

Original Research Article

Optimization of debt structure and sustainable financing mode of urban investment company

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Abstract: This study investigates debt structure optimization and sustainable financing models for urban investment companies. It first elucidates the significance of these approaches, including facilitating market-oriented transformation and mitigating systemic financial risks. Subsequently, the paper proposes actionable measures: debt restructuring to alleviate short-term repayment pressures, optimizing financing channels to establish a diversified financing system, and strengthening cost control to reduce overall financing costs. By implementing these strategies, sustainable financing models can provide crucial practical references for achieving virtuous cycle development and fortifying the financial security of local economies.

Keywords: urban investment company; debt structure optimization; sustainable financing model

1. Introduction

As the core vehicle for local governments to advance infrastructure development and boost regional economies, urban investment companies (UICs) have played a pivotal role in urbanization. However, with the implementation of new local government debt management regulations and intensified efforts to resolve hidden debts, traditional financing models of UICs have become inadequate. Structural issues such as maturity mismatches and uneven financing costs are becoming increasingly prominent. These challenges not only hinder corporate vitality but also pose potential risks to regional economic and financial stability. Against this backdrop, how to divest government financing functions, restructure debt portfolios as market-oriented entities, expand financing channels, and achieve goals of deleveraging, structural optimization, and cash flow stabilization has become a critical task for UICs' transformation. Therefore, it is essential to explore measures for optimizing UIC debt structures, categorize debt types based on policy guidance, clarify repayment responsibilities, and establish a diversified financing system with controllable risks and revenue alignment.

2. Core logic and principles of debt structure optimization for urban investment companies

2.1. Core logic: Compatibility, cost reduction, and risk prevention

The core logic of optimizing debt structure for urban investment companies (UICs) lies in achieving "three alignments": First, aligning debt maturities with project revenue cycles. By extending debt terms, companies can alleviate short-term repayment pressures and enhance the continuity of project capital chains. Second, aligning debt types with financing purposes. Financing methods should be selected based on the public welfare and market-oriented attributes of projects—public welfare projects may utilize government-standardized debt channels, while market-oriented projects employ market-based financing approaches. Third, aligning debt costs with profitability. This involves expanding financing channels to reduce costs, ensuring debt repayment remains within the company's sustainable profit margins. Simultaneously, UIC debt structure optimization should shift

from a "scale-expansion" model to a "quality-efficiency" model.

2.2. Basic principles

Policy Compliance Principle. This principle guides the debt structure optimization of urban investment companies. During optimization, strict adherence to local government policies ensures lawful financing activities. For instance, in debt restructuring and expanding financing channels, regulatory requirements must be rigorously followed. **Market-Oriented Principle.** In debt structure optimization, this principle must be strictly implemented. By leveraging market mechanisms, companies can enhance their market-oriented financing capabilities. Promoting market-oriented transformation cultivates core profitability, enabling debt repayment through operational income and ensuring a virtuous cycle between debt and operations. **Categorized Policies Principle.** Given significant regional and type-specific variations in debt conditions, differentiated strategies are essential. Companies with large debt scales should prioritize debt restructuring to alleviate short-term repayment pressures. Those with market-oriented foundations should diversify financing channels to optimize debt structures. **Risk Containment Principle.** As the final principle, this requires accurate risk assessment and contingency plans during optimization. Effective risk management prevents structural debt adjustments from causing risks, ensuring stable operations of urban investment companies.

3. The significance of debt structure optimization and sustainable financing mode application of urban investment company

3.1. Facilitating the market-oriented transformation of urban investment companies

"Decoupling from platforms and strengthening market orientation" has become a key direction for the transformation of urban investment companies, with debt structure and financing models being critical to its success. Currently, many such companies lack independent operational capabilities and cash flow generation capacity, leading to debt management that prioritizes scale over structure, resulting in deteriorating financial conditions. However, by optimizing debt structures and adopting sustainable financing models, these companies can not only overcome current challenges but also establish a solid foundation for their long-term survival and development.

To optimize the debt structure of urban investment companies, we have improved their financial health through three key measures: categorizing existing debt types, adjusting debt maturity ratios, and reducing financing costs. For example, high-cost short-term non-standard debt has been replaced with low-cost long-term special-purpose bonds to ease liquidity pressures. Differentiated debt instruments are tailored to project-specific cash flows. Public welfare projects utilize long-term policy-based financing, while commercial projects adopt market-oriented equity financing, ensuring a balanced "debt-to-income" ratio to enhance corporate debt repayment capacity.

