

Portugal – Football stadiums finance in public private partnership concept

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Portugal has been chosen to host the final phase of the European Football Championship in 2004 (“Euro 2004”) and by resolution of the Council of Ministers 117/98 the event is of public interest. According to the same resolution, 10 stadiums were selected – some are being newly built while the others are being refurbished. The four major Portuguese clubs – Sporting, Benfica, Porto and Boavista are responsible for the construction of their stadiums, and the remaining six are being paid for by local municipalities.

A subsidy of around €75m, corresponding to 25% of the estimated expenses, is to be granted by the Portuguese State to the clubs or municipalities, as applicable.

After the success of the Tagus bridge and of the motorways projects it is time for the football associations to embrace the PPP concept with some specificity in relation to other PPP projects.

The banks that finance sport stadiums find that the football risk mixed with the emotional reality of sports can be difficult to reconcile. Further, the clubs need to find the necessary funding sources in order to achieve the necessary debt/own capital ratios. Football revenues, such as corporate luxury boxes leases (“camarotes”), naming rights, club seats and similar sources, are not enough to satisfy the equity requirements. Other revenues from commercial areas and entertainment (cinemas, theatres for rock bands concerts, circus, etc.) located within the stadiums are required by the financing entities, but are still not enough to generate the necessary cash flow for the debt service and to show comfortable ratios without being totally reliant on the clubs’ performance.

The alternatives are government subsidies and support from local municipalities in various forms. The authorisation granted by the municipalities for the clubs to divide the land where the stadiums are located and to proceed with real estate development is one source of revenue.

As with other projects, the incorporation of a special purpose vehicle (“SPV”) company is required to allow a better assessment and control of the project.

The management of the project company is also an important factor and plays a critical role in the closing of the deal. Good management is needed to operate a project and internal controls are essential. The management team must be experienced, reliable and have a good working relationship with the project lenders.

Case studies – Sporting, Benfica and Porto

MLGT acted on behalf of Sporting in the project financing of the construction of its new stadium, with the financial closing having taken place on

Figure 1: Overview of PPPs in Portugal

Sector	Awarded (€m)	Expected (€m)
Bridges	1,000 (Tagus Bridge – Vasco da Gama)	650 (3rd Tagus Crossers)
Motorways	6,000	4,000
Railway	950 (Tagus river crossing and South Tagus light railway)	4,500 (Subway Coimbra, Lisbon Subway extensions and High Speed Train-TGV)
Energy	5,600 (natural gas infrastructure; Tejo Energia Power Station; Tapada do Outeiro Turbo Gas and LNG Sines Terminal)	2,000 (renewables; refinancing of Tejo Energia; Increase of capacity)
Water	400 (19 municipalities water supply concessions)	250 (10 municipalities have launched tenders)
Ports	60 (Lisbon – Sta Apolonia Terminal)	150 (Setubal Port is under tender; Sines and Aveiro Ports)
Defence	250 (helicopters – SIFICAP and SAR/CSAR)	1,300 (3 submarines are under review and vessel traffic system was launched)
Airports	–	2,500 (new airport in OTA)
Football stadiums	480 (Sporting – 150; Porto – 130; Benfica – 160; Boavista – 40)	
Health	–	750 (2 tenders this year and a total of 8 in the next 3 years)
Prisons	–	750 (Algarve and Coimbra prisons are currently under review)

February 20, 2002. MLGT is also acting on behalf of the lenders in the financing of the construction of the Benfica and Porto stadiums, yet to be closed. All three projects qualify as project financings as they are non-recourse structures and debt service is based on revenues from the project.

Although each of these projects are structured differently, there are many similarities concerning available funding in the construction phase:

- government subsidy;
- municipal support (Sporting and Benfica essentially depend on the same support from the same municipality – Lisbon);
- income from real estate development on adjacent land owned by the clubs;
- corporate boxes (which in some cases include advertising rights), seat rights and other similar sources; and
- equity payments.

All three stadiums will include commercial facilities with several shops, restaurants, health clubs, entertainment (cinema and theatres), club shops and office space. These revenues will be available in the operating phase, together with the rent paid by the

sport companies (“SAD’s”, which in some cases are listed companies) of each club for the use of the stadium by the professional team they own. In these types of projects it is important to secure the rent paid by the SAD companies, which for Sporting represents 30% of the total revenues, with the rent in this specific case being secured by the monthly payment of the clubs’ members.

The contractual structure is also similar for all three projects and all the agreements are subject to Portuguese Law, whereas in most of the motorway concessions in Portugal, the loan and inter-creditor agreements were subject to English Law. On the financing side, the main agreements are:

- a loan agreement (which includes the inter-creditor agreement) between the project company which is wholly owned by the club, the lenders and the Facility Agent;
- a security agreement between the project company, the SAD, the club, the lenders and the Security Agent;
- a call option agreement between the SAD, the club, the project company, the lenders and the Security Agent;

- direct agreements for the step in rights with the Contractor and, in some cases, the operators.
The project agreements are:
 - the agreement for the use of the stadium by SAD between the project company and the SAD;
 - the agreement for the use of the stadium by the club between the club and the project company;
 - the construction agreement; and
 - corporate boxes, naming rights, seating rights and similar agreements between the project company as owner of the stadium and various companies or individuals.
- As referred to above, the subsidies paid by the government represent an important stake in the funding of these projects. As consideration for such subsidies, the clubs and/or the project companies grant certain use rights to specific public entities in relation to the stadiums. In other words, the clubs and/or the project companies must authorise the use of the stadiums for the Euro 2004 and also after the Euro 2004 under certain pre-defined conditions.

In the Benfica and Porto projects the construction is under way and the government is paying the subsidies, although some issues are still outstanding with the municipalities.

As a result of recent elections in the Municipalities of Lisbon and Porto, the signing of the agreements with the Municipalities and real estate development deals have been delayed. We expect these to be finalised in the near future and the closing completed very soon.

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