

Interstate 4 Ultimate Road PPP, Florida

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The Florida Department of Transportation's (FDOT) \$2.3 billion [Interstate 4 Ultimate road](#) project is the third transportation PPP project in Florida to be procured using an availability payment structure. It is also the largest availability payment-based transaction in the US to date.

The design-build-finance-maintain concession combines short-term commercial bank debt and debt from the US Department of Transport under its Transportation Infrastructure Finance and Innovation Act (TIFIA) lending programme. The two-tranche TIFIA loan is notable both as the largest that US DOT has ever provided and for combining long and short tranches.

Sponsors Skanska and John Laing will provide equity and much of the debt will be repaid with the sizeable milestone and completion payments that FDOT is making. None of the commercial bank debt, and only some of the TIFIA debt, is exposed to the operational performance of the concession.

Commercial bank lenders are only taking on construction risk, and as a result the deal features competitive bank pricing that compares with levels that prevailed before the September 2008 crisis. The last construction-only financing for a US transport PPP with pricing this low was the 2008 debt package for [Florida's US-1](#).

Construction debt

Six international banks provided \$484 million in short-term senior debt to part-finance the construction of the I-4 Ultimate project.

The lenders are:

- Société Générale - \$96.8 million
- MUFG - \$96.8 million
- Canadian Imperial Bank of Commerce - \$96.8 million
- KfW-IPEX Bank - \$87.12 million
- Svensk Exportkredit - \$53.2 million
- Credit Agricole - \$53.2 million

Commercial bank financing has been rare on recent US transport PPP deals, especially since the 2008 financial crisis. The US Department of Transportation's TIFIA loans have long maturities and low interest rates, while private activity bonds (PABs) allow private developers access to tax-exempt debt, providing tough competition for commercial banks as they drive down funding costs.

The four shortlisted consortiums on I-4 Ultimate [submitted financially committed bids](#) to FDOT in March 2014. Not all bids featured bank debt, and some included PABs. But bank financing would make the most of the milestone and completion payments that FDOT is providing.

The lenders will receive \$1.7 billion in payments from FDOT during construction and until one year after completion.

Around \$1.04 billion of this will be paid during construction:

- \$45 million in 2015
- \$180 million in 2016
- \$221 million in 2017
- \$324 million in 2018
- \$265 million in 2019

FDOT will pay the balance of \$688 million shortly before and at substantial completion (\$300 million in 2020 and \$388 million in 2021).

The \$949 million TIFIA loan for the I-4 Ultimate PPP is split into two tranches; a short-term tranche A of \$127.3 million and a long-term tranche B

of \$822.2 million. The short term tranche priced at 2.32% while the long-term tranche priced at 3.17%. The loan was split into two tranches because some of it would be repaid with milestone payments from FDOT rather than availability payments.

FDOT support

The significant milestone payments during construction not only made bank financing more viable, but also improved the project's credit ratings. Moody's assigned a provisional Baa1 rating to the bank debt and TIFIA loan and S&P assigned a BBB rating to the loans, higher than other recent rating seen on other US transport PPPs. The project's credit rating also received a boost from the strong record of project sponsors Skanska and John Laing.

This reduced risk was reflected in the pricing of the senior bank debt, which was priced at 125bp over Libor. This is thought to be the tightest margin on a transport project with a build-finance credit profile since the 2008 closing of [Florida's US-1](#), which priced below 100bp over Libor.

The strength of the construction joint venture for the project, and the credit profile of FDOT also influenced the pricing, as was the abundance of liquidity in the bank market. The pricing also shows that banks are behaving much more aggressively as lenders compete for fewer bankable projects.

European sponsors

The debt:equity ratio is 93:7, and the average minimum baseline debt service coverage ratio is projected to be 1.25x. The sponsor consortium - I-4 Mobility Partners - is providing \$103 million equity to the project, split between John Laing (\$30 million) and Skanska (\$73 million), though each will have a 50% stake in the project company. The consortium was named preferred bidder for the project in April 2014.

The project is Skanska and John Laing's eighth together. The high profile of European sponsors in the US market is a reflection of the strengthening PPP pipeline in the US in comparison to thinning deal flow in Europe and the UK. Skanska is bidding on several PPP projects in the US and Canada this year.

The 40-year design, build, finance, operate and maintain concession involves replacing six general purpose lanes on the I-4 and adding four new express lanes on a 34km section of the I-4 that runs through Orlando, from west of Kirkman Road in Orange County to east of SR 434 in Seminole County. The I-4 in Orlando serves some of world's most popular travel destinations, including Walt Disney World, Universal Orlando Resort and SeaWorld Orlando.

Under the concession agreement, the concessionaire earns payments at three stages: during construction, once construction is complete, and through availability payments once the road is open to traffic. Funding for the payments comes from state and federal sources, as well as from the Central Florida Expressway Authority and Florida Turnpike Enterprise. Tolls on the Express Lanes will begin around 2020/2021.

Advisers

Nossaman is legal adviser, and KPMG financial adviser, to FDOT on the project. Latham & Watkins is legal adviser to the lenders. For the sponsors, Société Générale provided financial advice, while Ashurst was legal adviser.

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