Turks and Caicos Islands Hospital PFI

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The modernisation of healthcare facilities throughout the West Indies - with perhaps the exception of Cuba - is a pressing issue that needs to be addressed. As such, the financial close of the first Caribbean hospital PPP is a success story for Turks and Caicos Islands (TCI) and the region.

However, this was a transaction that was not without its complexities. In the latter stages, there was considerable uncertainty as to whether or not the project would be completed.

A number of Caribbean governments have been paying close attention to this ambitious deal which is being viewed as a pathfinder for further projects in the region.

The US$124 million PFI scheme [Projects Database] will serve as a bellwether for similar hospital projects, and looks set to kick off a pipeline of education and municipal PPP deals in the region.

The deal incorporates for the first time the provision of clinical services and medical equipment services with non-clinical.

The project was complex, carried out in a new jurisdiction for PPP and required a number of innovative solutions.

Despite this it is likely that advisers and funders will be keen to work on deals in the Caribbean. Curiously, it is seen as a fertile region among funders and advisers who seem overly eager to work on deals... which cannot be done remotely.

Background

Turks and Caicos Islands is a country where many of the inhabitants currently have to travel abroad in order to receive decent healthcare treatment and modernisation of its healthcare facilities is long overdue.

TCI is politically linked with the UK as a British Overseas Territory - located south east of the Bahamas and north of Hispaniola. It consists of two groups of tropical islands with a population of less than 22,000.

The project includes a 20-bed facility on the island of Grand Turk - Turks Islands - and a 40-bed hospital on the island of Providençiales in the Caicos Islands.

The hospitals will include operating theatres and day-surgery rooms, plus further capacity for bringing in specialist treatments.

The project is broadly PFI in design in that it involves the construction of buildings, provision of facilities and their FM - but for the first time in an essentially UK deal, it will include a full range of clinical services and medical equipment supply.

Toronto-based Interhealth Canada was selected as preferred bidder in late summer 2006 and HSBC came in towards the end of the deal as joint equity provider. The initial MLA was FirstCaribbean International Bank.

During the procurement process a number of other bidders - including a group of GPs from the US - competed for the tender, but none of the usual PFI suspects took part in the bidding. This may have had something to do with the deal including clinical services and medical equipment supply.

Interhealth Canada has come to prominence in recent years in the PPP market, participating in wave one ISTC (Independent Sector Treatment Centre) PPP projects in the UK.

The Canadian health specialist has contracted Caribbean construction firm Johnston International to build the new hospitals.

Design was carried out by Devereux Architects and MEP (mechanical engineering provider) was Rotary.

Eversheds provided legal advice to the TCI government, while PwC acted as financial adviser.

Lovells and local law firm Miller Simons O'Sullivan acted as legal advisers to the lender, WSP Management Consultants was technical adviser, while Barclays was structural adviser.

Berwin Leighton Paisner was legal adviser to the sponsor, while Elgar Byrne was financial adviser.

The procurement process was completed in two years, which is relatively quick for a PFI deal in an emerging market. However, the closing phase of the deal took longer than originally anticipated.

FirstCaribbean International Bank (FCIB) is a new-comer to project finance and this deal served as a valuable learning experience which it will hopefully repeat in years to come. FCIB's corporate finance team is based in Barbados and deals with clients across 17 countries in the Caribbean.

Financing

FCIB acted as sole MLA and was assisted by the London-based Barclays PFI team, which provided structuring assistance to the bank which was ill-acquainted with such transactions.

The Caribbean bank was formed in 2001 as a JV merging the Caribbean operations of Barclays and Canadian Imperial Bank of Commerce (CIBC). In 2006, Barclays exited the Caribbean venture, giving CIBC majority-control.

EDC (Export Development Corporation) of Canada acted as a participant bank - providing the term loan of US$31 million, while FCIB provided the other US$31 million - a senior debt tranch of US$62 million.

HSBC came in towards the end of the deal providing a bridge loan for the mezzanine and junior debt - US$26 million and US$31 million respectively - and also provided the swap to fix Libor.

Senior debt pricing is set at around the Libor +200bp mark.

The debt to equity ratio on this was 75:25 - US$93 million in debt to US$31 million in equity which breaks down as US$5 million in traditional debt and US$26 million in subordinated debt.

