

Refinancing Fixed Rate Loans

GLADSTONE REGIONAL COUNCIL – V2 – UPDATED 1 DECEMBER

Opportunity to refinance existing Fixed Rate Loan/s (FRL)

- Historically low interest rates present an opportunity to reduce the interest rates on Council's existing Fixed Rate Loan/s (FRLs) by refinancing and extending the loan term out to a maximum of 20 years (from the date of refinancing).
- This opportunity could result in an immediate cash flow benefit by reducing loan repayments (from refinancing to a reduced interest rate and extending the term over which the principal is repaid) after allowing for the Early Repayment Adjustment.
- Freed up cash flow from refinancing can be used for reinvestments that stimulate economic activity, help deliver projects or support jobs, and could be applied to capex direct or additional borrowings for capex.

What Council needs to know about refinancing an existing FRL

- FRLs are refinanced at the Market Value at the time of refinancing.
- The difference between the Book Value and Market Value of the loan (Early Repayment Adjustment (ERA)) will need to be recognised as a once-off adjustment in the financial accounts.
- At the time of refinancing, the ERA can be funded by either debt (added to the loan balance) and/or cash (where Council has sufficient forecast minimum liquidity to meet its requirements). QTC's analysis below shows the impact of refinancing under both funding options.
- While refinancing and extending loan terms results in reduced loan repayments, the total cumulative interest cost over the extended loan term (as well as the term over which the debt sits on the balance sheet) will be higher.
- Refinancing over the current remaining loan term provides no economic benefit. The benefit comes from refinancing at current low rates over a longer term.
- Council can choose to refinance some or all existing FRLs. Refinancing also presents an opportunity to consolidate existing loans being refinanced.
- Council's financial ratios will be impacted as a result of refinancing existing loans. Depending on how the ERA is funded some financial ratios eg, operating position and debt service coverage, are likely to be positively impacted and some financial ratios eg, leverage related ratios are likely to be negatively impacted.

Refinancing results

- Refinancing all existing FRLs at the current 20-year FRL interest rate of 1.60 per cent (1.72 per cent including the administration rate) will result in an immediate cash flow benefit to Council through a reduction in annual loan repayments by \$8.4 million if the ERA is funded by debt; or \$9.9 million if the ERA is funded by cash¹.
- In addition to the above scenario, Council has requested analysis assuming a portion (ie, BV of \$33.716 million; MV of \$43.470 million) of the Airport Loan is converted from Principal & Interest (P & I) to Interest Only at the time of refinancing. The remainder of the Airport Loan, along with all other loans, are refinanced at P & I over 20 years.

¹ The analysis does not include consideration of the return on any alternative uses of the cash (in lieu of using it to pay the ERA). That is, if the ERA is funded from debt the remaining cash will provide ongoing interest earnings. This can be considered when doing a comparison between the two options.

- All figures are indicative only and are current as at 19 November 2020. The actual ERA, interest rate and repayment amount for each loan will be determined at the date of refinancing based on market rates at the refinance date.

TABLE 1 – SUMMARY OF ESTIMATED REFINANCED LOAN POSITION AS AT 19 NOVEMBER 2020

| | Total Market Value (\$m) | Total Book Value (\$m) | Early Repayment Adjustment (ERA) (\$m) | Refinanced Loan Balance (\$m) | Book Rate % (excl admin 0.115%) | Total Quarterly Repayment (\$m) | Total Reduction in Annual Repayment (\$m) |
|---|--------------------------|------------------------|--|-------------------------------|---------------------------------|---------------------------------|---|
| Current loan position | 129.6 | 103.9 | 25.7 | N/A | 5.95 ² | 4.0 | N/A |
| Refinanced loan position (estimated) – extend term to 20 years – all Loans P & I | | | | | | | |
| ERA funded by debt | | | | 129.6 | 1.60 | 1.9 | 8.4 |
| ERA funded by cash | | | | 103.9 | 1.60 | 1.5 | 9.9 |
| Refinanced loan position (estimated) – extend term to 20 years – \$33.716M of Airport loan interest only, remainder P & I; all other loans P & I | | | | | | | |
| ERA funded by debt | | | | 129.6 | 1.80 | 1.5 | 9.9 |
| ERA funded by cash | | | | 103.9 | 1.79 | 1.2 | 11.1 |

