources		Fares		Other sources	
Crown appropriation	9	Auckland Council contribution	14	Development contribution	34	Farebox	46	Retail / commercial	43
City Deal	10	Tax increment financing	15	Negotiated contribution	35	Premium farebox	48	Advertising	44
NLTF	12	General rates	17	Increase in the value of public land	37				
		Targeted rates	19	Sale of existing land	38				
		IFF levy	21	Development partnering	38				
		Betterment levy	23	Development / air rights	40				
		Business rate supplement	26	Strategic purchase and sale of land	41				
		Vacant land tax	28						
		Workplace parking levy	30						
		Increase in parking charges	32						

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4.1 Crown Funding tools

4.1.1 Crown appropriation

4.1.1.1 Overview

Table 2: Overview of a Crown appropriation

Description	Crown grant provided through an appropriation.		
Relevant legislation	N/a.		
Beneficiaries	Crown, New Zealand taxpayers.		
Application to ALR	Pre-delivery ✓	Delivery phase (i.e. capital) ✓	Operational phase ✓
Structure	<p>The structure of the appropriation and mechanism for drawing on this will be subject to advice from Treasury and the Ministry of Transport to Ministers. Recent funding and monitoring precedents include the NZ Upgrade Programme and the Three Waters Stimulus funding.</p> <p>May be used to fund delivery phase costs and reimburse costs incurred during the pre-delivery phase (to the extent these are not funded through the NLTF).</p>		
Collection mechanism	Funding collected by the Crown via general taxation and appropriated either directly to the Delivery Entity or via an appropriate Crown entity.		
Process for implementation	Process managed via the Treasury and the Ministry of Transport. Funding agreement and monitoring terms to be agreed.		

4.1.1.2 Quantification of funding tool

The analysis below assumes the Crown appropriation is tied to a proportion of project costs, however the appropriation could also be structured as a fixed amount. The table below provides some high-level indicative values for the estimated quantum of funding under different funding scenarios and the potential implications this may have on the Crown's debt to GDP ratio.

The costs outlined below are indicative only and are based on the 2018 and 2019 cost estimates (surface light rail, light metro respectively), given costs were not available at the time of writing.

Table 3: Potential impact of a Crown appropriation on the debt to GDP ratio.

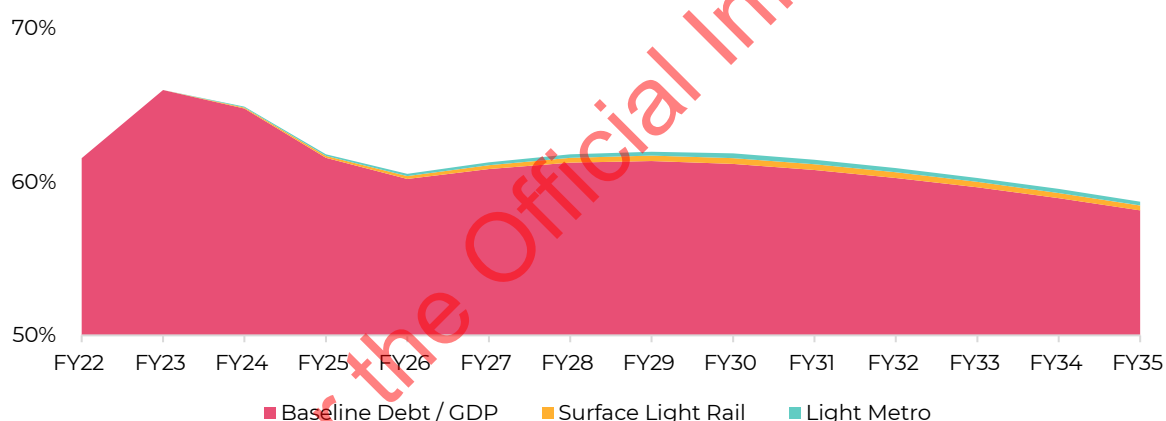
	Surface light rail		Light metro	
	Appropriation (\$m)	Increase in debt to GDP (%)	Appropriation (\$m)	Increase in debt to GDP (%)

25% of capital costs	875 – 1,110	0.20%	1,625 – 1,875	0.34%
50% of capital costs	1,750 – 2,250	0.39%	3,250 – 3,750	0.69%
75% of capital costs	2,625 – 3,375	0.59%	4,875 – 5,625	1.03%
100% of capital costs	3,500 – 4,500	0.79%	6,500 – 7,500	1.37%

Source: Fiscal Strategy Model, Budget Economic and Fiscal Update 2021.

While the table above assumes the Crown appropriation is applied to fund the capital costs, an appropriation covering operating expenditure may be equally applicable. Given the size and scale of this project, there is likely to be an operating funding gap (i.e. opex and lifecycle costs less farebox), which will need to be considered. A degree of Crown funding is likely to be required. This could be funded through a Crown appropriation, the NLTF, or a combination of both.

Figure 4: Potential impact of a Crown appropriation on the debt to GDP ratio



4.1.1.3 Trade-offs and considerations

- A **significant funding contribution** can be raised through a relatively minor increase in debt to GDP.
- **Long-term certainty** over cash flows, given it is not subject to regular review or prioritisation through the Government Policy Statement on Land Transport (GPS-LT).
- Costs shared across **national beneficiaries**, promoting affordability.
- There is a **risk of setting a precedent** for the Crown funding future rapid transit projects, rather than looking to allocate the costs to more local beneficiaries.

Refer Table 40: Detailed evaluation – Crown appropriation in the Appendix for further detail.

4.1.1.4 Impact on other workstreams

Governance & Delivery Entity – The Crown may require a higher degree of control over the project where the level of Crown appropriation is higher.

Procurement – Contractors are likely to assume that the Delivery Entity (or another counterparty to a major contract) will be backed by the Crown.

4.1.1.5 Precedent

City Rail Link – The Crown contribution was funded through an appropriation, rather than the NLTF.

4.1.1.6 Conclusion

- Crown funding in some form is likely to be required, given the size, scale and complexity of the ALR project. A Crown appropriation may be the most appropriate Crown source, given the additional certainty (i.e. outside of GPS and political cycles) it provides.
- The Crown appropriation should be sized and structured in a manner to incentivise a focus on alternative funding and value capture tools and set an appropriate precedent for future rapid transit projects.

4.1.2 NLTF funding

4.1.2.1 Overview

Table 4: Overview of NLTF funding

Description	Crown funding provided through the NLTF.		
Relevant legislation	Land Transport Management Act.		
Beneficiaries	Crown, New Zealand taxpayers.		
Application to ALR	<p>Pre-delivery</p> <p>✓</p>	<p>Delivery phase (i.e. capital)</p> <p>✓</p>	<p>Operational phase</p> <p>✓</p>
Structure	<p>NLTF funding would be paid to the Delivery Entity (or organisation undertaking the work).</p> <p>Under the existing NLTF structure, a payment claim could only be made once the completed portions of approved activities have been completed (unless specifically agreed otherwise).</p> <p>The quantum of funding received is a result of the cost and agreed Funding Assistance Rate (FAR).</p>		

Collection mechanism	<p>Payment received from the NLTF upon receipt and approval of a payment claim.</p> <ul style="list-style-type: none"> • The Delivery Entity (or other organisation, i.e. transition entity) would need to apply and become an Approved Organisation for the project.
Process for implementation	<ul style="list-style-type: none"> • Agreement of an appropriate FAR, including agreeing to the standard FAR rate (where applicable). • Funding approval received. • ALR project included within the NLTP. • Cost incurred. • Portion of the project specified in the funding approval completed. • Payment claim submitted and approved.

4.1.2.2 Quantification of funding tool

The table below provides estimates for the quantum of funding generated based on three FAR assumptions. The costs below are highly indicative and based on the 2018 and 2019 cost estimates (surface light rail, light metro respectively), given costs were not available for the technical solutions at the time of writing.

The Detailed Funding Report will consider the capacity of the NLTF to contribute and possible levers available to support this.

Table 5: Estimated NLTF funding contribution for different FAR rates

Scenarios	Surface light rail		Light metro	
	Delivery phase (\$m)	Operational phase (\$m/year)*	Delivery phase (\$m)	Operational phase (\$m/year)
50% FAR	1,750 – 2,250	13 – 25	3,250 – 3,750	13 – 25
75% FAR	2,625 – 3,375	19 – 38	4,875 – 5,625	19 – 38
100% FAR	3,500 – 4,500	25 – 50	6,500 – 7,500	25 – 50

*assumes a 50% farebox recovery rate.

4.1.2.3 Trade-offs and considerations

- **Status quo** funding approach for transport projects, which should make implementation relatively easy.
- Risk that funding the capital costs through the NLTF materially **reduces its capacity to fund other projects** in the absence of material revenue increases.
- Potential to **incentivise environmental outcomes (through mode shift)** through raising FEDs, RUCs, etc. to fund NLTF contribution.

4.1.2.4 Impact on other workstreams

Governance & Delivery Entity – The Crown/Waka Kotahi may require a higher degree of control over the Delivery Entity where a higher FAR is agreed. The Delivery

Entity may also need to be an approved Organisation for ALR to receive NLTF Funding

Refer [Table 42: Detailed evaluation – NLTF funding](#) in the Appendix for further detail.

4.1.2.5 Precedent

Eastern Busway – Capital costs being funded at the current standard FAR rate for Auckland Transport (i.e. 51%).

4.1.2.6 Conclusion

- Although a Crown funding tool, the NLTF has a different beneficiary group than a Crown appropriation due to the way it is currently funded (i.e. reliance on FEDs, RUCs, etc. rather than taxpayer revenue).
- Funding the capital programme through the NLTF is likely to place considerable pressure on the NLTF’s capacity and would result in less funding certainty than a Crown appropriation. Other Crown mechanisms may be more appropriate to fund the capital costs.
- Operational funding through the NLTF would ensure ALR is aligned to the current transport funding framework.
- The NLTF should be a considered as part of the operating funding framework.

4.1.3 City Deal

4.1.3.1 Overview

Table 6: Overview of a City Deal

Description	Grant funding provided through a ‘Deal’ between central and local government stakeholders, which outlines the investments, reforms, plans and actions covered by the Deal.		
	The funding contribution is contingent upon project delivery/project milestones, and the achievement of incentive targets.		
Relevant legislation	Typically, the Deal includes an obligation to pursue alternative funding approaches to supplement grant funding.		
Beneficiaries	N/a		
Application to ALR	Crown, New Zealand taxpayers, Auckland Council, Auckland ratepayers.		
	Pre-delivery ✓	Delivery phase (i.e. capital) ✓	Operational phase ✓
Structure	Structure of the contribution would be determined by agreement between the Crown and Auckland Council.		
	The investment package outlined in the ‘Deal’ would likely include: <ul style="list-style-type: none"> • Core transport components (delivery and operational); 		

<p>Collection mechanism</p>	<ul style="list-style-type: none"> • Urban development components; and • Supporting investment. <p>The term of the 'Deal' could extend through operations to align to the benefits realisation timeframes and drive operational and urban development outcomes. The 'Deal' could be structured to support an ongoing partnership to deliver future stages of the Auckland Light Rail network.</p> <p>As the urban development opportunities are identified and taken through the business case phase, there is an opportunity to include these within the 'Deal', to ensure that the urban outcomes desired are achieved.</p> <p>Potential incentive targets included within the 'Deal' may include achieving economic growth, densification, delivery of new housing along the alignment, and/or patronage/mode share targets. These targets would ensure the project outcomes were appropriately incentivised and prioritised.</p> <p>Funding received as a grant, following the achievement of milestones and/or incentive targets.</p> <p>Expectation that a Funding Request (as for a Crown appropriation) would be prepared, which set out the quantum of the payment, and milestone/incentive achieved.</p> <p>The typical process for agreeing to a City Deal is outlined below:</p> <ul style="list-style-type: none"> • Signing of an MoU between the Crown and Auckland Council. • Agreement of the Deal (e.g. investment package covered, incentives), which would be informed by the Detailed Business Case. • Establishment of governance and reporting.
<p>Process for implementation</p>	<p>The expectation is that this process would align to the business case process, with the governance and reporting requirements established through the Management Case (of the DBC).</p> <ul style="list-style-type: none"> • Funding through the City Deal would be available upon the achievement of milestones and/or performance targets. These milestones/targets may relate to both the delivery and operational phase/costs (depending on the performance targets agreed).

