

No.K-14011/8/2012-MRTS (Coord)
Government of India
Ministry of Urban Development
<http://www.urbanindia.nic.in>

Nirman Bhawan, New Delhi-110108.
Dated the 16th April, 2012.

To

- i) All Chief Secretaries
- ii) All MDs of Metro Rail Corporations

Subject: Innovative financing of Metro Rail Projects.

Sir,

As you are aware MRTS projects (rail based as well as bus based) are highly capital intensive. Yet they ought to be taken up in almost all million plus cities on an emergent basis not only to catch up with the backlog of urban transit infrastructure, but also to plan for the future. Without these projects, movements in the cities have become a huge challenge. Poor mobility can become a major dampener to the economic growth. The growth of India has to happen through urbanization and urbanization is to be driven by efficient, effective, affordable, quick, comfortable, reliable and sustainable transportation, with the MRTS projects providing the main backbone.

2. The trend in the past has been to rely mainly on the budgetary support of Central Government and State Government as well as loans from multilateral / financial institutions. However, the resources through budget are highly limited and cannot be concentrated in few cities alone. As such, there is an urgent need to resort to innovative financing mechanism for all MRTS projects. In fact, it should be possible to finance major cost of the project through exploitation of city's land resources. In this regard, a concept Note was circulated vide this Ministry's letter of even number dated 20th January, 2012 to all the States, Metro Rail Corporations, CEOs of the development authorities etc. for offering their comments. This concept paper was also discussed in three Press Conferences and hosted on the Ministry's website. Majority of the response received by the Ministry support the measures suggested for innovative financing. Based on the inputs received from various quarters, the note has been modified and a copy of the same is enclosed as Annexure-I.

Cont.....2/-

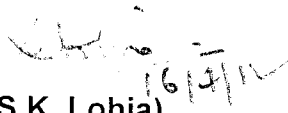
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3. State Governments, Metro Rail Companies and Local Bodies are advised for urgently implementing the measures suggested in the attached note. It may be noted that implementation of this circular would be one of the essential pre-requisites for any Central Financial Assistance either in the form of equity or grant for MRTS project (rail/bus based).

4. The progress of implementation may please be advised to this Ministry on priority basis.

Yours faithfully,

Encl : As above.


(S.K. Lohia)
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Copy to:

All Principal Secretaries(Urban Development)/Principal Secretaries (Finance)/Principal Secretaries(Transport)/Principal Secretaries(Planning), Municipal Commissioners of all million plus cities.

Copy also to:

1. Secretary (Expenditure), Ministry of Finance, North Block, New Delhi.
2. Secretary, Planning Commission, Yojana Bhawan, New Delhi.

Copy, for kind information, to:

1. PS to UDM.
2. PS to MoS (UD).
3. Sr. PPS to Secretary (UD).
4. AS/All JSs/EA in MoUD.


(S.K. Lohia)
OSD(UT) & E.O. Joint Secretary

Subject: Innovative Financing of Mass Rapid Transit System (MRTS) Projects – (Both Rail as well as Road Based).

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Mass rapid transit system projects are capital intensive and require long tenure lending at a very reasonable rate in order to be sustainable. The Metro Rail Projects specially are highly capital intensive. Furthermore, being social sector projects, it is not possible to increase the fares beyond a point and accordingly fare box revenue alone cannot make these projects financially viable. However, in spite of all these challenges, these projects have to be taken up on high demand corridors in various cities with a population of one million plus, with rail based MRTS projects in three million plus in the 12th Five Year Plan itself as recommended in the working Group Report on Urban Transport for 12th Five Year Plan. Rail Based MRTS projects are also to be planned for two million plus cities wherever viable.

2. A study of global experience in Urban Rail Transit provisioning shows that Public Private Partnerships (PPP) in Metro Rail Projects has not been very successful. As brought out in the Report of the Working Group on Urban Transport for the 12th Five Year Plan, the analysis of Metro Rail systems in 132 cities in the world provides a comprehensive understanding of the ownership structure and use of PPP in Metro Rail development. In 113 cities having Metro Rails, 88% have been developed and are being operated in Public Sector mode whereas in only 12% cities some form of Public Private Partnership exists. In fact outside India, no city anywhere in the world (except the failed experiment of STAR and PUTRA metro rail in KaulaLampur in Malaysia) has attempted provisioning of Metro rail in full city on PPP in last few decades. Even the new Metro Rail projects, which are being developed, are largely being taken up on public sector mode rather than PPP. It may be noted that PPP has been an important financing mechanism of the other modes of transport in India and else where. Even in road based MRTS projects like Bus Rapid Transit System, the infrastructure has been developed in the public sector globally whereas the bus operations and maintenance as well as fare collection has been done on PPP.

