Portsmouth Bypass PPP, Ohio

Sakshi Sharma

01/05/2015

Before the $550 million Portsmouth Bypass PPP in Ohio closed in April 2015, only one US PPP had obtained a partial wrap from monoline Assured Guaranty in the aftermath of the 2008 financial collapse. Portsmouth is the second such project since 2007 to benefit from an Assured Guaranty wrap.

Financing for the availability-payment based Portsmouth Bypass features $227.3 million in tax-exempt private activity bonds (PABs), of which just under half are wrapped by Assured. The PABs complement a $209 million subordinate loan that the Federal Highway Administration provided under the Transportation Infrastructure Finance and Innovation Act (TIFIA) programme. That loan carried a lower-than-usual 1.27% interest rate because the road serves a rural region.

Accompanying the debt is $48.85 million in equity from the Portsmouth Gateway Group consortium – ACS (40%), InfraRed (40%) and Star America Fund (20%). The equity was backed by a letter of credit at financial close. The Ohio Department of Transportation (ODOT) will be making $44 million in payments to the concessionaire during construction and at substantial completion.

The Portsmouth Bypass project is Ohio's first true PPP. ODOT's previous pursuit, the $273 million Innerbelt bridge project in Cleveland, was structured as a design-build concession. The new bypass will be Ohio's final segment of the 4,828km Appalachian Development Highway System, which extends from Mississippi to New York.

Rare wrap

Portsmouth Bypass was Assured Guaranty's first transaction with ACS, and allows it to maintain its small franchise in US PPP. In 2013 Assured wrapped $102 million of the $460.9 million in PABs that financed the Port Authority of New York and New Jersey's Goethals Bridge replacement PPP. Four years earlier, it wrapped $270 million of toll revenue bonds for the Triangle Expressway in North Carolina, though that issuer was a non-profit and the project was not a PPP.

The PABs for Portsmouth Bypass consist of serial and term tranches maturing between 2019 and 2053 and yielding between 1.98% and 4.23%. Assured wrapped $108.3 million of Portsmouth's PABs. In particular, the insurer wrapped notes carrying maturities of 2026 through 2030, the 2035 notes and half of the bonds maturing in 2039.

"The insurance led to an overall tightening in the spreads on the bonds," said François Wasselin, vice president of project development at ACS Infrastructure Development in Miami. "There was also a reasonable difference in spreads on the insured portion versus the uninsured ones which justified the wrap."

The bonds, underwritten by JP Morgan and Barclays, priced on 1 April 2015, at spreads of between 91bp and 143bp over the series' tax-exempt Municipal Market Data (MMD) benchmarks. These levels compare favourably with Indiana's Interstate 69 PPP, which priced at between 149bp and 160bp in July 2014. The Portsmouth bonds were 5x oversubscribed and attracted orders from about 30 accounts, the majority of them institutional investors.

ODOT was also able to take advantage of a 1.27% rural interest rate – half the standard rate – on the $209 million TIFIA loan, because the bypass will cut through a rural section of the Appalachian mountains. The TIFIA loan closed on 31 March and matures in December 2050. Fitch and Moody's Investors Service rate the PABs and TIFIA debt BBB and Baa2, respectively. Both rating agencies project an average debt service coverage ratio of 1.22x.

Appropriations risk

ODOT signed the public private agreement (PPA) with the consortium at commercial close on 5 December 2014 and reached financial close on 9 April. The contract will renew on a rolling two-year basis, and both the milestone and availability payments will be subject to biennial budgetary appropriation.

The State of Ohio sets its capital budget in even-numbered years, when its legislature makes appropriations for the repair, reconstruction and construction of capital assets. While this makes appropriation risk higher in Ohio compared to other US states, it is understood to be offset by Ohio's solid credit quality. The state is rated AA+ by Fitch and Standard & Poor's, and Aa1 by Moody's.

“Two-year renewing contracts have been accepted by Ohio’s lenders for many years,” said Adam Sheets, senior project manager at ODOT in Columbus. “All of the state’s bank- and bond-financed lease and leaseback transactions are structured in this manner.”

The project entails building a 25.7km four-lane, divided, limited-access highway from US 23 (north of Lucasville) to US 52 (near Sciotoville). While construction is not complex, some Appalachian sections of the road will require the excavation and fill of about 20 million cubic yards of rock.

The design-build joint venture brings together ACS subsidiary Dragados and experienced local Ohio contractors Beaver Excavating Company and John R Jurgensen. Portsmouth Bypass is Dragados’ first project in Ohio.

The construction contract benefits from performance and payment bonds, each equivalent to 100% of the design and build contract, and a letter of credit equal to 6% of the contract that would help meet any liquidated damages.

Ohio, after a successful start to its programme, does not have much in the way of a PPP pipeline. While ODOT is developing the bi-state Brent Spence bridge project with Kentucky, the project may not move forward as a PPP.

Advisers

EY was financial adviser, and Allen & Overy legal adviser, to ODOT. Société Générale (financial), Ashurst (legal) and Turner & Townsend (technical) advised Portsmouth Gateway Group.

Skadden advised TIFIA counsel, and Pillsbury advised the underwriters. Thompson Hine was bond counsel.