4.1.3.2 Quantification of funding tool

A City Deal outlines the funding commitment from each of the parties to the arrangement, which are often linked to the achievement of different performance targets. Accordingly, the City Deal is essentially a mechanism to allocate the funding contribution between the City Deal participants (i.e. the Crown and Auckland Council).

Further detail on Crown and Auckland Council contributions will be provided in the Detailed Funding Advice.

4.1.3.3 Trade-offs and considerations

- **Incentivises a focus on achieving outcomes** through linking funding to the achievement of performance targets.
- May incentivise proactive behaviours in relation to planning and zoning via the achievement of performance targets.
- The broader scope (i.e. not just the ALR transport elements) may support a **whole of programme** approach (i.e. urban development, operations, etc.).
- Additional ongoing **reporting and administration requirements**.
- May incentivise a more **collaborative approach** to ALR and the supporting investment.
- Any performance or incentive targets relating to Auckland Council may have a contingent liability balance sheet impact.

Refer [Table 41: Detailed evaluation – City Deal](#) in the Appendix for further detail.

4.1.3.4 **Impact on other workstreams**

Governance & Delivery Entity – May require special governance, reporting and assurance frameworks. Also need to consider how the Deal would interact with other major agreements (e.g. a Sponsors Agreement).

Technical solution – The incentive targets will need to align to the preferred technical solution (i.e. different modes may support different urban form).

4.1.3.5 **Precedent**

Townsville City Deal – City Deal for a programme of urban development projects in Townsville. Most Australian City Deals are related to urban development programmes, rather than the delivery of major infrastructure projects, and include spatial and other planning requirements.

4.1.3.6 **Conclusion**

- The outcomes focus of a City Deal should incentivise the achievement of outcomes, through linking funding to the desired goals/vision/outcomes.
- A City Deal could be focused on both delivery and operational phase milestones and performance targets to deliver a whole-of-life/whole-of-programme approach.
- Including a requirement to actively pursue alternative funding and value capture mechanisms should be included in the City Deal, if it ultimately is selected as part of the funding mix, to mitigate the reliance on Crown funding.
- A City Deal may be worth considering as an alternative to a blanket Crown funding commitment/appropriation.

4.2 Council Funding tools

4.2.1 Auckland Council contribution

4.2.1.1 Overview

Table 7: Overview of an Auckland Council contribution

Description	Direct funding contribution from Auckland Council.						
Relevant legislation	N/a.						
Beneficiaries	Auckland ratepayers. Auckland Council funding mix will drive this (i.e. proportion funded by targeted rate, general rate, development contribution, etc.)						
Application to ALR	<table border="1"> <tr> <td>Pre-delivery</td> <td>Delivery phase (i.e. capital)</td> <td>Operational phase</td> </tr> <tr> <td style="text-align: center;">✓</td> <td style="text-align: center;">✓</td> <td style="text-align: center;">✓</td> </tr> </table>	Pre-delivery	Delivery phase (i.e. capital)	Operational phase	✓	✓	✓
Pre-delivery	Delivery phase (i.e. capital)	Operational phase					
✓	✓	✓					
Structure	Structure of the contribution would be determined by agreement between the Crown and Auckland Council.						
Collection mechanism	Funding received via a direct credit by the Delivery Entity, or other party (to the extent another party is delivering an element of the project).						
Process for implementation	Negotiation between the Auckland Council, the Crown and other project Sponsors (as relevant). This would be formalised through a Funding Agreement, which would outline the available funding, the proportion of funding attributable to the Council contribution, and a set of conditions that would need to be satisfied to be eligible for funding.						

4.2.1.2 Quantification of funding tool

Given Auckland Council funding tools (e.g. *General rates*, *Targeted rates*, and *Development contributions*) have been considered separately in this report, we have not quantified the potential Auckland Council contribution. Further information on the Auckland Council's capacity to contribute and its potential funding levers are included in the Detailed Funding Advice.

4.2.1.3 Trade-offs and considerations

- **Equitable** for regional/local beneficiaries to contribute to the funding of ALR, which can be provided for through an Auckland Council contribution.
- **Potentially significant funding contribution** (noting funding will ultimately be raised through a combination of general rates, targeted rates and development contributions).
- **Greater certainty** over cash flows, given the agreement for a funding contribution would likely exceed the tri-annual LTP process.

- Requiring a contribution from Auckland Council may establish a **precedent of requiring a contribution from regional/local beneficiaries.**

Refer [Table 43: Detailed evaluation – Council contribution appropriation](#) in the Appendix for further detail.

4.2.1.4 Impact on other workstreams

Governance & Delivery Entity – Level of Auckland Council funding may be considered when determining the level of control Council has through the governance framework.

4.2.1.5 Precedent

City Rail Link – The Crown contribution was funded through an appropriation, rather than the NLTF.

4.2.1.6 Conclusion

- Requires regional and/or local beneficiaries to contribute to the funding for ALR, which aligns to the beneficiary pays principles. Potential for this approach to establish the precedent for future major rapid transit projects.
- Given the Council contribution is likely to be largely funded through general rates, a targeted rate(s), and developer contributions; this report has focused on each of those sources independently. Alignment to an IFF levy will also need to be considered, given it would be applied to the same beneficiary set.

4.2.2 Tax increment financing

4.2.2.1 Overview

Table 8: Overview of tax increment financing

Description	Establishment of a 'base' tax revenue scenario, with all (or a portion) of the incremental tax revenue (i.e. above the 'base' scenario) hypothecated to the project for a period of time.		
	Typically, these are applied to incremental property tax revenues, where it is the appreciation of land values that is driving the additional tax revenue. However, a similar concept could be applied to Crown tax revenue.		
Relevant legislation	Would require a change to the LGRA, if applied as a property tax, given the current focus on cost recovery.		
Beneficiaries	<ul style="list-style-type: none"> • Landowners (if applied to a property based tax). • New Zealand taxpayers (if applied to a Crown tax revenue). 		
Application to ALR	Pre-delivery x	Delivery phase (i.e. capital) ✓	Operational phase x

Structure	Hypothecation of the incremental property tax revenue resulting from an increase in land values. Noting, the incremental property tax revenue assumes a shift away from cost recovery.
Collection mechanism	Collected by Auckland Council through the normal rates collection process. The incremental revenue (or a portion of it) would be hypothecated for the project and be transferred to the Delivery Entity.
Process for implementation	The LGRA would likely need to be amended to change the rating system away from a cost recovery basis. <ul style="list-style-type: none"> • Determine the scope of the TIF (e.g. corridor, Auckland wide, national). • Development and agreement of a 'base' tax revenue. • Establishment of TIF.

4.2.2.2 Quantification of funding tool

The analysis assesses three different scenarios for the incremental revenue generated through land value uplift is hypothecated for the project. The formula for determining the incremental revenue is outlined below.⁴

$$\text{Incremental revenue} = \beta \times \text{land value uplift}$$

The analysis assumes the β coefficient is the same as the current variable component for general rates (i.e. 0.00206791). s 9(2)(i)

. A gradual realisation of land value uplift is assumed over time, with key value steps at the commencement of construction and the commencement of operations, and 2051.

The estimated incremental revenue (refer table below) is relatively immaterial, which is a result of having a small β coefficient. Increasing the coefficient in line with international precedent TIFs would significantly increase the incremental revenue that could be achieved. For example, the effective tax rate for Illinois used for the Chicago Purple Line Modernisation TIF was 2.13%. The estimated incremental revenue generated from a 2.13% coefficient is ~\$1.0 - \$1.4 billion. However, this would likely be considered unaffordable for ratepayers, given it would result in a significant increase to rates (from current ~\$2,700 p.a. to ~\$19,000 p.a. for a \$900,000 property on Dominion Road).

Sizing the coefficient to align the property charge to the implementation of a \$1,500 IFF levy would be expected to generate between \$270 and \$360 million.

An average of the Dominion Road and Sandringham alignments are provided below for the surface light rail and light metro modes.

⁴ β is the coefficient for the variable component of the property based tax.

Table 9: Estimated potential funding through different TIF scenarios

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Figure 5: Estimated cash flows under different TIF assumptions (surface light rail, average 1A and 1B)

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Figure 6: Estimated cash flows under different TIF assumptions (light metro, average 2A and 2B)

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4.2.2.3 Trade-offs and considerations

- Likely to require significant **legislative and institutional change**. Once amended there may be the opportunity to roll TIF out for other projects also. The time and complexity involved in establishing the TIF will need to be considered against the scale of the likely proceeds.
- **Risk of over-recovering** from the TIF, given the challenges of determining and measuring against an appropriate baseline (i.e. other non-ALR related factors may drive the land value uplift). This may **constrain future investment**.
- Risk of **reducing transparency** over local government revenues and expenses.

Refer [Table 44: Detailed evaluation – Tax increment financing](#) in the Appendix for further detail.

4.2.2.4 Impact on other workstreams

Governance & Delivery Entity – Typically requires the establishment of an SPV to manage/finance the incremental revenue.

Financing – The hypothecated revenue is typically financed independently (potential for equity and/or debt investments). However, this may not provide value for money, where there is a significant risk premium priced in by the market. Likely to be treated as being 'on-balance sheet', in the absence of a significant Crown Support Package.

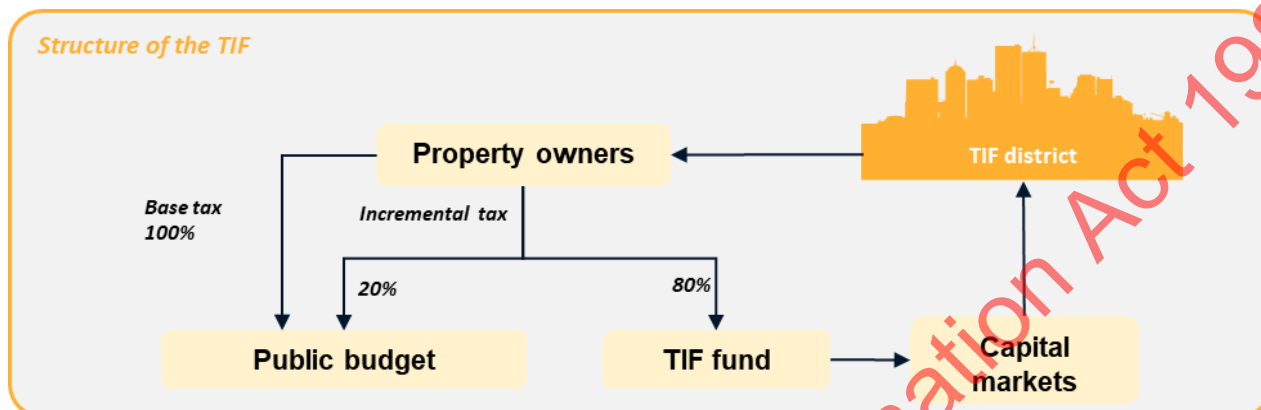
4.2.2.5 Precedent

An overview of the City of Chicago and Purple Line Modernisation TIF is provided below.

- The project involved the modernisation of the Red and Purple rail lines, including reconstruction of four stations, track and viaduct structures, and construction of a rail bypass.
- A portion of the project was to be funded and financed through a TIF imposed within the district.

- Under the TIF agreement, 80% of incremental tax revenue was applied to the TIF fund, with the remainder to be used by other taxing bodies. The TIF accounted for around 28% (~US\$622 million) of the total project cost and was fully financed.

Figure 7: Commercial structure for the Chicago Purple Line Modernisation TIF



4.2.2.1 Conclusion

- Likely to require a significant change to the local government rating system.
- Risk that a shift away from cost recovery may result in a reduction in transparency for local government revenue and expenditure.
- High degree of complexity associated with implementing and administering a TIF, which may prove challenging to implement for ALR.