3. Financing of such highly capital intensive projects only through Gross Budgetary support, so that they can be taken up on public sector mode rather than PPP, is not possible considering the financial constraints and other pressing demands of both Govt. of India and State Govt. concerned. As such, the only way out is to resort to innovative financing mechanism using land as a resource as well as other dedicated levies/taxes as envisaged in the National Urban Transport Policy, 2006 and create a dedicated Urban transport fund at State level and Central Govt. level from such sources. The National Urban Transport Policy further mentions that the support from Govt of India would be contingent upon the States to tap these innovative financing mechanisms.

4. MRTS projects whether Rail based or Bus based, are high capacity mass rapid transit systems and are amenable to "Transit Oriented Development" as well as densification along the MRTS corridor through additional FAR. Furthermore it is also important to have as many people, who are potential users of MRTS, to live within walking distance of MRTS stations so as not only to reduce the overall travel demand but also to improve the sustainability of MRTS project. Inevitably, there is a huge spurt in the prices of property (sale as well as rental) especially along the MRTS corridor in the catchment area (which may be defined as maximum 10 min walking distance from the station). Presently, all these benefits go primarily to the private parties even though the same is caused only on account of Government investment. As such, there is a strong case for the Government to en-cash the increased property value (sale/rental) in the catchment area of MRTS corridor as well as the increased FAR along the MRTS corridor which can be used to not only part fund the project cost but also for providing interest subsidy to make available the loans, to the SPV implementing the project, on a very concessional rate so as to maintain its debt service coverage ratio (DSCR) of more than 1.15 each year. In fact the surplus, if any from the dedicated urban transport fund, can be leveraged further for raising funds from the domestic market for taking up other urban transport projects.

5. Govt of India has been advocating these ideas since long. However it the Government of Karnataka which has for the first time in the country, while sanctioning Phase-II of Bangalore Metro (72.095 kms at a total completion cost of Rs.26,405crore), has decided the following innovative financing methods for resource mobilisation through cess/TDR-

" a) Levy of Cess and Surcharge under Section 18A of the Karnataka Town and Country Planning Act at 5% of the market value of land or/and building in future Developments, to be credited to Metro Infrastructure Fund and to be shared by BMRCL, BWSSB and BDA at 65%, 20% and 15% respectively.

b) i) To extend the benefit of 4 FAR for all properties lying within a distance of 500 mtrs. from the Metro alignment.

ii) To levy a cess of 10% in respect of residential buildings and 20% in respect of commercial buildings on the additional FAR granted, in respect of Phase-1 and Phase-2 of the Metro Rail Project and share the same among BMRCL, BBMP, BWSSB and BDA in the ratio of 60%, 20%, 10% and 10% respectively.

c) i) To allow BMRCL to issue TDRs in lieu of compensation for acquisition of land for Metro Rail Project.

ii) To review the current TDR Scheme so as to make it bring in additional revenue and at the same time, attractive for the TDR Acquirer."

The yield through additional FAR of 4 and levy of cess of 10% in residential buildings and 20% in respect of commercial buildings on the additional FAR granted is estimated to be Rs.432 crore in five years. Cess of 5% of the market value of land or/and buildings in future developments is expected to yield Rs.1250 crore in five years @ Rs.250 crore per annum.

6. Even while sanctioning a Phase-III of Delhi Metro, the Government of India has decided as follows:

" The GNCTD would set up a dedicated Urban Transport Fund (UTF) at State level in consultation with Ministry of Urban Development, Government of India through levy of dedicated taxes/levies etc., capturing the increased land and property value from sale proceeds/rental (as well as increased FAR) all along the metro corridors in Delhi as envisaged in National Urban Transport Policy, 2006 to create pool of resources for replacement of assets, interest subsidy and providing operational subsidies, if any, not only for this project but other Urban Transport projects as well. 75% of the amount

realized from the increased land and property value capture from sale/rental proceeds would be credited to Dedicated Urban Transport Fund at Central Government level".

