

**ATTACHMENT 5**

**REPORT TO COUNCIL**

**Funding of the Main Street Redevelopment / Special Rates Variation**

**Introduction:**

The purpose of this report is to provide information for Council and its Budget Committee regarding the funding of the Main Street Redevelopment Project, which in turn will enable Council to determine a course of action in relation to loan funding and the appropriate rate to be applied to the Special Rates Variation application.

**Background:**

Council has previously approved the redevelopment of the Main Street in Gundagai at an approximate cost of \$4M. At the April 2013 meeting of Council, Director of Corporate & Community Services submitted a preliminary funding analysis which included grant funding of \$2M, grant applications in relation to this funding have been unsuccessful.

At the October 2013 meeting of Council, Council approved the motion for the application to IPART of a Special Rates Variation to fund loans taken out by Council for the works on the Main Street Redevelopment project, both the loans and the Special Rates Variation will be take out over a 10 year period.

The Special Rates Variation application has to be submitted to IPART in the format required under the Integrated Planning and Reporting Framework, this includes the following financial reports showing the impact over a 10 year period:

- Income statement
- Balance Sheet
- Cash Flow

**Discussion:**

Put forward for consideration and discussion is a further analysis and scenarios on the impact of both the funding and the special rates variation will have on both Council's cash reserves and the rate payer.

The original analysis was based on a fully funded program of \$4M made up of:

\$2M Grant

\$2M Council

- \$1M Loan with the following break up
  - \$250K General Fund
  - \$750K TID Fund
- \$400k Water Contribution
- \$350k Sewer Contribution
- \$250k TID Contribution

There has been a need to revise this and increase loan funding to \$3M to cover the unsuccessful grant applications.

The Scenario's are based on assumptions that Council will operate under the "business as usual" with approved capital expenditure and yearly CPI increases with rate pegging of 3.3% [council has been advised this week that the rate pegging for 2014-15 is going to be 2.3% this has been adjusted for in the scenario's].

The Scenario's also take into consideration both external and internal restrictions placed on Council's cash reserves in each fund, these cover unspent specific purpose grants as well as staff leave liabilities and any other restrictions per Council resolution. Currently these restrictions are as follows:

- **General Fund**      \$3,691M This balance will change minimally depending on specific grant funding however it will increase as a result of staff entitlements
- **TID**                \$ 0.00      Part of General fund
- **Water**             \$1,277M This balance will change minimally depending on specific grant funding however it will increase as a result of increased charges to cover required works as shown in the delivery plan

- **Sewer** \$ 361 This balance will change minimally depending on specific grant funding however it will increase as a result of increased charges to cover required works as shown in the delivery plan

Council should be aware that it is possible to source some funding by use of some internal reserves [ie: Plant Reserve] on a one off basis however the possibilities are limited.

In conjunction with the Scenario's there has been an analysis of the special rates variation required to fully fund the loans taken out.

On a \$3M loan the interest based on a recent quote from the NAB of 6.14% would be \$1,059,088 with yearly repayments of \$405,909 [bi yearly \$202,954]. To cover the total of these repayments over 10 years a special rate variation of 14.3% will be required, this will see Council derive revenue of \$350,450 in the first year to \$469,385 in the 10<sup>th</sup> year.

