

# Mobilization of funds for projects

November 24, 2016



**1**

Financing options for  
urban development

**2**

Financing Pune  
Smart City

**3**

Next steps



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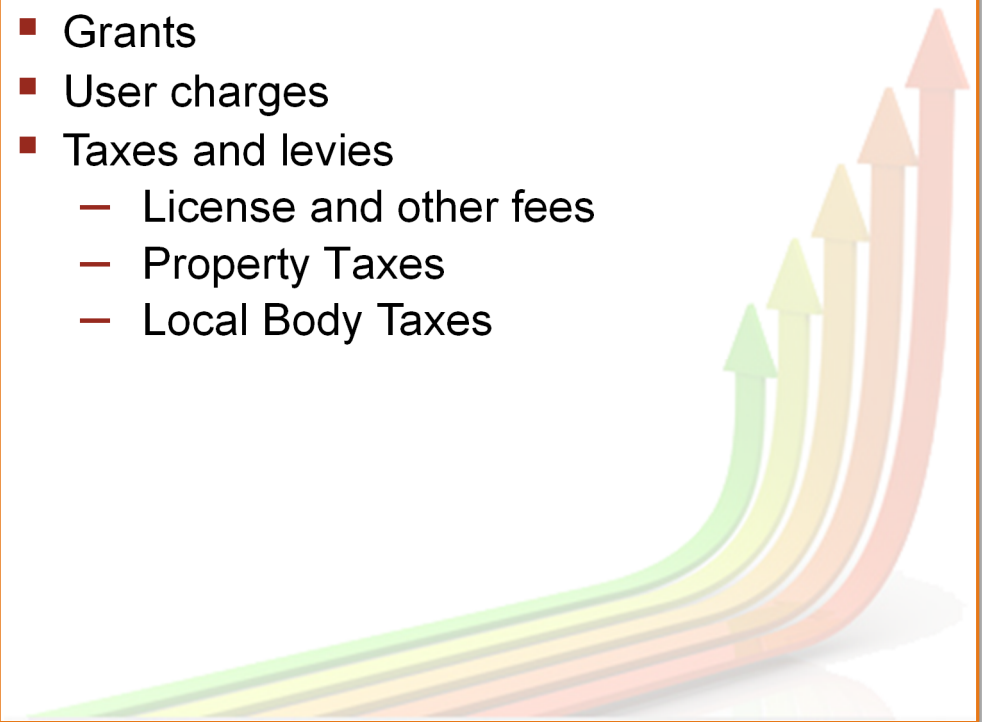
## The financing equation for urban local bodies

### Expenditure

- Capital expenditure
  - Roads
  - Water
  - Solid waste
  - Other municipal infrastructure
- Operating costs
  - Maintenance
  - Utilities
  - Contractors
  - Staff
  - Administrative overheads

### Receipts

- Grants
- User charges
- Taxes and levies
  - License and other fees
  - Property Taxes
  - Local Body Taxes



## Funding is different from financing

### Funding

- Income streams that do not need to be serviced
  - User charges (e.g. for water)
  - Taxes (e.g. Property Taxes)
  - Grants

### Financing

- How income streams are leveraged in order to optimize timing of cash-flows
  - Bonds
  - PPPs
  - Debt

## Several innovative sources of value capture funding can be explored

- Land value tax
  - Levy on urban land similar to that on agricultural land
- Land use conversion charges
  - Charges for conversion of agricultural to non-agricultural tax
- Land Value Increment Tax or Betterment Levy
  - Charges for improvement in value of land through infrastructure and other interventions
- Area based development charges
  - Development charge for development, use or change of use of land or building Value based development charges
- Value based development charges
  - Development charges based on value rather than area
- Transfer of Development Rights
  - Grant of development rights typically in exchange for acquisition of land for development purposes
- Paid or additional FSI
  - Premium charges for additional FSI
- Land acquisition and development
  - Charges for improvement interventions through infrastructure investment combined with higher FSI



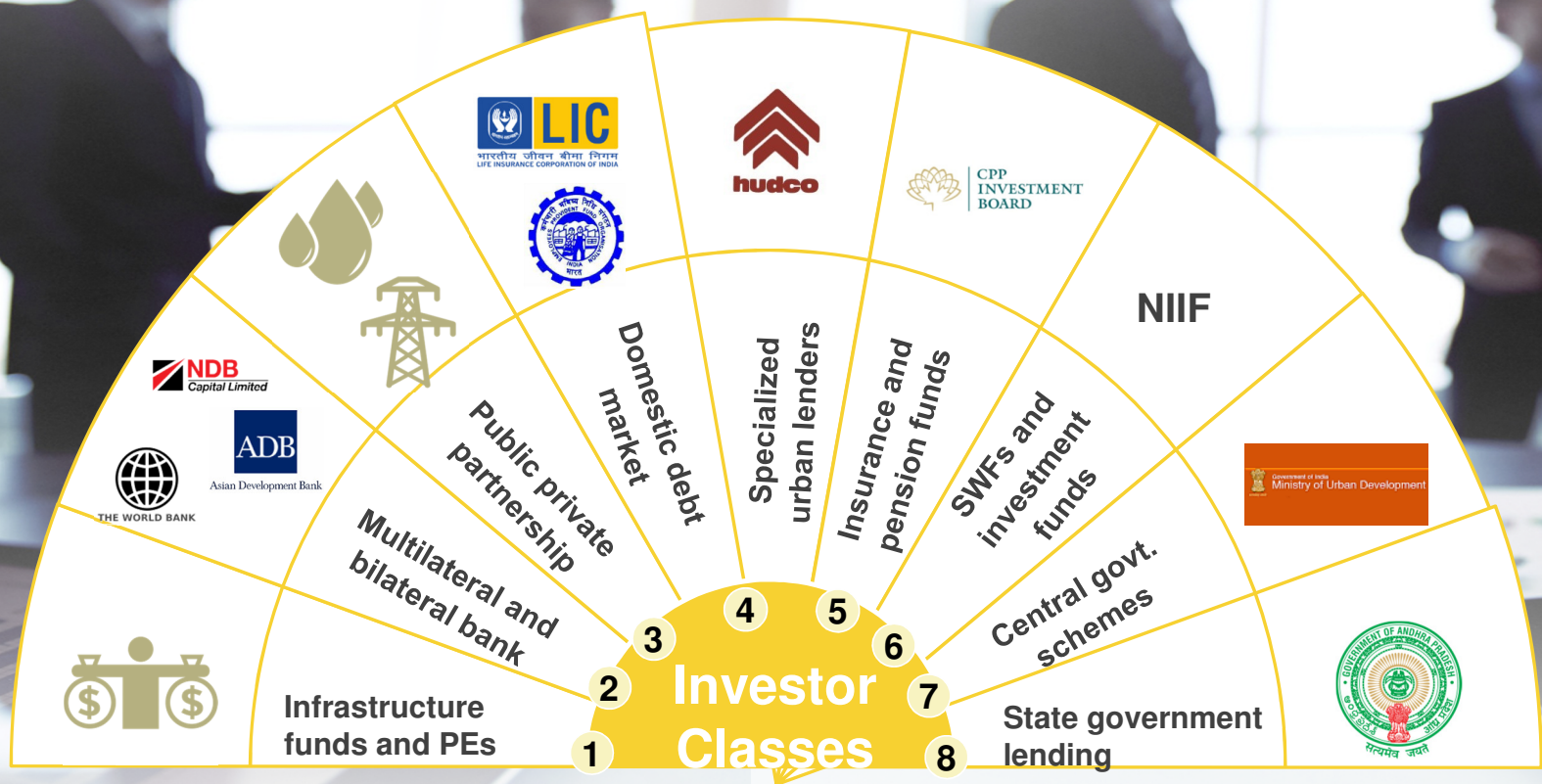
## Convergence exists with multiple schemes of the Government of India

