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## **Report 01.208**

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Report to the Regional Land Transport Committee  
By Councillor Terry McDavitt, Chairperson

## **Western Corridor Implementation Plan : Funding of Transmission Gully Project**

### **1. Purpose**

This report was circulated as a draft well prior to this Regional Land Transport Committee meeting to enable representatives to discuss it and formulate a response to bring to the meeting.

In this version some amendments have been made to incorporate some feedback and provide further clarification.

### **2. Background**

The last RLTC meeting received a report reviewing funding options for the Transmission Gully project from consultants PricewaterhouseCoopers and Sinclair Knight Merz. The report confirmed that:

- The Transmission Gully project is unaffordable in the short-term by current means available to Transfund
- DBFO or BOOT (use of private sector capital; repaid from toll revenue; often with private operator responsible for an initial period) were internationally-proven methods of financing roading projects
- Transmission Gully is the type of project that would attract DBFO/BOOT interest
- The sustainable levels of tolls required to fund the DBFO/BOOT financing component were within the range tested in the Willingness to Pay surveys but may require adjustment from the advertised \$1/\$2

- There are several uncertainties that needed to be resolved before calling for such interest; notably Transfund participation, future toll revenue, resource consent, land acquisition and engineering (geotechnical) risks to cost-estimates
- There is a possible “funding gap” beyond assumed Transfund plus estimated DBFO/BOOT input, based on “RLTS model” traffic volume projections.

This estimated funding gap disappeared if “historical model” traffic volume projections were applied. If the funding gap were to be confirmed (either in adopted traffic number-estimates or in cost-escalations), then any specific funding proposal would need to be explicit about means of bridging it. The consultants were asked only to report this issue.

The RLTC resolved to circulate the report and consider its implications at this meeting. In the RLTC discussion, particular issues to consider are:

- some initial feedback on DBFO vs BOOT (private sector funding only versus private sector funding and operation)
- traffic volume projection assumptions “RLTS model” vs “historical”; the former is conservative and generates a funding gap, the latter optimistic and removes the funding gap); hence whether there is a need to further consider the bridging of a potential funding gap
- clarify responsibilities for the process from here

The RLTC also resolved to pass on the consultant's report to Ministry and Cabinet. This has been done.

### 3. **Comment**

#### 3.1 **Clarifying Responsibilities for Transmission Gully**

As a State Highway project the lead agency is Transit New Zealand. Thus land acquisition, resource consent procedures and technical preparations for procurement are all properly Transit New Zealand's responsibility. Funding support for these activities is duly processed through Transfund, and normal practice includes agency reports to this Committee to enable monitoring of Regional Land Transport Strategy implementation.

As several TLA's have insisted throughout, the significance of the Transmission Gully project is such that downstream effects on both arterial and local roading networks needs to be anticipated during this development. Thus there needs to be a mechanism for continuing liaison involving TLA's. This work is principally technical and the mechanisms already exist.

The Transmission Gully project itself is unusual (and high profile) in that early construction also raises a set of funding gap issues that fall outside the normal domains of Transit New Zealand and Transfund. Assessment and advocacy activities around these have been undertaken to date through the Regional Land Transport

Committee. Continuance of such activity requires the continuing support of the Regional Land Transport Committee. It needs to be made clear for the removal of any doubt that neither the Regional Land Transport Committee (nor the Regional Council) is a "roading agency" the active role is limited to assessment and advocacy around funding gap issues specific to Transmission Gully's early construction.

The following table summarises:

<b>Responsibility</b>	<b>Agency</b>
Project development (land, design, consent, procurement)	Transit New Zealand
Funding allocation	Transfund
Local and downstream effects (traffic, other)	TLA's
Advocacy and monitoring of Regional Land Transport Strategy (RLTS model issues, special legislative/funding requirements)	Regional Council on advice of Regional Land Transport Committee

### 3.2 **Letter of Agreement : Transit New Zealand to Wellington Regional Council**

... **Attached** as Appendix 1 is a copy of a letter from Transit New Zealand of 6 March 2001 setting out general guidelines for the co-operation of the parties. The letter amplifies the considerations in the table above with specific reference to the Transmission Gully project, and further proposes a "Project Steering Group" (PSG) to enable liaison. The PSG would be a technical level working group including TLA's serviced by Transit New Zealand, with "nominated officers being responsible for disseminating reports within their respective organisations. As Transit New Zealand's letter forms a valuable reference for these matters it is recommended that it be formally received.

### 3.3 **Resource Consent/Geotechnical Issues – Clarifying the Costs**

At the time of adopting the Western Corridor Implementation Plan, the RLTC requested Transit to expedite the resource designation and consent issues surrounding Transmission Gully.

It needs to be noted that uncertainties surrounding costs (and therefore BCR) cannot be resolved until resource consent is in place, with specific, quantifiable conditions. Any cost calculations outside of known resource consent can only be estimates. The work required to lodge and process resource consent will address some of the uncertainties surrounding geotechnical risks.