#### Special Rate Variation v Loan Repayments

Break-up	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Farmland	1,909,547	1,972,562	2,037,656	2,104,899	2,174,361	2,246,114	2,320,236	2,396,804	2,475,899	2,557,603	2,642,004
Residential	424,886	438,908	453,391	468,353	483,809	499,775	516,267	533,304	550,903	569,083	587,863
Business	116,505	120,350	124,322	128,424	132,662	137,040	141,562	146,234	151,060	156,045	161,194
<b>Total</b>	<b>2,450,938</b>	<b>2,531,819</b>	<b>2,615,369</b>	<b>2,701,676</b>	<b>2,790,832</b>	<b>2,882,929</b>	<b>2,978,066</b>	<b>3,076,342</b>	<b>3,177,861</b>	<b>3,282,731</b>	<b>3,391,061</b>
	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	
<b>SRV</b>	<b>350,450</b>	<b>362,015</b>	<b>373,961</b>	<b>386,302</b>	<b>399,050</b>	<b>412,219</b>	<b>425,822</b>	<b>439,874</b>	<b>454,390</b>	<b>469,385</b>	
<b>Yly Pmts</b>	<b>202,954</b>	<b>405,909</b>	<b>405,909</b>	<b>405,909</b>	<b>405,909</b>	<b>405,909</b>	<b>405,909</b>	<b>405,909</b>	<b>405,909</b>	<b>405,909</b>	<b>202,954</b>
Diff	147,496	-43,894	-31,948	-19,607	-6,859	6,310	19,913	33,965	48,481	63,476	-202,954

The assumption would be that Council would have a surplus of rates in the first year with only one repayment being made against the loan this surplus will balance out deficits in the next four years followed by five years of surplus to cover the final loan payment rolling into the 11<sup>th</sup> year.

The special rates variation increase is based on Council's current allocation of cents in the \$ across the shires rating base, as a result of the analysis the farming community are being flagged as the major contributor towards the project that this special rates variation is being sort to cover, at \$292 per average assessment increase the farming community will be covering 77.9% of the funding towards the Main Street project. Council might like to reconsider the allocation of revenue derived from the Special Rates Variation several examples are shown below.

Description	No Assess	Based on current rates allocation				Scenario 1				Scenario 2			
		% Allocation	Total Revenue	Increase per Avg Per Assess	% Increase	% Allocation	Total Revenue	Increase per Avg Per Assess	% Increase	% Allocation	Total Revenue	Increase per Avg Per Assess	% Increase
Farmland	935	77.91%	\$273,065	\$292	14%	40%	\$140,194	\$150	7%	45%	\$157,718	\$169	8%
Residential	1438	17.34%	\$60,759	\$42	14%	50%	\$175,242	\$122	41%	45%	\$157,718	\$110	37%
Business	168	4.75%	\$16,660	\$99	14%	10%	\$35,048	\$209	30%	10%	\$35,048	\$209	30%
			\$350,484				\$350,484				\$350,484		

Current average assessments, across council's rate base is shown below as an indication to why the SRV is showing a 77.9% increase to the farming community.

#### CURRENT AVERAGE ASSESSMENT 2012-13

Description	No Assess	Avg Per Assess	Total Revenue
Farmland	935	1,996	1,866,615
Residential	1438	289	415,334
Business	168	678	113,886
<b>Total</b>			<b>2,395,834</b>

#### SCENARIO'S

Each scenario is explained below with a graph showing the relevant impact on cash in the various funds – in scenario's 2/3/4 the contributions from TID / Water / Sewer remain the same this keeps Water & Sewer in a position to fund their restricted cash as well as current projects within the operational plan, and for TID to adequately fund current fund projects within the operational plan.

