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Back to basics?

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Calle 30 phase 1 – the biggest infrastructure deal in Spain at the moment and typical of what is becoming known as Spain's public-public-partnership type structure – has had a mixed reception – both from the bank market and Eurostat.

Dexia, SG and Caja Madrid are the three mandated lead arrangers and have approached all the losing bidders for the arranging mandate – SCH, BBVA, La Caixa, Royal Bank of Scotland (RBS) and Depfa – as well as KfW and ICO with around Eu100-150 million participations. But both BBVA and Santander Central Hispano (SCH) are rumoured to have declined.

The financing comprises Eu2.5 billion in project debt split between a Eu1.35 billion 30-year tranche A loan backed by a fixed price repayment stream under the concession service contract, and a Eu1.15 billion 20-year B tranche linked to performance risk.

Pricing is "shockingly" low according to some banks, expected to be in the region of 25bp to 30bp. But that is not surprising – this, after all, is municipal flavour risk with only the latter tranche featuring project risk. And margins such as these have not fazed everyone – the number of players lining the syndicate is proof of the current levels of appetite and financial close is expected to be reached in mid- to late-October.

Eurostat bites

But pricing is not the biggest issue with Calle 30 – the deal could represent the definitive failure of this kind of public PPP model in Spain.

Madrid City Council (Ayuntamiento de Madrid) has structured the project so that some 20% can be tendered to private sector developers, and the "newco" – Madrid Calle 30 – could take on the construction and availability risks for the 35-year term. The idea was that the risk transfer equation would comply with Eurostat requirements for getting the debt off the public balance sheet. This, however, seems to have been wishful thinking. Moreover, it may well have far-reaching consequences – though potentially positive for lenders – for this type of transaction.

Eurostat has rejected the Calle 30 scheme as a private financing, therefore the debt of the project has to be included in the public accounts as public debt. According to Andrés Rebollo Fuente, partner at Asesores de Infrastructuras in Madrid: "This will likely make local governments in Spain go back to pure PPP schemes rather than these very complicated 'public-public-partnerships'."

The Eurostat decision is not the first to hit the Spanish infrastructure market. In 1999 Madrid Infraestructuras del Transporte (Mintra) was created as a holding and management company with responsibilities for the region's transport infrastructure. By 2003, Mintra was provisionally classified as a non-financial company. However, Mintra has subsequently been re-classified by Eurostat in the public administration category. The EU Commission has upheld the decision by stating that much of the revenue received by Mintra was obtained from the lease agreement contract concluded with Madrid Metro, and the lion's share of revenues were fixed in advance.

Although at times seen as restrictive, Eurostat deems that infrastructure can be taken off-balance sheet if the building risk is undertaken by the private entity, who then bears the risk of availability or demand – clearly Calle 30 does not meet these criteria despite arguments to the contrary.

In some ways the implications of putting deals like Calle 30 on public balance sheet could be good news for project lenders. Bank liquidity has already brought pricing down and Calle 30-type deals typify a market where many banks, although loathe to bid on deals that make little sense in terms of return from lending, remain uneasy about exiting a market that still has a long way to run.

"If you want to be a player, you have to be in the market now; and thereby accept its conditions." notes Carlos Milans del Bosch at Calyon in Madrid. But if those conditions were to be more heavily in favour of traditional PPP, with more risk transfer and hence higher pricing, the margin pressure from excess liquidity is going to ease a little.

Real toll motorways

Even beyond municipal flavour debt, other recent Spanish road PPP projects seem to be feeling the debt pricing pinch. Banesto and ACF completed their Eu532 million sell-down over the summer of the FCC-Ploder sponsored Cartagena Vera. The sub-underwriters included BNP Paribas, Banco popular, Caixa Geral, ICO, ING and RBS. Barclays, Bankinter, Helaba, La Caixa, SCH and a number of local cajas were added in July. The deal – a seven-year mini-perm – priced at 130bp.

The Eu383 million Alicante semi-ring, sponsored by ACS Dragados and Abertis, was closed at the underwriting level by lead arrangers BES, Caja Madrid and La Caixa in August. The project – 46km, of which 29km will be tolled – is being subsidised by the Government to the tune of Eu100 million in sub-debt. This sub-debt will be structured as a 35-year subordinated bullet loan, with the debt service cover ratio at about 1.5x. Pricing is expected to be around the 110bp mark.

The next big deal is set to be the 24.5km Autopista de Malaga (Alto de las Pedrizas – Torremolinos), which should start bidding in February 2006. The road extends the Autopista del Sol and was one of the three remaining real toll concessions under Spain's second national toll road plan not tendered by the previous government in late 2003.

Smaller deals from regional municipalities should come on stream in the next year, though they are expected to be a mix of real and shadow tolls.

Healthcare

Between mid to late June, a spate of preferred bidders was announced for Madrid's hospital programme.
Earlier in the year, Spain came to market with its first-ever hospital deal. ACS/Dragados/Bovis Lend Lease/ SUFI (Dexia Sabadell, ACF and ING acting as lead arrangers) was awarded the contract for Hospital Puerta de Hierro (Majadahonda), having come in with the lowest bid of Eu44 million per year in costs to the government (unitary charge).

Although the deal was expected to reach financial close by late September, it is rumoured now that this is should definitely happen before year-end. The deal is expected to price at 100bp down to 90bp.