- Atal Mission for Rejuvenation and Urban Transformation (AMRUT)
- Swachh Bharat Abhiyan
- Integrated Power Development Scheme (IPDS)
- Heritage City Development and Augmentation Yojna (HRIDAY)
- Digital India
- Housing for all
- National River Conservation Program
- Faster Adoption and Manufacturing of Hybrid and Electric vehicles in India (FAME)



SOURCE: Ministry of Urban Development

# Multiple sources of financing can be leveraged



SOURCE: Team analysis



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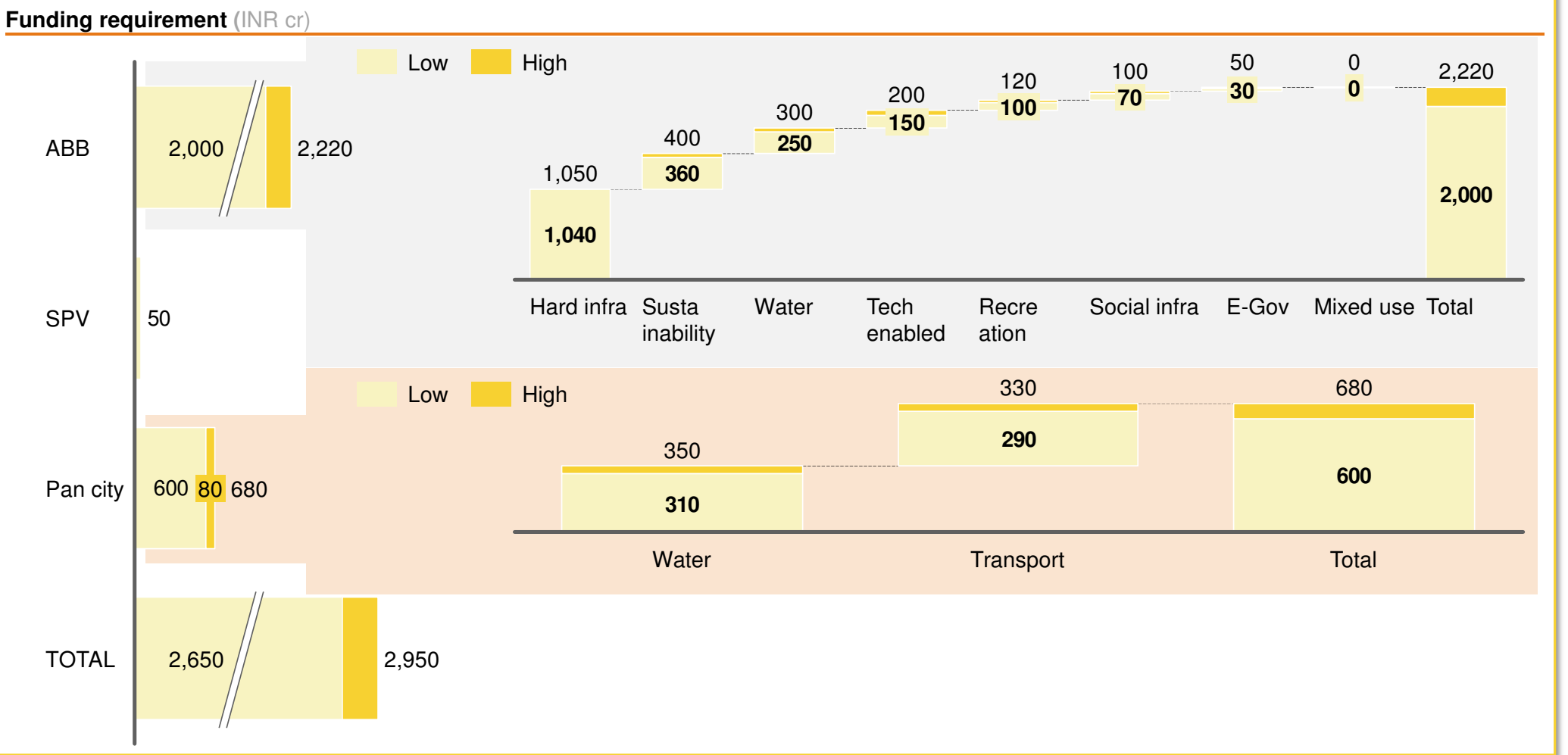
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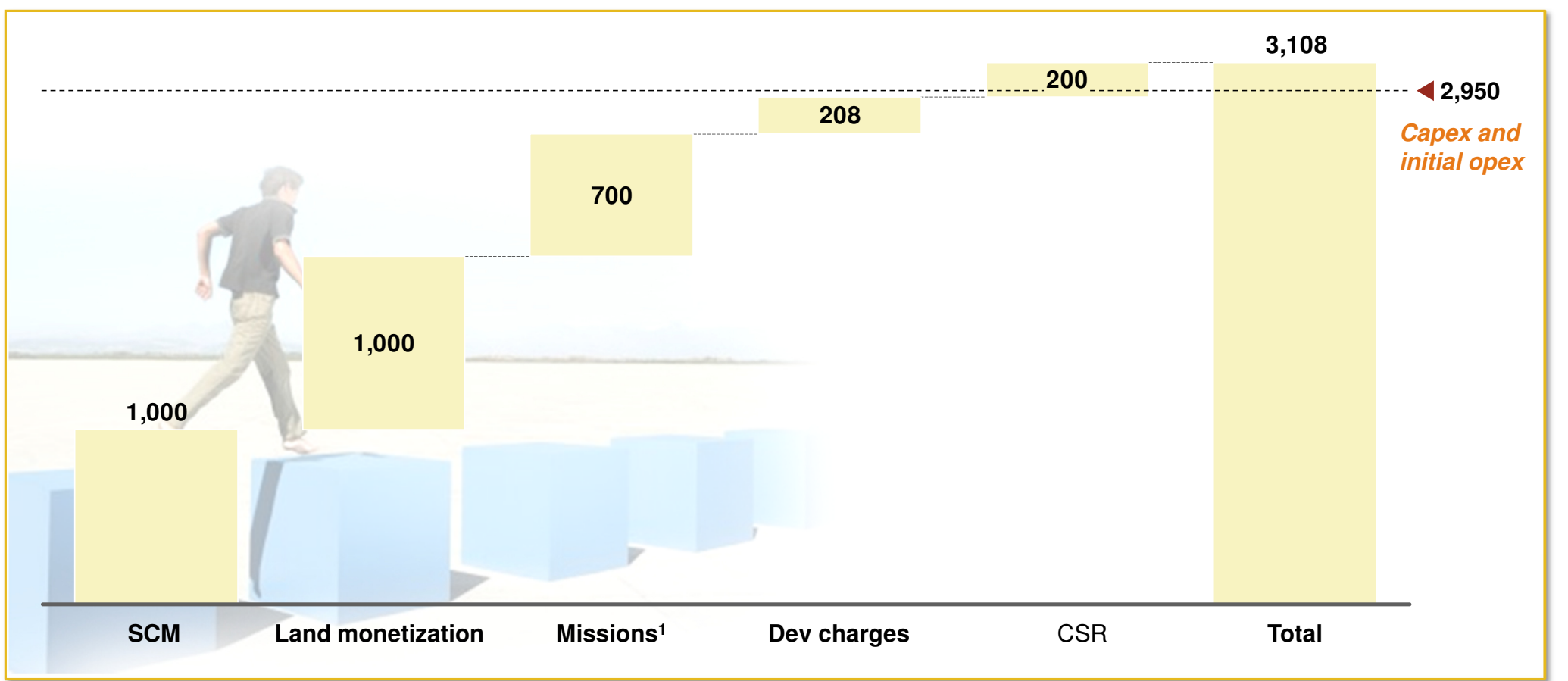
## Pune Smart City consists of 51 projects

