



TITLE:

# Auckland Light Rail Proposal



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# 1. Public-Public Investment framework

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# Investment required to fill NZ’s infrastructure gap

The challenge is to connect the supply of, and demand for, long-term capital

**Investors, of all types, need to see:**

- **A clear long-term integrated pipeline** of viable investment opportunities
- A lasting **transparent decision-making framework** for agreeing projects and deciding on partners
- **Realistic “risk-sharing”** arrangements in funding and development of projects
- **Standardised procurement** frameworks and trusted partners to do business with
- **Comprehensive information sharing** and communications strategy

**NZSF is a source of long-term capital, which:**

- Is embedded in the domestic market and has an interest in large-scale credible domestic investment opportunities and supporting NZ’s sustainable economic development
- Understands the New Zealand market and New Zealand’s infrastructure investment needs
- Understands the entities involved, potential models for financing/funding infrastructure projects, and potential risk-sharing arrangements
- Can develop and participate in financing models that alleviate the financing pressures faced by the Crown/Councils and enable direct infrastructure investment by NZSF and partner/s
- Can leverage strategic partnerships with international peers, and other like-minded co-investors, to bring in world-leading infrastructure experience/capabilities and achieve better project outcomes

## **Public-Public Investment (PPI) framework**

**NZSF proposes entering into a PPI Agreement with the Government to assess the viability of NZSF and partner/s delivering an Auckland Light Rail (ALR) project**

- **The PPI framework is a well-developed and proven model used by NZSF's Canadian peers, CDPQ**
- **The PPI Agreement would grant NZSF and partner/s a period of time to exclusively conduct thorough due diligence of the ALR project and present a full project proposal to the Government**
- **The expected size (\$6 billion+) and scope (2 lines, ~40 stations) of the project will attract top international co-investors and capabilities/experience and provide the backbone of Auckland's integrated rapid transit network**
- **The Government would then decide whether to progress with the proposal from NZSF and partner/s**
- **If accepted, NZSF and partner/s would assume control of the project and responsibility for planning, financing, procurement, construction and operating phases – with full Government support**
- **The proposal will be structured to provide commercial returns to NZSF and partner/s (meeting internal hurdle requirements), while limiting the financial impact on the Government's balance sheet**
- **NZSF will draw on international experience and capabilities to provide an innovative, efficient and cost-effective solution, which will save the Government time and money**
- **The PPI Agreement would clearly define the roles and responsibilities of the Government and NZSF and partner/s, and the stages of project development and delivery**



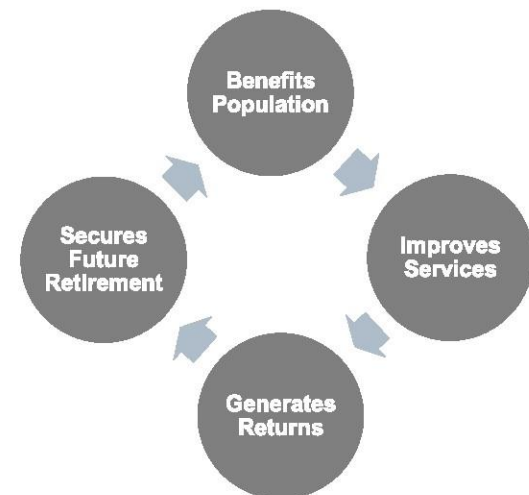
# How does Public-Public Investment work?

PPI invests alternative public funds into significant infrastructure projects to provide efficient, innovative solutions and generate financial returns for New Zealanders



## Benefits for the Government

- ☑ Limited impact on public finances; increased budget space for other projects
- ☑ Commercial, arms-length and transparent process with a known and credible counterparty
- ☑ Infrastructure remains under public-sector control and NZSF's share of profits are retained/recycled
- ☑ Key transformational infrastructure is delivered earlier than it would be otherwise
- ☑ Attracts leading global investors and world-class infrastructure design, build and operate capabilities



# PPI benefits for other key stakeholders

PPI framework benefits a wide range of stakeholders and the compressed delivery time helps minimise disruptions to Auckland’s existing transport network

