

## DIA Great Hall finalist Ferrovial's U.S. operations mired in bankruptcies

*Firm seeking to enter American airport market also responsible for botched Heathrow Terminal 5 opening*

Bankruptcies have mired the operations of Ferrovial, one finalist in the competition for Denver International Airport's Great Hall redevelopment. The Spanish-based infrastructure group is one of four international teams shortlisted by Denver International Airport to redevelop the Great Hall in the airport's Jeppesen Terminal. Denver would be the first major U.S. airport terminal project for Ferrovial. Of Ferrovial's three completed U.S. projects, two have filed for bankruptcy.<sup>1</sup> Ferrovial is also the owner of BAA, the firm responsible for the construction and launch of Heathrow Airport's Terminal 5 in 2008, which the New York Times deemed a "major embarrassment" that caused almost 300 flight cancellations and 15,000 lost bags.<sup>2</sup>

### Bankruptcies in the U.S.

#### ***Texas***

On March 2, 2016, SH 130 Concession Company filed for Chapter 11 bankruptcy protection. SH 130 Concession is majority-owned by Cintra, a unit of Ferrovial. SH 130 Concession operates a Texas toll road between Austin and San Antonio. In 2006, SH 130 Concessions won a 55-year lease from the State of Texas to build and operate the toll road. Prior to filing for bankruptcy, SH 130 was unable to restructure \$1.3 billion in debt, including bank loans and a loan from the U.S. Department of Transportation (USDOT). The \$430 million lent by the USDOT in 2008 is subordinate to \$685 million in bank loans, meaning that the government may not receive any money until all of the bank lenders are paid back.<sup>3</sup> Critics said the toll road was too expensive and not convenient enough to serve as a successful alternative to I-35, which runs from Mexico to Minneapolis.<sup>4</sup>

#### ***Indiana***

The operator of the Indiana Toll Road, ITR Concession Co. LLC, then owned by Cintra and an affiliate of the Macquarie Group, filed for bankruptcy protection in 2014. The 157-mile toll road is one of the main arteries through Indiana. Cintra and Macquarie paid \$3.8 billion to the State of Indiana in 2006 for the right to operate the toll road for 75 years.<sup>5</sup> In 2006, Cintra and Macquarie

each put in \$374 million, and borrowed over \$3 billion to purchase the rights to operate the road.<sup>6</sup> By 2014, the project's debt load had increased to \$5.8 billion.<sup>7</sup> Earnings increased every year from 2008 to 2013, but were still lower than projected by ITR Concessions.<sup>8</sup> In 2015, ITR Concession Co. exited bankruptcy and was bought by IFM Investors.<sup>9</sup>

## **Virginia**

In Virginia, Governor Terry McAuliffe suspended a \$1.4 billion highway construction project in March 2014 that was managed by Ferrovial Agroman and American Infrastructure, operating as 460 Mobility Partners. The private contractors had already received \$250 million, even though construction had not begun. The Virginia Transportation Secretary said the State was suspending the project until the necessary permits were secured.

“\$250 million has been spent on the highway — without an inch of pavement to show for it. Even basic environmental permits have not been secured.” –*The Washington Post*<sup>10</sup>

## **Heathrow Airport Terminal 5**

The opening of Heathrow Airport's Terminal 5 in 2008 was supposed to fix the airport's “grubby, overcrowded” reputation. The \$8.6 billion terminal was built for British Airways by the airport's operator, BAA, owned by Ferrovial. But problems in the new automated baggage handling system caused 15,000 bags to be displaced and 300 flight cancellations in the days following the terminal's opening. The problems cost British Airways an estimated £25 million pounds in compensation costs to travelers.<sup>11</sup> Heathrow is the UK's only hub and Europe's largest airport.<sup>12</sup> In addition to the Terminal 5 launch problems, passengers had complained about poor maintenance, dirty bathrooms, and “chaotic” security lines after Ferrovial purchased BAA in 2006.<sup>13</sup>

“Suddenly, the sparse manning, insufficient dry runs, failure to test properly the new systems and lack of contingency planning by BAA, owner of the airport, and BA were exposed.” Will Hutton for *The Guardian*, 3/29/2008<sup>14</sup>