- Appendix 1 (A.1) shows the details of each loan assuming the ERA is funded by **debt**, the term is extended to 20 years, and the repayments on all loans are P & I.
- Appendix 2 (A.2) shows the details of each loan assuming the ERA is funded by **cash**, the term is extended to 20 years, and the repayments on all loans are P & I.
- Appendix 3 (A.3) shows the details of each loan assuming the ERA is funded by **debt** and \$43.470 million of the Market Value of the Airport Loan is converted from P & I to Interest Only. The remaining loans, in addition to the remaining Market Value of the Airport loan (\$14.74 million), are refinanced at P & I.
- Appendix 4 (A.4) shows the details of each loan assuming the ERA is funded by **cash** and \$33.716 million of the Book Value of the Airport Loan is converted from P & I to Interest Only. The remaining loans, in addition to the remaining Book Value of the Airport loan (\$11.4 million), are refinanced at P & I.
- The refinanced loan details can be entered into the Local Government Forecasting Model (LGFM) to enable Council to assess the impact of refinancing FRLs on its financial position and overall credit metrics. Guidance on how to input the refinanced loan details into the LGFM is available.

Summary of key considerations for Council

- Council may choose to refinance all or some of its FRLs
- There is a benefit of refinancing loans with a higher interest rate
- The shorter the term to maturity the less benefit from refinancing
- Remaining useful life of the asset being funded by the debt being commensurate with the extended term
- Aggregate ERA to be funded, and the funding method (debt and/or cash)
- Current (FY2021) and/or future forecast borrowing requirements
- Financial and credit impact of refinancing FRLs
- This initiative is only possible from being able to issue longer term debt at low rates. Low (relative) rates are supported by the State's strong balance sheet and credit rating. Council deposits held with QTC (eg. via QTC Cash Fund) contribute towards the State's liquidity supporting the balance sheet and credit rating. Council is encouraged to consider placing deposits surplus to near term operational needs with QTC.

What is the application and assessment process?

- DSDILGP approval is required to extend loan terms. If electing to add the ERA onto the loan balance, a borrowing approval is required for the increase in debt.
- DSDILGP approval is also required to convert a loan from P & I to Interest Only.

² Weighted average book rate of existing loans included in the analysis

- If the ERA is to be added onto the loan balance, a sufficient buffer should be included in your borrowing application to DSDILGP to allow for movements in interest rates prior to the refinance occurring. Up to date information on loan balances and current market interest rates is available on [QTC Link](#). QTC can assist in determining this buffer.
- As per all borrowing or loan modification applications, QTC will assess each application on a case-by-case basis and make a recommendation to DSDILGP on the proposed increase in debt and/or loan term extension.
- If applying to refinance existing loans, as well as new borrowings in FY21, both applications should be submitted together to DSDILGP by 26 February 2021, accompanied by an updated Local Government Forecasting Model (LGF) that reflects the impact of refinancing and/or new borrowings.

Exclusions of analysis

- The above analysis does not represent a view by QTC that interest rates have bottomed, only that the current low interest rate environment presents an opportunity for Council to lock in current low interest rates for a longer term.
- QTC does not provide legal, accounting or taxation advice. Council is responsible for obtaining its own legal, tax and accounting advice before undertaking a refinancing of its FRL/s. Council is responsible for determining whether the refinancing of its existing FRLs is appropriate given its own individual circumstances.

