

Puerto Rico's PR-22 and PR-5 highway project

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The PR-22 and PR-5 asset project is effectively the first privatisation in the US since the 99-year lease of Colorado's Northwest Parkway to Brisa and CCR in 2007. Its success could potentially open the floodgates for other monetisations around the country.

In a recent [transportation survey](#) IJ found that 85 per cent of industry professionals believe that after the success of the PR-22 and PR-5 more monetisations will hit the market.

Since the the Northwest Parkway and Indiana Toll Road several monetisations had failed. In March 2009 an Abertis-led consortium had to withdraw its US\$12.8 billion bid to monetise the Pennsylvania Turnpike due to faulty legislation. The recession also forced Citi to retire its bid on the Chicago Midway airport after it failed to raise the necessary debt.

As a result, asset privatisations were off the table for a couple years until the PR-22 and the PR-5 hit the market last year for the second time.

The PR-22 is the most important highway in Puerto as it connects San Juan to Arecibo. Plus a planned extension to Aguadilla would connect the capital to the island's pharmaceutical corridor. The corridor, which helps maintain a US\$30 billion a year industry houses 100 companies and over 28,000 employees. All of which would be directly dependent on the PR-22 for transportation of goods, services and labour.

Project History

The PR-22 and PR-5 privatisation is the first P3 that has been developed under Act No. 29, which established a legal framework for projects in the island. As of September 2009 the Commonwealth established the P3 Authority (P3A) which is dependant of the Government Development Bank (GNB).

However, this is neither the first concession in the island, nor the first time Puerto Rico dabbles with P3s. In 1994, Abertis pioneered the business model when it entered in a 35-year concession with Puerto Rico's Highway and Transportation Authority (PRHTA) to design, build and operate the Teodoro Moscoso bridge, which crosses the San José lagoon. The 2km project used special facility revenue bonds which are payable by Abertis via toll collection.

Fortuño's predecessor, Governor Anibal Acevedo Vila, tried to privatise the PR-22 and PR-5 in 2008 and an RFQ was launched in April that same year. But at the time the island lacked a clear legal framework that would allow it to engage in a successful P3. The global recession was also about to hit Latin America. The local press accused the process of being corrupt which led to interested investors fleeing the island.

As Fortuño started creating a strategy to improve the economy in Puerto Rico, instead of abandoning the program he started the process from scratch and revamped it by pushing forward Act No. 29 and creating a separate P3 entity

whose sole purpose was to successfully procure the projects.

By June 2010 the P3A had issued a completely new RFQ and published a comprehensive desirability and convenience study that was commissioned to Macquarie Capital. Two months later the P3A received qualifications from eight teams including:

- Morgan Stanley Infrastructure and OHL Concesiones
- CCR (Companhia de Concessões Rodoviárias)
- JP Morgan Infrastructure Investments Fund (IIF)
- Citi Infrastructure Investors and Itínere Infraestructuras
- Abertis Infraestructuras and Goldman Sachs Infrastructure Partners II (GSIP2)
- Road Development of Puerto Rico (ICEIN and CONCAI)
- Interplan-Grodco-Consorcio Remix Development Group
- Grupo ODINSA

Within a month the authority brought the list down to four potential bidders including a team by Abertis and GSIP2, CCR, a team led by Citi and Itinere and a team of Morgan Stanley and OHL. However, CCR ended up teaming up with Citi and Itinere. Bidders were then given 7 March 2011 as a deadline to submit a proposal, which was subsequently extended to June. By the time the P3A closed the RFP it had received only two proposals. The Citi, Itinere and CCR team had dropped out of the race.

On 21 June, Governor Luis Fortuño announced that Abertis and GSIP2 were awarded the 40-year concession of the US\$1.436 billion project. Best and final offers were not required given that both proposals had been more than 5 per cent apart.

By the third week of September and 15 months after the second procurement started financial close was finally reached. The PR-22 and PR-5 40-year concession was the first brownfield project to reach financial close in the US since 2007.

