LRT: PPP with a twist

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åThe Eu132 million financing for the Tenerife Light Rail (LRT) PPP project signed on December 16 and is expected to syndicate this month. Although the financing is largely a commercial bank guarantee on Eu127 million of EIB 'A' and 'B' loans and should sell well, the PPP contractual structure is a twist on the norm.

Awarded by the Tenerife government (Cabildo de Tenerife CIT) to Metropolitano de Tenerife (MTSA) - a special purpose company owned by CIT and minority private shareholder Tenemetro (14%) - the contractual structure of the 50 year concession has the minority private partner providing commercial expertise while the public sector retains day-to-day control. The government thereby also avoids deficit restrictions through off balance sheet treatment under ESA 95 rules.

The project was first planned four years ago as a 12.3 km system linking Santa Cruz de Tenerife with La Laguna. Total project cost is Eu217 million - 61% infrastructure, 17% rolling stock and 21% other expenses including IDC. This amount was to be funded by a mix of public contributions (around Eu136 million from the Regional Government and CIT) and private funding, originally conceived as an EIB loan.

Under advisory from PricewaterhouseCoopers Corporate Finance - appointed in 2002 - the deal structure changed. In addition to structuring the unique PPP contract, PwC turned the EIB facility into a limited recourse project financing with a third financial party to act as a guarantor and issue an avail in favour of EIB assuming as counter-guarantee the creditworthiness of the project.

The revenue structure of MTSA was also changed by introducing a deferred subsidy through availability payments (made by CIT to MTSA according to performance) of Eu3.5 million per year. This complemented projected revenues linked to volume and enabled MTSA to present a reasonable debt service coverage ratio (in the 1.6 range) to the banks.

The private partner in the deal - Tenemetro - is itself a consortium formed by Transdev, Somague and INECO. The shareholders agreement was signed in October 2003 with Tenemetro taking 14% of MTSA and committing Eu7 million.

After a competitive tender in which five banks and two monolines put in offers, BBVA was appointed preferred guarantor in February 2003. The counter-guarantee facility was signed on 16 December with BBVA as sole arranger, MTSA as debtor, CIT as shareholder, and Tenemetro as private partner, as well as an amended version of the EIB loan facility. By combining the EIB loan with a third party guarantee provided by a bank instead of a monoline no rating was required.

The final deal comprises Eu40 million in construction grants from the regional government and CIT; a Eu43 million equity injection by CIT; Eu7 million in equity from Tenemetro; and a Eu40 million EIB 'A' loan and a Eu87 million 'B' loan.

The Eu40 million EIB 'A' loan has an 8-year tenor and 36 month availability. Interest is charged at EIBOR (EIB variable rate), of which 100% of EURIBOR is hedged by means of an IRS signed with BBVA. The tranche is BBVA guaranteed on demand with a counter-guarantee pledged against the deferred capital grant to be received by MTSA from CIT and ultimately the regional government. The tranche is priced at 50bp with a 20bp management fee and 30bp commitment fee (40bp for amounts disbursed by the EIB but not applied to the project costs).

The Eu86 million EIB 'B' loan has a 15-year tenor (extendible to 30 years) and 36 month availability. Interest is also charged at EIBOR of which 75% of EURIBOR is hedged by means of an IRS signed with BBVA.

The 'B' loan comes with commercial risk. The on demand guarantee is counter-guaranteed by a pledge on all the rights and assets of MTSA related to the management contract signed between CIT and MTSA. These are: a pledge on revenues coming from CIT availability payments and tariffs collected by MTSA; the compensation sum to be received by MTSA in case of contract cancellation; and the commitment of additional CIT cash in case of cost overruns or when the proceeds from guarantees and contracts signed with defaulting third party contractors are not sufficient (in effect CIT is acting as a second guarantor for construction risks)

Pricing on tranche 'B' is 95bp with a 65bp management fee and 40bp commitment fee (75bp for amounts disbursed by EIB but not invested in the project).

The remainder of the deal is a Eu5.25 million equity bridge guaranteed by letters of credit from SCH, BPI and BCP. Final close is expected by end of first quarter at latest. With light rail deals in the pipeline for Seville, Andalucia, Malaga, Granada and Almeria, Tenerife may have set an interesting precedent.

Tenerife Light Rail

Status: In general syndication

Description: EIB-backed light rail PPP project

Debt: Eu132 million

Concession awarder: Cabildo de Tenerife

Sponsors: MTSA (Cabildo de Tenerife; Transdev; Somague; INECO)

Financial advisory/structuring: PricewaterhouseCoopers

Legal counsel: JR Knowles

Multilateral lender: EIB

Commercial guarantor/arranger: BBVA

Technical advisors to sponsors: Semaly (EGIS group); IDOM (Spain)

Technical advisors to banks:

Tool and Taryet (demand study); SENER (design and cost)