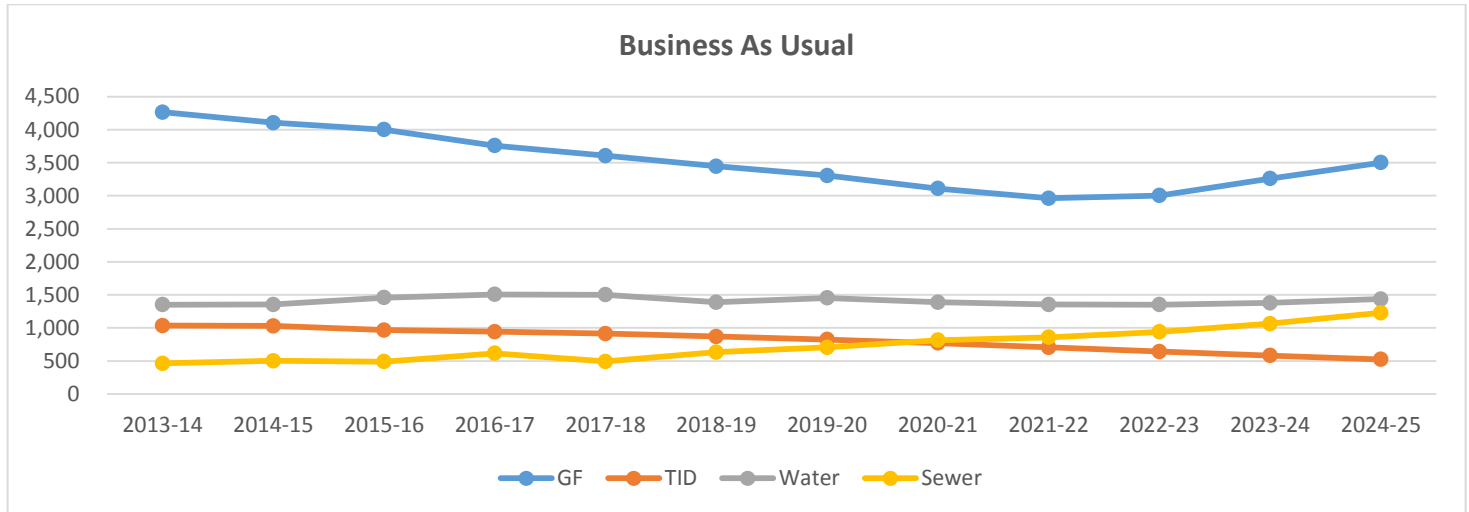
- **Scenario 1** Business as usual [BAU] Standard operating revenue and expenses with approved capital expenditure – no loans or expenses in relating to the Main Street Redevelopment

- **Scenario 2** BAU with the inclusion of a \$3M loan and contributions from TID \$350k / Water fund \$300k / Sewer fund \$350k and associated expenses of \$4M for the Main Street Redevelopment – No Special Rate variation
- **Scenario 3** Scenario 2 with the inclusion of a Special Rate Variation [SRV]
- **Scenario 4** BAU with the inclusion of a \$2M loan contributions from TID \$350k / Water fund \$300k / Sewer fund \$350k and associated expenses of \$4M for the Main Street Redevelopment

### Scenario 1

#### Business as usual:-

- Standard operating revenue & expenses with approved capital expenditure - No loans or expenses in relation to Main Street Redevelopment



### Scenario 2 –

#### \$3M Loan with no Special Rates Variation based on BAU

##### General Fund –

Shows the following:

\$3M Loan and Contributions from Water \$300k / Sewer \$350k & TID \$350 in Capital Revenue

\$3M Loan repayments and 4M project related expenses in Capital Expenses

\$1.059M Interest payments in operating expenses

This analysis shows the GF covering the principle and interest on the loan out of cash reserves. As a result the cash and investment balance goes from \$5,291M in 2012-13 to \$206K in 2024-25

*Under this scenario the General Fund is not sustainable.*

##### TID –

Contributions of \$350k

TID Fund maintains a cash and investment level over a 10 year term to contribute to the Main Street project and adequately cover all proposed projects under the delivery plan.