7. However for achieving the higher FAR it would be desirable to allow for amalgamation of plots as well through appropriate amendments in the bye laws. Though amalgamation is desirable but it need not be a pre-requisite. Densification should be allowed in all plot sizes subject to the new development/redevelopment project complying to the Station Area Development Plan for the influence zone. In order that the densification happens quickly and the intended revenue starts flowing to dedicated urban transport fund, it will also be important to provide for some incentives for early utilization of the higher FAR say within three to four years. It should also be kept in mind that higher FAR would not automatically result in densification as we can have penthouses utilizing the higher FAR thereby defeating the very purpose of densification. As such it is important to couple the FAR threshold with a minimum density requirement. Furthermore, it is also desirable not to allow underutilization of FAR below a certain threshold (commensurate to the capacity of MRTS system) within ToD zones for any new/redevelopment projects.

8. Inclusionary housing policies within higher FAR station areas, measures to encourage a balanced mix of jobs and housing along MRTS corridors and caps on parking supply should be adopted to support rapid densification, housing affordability and improve the efficiency and equity of the resulting developments.

9. In addition to what has been captured by Government of Karnataka, there is also room for encashing the increased market value of land and buildings at the time of sale/rental. This can be done by levying a suitable cess on the sale of land or building in the influence zone of MRTS and by additional property tax on the existing buildings (whether self occupied or rented but with differential treatment for both). The yield from this should also flow into a Dedicated Urban Transport Fund.

10. There is also a case for enhancement of property tax in the influence zone of MRTS projects (where higher FAR has been allowed) as all those living in the influence zone are benefited by the MRTS project. Whichever city are aspiring for MRTS system should

also resort to 100% property tax collection before the proposed completion date of the project. As such in addition achieving 100% property tax collection would also be made one of the conditions of sanction. The funds of additional revenue on account of both can also be pooled into the Dedicated Urban Transport Fund.

11. In addition to the above, the State Governments may consider any other sources of dedicated levies like vacant land charges, betterment levy, special development charges, cess on fuel, parking taxes, congestion charges, auction based motor vehicle registration quota systems, etc. to augment the resources for taking up the MRTS projects. A vacant land tax, not only on land but also on unutilized FSI, is to ensure time bound densification along with MRTS corridor where the higher FAR is permitted. Vacant land tax must be very strictly levied and should be quite steep. It is absolutely inappropriate to allow land banking in TOD zones. Vacant land tax or Under-utilization of FAR Tax should also apply as a penalty to all developers as well as Govt. bodies, to prevent inefficient use of valuable land. All the additional revenue coming out of the land monetization as mentioned above can also flow into a Dedicated Urban Transport Fund.

12. As the revenue in this Dedicated Urban Transport Fund would be flowing in from the Urban Local bodies as well as the State Governments, it would be desirable to have fool proof ESCROW mechanism to use these funds only for the intended purposes. This may be achieved by making the above fund to be operated as a trust fund under a well-structured trust deed duly outlining in the order of priority, the purposes for this fund can be used. A public sector bank may be selected for managing the Trust Fund. This ESCROW mechanism of generating additional revenue from land monetization and additional property tax etc. so as to not only part fund the project but also provide interest subvention and/or credit enhancement, can open up a huge pool of long term funds with Provident Fund and insurance sector for investing in MRTS projects, multi modal integration projects, related infrastructure and services, etc. This would greatly reduce the over dependence on multilateral funding for taking up MRTS projects as is the case today. This will enable participation of Urban Local Bodies in development of MRTS systems for the city and also development of infrastructure etc for intermodal integration and effective transport system monitoring and management.

13. In addition to the above, reference is also invited to this Ministry's D.O. letter No.K-14011/48/2008-UT dated 12th January, 2009 vide which suggested possible sources of Dedicated Urban Transport Fund at State/city level were advised. At the State level, additional sales tax on petrol, additional registration fee on four-wheelers and two-wheelers, high registration fee for personal vehicles running on diesel, annual renewal fee on driving license and vehicle registration, congestion tax, green tax etc. may be used to draw sources for the Dedicated Urban Transport Fund at the State level. The inelastic demand of petrol with respect to price in a short run would ensure sufficient accruals to the funding and which would, in the long run, incentivise such people to shift to the public transport system. The funds so generated by the States can be used for new projects in urban transport, compensate towards exemption of tax on urban buses, mass transit systems and replacement of assets of public transport companies and, towards meeting the cost of various other concessions extended to encourage public transport by the State Government.

14. The cities, in addition to the above sources, can also generate funds out of rationalization of parking-fee, advertisement revenue on transit corridors, employment tax (as done in France) etc. This fund at the city level can be used for establishing a fare contingency fund to meet the difference between the 'public fare' (paid by the commuters) and the 'technical fare' (payable to the private operators) to sustain the operations and; to provide ULBs' share for funding the urban transport projects.

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