ABB		Pan City	
#	Smart feature	#	Smart feature
1	Road and road widening	18	Smart metering (water)
2	100 Electric buses	19	River water cleaning
3	Redesign of streets	20	Solid waste management
4	Smart parking	21	Sanitation
5	Footpaths (additional and retrofit)	22	Electricity distribution – Smart grid and metering
6	Placemaking	23	Solar energy supply
7	Bicycles	24	Street lighting
8	Bus stops (revamp 54 stations)	25	Security
9	Junction redesign for 14 junctions	26	Riverfront development
10	Non-motorised street	27	Open spaces
11	BRT	28	Fire stations - 2
12	Express airport services	29	Low income skill develop-ment and healthcare
13	e-rickshaws	30	Build affordable housing
14	Waste water recycling	31	e-gov
15	Storm water use	32	IT connectivity
16	Adequate water supply	33	Transit hub
17	Rainwater harvesting	34	Start up zone
		35	Adaptive Traffic Control System
		36	Bus System ITMS
		37	Command Control Center
		38	Total Smart Parking
		39	Intelligent Road Management
		40	Traffic modelling system
		41	e-Chalaan
		42	Connectivity costs
		43	Pilot DMA for 24X7 Water
		44	Bulk Meters
		45	Helium leak identification
		46	Smart Commercial Meters
		47	Smart Domestic Meters
		48	Customer Mapping and Survey
		49	Naidu STP Energy Generation
		50	Mobile app and website
		52	Consultancy Services
		51	Consumer Awareness

Smart city project total funding (Capex+ Opex) of INR 2600 – 2900 Cr



SCP Funding Plan estimated availability of Rs 3150 Crore which was adequate to cover capex and initial 4 years opex



<sup>1</sup> Including 143 Crore PPP for IT connectivity

## Approach for financing the Smart City plan

### Set baseline

- Currently INR 2368 Crore
- Initial refinement of estimated costs based on project wise deep dive
- Assess credit-worthiness of PMC and PSCDCL
- Prepare detailed quarterly cash-flow projections and Integrate funding plan with project planning tools
- Final cost baseline after completion of DPRs and designs

### Evaluate funding options

- Smart City Mission Budget
- Land monetization
- Convergence<sup>1</sup>
- CSR
- Ringfencing of property and other taxes
- Premium FSI
- Other revenue sources as per 14th FFC<sup>2</sup>
- Smart user charges