In the United States, Ferrovial has not handled any airport terminal projects. Ferrovial was part of the sole remaining bidding group vying to redevelop Midway Airport in 2013. The City of Chicago withdrew its RFP when the group comprised of Ferrovial and Macquarie was the sole bidder.<sup>15</sup>

## **Background on the Great Hall redevelopment project**

In February 2016, DIA shortlisted four international teams to bid on a Request for Proposal (RFP) to redevelop the Great Hall. The teams are led by Ferrovial Airports, Manchester Airport Group

and Plenary Group USA, Westfield Corp., and Vantage Airport Group. Since the September 11, 2001 terrorist attacks, much of the Great Hall has been taken up by TSA security checkpoints. The redevelopment project would move the security screening and use more terminal space for food and retail concessions. The airport has not released the RFP to the public.

## Questions DIA and City Council should ask:

1. If Ferrovial's Great Hall project faces bankruptcy, will the City of Denver's contribution to the project, through public bonds or otherwise, be paid back before other private lenders?
2. What safeguards will be in place to ensure that changes to the Great Hall will not negatively impact travelers' experiences with security lines, baggage drop off and airline check in?
3. Will Ferrovial be able to finance the Great Hall project if it faces another bankruptcy in one of its other public-private partnerships?



*The Airport Group is the policy and development arm of UNITE HERE, the union for airport food and retail employees. UNITE HERE has over 270,000 members in the U.S. and Canada, including 35,000 members in airport concessions and airline catering at 62 airports in North America. The Airport Group offers expertise in concessions development, policy, and information tracking.*

## Endnotes

- 1 <http://www.fauscorp.com/en/projects>
- 2 [http://www.nytimes.com/2008/03/31/world/europe/31iht-heathrow.1.11548289.html?\\_r=0](http://www.nytimes.com/2008/03/31/world/europe/31iht-heathrow.1.11548289.html?_r=0)
- 3 <http://www.wsj.com/articles/texas-toll-road-operator-files-for-bankruptcy-1456958991>
- 4 <http://www.businessnc.com/blog/2016/03/03/blog/toll-road-opponents-shouldn-t-let-hopes-get-too-high/> and <http://www.landlinemag.com/Story.aspx?StoryID=30719#.Vx5CPZMrKt8>
- 5 <http://www.wsj.com/articles/indiana-toll-road-operator-files-for-bankruptcy-1411395866>
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- 7 <http://usa.streetsblog.org/2014/11/19/how-macquarie-makes-money-by-losing-money-on-toll-roads/>
- 8 <http://www.bloomberg.com/news/articles/2014-09-22/indiana-toll-road-seeks-bankruptcy-as-traffic-declines>
- 9 <http://www.wsj.com/articles/indiana-toll-road-exits-bankruptcy-protection-1432907793> and <http://www.indystar.com/story/news/politics/2015/03/11/australian-company-buys-bankrupt-indiana-toll-road-vendor/70161160/>
- 10 [http://www.washingtonpost.com/local/virginia-politics/suspended-virginia-road-project-attracts-scrutiny/2014/03/17/d040eb7c-ae02-11e3-9627-c65021d6d572\\_story.html](http://www.washingtonpost.com/local/virginia-politics/suspended-virginia-road-project-attracts-scrutiny/2014/03/17/d040eb7c-ae02-11e3-9627-c65021d6d572_story.html)
- 11 [http://www.nytimes.com/2008/03/31/world/europe/31iht-heathrow.1.11548289.html?\\_r=0](http://www.nytimes.com/2008/03/31/world/europe/31iht-heathrow.1.11548289.html?_r=0)
- 12 <http://www.ferrovial.com/en/projects/heathrow-airport/>
- 13 <http://www.thedailybeast.com/articles/2010/12/21/heathrow-airport-shutdown-whats-the-real-cause.html>
- 14 <http://www.theguardian.com/commentisfree/2008/mar/30/britishairwaysbusiness.theairlineindustry>
- 15 <http://www.reuters.com/article/usa-chicago-midway-idUSL2N0H204820130906>