Appendix

A.1: Refinanced loan details – Loan term extended to 20 years and ERA funded by debt (added to loan) – All P & I

TABLE 2: REFINANCED LOAN POSITION – ASSUMING LOAN TERM EXTENDED TO 20 YEARS AND ERA IS FUNDED BY DEBT AS AT 19 NOVEMBER 2020 (ALL P & I)

| Account Number | Account | Current Loan Information | | | | | | Refinance Loan Information (estimated) | | | | Estimated Reduction in Annual Repayment |
|----------------|----------------------------------|--------------------------|--------------------|----------------------------|-------------------------------|---------------------|---------------|--|-------------------------------|---------------------|---------------|---|
| | | Market Value | Book Value | Early Repayment Adjustment | Book Rate (excl admin 0.115%) | Repayment Quarterly | Maturity Date | Loan Balance | Book Rate (excl admin 0.115%) | Repayment Quarterly | Maturity Date | |
| 80766 | GladstoneRC Calliope RefuseReuse | 811,678 | 779,658 | 32,019 | 5.06% | 116,352 | 15/06/2022 | 811,678 | 1.60% | 12,135 | 14/11/2040 | 416,869 |
| 81045 | Gladstone RC - Curtis Isl Sewer | 28,070,580 | 23,894,075 | 4,176,505 | 5.14% | 959,690 | 15/03/2028 | 28,070,580 | 1.60% | 411,145 | 14/11/2040 | 2,194,180 |
| 81046 | Gladstone RC -Entertainment Cent | 11,172,390 | 8,916,344 | 2,256,047 | 5.01% | 243,931 | 15/12/2032 | 11,172,390 | 1.60% | 163,640 | 14/11/2040 | 321,165 |
| 81047 | Gladstone RC-Sewerage Agnes 1770 | 4,607,976 | 3,833,528 | 774,448 | 5.81% | 157,540 | 15/03/2028 | 4,607,976 | 1.60% | 67,492 | 14/11/2040 | 360,190 |
| 81048 | Gladstone RC - Sewerage Bits | 11,184,960 | 8,768,689 | 2,416,271 | 6.87% | 339,887 | 15/03/2029 | 11,184,960 | 1.60% | 163,824 | 14/11/2040 | 704,250 |
| 81049 | Gladstone RC -Water Lake Awoonga | 411,881 | 348,278 | 63,602 | 7.22% | 19,870 | 15/12/2025 | 411,881 | 1.60% | 6,033 | 14/11/2040 | 55,351 |
| 81050 | Gladstone RC - Agnes Water-Water | 11,156,783 | 8,861,404 | 2,295,379 | 5.29% | 257,458 | 15/03/2032 | 11,156,783 | 1.60% | 163,411 | 14/11/2040 | 376,185 |
| 81052 | Gladstone RC - Regional Landfill | 1,578,430 | 1,227,739 | 350,691 | 7.63% | 52,315 | 15/06/2028 | 1,578,430 | 1.60% | 23,119 | 14/11/2040 | 116,783 |
| 81147 | Gladstone RC - General 2 | 1,554,927 | 1,486,075 | 68,852 | 6.85% | 259,758 | 15/03/2022 | 1,554,927 | 1.60% | 22,775 | 14/11/2040 | 947,934 |
| 81203 | Gladstone RC - Water Miriam Vale | 854,956 | 678,542 | 176,414 | 6.26% | 24,634 | 15/09/2029 | 854,956 | 1.60% | 12,522 | 14/11/2040 | 48,447 |
| 81044 | Gladstone RC - Airport | 58,211,256 | 45,149,383 | 13,061,873 | 6.45% | 1,558,136 | 15/06/2030 | 58,211,256 | 1.60% | 852,610 | 14/11/2040 | 2,822,102 |
| Total | | 129,615,815 | 103,943,715 | 25,672,100 | 5.95% | 3,989,570 | | 129,615,815 | 1.60% | 1,898,706 | | 8,363,456 |

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A.2: Refinanced loan details – Loan term extended to 20 years and ERA funded by cash – All P & I

