24 November 2016

Stewart Burns
Queenstown Lakes District Council
Private Bag 50072
Queenstown 9348

Dear Stewart,

Re: Response to submissions on the proposed amendments to the policy on development contributions

[1] This letter is in response to the submissions received on the publicly notified revised policy on development contributions, dated October 2016. The purpose of the revised policy is to establish the framework to fund the growth costs associated with the Eastern Access Road (EAR).

[2] Submissions were received from Queenstown Airport Corporation (QAC); Queenstown Central Limited (QCL) and Queenstown Central E2 Limited (QCL E2); Remarkable Park Limited (RPL); and Pexton Holdings Ltd. Each submission will be addressed in turn below.

Queenstown Airport Corporation

[3] In response to 2. (g). It does seem appropriate to allow Queenstown Lakes District Council (QLDC) to accept an advanced lump sum payment of development contributions, when volunteered by the developer. It is therefore recommended that a section is included in the policy to clearly express when and under what circumstances advanced lump sum payments may be accepted by Council.

[4] In response to 2. (h). It is accepted that the area of land (located to the south east of the cross-wind runway) is not publicly accessible and is within the airside security fencing at Queenstown Airport. It is therefore recommended that this area of land, approximately 2 ha, should be removed from the targeted area. The impact of this change is an increase in the standard contribution per dwelling equivalent (DE) from $613 per DE to $616 per DE. This results from the same costs being apportioned across fewer dwelling equivalents.

Queenstown Central Limited and Queenstown Central E2 Limited

[5] In response to 3. a. QCL considers that a greater proportion of the works should be funded by contributions sourced from outside of the contributing area. They do not offer any reasoning or justification for this statement. It is considered that the NZTA subsidy and the “through” trips effectively capture the benefit to

the wider road users. This leaves the “to/from” trips to represent the direct benefit to local land owners from improved access to their land. Therefore, the current funding proposal is still considered to be a fair, equitable and proportionate portion of the total costs.

[6] In response to 3. b. The policy does recognise the existing developments such as Mitre 10 and Pak ‘n Save. The financial modelling includes these developments in the total dwelling equivalents but assumes that they will essentially be lost development contributions revenue that will need to funded via other sources, e.g. rates. Therefore, the owners of undeveloped land will not be required to fund a disproportionate share of the costs of the EAR.

[7] In response to 3. c. The contributing area has been carefully selected based on those that have frontage to the EAR, require it for access to their land and will ultimately benefit from the improved traffic flows in the area once the EAR is operational. The degree to which different land owners within the contributing area will or will not benefit from the EAR is difficult to determine without detailed traffic modelling and a vast array of assumptions. It is therefore considered more appropriate to apportion the costs evenly across the contributing area on a development potential basis (i.e. how many dwelling equivalents are likely to be developed).

[8] In response to 4. QCL has requested that the proposed amendment to the policy is put on hold to allow more time for discussions on a private developer agreement (or similar method) to be concluded. It is considered appropriate that the proposed amendments are continued as this does not precluded QCL from continuing the discussions around a private developer agreement, but does ensure that QLDC has a policy in place to reduce the “lost revenue” from development undertaken in the interim.

[9] In response to 5. QLDC are best placed to respond to this request for more time to prepare for a hearing.

Remarkables Park Limited

[10] In response to 5., 6. 7. and 8. Contractual Agreements with RPL. QLDC are best placed to respond to these sections.

[11] In response to 9. RPL claim that Council has failed to meet the requirements of section 101(3) of the LGA’02. It was through consideration of section 101(3) that a new contributing area was proposed and traffic modelling has been used to assess the distribution of benefits. This approach considered the outcomes being sought, the distribution of benefits between those within and outside of the contributing area and the benefits between existing and future development, plus the extent to which actions or inaction of groups contribute to the need to undertake the activity. Hence it is our opinion that Council has met the requirements of section 101(3).

[12] In response to 11. (a). Targeted (or layered) transportation development contribution levies are common practice and are in place in Dunedin for Mosgiel East and Mosgiel West. Auckland Council also use an Auckland wide charge for major transport programmes which benefit the entire region and a sub-regional charge for networks that benefit a smaller area. They are also used by several other territorial authorities including Waimakariri District Council, Waikato District Council, Thames-Coromandel District Council, Waipa District Council and Selwyn District Council.

[13] In response to 11. (b). The problem with applying the existing transportation development contribution is that it does not include the Eastern Access Road and therefore revenue collected through this method will be insufficient, pushing more of the growth costs onto other recovery mechanisms, such as rates. By assuming 100% third party funding for this project in its Long-Term Plan (LTP) Council has indicated that it will be funded via New Zealand Transport Agency (NZTA) subsidy and from local developers. There should not be any surprises to the local developers in this approach.