The final concession agreement included three key elements:

- a US\$1.136 billion concession fee
- a US\$56 million commitment to spend on road safety improvements in the next five years and
- a preventive maintenance strategy to ensure compliance with the Operating Standards (US\$350 million during concession period)

For GSIP2 brownfield toll roads are a key asset class for the fund as it focuses on core infrastructure. The fund expects the PR-22 to provide an inflation and GDP-linked dividend to its investors with a conservative capital structure. GSIP II already owns other assets in Mexico and Italy.

Abertis already manages over 2,300 miles of toll roads in Spain, France, Puerto Rico, Chile and Argentina. Given their success with the PR-22 and PR-5 the firm recently announced that it would restructure its management team and appoint David Diaz, the general director of strategy and corporate development, as the new head of their Americas operations.

Project Financing

The financing included a hefty equity contribution from the partners plus US\$825 million in bank debt divided in two tranches.

The D/E ratio was geared at 62/38.

Equity amounted to a total of US\$455 million, which is being split 45 per cent to Abertis and 55 per cent to GSIP2.

The bid was fully financed by 31 May 2011, which meant it was fully financed by the binding offer date.

According to bidders typically there is not enough time from commercial close to financial close to allow for a capital markets debt structure therefore debt was provided by a club of 12 banks. Plus in this case the asset has no operating history in private hands. Bond financing is being considered in the future.

Banks will be providing debt through a seven year hard-mini perm to incentivise the refinancing in the 144a private placement market. The debt tranches will be divided as follows:

Tranche A - US\$750 million for the payment of the concession fee.

Tranche B – US\$75 million to fund major maintenance capital expenditures.

Debt was priced starting at 250bps over LIBOR.

Each bank is providing between US\$50-75 million. The 12 banks are:

- Banco Popular de Puerto Rico
- Santander
- Scotia
- WestLB
- La Caixa
- Caja Madrid (now Bankia)
- Credit Agricole CIB
- ING Capital
- Intesa San Paolo
- RBC
- Siemens Financial Services
- SocGen

Advisors

RBC Capital Markets and Goldman Sachs are financial advisers to the consortium, Freshfields and local McConnell Valdés is legal adviser and Aecom is technical adviser.

Milbank, Tweed, Hadley & McCloy are providing legal counsel to the lenders.

Macquarie is acting as financial adviser to the authority with URS Caribe providing technical advice. Allen & Overy and Pietrantonio Mendez & Alvarez are providing legal counsel.

Project Description

The P3 project consists of an administrative concession to finance, rehabilitate, operate and maintain existing toll roads PR-22 (also known as the José De Diego toll road) and PR-5, which is located in the municipality of Bayamón.

The PR-22 is a 52-mile toll road that runs east-west along the northern coast of Puerto Rico, connecting San Juan and Arecibo. It was opened in 1971 and has an AADT of 84,000 vehicles.

The PR-5, opened in 2006, covers 2.5 miles within the San Juan metropolitan area.

The asset had revenues of approximately US\$90 million in 2010.

The PR-22 has seven toll stations including Buchanan station along which 25.8 million vehicles travelled in the fiscal year 2009. The income generated by the highway for that year was US\$85.1 million through the automated collection system. The consortium cannot increase tolls until 2014. The consortium also negotiated with the P3A the implementation of an electronic tolling system.

Conclusions

The PR-22 and the PR-5 is only the first project to come out of Puerto Rico's P3 program. The Commonwealth is already working on the privatisation of the San Juan Luis Muñoz Marín Airport. The island also has two more road projects that it will bring to market the PR-66 and the PR-52. The P3A has also mentioned the possibility of procuring a penitentiary outside San Juan.

All these other projects will be possible thanks to the path-finding efforts of the PR-22. Though the project at times was delayed it still ran smoothly. According to a recent survey by IJ, the PR-22s success was dependant on a transparent process, a good understanding of P3s on behalf of the private sector, a strong advisory team and P3 champion like Governor Fortuño.

The PR-22 being a good asset was not nearly enough to get the deal's debt oversubscribed by a club of 12 banks. The Commonwealth had proper legislation and even with the island's turbulent history, Puerto Rico bounced back when it proved its willingness to negotiate with its private sector partners.

Other states in mainland US may want to take up a cue or two from the project, especially now that deals such as the Ohio turnpike are planning to hit the market.

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