

# Florida's I-595 Corridor Expansion

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**Robert Lovell**

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Florida's I-595 Corridor Roadway Improvements project is a landmark transaction in the growing P3 market and stands as a guide for future private sector participation in the US infrastructure market.

The US\$1.656 billion ground-breaking deal [\[Projects Database\]](#) was the first availability-payment project in the US and represented the largest construction project awarded by the Florida Department of Transportation (FDOT).

Despite adverse market conditions in early 2009, Florida's first P3 closed with a club of 12 international commercial lenders alongside TIFIA debt provided by the Joint Program Office of the US Department of Transportation (USDOT).

This pathfinder project invigorated the US P3 market - giving confidence to bring further deals to financial close as the year progressed.

## Background

The I-595 corridor was opened to traffic in 1989 and the *Interstate 595 Freeway Operational Analysis, Final Report* was prepared in 1994 following increased demand and traffic growth estimates on the corridor.

To prepare for the continued evolution of I-595, FDOT determined that a *Corridor Master Plan* should be developed. Combined with a new master plan for the I-95, the *I-95/I-595 Master Plan Study* was completed in 2003.

The result of the study was an approved locally preferred alternative (LPA) for the I-595 corridor, focusing on improvements between I-75 and I-95. The LPA served as the base alternative for further evaluation under the *I-595 Project Development and Environment (PD&E) Study*.

An extensive public involvement programme (PIP) was prepared for the *I-595 PD&E Study*, with several public meetings held between April and November 2005.

The *I-595 PD&E Study* was completed in March 2006, and on 29 June, the Federal Highway Administration (FHWA) granted Location Design Concept Approval (LDCA) for the preferred alternative concept (Alternative 2A) for more than US\$1 billion in proposed improvements to the I-595 corridor.

On 17 April 2006, FDOT selected Reynolds Smith & Hills to provide Corridor Design Consultant (CDC) services and issued a notice to proceed on 28 June 2006, followed by an Industry Forum On 25 July 2007 that drew more than 400 attendees.

FDOT established an aggressive schedule for the procurement of a concessionaire and the entire process from advertisement through to contract award was achieved in less than 13 months.

On 1 October 2007 FDOT issued an RFQ to interested proposers and on 3 December shortlisted four teams, issuing a draft RFP on 11 December.

Communication between FDOT and the shortlisted concessionaire teams - including one-on-one meetings and responses to proposer questions - ensured the development of a comprehensive contract documents package as well as a competitive bidding process.

The four teams were:

- **ACS Dragados-Macquarie Partnership** - ACS Infrastructure Development (equity member), Macquarie (equity member), Dragados (lead contractor), GLF Construction Corporation (lead contractor), Hubbard Construction Company (lead contractor), Earth Tech (lead engineering firm) and Iridium Concesiones de Infraestructuras (lead operations and maintenance firm)
- **Express Access Team** - Bilfinger Berger BOT (equity member), Babcock & Brown Infrastructure Group US (equity member), PCL Civil Constructors/ Archer Western Contractors JV (lead contractor), PB Americas (lead engineering firm) and Transfield Services (lead operations and maintenance firm)
- **I-595 Development Partners** - OHL Concesiones (equity member), Goldman Sachs Global Infrastructure Partners (equity member), Balfour Beatty Capital (equity member), OHL, Community Asphalt Corp, Condotte America (lead contractor 70 per cent), Kiewit Southern (lead contractor 30 per cent), Jacobs Engineering Group (lead engineering firm) and OHL Concesiones (lead operations and maintenance firm)
- **Direct Connect Partners** - Skanska Infrastructure Development (equity member), John Laing (equity member), Fluor Enterprises (equity member), Skanska USC Civil (lead contractor), Fluor Enterprises (lead contractor), HDR Engineering (lead engineering firm) and Roy Jorgenson Associates (lead operations and maintenance firm)

The final RFP was issued on 18 April 2008 and by 5 September - 10 days before the Lehman Brother's collapse - the authority received technical and financial proposals from the shortlisted teams.

By 8 September 2008 there were just [two teams left](#) in the running - ACS Dragados-Macquarie Partnership and Express Access Team.

FDOT prudently set the minimisation of the MAP (maximum availability payment) as the major criteria for concessionaire selection - shifting the competition's emphasis to win on innovative engineering solutions.

On 24 October FDOT issued a notice of intent to award the contract to the ACS Infrastructure Development (ACSID) team.

## Project Details

The deal is a P3 between FDOT and the I-595 Express consortium (ACSID) to DBFOM the I-595 Corridor Roadway Improvements project in Broward County, Florida.

It includes the construction of three reversible express toll lanes in the median serving express traffic from I-75/Sawgrass Expressway to east of SR-7 with a direct connection to the Florida Turnpike.

