Privatization of Puerto Rico’s Main Airport
Gets Final Approval, a Credit Positive

From Credit Outlook

Last Wednesday, Puerto Rico Governor Alejandro García Padilla authorized the privatization of the US commonwealth’s Luis Munoz Marin Airport to go forward immediately, following the US Federal Aviation Administration’s approval of the plan the day before. The public-private partnership will provide the cash-strapped Puerto Rico Ports Authority (unrated), the airport’s operator, with an immediate up-front lease payment of $615 million. Of that amount, $491 million will pay down loans and loan guarantees from the Government Development Bank for Puerto Rico (GDB, Baa3 negative), making the transaction credit positive for GDB, and in turn for the Commonwealth of Puerto Rico (Baa3 negative).

The deal with Aerostar Airport Holdings, LLC (Baa3 stable), the commonwealth’s partner in the airport privatization, will be closely watched by US state and local governments looking to raise cash, regulators ensuring airports maintain operating standards, and debt and equity investors seeking investments in similar assets.

Aerostar’s initial payment of $615 million includes $350 million from new bond proceeds and $265 million in equity. Over the 40-year lease term, Aerostar will also pay the commonwealth $2.5 million annually for the first five years of the contract, followed by 5% of airport revenues for the next 25 years, and 10% of revenues for the final 10 years. In addition, Aerostar plans to invest $260 million in capital improvements over the next three years and $1.4 billion over the next 40 years. The exhibit below provides the details of the contract.

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<th>Details of Puerto Rico’s Airport Privatization Deal with Aerostar</th>
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<td><strong>Initial Upfront Payment from Aerostar</strong></td>
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<td><strong>Annual Payments from Aerostar</strong></td>
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<td>Years one through five</td>
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<td><strong>Aerostar’s Expected Capital Improvements</strong></td>
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<td>Over the next three years</td>
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<td>Over the next 40 years</td>
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Source: Government Development Bank for Puerto Rico
In fiscal 2011 and 2010,¹ the Ports Authority’s total expenses, including depreciation and amortization, exceeded total revenues by $37 million and $39 million, or 21% and 22% of revenues, respectively. In 2011, the Ports Authority received additional commonwealth appropriations of almost $3 million. Upon completion of the transaction, the Ports Authority will still have $448 million in loans and guarantees remaining from the GDB.

The privatization and transfer of risk will benefit the commonwealth at a time when the government is struggling with a seven-year economic downturn, lower-than-projected general government revenues in the current fiscal year ending 30 June, high debt levels and a severely underfunded pension system.

Public entities in the US are increasingly turning to public-private partnerships, or P3s, as a way to reduce government debt while maintaining and improving the condition of key infrastructure assets. Puerto Rico has been particularly aggressive and innovative in pursuing P3s. The commonwealth created a legal framework under the P3 Act in 2009 and a dedicated agency, the Puerto Rico Public-Private Partnerships Authority, to facilitate P3 transactions. The strategy seeks to marshal private capital for infrastructure investment and transfer operating and financing risk to private enterprises without increasing the government’s already heavy debt load.

The commonwealth has already completed two large-scale privatizations, including $750 million of private investment to renovate 100 public schools and $1.4 billion in private investment to upgrade two major toll roads. Additional privatizations are underway or under consideration. The Luis Munoz Marin Airport will be the first major US passenger airport P3, and is part of a pilot project by the FAA to allow P3s for select airports.

¹ Fiscal year ends 30 June.
Report Number: 151221

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