[14] In response to 12. RPL claim that double dipping arises as they have paid contributions for previous development that must have been levied (at least in part) to address growth on the Frankton Flats. It is correct that the EAR was included in the development contribution policies between 2009 and 2011. However, since the 2012 policy, to present, the EAR has been assumed to be funded 100% from third parties. Prior to that (2009, 2010 and 2011) it was assumed around 71% would be funded via developers. The remaining 29% was then assumed to be subsidised by the NZTA at 53% leaving less than 14% to be funded via development contributions. This was then assumed to be recovered over the design life of the project (20 years). It is important to note that the development contributions model is an “average cost of growth” model and not a pure “cost recovery” model. That is, it uses the best available information to assess a fair and reasonable contribution for developers to contribute to the overall costs of growth rather than trying to fund specific projects. It is therefore considered that developments prior to 2012 paid an appropriate contribution towards the EAR and those since 2012 have not contributed towards the EAR and hence no double dipping has occurred.

[15] In response to 15. RPL state that the 8.2% of trips that are claimed to “reflect wider benefit” are trips from “existing development to existing development”. This is not entirely correct; these trips are simply trips using the EAR to pass through the contributing area. These trips since they are based on the future year of 2045 will be made up of trips to and from existing development areas (developed in 2016) and future development areas (developed after 2016). Hence the cost apportionment for this portion of the project has been split 80% to growth and 20% to level of service (LoS).

[16] In response to 16. RPL claim that trips with one end outside the contributing area have been inappropriately allocated to the contributing area only. There are three key reasons that this approach has been proposed:

1. The EAR is primarily about providing access to development on Frankton Flats. Trips that originate from the contributing area have created the demand and directly benefit from the

access provided therefore, it is considered appropriate that they contribute to costs. Similarly, trips that are destined to the contributing area are in effect created by the development within the contributing area as otherwise the trip would be made to another destination. i.e. the only benefit to the person making the trip from outside the development is that it provides them with choice. Hence developments in the contributing area are creating the demand on the EAR and are the primary beneficiaries of these trips, other than those trips that simply pass through.

2. It is true that developments and road users outside of the contributing area do benefit from the trips made on the EAR but it is considered that this benefit is effectively covered by the NZTA subsidy and the 8.2% of "through" trips which can be viewed as providing for the wider public good element of the EAR. This is supported by the EAR Detailed Business Case prepared to secure the NZTA subsidy. It is also important to note that under our previous assumptions (2009 to 2011) the NZTA subsidy was only applied to the QLDC portion. This time around QLDC has secured the NZTA subsidy against the entire project cost which is of significant benefit to all.
3. From a fairness and equity basis it is considered appropriate to consider how the funding of this project compares to other major developments in the district. If we start with Shotover Country where all internal roads are provided for by the developer, then the only differences in the EAR situation is that multiple landowners are involved and that the EAR enables "through" trips. The multiple land ownership issue is a key reason that council has been involved in the delivery of the EAR and the "through" trips have been considered in the funding apportionment, other than that it would seem fair and reasonable that the remaining costs sit with the developer/s, as has been the case with Shotover Country. If we look at 3-Parks, then council is dealing with one developer and a road that may enable some "through" trips. It is envisaged that council will not be involved in the funding of this road unless the developer can prove that there will be trips on the road that don't visit the development and it is therefore providing a wider benefit to the community.

[17] In response to 17. RPL claim that no targeted contribution is levied against those travellers or the commercial centre to which they travel when it is outside the contributing area. It has in fact been assumed that "through" trips (8.2%) will grow over time and the growth portion (80%) has been proposed to be included in the Wakatipu ward transportation development contribution. As these could originate or be destined to anywhere in the district it is not considered appropriate to target these any further than at the ward level.

[18] In response to 18. It is accepted that the EAR will produce wider benefits and hence it is our view that this is effectively covered by the NZTA subsidy that has been secured for the entire project not just the QLDC portion of the costs. The 'through" trips of 8.2% also represents some of the wider benefits provided by the EAR.

[19] In response to 20. As already discussed in [16] it is considered that development within the contributing area is the primary generator of demand on the EAR and the primary benefactor from its

completion. The wider benefits are appropriately covered by the NZTA subsidy that has been secured for the entire project and the 8.2% of "through' trips.

[20] In response to 21. RPL suggests that the proportion targeted to the contributing area is 53.2% not 91.8% as proposed. If council was to accept the methodology proposed by RPL reflected a more fair, equitable and proportionate portion of the costs then we calculate that the correct percentage is 54.6% not 53.2%.

