



## ABSTRACT

Urban Development - Mobilization of resources by issue of taxable pooled bonds under KfW assisted Sustainable Municipal Infrastructure Financing in Tamil Nadu (SMIF-TN) Program by Water and Sanitation Pooled Fund (WSPF) - Orders - Issued.

### MUNICIPAL ADMINISTRATION AND WATER SUPPLY (MA2) DEPARTMENT

G.O.(Ms).No.565

Dated: 09.11.2010

Read:

1. G.O (Ms) No.113, Municipal Administration and Water Supply Department, dated 19.08.2002.
2. G.O (Ms) No.218, Municipal Administration and Water Supply Department, dated 3.11.2008.

#### Read Also:

3. From the Managing Director & Chief Executive Officer, TNUIFSL D.O. Lr. No. WSPF/Taxable Pooled Bonds/2010, dated 06.07.2010

#### ORDER:

In the letter third read above, the Managing Director and Chief Executive Officer, Tamilnadu Urban Infrastructure Financial Services Limited has stated that Water and Sanitation Pooled Fund (WSPF) was set up in the year 2002 as a Trust under the provisions Indian Trust Act, 1882, as in the Government order second read above, with the objective to mobilize resources from the capital market to fund viable urban infrastructure projects and to also facilitate private sector participation. The Trust is fully owned by the Government of Tamil Nadu (GoTN) and is managed by Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL), Chennai.

2. The MD&CEO, TNUIFSL has also stated that as part of the German Financial Cooperation with India, the Government of the Federal Republic of Germany and Government of India have agreed to provide funds equivalent to Euro 10 million under "Sustainable Municipal Infrastructure Financing in Tamil Nadu" (SMIF-TN) program to facilitate the access of smaller and medium sized municipalities to the bond market by structuring a vehicle for pooled financing that issues bonds on an ongoing basis under Master Financing Indenture (MFI).

3. The MD&CEO, TNUIFSL has further stated that the Government and KfW have approved the nomination of WSPF as MFI under the KfW assisted

(SMIF – TN Program) for raising resources by way of issue of taxable pooled bonds under the MFI structure. The Government in its order first read above has issued to pass on the KfW line of credit of Euro 10 million (i.e. equivalent to about Rs. 65 crores) to the existing entity of the Government of Tamil Nadu, Water and Sanitation Pooled Fund.

#### 4. Proposed Mobilization of Bonds :-

(i) The total amount which can be refinanced to projects by issue of taxable bonds and subordinated loan is Rs.167 crores (Rs.102 crores to be mobilized by issue of taxable pooled bonds and Rs.65 crores as subordinated loan assisted by KfW through Government of Tamil Nadu). It is proposed to mobilize 50% of the above in the first issue and accordingly the size of the taxable Pooled Bonds proposed to be issued will be Rs.51 crores and subordinated loan to be provided by GoTN will be Rs.32.50 crores. The total will be Rs. 83.50 crores. The Government in its order second read above has issued to release subordinated loan of Rs.32.50 crores to Water and Sanitation Pooled Fund.

(ii) A proposal to mobilize taxable pooled bonds to part finance the projects executed in Tirunelveli, Coimbatore, Salem, Tiruppur, Chennai, Tiruchirapalli and Tuticorin Corporation was placed before the Board in its 29<sup>th</sup> Board meeting held on 26.03.2010 and the same has been approved. However, KfW has requested them to exclude the projects which have already been refinanced by KfW line of credit. Accordingly, a revised proposal to finance nine projects were forwarded to KfW and also placed before the Board in its 30<sup>th</sup> Meeting held on 28.06.2010. Both, the KfW and the Board have approved the revised proposal.

(iii) The following structure for the proposed issue of taxable pooled bonds is approved.

Issue Size	:	Rs. 51 crores (with an option to retain oversubscription by Rs.51 crores)
Tenor	:	10 years with 5 years principal moratorium. Principal will be redeemed in 5 equal installments from year 6 to 10  Put & Call option : At the end of 7 <sup>th</sup> year
Rate of interest	:	To be fixed at the time of issue, based on the market conditions.
Rating	:	Proposed to be rated
Credit Enhancement Mechanisms	:	Escrowing of revenues at ULB and WSPF level, SFCD Intercept and Cash Collateral

The aforesaid bond issue would be backed by the credit enhancement mechanisms as stated above. In the case of insufficient funds to meet the bond

service or shortfall in the payments into the designated bond service account, the interception of State Finance Commission Devolution (SFCD) Grant of the participating ULBs has to be utilized.