Stakeholders	Solutions	Concerns
<b>New Zealand Taxpayers</b>	<ul style="list-style-type: none"> <li>Arms length, transparent process with commercial returns</li> <li>Auckland project delivering national returns</li> <li>Framework for future NZ projects</li> <li>Supports NZ’s economy and enhances productivity</li> <li>Funded partly by local/targeted revenue</li> </ul>	<ul style="list-style-type: none"> <li>Value for money</li> <li>Auckland focus, impact for rest of NZ</li> <li>Cost of failure to NZ international reputation</li> </ul>
<b>Auckland Council / Auckland Transport</b>	<ul style="list-style-type: none"> <li>Increases and supports Auckland’s growth</li> <li>Frees up Council balance sheet</li> <li>Reduces traffic congestion</li> <li>Interconnects with existing public transport network</li> <li>Brings world-class infrastructure to Auckland</li> <li>Speed of delivery</li> <li>Framework for future projects</li> </ul>	<ul style="list-style-type: none"> <li>Disruption to ratepayers</li> <li>Control over timing/process</li> <li>Integration with existing networks</li> </ul>
<b>Iwi/Māori</b>	<ul style="list-style-type: none"> <li>Co-investment opportunity</li> <li>Commercial and residential land development opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Ability to influence development as minority shareholder</li> <li>Regulatory/consenting processes</li> </ul>
<b>Corridor / Auckland Residents</b>	<ul style="list-style-type: none"> <li>Property value uplift</li> <li>Significant urban development and housing opportunities</li> <li>Public consultation forums critical</li> </ul>	<ul style="list-style-type: none"> <li>Temporary commuting disruption during construction</li> </ul>
<b>Corridor / Auckland Businesses</b>	<ul style="list-style-type: none"> <li>Significantly enhanced labour mobility</li> <li>Commercial development opportunities</li> <li>Public consultation forums critical</li> </ul>	<ul style="list-style-type: none"> <li>Temporary business disruption during construction</li> </ul>

# NZSF is a trusted long-term investor, committed to NZ


NZSF will work with leading global co-investors with aligned investment principles, long-term capital and demonstrated light rail development experience/capabilities

	Common Attributes	Unique to Partners
<b>Capability</b>	Best practice asset management	World class design, build and operate capability
	Peer / co-investor relationships	Proven project experience (related case studies)
	Operational independence	Commitment to multiple NZ infrastructure investments
	Commercial discipline	Diversity of global experience
	Take design, build, and operate risks	
<b>Capital</b>	Long investment horizon	<b>Unique to NZSF</b>
	Certainty of liquidity	NZ Sovereign status
	Capital / financing	Local market knowledge and relationships
	Scale of equity investment (i.e. less leverage)	<50% ownership of operating companies
	Consistency of financing (multiple projects)	Bilateral collaboration
<b>Conditions</b>	Risk adjusted return	Commitment to NZ direct investing
	Stable, clearly defined cashflows	
	Scale of investment	
	ESG considerations	



# NZSF will bring in leading global infrastructure expertise

NZSF will leverage existing peer relationships and act as a key partner for international and domestic co-investors in NZ

Peer	Fund Type	Location / Size	Relevant Experience	Status
 <b>CDPQ</b> Caisse de dépôt et placement du Québec	Public Fund Manager	Canada/C\$300bn	REM Montreal Light Rail (2018)	Development Partner Confirmed interest
	Sovereign Wealth Fund	Withheld under 9(2)(b)(ii) and 9(2)(i)		
	Sovereign Wealth Fund			
	Public Fund			
	Public Pension Fund			
	Public Pension Fund			
	Public Pension Fund			
	Public Fund Manager			
	Public Fund Manager			

# CDPQ: Caisse de dépôt et placement du Québec

CDPQ has aligned investment principles & deep global infrastructure capabilities, both in direct investment generally and Light Rail development specifically

- Founded in 1965, CDPQ is a institutional public funds manager with net assets under management of CAD\$300 billion
- CDPQ's annualised weighted average return is 10.2% over five years and 9.3% in 2017
- CDPQ has extensive expertise in passenger transport, including **delivering Montreal's new light rail project (REM)**, a 30% stake in the Eurostar, a 33.3% stake in InTransit BC and a 12.6% stake in Heathrow Airport Holdings

