Skyway refinancing: Max return

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Cintra and Macquarie Infrastructure Group have completed the $1.55 billion refinancing of their Chicago Skyway concession – the first capital markets financing for a European PPP-style road concession in the US.

The move has substantially increased the sponsors' ROI on the deal and is confirmation that MIG and Cintra – quietly criticised by some in the US project market for overpaying for the concession – got their original maths right.

In 2004, the City of Chicago signed a 99-year lease with the Skyway Concession Company for the Chicago Skyway, a 6-lane 12.5km bridge running from northern Indiana to the south of Chicago. The road produced $45 million in revenue per year before the transfer, and garnered a price of $1.83 billion.

The price was far in excess of that offered by the runner-up bidder, which reflected the amount that a sponsor using 80% leverage could finance. MIG, with 45% of the equity, and Cintra, with 55%, managed to raise $1.19 billion in bank debt from BBVA, Calyon, Depfa and Santander. Its internal rate of return, at 10%, was reasonably healthy, but low even for a strategic investor.

The sponsors had already sketched out the plan for a capital markets offering to back the bid. The sponsors went so far as to appoint FSA as the putative monoline bond insurer – the first time that Cintra had worked with the wrapper. Ultimately, the certainty of execution and flexibility of the bank solution led to its adoption.

Syndication on the bank loan wrapped up in March 2005 (for details, search Skyway on www.projectfinancemagazine.com), and by early may MIG and Cintra were out with a request for proposals for the bond refinancing. Citigroup, which had worked on the bond solution along with FSA, was assumed to be a solid contender, but would work hard for its mandate.

The other two bookrunners were Goldman Sachs, which had advised the City of Chicago on the initial sale, and Macquarie Securities, which was formally a financial adviser to the sponsor and through its Australian affiliate also manages MIG. Macquarie and Cintra were paid $19.04 million and $9.5 million, respectively in advisory fees in connection with the initial purchase of the concession. At the time of the RFP, the sponsors had settled upon using zero coupon bonds, although the market where the bonds would be placed, and even the currency, had not been set in stone.

The eventual structure featured two senior secured bond tranches and a subordinated holding company level bank loan. The two senior tranches are a $439 million series A of current interest senior secured bonds with a maturity of 2017 and a $961 million series B of capital accretion bonds due 2026.

The two tranches are both floating rate – the A series is priced at 28bp points over Libor, and the Series B at 38bp over Libor. But the headline numbers do not include the cost of FSA's premium or the swaps associated with the financing. FSA's upfront premium, according to a copy of the offering memorandum, is $40.3 million.

The refinancing is designed so that the project pays as little interest, at the most stable rate, over the longest period possible. As such, the associated swaps – by far the most complex feature of the financing – are designed to make bonds placed in the floating rate market conform to this ideal as closely as possible.

The floating rate market has not been widely approached by project sponsors, which usually prefer to issue fixed rate notes. However, the available liquidity in the floating rate market, as well as the liquidity in the swap market, enabled the sponsor to achieve a lower rate than might be possible with an unadorned issue.

Both tranches were swapped into fixed rate, but the second tranche also used a swap to mimic the effect of a zero-coupon issue. The swap consists of a commitment to pay the interest on the notes in exchange for the funding of the accrued capital at the end of the term. The counterparties on the swaps are Goldman Sachs and Citigroup, and FSA wraps the project company's obligations under the second synthetic zero-coupon swap.

The arrangement might be deemed to be needlessly complex, but deal participants questioned on the matter say that the interest costs, premiums and swap costs are below what a simple uncovered fixed-rate deal might bring in. And while it is possible that the prospect of the returns available to the leads as swap providers might have tilted their advice to the sponsor, none of them has directly commented on the choice of market.

The deal was structured to achieve the lowest coverages possible and still be consistent with an underlying BBB-/Baa3 (S&P/ Moody's) rating, which the sponsors achieved and which FSA wrapped to AAA/Aaa.

The final element in the financing was a subordinated holding company loan of $150 million. This is lent at a level below the two shareholders and is thus dependent upon distributions from the project company for repayment. Lenders on this 30-year loan are BBVA, Calyon and Santander, with the debt priced at 250bp over Libor to year six and 300bp thereafter.

The deal has enabled the sponsors to achieve a much more attractive rate of return than the bank deal had allowed. According to Macquarie, MIG's initial investment in Skyway was $397 million, and the cash distribution to Skyway shareholders is $373 million, of which MIG's share is $168 million. US politics, and US banking, might make PPP a tricky proposition, but US capital markets give an illustration of what is achievable on the back end.

Skyway Concession Company
Status: Refinancing closed 16 August 2005
Size: $1.55 billion
Location: Chicago, Illinois
Description: Refinancing of debt associated with 99-year lease of 12.5km bridge
Sponsors: Cintra (55%), Macquarie Infrastructure Group (45%)
Senior debt: $439 million series A of current interest senior secured bonds due 2017 and a $961 million series B of capital accretion bonds due 2026.
Joint managers: Citigroup, Goldman Sachs
Selling group member: Macquarie Securities
Swap counterparties: Goldman Sachs, Citigroup
Subordinated debt: $150 million
Providers: BBVA, Calyon, Santander
Lawyers to the underwriters: Milbank Tweed Hadley & McCloy
Lawyers to the sponsor: White & Case
Lawyers to the subordinated lenders: Orrick
Lawyers to the monoline: Debevoise & Plimpton