(iv) On realization of funds from the market by way of issue of taxable pooled bonds, the bond proceeds along with the subordinated loan will be utilized to finance / refinance the following nine projects.

Table - 1 Projects proposed to be financed

(Rs. in crores)					
Sl. No.	ULB	Project	Project Cost	Loan from Tamil Nadu Urban Development Fund	Proposed to be financed
1	Tirunelveli Corporation	Roads	25.00	11.00	8.00
2	Coimbatore Corporation	Roads	25.00	13.500	10.00
3	Salem Corporation	Roads	38.00	21.00	12.00
4	Tiruppur Corporation	Roads	28.14	8.60	5.50
5	Tuticorin Corporation	UGSS	80.00	24.47	24.40
6	Dindigul Municipality	UGSS	45.29	8.72	7.90
7	Cuddalore Municipality	UGSS	65.14	8.38	7.90
8	Hosur Municipality	Bus Stand	6.89	6.20	5.80
9	Vandavasi Municipality	Bus Stand	3.80	2.65	2.00
	Total		317.26	104.52	83.50

(v) In the case of under-subscription of bonds, the amount proposed to be refinanced will be proportionately adjusted among the beneficiary ULBs and in the case of oversubscription, the funds will be utilized for the selected projects, in consultation with KfW. The potential projects selected for utilization of over-subscription is furnished below:

Table 2 - Potential projects selected for utilization of over subscription

(Rs. in crores)					
Sl. No.	ULB	Sector	Project Cost	Loan from TNUDF	Proposed to be financed
1	Perambalur	UGSS	20.90	8.69	8.69
2	Pudukottai	UGSS	48.16	12.05	12.05
3	Sivaganga	UGSS	23.39	5.19	5.19
4	Tiruvottiyur	UGSS	87.63	7.81	7.81
5	Vellore	UGSS	39.27	11.47	11.47
6	Dharmapuri	UGSS	16.35	5.25	3.19
7	Pollachi	WS	8.64	4.96	4.00
8	Kurichi	WS	19.35	6.63	5.00
9	Kuniamuthur	WS	15.07	4.92	4.00
10	Koundampalayam	WS	18.97	7.53	5.00
11	Salem	River improvement	31.23	18.73	17.10
	Total		328.15	93.23	83.50

5. The Managing Director and Chief Executive Officer, Tamilnadu Urban Infrastructure Financial Services Limited, has requested the Government to issue orders on the following:

- I. to approve the structure for the proposed issue of taxable pooled bonds as stated in para 4(iii) above.
- II. to approve to finance / refinance urban infrastructure projects implemented by the nine participating Urban Local Bodies as stated in Table 1 under para 4(iv) above. In the case of under-subscription of bonds, the amount proposed to be financed will be proportionately adjusted, among the above beneficiary ULBs. However, in the case of oversubscription, the funds will be utilized for the eleven projects as stated in Table 2 under para 4(v) above.
- III. to approve the interception of State Finance Commission Devolution (SFCD) Grant of the participating ULBs, in the case of insufficient funds to meet the bond service due. Any shortfall in the payments into the designated bond service account would be made up from future accruals of the State Finance Commission Devolutions (SFCD) to the respective ULBs, in the event, that there is insufficient funds or non-transfer to

WSPF to meet the debt service. The arrangement shall be irrevocable and unconditional and the same shall not be withdrawn or revoked till the entire bond amount is paid in full.

IV. The commitment of State Government to provide necessary approvals, participate in monitoring, certification and reporting process.

6. The Government after careful examination, accept the proposals mentioned in para 5 above and issue the following orders:-

a) The following structure for the proposed issue of taxable pooled bonds is approved to mobilize resources by issue of taxable pooled bonds amounting to Rs. 51.00 crores ( with an option to retain oversubscription by Rs. 51.00 crores) under KfW assisted sustainable Municipal Infrastructure financing in Tamil Nadu Program to finance /refinance the urban Infrastructure projects of Urban Local Bodies.