## Infrastructure investment principles:

- ☑ Invest in promising assets and markets in a prudent and rigorous manner
- ☑ Focus on assets for which we fully understand the value and risks across the long-term horizon
- ☑ Use investment platforms to establish strategic partnerships to undertake transactions
- ☑ Add value to our investment by working with partners and management teams to identify and implement performance-enhancing initiatives

## Infrastructure investment capabilities:

Direct active global investor since **1999**

**\$16.2 B** net assets under management

Invested in **10** countries

**80+** infrastructure professionals



- Subsidiary dedicated to the development and management of infrastructure projects
- **Developing the Réseau électrique métropolitain (REM) Light Rail project providing integrated management of the planning, financing, construction and operating phases**
- REM is a new integrated, electric and fully automated light rail transit network – 67km of double tracks with 26 stations and 4 branches – connecting to downtown Montreal, construction started this month<sup>(1)</sup>

(1) See slide 11 - "Case Study: Réseau électrique métropolitain (REM)"

# Case Study: Réseau électrique métropolitain (REM)

CDPQ Infra is developing the REM Light Rail project; providing integrated management of the planning, financing, construction and operating phases

- CDPQ's management of the project greatly reduced the expected cost and timing
- Fully automated, Light Rail Transit system – 67 km of dedicated rail lines makes REM one of the largest automated transit networks in the world (26 stations)
- Four branches connected to Downtown Montreal; South Shore, Deux-Montagnes, Sainte-Anne-de-Bellevue and Aéroport Pierre-Elliott-Trudeau
- Frequent service running 20 hours a day and 7 days a week
- Reliable and punctual service via entirely dedicated tracks
- Reduced travel time through high carrying capacity and rapid service
- Highly accessible stations (by foot, bike, public transit or car)
- Flexibility to respond to increases in ridership



	Description
<b>Chosen Technology</b>	<ul style="list-style-type: none"> <li>▪ Electric light rail type of car</li> <li>▪ Automated system with no conductors</li> <li>▪ Platforms approximately 80 meters long</li> <li>▪ Platform screen doors</li> <li>▪ Power supplied through catenary: 1,500 V</li> <li>▪ Elevators and escalators in stations</li> <li>▪ Wi-Fi throughout the network</li> </ul>
<b>Rolling Stock</b>	<ul style="list-style-type: none"> <li>▪ Fleet of approximately 200 cars upon commissioning</li> <li>▪ 150-passenger capacity per car; maximum speed of 100 km/h</li> <li>▪ Four-car trains at rush hour; two-car trains at off-peak times</li> </ul>
<b>Operation as well as Regular and Long-term Maintenance</b>	<ul style="list-style-type: none"> <li>▪ Automated train operation</li> <li>▪ Attendants circulating in the trains and stations for information and inspection purposes</li> <li>▪ Integration of networks and feeder bus service provided by other operators in integrated bus terminals at the stations</li> <li>▪ REM will be fully integrated into Greater Montréal's transit fare structure and payment system infrastructure</li> <li>▪ Daily inspection, regular and long-term maintenance of rail infrastructure, civil engineering structures and buildings (e.g., rail line and right-of-way foundations, stations, maintenance facilities, storage centers, sub-stations and power cables, park-and-ride facilities, bridges and tunnels)</li> <li>▪ Regular and long-term maintenance of rolling stock, automated train control system, control center, platform screen doors and all of the low current and high current systems</li> </ul>