4.2.3 General rates

4.2.3.1 Overview

Table 10: Overview of a general rates increase

Description	General rates increase across Auckland to fund an Auckland Council contribution.		
Relevant legislation	Auckland Council is empowered to impose and collect a general rate in the Auckland region under the LGRA.		
Beneficiaries	Auckland ratepayers.		
Application to ALR	Pre-delivery ✓	Delivery phase (i.e. capital) ✓	Operational phase ✓
Structure	One-off increase in general rates to support an Auckland Council funding contribution.		
Collection mechanism	Auckland Council would collect the rate through its BAU activities and transfer the revenue to the Delivery Entity (or appropriate entity) through a funding contribution.		
Process for implementation	<ul style="list-style-type: none"> • Auckland Light Rail project included in the LTP. 		



- Rates resolution from Auckland Council governing body as part of each LTP cycle.
- Annual reconfirmation as part of the annual budget process.

4.2.3.2 Quantification of funding tool

The analysis summarised below assumes a one-off increase in FY25 (with the next LTP cycle), which is then grown at the existing general rates growth profile from the 2022-2031 LTP.

Under the 2022-2031 LTP, Auckland Council capped its annual general rates increase at 3.5%. Accordingly, an increase in general rates prior to the new LTP may require Auckland Council to reconsult on its rate setting and/or formally amend its LTP.

Table 11: Estimated incremental increase in general rates

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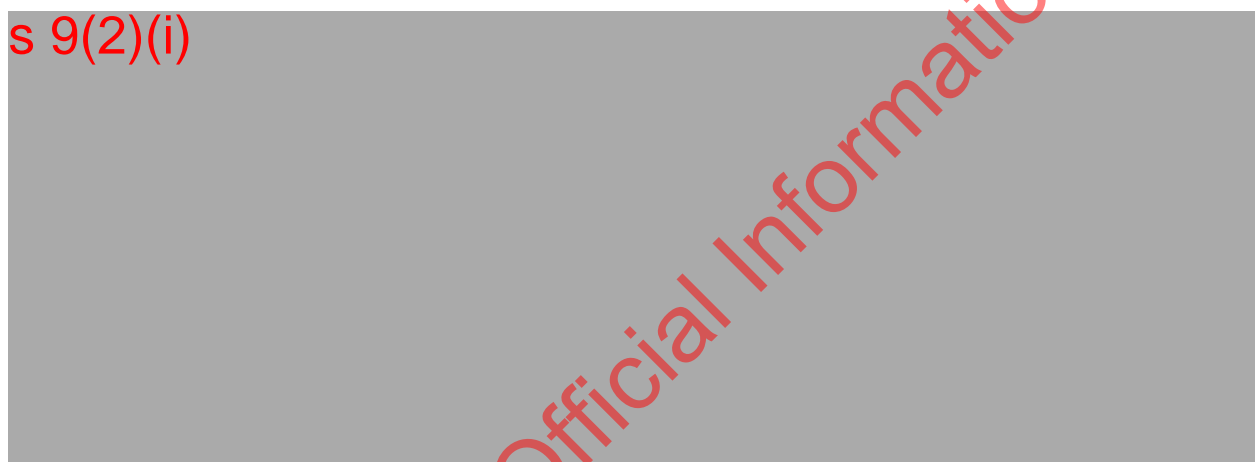


Figure 8: Estimated cash flows associated with a one-off increase in general rates

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4.2.3.3 Trade-offs and considerations

- Relatively significant funding contribution possible through a relatively small increase, which **promotes affordability**.

- Relatively **straight forward implementation**, given existing framework, and can **leverage existing collection/administration systems**.
- Can be applied to any stage in the project.
- Requires an off-setting **Auckland Council liability/obligation**.
- **Requires ongoing political support**, given it is set tri-annually through the LTP process and subject to annual review.

Refer [Table 45: Detailed evaluation – One-off increase in general rates](#) in the Appendix for more detail.

4.2.3.4 Precedent

City Rail Link – Auckland Council collected general rates to fund a proportion of its contribution to CRL.

4.2.3.5 Conclusion

- May be an appropriate funding tool for ALR to allocate costs to regional beneficiaries. However, if there was a targeted rate applied across the Auckland region, the potential overlap in beneficiaries would need to be considered.
- Impact on businesses should be considered in light of the potential significant business disruption during the delivery phase.

4.2.4 Target rates

4.2.4.1 Overview

Table 12: Overview of a targeted rate

Description	Rate imposed on all, or a certain category, of rateable land within Auckland, which is specifically for the ALR project. A targeted rate may be imposed by Auckland Council and/or Kāinga Ora.
Relevant legislation	Auckland Council is empowered to impose and collect a targeted rate in the Auckland region under the LGRA. Kāinga Ora is empowered to impose a targeted rate within a Specified Development Project through the UDA. Auckland wide targeted rate Landowners across Auckland (benefiting from a general increase in accessibility and improved environmental and social outcomes), including residential, commercial and industrial properties.
Beneficiaries	Specific wards Landowners within relevant wards that benefit from improved accessibility and land value uplift (<i>note: the accessibility and land value uplift benefits will vary within wards depending on proximity to stations, and may be negligible for some properties within the ward</i>).



	Pre-delivery x	Delivery phase (i.e. capital) ✓	Operational phase ✓
Application to ALR			
Structure	<p>Regional application</p> <p>Auckland Light Rail targeted rate imposed Auckland wide, with the funding hypothecated for the ALR project.</p> <p>Specific wards</p> <p>Auckland Light Rail targeted rate imposed in the Albert-Eden, Maungakiekie, Manukau, and Waitemata and Gulf wards.</p> <p>Within the SDP (Kāinga Ora)</p> <p>Targeted rate imposed within the geographical boundaries outlined in the associated SDP.</p>		
Collection mechanism	<p>Auckland Council would collect the rate through its BAU activities and transfer the revenue to the Delivery Entity (or appropriate entity) through a funding contribution.</p> <p>Auckland Council would also likely collect on behalf of Kāinga Ora and transfer the revenues under a collection agreement.</p> <p>Auckland Council imposed targeted rate</p> <ul style="list-style-type: none"> • Auckland Light Rail project included in the LTP (including public consultation). • Rates resolution from Auckland Council governing body as part of each LTP cycle. • Annual reconfirmation as part of the annual budget process. <p>Kāinga Ora imposed targeted rate</p> <ul style="list-style-type: none"> • Included in the development plan for an SDP. • SDP consultation process. • Ministerial approval of SDP. • Kāinga Ora notifies Auckland Council of its intention to impose a targeted rate. 		
Process for implementation			

4.2.4.2 Quantification of funding tool

The table below provides an indicative estimate of the quantum of funding generated through imposing a \$100 p.a. targeted rate, commencing from FY25 (i.e. start of the next LTP period). A 2.0% annual inflation adjustment was also assumed.

Table 13: Estimated funding generated through a \$100 targeted rate

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Figure 9: Estimated cash flows associated with imposing a \$100 targeted rate

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4.2.4.3 Trade-offs and considerations

- Relatively **straightforward implementation**, given existing framework, and can **leverage existing collection/administration systems**.
- Requires an off-setting **Auckland Council liability/obligation**.
- **Requires ongoing political support**, given it is set tri-annually through the LTP process and subject to annual review.
- Opportunity to **target specific beneficiaries** (e.g. relevant wards, station catchments, etc.) to ensure local beneficiaries are contributing.
- **Could set a precedent** for requiring a regional/local contribution to funding future rapid transit projects.

Refer [Table 46: Detailed evaluation – Targeted rate](#) in the Appendix for further detail.

4.2.4.4 Precedent

Rodney Transport Targeted Rate – \$150 annual rate on rateable properties in the Rodney Ward to fund new bus services, bus stops, and other facilities.

Auckland Interim Transport Levy – Fixed charge of \$99 on residential properties. Has been replaced by the Auckland Regional Fuel Tax.

4.2.4.5 Conclusion

- Potential to fund operational costs, which is unlikely to be possible for IFF (and other) levies.
- A targeted rate could be used in combination with an IFF levy with a Targeted Rate applied to regional beneficiaries, and an IFF levy utilised to target specific beneficiaries within station catchments.

- Potential balance sheet impact on Auckland Council may be a barrier, which will be considered further in the Detailed Funding Advice (i.e. Auckland Council capacity). Given a targeted rate is 'on-balance sheet' for Auckland Council, the potential leverage is likely to be capped at 2.7x. The impact will ultimately depend on the timing and phasing of the forecast targeted rate revenue.
- Focus on regional/local beneficiaries is an important equity consideration and could establish precedent for future rapid transit projects.
- Need to consider application alongside an IFF (or other levy/rate) to ensure there is no double charging.

4.2.5 Infrastructure Funding and Financing levy

4.2.5.1 Overview

Table 14: Overview of an IFF levy

Description	<p>Long term levy (i.e. up to 50 years) imposed on rateable land within station catchments and/or more broadly across Auckland.</p> <p>Designed to be resemble a targeted rate.</p>		
Relevant legislation	<p>Infrastructure Funding and Finance Act (2020), which is based upon (and incorporates) the relevant targeted rate provisions from the LGRA.</p> <p>A responsible SPV is empowered to impose the levy under the legislation.</p> <p>Requires an Order-in-Council, which is a legislative instrument.</p>		
Beneficiaries	<ul style="list-style-type: none"> • Landowners, as a result of one (or more) of the following benefits: • Land value uplift (within station catchments) <p>Improved accessibility (within the corridor and across Auckland).</p>		
Application to ALR	<p>Pre-delivery</p> <p>✓</p>	<p>Delivery phase (i.e. capital)</p> <p>✓</p>	<p>Operational phase</p> <p>✗</p>
Structure	<p>It can be structured at a Regional or Local level, or a combination of both.</p>		
Collection mechanism	<p>Auckland Council would collect the levy on behalf of the SPV under a collection agreement.</p> <p>Separate process required to implement an IFF levy:</p> <ul style="list-style-type: none"> • Levy Proposal developed • Levy and infrastructure endorsements (Auckland Council and ultimate asset owner) • Government Support Package negotiated with Crown for tail risks • Recommendation to Minister • Ministerial approval through Order-in-Council • Establishment of SPV and collection. 		
Process for implementation			

4.2.5.2 Quantification of funding tool

Three scenarios were tested to demonstrate the impact of different levy structures. All levies were assumed to be applied for 30 years.

- **Local** - \$100 levy applied on units within 1600m of stops/stations
- **Regional** - \$100 levy applied Auckland wide
- **Combination** - \$100 levy applied Auckland wide, \$1,500 levy applied on units within 1600m of stops/stations.

The analysis assumed levies commence in FY24 (i.e. commencement of delivery) and are in place for 30 years. Further analysis at an individual station level is provided in the [Appendix 4: IFF levy tables at a station level](#).

Table 15: Estimated funding generated through different IFF levy scenarios



The estimated cash flows for each of the different technical options are relatively similar. Accordingly, only Option 1A is provided within the body of this report, with the other estimated cash flow figures provided in [Appendix 2: Additional cash flow figures](#). The Value Capture report will provide more detail on how the quantum could change with altering the radius, duration etc.

Figure 10: Estimated cash flows under different IFF scenarios (Option 1A)

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4.2.5.3 Trade-offs and considerations

- **Long-term certainty of cash flows**, giving the levy can be set for up to 50 years without requiring ongoing approval/reconfirmation.
- **Designed to be 'off-balance sheet'**, so unlikely to be constrained by debt/balance sheet capacity. The 'off-balance sheet' treatment also enables the revenue to be leveraged significantly higher than the 2.7x available through Auckland Council borrowing.
- **Ratepayer affordability** is likely to be the primary constraint, which may be exacerbated by the 'brownfield' nature of the project and nature of the associated benefit (i.e. unrealised land value uplift). However, the total rates and levy under the combination scenario, would still be below the 5% of average household income affordability threshold⁵.
- Expected to generate a **significant revenue stream** under the combination scenario.

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- **Flexibility to raise independent finance** against the revenue stream.

