

# THE BOND BUYER

## **Bond deal for P3 launches \$3.9B remodel at Denver International Airport**

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DALLAS – Denver is launching a \$3.9 billion capital improvement program for its 22-year-old airport by issuing nearly \$200 million of debt for its private partner next week.

Before that, it will issue \$274 million of refunding bonds for Denver International Airport.

The five-year capital project is designed to accommodate continued growth and will include \$1.8 billion of gate additions on all concourses and \$1.1 billion of improvements to the security and concession areas within its main Jeppesen Terminal.

A total of about \$3.9 billion of new money debt is expected to be issued to fund the capital plan and to provide reserves.

The city plans to price the refunding bonds Wednesday through a syndicate led by co-senior managers Raymond James and U.S. Bancorp. The deal includes \$253 million of Series A bonds subject to the alternative minimum tax and \$21 million of series B that are non-AMT bonds. The new bonds are refunding debt issued in 2007.

The \$200 million on next week's calendar will be issued for Great Hall Partners, a coalition of developers led by Spain's Ferrovial Aeropuertos with Saunders Concessions and Magic Johnson Enterprises/Loop Capital. The tax-exempt bonds are subject to the alternative minimum tax. The Wisconsin-based Public Finance Authority is conduit issuer.

Citi is book runner on the P3 bonds, led by Neal Atterman, director of municipal securities division.

The Great Hall Project represents Ferrovial's first U.S. airport project. The Spanish company has invested in 33 airport projects around the world since 1998. The company's subsidiary Cintra has worked on the airport projects and has several toll highway projects in the U.S.

Denver International Airport chief executive Kim Day said remodeling of the 22-year-old terminal is an important step in improving efficiency and keeping up with passenger growth. Passengers often experience the security checkpoint as a chokepoint.

"Although DEN remains the country's youngest commercial airport, no one could have predicted how security and technology would fundamentally change the aviation industry and passenger processing over the last two decades," Day said. "By investing in this project, we will prepare DEN for the future: enhancing security, increasing capacity, updating aging systems and elevating the overall passenger experience."

The P3 is structured as a "hybrid" P3 with Great Hall Partners receiving revenues from the improved retail offerings and from on-going availability payments by the airport.

The airport will also fund construction progress payments throughout the four-year construction period from a combination of bond issuances and airport generated revenue.

"While the P3 provides for significant risk mitigation for the airport by providing for a fixed-price, date certain delivery method, the airport will retain some portion of construction risk that is typical for P3 agreements," according to Moody's Investors Service, which does not rate the GHP bonds but rates DIA's refunding bonds A1 with a stable outlook.

"We think that airport has demonstrated sufficient knowledge of the risk it retains and has evaluated how it will fund any cost exposures and therefore view the P3 to be slightly credit positive due to the construction risk transfer of the complex project," Moody's analysts added.

Although the bonds for Great Hall Partners are tax-exempt, the preliminary official statement warns of Congress' plan to produce a complete rewrite of the 1986 tax code by Christmas. While the House narrowly passed its tax bill, the Senate is still deliberating with a goal of having the bill signed into law by Christmas. At risk is the tax-exemption for qualified private activity bonds such as those used for airport projects.

“Each bill includes provisions that would directly and indirectly adversely affect the ability of issuers to issue tax-exempt bonds and could indirectly adversely affect the market price or marketability of the Series 2017 Bonds,” the POS says. “Neither bill as proposed affects the excludability from gross income of interest on the Series 2017 Bonds if they are issued, as expected, prior to Jan. 1, 2018.”

Fitch Ratings said it expects to rate the Great Hall bonds BBB, while the issuer expects a rating of BBB-minus from S&P Global Ratings.

The largest portion of the remodeling plan includes \$1.8 billion of spending to expand gate capacity on all three DIA concourses.

Concourse A, which serves Frontier and other airlines, including international airlines, will grow to 44 gates from 32 gates. Concourse B, which primarily serves United, will grow to 65 gates from 54 gates.

Concourse C, which primarily serves Southwest, will grow to 44 gates from 28 gates.

“The gate expansion projects will extend existing concourses into near greenfield areas, which should minimize operational risks and limit construction risk from modifying existing facilities,” Moody’s said. “The city has entered into contracts with four experienced contractors and the current estimates reflect contractor input into program pricing. The contracts contain fixed price provisions and also include liquidated damages for late completion.”

Denver International was the nation's sixth-busiest U.S. airport in 2016, officials said.

In a general comment on the airport sector, Moody's said it expects to see continued growth in the industry, with particularly strong increases in small to medium-sized hubs such as Colorado Springs.

"The current expectation for enplanement growth is well above the positive outlook threshold," analysts said. "However, if airlines grow seat capacity at the low end of our estimate, which they could do to maintain pricing power and keep unit revenue strong, or if GDP growth fails to meet our expectation, enplanements will grow at a level below our positive threshold of 3%."