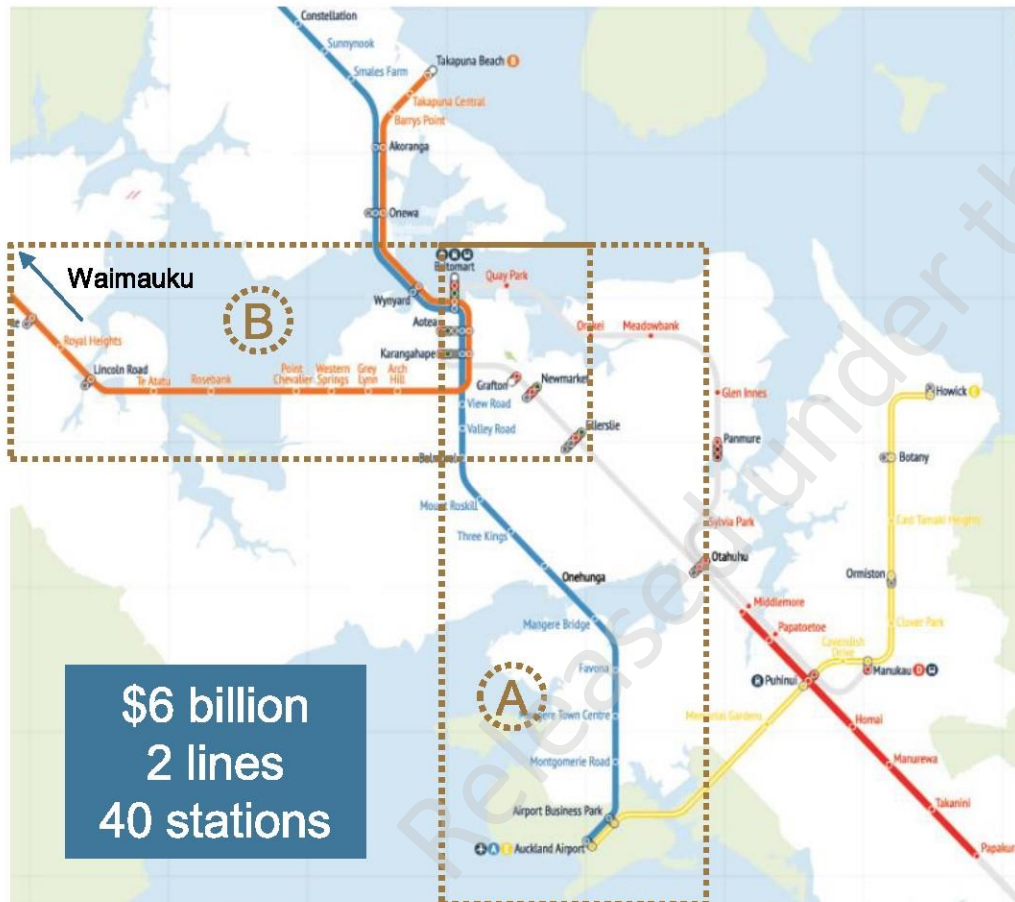
## 2. Project overview

Released under the OIA



# Indicative scope and route/s of the ALR project<sup>(1)</sup>

The large size/scope of ALR project will attract top international co-investors and expertise and provide the backbone of Auckland's integrated rapid transit network



## **A** Central Line: City to Airport via Isthmus

- Current cost estimate = \$3 Billion
- Up to 22 stations
- Route through urban area, mixed residential/commercial, and along existing motorway
- Potential future North Shore extension

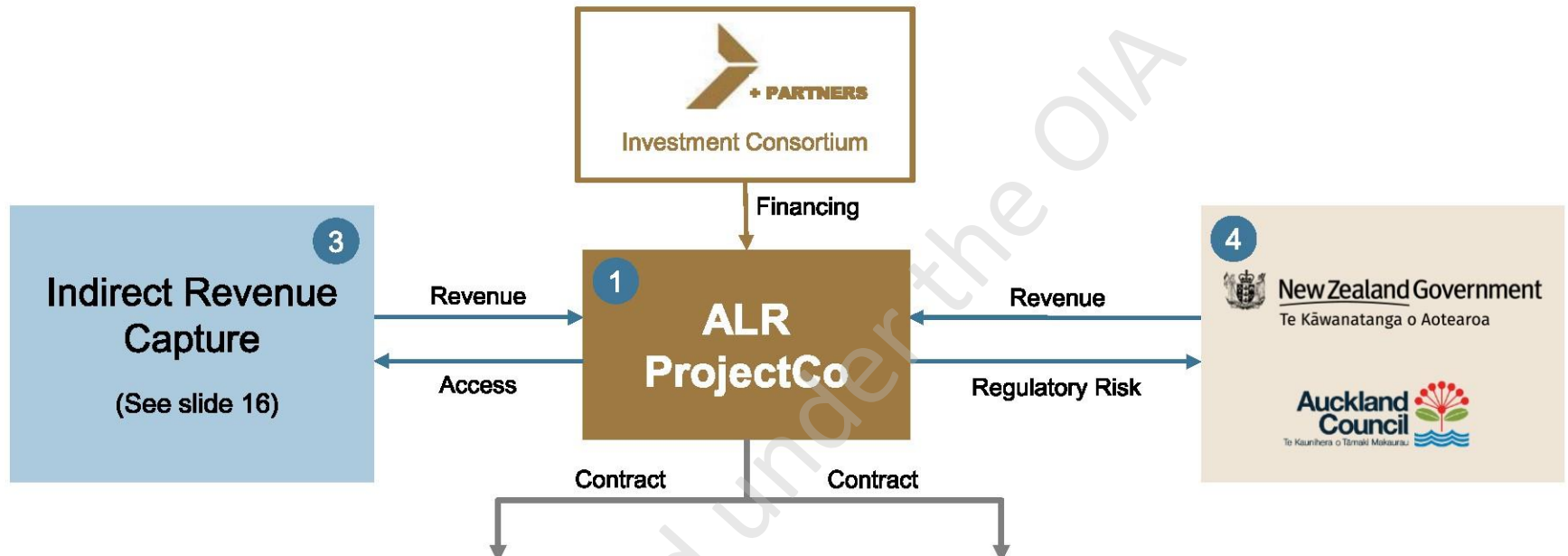
## **B** North-Western Line: Waimauku to City