##### Water –

Contributions of \$300k

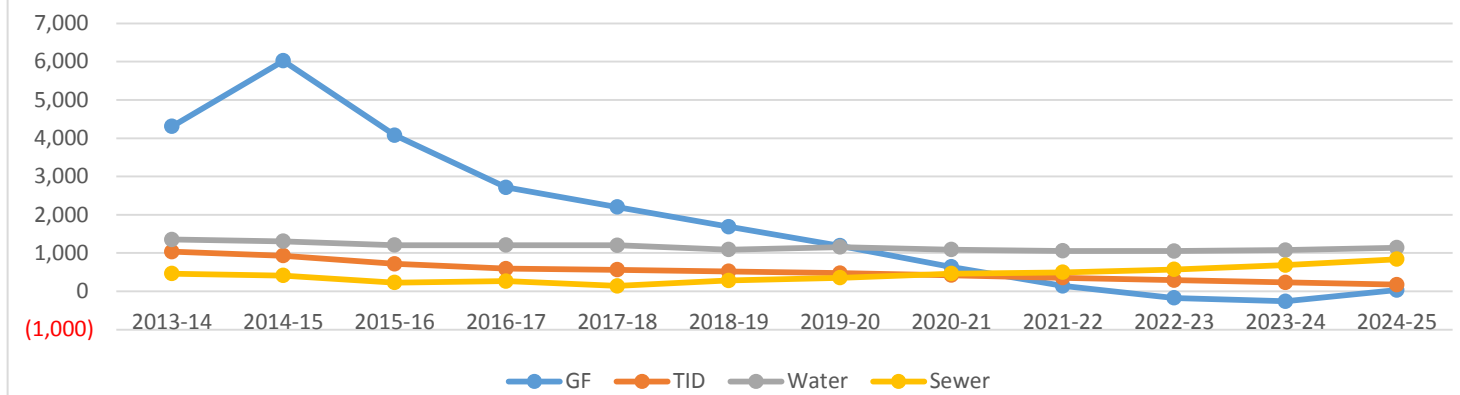
Water Fund maintains a cash and investment level over a 10 year term to adequately cover restricted cash which over the last 4 years has sat around \$1M and currently stands at \$1.277M it will however struggle to cover restricted cash should there be any unforeseen expenses outside of the delivery plan.

##### Sewer –

Contributions of \$350k

Sewer Fund maintains a cash and investment level over a 10 year term to adequately cover restricted cash which has doubled each year over the last 4 years currently stands at \$361k.

### Main Street Redevelopment - \$3M Loan - NO SRV



### Scenario 3 –

#### \$3M Loan with Special Rates Variation based on BAU

##### General Fund –

Shows the following:

\$4.1M in Revenue derived from a SRV

\$3M Loan and Contributions from Water \$300k / Sewer \$350k & TID \$350 in Capital Revenue

\$3M Loan repayments and 4M project related expenses in Capital Expenses

\$1.059M Interest payments in operating expenses

This analysis shows the inclusion of a special rates variation to cover the principle and interest on the loan. As a result the cash and investment balance remains static over the 10 year period and the general fund is in a position to cover restricted cash.

##### TID –

Contributions of \$350k

TID Fund maintains a cash and investment level over a 10 year term to contribute to the Main Street project and adequately cover all proposed projects under the delivery plan.

##### Water –

Contributions of \$300k

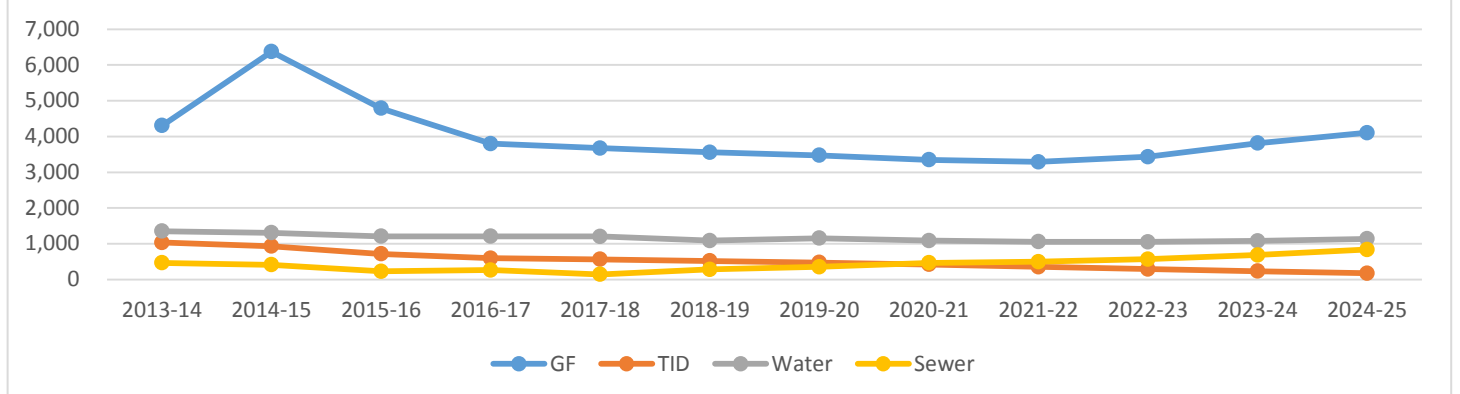
Water Fund maintains a cash and investment level over a 10 year term to adequately cover restricted cash which over the last 4 years has sat around \$1M and currently stands at \$1.277M it will however struggle to cover restricted cash should there be any unforeseen expenses outside of the delivery plan.

