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NEW NORMAL OR RECURRING TREND?

Toll road transfers are increasing in the US, but what does this say about the market?

Pointing to the acquisition out of bankruptcy by IFM Investors of the Indiana Toll Road (ITR) concession, the sale to Macquarie of a 50% stake in the Pocahontas Parkway and the contemplated sale of the Chicago Skyway concession, commentators seem to be of two minds – either these transactions are good for the P3 market because they demonstrate the continued viability of the P3 model, or they are bad for the P3 market because they demonstrate how some of the landmark P3 investments over the last decade have fallen short of expectations.

Labeling these transactions as ‘good’ or ‘bad’ for P3s, however, has little value. Similarly, when analyzing the relative merits of P3s, a focus on the trigger event for a given ownership transfer seems misguided. More important is the recognition that such transfers are part of the toll road project lifecycle.

For example, Skyway (2005), ITR (2006) and Pocahontas (2006) were brownfield assets initially leased to private operators in the middle of the 2000s, with the concessionaires bearing revenue risk. The Skyway and ITR concessions each were awarded to Cintra and Macquarie, while Pocahontas, after four years of operation by Fluor and Morrison Knudsen (now URS), was leased to Transurban.

Pocahontas was subsequently restructured after Transurban wrote off its equity investment due to poor performance. ITR was just sold through a bankruptcy process and Skyway is on the market. Two other tolled highways leased during the late 2000s, SH-130 (Segments 5 and 6) and Northwest Parkway, are reported to be exploring debt restructurings.

Such ownership transfers and debt restructurings are nothing new in the US transportation sector. Consider the initial wave of P3 roads, which were largely greenfield assets

procured during the 1990s and early 2000s. On the whole, these projects, which are also revenue risk deals, have not performed as well as the second wave and, as a result, certain of them have changed hands.

For example, the Dulles Greenway concession, originally awarded to a consortium comprised of the Shenandoah Group, Autostrade, and Brown & Root, was subsequently transferred to Macquarie, with Autostrade continuing as operator. The South Bay Expressway and SR-91 Express Lanes in California and the Camino Colombia in Texas each were designed, built and initially operated as P3s and are now under government control. SR-91 was sold to the Orange County Transportation Authority (OCTA) after several years of successful operations so that the OCTA could address congestion problems.

Chile offers another useful example of transfers over the first couple decades of a toll road project’s lifecycle. Over the decade following the passage of its concessions law in the 1990s, the Chilean government significantly modernized and expanded its highway system through P3 procurements.

Several European sponsors flocked to Chile – among them Acciona, ACS, Cintra, Ferrovial, Hochtief, Itinere, Sacyr, Skanska and Vinci – investing in these projects alongside local developers. Most are no longer there, having sold in the late 2000s or early 2010s to other European, North American or Latin American sponsors. These sales were largely strategic rather than motivated by poor performance.

Mexico’s first wave of road concessions in the early 1990s fared poorly, due in large part to the 1994-95 economic crisis, and as a result numerous concessions were reacquired by the government. Many were reconcessioned to private entities beginning in the mid to late

2000s at the same time that the government began to award new concessions. Several of the retendered concessions were won by consortia that included Empresas ICA, Mexico’s largest engineering construction company, sometimes with a foreign partner.

For example, ICA was awarded the Irapuato-La Piedad and Querétaro-Irapuato roads in 2005 and 2006, respectively, the 112km Rio Verde-Ciudad Valles concession in 2007 and, along with Spain’s Fomento de Construcciones y Contratas (FCC), the 84km Nuevo Necaxa-Avila Camacho concession in 2008. More recently, the concession for the 104km Barranca Larga-Ventanilla toll road, originally procured on a P3 basis in 2008, was sold by Mexican firm Grupo Omega to ICA in 2012.

Foreign investment seems to be increasing gradually in Mexico for such brownfield projects. Earlier this year, IFM Investors obtained an approximately 25% stake in Concesionaria Mexiquense (Conmex), which operates the Circuito Exterior Mexiquense (CEM), a 110km private toll road system linking Mexico City to 18 other cities and towns in the State of Mexico. This was a strategic transfer by majority owner OHL Mexico that was said to be in accordance with OHL’s strategy of asset rotation. Also this year, ICA transferred the rights to four operational toll roads to a 51-49 joint venture it formed with Canadian fund manager Caisse de dépôt et placement du Québec.

The history of the toll road asset class over the last 25 years in the US, Chile and Mexico suggests that divestitures (to private or governmental entities) will continue to occur. Projects with greater risk (revenue, political or otherwise) are more likely to see ownership shifts, such transfers are part of the asset lifecycle of both successful projects and those facing challenges. 