TABLE 3: REFINANCED LOAN POSITION – ASSUMING LOAN TERM EXTENDED TO 20 YEARS AND ERA IS FUNDED FROM CASH AS AT 19 NOVEMBER 2020 (ALL P & I)

| Account Number | Account | Current Loan Information | | | | | | Refinance Loan Information (estimated) | | | | Estimated Reduction in Annual Repayment |
|----------------|----------------------------------|--------------------------|--------------------|----------------------------|-------------------------------|---------------------|---------------|--|-------------------------------|---------------------|---------------|---|
| | | Market Value | Book Value | Early Repayment Adjustment | Book Rate (excl admin 0.115%) | Repayment Quarterly | Maturity Date | Loan Balance | Book Rate (excl admin 0.115%) | Repayment Quarterly | Maturity Date | |
| 80766 | GladstoneRC Calliope RefuseReuse | 811,678 | 779,658 | 32,019 | 5.06% | 116,352 | 15/06/2022 | 779,658 | 1.60% | 11,656 | 14/11/2040 | 418,784 |
| 81045 | Gladstone RC - Curtis Isl Sewer | 28,070,580 | 23,894,075 | 4,176,505 | 5.14% | 959,690 | 15/03/2028 | 23,894,075 | 1.60% | 349,972 | 14/11/2040 | 2,438,870 |
| 81046 | Gladstone RC -Entertainment Cent | 11,172,390 | 8,916,344 | 2,256,047 | 5.01% | 243,931 | 15/12/2032 | 8,916,344 | 1.60% | 130,596 | 14/11/2040 | 453,341 |
| 81047 | Gladstone RC-Sewerage Agnes 1770 | 4,607,976 | 3,833,528 | 774,448 | 5.81% | 157,540 | 15/03/2028 | 3,833,528 | 1.60% | 56,149 | 14/11/2040 | 405,562 |
| 81048 | Gladstone RC - Sewerage Bits | 11,184,960 | 8,768,689 | 2,416,271 | 6.87% | 339,887 | 15/03/2029 | 8,768,689 | 1.60% | 128,433 | 14/11/2040 | 845,813 |
| 81049 | Gladstone RC -Water Lake Awoonga | 411,881 | 348,278 | 63,602 | 7.22% | 19,870 | 15/12/2025 | 348,278 | 1.60% | 5,101 | 14/11/2040 | 59,077 |
| 81050 | Gladstone RC - Agnes Water-Water | 11,156,783 | 8,861,404 | 2,295,379 | 5.29% | 257,458 | 15/03/2032 | 8,861,404 | 1.60% | 129,791 | 14/11/2040 | 510,665 |
| 81052 | Gladstone RC - Regional Landfill | 1,578,430 | 1,227,739 | 350,691 | 7.63% | 52,315 | 15/06/2028 | 1,227,739 | 1.60% | 17,982 | 14/11/2040 | 137,329 |
| 81147 | Gladstone RC - General 2 | 1,554,927 | 1,486,075 | 68,852 | 6.85% | 259,758 | 15/03/2022 | 1,486,075 | 1.60% | 21,766 | 14/11/2040 | 951,968 |
| 81203 | Gladstone RC - Water Miriam Vale | 854,956 | 678,542 | 176,414 | 6.26% | 24,634 | 15/09/2029 | 678,542 | 1.60% | 9,938 | 14/11/2040 | 58,783 |
| 81044 | Gladstone RC - Airport | 58,211,256 | 45,149,383 | 13,061,873 | 6.45% | 1,558,136 | 15/06/2030 | 45,149,383 | 1.60% | 661,295 | 14/11/2040 | 3,587,362 |
| Total | | 129,615,815 | 103,943,715 | 25,672,100 | 5.95% | 3,989,570 | | 103,943,715 | 1.60% | 1,522,682 | | 9,867,554 |

A.3: Refinanced loan details – Loan term extended to 20 years and ERA funded by debt (added to loan) – \$43.470M of Airport loan refinanced at interest only