Sustainable financing models provide long-term momentum for urban investment companies' market-oriented transformation. By establishing a diversified financing framework with stable revenue streams, these companies can enhance their self-sustaining financing capabilities. For instance, leveraging asset securitization tools to activate existing infrastructure assets and monetizing the value of concession projects can broaden financing channels, creating a virtuous cycle. This model generates revenue through market-driven operations, thereby promoting sustainable corporate development.

3.2. Helps prevent systemic financial risks

The debt of urban investment companies (UICs) is substantial, spanning multiple financial sectors including banking, trust services, and bond markets. Their debt risks have become a major factor affecting financial market stability. However, optimizing the debt structure of UICs and adopting sustainable financing models not only helps mitigate financial risks but also contributes to maintaining financial market stability.

Optimizing debt structures can reduce the risk exposure of urban investment companies. Replacing long-term debts with short-term ones helps alleviate immediate repayment pressures. Moreover, sustainable financing models achieve risk dispersion and pricing through market mechanisms, thereby improving the financial market ecosystem. Under these models, urban investment companies operate as market entities, requiring financial institutions to conduct risk assessments based on their operational performance. This not only enhances management efficiency but also drives financial institutions to refine their risk evaluation systems. Meanwhile, diversified financing channels like green bonds attract long-term capital from social security funds and insurance funds into urban investment sectors, optimizing the capital structure of financial markets and ensuring market stability.

3.3. Facilitates the implementation of national strategies

China is currently undergoing a critical phase of economic restructuring and high-quality development. Urban investment companies (UICs) play a pivotal role in implementing national strategies such as new urbanization, carbon peaking and neutrality goals, and regional coordinated development. Optimizing debt structures and establishing sustainable financing models provide UICs with financial security and operational frameworks to support national strategies at the local level, thereby driving economic growth. Within the new urbanization framework, UICs serve as key implementers of urban renewal and smart city projects. These initiatives are characterized by large-scale investments and extended return periods, requiring substantial capital support. By adopting a "policy-backed financing + market-oriented operations" model, UICs can utilize long-term low-interest loans from policy banks to complete projects, while achieving asset appreciation and profit generation through market-driven operations. For instance, one UIC issued smart city special bonds and partnered with private capital to develop intelligent transportation systems, which not only enhanced urban governance efficiency but also generated sustainable returns.

4. Practical path of debt structure optimization of urban investment company

4.1. Promoting debt restructuring to alleviate short-term solvency

The first step involves maturity restructuring to optimize debt structure. For urban investment companies with high short-term debt ratios and repayment pressures, collaboration with financial institutions should focus on debt rollovers and refinancing to extend debt maturities and align with project revenue cycles. For example, short-term working capital loans should be converted into medium-to-long-term fixed asset loans to ease short-term repayment pressures^[1]. Concurrently, local governments should secure special bond financing to replace high-cost, short-term existing debts and reduce financing costs. Subsequently, debt type restructuring should be implemented to lower the proportion of non-standard debt. Urban investment companies must prioritize addressing the high costs and short maturities of non-standard debt by replacing existing non-standard debt through standardized instruments like corporate bonds, enterprise bonds, and medium-term notes, thereby optimizing debt structure^[2]. Additionally, with support from government-backed financing guarantee institutions, issuing credit ratings for standardized bonds can reduce issuance costs. Finally, asset injection and debt divestment should be explored to enhance asset quality. Local governments may utilize high-quality operational assets and state-owned equity to ensure the scale and quality of urban investment companies' assets, strengthening their financing and repayment capabilities. Meanwhile, debts arising from public welfare projects can be assumed by the government through standardized channels, ensuring the separation of debt from urban investment companies' operational assets and alleviating their debt burden.

4.2. Optimizing financing channels and building a diversified financing system

First, deepen bank-government cooperation and expand medium-to-long-term credit support. Urban investment companies and commercial banks should enhance communication, establish partnerships, and

leverage their operational projects to secure medium-to-long-term credit funding. For instance, urban renewal and industrial park development projects can apply for special medium-to-long-term loans with preferential interest rates. Simultaneously, explore bank loan models and collaborate with multiple banks to provide critical support for large-scale projects, thereby diversifying financing risks. Next, increase the proportion of direct financing and diversify bond financing options^[3]. Urban investment companies should expand bond financing channels and explore new bond types, such as issuing green bonds and special-purpose bonds. Infrastructure projects aligned with green development requirements, for example, can issue green bonds to benefit from policy incentives and market appeal. Finally, introduce social capital to innovate PPP models. For infrastructure projects meeting market-oriented operation conditions, urban investment companies should collaborate with social capital through PPP models, sharing investments, risks, and returns. This approach not only alleviates their own financial pressure but also leverages the professional expertise of social capital to enhance project operational efficiency.

