

## **CHAPTER 7**

### **STATION PLAZA DEVELOPMENT**

## **CHAPTER 7**

### **STATION PLAZA DEVELOPMENT**

#### **7.1 Public Interest - Station and Station Plaza Development**

From the government and public viewpoint -- as characterized in earlier sections of this report-- station and station plaza development are imbued with public character.

At the very minimum, they strengthen the integration among railway lines and with other transport modes. As such, the facilities promote patronage for the rail lines. To meet this public obligation, each station should have: (a) facilities such as escalators, rest places, pedestrian ways, etc. that provide convenience and comfort to passengers; (b) transition zones to connect railway lines with other surface transport modes (jeepney, bus, taxi, etc.) Through these facilities and zones, enlarging flows of people getting on and off at stations will transform stations and their vicinities into new socio-economic concentrations: as places for enjoyment, working and habitation.

The relation between the railway system and socio-economic activity concentration is established through another component of station development, that is, (c) urban facilities in general, such as commercial, business, sheltering facilities or open spaces. Metro Manila will have more number of additional urban cores, which are main driving forces in stimulating economic and social activities in the station areas.

Related parties that engage in this development will gain benefits. To the local government units (LGUs) where stations are located, there will be intensive land utilization in and around the station area. The development will make the locality more conducive to business and residents, and indirectly raises the income of the LGUs. To property owners, station plazas present opportunities for private gains. The concentration of commuters and pedestrians creates a critical mass of potential customers. Hence, it introduces commercial, business, and other enterprises. At a sufficient scale, it may revitalize economic and social activities. Benefits from this kind of activities are often not captured by transport operators and government entities.

As in other similar developments, the station and station plaza development will create considerable socio-economic effects, in public as well as private domain.

## **7.2 Proponents and Undertakings**

### **7.2.1 Private Sector**

There are two instrumental proponents: private sector and public sector. The private sector is expected to assume a catalytic role in the development of these undertakings. One can have an understanding about the country's public finance both at national and local levels. Against financial demand for fixing transport infrastructure planned in the MTDP, financial resources in the country are severely constrained. Recognizing this condition, the country has been rightly on track of mobilizing private resources both at domestic and external fronts for the purpose of fixing various infrastructures. This policy is to be firmly pursued, supported by the recognition that the current trend in social capital (stock) formation is private sector—based in other countries such as Japan, UK, USA and EU. In the last few years, Japan has started a PFI (Privately Financed Initiatives) policy in fixing infrastructures under the new law. In former years, undertakings with public interest and particular significance have been carried out by the public sector without any opposite arguments.

### **7.2.2 Characteristic Particular to Undertakings**

The undertakings referred to as (a), (b) and (c) in section 7.1 will involve acquisition of land and renovation of existing facilities. Land lots have to be prepared for transport facilities. Other lots for public use are also necessary. This task is often a difficult and complicated one, especially when the public sector does not own land, or when there are several property owners. The PEA and the BCDA have been engaged in similar undertakings but there are some differences: with reference to land acquisition, the PEA and the BCDA own land for a single purpose and later authorize change in utilization of land. The degree of difficulty varies according to locations. In some cases, land lots are idle; while in other cases, several small lot owners cannot agree on a common vision. In other cases, land lots have existing structures or utilization that could not be modified unless demolition and / or re-zoning are pursued.

In addition to land-related matters, these undertaking have to deal with various public requirements. The government sector (LGUs, MMDA, DOTC, LRTA etc.) should have their own evaluation based upon public perception, whose views are often expressed in terms of "what," "where," and "when," among other considerations.

In more detail, these are facilities required to be fixed, and whose location and size of public places (incl. roads) need to be secured; there are land resources to be set aside for transport

facilities, land area to be developed, adjustment to be made with the existing socio-economic concentrations to create harmony with existing land uses in the surrounding area, land use and zoning to be changed, landscape to be enhanced, environment conservation to be taken into account, as well as timing, implementation period and so on.

In case the private sector expresses interest in pursuing the undertaking, public wants expressed mainly by LGUs may have different features from what the private sector plans to carry out.