- Current cost estimate = \$3 Billion
- Up to 17 stations
- Route through urban area, mixed residential/commercial, and along existing motorway
- Potential future North Shore extension

### **3. Indicative project structure**

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# Indicative project structure, to be determined



Withheld under 9(2)(b)(ii) and 9(2)(i)

## Revenue/Funding options, to be considered

A variety of internationally-proven revenue/funding options will be explored for the ALR project, to meet investors commercial long-term return requirements

- A key work stream during due diligence will be exploring the funding sources available to the ALR project, to support its development and investors' commercial return requirements
- A significant infrastructure project like the ALR benefits the economic development of the wider community, so it is important to also consider mechanisms to capture this indirect revenue

### Indirect Revenue Capture

For example:

- Developer contributions
- Hypothecated taxes/targeted rates
- Leases/licenses
- Commercial partnerships

 New Zealand Government  
Te Kāwanatanga o Aotearoa

 Auckland Council  
Te Kōwhiri o Tāmaki Makaurau

For example:

- Capital recycling
- Regional fuel taxes, road pricing, parking levies
- National Land Transport Fund
- User fees/fares

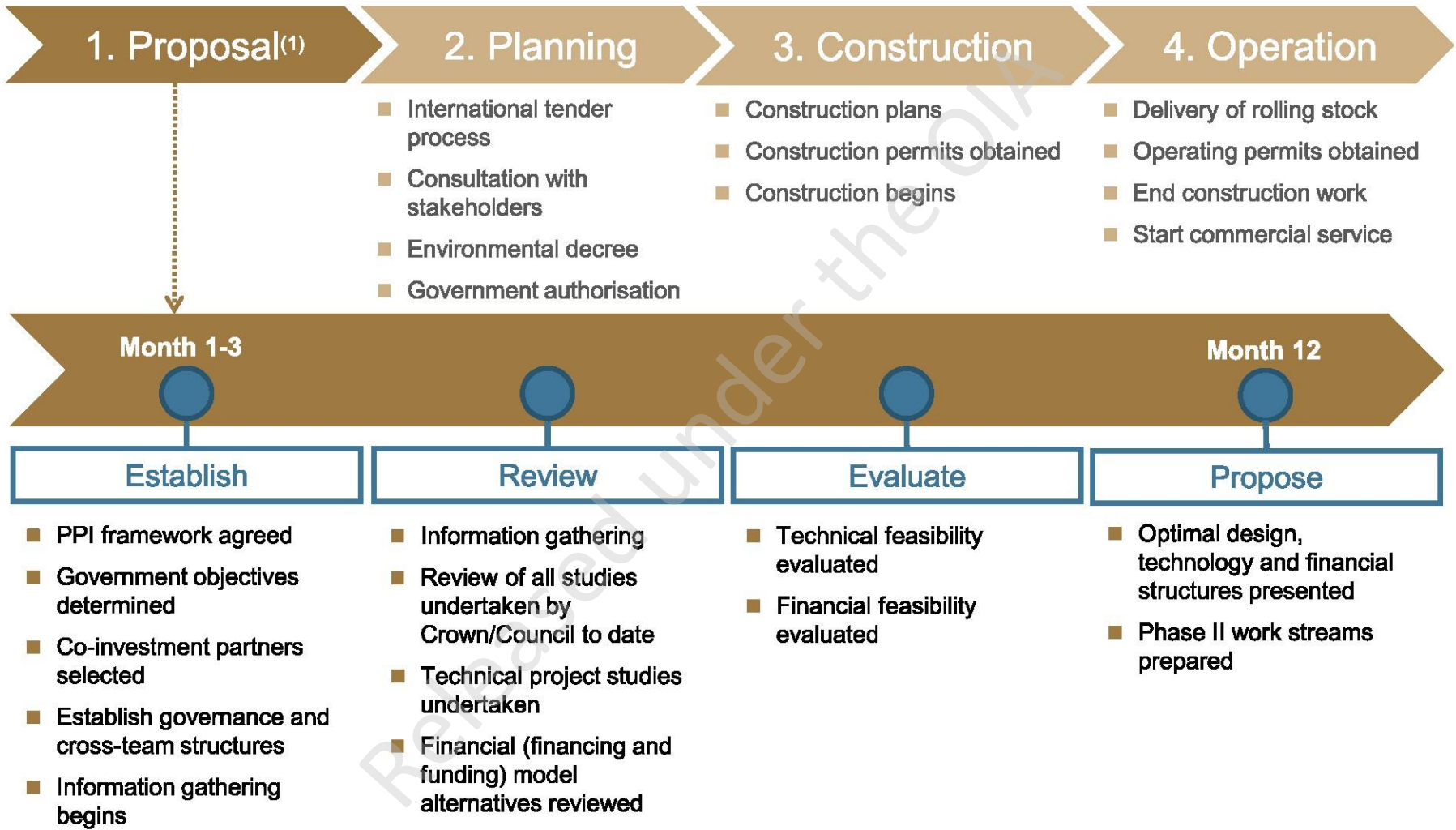
- NZSF and their co-investment partners will seek commercial long-term returns commensurate with the level and type of investment risk taken and their individual investment criteria
- NZSF's required return represents the opportunity cost of funding a single active investment instead of the default position of investing in the passive, low-cost and globally-diversified Reference Portfolio; it will reflect the specific risks inherent in the final Project Proposal



## 4. Proposed process

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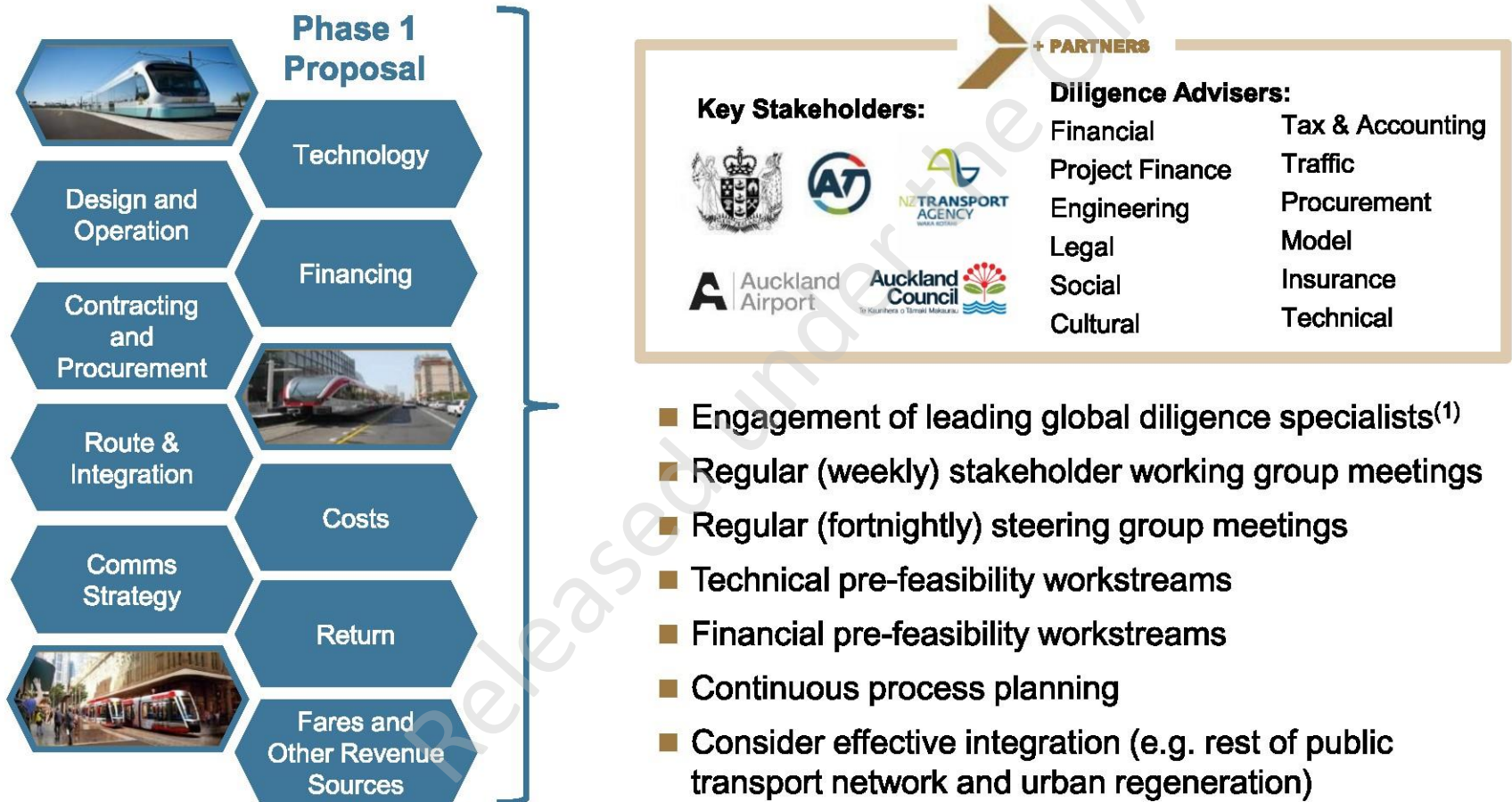
# Phase 1: define the Project Proposal