4.3. Strengthen cost control to reduce overall financing costs

To enhance credit ratings and secure preferential financing rates, urban investment companies should pursue market-oriented transformation by focusing on core business development, improving profitability and asset strength to elevate credit scores. This strategy enables them to secure lower interest rates and reduce financing costs. Simultaneously, obtaining guarantees from government-backed financing institutions can lower risk premiums^[4]. On the other hand, strengthening integrated financing management and optimizing funding schedules are crucial. Companies should establish coordinated financing mechanisms, aligning funding plans with project timelines and capital needs to prevent idle funds. Through continuous monitoring of financing costs and strategic selection of financing methods, they can ensure cost efficiency and minimize overall financing expenses.

5. Construction of sustainable financing model of urban investment company

5.1. Promoting market-oriented transformation and establishing a practical, sustainable financing foundation

First, urban investment companies should divest their government financing functions and focus on commercial operations, clearly defining their market-oriented positioning. For instance, they can transform into comprehensive urban operators and industrial park service providers, engaging in market-driven activities to cultivate core profitability^[5]. Simultaneously, they should establish partnerships with governments to secure stable market revenues through government procurement of services and franchise operations. Next, they should develop core businesses to enhance market-driven profitability. By improving internal management, optimizing business processes, reducing operational costs, and achieving corporate efficiency, they can further strengthen their market-oriented capabilities. Finally, refining corporate governance structures is essential. Urban investment companies should enhance governance in accordance with modern enterprise systems, establishing decision-making, execution, and oversight mechanisms to boost market-driven operations. Building professional management teams and attracting top talent will enable market-oriented corporate operations. Increased transparency in information disclosure will establish corporate credibility and strengthen investor confidence in the market.

5.2. Establishing a diversified financing system and expanding sustainable financing channels

First, deepen bond market channels and establish a regularized bond issuance mechanism. Urban investment companies should adopt bond financing as a long-term channel for capital raising. Based on their funding needs and current market conditions, they should clearly define appropriate bond issuance scales and maturities while diversifying bond financing instruments. Maintaining close communication with bond market investors will enhance corporate recognition of the bond market and reduce financing costs. Next, companies should participate in capital markets to expand equity financing channels. Qualified urban investment companies

may actively pursue IPOs and refinancing to secure stable long-term equity capital, optimizing their capital structure. By utilizing equity transfers and capital increases, they can attract social capital to improve market-oriented operations. Finally, innovative financing methods should be explored, including asset-backed securities (ABS), intellectual property pledge financing, and supply chain finance to create sustainable funding channels. Leveraging digital financial platforms for online financing can enhance efficiency and reduce costs.

5.3. Establishing a risk prevention and control system to ensure sustainable financing operations

First, establish a debt risk monitoring and early warning mechanism. Urban investment companies must not only develop this system but also dynamically track key indicators including debt scale, structure, financing costs, and repayment capacity. By building risk early warning models, they can identify potential risks and formulate contingency plans to enhance debt risk management. Next, these companies should optimize cash flow management through strategic planning of fund inflows and outflows to ensure financial stability. Implementing a cash flow forecasting mechanism enables accurate prediction of future financial needs and efficient fund allocation. Additionally, effective project cash flow management ensures timely revenue recovery and strengthens repayment capacity. Finally, urban investment companies should maintain close communication with local governments and financial institutions to foster collaboration. They should actively seek government support in policy and funding, while staying informed about local debt management policies to adjust financing strategies accordingly.

In conclusion, the debt structure optimization and sustainable financing model development for urban investment companies (UICs) constitute a systematic project involving multiple stakeholders including governments, enterprises, and financial institutions. This requires comprehensive coordination and collaborative efforts. Moving forward, UICs should focus on continuous debt structure optimization and sustainable financing model development, which can be achieved through expanding financing channels, cost control, and debt structure optimization to reduce financing costs.

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