



LGFA

An overview

BUSINESS DESCRIPTION

The New Zealand Local Government Funding Agency (LGFA) is an agency specialised in financing the New Zealand local government sector. LGFA was established to raise debt on behalf of local authorities ("councils") on terms that are more favourable to them than if they raised the debt directly.

LGFA was incorporated as a limited liability company under the Companies Act 1993 on 1 December 2011, following the enactment of the Local Government Borrowing Act 2011. As LGFA is majority owned by councils, it constitutes a "council-controlled organisation" under the Local Government Act 2002.

CREDIT RATINGS

Domestic Currency AA+ / Foreign Currency AA (Stable Outlook) – Standard & Poor's
Domestic Currency AA+ / Foreign Currency AA (Stable Outlook) – Fitch Ratings
These credit ratings are the same as the New Zealand sovereign ratings.

OWNERSHIP

As at 9 April 2018 LGFA had 45 million ordinary shares on issue, 20 million of which remain uncalled. There are currently 31 shareholders, comprising the New Zealand Government at 20% and 30 councils at 80%. Any councils wanting to become new shareholders are required to purchase shares from existing council shareholders.

CAPITAL STRUCTURE

The capital structure of LGFA comprises fully paid shares, unpaid shares, retained earnings and borrower notes.

BORROWER NOTES

Borrower Notes are subordinated convertible debt instruments which each council that borrows from LGFA must subscribe for (in an amount equal to 1.6% of the total borrowing from LGFA by that council) LGFA will redeem Borrower Notes when the councils' related borrowings are repaid or no longer owed to LGFA. Currently there are NZ\$118 million of Borrower Notes on issue.

GUARANTEE STRUCTURE

LGFA's obligations in relation to its Securities issued are guaranteed by the councils that are Guarantors under the Guarantee. Other than the New Zealand Government, each shareholder in LGFA must be a Guarantor. In addition any council that borrows in aggregate NZ\$20 million or more from LGFA must be a Guarantor. The guarantee will be in favour of the obligations of LGFA. Any call under the guarantee will be allocated across all the guarantors on a pro rata basis in relation to their rates ("property tax") revenue.

LIQUIDITY FACILITY

The New Zealand Debt Management Office provides LGFA with a committed liquidity facility. The facility has an initial term of 10 years from December 2011. The facility's maximum aggregate principal amount is set at NZ\$1 billion unless LGFA selects a lower amount; and will vary depending on LGFA's credit rating (the available facility may reduce if LGFA's credit rating decreases). LGFA has selected a maximum aggregate principal amount of NZ\$600 million for the period to August 2018.

AS AT 9 APRIL 2018

- Enabled by Local Government Borrowing Act 2011
- Owned by 30 Local Authorities and New Zealand Government
- Same credit rating as New Zealand Sovereign
- Supported by New Zealand Government liquidity facility
- RBNZ Repo Eligible
- NZD Bonds are listed on the NZX Debt Market

Year to June 30	Funding p.a. (NZ\$m)	Securities on issue (NZ\$m)
FY 2012	835	835
FY 2013	1,640	2,475
FY 2014	1,220	3,695
FY 2015	1,500	4,955
FY 2016	1,265	6,220
FY 2017	1,285	7,535
FY 2018	1,250 est.*	7,740 est.*
FY 2019	1,250 est.*	7,790 est.*
FY 2020	1,210 est.*	7,875 est.*

*SOI FORECAST

LGFA



NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

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FUNDING

LGFA operates with the primary objective of optimising the debt funding terms and conditions for participating councils. To date this has been undertaken via tender operations and mainly issuing bonds with identical coupons and maturities as NZ Government Bonds. As at 9 April 2018 there are NZ\$7.819 billion of LGFA bonds on issue across eight maturities. These bonds are listed on the NZX Debt market and to date LGFA has only issued in NZD.

LGFA also issues 3 month and 6 month LGFA Bills via monthly tenders and private placements. As at 9 April 2018 there are \$545 million LGFA Bills on issue.

ABOUT NEW ZEALAND LOCAL GOVERNMENT

There are 78 local authorities in New Zealand comprising:

11 Regional Councils – 7 in the North Island and 4 in the South Island;

12 City Councils – 8 in the North Island and 4 in the South Island;

54 District Councils – 34 in the North Island and 20 in the South Island;

1 Unitary Territorial Authority – Auckland Council

Councils in New Zealand provide water, wastewater, storm water, regional transport and rubbish collection services, local amenities and parks.

Councils typically borrow to fund infrastructure investment in those areas.

Summary financial statistics for the sector at June 2016 are:

Total sector assets of \$131.0 billion

Total sector debt of \$13.9 billion

Total sector revenue of \$8.9 billion

Total rates (property tax) revenue of \$5.1 billion

LGFA PARTICIPANTS

- As at 9 April 2018 there are 55 Participating Local Authorities ("PLAs").
- There are 53 borrowers amongst the PLAs with Bay of Plenty Regional Council and Rangitikei District Council the only non-Borrowers.
- There are 45 Guarantors of LGFA. The only non-Guarantors (due to their small amount of borrowing) are Northland Regional Council and Grey, Central Hawkes Bay, Opoiki, Buller, Gore, South Wairarapa, Rangitikei, Tararua and Westland District Councils.
- There are 31 shareholders, comprising 30 councils (80% shareholding) and the New Zealand government (20% shareholding).
- Auckland Council is limited to a maximum of 40% of LGFA's total Local Authority assets.
- No more than the greater of NZ\$100 million or 33% of a council's borrowings from LGFA will mature in any 12 month period.
- The 55 council members cover 97% of New Zealand local government sector debt.

NEW ZEALAND STATISTICS

Population 4.873 million as at February 2018

Nominal GDP \$285 billion as at December 2017

Nominal GDP growth 2.9% as at December 2017

Nominal GDP per capita \$59,375 as at December 2017

CPI inflation 1.6% as at December 2017

Unemployment rate 4.5% as at December 2017

Total merchandise exports \$54.42 billion as at February 2018

Total merchandise imports \$57.44 billion as at February 2018

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BORROWERS as at 9 April 2018

Lending	NZ\$ m	%
Auckland	2,082	27.1
Christchurch	1,639	21.4
Tauranga	355	4.6
Wellington	348	4.5
Greater Wellington	305	4.0
Hamilton	285	3.7
Kapiti Coast	215	2.8
Rotorua	139	1.8
Hutt	137	1.8
Whangarei	132	1.7
44 others	2035.4	26.5
TOTAL	7,672.4	100

LGFA Bonds on Issue as at 9 April 2018

Coupon	Maturity	NZ\$ m
5%	15/03/2019	1,290
3%	15/04/2020	1,030
6%	15/05/2021	1,470
2.75%	14/04/2022	200
5.5%	15/04/2023	1,479
2.75%	15/04/2025	939
4.5%	15/04/2027	1076
3.5%	14/04/2033	335
TOTAL		7,819

Shareholders as at 9 April 2018 (Paid-Up)

Shareholders	%
New Zealand Government	20.00
Auckland	7.46
Christchurch	7.46
Hamilton	7.46
Bay of Plenty	7.46
Greater Wellington	7.46
Tasman	7.46
Tauranga	7.46
Wellington	7.46
Western Bay of Plenty	7.46
21 Others	12.86
TOTAL	100