Issue Size	:	Rs. 51 crores (with an option to retain oversubscription by Rs.51 crores)
Tenor	:	10 years with 5 years principal moratorium. Principal will be redeemed in 5 equal installments from year 6 to 10  Put & Call option : At the end of 7 <sup>th</sup> year
Rate of interest	:	To be fixed at the time of issue, based on the market conditions.
Rating	:	Proposed to be rated
Credit Enhancement Mechanisms	:	Escrowing of revenues at ULB and WSPF level, SFCD Intercept and Cash Collateral

The aforesaid bond issue would be backed by the credit enhancement mechanisms as stated above. In the case of insufficient funds to meet the bond service or shortfall in the payments into the designated bond service account, the interception of State Finance Commission Devolution (SFCD) Grant of the participating ULBs has to be utilized.

b). The Government also approve and sanction the following the Fin/refinance Urban Infrastructure Projects by participating Urban local bodies.  
Projects proposed to be financed

(Rs. in crores)

Sl. No.	ULB	Project	Project Cost	Loan from TNUDF	Proposed to be financed
1	Tirunelveli Corporation	Roads	25.00	11.00	8.00
2	Coimbatore Corporation	Roads	25.00	13.50	10.00
3	Salem Corporation	Roads	38.00	21.00	12.00
4	Tiruppur Corporation	Roads	28.14	8.60	5.50
5	Tuticorin Corporation	Under Ground Sewerage Schemes	80.00	24.47	24.40
6	Dindigul Municipality	Under Ground Sewerage Schemes	45.29	8.72	7.90
7	Cuddalore Municipality	Under Ground Sewerage Schemes	65.14	8.38	7.90
8	Hosur Municipality	Bus Stand	6.89	6.20	5.80
9	Vandavasi Municipality	Bus Stand	3.80	2.65	2.00
	Total		317.26	104.52	83.50

(v) In the case of under-subscription of bonds, the amount proposed to be refinanced will be proportionately adjusted among the above beneficiary Urban Local Bodies. However in the case of oversubscription, the funds will be utilized for selected project in consultation with KfW. The following 11 projects are the selected project for utilizing over subscription.

Table 2 - Potential projects selected for utilization of over subscription

(Rs. in crores)

Sl. No.	ULB	Sector	Project Cost	Loan from TNUDF	Proposed to be financed
1	Perambalur	Under Ground Sewerage Schemes	20.90	8.69	8.69

2	Pudukottai	Under Ground Sewerage Schemes	48.16	12.05	12.05
3	Sivagangai	Under Ground Sewerage Schemes	23.39	5.19	5.19
4	Tiruvottiyur	UGSS	87.63	7.81	7.81
5	Vellore	UGSS	39.27	11.47	11.47
6	Dharmapuri	UGSS	16.35	5.25	3.19
7	Pollachi	WS	8.64	4.96	4.00
8	Kurichi	WS	19.35	6.63	5.00
9	Kuniamuthur	WS	15.07	4.92	4.00
10	Koundampalayam	WS	18.97	7.53	5.00
11	Salem	River improvement	31.23	18.73	17.10
	Total		328.15	93.23	83.50

c). The Government also approve and sanction the interception of State Finance Commission Devolution (SFCD) Grant of the participating Urban Local Bodies, in the case of insufficient funds to meet the bond service due. Any shortfall in the payments into the designated bond service account would be made up from future accruals of the State Finance Commission Devolutions (SFCD) to the respective Urban Local Bodies, in the event, that there is insufficient funds or non-transfer to WSPF to meet the debt service. The arrangement shall be irrevocable and unconditional and the same shall not be withdrawn or revoked till the entire bond amount is paid in full.

d). The Government also direct that the commitment of the State Government is provide necessary approvals, participate in monitoring, certification and reporting process on the above issues.

e). The participating Urban Local Bodies should adhere to the conditions relating to maintenance of Escrow Accounts and Debt service Reserve Fund as prescribed by Water and Sanitation Pooled Fund.

f). The participating Urban Local Bodies to the modalities suggested by Water and Sanitation Pooled Fund for operation and utilization of fund raised under the above scheme from time to time.

g). This order shall be in force during the currency of the bond issued by Water and Sanitation Pooled Fund.

7. This order issues with concurrence of the Finance Department vide its U.O.No. 253/JS(KK)/10, dated 02.11.2010.

(BY ORDER OF THE GOVERNOR)

ASHOK VARDHAN SHETTY,  
PRINCIPAL SECRETARY TO GOVERNMENT.

To

The Managing Director and Chief Executive Officer,  
Tamil Nadu Urban Infrastructure Financial Services Limited, Chennai-17.

✓ The Director of Municipal Administration, Chennai-5.

The Pay and Accounts Officer (East), Chennai-5.

The Account General, Tamil Nadu, Chennai-18

The Account General (Audit) , Chennai-18

**Copy to:**

The Finance (MAWS/L & A Cell/W & M I) Department, Chennai-9.

The Municipal Administration and Water Supply (OP-II) Department, Chennai-9

The Private Secretary to Principal Secretary to Government,

Municipal Administration and Water Supply Department,  
Chennai-9.

SF/SC.

/ Forwarded by Order/



SECTION OFFICER



9/11/10