The scheme also involves the reconstruction, widening and resurfacing of the I-595 mainline; reconstruction and resurfacing of the SR 84 frontage road; and modification/construction of auxiliary lanes (and all associated improvements to adjacent crossroads, frontage roads and ramps).

It extends from the I-75/Sawgrass Expressway Interchange to east of the I-595/I-95 interchange in Central Broward County, Florida, for a total project length of 10.5 miles.

The brownfield project is relatively straightforward in terms of construction risk, since the majority of work is simply improvement of existing infrastructure. The 30-year concession is based upon a unitary payment for performance, irrespective of demand.

The I-595 breaks with the routine set down by previous US P3s, with the state of Florida retaining the right to set and collect tolls.

The I-595 Express consortium includes:

- ACS Infrastructure Development - 100 per cent equity
- Hubbard Construction Company
- Earth Tech
- Concesiones de Infraestructuras

Dewey & LeBoeuf was legal adviser to the sponsor and Macquarie Capital provided financial advice, while Jorgensen acted as technical adviser.

Simpson Thacher & Bartlett acted as legal adviser to the lenders, Scott Wilson was technical adviser, Marsh was insurance adviser, while Ernst & Young provided the model audit, accounting and tax advice.

Nossaman provided legal counsel to FDOT, Jeffrey Parker & Associates was financial adviser, while Reynolds Smith & Hills acted as technical adviser.

Hawkins Delafield & Wood was legal counsel to USDOT TIFIA and Taylor-DeJongh was financial adviser.

## Financing

The I-595 Corridor Expansion reached financial close at the height of the global financial crisis and in the midst of the tightest credit markets of modern times.

The bidders were initially expected to finance the project through tax exempt municipal markets under the Private Activity Bond (PAB) market programme.

However, the financial crisis closed the market for monoline insurers in late 2008 along with new tax-exempt issuers - rendering it unlikely that the capital markets had the capacity to absorb US\$900 million of PABs.

In accordance with the RFP, the project's sponsors crafted an alternative financial plan based on bank debt and the parties worked to revive a structure involving a 10-year bank-loan facility, with ACS accepting downside refinancing risk and agreeing to share refinancing gains.

FDOT also succeeded in structuring a process with the TIFIA Joint Program Office to allow interaction with the proposers during the bidding stage. ACSID was able to assume a TIFIA loan in its hard-price proposal - a key factor in preserving the bid's affordability.

The US\$1.4595 billion debt comprised two tranches financing different revenues of the project - milestone payments and availability payments.

The club of 12 international banks included:

- Caixanova - US\$14.159 million
- WestLB - US\$39.058 million
- Banco Sabadell - US\$41.988 million
- Banco Popular - US\$43.94 million
- BBVA - US\$65.911 million
- National Australia Bank (NAB) - US\$65.911 million
- Dexia Crédit Local - US\$78.117 million
- Société Générale - US\$81.53 million
- La Caixa - US\$90.81 million
- Calyon - US\$97.646 million
- Grupo Santander - US\$118.15 million
- Caja Madrid - US\$66.00 million

The removal of volume risk from a congestion-priced facility allowed I-595 to close on favourable financial terms during a period of market disruption.

The 10-year senior debt pricing was initially set at Libor +300bp rising to +400bp, while the US\$678 TIFIA loan has a maturity of 35 years post-completion.

The equity contribution amounted to US\$207.7 million - provided 100 per cent by ACSID.

A novel concept was used to share interest-rate risk between bid submission and financial close: FDOT decided to absorb 75 per cent of the fluctuations in credit-spreads, arranging fees and swap-margins, in addition to carrying the benchmark interest rate risk - traditionally borne by the public sector.

The mechanism gave broad rights for FDOT to approve the baseline benchmark setting and request that more efficient financial structures be implemented. The risk-sharing mechanism aligned public-private incentives, optimised pricing and proved to be a key factor in reaching financial close under difficult market conditions.

The project reached financial close on schedule and below FDOT's affordability target on 3 March 2009.

On time completion will lead to an interim milestone bonus payment, while a violation system tracks construction closures resulting in payment adjustments and protects against disruptive practices during peak hour traffic.

The use of final acceptance payments from the public owner also decreases the need for private financing, lowering financing costs.

This system of rewards and penalties is now replicated on a number of other North American deals.

## Conclusion

The I-595 project overcame a range of economic obstacles and was the first availability-payment transaction to successfully reach financial close in the US.

Even at the height of the global financial crisis, the deal remained on track and is now regarded as a trend-setter in many respects, breaking the barriers in the traditional municipal financing markets.

By using the availability payment structure, FDOT transferred the construction, operating and financing risk to a third party, through a nine-month shortlisting, bidding and negotiations process.

There was an unprecedented degree of public-private cooperation in the financing of I-595 - including government flexibility and support, not witnessed in the US before.

The I-595 project stands as a shining example of what can be achieved, even during tough times, through embracing the P3 model.

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