TABLE 4: REFINANCED LOAN POSITION – ASSUMING LOAN TERM EXTENDED TO 20 YEARS AND ERA IS FUNDED FROM DEBT AS AT 19 NOVEMBER 2020 – \$43.470M OF AIRPORT LOAN INTEREST ONLY

| Account Number | Account | Current Loan Information | | | | | | Refinance Loan Information (estimated) | | | | Estimated Reduction in Annual Repayment |
|----------------|--|--------------------------|--------------------|----------------------------|-------------------------------|---------------------|---------------|--|-------------------------------|---------------------|---------------|---|
| | | Market Value | Book Value | Early Repayment Adjustment | Book Rate (excl admin 0.115%) | Repayment Quarterly | Maturity Date | Loan Balance | Book Rate (excl admin 0.115%) | Repayment Quarterly | Maturity Date | |
| 80766 | GladstoneRC Calliope RefuseReuse | 811,678 | 779,658 | 32,019 | 5.25% | 116,352 | 15/06/2022 | 811,678 | 1.60% | 12,135 | 14/11/2040 | 416,869 |
| 81045 | Gladstone RC - Curtis Isl Sewer | 28,070,580 | 23,894,075 | 4,176,505 | 5.14% | 959,690 | 15/03/2028 | 28,070,580 | 1.60% | 411,145 | 14/11/2040 | 2,194,180 |
| 81046 | Gladstone RC -Entertainment Cent | 11,172,390 | 8,916,344 | 2,256,047 | 5.01% | 243,931 | 15/12/2032 | 11,172,390 | 1.60% | 163,640 | 14/11/2040 | 321,165 |
| 81047 | Gladstone RC-Sewerage Agnes 1770 | 4,607,976 | 3,833,528 | 774,448 | 5.81% | 157,540 | 15/03/2028 | 4,607,976 | 1.60% | 67,492 | 14/11/2040 | 360,190 |
| 81048 | Gladstone RC - Sewerage Bits | 11,184,960 | 8,768,689 | 2,416,271 | 6.87% | 339,887 | 15/03/2029 | 11,184,960 | 1.60% | 163,824 | 14/11/2040 | 704,250 |
| 81049 | Gladstone RC -Water Lake Awoonga | 411,881 | 348,278 | 63,602 | 7.22% | 19,870 | 15/12/2025 | 411,881 | 1.60% | 6,033 | 14/11/2040 | 55,351 |
| 81050 | Gladstone RC - Agnes Water-Water | 11,156,783 | 8,861,404 | 2,295,379 | 5.29% | 257,458 | 15/03/2032 | 11,156,783 | 1.60% | 163,411 | 14/11/2040 | 376,185 |
| 81052 | Gladstone RC - Regional Landfill | 1,578,430 | 1,227,739 | 350,691 | 7.63% | 52,315 | 15/06/2028 | 1,578,430 | 1.60% | 23,119 | 14/11/2040 | 116,783 |
| 81147 | Gladstone RC - General 2 | 1,554,927 | 1,486,075 | 68,852 | 6.85% | 259,758 | 15/03/2022 | 1,554,927 | 1.60% | 22,775 | 14/11/2040 | 947,934 |
| 81203 | Gladstone RC - Water Miriam Vale | 854,956 | 678,542 | 176,414 | 6.26% | 24,634 | 15/09/2029 | 854,956 | 1.60% | 12,522 | 14/11/2040 | 48,447 |
| 81044 | Gladstone RC - Airport - P & I | 58,211,256 | 45,149,383 | 13,061,873 | 6.45% | 1,558,136 | 15/06/2030 | 14,741,100 | 1.60% | 218,246 | 14/11/2040 | 4,360,178 |
| New/Split | Gladstone RC - Airport - Interest Only | | | | | | | 43,470,156 | 2.18% | 249,845 | 14/11/2040 | |
| Total | | 129,615,815 | 103,943,715 | 25,672,100 | 5.95% | 3,989,570 | | 129,615,815 | 1.80% | 1,514,187 | | 9,901,532 |

A.4: Refinanced loan details – Loan term extended to 20 years and ERA funded by cash - \$33.716M of Airport loan refinanced at interest only