### **7.2.3 Limited Responsiveness of the Private Sector**

Even if the private sector is commissioned to respond to these requirements, these requirements are not often met successfully owing primarily to unrealized profitability and financial viability, which is the springboard of private sector bullishness. To keep profitability and financial viability at required levels, the private sector often gives up necessary facilities, and neglects public wants, i.e., that an adjoining area be developed under the undertaking at the same time. Where there are symbiotic relationships between the public and private interests, there is always potential for conflict. The commercial requirements of the latter may dominate the overall design of the station plazas. The development of stations and station plazas, therefore, cannot be left to market forces alone. The public sector has to step in, and initiate balanced development.

It is to be recognized that the private sector has limited responsiveness to public interests.

### **7.3 Active Public Involvement**

The public sector's involvement is inevitable. The involvement is contributory to realizing public wants. Without public involvement, difficulties arise. But then again, involvement takes different forms. In one case where the public sector demands for changes in designs, with complete disregard for cost considerations, and leveraging its power to issue permits, this kind of involvement does not end in resolving problems. It only contributes to complicating matters, to reducing the private sector motivation and to discouraging its participation in undertakings.

Active involvement is much better. It does not necessarily mean budget appropriations. It includes guidance, coordination, management, regulation and deregulation. It is aimed at lowering hurdles for entering business by contributing to the enhancement of profitability and financial viability. Incentive leverage is mobilized to the end of realizing public interest.

Preferential treatment in the form of active involvement is often given to undertakings, which are of public interest and of particular importance to the nation. Direct participation by the public sector in these undertakings should be kept to a minimum as much as possible.

As the active involvement covers measures, which give special care or a favor to an interest group (in this case an enterprise engaged in the undertaking), these measures should conform with legal requirement. At present in the country, the legally approved preferential treatment is provided to undertakings under authorization of Eco-zone, BOI, and Subic Bay. This preferential treatment is targeted at increasing exports, gaining more foreign earnings and generating more employment. Station and station plaza development is expected to bring out more effective transportation and to create new urban cores, e.g., socio-economic concentrations. Although different objectives seem to be identified, both have the same ultimate goals—to satisfy public interest and to contribute to the management of the nation.

Recto and EDSA already have their respective proponents of undertaking. However, there are many other stations that need to be developed. These are recognized as being of public interest and of particular importance also, as in the cases of Magallanes, Monument and so on. But the private sector's interest is weak. In this case, preferential treatment will help the private sector find these undertakings profitable and financially viable.

#### **7.4 Priority Area Development**

The scheme comprises the following components:

(1) Designation of a specific area as the priority development area

The public sector designates the priority development area either on its own cognizance or upon proposal by the private sector.

(2) Incentives

This includes preparing better business environments and providing financial incentives pertaining to taxes, guarantees, insurance, etc.

(3) Incentive measures in one package in public

The country has a legal capacity for implementing this scheme: The Urban Development and Housing Act 1992, the Comprehensive Zoning Ordinance for NCR 1981, the Local Government Code 1991 etc. The Urban Development and Housing Act identifies a "priority development area" and its "designations." "TRU (Transportation and

utility) area" shall be identified in zoning and land use plan under the Comprehensive Zoning Ordinance for NCR issued by MMDA. In this regard each locality shall comply with this Ordinance, unless amended by a corresponding locality. The Urban Development and Housing Act and Local Government Code stipulate that LGUs are authorized to formulate land use plan and zoning.

Based on various articles of the Urban Development and Housing Act concerning favor provision, it is inferred that favor is provided to a priority development area under some conditions.

The above being taken into account, it is interpreted that the public sector shall have the power to designate the TRU area as a priority development area to where incentives are provided under some conditions and that the station and station plaza development could be covered under this scheme.

Although a basic foundation for the above scheme is available, there might be a need for further deliberation on additional structuring in legal procedures, and for pursuing the formulation of substantial measures.

Under this scheme, the authority shall be shared among several entities in the public sector. DOTC, DPWH, MMDA, HUDCC, HLURB, DOF, LGU are concerned bodies.