##### Sewer –

Contributions of \$350k

Sewer Fund maintains a cash and investment level over a 10 year term to adequately cover restricted cash which has doubled each year over the last 4 years currently stands at \$361k.

### Main Street Redevelopment - \$3M Loan with SRV



## Scenario 4

### \$2M Loan with Special Rates Variation

This Scenario is the same as Scenario 3 with the exception of GF picking up the \$1M shortfall on the project

*In this scenario the requirement for a special rate variation falls from 14.3% [to cover a \$3M loan] to 9.5% to cover a \$2M Loan and interest the impact on rate payers is shown below.*

Description	No Assess	\$2M Loan Increase	\$3M Loan Increase
Farmland	935	\$194	\$292
Residential	1438	\$28	\$42
Business	168	\$66	\$99

#### General Fund –

Shows the following:

\$2.7M in Revenue derived from a special rate variation

\$2M Loan and Contributions from Water \$300k / Sewer \$350k & TID \$350 in Capital Revenue

\$2M Loan repayments and \$4M project related expenses in Capital Expenses

\$706,059K Interest payments in operating expenses

This analysis shows the inclusion of a special rates variation and loan to cover 2/3rds of the \$3M [\$1M covered by contributions] required to complete the Main Street project this sees the GM funding the balance of \$1M from cash and reserves. As a result the cash and & investment balance goes from \$5,291 2012-13 to \$3,091 2024-25 **and the general fund is not in a position to cover restricted cash.**

#### TID –

Contributions of \$350k

TID Fund maintains a cash and investment level over a 10 year term to contribute to the Main Street project and adequately cover all proposed projects under the delivery plan.