Transit have acted on the RLTC request and are progressing RMA issues. The Transit representative on RLTC can update the Committee on this progress.

In the preparation of this report I have assumed a Transit progress report will address many of the cost-uncertainty issues identified in the consultants report, by clarifying what is happening about them now and what the process is from here. It will not answer them finally, because only a resource consent can do that.

### 3.4 **Financing vs Funding**

A distinction needs to be drawn between “financing” - raising sufficient capital to construct the road – and “funding” – the means of paying for that capital. Normally this distinction does not arise because “financing = funding = Transfund contribution from past road user monies ”. But in the Transmission Gully case it is clear that past road-user monies cannot be sufficient to bridge the equation.

“Tolling” is funding rather than financing. When the RLTC adopted the Western Corridor Plan it explicitly recognised that tolling would be required, but was silent on whether the funding source being paid was private or public. Tolling is an inevitable consequence of private sector financing whether by DBFO or BOOT, but could also be a consequence of public sector loan financing.

While the RLTC position on the principle of tolling is clear, it has no position on the private or public nature of the source of capital behind the tolling mechanism. Feedback on this aspect is sought.

### 3.5 **Traffic Assumptions/ Existence of Funding Gap**

Every “answer” about estimated traffic volumes 5 or more years away is an extrapolation based on certain assumptions. The consultant’s report is correct in describing the RLTS modelling assumptions as conservative compared to other models that are available. The RLTS model takes account of real demographic/economic trends and distributes trips across both road and rail modes in accordance to the whole RLTS reflecting the public transport and demand management policies in the strategy. There are numerous assumptions in this. Historical trends extrapolate from observed counts and assume that present conditions will persist over a decade into the future. There are also numerous assumptions in this, in particular "historical trends" cannot take account of future trend deviations such as the impact of other policies and projects, the particular impact of pricing (tolling is a form of pricing), demand trends being affected by demographic or technological changes.

In recommending sticking with the Regional Land Transport Strategy model for baseline assumptions the following factors are taken into account:

- There seem to be good reasons for sticking with the RLTS model traffic volumes:
- It is the most robust model we have and has been peer-reviewed for its effectiveness: the alternatives have not
- Maintaining the integrity of the RLTS
- It is more prudent to be conservative: the risk involved in adopting an optimistic scenario is that if it proves wrong for some external reason (such as fuel price changes over 10 years) there will be no contingency plan in place to meet any funding gap.

- The Regional Land Transport Strategy model traffic volume forecasts will change as a result of 2001 census figures updating the baseline data.

At the same time other key economic and traffic flow data will be updated. This updating will change the forecast toll revenues and the forecast benefit cost ratio of the project. The latter determines the likely level of the Transfund New Zealand contribution to the project. Thus it is quite possible that the size of the funding gap could change significantly as a result of the updating of the model.

However, it must be understood that sticking with the RLTS modelled traffic volumes at this stage may require the Committee to consider the question of how to address the resulting funding gap.

Only after the funding gap has been addressed can there be a complete funding proposal for the Transmission Gully project.

### 3.6 **Preparing a Specific Proposal – Tolling/Legislation**

The Government's attitude to enabling a tolling mechanism is unknown at the time of writing this report. There is therefore little more that can be done at RLTC level on the Transmission Gully project at this stage in progressing a specific funding proposal.

It is acknowledged that TLA's and the Regional Land Transport Committee will need to consider a specific funding proposal at some stage. The related work described in this paper such as that of the PSG, the Regional Land Transport Strategy recalibration and progressing tolling legislation, are all necessary preparation to that particular task. This issue is unlikely to reach the stage of requiring formal Regional Land Transport Committee consideration until next triennium. TLA's and other stakeholders are advised to bear this in mind when deciding appointees to the next Regional Land Transport Committee.

## 4. **Conclusion**

This report canvasses only those Western Corridor issues emerging from the consultant's report relevant to the RLTC at this stage. The following recommendations will guide discussion:

## 5. **Recommendations**

- (1) *That the report be received.*
- (2) *That the Committee note and endorse the letter of Transit New Zealand of 6 March 2001, "Allocation of Responsibilities : Transmission Gully Motorway".*
- (3) *That the Committee receive regular progress reports on Transmission Gully issues.*

- (4) *That the Committee notes and endorses Transit New Zealand's progress on design and consent issues surrounding the Transmission Gully project.*
- (5) *That the Committee supports in principle the concept of private or public sector capital contributing financing to the Transmission Gully project*
- (6) *That the Committee notes that recalibration of the Regional Land Transport Strategy model of traffic volume calculations is to be undertaken and that the results may confirm a need for the Committee to further consider means of bridging a remaining gap in financing the Transmission Gully project.*

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**Appendix 1 : Letter from Transit New Zealand**