National government bodies in related matters should consult with LGUs. Because public wants are witnessed more seriously at the LGU level, the role of LGUs will become an increasing one. Zoning and land use do not end upon their formulation. Under this system, zoning and land use planning become more substantial ones to realize a desired state in urban socio-economic concentrations. By taking this opportunity of developing a station and station plaza and mobilizing various incentive measures, LGUs can cope with and contain the bullishness inherent in private activities. Upon increased economic activity in the development area, LGUs will enjoy increasing revenues, which could be reinvested on fixing more infrastructures.

The national government acts as a catalyst for urban renewal, guiding market forces by forming a joint front with LGUs through guidance, management, coordination, regulation, deregulation and incentives provision. Each body belonging to the public sector has to formulate attractive incentive measures in corporation with each other. For example, there are several aspects that MMDA and the LGUs can unlock and in the process, engender serious investor interest in station development.

- 1) Restrictions on land use: It is within the specific power of LGUs, and generally of MMDA, to delineate zones and their allowable uses. In addition, the LGUs can withhold or issue permits for location, building construction and occupancy depending on permissible uses. Likewise, it can deny / grant business permits. Hence, it can delineate areas within the sphere of influence of railway stations and restrict their uses accordingly. To enhance this role, the LGUs can restrict other areas from being used as transport terminals.
- 2) Land consolidation scheme: Several small lots may have to be consolidated, and a new plot plan and lot allocations executed, to clear the way for a station plaza. The LGUs can persuade the affected property owners to reach a consensus and agree on a joint re-development scheme. In this method, land is ceded voluntarily, followed by re-adjustment of property boundaries and modification of rights.
- 3) Property tax holiday: Taxation of properties is a power lodged with LGUs. They can likewise waive the payments thereof for a given length of time to promote station development or encourage land consolidation.
- 4) Controls on bus terminals: LTFRB requires bus operators to set up their own terminals. Because of competition, operators comply by establishing separate terminals instead of sharing or using a common facility. MMDA and LGUs, through their powers on location clearance, could foreclose the avenue for separate sites. They could push bus operators to move to a common facility.
- 5) Restriction on street-terminal: Buses and jeepneys often utilize the street as terminals. This, of course, restricts the smooth flow of traffic and causes congestion in busy corridors. Strict enforcement of rules prohibiting such a practice, combined with the attraction of an authorized common facility, can provide the impetus for multi-modal station development.

As to power sharing among related national government bodies, there are the following authority fields to consider: Which entity has the power to designate an area or undertakings as the one to be developed in high priority?, Which entity deals with formulating and providing incentives? Which entity makes commercial deals with private enterprises, keeping transparency and effectiveness? Transparency is the most important aspect due to the fact that public assistance will be expected after the finalization of contracts. It is desirable that prior preparation is fixed for incentive

provisions so that the public sector can mobilize incentive leverage measures, thereby succeeding in getting the most favorable finale.

In a case where incentives are provided only to a limited number of people and business entities, people in general will be against this practice because of unequal treatments. Running on this track will merely result in missing a big opportunity and losing economic benefits. Thus if one were put in a position competent to deal with this process, one should bear in mind that public interests should be prioritized over any considerations related to offering incentives to a special group. This requires getting public acceptance for the development prior to giving incentives.

## **7.5 Incentive Measures**

A diversified program shall be developed and be put into one package, neither fragmental nor piecemeal. And prior notice to the public has to be made so that the private sector could make an evaluation of undertakings in as reasonable a manner as possible in terms of maintaining profitability and financial viability. The responsible agency in the private sector has to formulate incentive packages through consultation with concerned agencies such as DOF.

The incentive package covers various items in a broad field. It is divided into two categories: one is preparing better business environments and the other is providing financial incentives.

The first one consists of deregulation on land use (ex. height restriction, floor area ratio restriction), control on bus terminal, restriction on on-street terminal, traffic management, rerouting of bus, jeepney etc., rezoning and so on. All these measures will contribute to more ridership on the railway system, more effective use of land resource and more economic activity in the station and station plaza area.

The second category is related to financial incentives ranging from tax to capital and financial markets.

