FitchRatings

Fitch Rates High Performance Transportation Enterprise (CO) Senior Bonds and TIFIA Loan 'BBB'

Fitch Ratings-New York-14 June 2017: Fitch Ratings has assigned 'BBB' ratings to approximately $162 million of senior revenue bonds to be issued by the Colorado High Performance Transportation Enterprise (HPTE) for the C-470 Express Lanes Project (the project), and an approximately $107 million subordinated loan granted under the Transportation Infrastructure Finance and Innovation Act (TIFIA) to HPTE. The Rating Outlook for both the bonds and TIFIA loan is Stable.

The 'BBB' ratings reflect the project's strategic location, traversing a built-out service area with known congestion levels and projected strong total coverage and breakeven metrics under Fitch's rating case, enhanced by the true subordination of operating costs. The project further benefits from experienced construction and operating counterparties, and relatively strong structural protections under the design-build contract. The approximately 2.4% total revenue growth rate breakeven under the Fitch rating case demonstrates a moderately levered and achievable debt structure. Metrics for debt service coverage is both strong, averaging about 2.46 times (x) through final maturity.

KEY RATING DRIVERS
Completion Risk: Midrange
Moderate Completion Risk: Construction phase for the express toll lanes (ETLs) is relatively straight-forward with a 38-month construction timeframe. Right-of-ways are already secured as well as most environmental permits although the construction will occur in an operating environment. AECOM and Flatiron are the lead contractors with strong experience for this project. The fixed-price, date-certain contract with an experienced contractor group backed by robust parent guarantees sufficient liquidity and schedule flexibility support the rating.

Revenue Risk - Volume: Midrange (Corridor - Stronger, ML Characteristics - Weaker)
Narrow Location with Strong Commuter Base: The C-470 project corridor is located in a growing southern Denver service area and is well situated for traffic stability due to its connectivity to I-25 and E-470. Although average annual corridor growth has been modest at less than 1% over the past decade, congestion exists bi-directionally throughout the corridor during both morning and evening peak rush hour periods. The managed lane characteristics of the facility are weighted down by a lack of demand history, unproven ramp-up and untested price elasticity of demand. Further limitations are noted by the single-lane feature for a majority of the express lane segments but lack of free access for high-occupancy vehicles (HOVs) is a positive feature. The initial proposed tolls in the sponsor case are an average peak of $0.33/mile in 2015, which Fitch considers reasonable for this type of asset.

Revenue Risk - Price: Midrange
Uncertain Price Flexibility: HPTE has legal authority to raise toll rates and tolls are expected to be variable to reflect a balance between revenue and throughput on the ETLs. While no formal toll policy exists, future toll hikes require HPTE board approval which will be linked to congestion levels and revenue generation. Initially, a larger share of ETL revenues are expected from westbound trips, taking advantage of the direct connectors from I-25 and E-470 along the more congested western end of the project.

Infrastructure & Renewal Risk: Stronger
Minimal Lifecycle Needs: After construction, the ETLs will be in new condition with low maintenance needs over the intermediate term. Future maintenance funding will be sourced from cashflow on a rolling three-year look-forward basis through a major maintenance reserve account.

Debt Structure: (Senior Bonds and TIFIA) - Midrange
Gross Pledge with Flexible TIFIA Loan: Debt is all fixed rate and fully amortizing, but with an increasing aggregate debt service schedule. The covenant package includes sound 1.35x/1.25x senior and subordinate coverage tests as well a senior debt service reserve fund (DSRF) equal to 50% of the next 12 months and a TIFIA DSRF maximum mandatory debt

service over next 48 months. The TIFIA structure will include deferability flexibility between scheduled and mandatory principal and interest payments. A ramp-up reserve of $6 million will provide additional liquidity against revenue shortfalls in the early years of operation. All debt is secured by a gross revenue pledge with operating expenses truly subordinate within the project waterfall following debt service and reserves. Expenses are reimbursed to the state solely from net remaining cashflow.

Financial Metrics
Elevated Leverage, Ample Gross Coverage: The Fitch rating case yields strong average Fitch-calculated senior and total debt service coverage ratio (DSCR) of 3.76x/2.46x and minimum loan life coverage ratio (LLCR) of 2.72x. The breakeven rate of revenue growth of about 2.4% (from the first fully ramped up year) is moderate compared to other managed lane (ML) projects, reflecting the absence of operating costs for this calculation. Leverage is initially high but moderates to the 10x range on a net-debt-to-cash flow available for debt service (CFADS) basis by 2030.

Peers: The C-470 ETL project's closest peers are MLs rated by Fitch. Plenary Roads Denver, LLC ('BBB-'/Outlook Stable) and I-77 Mobility Partners, LLC (senior and TIFIA loan rated 'BBB-') due to more limited windows of congestion during commuting hours. Plenary's project along the US36/I-25 corridor is located in the same region, also serving an affluent service area with moderate historical volatility, but Plenary depends more on residential and commercial development in the future for traffic growth.

RATING SENSITIVITIES
Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:

--Adverse Developments During Construction: Unforeseen construction delays and cost overruns not fully mitigated by the construction security package could lead to a lower rating.

--Traffic and Revenue Underperformance: Materially slower ramp-up, or sustained operational performance worse than initial expectations, resulting in total coverage below 1.8x for a sustained period may result in a lower rating.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:

--Strong Operational Performance: Traffic and revenue performance at or above sponsor expectations over a sustained period could be a positive rating driver.

TRANSACTION SUMMARY

The proposed express lanes project has a total project cost of approximately $275 million with a plan of finance that uses a combination of grants, senior bonds and a TIFIA loan. The underlying design-build contract has a price of $204.3 million with contingencies and other indirect costs adding to the remaining costs.

