10. PROPOSED NEW TARGETED RATES – CENTRAL CITY

General Manager responsible:	General Manager Corporate Services
Officer responsible:	Funds & Financial Policy Manager
Authors:	Geoff Barnes, DDI 941-8447; Chris Gilbert, DDI 941-8561

PURPOSE OF REPORT

1. This purpose of this report is to enable the Council to consider the possible introduction of a new targeted rate to partly fund the City Mall redevelopment in the central city.

2. This report seeks approval in principle for the new targeted rate to recover part of the capital costs of the City Mall redevelopment benefiting the central city as distinct from the city as a whole.

3. If the targeted rate proposal is adopted in principle it will be included in the draft LTCCP 2006/16 which will be the subject of the special consultative process and the rate will commence from the financial year following the City Mall redevelopment being commissioned.

EXECUTIVE SUMMARY

The basis of the rate – the capital costs

4. The Council has included in the capital programme of the draft LTCCP a project to redevelop the City Mall at a capital cost of $10m. The content, cost, rationale and benefits of the redevelopment are not covered in this report, as these issues have already have been addressed as part of the LTCCP capital expenditure budget process. The Council has been advised that, as a result of a residential ratepayer survey, this project was the least favoured (of the projects surveyed).

THE CENTRAL CITY REVITALISATION TEAM COMMENTS

5. The proposed targeted rate for the central city to cover the potential costs of the upgrade of the City Mall has benefits and risks associated with it. While the City Mall is the focus of substantial retail activity, it plays a more significant role as one of Christchurch's and the central city's most important public spaces. Pedestrian counts from across the city indicated that City Mall is the most heavily used public space in Christchurch, even greater than Cathedral Square or the Arts Centre. The City Mall's public importance is further heightened by the fact that it serves as a linchpin between key central city districts such as High Street and Cathedral Square, its proximity to the Bus Exchange, and connection to future revitalisation schemes such as the House of Tahu and the Avon River. For these reasons, Council action on and support of the City Mall redevelopment is important to the health of Christchurch as a whole.

6. A targeted rate is one means of funding this important project. Advancing a targeted rate and a concurrent commitment by the Council to pursue a renovation of the City Mall would send a positive signal to retailers and property owners that the Council is playing an active role in maintain the vibrancy of this area. Pursuing the project is also timely because the capital assets of the mall are reaching the end of their physical life and forestalling the renovation of the area would run the real risk of creating a liability for the city by allowing the mall to fall into disrepair.

7. As part of considering any targeted rate the Council will need to consider the importance of the City Mall as one of the leading public spaces in the city, as well as the importance of a vibrant central city to the success of the region as a whole. A targeted rate to fund City Mall would need to seek an equitable distribution between the benefits that such a renovation would provide for central city businesses and those gained by the city as a whole. A poorly scaled or excessive rate could act as a deterrent to investment in the central city thereby exacerbating the difficulties faced by landowners and retailers in the central city. It is worth noting that preliminary work done for the City Mall project indicates that a separate funding stream from retailers fronting on the City Mall may be sought to cover costs relating to mall management.

Options for Funding for this Project

8. The Council has now asked for options and impacts of financing the project by other than the normal capital expenditure funding, (which would normally impact city wide general rates). Three options have been considered:

   (a) Not proceed with the redevelopment. This would result in a lower increase in city-wide general rates from the reduced capital expenditure, however maintenance costs may be impacted, or

   (b) Proceed with the project and introduce, as proposed, a targeted rate for the business ratepayers in the central city, with the amount of the targeted rate defined in the benefit allocation model, or

   (c) Proceed with the project and charge a targeted rate but reduce the quantum charged or reduce the assessed area of benefit.

   In each of the targeted rate options, there will be some charge to city wide general rates from the portion of benefits assessed as belonging to the wider community. The targeted rate options will be covered by this report.

Who Would pay the Targeted Rate – the Area of Benefit

9. It is considered that the mall redevelopment would provide substantially greater benefits for business ratepayers in the central city, referred to in this report as the Central Business District or CBD. The extent of the CBD can be debated but for the purposes of this report two options are considered:

   (a) CBD made up of central city town planning zone plus the central city edge zone. The capital value of business rating units in the CBD is $2,025m or 4.38% of the total city capital value, or

   (b) The CBD as above excluding north of Kilmore Street, south of St Asaph Street, west of Durham and the edge zone. The capital value of business rating units in the CBD is $1,542m or 3.34% of the total city capital value.