### **(1) Tax breaks**

Preferential treatments on taxation, such as property acquisition tax or registration tax, should be provided to fledging enterprises and deferment of capital gains collection should be accorded to investors. And in the stage of business operations, preferential tax treatments on corporate income, interest, dividend, capital gains accruing through



transaction of securities should be provided. Furthermore, a preferential treatment on fixed assets depreciation is effective in generating investments.

Incentive measures through favorable tax treatments should become more effective under a high-performance tax administration and taxation system.

## (2) Capital and financial markets

What will support the business entity financially is as follows: low-interest loan, zero-interest loan, and public subsidy on interest payments, public equity sharing or contribution and public subsidy in general. Also guarantee and insurance service on bonds payable contribute a great deal to best-selling bonds payable.

The above are understood as an indirect participation in undertakings. Although a direct participation should be avoided as much as possible, a public entity is expected to participate in undertakings in the form of providing land lots (land donation) or / and financial funds for constructing transport facilities, public open space and public utilities in exceptional case such as?

## **7.6 Procedure and Organizations**

### **7.6.1 Basic Principle**

Undertakings are pursued under the mutual pact of Private-Public Partnership based upon the following principles.

- (1) The undertakings are to be motivated and initiated by related parties in the private sector and guidance and assistances to the undertakings are made by a public entity.
- (2) Related parties in the public sector are engaged in the development of resources such as available land lots and their locations, thus building more effective economic concentration. For this purpose, related parties shall secure financial resources and land, and renovate facilities for commercial, business, and living activities, and these facilities will be leased or sold. Transportation facilities, public open space and public utilities are contributory to developing this process.
- (3) A public entity shall be engaged in guidance, management, coordination and incentive provision. Except for exceptional cases, it is expected to participate in undertakings in

the form of providing land lots or/and financial funds for constructing transportation facilities, public open space and public utilities.

### **7.6.2 Procedures**

A stepwise procedure to guide the private sector in applying for participation in undertakings is provided below:

- Step1 Related parties establish an enterprise on their own initiatives.
- Step2 An enterprise formulates a development plan and presents its proposal to a public entity to get its approval and ask for a preferential status.
- Step3 A public entity evaluates a development plan and designates an undertaking and a location as prioritized.
- Step4 A public entity provides incentive measures for an enterprise.

The above procedure has much in common with the EPZ system. The development plan has to be coordinated with the land use plan and zoning of the concerned municipality or city.

### **7.6.3 Organization**

Evaluation of development plan, designation of a specific area as a prioritized development area and formulation of incentive measures provision should be carried out by either by a single organization or by a group made up of organizations that have joined up with each other. Candidates for the organization are as follows: DOTC, MMDA, HLURB, HUDCC, municipality or city. Which is the most suitable for the undertaking is subject to deliberation.

### **7.6.4 Executing Entity**

#### **(1) Alternatives**

To properly put into context all possible executing entities, three choices have been outlined: (1) rely on existing agencies (MMDA, LRTA, PEA) to take on the challenge of multi-modal station development; (2) establish a new agency with the sole purpose of developing these stations; or (3) organize a joint-venture company, with the existing agencies and LGUs as partners or incorporators.

The first option is the least problematic. It will simply entail a change in priorities, and the re-allocation of resources. Under this scheme, a specific station plaza is designated as a priority development area for the agency concerned. It will then be up to the concerned agency to raise the funding. Its main drawback is the lack of public money, and the competing demands of the core functions and activities. With fiscal constraints, the agency cannot put high priority to station plazas without sacrificing some of its other and more pressing concern. Of the three probable lead agencies, PEA has the best chances of succeeding.

As to the second alternative, the setting up of a new body will require legislation. Congress is not likely to act with dispatch on such a measure. The act proposing to restructure LRTA into an urban rail authority has remained at a standstill for a number of years now.

The third alternative is a more viable approach than the second one. It remains to be seen whether it is any better than the first. By enabling a pooling of the limited resources of the three government entities, it partly overcomes the deficiencies that each one is heir to. Its downside, however, is the historical unwillingness to play second fiddle to the other.

