THE BOND BUYER

Denver commuter rail P3, now fully operational, to refund launch debt

By

Richard Williamson

Published

November 30, 2020, 11:54 a.m. EST

The A Line train, which opened in 2016 as the first of three commuter rail links under the Eagle P3, connects Denver International Airport to downtown Denver's Union Station. ***RTD***

A decade after its first issue of private activity bonds for a Denver-area commuter rail system, the Regional Transportation District is selling $340 million of refunding bonds Tuesday supported by stronger bond ratings.

RTD will issue the bonds on behalf of Denver Transit Partners, the public-private partnership that operates the Eagle P3 concession.

BofA Securities is book runner on the negotiated deal, comprised of $335.2 million of tax-exempt bonds not subject to the alternative minimum tax and $4.9 million of taxable bonds.

Amrinder Saini, vice president of Agentis Capital, is financial advisor on the deal.

The Series A tax-exempt bonds mature from 2022 to 2041. The taxable Series B matures in 2041.

Moody’s Investors Service upgraded the bonds to Baa2 from Baa3 and raised its rating outlook to positive.

Moody’s analyst Earl Heffintrayer said the upgrade “reflects strong operating performance of the project with more than four years of operating history on the earliest completed lines with minimal deductions and failure points.”

“The upgrade to Baa2 also recognizes that DTP was able to achieve the last Final Completion Certificate on Nov. 16, 2020,” he added. “Receipt of the certificate finalized the construction phase of the project and removed any potential termination events for failure to complete the construction phase of the project.”

The last of the three lines built under the P3 concession entered revenue service in early 2019 and final completion of the project was certified in November.

Fitch Ratings said it expects to rate the new debt A-minus with a stable outlook, three notches higher than the BBB-minus on the bonds issued in 2010.

“The expected rating is driven by the project's solid operating performance to date and strong underlying financial profile,” Fitch senior analyst Victoria Babcock wrote.

The original $397.8 million deal to lanch the project in 2010 carried ratings of Baa3 from Moody's and BBB-minus from Fitch. The outstanding bonds from that deal will be redeemed with proceeds from the new transaction.

Despite sharp drops in ridership due to the pandemic, payments and debt service have not been affected, according to an investor presentation.

“The recent outbreak of coronavirus and related government containment measures worldwide creates an uncertain global environment for infrastructure projects in the near term,” Babcock noted. “Material changes in revenue and cost profiles are occurring across the sector and will worsen in the coming weeks and months as economic activity suffers and government restrictions are maintained or expanded.”

Denver Transit Partners was established in 2010 to design, build, finance, operate and maintain the Denver Eagle FasTracks Project under a long-term availability payment that runs through December 2044.

Also known as the Eagle P3, the project was the first commuter rail system designed as a public-private project. The project includes design and construction of the three commuter rail lines in Denver, totaling 34 miles in length, and an associated commuter rail maintenance facility. The partnership also provides the rolling stock and maintenance.

DTP is 45% owned by Aberdeen Infrastructure Investments with 45% owned by an affiliate of John Laing Investments Ltd. and 10% owned by Fluor Enterprises, Inc. Other team members include Balfour Beatty Rail Inc., ACI, Ames Construction and HDR. DTP was awarded the project on July 9, 2010, followed by financial close on August 12, 2010.

The three lines operated by DTP are the A Line that runs from downtown Denver's Union Station to Denver International Airport, the B Line from Union Station to the northwest suburb of Westminster, and the G Line to the western suburb of Wheat Ridge.

The commuter rail lines that link up with RTD's light-rail system at Denver's Union Station were approved by voters in 2004 under the FasTracks program.

Faced with delays in receiving regulatory approvals, in September 2018 DTP filed a lawsuit against RTD for monetary damages and an extension of the revenue service deadline claiming changes in law and force majeure events prevented delivery of the system on time. RTD then served DTP an event of default for missing the revenue service deadline.

The event of default has since been resolved with the 2019 commencement of revenue service on the G Line. DTP is seeking relief for additional costs for placing crossing guards and past deductions in revenue service payments on the A and B lines. Relief would be passed through DTP to the Design Build contractor who has paid for the additional project costs, the bulk of which has been for the crossing attendants.

"The lawsuit does not interfere with operations of the project, and DTP is not financially exposed to the outcome," Heffintrayer said.

"The rating is constrained by the ongoing litigation between parties, which could wear on project relationships that have been improving," Heffintrayer added. "The outcome of the litigation is expected in the next 12 months and will have no effect on bondholders, as the judgement will allocate costs between RTD and DTP's construction contractor Denver Transit Systems. The rating negatively incorporates the deteriorating credit quality of Fluor, the lack of maintenance reserve account and the event of default debt service coverage ratio at 1.00x as credit weaknesses."

In November, the RTD board approved a $1.2 billion budget that includes 399 layoffs, or 14% of the RTD workforce, and the elimination of 300 vacant positions due to the COVID-19 pandemic.

RTD’s new general manager and CEO, Debra Johnson, took a temporary pay cut to her $315,000 annual salary as a sign of support for the agency’s employees.

The 2021 budget does not remove money from the FasTracks savings accounts, meant to accumulate capital spending for future rail and bus transit projects.

Service will remain at about 60% of pre-pandemic levels.

“The budget aligns staffing levels with this reduced level of service,” RTD said. “All separations will take effect in January.”

RTD staff were able to reduce the number of positions lost from more than 600, after revenue projections improved and other savings were found. The unfilled positions and the layoffs will include a combination of union-represented employees and administrative staff.

Johnson came to RTD in November from Long Beach Transit, where she served as deputy chief executive from May 2014 to October 2020.

Arriving in the middle of the pandemic, Johnson said she is urging flexibility in dealing with demands for service on a changing budget.

“COVID-19 has brought things that we wouldn’t think we would see in our lifetime,” she said. “Recognizing that I’m a person in the people business and I enjoy being a servant leader, it’s important to me that we are moving essential people to get them where they need to go. But I would be remiss not to recognize that we have essential employees that are making that reality day to day.”

Richard Williamson