Refer [Table 47: Detailed evaluation – Infrastructure funding and financing levy](#) in the Appendix for further detail.

⁵ Report of the Local Government Rate Enquiry Report (2007) and used by Auckland Council in its LTP preparation.

4.2.5.4 Impact on other workstreams

Governance & Delivery Entity – Need to consider how the establishment of an SPV will affect the governance framework.

Procurement – Need to consider what entity will be the counterparty to each of the major contracts.

Financing – Model specifically designed to support independent private finance.

4.2.5.5 Precedent

Milldale (note: Milldale utilised a contractual encumbrance, rather than the IFF legislation) – Infrastructure payment imposed contractually on purchasers. \$1,000 per section and \$650 per apartment, inflated by 2.5% annually. Auckland Council to collect rates through a collection agreement. Encumbrance placed on each title to reflect the balance of the remaining payments.

4.2.5.6 Conclusion

- An IFF levy may be a more effective funding tool for the capital costs, as it:
 - Provides long term certainty;
 - Does not require or use Auckland Council balance sheet capacity;
 - Enables greater leverage;
 - Flexibility and opportunity to target specific beneficiaries; and
 - Promotes transparency.
- The affordability of the levy, particularly in lower socio-economic areas (e.g. Māngere), will be a key consideration. This may be managed through special postponement policies (noting this would affect financeability), or through different levy sizes for different proportions along the alignment.
- Would create precedent for future rapid transit projects. The impact on the ability to continue to utilise the IFF for future stages should also be considered.

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4.2.6 Betterment levy

4.2.6.1 Overview

Table 16: Overview of a betterment levy

Description	<p>Levy imposed on rateable land expected to benefit from land value uplift as a result of ALR.</p> <p>The focus of the levy is on capturing value, rather than on recovering costs, with the levy expected to be sized based on the expected uplift.</p>		
Relevant legislation	<p>N/a – Would require legislative change, given the LGA focuses on cost recovery as the basis for assessment.</p>		
Beneficiaries	<p>Landowners, as a result of one (or more) of the following benefits:</p> <p>Land value uplift (within station catchments)</p> <p>Improved accessibility (within the corridor and across Auckland).</p>		
Application to ALR	<p>Pre-delivery</p> <p>x</p>	<p>Delivery phase (i.e. capital)</p> <p>✓</p>	<p>Operational phase</p> <p>x</p>
Structure	<p>Betterment levy imposed Auckland-wide to capture a portion of the estimated land value uplift</p> <p>The levy could be imposed to reflect land value uplift generated from the transport intervention, zoning/planning change or both.</p>		
Collection mechanism	<p>Expectation is that Auckland Council would collect the levy and transfer it to the Delivery Entity through a funding contribution.</p> <p>Could be designed to be local government funding tool, with local authorities empowered to implement.</p>		
Process for implementation	<p>Likely to follow a similar implementation process to a targeted rate (i.e. approved by Council resolution as part of the LTP process).</p> <p>May consider allowing betterment levies to be imposed for a longer duration to improve certainty of revenues.</p>		

4.2.6.2 Quantification of funding tool

Two primary scenarios were tested below:

- 5% of the estimated uplift captured over 30 years (to align to the estimated 2051 land value uplift); and
- 20% of the estimated uplift captured over 30 years.

The 2051 land value uplift estimates used were taken from the land use modelling outputs completed as part of the Urban Development workstream.

The quantum of the betterment levy was calculated by aligning the NPV of the land value uplift with the NPV of the cash flows collected through the levy. The example modelled was based on the cash flows being spread over a 30-year period to promote affordability for levy payers. In practice, the structure could be flexible and could



accommodate different payback periods (i.e. from a one-off payment to a long-term levy).

The land value uplift estimates were relatively similar between the two surface light rail options (Option 1A and Option 1B) and the two light metro options (Option 2A and Option 2B). The estimated cash flow figures for Option 1B and Option 2B are provided in the [Appendix 2: Additional cash flow figures](#).

Table 17: Estimated funding generated through a betterment levy (Option 1A and 1B)

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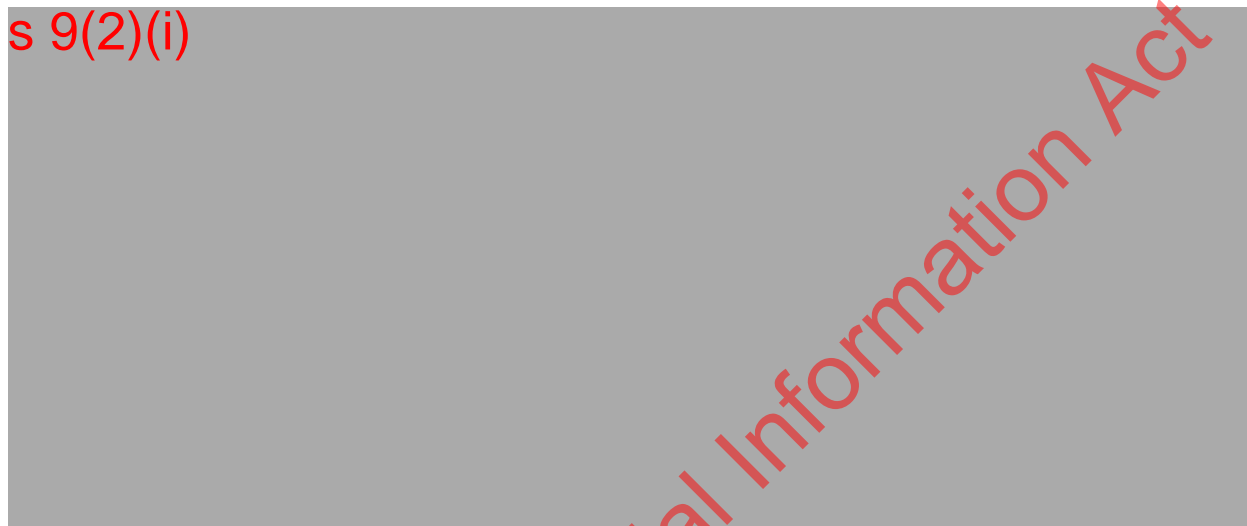


Table 18: Estimated funding generated through a betterment levy (Option 2A and 2B)

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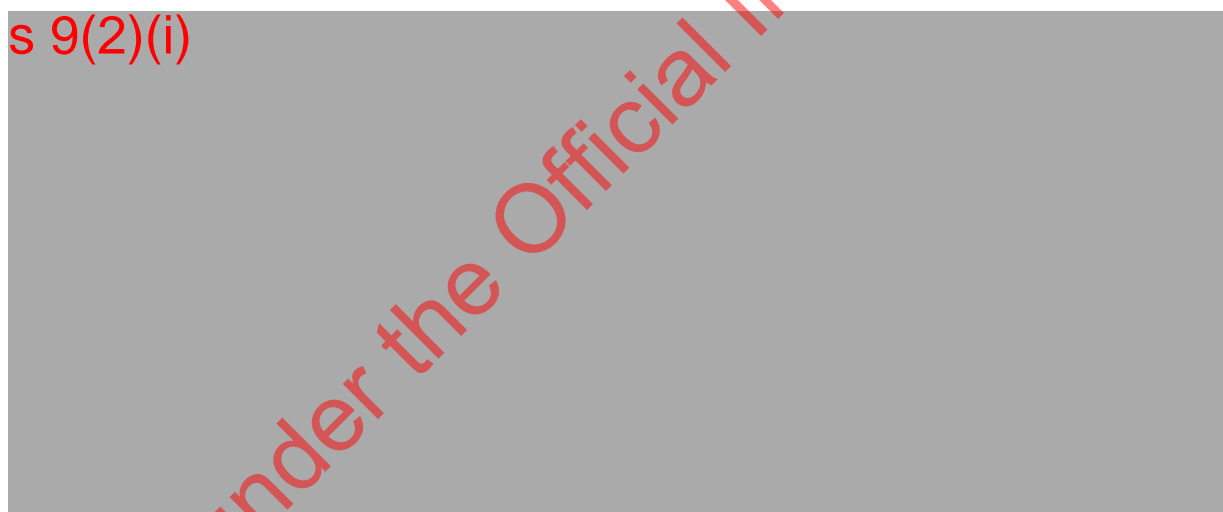
Figure 11: Estimated cash flows associated with different betterment levy scenarios (Option 1A)

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Figure 12: Estimated cash flows associated with different betterment levy scenarios (Option 2A)

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4.2.6.3 Trade-offs and considerations

- Material implementation challenges, given **legislative change is likely to be required**.
- Shift away from cost recovery would remove the need to have an off-setting obligation/liability, which would enable the levy to be **applied to zoning changes** (which IFF and targeted rates may not be able to). **May reduce/mitigate the balance sheet impact** for Auckland Council.
- **Directly captures estimated value uplift for beneficiary groups** through assessment methodology.
- Potential to **reduce the incentive to develop** where the levy is set to high. The impact on development will be **proportional to the percentage of land value uplift captured** under each scenario.

Refer [Table 48: Detailed evaluation – Betterment levy](#) in the Appendix for further detail.

4.2.6.4 Precedent

- **Gold Coast Light Rail** – Charged betterment levies to properties within the corridor at a rate of \$111 per property. However, the levy assessment was directly tied to the estimated land value uplift.
- **Melbourne City Loop** – Benefited Area Levy imposed on properties for a 53-year period. However, the levy was terminated early.
- **Victoria - windfall gains tax** – 50% tax imposed on the estimated land value uplift resulting from a rezoning between types (with some exceptions). Tax only applies to windfalls estimated to be over \$500,000.

4.2.6.5 Conclusion

- Significant challenges for implementation, given the requirement for new legislation.
- An IFF levy is likely to be able to achieve a similar levy assessment to the betterment levy in relation to the transport elements (which would have costs that could be recoverable). However, the betterment levy would be able to generate revenue in relation to zoning/planning changes, which an IFF levy and/or targeted rate could not (i.e. as there is no offsetting cost to recover against).
- Capturing value from zoning/planning changes would establish a material funding stream, enable greater value capture (i.e. to align to beneficiary pays), and establish a positive precedent.
- A windfall gains tax could be provided for through a betterment levy.

4.2.7 Business rate supplement

4.2.7.1 Overview

Table 19: Overview of a business rate supplement

Description	Additional business rate applied to businesses within station catchments.		
Relevant legislation	Imposed as a targeted rate under the LGRA.		
Beneficiaries	Business owners within station catchments, as a result of one (or more) of the following benefits: Increased business value and stronger revenues from greater accessibility to businesses (e.g. greater foot traffic through the business) Access to a broader labour catchment and reduced travel time to key centres including the airport and city centre.		
Application to ALR	Pre-delivery x	Delivery phase (i.e. capital) ✓	Operational phase ✓
Structure	Targeted rate imposed on commercial properties (based on current land use) within station catchments.		

Collection mechanism

Process for implementation

Auckland Council could collect the levy and transfer it to the Delivery Entity through a funding contribution.

Auckland Council imposed business rate supplement

- Auckland Light Rail project included in the LTP (including public consultation).
- Rates resolution from Auckland Council governing body as part of each LTP cycle.
- Annual reconfirmation as part of the annual budget process.