[21] In response to 28. RPL suggest that due to the increase in traffic volumes over time those that benefit will increase from zero to 53% in 2045. Considering the transitional benefits over this period is a complex area and one that is not recommend. For efficiency and equity reasons the focus has been on the capacity provided and it has been assumed that those who create the need for that capacity contribute their proportionate portion, ignoring how long they will benefit for. Also, in securing the NZTA subsidy a Benefit Cost Ratio was assessed that showed significant benefits to the network over time. Hence, it is considered appropriate that this subsidy represents the benefits to the road user today and into the future. The direct benefit to local landowners is experienced from day one with improved access to their sites, so it is not considered necessary to consider the transitional benefits around this particular benefit.

[22] In response to 29. The following explanation was received from the traffic modellers (Abley Transportation Consultants) regarding trips to and from the Remarkables Park town centre. *Route choice in the model is driven by the cost of travel which includes the time and distance to travel between any two points in the model. Travel from the existing Remarkables Park Town Centre to the Shotover River Bridge via the EAR is further by 335m and slightly slower in the 2045 interpeak model hence no vehicles in the model utilise the EAR for trips in that direction. In the reverse direction, from the bridge to the Town Centre, the travel time is slightly faster via the EAR and therefore will choose the EAR to access the town centre from the bridge via the EAR*.

[23] In response to 30. RPL suggest that vehicle-kilometres travelled (VKT) is a better basis that the number of trips. The existing transportation development contributions are based on trips and not VKT so it is recommended to stay consistent with this approach. Adding the kilometres travelled element is simply incorporating another assumption into the modelling and may not necessarily give a more fair, equitable and proportionate result.

[24] In response to 34. (a). RPL suggest that ownership and usage cannot necessarily be correlated or implied. This may be true but with the rather blunt funding tools that council has available to it, based around property ownership, it is considered appropriate that the primary beneficiary of a trip on the EAR is the property that it originates from or is destined to. The trip generation rates are based on the best available information and represent typical (average) types of development.

[25] In response to 34. (c). This assessment has considered the other beneficiaries in the locality (current and future) such as schools and the airport. This is done by considering all trips on the EAR in the assessment along with all land that is available for development within the contributing area.

[26] In response to 34. It is correct that some developments will not be required to pay transport contributions under this proposal since the development contribution triggers have probably all passed. i.e. resource consent, building consent or service connection. This "lost" revenue has not been passed onto other developments in the contributing area.

[27] In response to 37. (a). We accept that using a simple linear approach for long term projections could be inaccurate but it is our belief that it is the most appropriate considering the best information available to us. To reduce the level of inaccuracy the model uses historic averages and then works on a 10-year analysis window that should even out the peaks and troughs.

[28] In response to 37. (c). Potential cost over runs will be funded via future development contributions as the policy will be updated annually with the latest available information.

[29] In response to 37. (d) and (e). Development contributions are tied to the development and credits will pass with the property if it changes hand. This means that if the original owner sells the property then they should benefit from a higher sale price if development contributions are paid in full. Hence current and future owners should all benefit from the EAR.

[30] In response to 38. Interest has been calculated as per the standard methodology used in QLDC's Development Contributions Policy and outlined in the Detailed Supporting Document. It is effectively an average debt funding requirement for the activity over the 10-year analysis period, using an interest rate of 6.5%.

[31] In response to 40. QLDC must finance the construction of the EAR today and therefore will incur interest costs until the costs are recovered through development contributions that are collected at the time of development. Hence it is considered appropriate that interest costs are included as part of the growth costs to provide the EAR.

[32] In response to 41. Ownership and benefits derived has previously been addressed in [24].

[33] In response to 42. It is considered that a contribution of $613 per dwelling equivalent is not materially going to affect housing affordability or cause other unintended consequences when you consider that this equates to just 0.06% of the average residential house value for Queenstown Lakes.

[34] In response to 44. RPL suggest using the rating mechanism to repay financing for the EAR on a principal and interest basis. This is an option open to council and if it was considered their preferred way

forward then we would recommend that the proposed contributing area is retained along with the proposed 91.8% targeted towards this area.

Summary

The following table summarises the key funding assumptions that have been made or proposed by different parties.

Funding Assumptions	2009	QLDC Proposal	RPL Proposal
3rd Party	$10.60m	$6.73m	$4.00m
NZTA	$2.26m	$7.62m	$7.62m
QLDC (DC's and rates)	$2.01m	$0.60m	$3.33m
Total Cost	$14.87m	$14.95m	$14.95m

Yours sincerely

Tom Lucas

Director / Infrastructure Advisor
Rationale Limited