

# Mestre hospital, Italy

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**Marc Roca**

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In June 2002, an Astaldi-led consortium was named preferred bidder for the first UK-style hospital PPP project in Italy, the Ospedale di Mestre near Venice

Almost three years later, the consortium – Sanitary Veneta Finanza di Progetto (VSFP) – closed the €258m (US\$312m) deal, demonstrating for the first time that the UK PPP model can be applied in the Italian market.

The deal represents the first example in Italy of a PPP project financed with international standards in compliance with the Italian project finance legal framework - the Merloni Law – and constitutes an important benchmark for future infrastructure developments.

Sergio Sambri, Norton Rose partner advising the banks says: ‘While standard in the UK PPP model, this is the first hospital deal in Italy to focus on service delivery, rather than pure asset delivery and its conclusion marks a new chapter in the continental European PPP market. With Mestre, we have demonstrated that it is possible to satisfy the needs of the international financial market within the Italian legal framework.’.

Fabio Romani, the sponsor’s project manager for Mestre, says: ‘Synthetically, the new Mestre general hospital is the first healthcare PPP project in Italy under which the concessionaire takes on an element of performance risk, as is standard in the UK market.’

## The drivers

The health authority in Venice, the Unita Sanitaria locale 12 Venezia, aimed to replace an inadequate existing hospital and in spring 2000 decided to try the project financing route to fund it partially. The use of the project finance procedure was advertised in the EU Official Journal in December 2000, following the Italian project finance law, the legge Merloni.

This law, introduced in 1998, lets the private sector initiate the project and the government then considers it fully before accepting or dismissing it. Once a preferred promoter is selected, bidders will have to eventually compete against its proposal. If the procuring authority receives better offers from other bidders, the preferred promoter is allowed to modify its bid in accordance with the best offer – effectively having a last call option.

Two proposals were submitted, which were analyzed by the local health authority aided by the regional government and the Italian ministry of finance project finance team. In June 2001, Astaldi’s proposal was accepted and its consortium was selected as promoter for the Mestre project. The project was then put out to tender in January 2002, and six consortia pre-qualified for the restricted procedure. The two final competing consortia were the Astaldi-led consortia and an Impregilo/Siram partnership.

The 29-year concession was finally awarded to the preferred promoter, Astaldi, on 30 June 2002. The EPC contract was signed on 30 April 2003 and the definitive close of the concession was reached in 19 April 2005.

According to the European Investment Bank (EIB), which stepped in later on to provide financing, ‘the new hospital will overcome the shortfalls of the existing hospital and will allow the area of Venice/Mestre to consolidate and improve specialist hospital services, as oncology, cardiology and eye surgery.’

#### **The parties**

The private consortium, Sanitary Veneta Finanza di Progetto (VSFP) was constituted in 22 November 2002. It was led by major Italian contractor Astaldi (31 per cent) and comprised E.Mantovani (20 per cent), Gemmo (17.5 per cent), Cofathec Progetti (17.5 per cent), Mattioli (5 per cent), APS Sinergia (7 per cent) and Estudio Altieri (2 per cent).

The sponsor’s financial advisors were the four mandated lead arrangers. Lovells was also appointed in August 2004 to explore financing options for the hospital. Project finance partner Jason Radford said: ‘Lovells used their experience in the UK market to advise Astaldi on the financial aspects of the PPP. The late stage at which the law firm was brought in demonstrates the difference between UK and Italian projects.’

The bank group was conformed by four mandated lead arrangers, Abn Amro – also intercreditor agent –, Banca Antonveneta, Banca Intesa and Interbanca. They were advised by Norton Rose.

The procuring authority was initially advised by the Italian Treasury Ministry, and had a close collaboration all along with the Venice region (Regione Veneto).

The European Investment Bank (EIB) was advised by Allen & Overy. The sponsor’s technical advisor was Protos.

#### **The project**

The Mestre project will be designed, built and operated by VSFP under a long-term concession granted by the local health authority. It involves the construction of new hospital in a greenfield site in a relatively rural setting in the borders of Mestre, just outside Venice. The hospital is designed to integrate the building with the environment by extensive usage of green areas and terraces.

The hospital will have a total of 680 hospital beds and 22 operation rooms. It has a constructed surface area is 95,550 square metres, divided in three buildings: a main hospital building with three floors and a large glass sail-shaped area; a circular and low building to host a variety of support services; and a third trapezoidal building destined to serve as research center, a congress hall and some classrooms.

The construction cost amounts to €224.1m (US\$269m). The total concession period is of 28 and a half years, including a construction period of 4.5 years and facilities management for 24 years. The managed services include services paid for availability and those paid per volume, such as radiology or analysis laboratory.

Romani Fabri, Mestre’s project manager, says: ‘The project’s major innovation lies in the high level of technology used in the hospital, especially in IT. The architectural design is also very innovative.’

Construction of the new hospital started three years after the launch of the procedure, a shorter period than traditionally procured projects. The stage of development around the time of financial close – on 30 April – was of around a 15 per cent, equivalent to €30m (US\$36m).

The project is expected to be completed by the end of September 2007. The transfer from the old Mestre hospital will take place between October and December 2007 and the inauguration is scheduled for 1 January 2008.