4.2.7.2 **Quantification of funding tool**

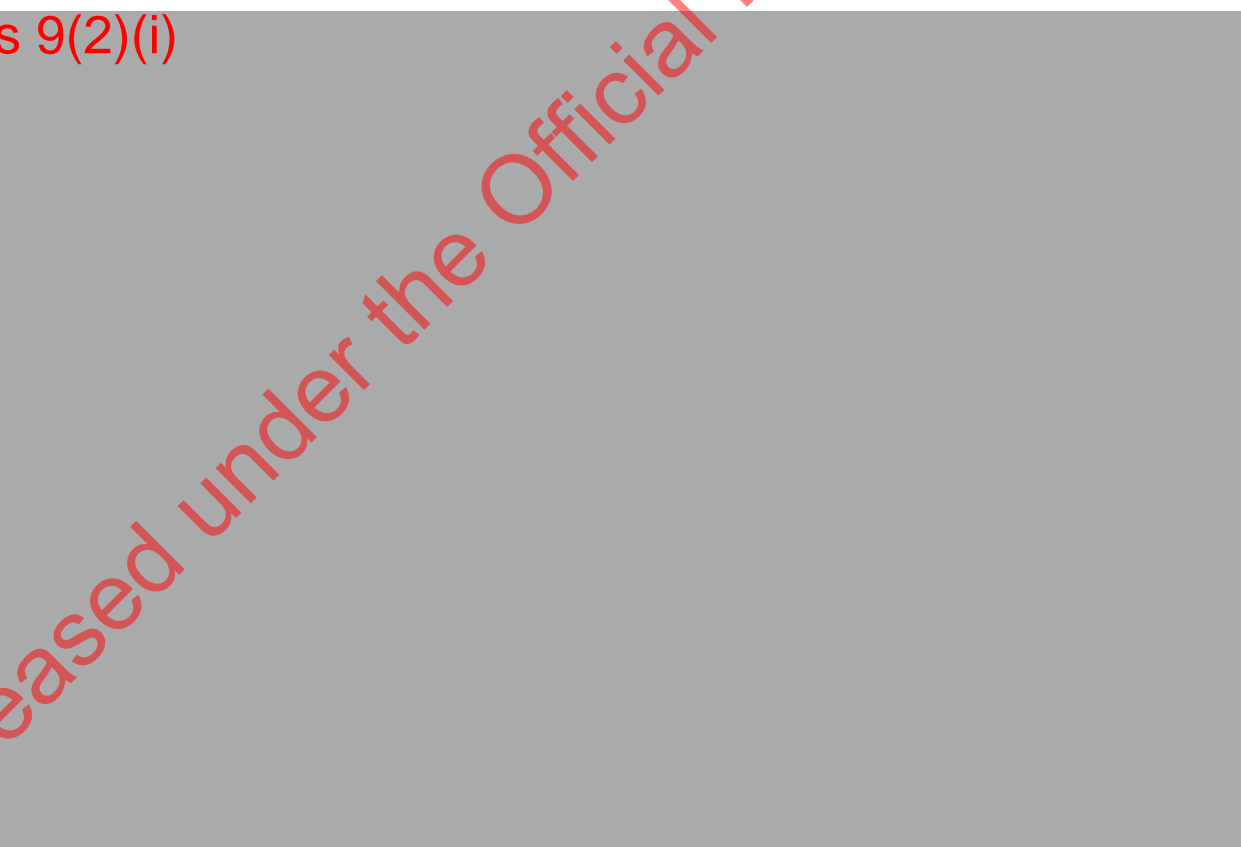
Two scenarios have been tested to demonstrate the potential impact of different rating formulations:

- \$500 annual rate on commercial properties within 400 metres of stations.
- \$2,500 annual rate on commercial properties within 1,600 metres of stations.

Given the potential for significant disruption to the businesses during the delivery of ALR, it has been assumed that the business rate supplement is not applied until operations have commenced (assumed to be 2031).

Table 20: Estimated funding generated through a business rate supplement

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The estimated cash flows for a business rate supplement are relatively similar under each of the technical options. Accordingly, only the estimated cash flow figure for Option 1 is presented below, with the relevant figures for the other technical options provided in [Appendix 2: Additional cash flow figures](#).

Figure 13: Estimated cash flows associated with different business rate supplement scenarios (Option 1A)

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4.2.7.3 Trade-offs and considerations

- **Unlikely to deliver a material source of funding** for the project.
- Existing implementation and collection framework.
- Need to consider application in light of business disruption and any associated arrangements, especially during delivery.
- Requires an **off-setting liability/obligation**, which may have **balance sheet implications**.
- **Alignment of costs** to local businesses that benefit from the project.

Refer [Table 49: Detailed evaluation – Business rate supplement](#) in the Appendix in for further detail.

4.2.7.4 Precedent

Crossrail (UK) – 2% of rateable value for non-domestic properties with a rateable value greater than £70,000, currently the target end date for the BRS is 2037-38, with a start date of 2017 this would mean an ~20 year collection period.

4.2.7.5 Conclusion

- Appropriate for businesses benefiting from the project to contribute to its costs. Given the proposed formulations for the targeted rate/levies are specifically on residential properties, a business rate supplement could be considered appropriate.
- However, given the significant business disruption that may occur during delivery, it is likely to be difficult to implement prior to, and during, delivery.
- The approach to business disruption will need to be considered against the business rate supplement and may include postponement/remission schemes.

4.2.8 Vacant land tax

4.2.8.1 Overview

Table 21: Overview of a vacant land tax

Description	Special rate applied to vacant land within station catchments to disincentivise land banking.		
Relevant legislation	A vacant land tax is unlikely to fit within the LGA financial management requirements (s 101(3)). Legislative change may be required to implement.		
Beneficiaries	Imposed on landowners. However, it is not specifically tied to a beneficiary group deriving a benefit.		
Application to ALR	Pre-delivery x	Delivery phase (i.e. capital) ✓	Operational phase ✓
Structure	It could be structured in a number of ways based on CVs or based on land area.		
Collection mechanism	We have assumed Auckland Council would collect the rate through its BAU activities and transfer the revenue to the Delivery Entity (or appropriate entity) through a funding contribution.		
Process for implementation	Imposing a vacant land tax is likely to require special legislation. The process for implementation is expected to be determined through the legislation. If the vacant land tax is established as a local funding tool, the expectation is that it would follow a similar implementation process to a targeted or general rate (i.e. adopted as part of the long-term planning process, and annually reconfirmed through the annual budget process.		

4.2.8.2 Quantification of funding tool

Two different structures were developed to demonstrate the potential trade-offs of different formulations.

- 0.01% of CV;
- 1% of CV (as applied in Melbourne); or
- \$1 per square metre.

It has been assumed that the vacant land tax wouldn't be applied until the operational phase. The analysis assumed that vacant land was gradually utilised in response to the ALR project and vacant land tax.

Table 22: Estimated funding generated through different vacant land tax scenarios

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Estimated cashflow figures for Options 1B, 2A and 2B have not been presented, as the divergence between the options is negligible (i.e. less than ~\$1 million).

Figure 14: Estimated cash flows associated with the different vacant land tax scenarios (Option 1A)

s 9(2)(i)

4.2.8.3 Trade-offs and considerations

- **Unlikely to deliver a material source of funding** for the project, unless set at a high level (e.g. 1% of CV).
- It is likely that the tax would need to be set at a relatively high level to incentivise land use change.
- Expected to require **legislative change** to implement.
- Ongoing **administration/monitoring challenges** expected, given availability of vacant land use information.
- May generate an **incentive to change land use** to support urban/densification outcomes.
- **Not aligned to beneficiary pays.**

Refer [Table 50: Detailed evaluation – Vacant land tax](#) in the Appendix for more detail.

4.2.8.3 Precedent

Victoria (Australia) – A 1% rate on vacant dwellings in Melbourne’s inner and middle suburbs was applied. However, the revenue was treated as a general funding tool, rather than hypothecated for any project.

4.2.8.4 Conclusion

- In order to incentive development and generate material funding, a vacant land tax would likely need to be set at a relatively high level.
- Another potential option to incentivise development may be to use land values (rather than capital values) as the basis for calculating the targeted rate or targeted levy, as this would better assess the development potential in the land (i.e. rather than the current development).

4.2.9 Workplace parking levy

4.2.9.1 Overview

Table 23: Overview of a workplace parking levy

Description	Charge levied on businesses operating within the City Centre based on the number of car parks held. Opportunity to extent the geographical catchment to include the full alignment/station catchments.			
	Relevant legislation			
	N/a – legislative change is likely to be required to implement.			
	Beneficiaries			
	Motor vehicle users, benefiting from the reduced congestion in the city.			
	Application to ALR	Pre-delivery x	Delivery phase (i.e. capital) ✓	Operational phase ✓
	Structure	Flexibility in how the levy could be structured. Likely to be a set charge per parking space.		
Collection mechanism	Auckland Council could collect the levy through its existing rates collection systems.			
Process for implementation	This analysis assumes that the workplace parking levy would be established through legislation (potentially through an Order-in-Council under enabling legislation).			

4.2.9.2 Quantification of funding tool

The table below summarises the potential funding available from a \$1,000 charge applied per car park to businesses within the CBD.

Table 24: Estimated funding generated through a workplace parking levy

s 9(2)(i)

s 9(2)(i)

4.2.9.3 Trade-offs and considerations

- **Long-term certainty** achieved through being established outside of the tri-annual LTP planning process (i.e. established through Order-in-Council), and therefore not requiring regular reconfirmations.
- **Potential to incentivise mode shift**, through increasing the costs associated with private vehicles, which may drive better environmental outcomes.
- **Alignment with a potential congestion charge** will need to be considered, given the expected overlap in beneficiaries.
- Implementation should **align to the Auckland Transport Parking Strategy** to ensure system-wide/network impacts are addressed.
- **Unlikely to have an adverse balance sheet impact.**
- Significant policy implications given impact on those outside of the direct transport beneficiary group.

Refer [Table 51: Detailed evaluation – Workplace parking levy](#) in the Appendix for further detail.

⁶ Auckland Transport Parking Discussion Document (2014).

4.2.9.4 Impact on other workstreams

Governance & Delivery Entity – May impact upon partner roles, given Auckland Transport’s role in relation to the management of car parks in Auckland.

4.2.9.5 Precedent

Sydney Parking Space Levy – Charge between \$880 and 2,490 applied to off street, private non-residential parking, occupied or non-occupied. Does not apply to public car parks.

Perth Parking License Fee – Charge applied on all non-residential parking bays in use (\$1,125 for long stay, \$1,040 for short stay and on-street).

Melbourne Congestion Levy – Charge between \$1,020 and \$1,440 applied to all public and private long stay non-residential car parking spaces in use.

4.2.9.6 Conclusion

- Imposing a workplace parking levy would likely generate a material funding stream (~\$300 million over 30 years), whilst providing desired behavioural incentives (i.e. mode shift away from private cars).
- However, a workplace parking levy would likely require legislative change to implement.
- Alignment to a potential future congestion charge and the Auckland Transport Parking Strategy will need to be considered.

4.2.10 Increasing parking charges

4.2.10.1 Overview

Table 25: Overview of increasing parking charges

Description	Increase in parking charges for the Auckland Transport owned and managed car parks, with the additional revenue hypothecated for the ALR project.		
Relevant legislation	<ul style="list-style-type: none"> • Land Transport Road User Rule 2004. • Land Transport Act 1998. • Local council bylaws (not in legislation). 		
Beneficiaries	Motor vehicle users, benefiting from the reduced congestion.		
Application to ALR	Pre-delivery ✓	Delivery phase (i.e. capital) ✓	Operational phase ✓
Structure	5% increase in parking revenue for Auckland Transport controlled car parks.		
Collection mechanism	Expectation is that Auckland Transport would collect the additional revenue through its ordinary parking operations.		

Process for implementation

Under the current framework, implementation would require Auckland Transport's Parking and Enforcement Team to set the higher prices. To the extent an increase was inconsistent with the existing Auckland Transport Parking Strategy and/or Auckland Transport Price Adjustment Policy, these may need to be updated.

4.2.10.2 Quantification of funding tool

The table below provides a high level estimate of the potential additional revenue that an increase in parking charges may have. Based on a price elasticity of demand of $\sim 0.35^7$ (i.e. a 10% increase in price will result in a 3.5% reduction in demand), an $\sim 8\%$ increase in prices will be required to achieve a 5% increase in revenue. No adjustment was made to reflect the potential mode-shift and associated demand for car parking as a result of the ALR project. An annual 2% inflation adjustment was assumed.

Table 26: Estimated funding generated through an increase in parking charges

s 9(2)(i)

4.2.10.3 Trade-offs and considerations

- Expected to deliver a **relatively small magnitude** of funding.
- Should **incentivise mode shift**, through increasing the costs associated with travel in a private motor vehicle, which may drive better environmental outcomes.
- Implementation should **align to the Auckland Transport Parking Strategy** to ensure system-wide/network impacts are addressed.