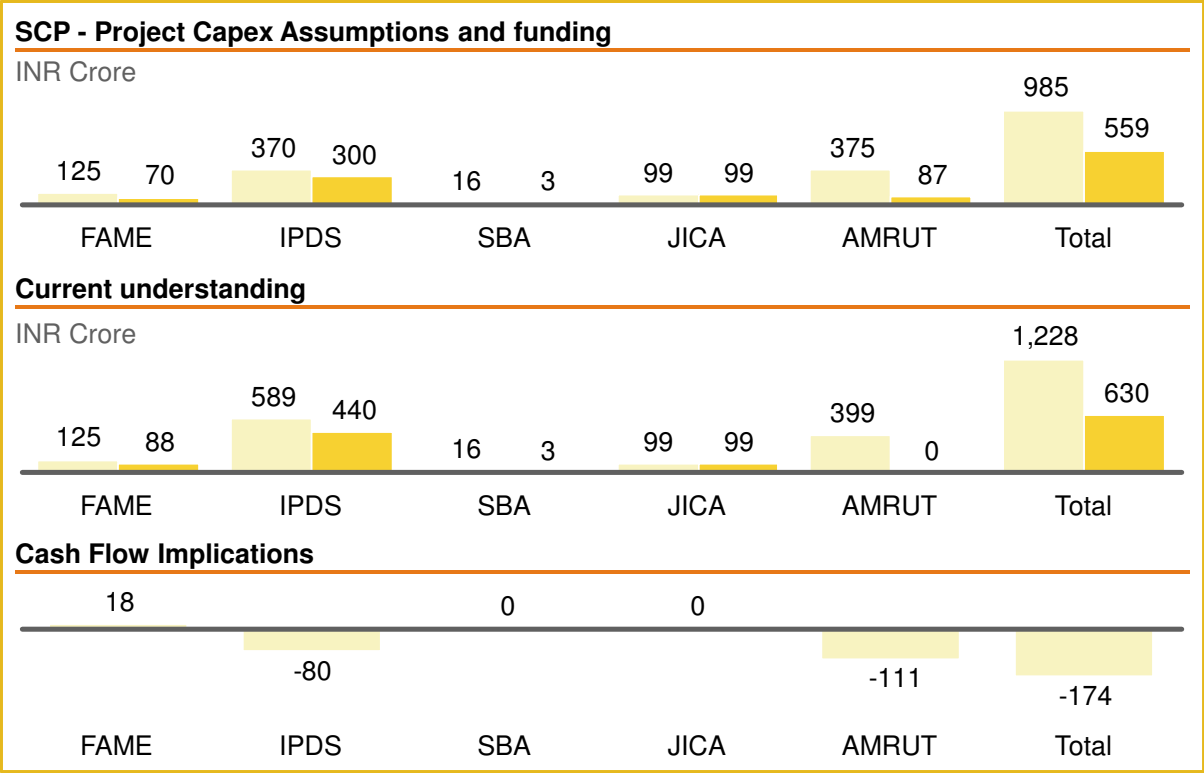
### Initiate sourcing

- Optimize funding
  - Objectives
    - Match sources and uses
    - Match timing
    - Reduce financing cost
  - Sources
    - International Funding Agencies
    - Bonds
    - PPP
    - NIIF
    - REITs/INVITs

1: AMRUT, Swachh Bharat Abhiyan, 14<sup>th</sup> Finance Commission, IPDS etc.  
2: Vacant land tax, conversion charges, betterment taxes etc.

# Status of mission funding

■ Project Cost  
■ Funded by Mission



- FAME

  - Scheme for encouraging electric/hybrid vehicle use
  - Total amount available 535 crore in FY 16-17, no state-wide quota
  - HP recently got 70% funding
- IPDS

  - IPDS focusses on sub-transmission and distribution network in urban areas
  - Overall allocation of ~22,000 Cr with ~1000 Cr for Maharashtra
  - Can be used for smart grid project
- SBA