Another five projects have also been awarded: Hospital de Vallecas, Hospital del Tajo (Aranjuez), Hospital de Sureste (Arganda del Rey), Hospital de Henares (Coslada) and Hospital del Norte (San Sebastian de los Reyes). Like Majadahonda, the tenders were extremely competitive on the unitary charges. Moreover, pricing is expected to be very tight.

The list of bidders on these projects tended to throw up the same names as well as the same alliances. Acciona and Crespo y Blasco teamed up for all five, as did FCC, OHL and Caja Madrid. In the end, Vallecas was awarded to Iniciativas de Infraestructuras y Servicios, Begar, Vectrinsa Gestión, Ploder, Fuensanta, Cajamar and Grupo Cantoblanco, who were advised by SCH. The bid was Eu15.44 million unitary charge on the Eu99 million capex project.

The Constructora Hispánica/Construcciones Sánchez Domínguez-Sando/Instalaciones Inabensa bid Eu9 million on the Tajo project and won, even though Teconsa Sufi and Dragados came in with Eu7.8 and Eu8.8 million respectively. Sacyr, Testa & Valoriza Facilities, having been widely tipped to win Hospital del Sur (Parla) and Coslada, managed to secure both deals valued at Eu65 million each. Acciona and Crespo y Blasco were chosen from seven other consortia candidates for the Eu98 million San Sebastian de los Reyes.

Given the current liquidity of the Spanish market, sponsors are in the enviable position of making club deals and cutting out the traditional arranger role by doing the job themselves.Nevertheless, SCH has teamed up with the Iniciativas de Infraestructuras consortium, while Caja Madrid has aligned itself to FCC and OHL. Constructora Hispánica/Construcciones Domínguez-Sando/Instalaciones Inabensa is rumoured to be linked to Banco Popular. Having exhausted Madrid's hospital projects, banks and sponsors have moved on to the Hospital de Burgos. Deal bids are expected to be in by October 10 for a deal-size expected to be between Eu350 and 400 million. There are no clear favourites, though those consortia that have successfully closed their Madrid deals should have the upper hand. The scheme, which will built a new hospital, will exclude the provision of medical services. On the back of this hospital deal, the Comunidad Autonoma de Castilla y Leon (the regional government of Castille y Leon) is sure to tender others.

Other hospital projects currently in the pipeline include the Salamanca, Palma de Majorca and Toledo. These projects are expected to be in the same price bracket as Burgos.

Future funding

With EU funds expected to be substantially reduced by 2007, Spanish ministries and municipalities will have their work cut out. It is estimated that between 2000 and 2006, contributions, which represent income on the public balance sheet, made up some 25% of the investments from the salient ministries. According to certain industry experts the amount needed to cover the impending shortfall will be somewhere in the region of Eu3.5 billion. Therefore, PPP and PFI are likely to play a large part in the financing of hitherto untapped sectors like prisons, schools, pensioners' accommodation and sport and leisure complexes.

Autonomous Communities are also looking to enact supplementary legislation to get deals off the ground. According to Julio López Quiroga, partner at Uría Menéndez: "Most PFIs in Spain are carried out using the framework provided by the national Administrative Contracts law. Recently, certain Autonomous Communities, exercising their constitutional powers, have recently implemented additional pieces of legislation applicable to their own projects to further protect project participant interests. This trend has been especially relevant in port infrastructure; this is the case, for instance, in Cantabria, Ills Balears, and Murcia Autonomous Communities. By the same token, some Autonomous Communities have enacted local legislation applicable to PFI schemes in the road sector, as it has been the case in Catalonia."

The port sector, where margins of 130 to 140bp are expected, is being looked at closely. This time last year, BBVA sole arranged and underwrote the Eu68 million Puerto de Malaga (Port of Malaga) project for ACS-Dragados. Margin on the deal was 130bp over Euribor ratcheting down to 110bp over the 15-year tenor. Given the difficulty in accessing funding, ports are likely to tap or be tapped in the forthcoming year.

Whether the bigger players in the Spanish market go for smaller projects remains to be seen, though it is highly unlikely. Certain banks and sponsors are currently only looking at projects over the Eu100 million mark, and have forsworn the small municipal deals. Watered-down PPP projects, which will include police stations, judicial centres and prisons, are only expected to be sized between Eu30 and 40 million.

For many of the larger players, however, it will be expansion in foreign markets, servicing the likes of Ferrovial and Dragados, that will be key for growth. For example, BBVA is developing a project finance desk in New York, in addition to its sizeable London presence.

Whereas Spanish financiers would have concentrated on Latin American deals in the past, this is no longer the rule. "Some of the traditional and prime Spanish sponsors are not pursuing Latin America anymore, since they are so experienced that they prefer to bid for PPPs in countries such as the USA or Canada," says Rebollo – notably Cintra.

"But there are still some very interesting countries in Latin America in terms of risk and reward, especially the case of Mexico. Mexico is like Chile was 10 years ago; there is going to be a huge number of PPP projects coming on to the market, especially in health and roads. The legal framework is being adjusted to be closer to European standards. Therefore, we expect to see other Spanish medium-sized promoters filling that gap in the region, particularly in Mexico, Chile and Brazil."