Refer [Table 52: Detailed evaluation – Increase in parking charges](#) in the Appendix for further detail.

4.2.10.4 Impact on other workstreams

Governance & Delivery Entity – May impact upon partner roles, given Auckland Transport's role in relation to the management of car parks in Auckland.

4.2.10.5 Conclusion

- While an increase in parking charges is unlikely to generate a material revenue stream, it may incentivise mode-shift and generate environmental outcomes.
- Given the relatively inelastic demand for car parking, a significant increase in prices may be required to drive mode-shift.
- Alignment to the Auckland Transport Parking Strategy should be considered.

⁷ Majority of international parking price elasticity studies have found a price elasticity constant of between -0.1 and -0.4.

4.3 Development sources

4.3.1 Development contributions

4.3.1.1 Overview

Table 27: Overview of a development contribution

Description	<p>Contribution required from developers to recover a proportion of the growth-related expenditure for the project. The application of the development contribution would form part of the ordinary development contribution framework, and would therefore need to be aligned with other development contributions (e.g. stormwater, etc.)</p>						
Relevant legislation	<p>Auckland Council is empowered to impose and collect a development contribution in the Auckland region under the LGA.</p> <p>Kāinga Ora is empowered to impose a targeted rate within a Specified Development Project through the UDA.</p> <p>Note: the UDA incorporates many of the relevant development contribution provisions from the LGA.</p>						
Beneficiaries	<ul style="list-style-type: none"> • Private sector developers; • Public sector developers (e.g. Kāinga Ora); and • Māori developers. 						
Application to ALR	<table border="1"> <thead> <tr> <th data-bbox="523 1155 703 1189">Pre-delivery</th> <th data-bbox="799 1122 1066 1189">Delivery phase (i.e. capital)</th> <th data-bbox="1118 1155 1378 1189">Operational phase</th> </tr> </thead> <tbody> <tr> <td data-bbox="603 1200 624 1223">x</td> <td data-bbox="911 1200 948 1223">✓</td> <td data-bbox="1230 1200 1251 1223">x</td> </tr> </tbody> </table>	Pre-delivery	Delivery phase (i.e. capital)	Operational phase	x	✓	x
Pre-delivery	Delivery phase (i.e. capital)	Operational phase					
x	✓	x					
Structure	<p>Charge applied to developers (typically at the point of receiving consent) to recover a portion of the growth related expenditure. The quantum of the charge is determined based on the quantum of the growth related capex and the expected development potential, which is reflective of the causer pays/beneficiary pays principle.</p>						
Collection mechanism	<p>Development contributions could be established Auckland wide (same as City Rail Link and other projects such as Puhinui interchange, Downtown, Airport to Botany, AMETI Eastern Busway).</p> <p>Auckland Council would collect the levy through its existing collection systems.</p>						
Process for implementation	<p>Auckland Council imposed development contribution charge</p> <ul style="list-style-type: none"> • Auckland Light Rail project included in the LTP (including public consultation). • Determination of the growth-related proportion of Auckland Council's contribution to the project. • Inclusion within the Auckland Council development contributions policy. <p>Kāinga Ora imposed development contribution charge</p> <ul style="list-style-type: none"> • Development contribution policy included within the development plan 						

- Approval of the development plan through the IHP.

4.3.1.2 Quantification of funding tool

If the development contribution was imposed by Auckland Council, the maximum quantum of funding that could be generated would be equivalent to the growth proportion of the Auckland Council contribution to the project.

Under a Kāinga Ora imposed development contribution, the maximum potential quantum would be constrained by the growth proportion of the project.

The potential quantum was not estimated, given the underlying information required is not currently available. On the City Rail Link project, 15% (~\$235 million)⁸ of Auckland Council's contribution is intended to be funded through development contributions. This suggests that development contributions could be a material source of funding for ALR.

4.3.1.3 Trade-offs and considerations

- Expected to deliver a **material funding contribution**. However, the quantum of Auckland Council's contribution and use of third party contributions may constrain the funding generated.
- **Low certainty over timing and quantum of cash flows**, given development contributions are subject to market conditions and ongoing political scrutiny through the LTP process (and tri-annual reviews if imposed under the UDA).
- Implementation under **existing legislation**. Opportunity to leverage the **existing Auckland Council collection framework**.
- **Strong alignment to beneficiary/causer pays**.
- Requires an **off-setting obligation/liability**, which may impact Auckland Council/Kāinga Ora balance sheets.
- **Potential disincentive for development**.

Refer [Table 53: Detailed evaluation – Development contributions](#) in the Appendix for further detail.

4.3.1.4 Impact on other workstreams

Financing – The party imposing the development contribution (i.e. Auckland Council, Kāinga Ora) may need to debt fund the timing difference between the development and the project costs.

⁸ Auckland Council Development Contributions Policy (2019) – Schedule 8 – Assets for which development contributions will be used.

4.3.1.5 Precedent

City Rail Link – 15% of the Auckland Council contribution is planned to be recovered through development contributions (under the 2019 Development Contribution Policy).

4.3.1.6 Conclusion

- Highly implementable under existing legislation for Auckland Council. However, a more comprehensive process (e.g. IHP process) for a development contribution through Kāinga Ora.
- A development contribution imposed through Auckland Council would be subject to Auckland Council's capacity and would be limited to the growth component of the Auckland Council contribution less any third party contribution.
- Given the quantum recoverable through a development contribution may be linked to Auckland Council's contribution, the quantum/structure of Auckland Council's contribution needs to be carefully considered.
- A Kāinga Ora imposed development contribution may provide for greater capacity given Auckland Council's current capacity constraints.

4.3.2 Negotiated contributions

4.3.2.1 Overview

Table 28: Overview of a negotiated contribution

Description	Contribution received from major business owners, stakeholders and/or developers along the alignment. To optimise the quantum of the negotiated contribution, concessions (e.g. changes to the station location, route, etc.) may be granted.		
Relevant legislation	N/a – commercial negotiation, which does not require legislation.		
Beneficiaries	Major businesses within station catchments. Developers, benefiting from the improved infrastructure/accessibility.		
Application to ALR	Pre-delivery x	Delivery phase (i.e. capital) ✓	Operational phase ✓
Structure	Contributions are expected to be in the form of upfront capital contributions. However, ongoing operational payment may be considered, to the extent key stakeholders agree to them.		
Collection mechanism	Expectation that the funding would be received via a direct credit to the Delivery Entity or relevant entity.		
Process for implementation	Commercial negotiations with key stakeholders, large businesses along the alignment and/or developers with significant land holdings along the alignment.		

4.3.2.2 Quantification of funding tool

The table below outlines the estimated land value uplift for a number of identified parties along the alignment. While the focus of the table below is on the potential land value uplift, major businesses and developers are likely to derive other significant benefits. A portion of these benefits may also be captured through a negotiated contribution.

Table 29: Estimated land value uplift for major land-owners along the alignment

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4.3.2.3 Trade-offs and consideration

- **~\$20 million of funding** could be generated through recovering ~10% of the estimated land value uplift from these parties through a negotiated contribution.
- **No legislative constraints to implementation.**
- Strong alignment to **beneficiary pays**, and **affordability constraints mitigated** given the quantum would be agreed contractually.
- May **reduce the funding derived through development contributions**, given development contributions are calculated post third party contributions.
- **Difficult to implement.**

Refer [Table 54: Detailed evaluation – Negotiated contribution](#) in the Appendix for further detail.

4.3.2.4 Impact on other workstreams

Technical solution – To the extent variations to the preferred technical solution are agreed to generate funding through a negotiated contribution (e.g. station location to service a hotel near the airport).

4.3.2.5 Precedent

Crossrail (UK) – Negotiated contributions received from a number of parties including Canary Wharf Group (£150 million) and BAA/Heathrow Airport (£230 million).

4.2.6.1 Conclusion

- Precedent setting impact of looking to recover costs from major beneficiaries of rapid transit projects. However, ultimately subject to agreement with major stakeholders.

- Potential to generate additional value through optimising the technical solution for major stakeholders, however this should be balanced against the development and transport objectives.

4.3.3 Increase in the value of public land

4.3.3.1 Overview

There are extensive public land holdings along the alignment, which are expected to benefit from the land value uplift generated through ALR the table below provides an overview of the estimated uplift.

Land ownership information was sourced from the Auckland Council rating database (2018) and is relatively fragmented. It would benefit from being further validated. Heatmaps of the estimated land value uplift for public land holdings is provided in [Appendix 3: Land value uplift](#).

Table 30: Estimated land value uplift for public land holdings

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This land value uplift could be used to contribute to the project in a number of ways:

- Sale of land 'as is' and use proceeds to contribute to the project
- Sale of land following lodging resource consents (incl. land use and GFA requirements) and use proceeds to contribute to the project
- Development partnering with the public sector, private sector or Māori developers with profits generated used to contribute to the project
- Sale of development / air rights
- Gift land to the project / Delivery Entity as part of a financial contribution.

There is also the opportunity to make strategic land purchases prior to announcement of the route to capitalise on value uplift. A whole-of-Crown approach would need to be considered in terms of who purchases, uses and realises value from that land (e.g. Delivery Entity or Kāinga Ora).

These areas have been considered in more detail in the following sections. No estimates have been provided as they would depend on the specific opportunity and market conditions.

4.3.3.2 Trade-offs and considerations

- **Control of urban outcomes** - More active intervention provides greater ability to determine the land use and urban outcomes. Provisions could be made around minimum densities and uses including affordable housing. This may be desirable at certain nodes where the market may not have financial incentives to deliver densities.
- **Return to fund the project** - More active involvement provides greater opportunity to realise value to contribute towards the project.
- **Risk** - Greater potential for return, also comes with a greater risk profile. This would need to be managed carefully including through appropriate resourcing and processes.
- **Capability and partnerships** - More active involvement will require greater capability and capacity at a Delivery Entity level. It will also need to be factored into partnering arrangements including responsibilities for masterplanning, procuring developers, use of UDA powers and land ownership.
- **Upfront investment** - There will be requirements for upfront investment to enable some of the more active options (including design / consenting costs and / or land acquisition cost). The funding source for these will need to be considered.
- **Technical solution** – The preferred technical solution is likely to drive the potential development opportunities

Refer [Table 55: Detailed evaluation – Increase in the value of public land holdings](#) in the Appendix for further detail.

4.3.3.3 Conclusion

- Significant land value uplift expected for public land holdings along the alignment, especially for Kāinga Ora under the Sandringham alignments (1A and 2A).
- The potential transport and urban outcomes of different alignments will impact the potential additional public land value uplift that could be generated through the project.
- The key decisions for Sponsors include:
 - What is the most appropriate way to realise the value (i.e. spectrum from sale of land to self-develop)?; and
 - How the funding generated will be shared between the land owner, Delivery Entity, and between transport costs and urban development costs.

4.3.4 Sale of existing land

4.3.4.1 Overview

Table 31: Overview of a sale of existing land

Description	Sale of existing public land holdings, with the proceeds used to fund the project.		
Beneficiaries	Developers, benefiting from the improved infrastructure / accessibility.		
Application to ALR	Pre-delivery 	Delivery phase (i.e. capital) 	Operational phase
Structure	Two primary options for the sale of existing land: Sale of the freehold title, with minimal or no development requirements in place.		
Process for implementation	Sale of consented land, where resource consents would be lodged (i.e. for a TOD or a wider precinct development opportunity). This could include specific requirements around land use / minimum density / affordable housing requirements etc. Commercial negotiations with potential buyers. For the sale of consented land, the land owner / Delivery Entity would also need to prepare and lodge the resource consent application.		

4.3.4.2 Trade-offs and considerations

- Risk that the sale of unencumbered land **reduces the level of control** that the Delivery Entity and/or partners had over the development around stations.

Refer [Table 56: Detailed evaluation – Sale of existing land](#) in the Appendix for further.