  - Can be used for solid waste management, MH allocation of ~1000 Cr
- JICA-NRCP

  - Total 990 Cr sanctioned for Pune, expected to receive in next 3 years
- AMRUT

  - Not applicable to Pune for the next 4 years due to high service levels

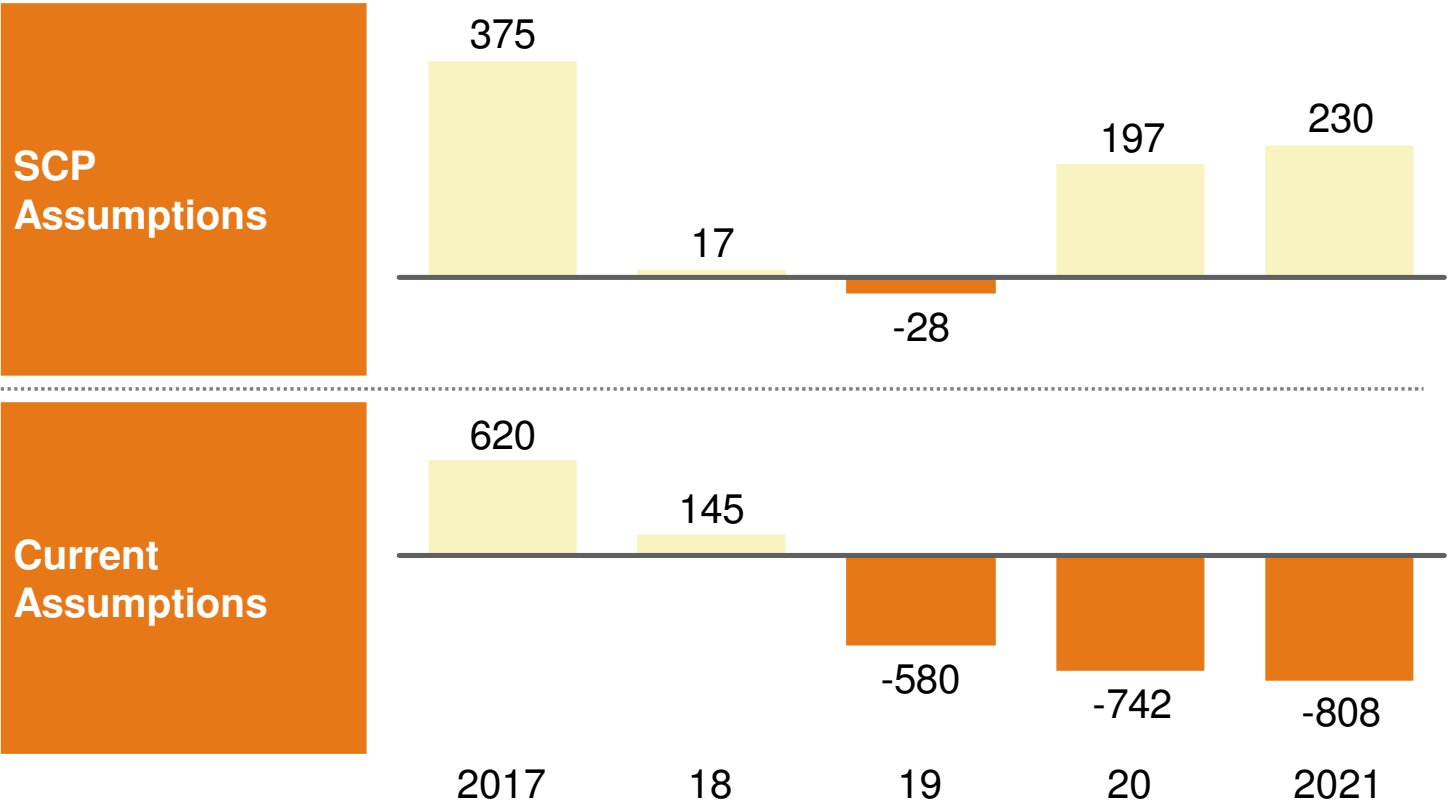
### Key updates on Missions

- Funding timelines are in next 3 years for JICA, ~6 months from DPR submission for FAME and ~6 months post approval for IPDS
- Preparation of DPR for electric buses for funding under FAME
- Submission of the revised DPR for smart grid for funding under IPDS to MoP