The bank terms are set at a premium and are a reflection of the emerging market status of the deal.

Senior debt is supplemented with mezzanine debt and subordinated debt. The 25-year deal also includes provision of interest rate swaps and a price inflation swap.

Risk

The key risk element to the deal was spinning out the entire healthcare provisions - including clinical and non-clinical.

The structuring was split into two SPVs - a clinical SPV and a project SPV. The ProjectCo includes the limited recourse loan and is for the construction and FM elements, while the clinical SPV will be for when the project is up and running.

The complex ring fencing put in place rigidly splits the deal into two SPVs and gives further comfort to the lenders.

Other risk included the fact the hospital was located on an island in the Caribbean - an emerging market.

However, FCIB already had significant experience on TCI as the major lender in real estate and is an experienced operator in the islands.

Despite the country risk, the TCI legal system - made up of UK law and local variations - made the PFI model easily transferable.

The construction risk lies with local firm Johnston International which will build the new hospitals, while FM services will be provided by Interhealth Canada. Construction work is expected to take two years and is already underway.

Healthcare Tourism

The issue of health tourism is a feature of the deal, but may have helped the project receive funding - considering the population size of TCI.

The TCI government gets to update its healthcare facilities, and also provides the potential for a new tourism market. The islands' economy is based on tourism and offshore financial services.

The US is the leading source of tourists to TCI - accounting for more than three-quarters of the 175,000 visitors that went there in 2004.

There is scope for health tourism as a by-product, but this is a minor element of the project. Tourists to the islands come mainly from North America and there have been a number of recent luxury developments on the islands.

Medical tourism is a rapidly-growing practice, for example, Cuba has been a popular medical tourism destination for decades. Cuba attracted nearly 20,000 health tourists in 2006.

Despite this aspect, initial healthcare facilities for the new hospitals have been structured for the needs of the islanders.

Conclusion

As the UK PFI market has started to mature over recent years, the industry has increasingly been seeking investment opportunities in emerging markets, such as the West Indies.

The region's first health PPP project is being seen as a template for further deals in other parts of the Caribbean, such as the more populated islands like Jamaica and the Dominican Republic; or the likes of Trinidad and Barbados, which are linked politically with European countries.

If a PPP framework and pipeline follow, likely countries will be sovereign state islands as well as islands where there is greatest demand for new facilities.

The project was complex and closing the deal in the current credit crunch conditions is a good sign for the future of PPP in the West Indies.

One element that can never be ignored is the desire of international bankers to work in a region that claims paradise status. For some reason beyond IJ's ability to identify, these deals are hugely attractive...

The project at a glance

Project name	Turks and Caicos Islands Hospital PFI
Location	Turks and Caicos Islands, Caribbean
Description	The design, build, finance and operation of two new hospitals in the Turks and Caicos Islands, as well as the provision of clinical services and medical equipment service.

Sponsors	Interhealth Canada and HSBC
Operator	Interhealth Canada
Authority	Turks and Caicos Islands Government
Contractor	Johnston International
Project duration	25 years
Construction stage	Start on site following financial close
Construction duration	2 years
Total project value	US$124 million
Total equity	US$5 million
Equity breakdown	Interhealth Canada - 50 per cent - US$2.5 million HSBC - 50 per cent - US$2.5 million
Total senior debt	US$62 million
Total junior/subordinated debt	US$26 milion
Mezzanine debt	US$31 million
Senior debt breakdown	FirstCarribean International Bank - 50 per cent - US$31 million EDC - 50 per cent - US$31 million
Senior debt pricing	around the Libor+200bp mark
Debt:equity (equity + subordinated debt) ratio	75:25
Mandated lead arranger	FirstCarribean International Bank
Participant bank	EDC - Export Development Corporation of Canada
Legal adviser to sponsor	Berwin Leighton Paisner
Financial adviser to sponsor	Elgar Byrne
Structural adviser to bank	Barclays
Legal adviser to bank	Lovells
Local legal adviser to bank	Miller Simons O'Sullivan
Technical adviser to bank	WSP Management Consultants
Legal adviser to TCI govt	Eversheds
Financial adviser to TCI govt	PwC
Architect	Devereux Architects
Mechanical engineering provider	Rotary
Date of financial close	11 January 2008