TABLE 5: REFINANCED LOAN POSITION – ASSUMING LOAN TERM EXTENDED TO 20 YEARS AND ERA IS FUNDED FROM CASH AS AT 19 NOVEMBER 2020 – \$33.716M OF AIRPORT LOAN INTEREST ONLY

| Account Number | Account | Current Loan Information | | | | | | Refinance Loan Information (estimated) | | | | Estimated Reduction in Annual Repayment |
|----------------|--|--------------------------|--------------------|----------------------------|-------------------------------|---------------------|---------------|--|-------------------------------|---------------------|---------------|---|
| | | Market Value | Book Value | Early Repayment Adjustment | Book Rate (excl admin 0.115%) | Repayment Quarterly | Maturity Date | Loan Balance | Book Rate (excl admin 0.115%) | Repayment Quarterly | Maturity Date | |
| 80766 | GladstoneRC Calliope RefuseReuse | 811,678 | 779,658 | 32,019 | 5.25% | 116,352 | 15/06/2022 | 779,658 | 1.60% | 11,656 | 14/11/2040 | 418,784 |
| 81045 | Gladstone RC - Curtis Isl Sewer | 28,070,580 | 23,894,075 | 4,176,505 | 5.14% | 959,690 | 15/03/2028 | 23,894,075 | 1.60% | 349,972 | 14/11/2040 | 2,438,870 |
| 81046 | Gladstone RC -Entertainment Cent | 11,172,390 | 8,916,344 | 2,256,047 | 5.01% | 243,931 | 15/12/2032 | 8,916,344 | 1.60% | 130,596 | 14/11/2040 | 453,341 |
| 81047 | Gladstone RC-Sewerage Agnes 1770 | 4,607,976 | 3,833,528 | 774,448 | 5.81% | 157,540 | 15/03/2028 | 3,833,528 | 1.60% | 56,149 | 14/11/2040 | 405,562 |
| 81048 | Gladstone RC - Sewerage Bits | 11,184,960 | 8,768,689 | 2,416,271 | 6.87% | 339,887 | 15/03/2029 | 8,768,689 | 1.60% | 128,433 | 14/11/2040 | 845,813 |
| 81049 | Gladstone RC -Water Lake Awoonga | 411,881 | 348,278 | 63,602 | 7.22% | 19,870 | 15/12/2025 | 348,278 | 1.60% | 5,101 | 14/11/2040 | 59,077 |
| 81050 | Gladstone RC - Agnes Water-Water | 11,156,783 | 8,861,404 | 2,295,379 | 5.29% | 257,458 | 15/03/2032 | 8,861,404 | 1.60% | 129,791 | 14/11/2040 | 510,665 |
| 81052 | Gladstone RC - Regional Landfill | 1,578,430 | 1,227,739 | 350,691 | 7.63% | 52,315 | 15/06/2028 | 1,227,739 | 1.60% | 17,982 | 14/11/2040 | 137,329 |
| 81147 | Gladstone RC - General 2 | 1,554,927 | 1,486,075 | 68,852 | 6.85% | 259,758 | 15/03/2022 | 1,486,075 | 1.60% | 21,766 | 14/11/2040 | 951,968 |
| 81203 | Gladstone RC - Water Miriam Vale | 854,956 | 678,542 | 176,414 | 6.26% | 24,634 | 15/09/2029 | 678,542 | 1.60% | 9,938 | 14/11/2040 | 58,783 |
| 81044 | Gladstone RC - Airport - P & I | 58,211,256 | 45,149,383 | 13,061,873 | 6.45% | 1,558,136 | 15/06/2030 | 11,433,383 | 1.60% | 169,274 | 14/11/2040 | 4,780,318 |
| New/Split | Gladstone RC - Airport - Interest Only | | | | | | | 33,716,000 | 2.18% | 193,782 | 14/11/2040 | |
| Total | | 129,615,815 | 103,943,715 | 25,672,100 | 5.95% | 3,989,570 | | 103,943,715 | 1.79% | 1,224,443 | | 11,060,510 |