

European PPP Deal of the Year 2001-HSL Zuid

01/02/2002

The Netherlands' Eu1.3 billion High Speed Rail Line Zuid Project (HSL), which reached financial close on 5 November 2001, marks a number of firsts. It is the first major infrastructure public private partnership (PPP) to be completed in the country, it is the largest PPP contract ever awarded by the Dutch government to a private party and it is the largest PPP high-speed railway project in Europe. The project finances a new high-speed link between Hoofddorp in the Netherlands and Belgium. The deal's strength is underpinned by innovative EIB-backed financing and unprecedented state government support, which together create a particularly appetising risk profile. The successful conclusion of the deal also bolsters the case for PPPs among sceptical policymakers both in Holland and elsewhere.

Infraspeed (a consortium of Siemens, Fluor, Innisfree, Charterhouse and Dutch contractor BAM NBM) won the contest to run the concession, beating off competition from many leading rail industry sponsors. The concession is to design, build, finance and maintain (DBFM) the track, safety systems and communication systems of the project under a 30-year contract. It will receive performance-based revenues and an annual fee of approximately \$100 million for use of the structure from the government. Responsibility for the construction of the civil works and the operation of the high-speed trains will remain with the government and Infraspeed will not assume any traffic risk.

The Dutch state emphasised several prerequisites for viable financial structures as part of the tender proposal. Among them, the solution should allow the state to receive continuous service over a 25-year period (following construction), permit a transparent and genuine risk transfer to the private sector and extract a competitive NPV over the performance related payments.

Under the terms of the deal, a Eu1.3 billion project finance package was put together with European Investment Bank (EIB) support. Co-financiers include Bayerische Hypo-Und Vereinsbank, ING, KBC, KfW, Dexia Credit Local and Rabobank. Deutsche Bank acted as adviser to Infraspeed.

The total debt package includes a Eu605 million syndicated term loan, a Eu119.8 million subordinated debt facility, a Eu119 subordinated bridge facility, a Eu15 million working capital facility and EIB's Eu400 million term loan. The EIB loan accounts for 40% of the total project cost.

In addition to the EIB loan, the bank will provide Eu400 million guarantees, to be released three years post-completion (when certain release conditions are fulfilled). The EIB will subsequently be fully exposed to project risk. This is a departure for the bank, which has only released such guarantees gradually over the life of the project in other recent infrastructure deals.

EIB's guarantee facility is designed to protect it against commercial risk during the construction period and ramp-up phase thereafter. Subsequent to this, there is an option to release the facility entirely, based on various performance tests. It is expected to be fully released within the first three years of operation after construction is complete.

HSL is one of the priority TEN projects and fits squarely into EIB's top infrastructure priorities.

Funds from the Eu119.8 million subordinated facility will be advanced only back-ended, post-construction. But there is also a fixed interest rate junior debt bridge facility of Eu119 million, available for drawdown at financial close, which will be repaid bullet by the subordinated debt upon the construction completion.

Banks underwriting the senior syndicated loan facility were also requested to underwrite the working capital facility and the subordinated debt bridge facility on a pro rata basis in proportion to their underwriting commitment on the senior debt tranche. The Dutch state is insurer of last resort.

The working capital facility was arranged to fund shortfalls in state payments resulting from time differences in amounts due. It is payable according to a proposed performance payment fee mechanism ? penalties are payable as soon as technical availability falls below an average availability of 99%, and increase exponentially below this mark. Accordingly, Infrasppeed's solution is designed with base case availability performance in excess of 99%.

The syndicated loan facility and the EIB facility are to be drawn under a base case scenario, up to Eu970 million in aggregate, according to the project's progression over a five-year period. Final drawdown will occur six months after full commercial operation begins.

Debt repayment is set to commence six months after the final drawdown date, with the final loan maturity occurring 27 years after the first drawdown. The debt repayment profile for both the EIB and commercial debt was ?harmonized? with the operational cost profile, thereby enabling a constant base case ADSCR profile. This should fit under the evenly levelled performance payment regime.

Both the syndicated loan facility and the working capital facility have commitment fees of 35bp. They pay margins of 90bp, which lowers to 80bp upon release of the EIB guarantee facility.

The tender process and financial closure proceeded rapidly. It took two months from the submission of Best and Final Offers (BAFO) to signing the Memorandum of Understanding (MOU) between parties, with financial close achieved five months later.

The Netherlands is unusual among European countries pursuing PPPs in that its public sector finances are in a very healthy state. Lining up with Maastricht criteria in annual budget deficits before joining the Euro was never an issue for the Netherlands and its economy has been growing robustly. This fact has led some observers to question one part of the reasoning behind the pursuit of PPPs ? its flattering effect on public sector spending figures

However, the HSL PPP is expected to achieve a 5% cost reduction compared with pure state funding. The relative cost savings achieved, therefore, will be crucial to the survival of the template in the country.

Thank you for printing this article from IJGlobal.

As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.

If you have been given this article by a subscriber, you can contact us through www.ijglobal.com/sign-in, or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.