4.3.4.3 Conclusion

- Potential to generate material funding for the project.
- The sale of unencumbered land is likely to reduce the level of control that can be exerted over development along the alignment to drive the realisation of urban outcomes, to the extent it is not accompanied by any specific requirements re land use / density requirements.
- The timing of land sales should be considered to ensure the ‘post intervention’ market price can be achieved (i.e. to capture the land value uplift associated with the project).

4.3.5 Development partnering

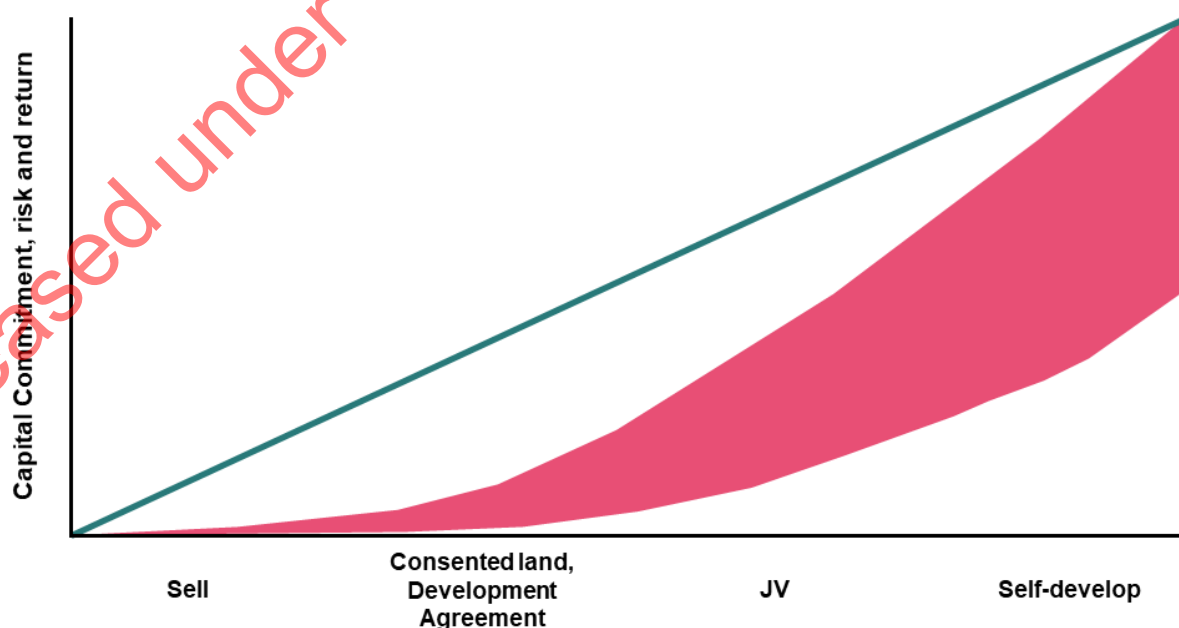
4.3.5.1 Overview

Table 32: Overview of development partnering

Description	Partnering with Kāinga Ora/Panuku/Auckland Council, private sector developers and/or Māori developers to undertake development at or near stops/stations or key nodes. Funding generated through sharing in the uplift/profit generated.		
Relevant legislation	If land has been acquired through the utilisation of Public Works Act acquisition powers, 'offer back' provisions may apply, which may limit the opportunity to undertake commercial development.		
Beneficiaries	Developers, benefiting from the improved infrastructure / accessibility.		
Application to ALR	Pre-delivery x	Delivery phase (i.e. capital) ✓	Operational phase ✓
Structure	There is a spectrum of different development partnering options available depending on risk appetite, which are outlined below. Different options have different commercial structures.		
Process for implementation	Commercial negotiations with developers. Typically, a competitive process would be followed.		

The figure below outlines the spectrum of development partnering options that may be available for the ALR project. The public sector has predominantly used development agreements (DA) or project delivery agreements (PDA), which have a lower risk and return, when partnering with developers. Equity Joint Venture (JV) structures have been used internationally, to enable the public sector to share in the risk and return. However, public sector equity is typically limited to the land component of the development.

Figure 16: Development partnering spectrum



There are considerations around the different options in terms of risk, return, capability, ability to control outcomes. These would need to be considered on a case-by-case, node-by-node basis.

4.3.5.2 Trade-offs and considerations

- The quantum of funding generated will depend upon the **public sector risk appetite**, extent of **public realm/amenity requirements** imposed upon the developer, and **net of any associated costs** (e.g. masterplanning, land acquisition).
- Development opportunities at the **northern end of the alignment are likely to be highly desirable** to the market. However, some of the **development sites to the south may require more active public sector participation**, given the lower node values/economic feasibility.
- **High degree of flexibility** to structure the development partnership to suit risk appetite, and specific development objectives and circumstances.
- **Ability for the public sector to drive urban outcomes** through imposing requirements through the DA/PDA or equity JV.

Refer [Table 57: Detailed evaluation – Development partnering](#) in the Appendix for further detail.

4.3.5.3 Impact on other workstreams

Technical solution – The preferred technical solution is likely to drive potential development opportunities (development potential can also influence the technical solution).

Governance & Delivery Entity – The scope of the Delivery Entity and partner roles will drive who is responsible for masterplanning, negotiation with potential development partners, and implementation/administration. This may also impact upon the longevity of the Delivery Entity.

4.3.5.4 Precedent

Aotea Station development – Auckland Council partnered with CRL, Panuku, and Malaysian Resources Corporation Berhad (MRCB) for the over-station development at Aotea Station.

Crossrail and Canary Wharf – Landowner led development by the Canary Wharf Group through a build and leaseback arrangement. Crossrail secured planning consents in relation to over-station developments, and was required to procure the completion of development. Collaboration agreements were signed between Crossrail and developers.

Wolli Creek (Sydney) – Landcom (a government agency) acquired development rights over an industrial site and negotiated an agreement with State Rail (the transport authority). Under the arrangement, Landcom took control of the redevelopment and used a joint venture equity partnership with Australand (a property developer).

4.3.5.5 Conclusion

- Development partnering enables the public sector to control development near stations and along the alignment to drive the desired urban form and realise urban outcomes.
- Urban realm and public amenity requirements may be included within development partnerships to drive urban outcomes. However, these generally reduce the financial return that can be generated through the partnership.
- Delivering enabling investment at sites where there are lower node values, may improve the market attractiveness of those opportunities.

4.3.6 Sale of development/air rights

4.3.6.1 Overview

Table 33: Overview of the sale of development/air rights

Description	Sale of development and/or air rights to a developer, which enables the developer to construct above/alongside a development site. Typically, development rights are sold subject to a Development Agreement, which is a form of development partnering.		
Relevant legislation	If land has been acquired through the utilisation of Public Works Act acquisition powers, 'offer back' provisions may apply, which may limit the opportunity to undertake commercial development.		
Beneficiaries	Developers, benefiting from the improved infrastructure/accessibility.		
Application to ALR	Pre-delivery	Delivery phase (i.e. capital)	Operational phase
Process for implementation	✗	✓	✓
	Commercial negotiations with developers. Typically, a competitive process would be followed to select the preferred developer.		

The funding generated through the sale of development/air rights (and the associated freehold/leasehold title) is likely to depend on the size of the development opportunity (i.e. gross floor area), location and market attractiveness, and tenure of land ownership. However, the unencumbered land value for the relevant land parcel (including land value uplift) is likely to be the maximum value that can be generated.

4.3.6.2 Trade-offs and considerations

- **High degree of flexibility** to structure the development rights to suit the circumstances of the individual development and desired urban outcomes. However, the development outcomes will be dependent upon the technical mode (i.e. smaller stops are unlikely to provide over-station development opportunities).
- Ability for the public sector to **drive urban outcomes** through imposing requirements on developers through the sale of development rights. Depending on the preferred land tenure structure for the opportunity, the public sector may also be able to drive outcomes through retaining control over the underlying land.

Refer [Table 58: Detailed evaluation – Sale of development/air rights](#) in the Appendix for further detail.

4.3.6.3 Precedent

Aotea Station development – MRCB purchased the development rights for an over-station development above Aotea Station and a 125-year leasehold interest for ~\$40 million. The associated development agreement included requirements for MRCB to deliver public amenities (e.g. a public plaza leading out of Aotea Station).

Sydney Metro – A partnership, including the sale of development rights at the Victoria Cross station, was agreed with Lendlease (the developer).

4.3.6.4 Conclusion

- The sale of development/air rights will enable the public sector to generate value through its land holdings, while still having the opportunity to drive urban outcomes.
- Typically, the public sector return is limited to the value of the land plus any land value uplift associated with the intervention.
- Urban realm and public amenity requirements may be imposed through the sale of development rights. However, these generally reduce the financial return that can be generated through the sale.

4.3.7 Strategic purchase and sale of land

4.3.7.1 Overview

Table 34: Overview of strategic purchase and sale of land

Description	Purchasing land along the delivery corridor prior to the intervention (i.e. at the pre-implementation price) and capturing the land value uplift from the ALR project through land ownership.		
	Compulsorily acquiring land through the UDA and/or PWA may require 'offer back' provisions. These may not be an issue where land is acquired commercially.		
Relevant legislation	Land owners within station catchments, benefiting from land value uplift.		
Beneficiaries	Developers, benefiting from the improved infrastructure/accessibility.		
Application to ALR	Pre-delivery x	Delivery phase (i.e. capital) ✓	Operational phase ✓
Process for implementation	Land acquisition could be undertaken commercially or potentially compulsory land acquisition under the UDA and/or public works.		
	Value would be realised on disposal or via development partnering as noted above.		

4.3.7.2 Trade-offs and considerations

- **The value realised could be material.** However, it would require the public sector to take **additional risk** and **invest upfront capital** (i.e. to accommodate the land purchase) which is not required with rate / levy type tools.
- **Potential risks to implementation**, given it requires the acquisition of land (commercially or compulsorily) as well as a subsequent transaction to realise the value.
- Additional land ownership may enable the public sector to have **greater control over the delivery of urban outcomes**.
- Opportunity to consolidate land ownership to **create larger and more comprehensive development opportunities**.

Refer [Table 59: Detailed evaluation – Strategic purchase and sale of land](#) in the Appendix for further detail.

4.3.7.3 Precedent

Landcorp (Western Australia) – Landcorp is a government organisation that actively purchases ‘greenfield’ land surrounding major infrastructure projects to generate revenues and support the delivery of urban outcomes.

Hong Kong Mass Transit Railway (MTR) – Mass Transit Railway Corp (MTRC) captures value by buying property rights from the Government at a greenfield price and selling rights to developers at an after rail price, capturing the profit to fund the transport infrastructure.

4.3.7.4 Conclusion

- Strategic land acquisition may enable the public sector to capture more land value uplift than through other mechanisms (i.e. levy/rates). However, it is likely to require upfront investment and taking additional risk.
- The potential funding generated is likely to be the difference between the land value uplift and any conditions attached to the future transaction (i.e. delivery of urban realm, non-freehold land tenure, non-highest and best use requirements, etc.).
- Along with potential financial benefits, strategic land acquisition may enable the public sector to have greater control over urban development. At lower node value locations, this may be important to catalyse the market and to deliver density.
- Consolidating land ownership can be beneficial to facilitate masterplanned, comprehensive development, and to improve market attractiveness.

4.4 Other sources

4.4.1 Retail / commercial leasing opportunities

4.4.1.1 Overview

Table 35: Overview of retail/commercial leasing opportunities

Description	Short/medium term leasing of space within stations for commercial businesses (e.g. coffee shops, newspaper stands, supermarkets and potentially other retail depending on size). The expectation is that these opportunities will be considered as part of the decision making around urban form, to ensure integration and alignment.		
Relevant legislation	N/a – commercial negotiation, which does not require legislation.		
Beneficiaries	Business owners leasing the space, benefiting from the additional foot traffic at stations.		
Application to ALR	Pre-delivery x	Delivery phase (i.e. capital) x	Operational phase ✓
Structure	Short to medium term lease arrangements with businesses interested in operating at stations.		
Collection mechanism	Received as project revenues.		
Process for implementation	Commercial negotiations with potential interested parties. Typically, an EOI process would be followed, with the public sector retaining final reviews over the detailed design propositions.		