Moreover significant cash shortfall is expected due to timing mismatches

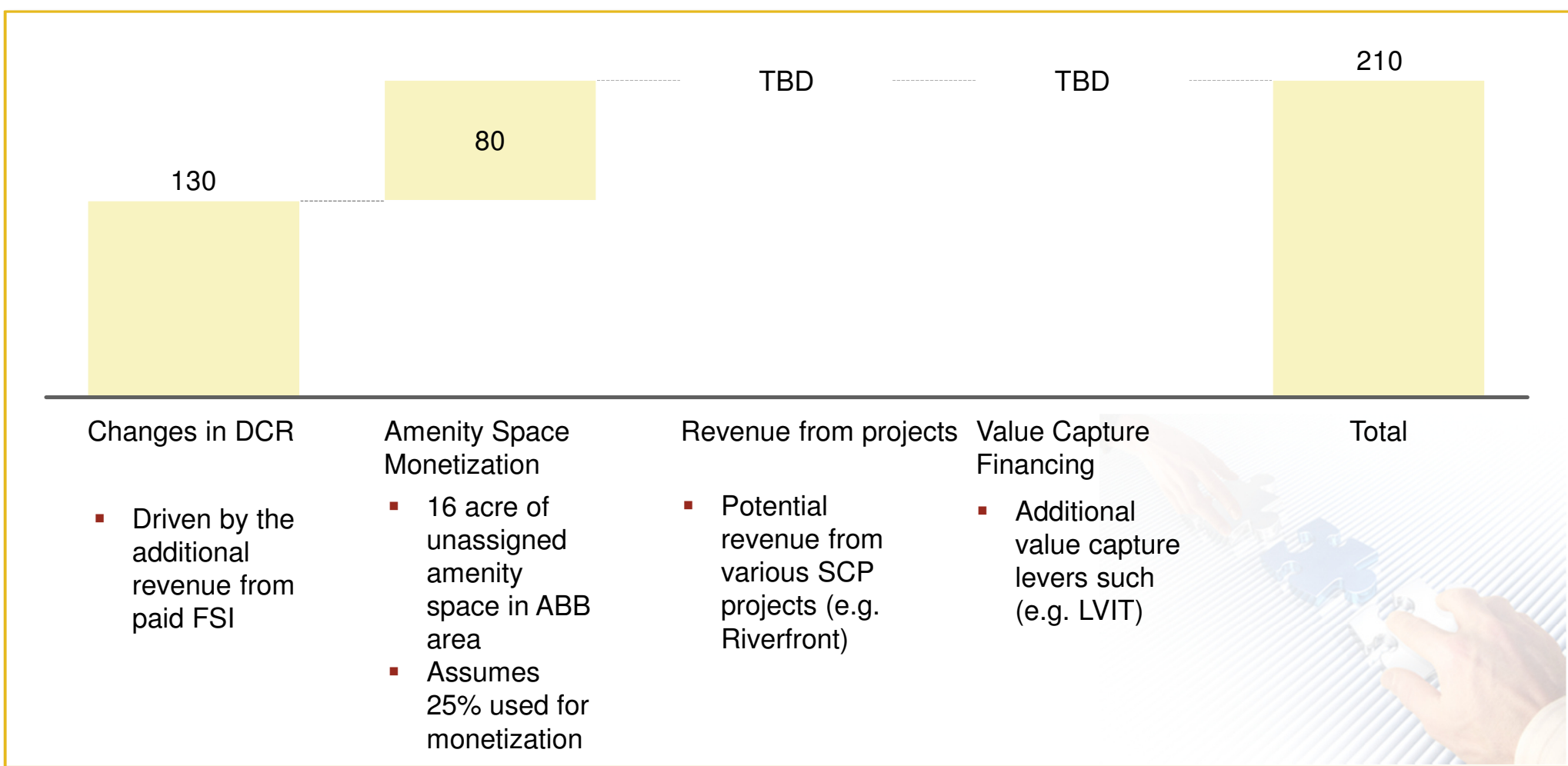
Year end cash position

Rs Crore



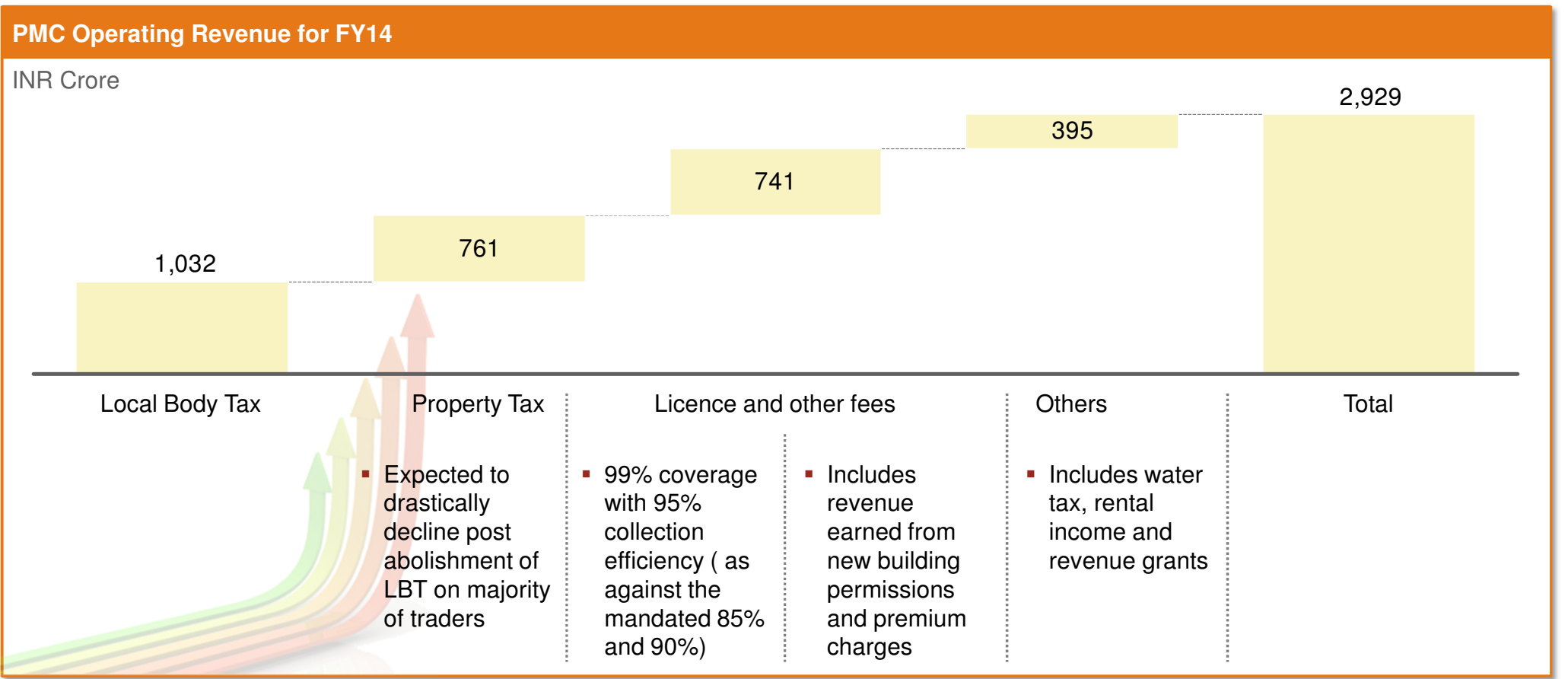
▪ Land monetization cashflow profile is back-ended given lease model and significant construction cost

4 levers can be used to narrow the funding gap





# Property tax and license and other fees are significant components of PMC revenue



SOURCE Fitch Report on PMC, Nov'15:

Proposed changes can result into additional revenue source for PMC

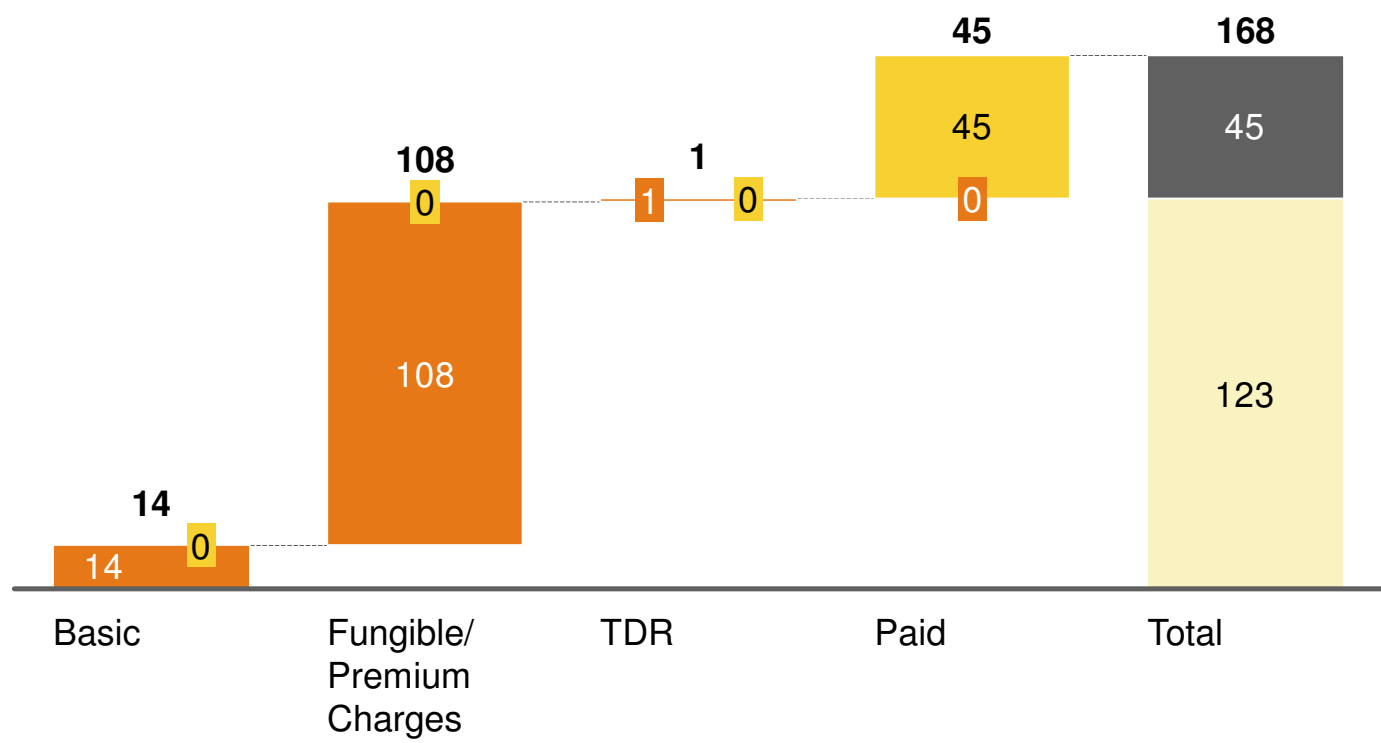
Assumptions

- Average FSI approved in ABB area is 1.7 Million Sq feet per annum (over last 5 years)
- Paid FSI rate is assumed to be 0.3 times RR rate (assumed to be ~5000/ sq ft)
- Assuming paid FSI off-take is for ~50% construction with average paid FSI taken as 0.6
- Impact of the fungible charges is assumed to be off-set by the erstwhile premium charges

