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Fitch Ratings: Great Hall Termination Will Not Hit DIA or Project's Rating

Fitch Ratings-New York-14 August 2019: The announced termination of the Great Hall public-private partnership terminal redevelopment project at Denver International Airport (DIA) will not adversely affect either the airport's ratings or those tied to the project itself, according to Fitch Ratings.

Fitch's view is based on the decision by the City and County of Denver, CO (Denver), as airport owner and grantor to the project, to apply the termination for convenience option which would result in payments to the developer, Great Hall Partners (GHP), sufficient to repay the remaining bonds outstanding. The airport has a strong financial position and demonstrated market access to defray the termination obligation.

Fitch currently rates DIA 'AA-'/'A+' with a Stable Outlook and carries a 'BBB' rating and Stable Outlook on approximately \$189 million of project bonds issued by Public Finance Authority.

Recent monthly construction update reports submitted by GHP were indicating delays that would extend the construction period by at least three years beyond the original completion timetable, which had assumed the redevelopment project becoming fully operational by late 2021. Delays were based on structural conditions tied to compressive strengths of concrete coupled with change orders during the initial construction phase. GHP had determined that concrete samples taken and evaluated in late 2018 indicated lower strength than contractual baseline assumptions. Relief event notices were submitted by both the developer and contractor for unknown structural conditions based on these results. The dispute was clearly reaching an elevated and less collaborative turn as indicated by Denver's rejection of GHP's relief claim, which had requested additional compensation as well as an extension of time for completion.

The Great Hall project was intended to utilize a design-build-operate-finance-maintain project approach for the refurbishment of the airport's Jeppesen Terminal. DIA had originally opened in 1995 as a larger replacement facility for the previously operated Stapleton Airport. Under the original Great Hall design-build schedule set in late 2017, the project anticipated an approximate 48-month design and construction period followed by a 30-year operating period. Based on the most recent monthly construction project report through June, the completion of the four-phase project was set for late 2024.

At inception, this terminal redevelopment project was viewed to have a lower than typical completion risk profile when compared to other airport public private partnership ventures. The construction work is being led by an experienced joint venture team including Ferrovial with further support from a comprehensive construction security package, which includes payment and performance bonds and liquidated damages. The work solely involved interior areas of the existing main terminal building used for passenger check-in, security screening and baggage processing as well as providing for concession locations. From a financial perspective, the original construction budget was estimated to be \$650 million with more than 70% sourced by the airport progress payments, leaving only a modest amount needed for financing and equity contributions.

The dispute and resulting termination decision can be an illustration where even in cases of a strong alignment of interests from all parties to ensure a successful outcome, construction delays can lead to a discord in the partnership. 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. Thus, the termination for convenience option provides the most certain outcome for debt repayment.

On the other hand, Denver faces cost and time exposures in order to replace the contractor and proceed with the redevelopment. While the benefit of an expanded terminal and new concessions will be considerably delayed from the original timetable, Denver will no longer have to share a portion of the concession revenues generated at the main terminal and will also retain longer term flexibility to manage concessions across the entire terminal and multiple concourses serving commercial passengers

Looking ahead, Fitch will monitor the steps taken to effectuate the termination of the partnership and the sources of funds to cover related costs. Denver is one of the nation's largest airport that has a strong revenue risk profile based on robust airline activities and sound airline agreement terms to recover all costs. The financial profile is favourable as evidenced by moderate leverage, stable coverage levels, and solid cash reserves.

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