(1) Timing is indicative only and dependent on many factors, including the level and detail of information and prior studies provided by the Crown/Council

# Phase 1: collaborative approach to due diligence

NZSF and partner/s will work with diligence advisors and key stakeholders to define and propose the optimal technical and financial solutions



# What is required from the Government to aid success?

If the PPI framework is endorsed for the ALR project, there will be actions needed from the Government to ensure project success

- Provide NZSF and partner/s with all existing Crown/Council commissioned studies, and any other information, on Rapid Transit in Auckland, including access to patronage and demand information, and demand modelling capability of both AT and NZTA
- Enable effective collaboration and knowledge-sharing with all key public stakeholder organisations (e.g. NZTA, AC, AT, MoT, HNZA/KiwiBuild) by appointing mandated counterparties to partner with NZSF and partner/s in all phases of the process
- Encourage government agencies (e.g. NZTA, Ministry for the Environment) to actively assist in delivering the ALR project; and provide clarity around mandates for Agency involvement
- Actively engage in, and fully endorse, an agreed Communications Strategy (communications with the public and all other key stakeholders)
- Enact the necessary regulatory framework to develop and operate light rail in a public roading corridor, on an agreed schedule; work closely with NZSF and partner/s to ensure the regulatory solutions are practical and flexible enough to be consistent with commercial imperatives



## Next Steps

To initiate Phase 1 of the ALR project and commence due diligence, NZSF needs Government agreement to establish the Public-Public Investment framework

- 1. Public-Public Investment framework is agreed:** NZSF and Government agree on their respective roles and responsibilities and the stages of project development and execution
- 2. Government objectives determined:** Government provides to NZSF their key objectives for the ALR project, to be taken into account during proposal phase e.g. strategic priorities from the Government's Policy Statement on Land Transport
- 3. Co-investment partners selected:** Co-investors will bring considerable global best practice infrastructure project expertise and will establish a New Zealand-based team at the outset based on a set of co-investor objectives to be agreed
- 4. Establish governance and cross-team structures:** To facilitate effective process governance and efficient collaboration, key stakeholders need to be identified and incorporated into cross-functional teams with defined objectives, responsibilities and authorities, along with agreed communications strategy/protocols
- 5. Information gathering begins:** It is critical to agree the best project design (e.g. route, service offering etc.) before determining suitable funding and financing solutions