

Rating Action: Moody's revises Denver Transit Partners, LLC rating outlook to negative; affirms Baa3 rating

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New York, April 03, 2018 -- Moody's Investors Service, (Moody's) has revised the outlook to negative from stable for Denver Transit Partners, LLC (DTP). Concurrently, Moody's affirmed the Baa3 rating on Regional Transportation District, CO's (RTD) \$398 million Series 2010 DTP Eagle P3 Project Tax-Exempt Private Activity Bonds.

RATING RATIONALE

The change in outlook to negative reflects the continuing uncertainty about the ability of the project to obtain final timely approvals from the Colorado Public Utilities Commission (CPUC) enabling RTD revenue payments to commence across all lines. While the CPUC's March 28th decision approved aspects of DTP's request, several related issues remain unresolved making it increasingly less likely that that DTP can meet the current June 2, 2018 revenue service deadline without further relief from RTD. We understand that both DTP and RTD are formally engaged in a Dispute Resolution Process regarding Change of Law claims asserted by DTP regarding the review process for the constant warning time systems. DTP's claim centers around their assertion that both the FRA and then the CPUC withheld or delayed approval by imposing new legal requirements, which led to the delay in achieving revenue service on the lines and increased the costs to the project for the human flaggers. While parties appear to be working towards a near-term resolution, the deadline required for meeting revenue service deadline is approaching and several issues remain open that if not addressed could become credit negative factors for the project.

The Baa3 rating affirmation reflects our view that, in the end, the project can meet final testing requirements and meet full revenue service while the dispute resolution process between DTP and RTD commences. The rating additionally incorporates the operating risk that DTP will face in the operating period after revenue service commencement is obtained. The project has a higher operating risk profile compared to other availability payment public-private partnership (PPP) projects owing to the long-term maintenance and operation of the rolling stock and the on-going interface risk with system users. The two lines that have been operating under a waiver have operated well, achieving bonus payments for ten of the last eleven months, after encountering some start-up problems during the first year of operation.

OUTLOOK

The negative outlook reflects the uncertainty around the timing of securing a final approval for the project due to conditions placed by the CPUC on DTP and RTD in its ruling to grant a waiver to the project making it increasingly less likely that DTP can meet the current June 2, 2018 revenue service deadline without further relief from RTD.

WHAT COULD CHANGE THE RATING UP

- » All three commuter rail lines reach revenue service commencement post construction completion
- » The concessionaire demonstrates an ability to successfully integrate and operate the three commuter rail lines in accordance with the performance requirements of the concession with limited performance deductions
- » Forecast financial metrics are achieved

WHAT COULD CHANGE THE RATING DOWN

The rating would likely be downgraded if revenue service commencement certificates continue being delayed beyond our current estimate of three months, if RTD indicates that it could terminate the concession before the dispute resolution process is complete, or if the G line fails to operate at levels in line with the currently operating lines.

Profile

DTP is a special purpose vehicle established in 2010 to enter into contractual arrangements with the RTD to design, build, finance, operate and maintain the Denver Eagle FasTracks Project under a long-term availability payment public-private partnership (PPP) Concession Agreement that runs through December 2044. The project scope includes (1) the design and construction of three commuter rail lines in Denver, CO, totaling 34 miles in length and an associated commuter rail maintenance facility; (2) the provision of the rolling stock; and (3) the operations and maintenance of the commuter rail service, the track and the equipment for the term of the concession.

DTP is 45% owned by Aberdeen Infrastructure Investments (No. 4) USA LLC; 45% owned by an affiliate of John Laing Investments Ltd (Laing); and 10% owned by Fluor Enterprises, Inc. DTP has sub-contracted its obligations under the Concession Agreement with respect to design and construction of the project to Denver Transit Systems (DTS), formed by a consortium including Fluor and Balfour Beatty, for the purchase of rolling stock and construction. DTS then in turn subcontracted all design and construction obligations to Denver Transit Constructors, LLC (DTC) - a consortium formed by Fluor, Balfour Beatty and Ames Construction pursuant to a Design and Build Contract. DTP's operations and maintenance obligations have been subcontracted to Denver Transit Operators (DTO) - a consortium formed by Fluor, Balfour Beatty and Alternative Concepts Inc.

The methodologies used in these ratings were Construction Risk in Privately-Financed Public Infrastructure (PFI/PPP/P3) Projects published in June 2016 and Operational Privately Financed Public Infrastructure (PFI/PPP/P3) Projects published in March 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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