

Madrid Calle 30 - Europe's largest road PPP

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It was only a matter of time before Spain's flourishing PPP market produced a deal that made the industry sit up and pay a lot of attention. As a model, Europe's largest road PPP project to date may prove difficult to replicate, but the €4 billion Madrid Calle 30 scheme certainly consolidates Spain's position as one of the PPP market leaders

Re-routing and improving any major city's road infrastructure is a tough nut to crack at the best of times (take a look at Boston's Big Dig), but Madrid's scheme is much more than simply a road improvement project - it's a major urban renewal project.

Not only does the initiative include the increase in capacity and restructure of the city's second orbital route, but it boasts the recovery of many environmental areas surrounding the old sections of the road, as well as the regeneration and clean up of the Manzanares River.

It remains to be seen whether one of the continent's largest urban road schemes will fulfill the environmental benefits which form the backbone of the project's rationale, but the project certainly shows infrastructure and financing innovation that will draw attention from across the globe - especially from the UK market as the count down for London's M25 widening scheme continues.

Rationale

As Spain drifts further apart from the increasingly autonomous state of Catalonia, a synergy that remains between the two capitals can be found in their strategy towards inner city road development.

Barcelona has three ring roads compared to Madrid's two complete orbitals - M30, M40 - but both cities have a programme to relocate their inner ring roads underground to reduce congestion, accidents and the effects the routes have on inner city bottlenecks and local communities.

The state of Madrid's M30 is poor: the inadequate road surface causes a lot of accidents each year and forces many drivers to use inner city streets, building congestion in the city centre.

The orbital forms a barrier to movement in and out of the urban areas it runs through and causes increasing air and noise pollution to the surrounding areas and damages the Manzanares River.

By burying major sections of the road underground, traffic coming in and out of the centre will be free to move and the old road surfaces will be replaced with parks, footpaths, cycle paths and new housing.

Many environmental activists point out that although large sections (55km) of the M30 will be routed underground, the amount of traffic using it will increase and therefore pollution is unlikely to be reduced.

However the municipality insists that it will reduce emissions by 35,000t in 2007 and 64,800t in 2037.

Project

In July 2005 the city of Madrid joined forces with a JV set up between Spanish road and construction giants Ferrovial Servicios, Dragados and subsidiary API Conservacion to form Madrid Calle 30 - the SPV responsible for the 35 year concession contract to design, build, finance, operate and maintain Madrid's Calle 30.

The two-phase project involves upgrading and rerouting 99km of Madrid's inner orbital - 56km of which will be in tunnels. The first €2.85bn phase is divided into 17 sections - four of which have already been completed - in four regions across the city.

Santiago Klein, divisional director for Currie & Brown, technical advisers to the three MLAs, said that the construction work - which is slated for completion in 2008 - is divided into three categories:

- overground structures
- partially submerged tunnels
- bored tunnels

Klein said that an inner city project of this magnitude will provide plenty of technical challenges for the SPV, but the consortium contained a host of experience - Ferrovial has operated the ring road for years - that will ensure the project will be completed successfully.

The project also boasts the world's largest earth pressure balanced (EPB) tunnel boring machine (TBM) - which a JV between Mitsubishi Heavy Industries (MHI) and Duro Felguera was commissioned to design, manufacture and supply in September 2004. The machine was completed in July 2005.

Contractors

Madrid Calle 30 awarded Necso and Ferrovial Agroman the €340 million construction contract for the north tunnel on the south bypass.

The south tunnel on the south bypass will be constructed by a joint venture between FCC and ACS Dragados for €429 million. The south bypass is a three-lane road divided into two tunnels and will take 30 months to complete. Work started in August 2005.

Sacyr Vallehermoso is to improve the connection to the A-3, at a cost of €187 million, in 24 months. This is a 4.8km section where 1.4km will be in cut-and-cover tunnel and 430m in conventional tunnel.

Other contractors to deliver smaller portions of the project include:

- Corsan-Corviam
- Construcciones Sando
- Ploder
- Aldesa Construcciones

Transaction

Dexia Sabadell was appointed as arranger for the overall financing of the project's first phase early in 2005 and Société Générale and Caja Madrid were then invited by Dexia to co-underwrite the bridge facility and long-term financing.

The €400m bridge facility was made available for the project company in June 2005, so that it could get underway with initial works without having to wait for the long-term project financing that closed on 12 December 2005 - the loan was repaid as soon as the scheme closed.

According to Fernando Lacasa, vice president of Société Générale's project finance team in Madrid, the European Investment Bank (EIB) was initially interested in the deal, but its offer was less flexible in terms of timing and approval compared to the package that the merchant banks put on the table.

The three mandate lead arrangers (MLA) are providing the sponsors with a two tranche senior debt facility totaling €2.5bn. The loan was split:

- Dexia - 40 per cent (€1bn)
- Societe Generale - 35 per cent (€825m)
- CajaMadrid - 25 per cent (€625m)

Dexia and Societe Generale are also acting as 50/50 bookrunners, while Dexia also serves as facility agent.