#### **Financing**

Financing efforts for the €258m (US\$312m) project started in November 2003 and financial close was reached in 22 April 2005. The process was complex, as the EIB stepped in and it was also the first UK-style project financing in the country.

Mario Ciaccia, responsible for infrastructure in Banca Intesa, says: 'The Mestre hospital PPP project represents a very important transaction as it is the first PPP hospital in Italy to include full facility management services and to be syndicated in the commercial bank market'.

There were four mandated lead arrangers, Abn Amro – also intercreditor agent –, Interbanca, Banca Antonveneta and Banca Intesa. They supplied a senior term loan worth €130m (US\$157m), of which €110m (US\$133m) were in the long term and remaining €20m (US\$24m) to support the ordinary activity - €15m (US\$18.2m) as VAT facility and €5m (US\$6m) as overdraft facility. A further €99.8m (US\$121m) were granted by public administrations.

The equity stake, provided by the sponsors, amounted to €28 (US\$34m). The EIB signed an engagement to refinance around 70 per cent of the long term financing after the completion of the construction phase, for up to €70m (US\$84.5m) with a margin of 22bps. The committed facility for part of the senior debt demonstrated the institution's interest in supporting such a pathfinder project and also badly needed infrastructure developments in Italy.

Tommaso Garzelli, from Astaldi's finance team, says: 'The major difficulty for the financing was the necessity to apply the UK PPP scheme to the Italian legal framework. It was difficult to explain to the client all the mechanisms of project finance, which are not much known by public authorities. Also the EIB was an additional difficulty, because of so many specifications, even if it was positive – economically and also to give an important view of the project.'

'Another difficulty was that we were not used to allocate everything from the beginning. It was necessary to negotiate with all the facility managers from the beginning, and for such long period, not common in the Italian practice.' Garzelli adds.

To this respect, Banca Intesa's Mario Ciaccia says: 'The complexity of the transaction was due to a strong risk allocation activity among the contractors and the various hard and soft facility management providers across the concession period. Complexity was also originated from the negotiation between Azienda Sanitaria Locale 12 – the local health authority – and the sponsors in relation to financial re-balancing provision.'

Garzelli also remarks the very good relation with the public authorities, which usually have a very strong position in Italy in such projects but were flexible and understood the requests from the banks. 'In this respect, the EIB's presence was very important for the public body, because it is not a commercial bank and served as a sort of public umbrella.' he says.

#### Hurdles

All parties coincided in that the major hurdle was the groundbreaking work needed to apply the UK PPP model in Italy.

Norton Rose's Sergio Sambri says: 'The major hurdle was to utilise English law for the financial documents and the Italian law for the other documents. It was difficult and challenging to coordinate, but we achieved a good structure. This is proven by the many banks that wanted to come in the syndication' – which is due in mid-summer 2005.

Mario Ciaccia says: 'The UK model represents the most developed integrated system to finance public infrastructure. The different legal framework represents the biggest hurdle to develop this scheme in Italy and a standardization of the concession contracts is a first fundamental step to build a real partnership among sponsor, public authority and the banks.'

Sambri says that work is being done currently to complete the legal system, and a specific project finance law should be completed soon. Post-Mestre, an EU commission procedure has also forced changes in the legge Merloni in order to bring in line with European standards, particularly in the initial promoter proposal stage where evaluation criteria must now be clearly defined.

#### Conclusion

The Mestre hospital project is, clearly, Italy's first PPP of relevance in the health sector. It also has laid the ground for future large PPP projects in the country, across all sectors.

In the financial close joint statement, Astaldi’s vice-president Vittorio de Paola says: ‘We are sure that the Mestre Hospital has demonstrated the feasibility of such relevant projects using project finance and we forecast that it will serve as benchmark for future large projects, also in the transport sector of which Italy has need.’ The project may have finally ended Italy’s bad reputation in regards to infrastructure investment, proving conditions for a successful PPP system are in place.

Project name	New Mestre General Hospital
Location	Mestre, Venice (Italy)
Description	The project concerns the construction of a new hospital to replace an inadequate existing hospital. The 680-bed hospital will be designed, built and operated by VSFP under a long-term concession granted by the local health authority.
Sponsors	Sanitary Veneta Finanza di Progetto (VSFP) – SPV comprised of Astaldi, E.Mantovani, Gemmo Cofathec Progetti, Mattioli. APS Sinergia and Estudio Altieri
FM contractor	Sanitary Veneta Finanza di Progetto (VSFP)
EPC Contractor	Sanitary Veneta Finanza di Progetto (VSFP)
Total project value	€258m (US\$312m)
Total equity	€28 (US\$34m)
Tenor	23 years
Total senior debt	€130m (US\$157m)
Debt senior debt breakdown	€110m (US\$133m) long term and €20m (US\$24m) to support the ordinary activity
Senior debt pricing	For the EIB’s €70m (US\$84.5m) r, 22bps
Debt:equity ratio	20:80
Mandated lead arranger/s	Abn Amro – also intercreditor agent – Interbanca, Banca Antonveneta and Banca Intesa.
Legal advisor to sponsor	Lovells
Financial advisor to sponsor	the MLAs
Technical advisor to sponsor	Protos
Legal advisor to banks	Norton Rose
Legal advisor to government	-
Financial advisor to government	-
Date of Financial Close	22 April 2005

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