A public entity could also become the sole developer. This corresponds to (1) and (2) of the above. The PEA, LRTA, MMDA, city or municipality could assume full responsibility. However, in the light of the present condition, a public entity should merely initiate and leave the "rowing" to the private sector.

## (2) Legal Status of the Third Alternative

A joint- venture agreement can be signed between the two parties. It may entail the formation of a joint venture company.

Invariably, the private investors would prefer to incorporate a separate special-purpose company (SPC). Lot owners in the vicinity of the proposed development could be brought into the SPC through stock swap, i.e., land in exchange for shares of stock.

Alternatively, the lot owners can enter into a trust agreement with the SPC. In which case, the land lot is placed under a trustee's legal control in exchange for an agreed share of income stream. Rights on creation of trust can be negotiable. During a trust contract period, the SPC assumes full legal control over the lot. Upon termination of the trust

agreement, legal control reverts back to the original owner. In fact, the related party has substantial right to own its land lot.

The SPC can also be organized as a cooperative, with the various parties as equal voting members. For one reason or another, this form is rarely successful in the country.

The question on which is the best operating form depends on the circumstances peculiar to a specific undertaking: macro economic conditions, attributes particular to the undertaking, socio-economic conditions such as landownership, socio-economic conditions, and the mores of a specific area.

As these operational forms do not entail selling and purchasing land lots, they will not trigger off a hike in land price.

In these methods, acquisition of land is carried out through compulsory acquisition, readjustment of land and readjustment of right on land.

A public entity could function as an enterprise. The MMDA, city and municipality are candidates for the enterprise. However, in the light of the present economic policy, a public entity should have the private sector lead the undertaking and the public sector should help and encourage the private sector to execute the project through guidance, regulation and assistance.

## **7.7 Procuring Fund**

Any undertaking needs big financial resources from their inception. In this regard the public sector has been operating under a meager financial condition especially in the case of LGUs in spite of an unbalanced, overloaded role under the Local Government Code.

Aside from equity and commercial loans, the SPC could raise capital by issuing bonds (based on assets). This securitization of assets would be a promising candidate. In the near term, the country will have a bond market where bonds are tradable. Under this condition, SPC—the investor—could make the best use of the invested money, properly responding to capital and financial market performance as follows: on the one hand, investors are free to sell bonds and get cash money in exchange and on the other hand, investors do not have to pay back for bonds. If investors make a good financial management, e.g., combining redemption of issued bonds with issuing new bonds, they would get enough cash to pay interests due for a planned period. Of course, this mechanism could work well only under a good credit rating.

An alternative would be for a public body to provide support. Also SPC could provide special privilege rights to bond holders to enhance the attractiveness thereof.

The measures are expected to mobilize domestic financial resources and overseas factor income resources. Amazingly, the country enjoys rich factor income which reaches almost 10% of GDP {US\$7bn / US\$82bn (1997), US\$ / US\$65bn (1998), US\$5.7bn / US\$ (1999)}.

For this, preferential tax treatments on capital gains, interest and dividend are recommended in forms of tax reduction, exemption and rebate. Furthermore, by introducing guarantee and insurance systems supported by public measures into the private financial domain, risks on investment will be alleviated.

Appropriations from the national treasury are not promising. At present, national and local governments are already strained in funding their core projects, and would be hard-pressed to add another undertaking.

On a long-term basis, it is conceivable that an "Urban Development Fund" can be established in order to enlarge the number of station plazas coming into fruition. The stable and sound financial resources are designed to be available to cope with any undertakings of that sort. If each undertaking is carried out on individual base, private proponents cannot avoid being constantly concerned with financial matters. In worst cases, they could miss a business opportunity because of it. The fund could be based on economic benefits accrued from the station and station plaza development.

LGUs are dependent mainly on property tax, business tax and internal revenue allotment for their financing. Their sources of revenues are strictly limited. It is generally accepted that at the local level, property tax should command a bigger share of revenues. In addition to this policy for increasing revenues, LGUs should focus on establishing a new revenue source. LGUs could institutionalize a special levying system as a significant measure to recover development gain, pooling it into an "Urban Development Fund." It is a certainty that the other source of the Fund is the issuance of bonds, as explained above.