Tranche A consists of a €1.35bn, 30-year facility priced at 15bp above LIBOR during construction and 7.95bp post construction. The loan is indexed to inflation.

The €1.15bn tranche B comes with a 20-year tenor at a price of 27.5bp during operation, increasing to 42.5bp over time.

Payments made by the City of Madrid to the concessionaire will be partly fixed, and partly subject to deductions on a performance basis.

The fixed 'basic' payment will cover tranche A. It will not be subject to any performance targets and will be paid to the concessionaire over six installments.

Fernando Lacasa explained that to mitigate construction risk, a minimum fixed payment scheme has been set up during the construction phase. Each section of work is to be judged independently. In other words, the SPV will start bringing in cash as soon as each of the sections are complete.

A third payment - which is subject to certain deductions if required standards are not met - will cover tranche B and operation costs.

The lead sponsor and grantor - Madrid City Council (80 per cent); Dragados and its subsidiary API Conservacion (10 per cent) and Ferrovial (10 per cent) are putting up €454m of equity and, as outlined in the tender documents, the SPV is providing €114m of subordinated debt.

The bullet loan will have a fixed rate of 5.5 per cent and will be repaid after 25 years.

Lacasa said that the greatest challenge of the project was syndicating such a high value, low margin deal - not because of the risk but due to the low return.

However, it took just three months from the launch of syndication in September 2005 for the MLAs to sign up and close the deal with 11 participating banks including:

- Instituto Credit Oficial (ICO)
- BBVA
- La Caixa
- BNG
- Banca OPI
- Helaba
- Caixa Galicia
- Lloyds
- Caixa Catalunya
- IKB
- Ibercaja

ICO - one of Spain's public banks - has been given special status and is providing €350m for tranche A only, while the

remaining 10 banks are providing an equal share for both tranches.

Clifford Chance is actign as legal adviser to the banks while Garrigues is advising the municipality. There have been no financial advisers hired for the project, but Deloitte was responsible for putting together the scheme's financial model.

Currie & Brown is the MLA's technical adviser and Scott Wilson is also providing technical consultancy for the government.

Financing for the €1.15bn second phase of the scheme isn't likely to be secured for a while because although the final part of the project was initially expected to be launched this year, upcoming elections and other political issues are likely to delay the process until at least 2007.

Conclusion

Madrid pulled out all the stops to close this massive transport PPP, a deal that will come as a confidence builder for the UK which is looking at the £1.5 billion widening scheme for the M25.

The road project also builds on Spain's reputation for closing PPP-style deals fast and underlines the government's commitment to the private sector.

With a wave of regional transport PPPs on the horizon in Spain, they will not compete with Madrid's orbital for size - not by a long chalk - but the sector is looking lively for the future. A deal of the size of Madrid Calle 30 is not likely to be seen again in the Iberian roads market, which makes it all the more impressive that it closed so swiftly.

The project at a glance

Project Name	Madrid Calle 30 (MC30)
Location	Madrid, Spain
Description	Upgrade and rerouting through tunnels of major sections of Madrid's inner ring road. The two phase scheme includes new construction of 99km of roads of which 56km will be tunnels
Sponsors	Madrid City Council (80 per cent) Ferrovial (10 per cent) Dragados and API Conservacion (10 per cent)
Operator	Ferrovial
Contractor	Dragados + API Conservacion
Sub contractors	Nesco Ferrovial Agroman FCC Sacyr Vallehermoso Corsan-Corviam Construcciones Sando Ploder Aldesa Construcciones
Total Project Value	Total: €4 billion Phase 1: €2.85bn Phase 2: €1.15bn
Total equity	Phase 1 €454m pure equity €114m - Subordinated debt provided by SPV (fixed rate of 5.5 per cent)
Equity participants	Phase 1 Madrid City Council €354m Dragados + API €45.5m Ferrovial €45.5m
Total senior debt	Phase 1: €2.5 billionn Tranche A: €1.35bn 30 year tenor Tranche B: €1.15bn 20 year tenor
Senior debt pricing	Tranche A: Margin of 15bp during construction phase 7.95bp post construction Tranche B: Margin during operation 27.5bp stepping up to 42.5bp

Mandated lead arrangers	Dexia Credit Local: €1bn (40 per cent) Societe Generale: €875m (35 per cent) Caja Madrid: €625m (25 per cent)
Participant banks	Tranche A only ICO - €350m Tranche A & B split equally BBVA La Caixa BNG Banca OPI Helaba Caixa Galicia Lloyds Caixa Catalunya IKB Ibercaja Garrigues
Legal Adviser to sponsor	
Financial model developer	Deloitte
Legal adviser to banks	Clifford Chance
Insurance	Willis
Technical adviser	Currie & Brown Scott Wilson
Date of financial close	12 December 2005

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