   The smaller area results in a higher targeted rate as fewer ratepayers will be asked to pay. The planning map showing the catchment area of the rating units liable is attached as Appendix A.

10. A decision is requested now so that it may be included in the draft LTCCP.

FINANCIAL CONSIDERATIONS – THE COSTS TO BE RECOVERED BY THE RATE

11. This is both a capital expenditure funding and operational expenditure funding issue. The capital cost of the project is estimated at $10m. In the normal funding process, this would be added to all capital costs and funded city wide. Only the residue (if any) would normally be funded by loans. It is assumed the annual maintenance costs will remain. An alternative targeted rate to fund operational costs requires the capital costs to be converted to annual operational (in a wider sense) expenditure. The capital cost is converted to an annual cost by borrowing for the project with repayments over 15 years at (estimated) 7%, an annual loan servicing cost of $1.1m. This is the activity to be funded.

12. The Council is required to consider, under Section 101.3 of the Local Government Act (attached as Appendix C), a revenue & financing policy benefit analysis, and then as a result, a funding mechanism. Staff have considered this and advise that it would be appropriate to consider a mix of 70% direct benefits to the CBD business ratepayers and 30% to the community as a whole, predominantly as a result of general benefits. This allocation is subjective and requires Councillor consideration. Other allocations could be considered, say 60%, direct to the ratepayers.

13. The mix has a direct bearing on the quantum of the targeted rate.

    (a) At 70% the rate required is $866,250 (GST incl) with a rate increase:
        (i) on the wider CBD of 6% to 9% over 2005/06 rates depending on capital value
        (ii) on the smaller CBD, 8% to 12%

    (b) At 60% the rate required is $742,500 (Gst incl) with a rate increase:
        (i) on the wider CBD of 5% to 7.5% over 2005/06 rates depending on capital value
        (ii) on the smaller CBD, 7% to 10%

14. The balance of rates beyond that charged to the targeted rates would be charged as part of general rates to all ratepayers city wide.

15. The creation of a targeted rate will require a change to the Revenue & Finance Policy. It will establish an important precedent and will allow the Council to adopt a similar charge where the appropriate circumstances exist elsewhere in the city. The imposition of a targeted rate for a local solution has been used in the past (pre 1990) for the New Brighton Mall development, the Riccarton Road upgrade, and for several rates in the Banks Peninsula District, but not recently for the City Council. It will be seen as a significant departure for asset and service cost funding and may raise community comment. There are several policy issues to consider and if the use of targeted rating proceeds, some specific calculation and rate setting issues to consider as well.

LEGAL CONSIDERATIONS

16. The imposition of a targeted rate is lawful provided that the processes adopted for its approval are satisfied. These can be satisfied as part of the LTCCP approval process.

17. Local Government Act 2002:

    (a) S.101 of the Local Government Act 2002 [copy attached Appendix C] provides that the funding needs of council must: "be met from the resources that the **Local Authority determines to be appropriate** ….

    (b) To make such a determination Council must consider:

        (i) the community outcomes to which the activity primarily contributes,
        (ii) the distribution of benefits between the community as a whole; any identifiable part of the community and individuals,
        (iii) the period of benefit – the term of the targeted rate,
        (iv) the extent to which actions contribute to the need for the expenditure, and
        (v) the transparency of the charging mechanism.

STAFF RECOMMENDATIONS

It is recommended that:

(a) The Council include a new central city targeted rate in the draft LTCCP to recover the assessed benefit portion (70% net) as defined in the report for the annual loan servicing costs from the capital cost of the mall redevelopment, estimated to be $10m.

(b) The rate be phased in as the capital cost proceeds, as the stages of the redevelopment are commissioned. Debt servicing cost to be included in the year following commissioning of any stage of the works.

(c) The new targeted rate be charged to business (differential) sector rating units within the central city town planning zone plus the central city edge zone (referred to in this document as the CBD) by rate in the dollar of capital value.

BACKGROUND ON THE NEW TARGETED RATE PROPOSAL

The costs to be recovered by the rate Central City Mall Redevelopment Capital Expenditure

18. This report does not seek to address the rationale of the capital works of the project or the nature of the services which flow from it, but seeks to deal with the funding consequences. The benefits of the project and services are assumed to flow to the ratepayers in proportion to the rates charged. (See Appendix B.)