#### Water –

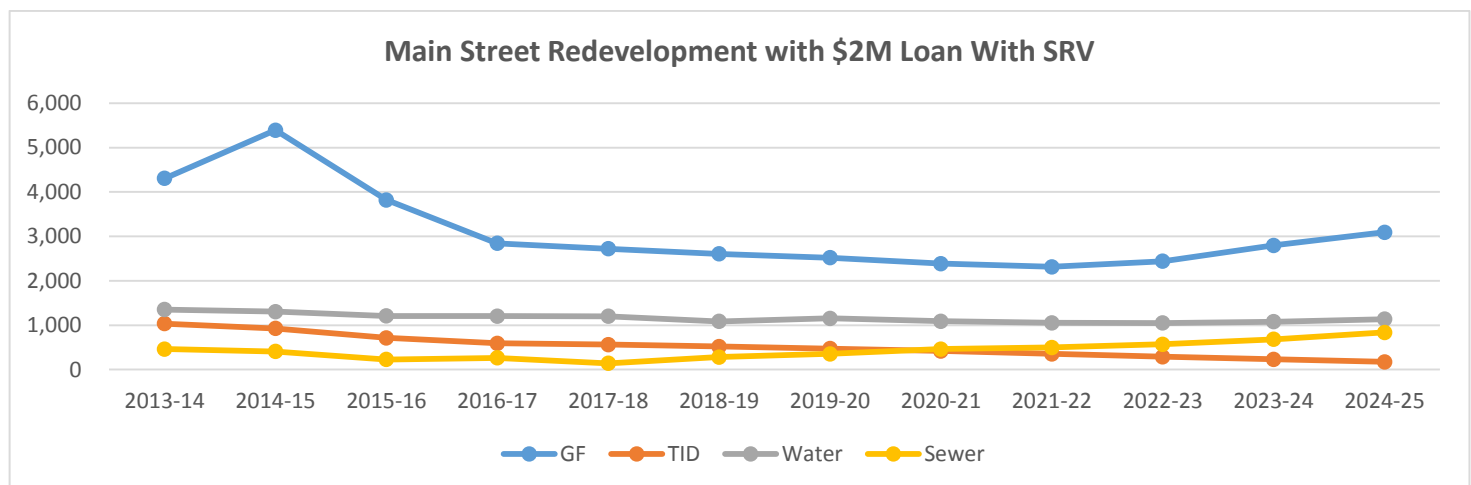
Contributions of \$300k

Water Fund maintains a cash and investment level over a 10 year term to adequately cover restricted cash which over the last 4 years has sat around \$1M and currently stands at \$1.277M it will however struggle to cover restricted cash should there be any unforeseen expenses outside of the delivery plan.

#### Sewer –

Contributions of \$350k

Sewer Fund maintains a cash and investment level over a 10 year term to adequately cover restricted cash which has doubled each year over the last 4 years currently stands at \$361k.



**There is a further Scenario**  
**Scenario 5**

**\$2.5M Loan with Special Rates Variation and a reduction in internal restricted cash relating to plant funds**

This Scenario is the same as Scenario 3 with the exception of GF reducing the restricted cash value of the Plant Fund by \$500k reducing the loan requirement to \$2.5M.

*In this scenario the requirement for a special rate variation is 12% [14.3% to cover a \$3M loan and 9.5% to cover a \$2M Loan]*

Description	No Assess	\$2M Loan Increase	\$2.5M Loan Increase	\$3M Loan Increase
Farmland	935	\$194	\$245	\$292
Residential	1438	\$28	\$35	\$42
Business	168	\$66	\$83	\$99

The affect of this on rate payers is reflected below:

Description	No Assess	Based on current rates allocation				Scenario 1				Scenario 2			
		% Allocation	Total Revenue	Increase per Avg Per Assess	% Increase	% Allocation	Total Revenue	Increase per Avg Per Assess	% Increase	% Allocation	Total Revenue	Increase per Avg Per Assess	% Increase
Farmland	935	77.91%	\$229,146	\$245	12%	40.00%	\$117,645	\$126	6%	45.00%	\$132,351	\$142	7%
Residential	1438	17.34%	\$50,986	\$35	12%	50.00%	\$147,056	\$102	35%	45.00%	\$132,351	\$92	31%
Business	168	4.75%	\$13,981	\$83	12%	10.00%	\$29,411	\$175	25%	10.00%	\$29,411	\$175	25%
			\$294,113				\$294,113				\$294,113		

**General Fund –**

Shows the following:

\$3.4M in Revenue derived from a special rate variation

\$2.5M Loan and Contributions from Water \$300k / Sewer \$350k & TID \$350 in Capital Revenue

\$2.5M Loan repayments and \$4M project related expenses in Capital Expenses

\$882,573 Interest payments in operating expenses

With the reduction of internally restricted funds relating to the plant fund, councils cash and & investment balance remains static over the 10 year period with adequate cover of the remaining restricted funds.

**TID –**

Contributions of \$350k

TID Fund maintains a cash and investment level over a 10 year term to contribute to the Main Street project and adequately cover all proposed projects under the delivery plan.

