Nassau Airport: Diving deep

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Citigroup has closed a $265 million bank debt and bond financing for the expansion of the Lynden Pindling International Airport in Nassau, the Bahamas. The financing was placed with a mixture of international banks and local and regional bond investors.

The bank debt consists of a $153 million seven-year senior-secured revolving credit, which breaks down into a $123 million US dollar sub-tranche and a $30 million dual-currency tranche. The arrangers on this tranche, which was priced at 400bp over Libor, were Citigroup, First Caribbean, Export Development Canada, Royal Bank of Canada and Scotia Capital.

The lead arranger divided the bond debt into a $42 million senior secured 23-year fixed-rate tranche with an 8.5% coupon and $70 million subordinated 25-year participating debt that carries an accreting coupon of 13%. Of the senior bonds, B$30 million were in Bahamian dollars (unofficially pegged at 1:1 to the US dollar) and $12 million in US dollars. The subordinated bonds were split into a series 1 of $10 million and B$10 million, and a second dual-currency series of $50 million.

The financing backs the redevelopment of Nassau's airport, the largest in the Bahamas. The project company, Nassau Airport Development Company Limited, holds a 30-year concession to manage, operate, maintain and develop the airport, including its terminals, parking facilities, runways and taxiways.

The government of the Bahamas formed NAD in 2006 to take over the airport, free of debt, and redevelop it. That year it also renamed the airport, in honour of the islands' first prime minister, and retained Citigroup as financial adviser on the project. The owner of the airport, NAD, remains in government hands. YVR Airport Services, the commercial arm of Vancouver Airport Authority, and in which Citi Infrastructure Investors owns a substantial stake, operates the airport under a 10-year management agreement.

The airport is not operated under a full concession, and the financing does not benefit from an equity cushion. But the debt is not considered to be on the balance sheet of the government of the Bahamas. The government aimed to make the airport self-sustaining, and finance improvements, by levying a passenger charge, on top of the typical airport revenues like landing fees.

Citi's first act in moving from financial adviser to arranger was to assemble a $65 million bridge refinancing of the predecessor airport authority's government-backed debt on a non-recourse basis. This financing also funded a first phase to the development of the airport, consisting largely of some improvements to the physical condition and sanitation at the airport, as well as the implementation of the passenger charge, congestion reduction plans, and design for the more substantial work to come.

The first financing, which closed in April 2007, was completed on the assumption that the airport would be ultimately financed through a long-term bond issue. The cross-border bond market had been kind to airport issuers that year. Lima Airport Partners closed a $165 million securitization, and ICA raised $251 million for the AeroInvest trust, both through Merrill Lynch. For Nassau, Citi envisaged an issue that would be US-eligible but marketed primarily to regional investors.

The time it took to put together a bond deal and the urgency of keeping the development project moving, forced the borrower to refinance the bridge with $87 million in term debt in November 2007. By the time Lehman Brothers imploded the bond was ready to go, but by November 2008, capital markets conditions had turned against such issuers, so Citi reworked the financing to incorporate a mixture of bank debt and bond debt.

The resultant financing works well with the schedule that YVR has assembled for the terminal's development. The terminal consists of three sections, for pre-cleared travellers to the US, for other international travellers, and for domestic passengers. This financing will cover the first section, and if after the US section is completed the borrower can get bonds away, the proceeds would pay down the revolver and free up capacity for the next stage, and so on.

Particularly notable is the use of the accreting coupon subordinated tranche. This is designed to provide the borrower with a cash cushion, much as an equity tranche would, and was placed almost entirely with the islands' National Insurance Board. The subordinated and accreting coupon features have appeared rarely in infrastructure finance, and even more rarely outside the US. In a bitter irony, within a month of Nassau closing, YVR, together with Citi and John Hancock, failed to round out the concession payment for Chicago's Midway Airport after considering a similar instrument.

Revenues at the airport, principally the passenger fee, but also revenues from concessions and landing fees, are placed in an offshore account and are then subject to a waterfall. Operations and maintenance are paid first, then interest and principal, then the funding of a debt service reserve, and then any surplus can be distributed to the owner of the airport.

The senior bonds attracted considerable interest from local and regional investors, with local investors in particular hungry for fixed rate bonds that offer better yields than government securities, and constricted in their investment targets. The Bahamian dollar is subject to exchange controls, which, together with the fact that some of the costs of the expansion are in Bahamian dollars, mandated that the bonds be issued in two currencies.

The resulting financing package still has the hint of a stop-gap about it, though one that leaves NAD well positioned for a recovery in the capital markets. With luck, the owner will also dodge some of the current downturn in tourist numbers. But concentrating on the needs of local investors has allowed the airport to dodge much of the fallout from the credit collapse.

Nassau Airport Development Co Limited
Status: Closed March 2008
Size: $265 million
Location: Nassau, The Bahamas
Description: Refinancing and expansion financing for terminal redevelopment
Sponsors: Government of Bahamas, under contract with YVR Airport Services
Debt: $153 million bank revolving credit, $42 million in senior bonds, and $70 million in subordinated bonds
Financial adviser, bookrunner, structuring and administrative agent: Citigroup
Bank debt arrangers: Citigroup, First Caribbean, Export Development Canada, Royal Bank of Canada and Scotia Capital
Lender legal counsel: Shearman & Sterling (international), McKinney, Bancroft & Hughes (local)
Borrower legal counsel: Morrison & Foerster (international), Higgs & Johnson (local)