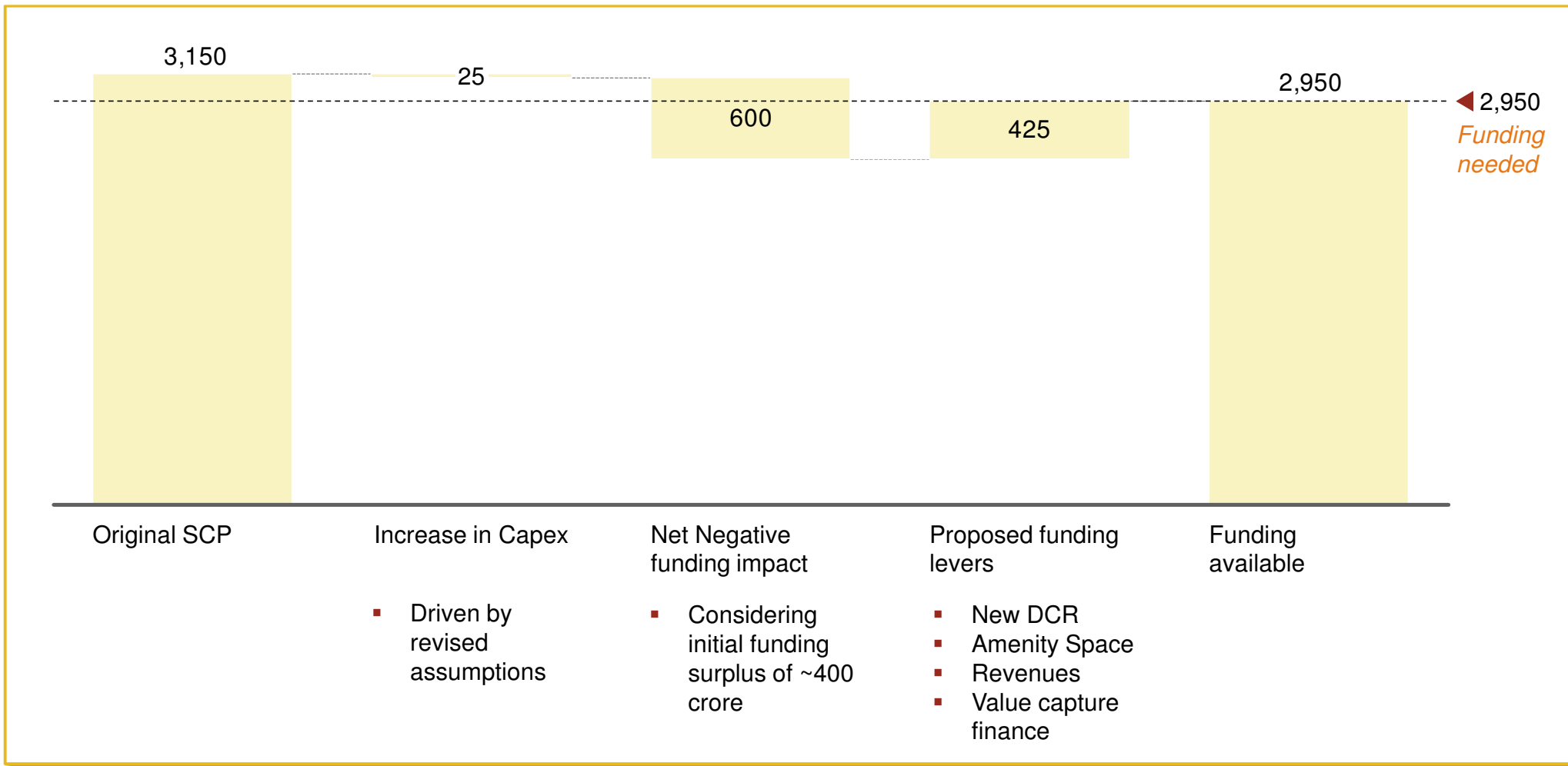
Annual Revenue from ABB area

INR crore

Incr. Revenue  
Current



# The proposed levers help to close the funding gap



## WB and Bonds can be the potential funding sources to match the funding gap

### World Bank

- Funding availability & Process
  - ~100 Mn funding each to 4-5 cities
  - In the first phase
  - Interest at 0.5% USD (7-8% INR)
  - SBI will do due diligence and appraisal on behalf of WB
  - Disbursement expected to begin by June 2017
- Financial viability (DSCR,IRR) of projects
- Key Questions
  - Going concern vs liquidating SPV
  - Who will do project
    - Techno-commercial feasibility
    - Environmental and social impact assessment