**Water –**

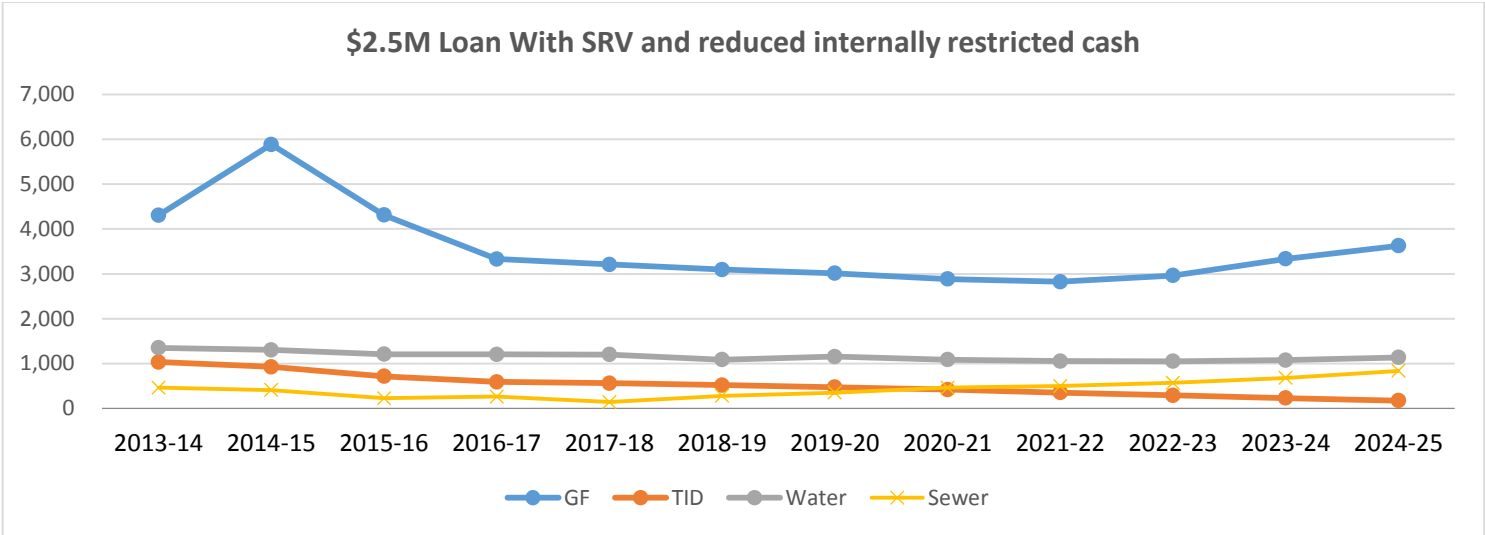
Contributions of \$300k

Water Fund maintains a cash and investment level over a 10 year term to adequately cover restricted cash which over the last 4 years has sat around \$1M and currently stands at \$1.277M it will however struggle to cover restricted cash should there be any unforeseen expenses outside of the delivery plan.

**Sewer –**

Contributions of \$350k

Sewer Fund maintains a cash and investment level over a 10 year term to adequately cover restricted cash which has doubled each year over the last 4 years currently stands at \$361k.



FOR DISUCSSION AND DECISION

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P. M. LUFF  
Director Administration & Finance

**SHIRE OF GUNDAGAI**

**DIRECTOR ADMINISTRATION & FINANCE**

**NOTES TO COUNCIL MEETING - Tuesday 10<sup>TH</sup> December 2013**

***Attachment 5***

**Funding of the Main Street Redevelopment / Special Rates Variation**

At the meeting of Council on Tuesday 10<sup>th</sup> December 2013, Council resolved to adopt Scenario 3 being a \$3M loan with an application for a 14.3% special rates variation.

Council held discussions on five [5] Scenario's relating to the funding of the Main Street Redevelopment and associated Special Rates Variation Application

Scenario's 1 / 2 / 4 & 5 were discounted for the following reasons:

- Scenario 1      General Fund "Business As Usual" – not inclusive of Revenue or Expenses for the Main Street Redevelopment
- Scenario 2      General Fund would be placed in an unsustainable position
- Scenario 4      General Fund would not be in a position to cover restrictions placed on cash reserves
- Scenario 5      The plant fund balance at 30<sup>th</sup> June 2013 of \$1.275M needed to be retained to enable Council to maintain plant in a condition required to service the community in accordance with the community strategic plan 2012-2022.

P. M. LUFF

DIRECTOR ADMINISTRATION & FINANCE