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North Tarrant Toll Road Financiers Take Traffic Risk

By Lori Sharn, Public Works Financing, Washington, DC

Cintra and its partners reached financial close on the $2-billion North Tarrant Express project near Fort Worth, Tex., well ahead of schedule on Dec. 17, taking advantage of a rebounding credit market and an extremely flexible repayment plan for a TIFIA loan.

The financing includes the $650-million federal loan, $400 million in private activity bonds, $570 million in public funds from the state of Texas, and equity of $427 million. NTE Mobility Partners is owned 56.7% by Cintra, 33.3% by Meridiam, and 10% by the Dallas Police and Fire Pension System. It is the first time a U.S. pension fund has participated as an equity member in a toll road project. Sponsors of the Meridiam Infrastructure Fund are Credit Agricole and AECOM Technology Corp.

Nicolas Rubio, president of Austin-based Cintra US, says the successful financing of the managed-lanes project north of Fort Worth proves that the private sector is still willing and capable of taking on traffic risk. The partners will collect all toll revenues during the 52-year concession to cover its debt service and reward equity investors. The identical team is expected to close in 2010 on a similar 52-year concession for the I-635 managed lanes project in Dallas.

“When we were awarded these two contracts almost a year ago, there were many voices in the marketplace saying these would never be financed,” Rubio says. “What we’re seeing today is only proving that we deliver what we promise. This is an approach that is valid, that is workable, that is taking a lot of risk out of the public [sector] and it can be done.”

Neither of the other two big P3 highway projects financed in 2009 in the U.S. —the Port of Miami Tunnel and the I-595 managed lanes in Florida—included traffic risk. Both use availability payments subject to state appropriations to repay developers.

Cintra’s track record of successful project completion and toll road operation around the world helped get North Tarrant financed. The bonds were rated investment grade by both Fitch and

Moody's, but at BBB- and Baa2 respectively. Fitch points out that the corporate unsecured guarantee provided by Cintra for its equity share would be considered weak enough to preclude an investment-grade rating for most other projects. But Cintra's global record and the significance of this project to its U.S. business were mitigating factors.

All Spanish Team

Ferrovial Group's Cintra has been working in the Dallas-Forth Worth region for years and has built a major presence there. Construction on North Tarrant is expected to begin in 2010 and be complete by July 2015. It will be built under a $1.46-billion fixed-price contract with a joint venture of Ferrovial Agroman and W.W. Webber, both part of the Spain-based Ferrovial Group. A joint merger between Cintra Concesiones de Infraestructuras de Transporte and Grupo Ferrovial was completed in December. Ferrovial had already owned 67% of Cintra before the merger.

The project will double the capacity on a 13-mile stretch of I-820 and SH 121/183, including direct connector managed lane ramps to I-35W. The corridor between Fort Worth and Dallas includes some of the worst bottlenecks in the region. The work includes building two new managed lanes with variable pricing in each direction to ensure traffic flows freely, reconstructing existing free or general-purpose lanes, and extending and reconstructing frontage roads. NTE Mobility Partners will operate and maintain the entire section—including tolled and non-tolled lanes—during the 52-year concession.

The project has a very high leverage of $20.75 million in total debt per lane-mile, but managed lanes can support more debt than other toll projects, according to Fitch Ratings in its analysis. "From our perspective, these projects are brownfield, not greenfield," said Fitch Managing Director Michael McDermott in a conference call with reporters.

NTE Mobility Partners expects that the ratio of revenue to debt payments will rise from 1.2 times the first year of operations to 3.5 times in the third. Debt payments are highly backloaded, but will be paid off in year 40 of the concession, allowing a 12-year "tail" with additional refinancing flexibility.

Still, the project has significant risks, including during construction when general purpose lanes must remain open during the day. Rush-hour tolls will be significantly higher than on other area roads. NTE Mobility Partners expects the top peak-hour rate to be 46 cents a mile initially.

Aggressive traffic forecasts are also based on the assumption that the entire 36-mile project planned by the Texas Department of Transportation (TxDOT) will be completed by 2025, according to Moody's rating report. NTE Mobility Partners has an additional contract with TxDOT to complete master planning for the rest of the project.

The final financing uses less debt and about $57 million more equity than in the financing plan submitted to TxDOT in 2008. But Rubio says the end result is still in line with what was originally anticipated. The team was conditionally awarded the contract in January, but had until mid-2010 to complete the project financing. The details:

Bonds: Rubio says the team considered bonds, bank debt, and a combination of the two. “It wasn’t clear until the very last minute which was most effective,” he says.

The North Tarrant project is only the second U.S. toll road concession to use private activity bonds, and the first without credit enhancement. Bonds totaling $589 million were sold in June 2008 for the Capital Beltway in Virginia, but they received A-range ratings because they were backed by a letter of credit from DEPFA Bank.

The North Tarrant bonds mature on either Dec. 31, 2031, or Dec. 31, 2039, and have an average interest rate of 6.98%. The issue was oversubscribed 2.4 times, and was underwritten by a bank syndicate headed by JPMorgan and Merrill Lynch.

Stephen Howard, head of Infrastructure Project Finance at Barclays Capital, says the tax-exempt PAB market for projects with BBB category ratings has significantly improved since summer. In December, investors also oversubscribed an issue of $511 million in tax-exempt bonds—also with a BBB- rating—for a new stadium in Brooklyn.

When the Florida I-595 project closed in March, the PAB market for a project of that size was very uncertain, Howard says. The Port of Miami Tunnel, though also initially targeted for PABs, ended up being better suited for bank debt because of the relatively short term of the financing.

Congress also helped boost interest in the North Tarrant bonds, by exempting private activity bonds sold in 2009 and 2010 from the alterative minimum tax (AMT) which adds 50 to 100 basis points to the cost of funds.

TIFIA loan: Interest and principal payments on the $650-million TIFIA loan can be deferred for approximately the first 10 years—during project construction and the first five years of operation. The first repayments of principal will not be required until the 21st year of operations. The loan matures 35 years from substantial project completion. Without TIFIA, the project “would not have been done,” Rubio says.

The TIFIA loan for North Tarrant is the second largest to close so far, after $917 million for the Central Texas Turnpike in 2002. TIFIA loans may exceed the amount of senior debt if both the senior debt and the TIFIA debt are rated at investment grade. The TIFIA loan received a rating of BBB- from Fitch and Baa3 from Moody’s, which was one step below Moody’s rating for the bonds.

NTE Mobility Partners was not required to pay for part of the federal cost to subsidize the loan because the subsidy was less than the amount reserved for the project.

Equity: The equity from the three partners will not be contributed upfront, but on a pro-rata basis along with bonds and then the TIFIA loan. Contingent equity will replenish a $60-million reserve fund if any withdrawals are necessary because of cost overruns.