THE BOND BUYER

Denver airport terminates $1.8 billion private terminal partnership

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Denver has terminated a $1.8 billion public-private partnership to redevelop the city's 24-year-old airport terminal.

Announcement of the cancellation came Tuesday, a day after the city posted its termination notice on the Municipal Securities Rulemaking Board's EMMA website.

A rendering of the terminal remodel plan at Denver International Airport. The redevelopment agreement with Great Hall Partners was terminated this week.**Denver International Airport**

The project was delayed after substandard concrete was discovered in the existing terminal structure.

“After eight months of negotiation and mediation regarding the construction delays and schedule, DEN [Denver International Airport] feels this partnership is no longer in the best interest for our airport and community,” aviation director Kim Day said. “As a result, we have terminated the contract and will be approaching the project in a more traditional manner going forward, which will allow DEN to regain control of the project.”

Under its 2017 contract with Denver Great Hall LLC, a private consortium also called Great Hall Partners, Denver is on the hook for a termination payment still to be negotiated, as well as construction and design work already completed.

“We are disappointed with DEN’s decision and strongly disagree with their characterizations of how we have arrived at this point," a statement from Great Hall partners said. "We would have preferred to work with DEN to bring this important project to successful fruition and believed with thoughtful intervention that this was still possible. We wish the people of Denver well and are committed to a professional and smooth withdrawal.”

The airport will pay to complete the project with a new contractor, Day said. The design and construction cost of the project will remain within the original budgeted amount of $770 million including a contingency fund of $120 million.

“DEN will own all design work and construction performed to date and well as purchased but not yet installed materials,” an airport statement said.

Day and DIA chief financial officer Gisela Shanahan said the funds to complete the project will come from airport revenue, not taxpayers.

“Most importantly, DEN is taking the responsible and appropriate steps to protect the future of the airport, our community and our economy,” the airport said. “While we have encountered some bumps along the way, we still believe in this project and know it is necessary for the future growth and success of DEN.”

A $189 million issue of bonds in 2017 through the Wisconsin Public Finance Authority appears to be most directly affected by the termination. The bonds, rated at the time BBB-minus by S&P Global Ratings and BBB by Fitch Ratings, mature through 2049, backed primarily by progress payments to the company from the airport. The payments were expected to exceed $479 million.

The official statement for the bonds repeatedly warned that a termination could result in default. Those bonds carry no pledge from the city or the airport.

" This partnership is no longer in the best interest for our airport and community," said Kim Day, Denver's aviation director.**Bloomberg News**

Fitch Ratings said the termination will not damage either the airport's ratings or the bonds issued on behalf of the developer. Fitch currently rates DIA AA-minus senior lien and A-plus junior lien debt with a stable outlook.

“Even in cases of a strong alignment of interests from all parties to ensure a successful outcome, construction delays can lead to discord in the partnership,” said Fitch analyst Seth Lehman.

“The projected length of the delay, the added costs for remediation, as well as Denver's rejection of the claim for relief, collectively would have created a more speculative level of risk to the repayment on the project bonds issued by the developer.”

In a June 5 report, S&P analyst Anubhav Arora said that a 617-day delay, at that point, did not affect the BBB-minus rating.

“We do not view the cause of the delay as a project risk and expect the project to be granted schedule and cost relief under the terms of its agreement with the Denver International Airport,” Arora wrote.

In August 2018, Denver closed on $2.53 billion of revenue bonds rated A2 by Moody’s Investors Service, A by S&P Global Ratings and A-plus by Fitch Ratings. All three ratings agencies assigned stable outlooks on the bonds backed by the airport. The revenue bond transaction was named The Bond Buyer's Deal of the Year.

About $450 million of that issue was set aside for progress payments to the Great Hall Project developers.

The Great Hall Project was budgeted at $650 million and was part of a $3.5 billion of redevelopment and expansion at the airport.

The Great Hall Partners are headed by Ferrovial Airports with an 80% stake, and includes Saunders Construction and JLC Infrastructure. The company was expected to design, build and operate its section of the Jeppessen Terminal that opened in 1995.

Some work on the terminal was halted in November, when the construction company discovered substandard concrete in the existing structure. Officials from the airport and the company were considering how to solve the problem based on test results in April. After the discovery, the timetable for completion was pushed back almost three years to 2024.

“We approached the project through an innovative public-private partnership with Great Hall Partners, not for the money, but for their expertise and to transfer the risk of constructing within and operating 24-7 facility,” Day said. “However, during the first year of construction, we encountered some challenges including an issue with the original concrete (testing determined concrete to be safe), potential construction delays and ongoing impacts to passengers.”

Day said the problems were greater than just the concrete and said the airport failed to receive timely answers to its questions.

GHP took issue with the airport's description of the problems that led to the termination.

"The concerns we raised over concrete that was weaker than initially represented by DEN, were an important part of our safety analysis," the firm said. "Unfortunately, until this point, confidentiality provisions in our contract prevented us from rebutting over the last several weeks a stream of unfounded complaints and allegations."

Great Hall Partners made an initial investment of $258 million that was to be repaid over time through a combination of installments from the airport and a 20% share of the concession revenues from new shops and restaurants. The airport was to retain 80% of all concessions revenue and all of the other revenues derived from the terminal.

The total amount of the contract with Great Hall Partners, which included design, construction, operations, finance costs and maintenance for 30 years, was capped at $1.8 billion.

Updated August 14, 2019 at 3:45PM: The story was updated with comment from Fitch Ratings.