19. The project is planned to cost $10m and will be phased in over time, estimated to be $3m in 2006/07 and $7m in 2007/08. It is a necessary requirement for targeted rating that the capital costs are converted to annual costs to be recovered, say, by borrowing to fund the project and meeting loan servicing payments based on a table loan over 15 years at 7% interest rate, in essence 11% annual cash flow.

20. Should the loan interest rate be lower when the funds are raised, the actual rate will be used in preference. The source of funds may be either external borrowing or internal borrowing from reserve funds.

21. The rate commences when the annual costs are incurred.

Revenue & Financing Policy implications – the benefit allocation and funding result

22. Benefit allocation: A revenue policy benefit analysis has been applied to these costs to establish the quantum that could reasonably be recovered from the business ratepayers in the CBD only. The split is made up of benefit components and staff have made a recommendation. The allocation is subjective and will, if varied, impact directly on the quantum of the targeted rate.

23. An overall allocation as recommended by staff, is made up of:

    (a) General benefits from the services (of the mall redevelopment) - they accrue to the community as a whole and to pedestrians who use the mall, the allocation recommended is 30%,
    (b) The balance of benefits from the redevelopment are direct benefits, direct to those rating units in the proximity, assessed at 70%.

24. The area of benefit – which rating units: The area of benefit has been defined as the CBD. It is recommended that all business rating units in this area be defined as beneficiaries. Some business rating units in the area receive more or less benefits in respect to the (mall redevelopment) services, but on balance the CBD appears to be the best boundary. A smaller area will result in a higher rate increase.

25. The result of this analysis is:

    - a rate quantum for the targeted rate, $$866,250 (GST incl), and
    - a capital value of rating units paying the rate, $2,025m (out of the total city $46,205m).

    This produces the rate decimal and therefore the additional rates per liable rating unit. The balance of the funding requirement of $371,250 will be financed by general rate.

Options Considered

26. The default funding option, should the Council proceed with the capital expenditure project, is to fund the additional operational costs from normal city wide general rates.

27. Other funding options have been considered including:

    (a) Not proceeding with the project

(b) Funding by a targeted rate on the CBD, defined as the business (as defined in the current rate differential policy) rating units, within the central city town planning zone plus the central city edge zone. The capital value of business rating units in the CBD is $2,025m or 4.38% of the total city capital value, or

(c) Reducing the area of benefit by excluding rating units north of Kilmore Street, south of St Asaph Street, west of Durham and the edge zone. The capital value of business rating units in the CBD is $1,542m or 3.34% of the total city capital value. The smaller area results in a higher targeted rate as fewer ratepayers will be asked to pay. The planning map showing the catchment area of the rating units liable is attached as Appendix A.

(d) Alternative benefit allocations. The Council may consider an alternative to the 70% charge to rating units. It is a subjective allocation and based on that which is fair and reasonable based on consideration of an assessment of benefits and beneficiaries emanating from the mall redevelopment. The consideration could include:

(i) the rationale for the project, including the objective of promotion of the inner city,
(ii) an assessment of who the customers are of the services provided by the mall upgrade, and
(iii) the extent to which the business ratepayers in this area benefit more than the community as a whole.

28. A change in the allocation results directly in a changed targeted rate. The allocation is subjective and based on what is reasonable given the nature of the redevelopment and who uses the area. A reduction in direct benefits assumes there is less extraordinary benefit for these ratepayers in the area, and more benefits for the community at large because of policies to promote the central city. The outcome would be a lower targeted rate and a higher general rate.

29. Should the Council concur with this then it can change the benefit allocation percentages. Should the allocation change materially it defeats the intention of the targeted rate as the project would be funded from general rates.

Impact on the Ratepayers

30. Detailed in Appendix B is a table based on sample capital values for the CBD area and the rate impact from the additional proposed targeted rate only. It shows a rate increase over 2005/06 of 6% to 9% depending on capital value. This increase will be in addition to the normal rate increase.

The reduced area of benefit option has been considered on the basis of excluding those rating units:

(a) North of Kilmore Street
(b) South of St Asaph Street
(c) West of Durham Street
(d) The Central City Edge zone

This shows a rate increase over 2005/06 of 8% to 12% depending on capital value.

31. On balance, it is recommended that the wider CBD area be chosen as the preferred option, as it aligns with other central city promotion initiatives of Council and is seen as the maximum area of benefit.

PREFERRED OPTION

32. It is recommended that the area of benefit be kept to the CBD as a smaller area would increase the impact and dilute the consistency with other central city initiatives.