Chicago Skyway acquisition, US

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The $2.8 billion acquisition of the Skyway Concession Company, which owns the lease for the Chicago Skyway toll road in Illinois, was the first such deal in the US for a trio of Canadian pension funds.

Toronto-based Canada Pension Plan Investment Board and Ontario's two largest public provincial plans, Ontario Municipal Employees Retirement System and Ontario Teachers' Pension Plan, agreed to acquire the operator of the Chicago Skyway toll road for $2.8 billion in February this year. The sponsors are investing a total of $1.54 billion in equity, split equally between them, as part of the deal.

The deal was announced fresh off the heels of another toll road sale in 2015 and is the second such sale involving Cintra and Macquarie in the past 12 months. In May 2015 Cintra and Macquarie finalised the sale of the lease of another joint asset, the Indiana Toll Road (ITR). Chicago Skyway's financing structure, featuring bank debt and long-tenor private placement notes, broadly mirrors that of the ITR.

The sale demonstrates the appetite that long-term institutional investors have for mature US assets. And it won't be the last US toll road acquisition, as other projects come out of construction and into the operation phase, making them suit the risk appetite of these funds. In addition the improving US economy and low oil prices are expected to gradually boost traffic numbers on important arterial roads in the country.

Original concession

Chicago Skyway is a 12.5km elevated toll road connecting I-94 (Dan Ryan Expressway) in Chicago to I-90 (Indiana Toll Road) at the Indiana border. The highway network includes a 5.6km elevated mainline structure crossing the Calumet River. Built in 1958, the Skyway was operated and maintained by the City of Chicago Department of Streets and Sanitation.

In March 2004, the City of Chicago issued a request for qualifications (RFQ) to potential bidders interested in operating the facility on a long-term lease basis. The city received 10 responses and in May 2004 invited five groups to prepare proposals. Bids were submitted in October 2004, with the long-term contract awarded to Cintra and Macquarie on 28 October 2004. The investors bid $1.83 billion for the 99-year concession, 2.6x as much as the next highest bidder, a French and Canadian group led by Vinci Concessions. Abertis Infraestructuras of Spain was the only other bidder, offering $505 million for the lease at the time, according to the US Department of Transportation records.

The Skyway Concession Company (SCC), owned by Cintra (55%), Macquarie Infrastructure Partners (22.5%) and Macquarie Atlas Roads (22.5%), assumed operations of the Skyway on 26 January 2005 under a 99-year lease. SCC is responsible for all operating and maintenance costs of the Skyway but has the right to all toll and concession revenue. This agreement between SCC and the City of Chicago was the first long-term lease of an existing toll road in the US.

Both ITR and Chicago Skyway were highly leveraged and aggressively bid at during the heady days preceding the 2008 financial crisis. The leveraged capital structure, put in place by the sponsors, left the assets vulnerable to revenue volatility once the toll roads were hit by a slump in traffic volumes immediately after the financial crisis. However both roads form an essential and integral component of the regional transportation network and are forecast to witness better returns over their remaining life-cycle, according to market observers. The optimism is reflected at the final price that both deals were sold at.

The sale process for the Skyway toll road was launched by the Cintra- and Macquarie-led Skyway Concession company (SCC) in June 2015. Indicative bids were received in August 2015. The Calumet Concession Partners consortium was named preferred bidder in November 2015. The pension funds consortium - CPPIB, OMERS and Ontario Teachers' - will each own a 33.33% interest in SCC and contribute an equity investment of approximately $512 million each.

Institutional investors, including pension funds, with a need to match returns to their long-term liabilities often seek investments that are co-related with GDP growth and linked to inflation. Toll roads prove good candidates in this respect, even during low inflation periods, as concessionaires are able to guarantee a minimum rate increase especially in a recovering economy.

Moving forward, other similar toll road transactions that may be launched in the market to take advantage of the growing investor appetite include Texas' $1.4 billion state highway 130 toll road concession, also majority owned by Cintra, which is now bankrupt and looking to restructure its debt. Georgia's Northwest Parkway and in Virginia's Pocahontas Parkway toll road are among the other deals that may complete restructurings in the near-term.

Financing

The Skyway acquisition was financed with about $1.3 billion in debt, of which $425 million is a two-tranche loan supported by nine lenders, an approximately $975 million private placement and around $1.54 billion in sponsor equity. The short-term debt was split as a $325 million term loan with a tenor of five years and a $100 million capital expenditure facility with a tenor of five years.

The nine lenders on that debt package were:

- CIBC
- Citibank
- Commonwealth Bank of Australia
- Crédit Agricole
- ING
- MUFG
- RBC
- National Australia Bank
- Export Development Canada (EDC)

The lender group was quite similar to that of ITR. In addition, German insurer Allianz Global Investors (AllianzGI) acted as lead investor, accounting for "more than 50%", in the $975 million privately placed bonds which also settled and closed on 25 February. None of the other investors have been named. This is the insurer's second such debt investment in the US transportation infrastructure space after a $700 million investment in the Indiana Toll Road acquisition in May 2015.

While ITR's new owner IFM Investors refinanced portions of the debt (bridge loan and term loan) in the capital market in quick succession following the acquisition close, in July 2015, Skyway will not follow that pattern since a majority of the acquisition debt is already being provided as a private placement, one source told *IJGlobal*.

Advisers

Goldman Sachs was financial adviser to Skyway Concession Company on the sale process, while RBC Capital markets advised the Calumet Concession Partners consortium. Sullivan & Cromwell was legal adviser to the consortium while Shearman & Sterling was lenders' counsel.