LaGuardia Airport PPP, US

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The $4 billion LaGuardia Airport PPP project is one of the most significant large-scale airport PPPs to ever reach financial close in the US, and is also the largest PPP deal in North America this year. The deal featured a $2.41 billion bonds package, the largest such facility to have closed in the US this year, complemented by sponsor equity and university funding.

The only previous notable airport lease deal in the US was the Highstar Capital and Grupo Aeroportuario del Sureste's (ASUR) $615 million concession for the Luis Muñoz Marín International Airport in Puerto Rico, which closed back in 2013. Infrastructure bankers and lawyers had hoped the closing of the lease would encourage a slew of follow-on aviation PPPs in the US.

While Chicago's second effort to lease Midway Airport failed in 2013, despite heavy early interest from experienced global operators and investors. The LaGuardia transaction, about five times the size of Puerto Rico's airport, was the only project that was successfully launched to the market for bidding since. It is hoped that its success will motivate other states to upgrade their ageing airport infrastructure.

Long running procurement

The Port Authority of New York and New Jersey, the procurement authority for the project, launched a tender for the rebuild of the central terminal of the LaGuardia airport in early 2012. The procurement suffered a few delays at the hands of a bidder drop-out and alterations in project design by the governor of New York state.

The Port Authority finally gave the approval vote to advance the project in March 2016. The vote approved a lease with LaGuardia Gateway Partners consortium, which was named preferred bidder in May 2015, to build and operate a new Terminal B, with a central hall and concourse that will, for the first time, create a unified airport as well as the site for an air train station.

Sponsors note that building a new terminal while making sure traffic is not interrupted at the existing airport remains one of their major challenges. The concession involves demolishing and replacing the existing central terminal building with a new 1.3 million square foot facility. The new terminal will feature 35 gates, retail and dining space, a hotel, a conference, and a business center.

Phased construction started on the site last month and the first phase is expected to be completed by mid-2018.

The LaGuardia Gateway Partners consortium comprises; Vantage Airport Group (33.33%), Skanska Infrastructure Development (33.33%) and Meridiam Infrastructure North America (33.33%). Together they are providing a total equity investment of $200 million. Construction partners within the consortium include Walsh, Parsons Brinckerhoff and HOK.

The Port Authority of New York and New Jersey has been operating LaGuardia since 1947. The airport, which is located in the borough of Queens in New York City, spans an area of 680 acres and has four terminals. LaGuardia served 28.4

million passengers in 2015, up 5.5% over 2014, and grew at a five-year CAGR of 3.5%. Terminal B handled 50% of traffic with a diverse carrier mix.

Financing

The consortium reached financial close on the project on 1 June 2016. Debt comprised $2.26 billion in series A tax-exempt special facility revenue bonds and $150 million in series B taxable special facility revenue bonds.

The Port Authority will make milestone payments to the consortium alongside retail and airline revenues with equal shareholding among the three consortium partners.

Final pricing for the bonds provided all-in interest costs of 4.2% for the series A bonds, and 3.6% for the series B bonds. The bonds were 10x oversubscribed, sources said, which drove their interest rates down. The bonds will have maturities beginning 2024 and lasting until 2050. Citigroup, Wells Fargo and Barclays underwrote the bonds package which has been assigned a BBB rating by Fitch with a stable outlook.

The sponsors had initially also proposed another $500 million, series C bond which would have been a private placement with a delayed draw feature of up to two years. But eventually a private placement was not included in the final financing structure, since a larger bond piece already managed to draw a lot of investor interest while keeping the pricing at an attractive level.

In addition around 20% (approximately $412 million) of the tax-exempt bonds are insured by monoline Assured Guaranty. The Port Authority will contribute $1.2 billion for the new improvements and central hall elements.

Fitch said in its rating report that the revenue stream during the operating period is both stable and provides for healthy coverage levels. Approximately 80% of project revenue is expected to come from airline terminal fees with the remaining 20% from commercial concessions. Once construction begins, significant completion of portions of the airport opening will take place in 39 months after the start of construction.

The project's lease period will run through 2050. The operating period is expected to be 34.6 years, including the phased-in construction period, with the new headhouse expected to open in 2020.

Advisers

Societe Generale and Morgan Stanley were joint financial advisers to the sponsor consortium, while O'Melveny & Myers was its legal adviser and Stantec was its technical adviser. W J Advisors was aeronautic revenue adviser, Pragma was non-aeronautic revenue adviser and Oliver Wyman was traffic consultant.

BTY is lenders' technical adviser while Hawkins was lenders legal adviser. For the Port Authority, Orrick provided legal counsel while Frasca & Associates was financial adviser. Squire Patton Boggs was bond counsel to New York Transportation Development Corporation.