4.4.1.2 Quantification of funding tool

The potential quantum of funding depends on the particular leasing opportunity (i.e. location, floor space available, estimated patronage/foot traffic, etc.).

Once these are better understood, and the desired urban form has been selected, these sources will be further quantified. However, the expectation is that these sources will generate a relatively immaterial revenue (i.e. between ~\$1 million and ~\$2 million per annum).

4.4.1.3 Trade-offs and considerations

- Likely to be a **relatively immaterial** source of funding.
- The **leasing opportunities should enhance (i.e. rather than detract) from the customer experience and general aesthetic** at stops/ stations. This is typically managed through retaining ultimate approval over use and fit-out design.

Refer [Table 60: Detailed evaluation – Retail/commercial leasing opportunities](#) in the Appendix for further detail.

4.4.1.4 Impact on other workstreams

Technical solution – The technical solution may drive the available rental/leasing opportunities, and value generated through these options. Given the relatively immaterial quantum of funding, and importance of the customer experience and urban outcomes, revenue generation through leasing opportunities should not drive decision making on the technical solution.

4.4.1.5 Precedent

Auckland Transport – Core part of Auckland Transport’s BAU revenue model. AT offers retail spaces at bus stations, train stations, and ferry terminals.

Britomart Station – Auckland Transport has leased space within the station to Starbuck, Mojo, Britomart Florist, OM Goodness, and Localito.

Wellington Central Station – New World Metro holds a long term lease within the station.

4.4.1.6 Conclusion

- Opportunities to generate revenue through rentals and leasing at stations/stops should form part of the overall funding mix. However, the quantum of the revenue is unlikely to be material.
- The opportunities should be specifically aligned to the desired urban form for each stop/station/precinct.

4.4.2 Advertising opportunities

4.4.2.1 Overview

Table 36: Overview of advertising fees

Description	Project revenue streams generated from advertising, sponsorship, and commercialisation of ALR infrastructure (stations, stops and rollingstock).		
Relevant legislation	N/a – commercial negotiation, which does not require legislation.		
Beneficiaries	Companies advertising at stations/stops and on/within the rollingstock, benefiting from attractive advertising opportunities.		
Application to ALR	Pre-delivery x	Delivery phase (i.e. capital) x	Operational phase ✓
Structure	Key opportunities to consider include: <ul style="list-style-type: none"> • External wraps on rollingstock. • Internal advertisements inside the rollingstock. • Digital and static advertising opportunities at stations/stops. 		
Collection mechanism	Received as project revenues.		

Process for implementation

We have assumed a media partner will be engaged to support the negotiation and implementation of these opportunities. May leverage existing AT advertising partnerships.

4.4.2.2 Quantification of funding tool

Benchmarking from domestic and Australian precedent indicates advertising could generate the following indicative annual revenue:

- Smaller stops/stations – cumulatively up to ~\$1 million
- Major, high traffic stations - ~\$1 million to ~\$2 million
- Advertising on the rollingstock (i.e. wraps) - ~\$1 million to ~\$2 million.

This revenue would not be available until operations had commenced. Cash flows would be expected to be relatively regular.

4.4.2.3 Trade-offs and considerations

- Likely to be a **relatively immaterial** funding tool.
- Potential to leverage existing Auckland Transport media advertising partners to **streamline implementation**.
- Direct **alignment to beneficiary pays**.
- The advertising opportunities should not unduly interfere or **detract from the customer experience**.

Refer [Table 61: Detailed evaluation – Advertising opportunities](#) in the Appendix for further detail.

4.4.2.4 Impact on other workstreams

Technical solution – The technical solution may drive the available advertising opportunities.

4.4.2.5 Precedent

Auckland Transport – Core part of BAU Auckland Transport funding, which is delivered through partnerships with Media Works, Ooh Media, Nu-Lite and Network Visuals. Specific opportunities include digital and static advertising and bus stops (Adshel/Ooh Media), advertising on bus exteriors (Media Works), and major rail stations (e.g. Britomart).

Transport for New South Wales – Advertising on rollingstock and at stations offered by TfNSW.

4.4.2.6 Conclusion

- Core revenue opportunity during the operational phase, which should form part of the funding model.
- Leveraging existing Auckland Transport advertising partnerships is likely to streamline implementation and support a consistent look at feel across the whole public transport network.

4.5 Fares

4.5.1 Farebox

4.5.1.1 Overview

Table 37: Overview of the approach to farebox

Description	Fares charged to users of ALR.		
Relevant legislation	The Land Transport Management Act (LTMA) empowers regional councils (and Auckland Transport) to set policies for public transport fares in a Regional Public Transport Plan (RPTP).		
Beneficiaries	Direct users of ALR.		
Application to ALR	Pre-delivery x	Delivery phase (i.e. capital) x	Operational phase ✓
Structure	Farebox has been assessed at a network level, through comparing the network fare change between the 'do minimum' and each of the technical options.		
Collection mechanism	Assumed to leverage the existing Auckland Transport payment systems.		
Process for implementation	ALR would be included within the RPTP and subject to the policy and payment methods outlined in the RPTP.		

4.5.1.2 Quantification of funding tool

The figure below provides an overview of the estimated network fare change as a result of the ALR project, which would generate operational funding (assuming the existing network fare approach is preferred).

While the funding generated through the farebox is likely to be material, an operating funding gap is likely and will need to be funded through other sources. A farebox recovery ratio for comparable services of between 30% and 40% is common internationally (excluding Hong Kong, Singapore, Taipei, and the London Underground).⁹

⁹ *Innovative Funding Models for Public Transport in Australia: Rail, Tram and Bus Union Australia (2015).*

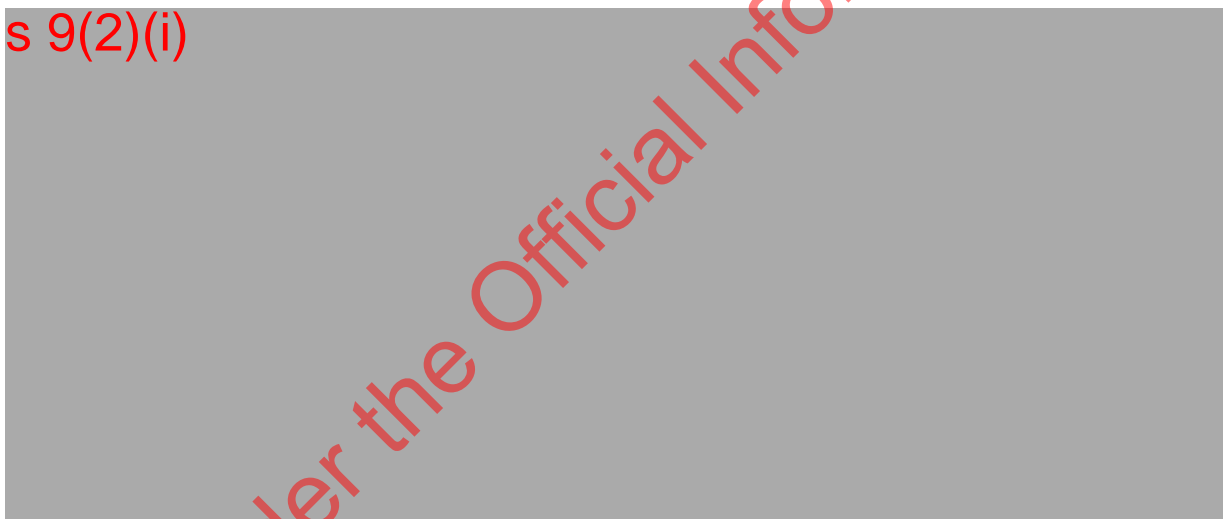
Figure 17: Estimated change in network fares (Option 1B)

s 9(2)(i)



Figure 18: Estimated change in network fares (Option 2A)

s 9(2)(i)



s 9(2)(i)



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Table 38: Estimated increase in network fares

s 9(2)(i)

4.5.1.3 Trade-offs and considerations

A summary of the key trade-offs and considerations for development partnering are outlined below. The detailed assessment is provided in the Appendix in [Table 62: Detailed evaluation – Farebox](#).

- Leveraging the existing Public Transport Operating Model approach is likely to be **relatively straightforward compared to other approaches** (e.g. hypothecating ALR revenues, which are likely to require significant institutional and legislative change).
- Higher fares imposed through a more commercial fare strategy may have an **adverse impact on mode-shift** and result in **inequitable access** to the ALR services (i.e. unaffordable for some users).
- An **integrated fare system** is likely to be preferred to achieve a seamless, integrated public transport network.
- The impact on the operating funding burden across the **rest of the public transport** needs to be considered where hypothecation of the ALR farebox is preferred.

4.5.1.4 Impact on other workstreams

- **Governance & Delivery Entity** – Governance, Delivery Entity and partner roles will all impact upon the roles and responsibilities in relation to fare strategy, payment systems, etc.
- **Procurement** – Fare strategy, integrated payment systems may affect the procurement model and commercial solution

4.5.1.5 Conclusion

- Farebox is likely to form an important part of the operational funding strategy.
- Decision making in relation to governance, Delivery Entity and partner roles will all affect how fare strategy, payments systems, share of farebox revenue, etc. will be determined.
- Delivering an integrated fare system should be a key driver of decision making in relation to farebox, to ensure network integration can be achieved.
- A less commercial fare strategy (i.e. lower farebox recovery target) may drive better environmental outcomes, through incentivising mode-shift, and ensure equitable access along the alignment.

4.5.2 Premium farebox

4.5.2.1 Overview

Table 39: Overview of a premium farebox

Description	'Premium' fare (over and above the standard fare), charged to users boarding and alighting at the Airport stop. The charge is assumed to only apply to users travelling to and from the airport for travel (i.e. workers at AIAL would not be charged).		
Relevant legislation	The Land Transport Management Act (LTMA) empowers regional councils (and Auckland Transport) to set policies for public transport fares in a Regional Public Transport Plan (RPTP).		
Beneficiaries	Direct users of ALR (specifically those using ALR for travel to/from the airport).		
Application to ALR	Pre-delivery x	Delivery phase (i.e. capital) x	Operational phase ✓
Structure	\$12 additional charge applied to users boarding/alighting at the airport stop, for the purposes of travel (i.e. airport workers would be exempt).		
Collection mechanism	Assumed that the existing Auckland Transport fare system would be leveraged.		
Process for implementation	Auckland Transport Fare Strategy updated to reflect the addition of the premium fare.		

4.5.2.2 Quantification of funding tool

s 9(2)(i)

Figure 18: Estimated funding generated through a premium levy

s 9(2)(i)

Figure 19: Estimated cash flows associated with a premium fare applied (Option 1B and Option 2A)

s 9(2)(i)



4.5.2.3 Trade-offs and considerations

A summary of the key trade-offs and considerations for development partnering are outlined below. The detailed assessment is provided in the Appendix in [Table 63: Detailed evaluation – Premium farebox](#).

- Expected to generate significantly more revenue than the ordinary farebox.
- Risk that a premium fare disproportionately affects potential lower socio-economic users of the service, reducing equitability.
- Risk that imposing a premium fare may adversely affect mode-shift/patronage for ALR. However, the elasticity analysis indicates that higher prices are unlikely to have a material adverse impact on demand.

4.5.2.4 Impact on other workstreams

- Governance & Delivery Entity – Governance, Delivery Entity and partner roles will all impact upon the roles and responsibilities in relation to fare strategy, payment systems, etc.
- Procurement – Fare strategy, integrated payment systems may affect the procurement model and commercial solution

4.5.2.5 Precedent

- Sydney Airport Link – \$14.90 (adult) additional charge imposed to users boarding or alighting at the airport stops.

4.5.2.6 Conclusion

- A premium fare would generate significant operating revenue for ALR. However, there is a risk that it adversely affects lower socio-economic users of the service, reducing equitability. Further, there is a risk that a premium has an adverse impact on mode-shift/patronage.