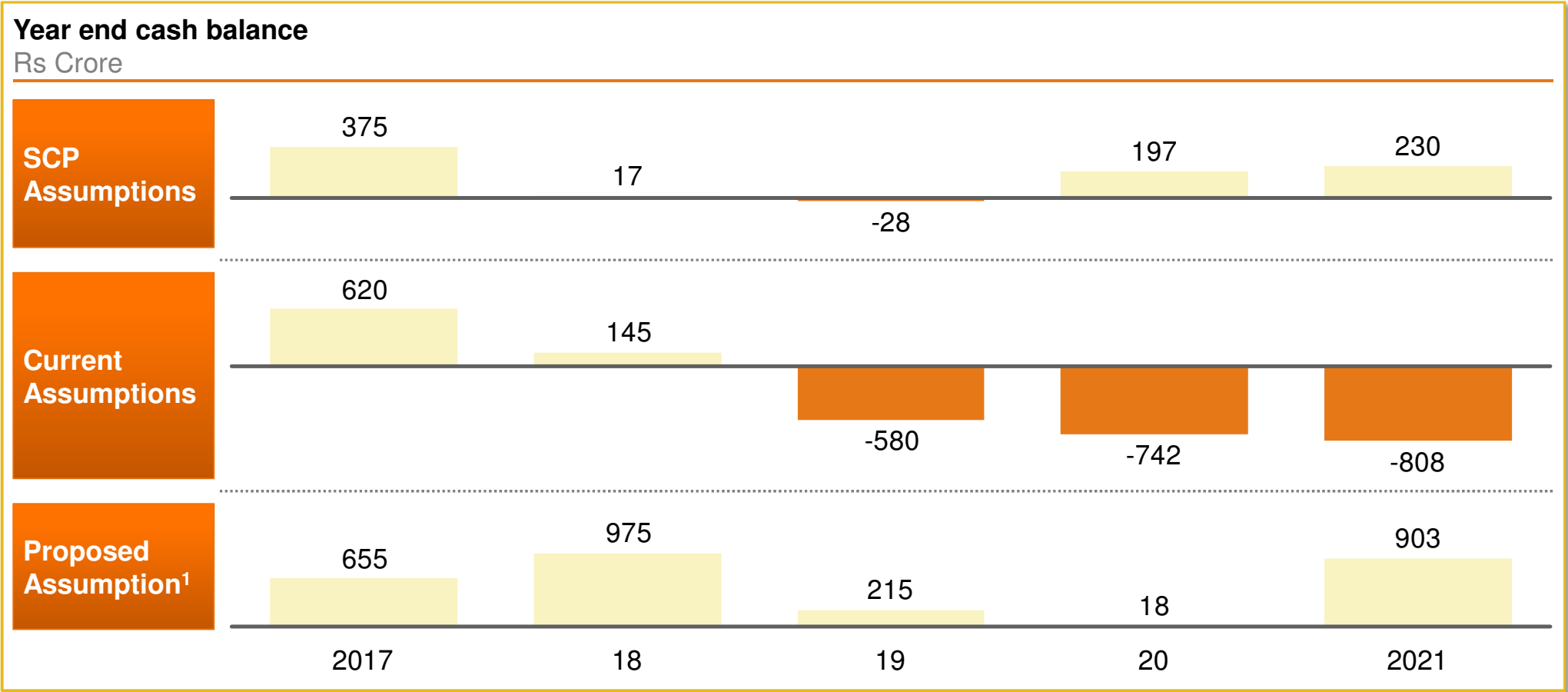
### Bonds

- Impact of PMC bond issuance
- Tax implications of transferring bond proceeds from PMC to SPV
- Rating process for the SPV and potential concerns

### LRD

- Lease rate discounting can be specifically used for the potential lease income from transit hub
- In LRD fixed percentage (say 75%) of lease value is paid upfront while you'll receive only remaining share (25%) once lease starts flowing in

Cash flow mismatch can be addressed through LRD and WB funding



1 With LRD and WB loan of 800 Crore

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## SPV Structure and Operation needs to be finalized

- SPV is setup as an independent private company with full flexibility to implement initiatives proposed under Smart City Mission (SCM)
- SPV has a shareholding of 50% from state government and 50% from PMC
- Few questions need to be addressed in terms of SPV structure
  - Would DC Rights remain with PMC ?
  - Where would the assets ownership reside ?
  - Who enjoys revenue and incurs Opex for various smart city projects ?
  - What would be the modalities of land monetization ?
- **Duration** – SPV can either operate as a) **going concern** or b) wind up after specified number of years, **self-liquidation**. Each with potential benefits and concerns

### Benefits of going concern model

- Ease of accessing funds from World Bank/ADB etc.
- Better for talent attraction and continuity
- Operational flexibility in terms of recruitment and procurement
- Institutional capability building
- Operational and financial autonomy

### Potential concerns with going concern model

- May overlap significantly with PMC as the Smart city area expands
- Regulatory and administrative issues may come up
- No direct representation from general population (unlike ULB)

## Operational aspects of SPV

### Land

- PSCDCL to have land monetization rights in the SPV area
- SPV to develop amenity spaces and PMC land in SPV Area for citizens. PMC will **transfer** such lands at no cost to the SPV, development of amenity spaces will be as per master plan of the city<sup>1</sup>
- SPV has right to develop land parcels within SPV Area by land pooling under the Town Planning Scheme mechanism

### Taxes

- The SPV will collect property taxes and grant building permissions on behalf of the PMC, SPV would be allowed to keep specified % of this revenue, including additional revenue from paid FSI, as a source of income
- The incremental benefit / part of freed budget allocated for activities that accrue to PMC due to SPV activities will be granted to SPV only to fill the O&M expenses gap with SPV

### Revenue Sharing

- SPV can get into Service Level Agreements (SLAs) with concerned PMC departments like Solid Waste Management, Water and other municipal services and the ability to outsource these functions within the SPV Area.

### External Financing

- SPV can accept deposits, issue bonds, raise loans from external sources, for the purpose of company subject to the provisions of the relevant acts

<sup>1</sup> As per PMC GB resolution 649 dated 14<sup>th</sup> December 2015

<sup>2</sup> Government decision dated 11th April 2016, GR code no. 201604121547061025



## Key actions are required across multiple areas

### Monetization

- Legal aspects of monetization (e.g. land transfer) to be further examined
- Preliminary financial model of Transit Hub to be detailed based on the master plan being prepared by Atkins
- Monetization potential and plan for amenity land parcels to be examined

### Revenue

- Revenue potential of certain Smart City projects to be explored

### Taxes

- Mechanism for amendment of DCR and ring-fencing revenues to be worked out

### CSR

- Implementation plan for CSR funding to be worked out

### World Bank

- Discussions with World Bank to secure Smart Cities funding through MOUD

### Value Capture

- Potential from Value Capture financing needs to be examined by appointment of a consultant

### Bonds

- Discussions with financial advisers to be initiated for raising bonds

### Convergence

- Perusal of IPDS funding for the smart grid project
- Preparation of the DPR for FAME funding for electric bus procurement for ABB area

THANK YOU

