North Carolina Interstate 77, US

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The $648 million Interstate 77 toll lanes project is the first PPP to be procured by North Carolina Department of Transportation (NCDOT). It is also the first revenue-risk transportation PPP deal to reach financial close in the US in 2015, and only the third such since 2013. Ohio's Portsmouth Bypass and Pennsylvania's rapid bridge replacement PPPs, which both closed earlier this year, are availability-based deals.

The I-77 debt package benefits from a long tenor – 39 years for $100 million in private activity bonds (PABs), and 38.5 years for a $189 million loan from the US Department of Transportation's TIFIA programme. The project's sponsors – Cintra and Aberdeen Asset Management's fifth equity fund, Aberdeen Global Infrastructure II – together contributed $249.8 million in project equity. The project is the fund's first US transport PPP investment, and extends the occasional Cintra-Aberdeen collaboration beyond Europe.

Besides the project's debt and equity, the North Carolina Department of Transportation (NCDOT) will provide $95 million as an upfront construction subsidy and $75 million in the form of a unique contingent subsidy referred to as developer ratio adjustment mechanism (DRAM).

Construction on I-77 entails widening a 41.8km section of the existing highway from Charlotte to Mooresville. High occupancy toll express lanes and general purpose lanes will be added. Today, this section experiences severe congestion, and forecasts suggest a 2-3% increase in annual traffic volumes through 2030.

Unique subsidy

The DRAM - a committed contingent subsidy provided by NCDOT to the project company - will support debt service obligations (to both the PABs and TIFIA loan) only if the project's net revenues are insufficient to do so. The department will supplement the project's revenues by an amount sufficient to achieve a minimum 1.0x debt service coverage ratio (DSCR), with up to $12 million per year, capped at $75 million in total.

"Such subsidies are not unusual for revenue-risk based transportation projects," said a source close to the transaction. "But the I-77 project is the first PABs-led toll road to feature DRAM." Previous toll road PPPs - such as Texas' North Tarrant managed lanes - featured a state backed construction subsidy.

Ratings agency DBRS notes that incorporating DRAM allows the project to withstand a traffic drop of 64% throughout the life of the concession, without breaching the minimum 1.0x DSCR. "This compares favourably with other managed lanes projects viewed by DBRS," the agency noted in a 29 April 2015 report. Fitch projects an average DSCR of 1.92x for the project.

The traffic forecast on the toll road is bullish, owing to population and employment growth rates in the region. According to C&M Associates, the sponsor's traffic forecaster, population and employment rates over the period 2018–2035 are expected to grow by 1.0%–2.4% and 1.8%–2.5% per year, respectively. Total revenues on the widened I-77 toll road are forecasted to grow from $34.2 million in 2020 to $110.5 million in 2035 and $309.5 million at debt maturity in 2054, C&M noted.

Tight pricing

The $100 million in PABs – which were issued in several series carrying maturities of between 2026 and 2054 – were 5x oversubscribed. Citigroup and Goldman Sachs underwrote the bonds, which attracted orders from about 25 accounts comprising institutional and retail investors.

The bonds priced at spreads between 125bp and 144bp over the corresponding tax-exempt Municipal Market Data (MMD) benchmark on 13 May. The pricing for the revenue risk deal compares favourably with other recent availability-payment based deals. The PABs backing Indiana’s Interstate 69 priced between 149bp and 160bp in July 2014, while Portsmouth Bypass' bonds priced between 91bp and 143bp in April 2015. "The tight pricing was reflective of the DRAM support," a source said. "Investors considered the project's risk profile to be somewhere between a revenue risk and availability payment-based deal."

The $189 million TIFIA loan, which closed on 19 May, carries an interest rate of around 3.04%. The PABs and TIFIA debt package was rated BBB- and BBB by Fitch and DBRS, respectively.

Express toll lanes

Cintra will build the project alongside a contractor joint venture of F.A. Southeast (70%) and W.C. English (30%). Cintra is an experienced toll road developer, demonstrating appetite and experience for the toll road risk model. It holds stakes in seven toll road concessions in the US and Canada, including the $2.05 billion tolled North Tarrant Express lanes project.

The construction contract benefits from performance bond and payment bond to cover 50% and 100% of the design-build contract price, respectively.

The project will add two express lanes that will run on I-77 in each direction between Charlotte and Exit 28 in Cornelius. One express lane in either direction will run from Exit 28 to Exit 36. Construction on the I-77 is expected to begin in the third quarter of 2015 and be completed in 2018.

The express or managed lanes typically price using a dynamic tolling regime, which changes toll rates based on traffic volume to guarantee a travel speed at or above 45 miles per hour. The lanes will allow free access to vehicles with three or more travellers as well as express buses. Motorists will have the option to use the express lanes, the general purpose lanes or a combination of both.

Advisers

KPMG and PFM are financial advisers, and Nossaman legal adviser, to NCDOT. Parsons Corporation is technical adviser. Gibson, Dunn & Crutcher and Parker Poe Adams & Bernstein are legal advisers to the concessionaire, and Jones Day is legal counsel to the underwriters. Hunton & Williams is bond counsel. Shearman & Sterling acted as counsel to the US Department of Transportation on the TIFIA loan.

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