For whom the tolls tol

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The teeming traffic over Portugal's Tagus River is, as of the end of September, traversing a successfully refinanced bridge. Syndication for the Tagus Bridge loan closed recently amid much jubilation, given the numerous contractual issues delaying its launch. The deal has been under discussion since the bridge first opened in April 1998.

Arranging the deal are SG, BNP Paribas, BCPA and Caixa, joined by six international banks and three local banks. Chase and BES advised the Lusoponte consortium on the deal.

The Eu297.8 million EIB loan from the original structure is still in place but the tenor has been lengthened by an additional five years to 21 years. The margin on the new syndicated facility guaranteeing the loan has been reduced to 80-100bp, driven by an annual debt service cover ratio (ADSCR) grid. The commercial bank guarantees on the loan run for 19 years, meaning that the EIB will be unconditionally on-risk for the final two years of the loan.

In addition to revamping the original loan, the refinancing boasts a new chunk of debt ? a 19 year, Eu120 million loan, paying a margin of 85bp to 110bp, also determined by ADSCR. This loan will be used to pay various construction claims to the contractors.

Further, the settlement between Lusoponte and the government requires that the concessionaire receives Esc65 billion over 19 years, in compensation for the government's toll reductions.

The new Eu120 million loan will be repaid according to the terms of the settlement. But the refinancing does not include an equity takeout for the sponsors, although they are allowed to sell 49% of their interest next year.

Portuguese banking appetite for this and similar deals is sizeable, particularly given the ever more robust economic fundamentals of the Portuguese market. And domestic bank balance sheets have grown swiftly over the last few years, since the first quivers of deregulation and privatization.

The Tagus (or Vasco de Gama) bridge is the second bridge to be managed by Lusoponte, a consortium made up of Macquarie, Campenon Bernard, Bento Pedroso, Mota, Somague, Teixeria and Edifer. The team also operates the older 25th April Bridge, under its exclusive concession agreement, which spans all existing and potential road crossings, along a 30km length of the Tagus river.

The deal for the second river crossing originally signed in 1997, with construction completed in time for Expo98. But since then, concerns have surfaced. Foremost among these was Lusoponte's claim for the cost overruns incurred as a result of legislative and planning changes. Through the ensuing negotiations, the government and concessionaire reached an agreement over who should bear the costs. The results, favorable compromises between both parties, are reflected in the refinancing package.

In fact, as a banker close to the deal puts it, refinancing served as a way to settle the bulk of seemingly intractable issues, largely spawned by the original deal, between the government and concessionaire.

The government and Lusoponte had a range of issues to resolve. Lusoponte has been paid Esc65 billion to settle the construction claim on the projects and various other issues

The bridge was motivated by two basic ambitions: to relieve the congestion on the 25th April Bridge, and to encourage growth of Lisbon's southern bank. The second objective has been notably fulfilled ? industries have moved into the underdeveloped area, and business is booming. But traffic flow on the first bridge is still extreme, even after it undertook an additional rail crossing last year.

Under the original arrangement, the toll was set at Esc350, the same tariff to be levied on the 25th April link. But the government allowed free tolls on 25th April Bridge, with a final toll set at Eu1, or Esc200. A slew of protests by embittered motorists knocked down any idea of raising the 25th April tariff, which is included in the concession, to the Esc350 level. As a result, the government has been compensating Lusoponte for having reduced the 25th April tariffs. Under the new arrangement, however, compensation will end and instead an upfront payment will cover the balance.

Another worry for Lusoponte was the concession length. Under the initial arrangement, the project was due to revert to the government after a certain number of cars had crossed the bridge. The concession length has now been fixed at 35 years.

In sum, then, the new arrangements are meant to simplify the concession structure. Encouragingly, the Tagus bridge has reached traffic levels much faster than anticipated. And the new concession structure allows Lusoponte's shareholders ample profit from growing traffic numbers.

Now, the consortium is taking its skills further downstream with the possibility of a third Tagus crossing at Chelas Varreiro, a site between the two bridges. A report is being prepared for submission to the government next year. A third bridge could, in theory, fulfill one of Lusoponte's aims ? to ease traffic on the first bridge and to relieve motorist pressure the Old City of Lisbon. By all accounts, the need for a third Tagus crossing exists. Lusoponte has exclusive rights on the operation of a new bridge but not on the construction. In the event of a third river crossing, and, thus, changing traffic patterns, the existing concession would need still further amendment. This structure, it seems, is far from static.