With regards to the senior revenue bonds, principal repayments are expected to begin in 2045 while interest payments are capitalized during construction and begin to be paid from toll revenues after first year of expected operations in 2020. The TIFIA loan will have both a scheduled and mandatory repayment schedule with interest due beginning in 2024, the expected fifth year of operations. TIFIA principal amortizes over a 30-year period, with a modest spread between scheduled and mandatory payments, thus providing enhanced flexibility to deal with an initial and unforeseen shortfall in traffic and revenues once the lanes becoming operational. Debt service escalates over the entire term of the obligations, ranging between $8.1 million and approximately $25 million through final maturity in 2056. Overall the structure is somewhat back-ended with slow amortization.

The C-470 Express Lanes project in being delivered through a partnership between the Colorado Department of Transportation (CDOT) and HPTE. Fitch views positively the sponsor's expertise and joint governmental commitments to the project. C-470 is a 26-mile highway that runs along the southern and western part of the Denver metropolitan area. The highway is a median-separated two-lane road in each direction. C-470 stretches between the intersection of I-25 and E-470 in the east to the intersection of US-6 and I-70 in the west. The project corridor serves commuters returning to large residential neighborhoods that include the rapidly-expanding Highlands Ranch Metro District and the city of Littleton.

The C-470 Express Lanes project will add one express tolled lane in the eastbound direction and one-to-two express tolled lane(s) in the westbound direction. Across the project in both directions all vehicles are subject to payment of tolls and there is no free access for HOVs. The corridor is moderate-to-heavy trafficked, with average weekday traffic volumes ranging between 88,000 and 116,000 in 2015 at various locations. The freeway is used by a mix of commuters (37% of total traffic during peak periods), many of whom are traveling to the employment centers along the C470 area with multiple office parks or northbound towards Denver. The corridor does not have material competition from high capacity arterial roads, and no significant upgrades are foreseen.

Average corridor traffic growth has been modest since 2002 and over the past five years. Compound annual growth rates (CAGRs) since 2002 were 0.2% and 0.61% at the Platte/Santa Fe & Quebec/Yosemite location points, respectively. These rates were impacted by the recession with negative growth in 2008-2009 years. Since 2010, the CAGRs in the western portions of the corridor Platte/Santa Fe were stronger at 2.5% as compared to an anemic rate of 0.3% for Quebec/Yosemite. Going forward, corridor traffic is expected to grow at faster levels in the near term, with 1.7% AM and 2.0% PM CAGRs through 2018, followed by overall corridor volume growth rates of 1.4% from 2018-2025 and 0.8% from 2025-2035. Fitch views the region at large is well-poised for growth based on its favorable demographic and proximity to major employment centers. This dynamic is especially apparent west of the project area where development is less built-out.

CDOT will be responsible for O&M within the corridor and will allow the project to defer payment for service if funds are insufficient through a contingent loan (as used on US 36). CDOT will either perform or contract with a third-party to perform the activities. Colorado State Patrol and local law enforcement will provide targeted enforcement for intentional toll evasion and frequent violators. The express lanes share of corridor costs are tied to a formula under the Inter-Agency Agreement which uses a proportional use based on all tolled and non-tolled traffic along the corridor.

The project will reimburse CDOT for costs from excess cashflow after debt service. If excess cash flow is insufficient, any unpaid balance is expected to be structured as a subordinate loan to the project from CDOT (O&M loan). The O&M loan will have no rights, remedies or default triggers and the structure is compliant with state TABOR requirements.

E-470 Public Highway Authority will initially provide toll collection services with funds transmitted daily to HPTE. An agreement with E-470 has been in place since 2014 and will need to be renewed once the project is ready for traffic and tolling. Once the project is completed, minimal lifecycle requirements are envisioned. There will be a three-year forward-looking MMRA for toll collection and roadway lifecycle costs which are expected to be about $63 million over the life of the debt (2056).

FITCH CASES

The sponsor case uses employment and population assumptions within the six county corridor commuting area sourced from the Denver Regional Council of Governments (DRCOG) and modified by an economic consultancy. Median base value of time (VOT) is $18.86 with annualized growth of 1.4%, which Fitch considers to fall at the higher end of a reasonable range. The sponsor case further assumes a three-year ramp up and a revenue annualization factor of 304 days, reflective of the dispersion of origins and destinations along the corridor. The sponsor case assumptions result in revenues of $17.7 million in fiscal 2022 (Fitch's assumed first-year ramp-up, or FRUY) with a revenue CAGR of 5.6% thereafter.

Fitch ran various combinations of sensitivities on the sponsor's microsimulation model to assess the impacts. The Fitch base case adopted most of the sponsor's assumptions, but took down revenue days from 304 to 275, increased ramp-up to four years (60/80/90/100), truncated the traffic and revenue consultant's VOT distribution at $25, and reduced annual VOT growth to 1.0% from 1.4%. Base case revenues grow at an average annual growth rate of 5.5% from the first fully ramped-up year (2022).

The ensuing Fitch base case had a minimum total DSCR of 1.30x (or 1.70x total DSCR with ramp-up reserve), with an average senior DSCR of 4.074x and total DSCR of 2.66x through the debt life. Leverage is initially high at 19.7x in 2022, but quickly declines to 10.0x after 10 year of operations. LLCR is a minimum of 2.93x with an average of 4.40x.

The Fitch rating case assumes 275 revenue days, a four-year ramp-up, a -10 basis point reduction to population, employment and household socioeconomic inputs, VOT truncated at $25 and a smaller 0.5% annual growth in VOT. Rating case revenues grow at an average annual growth rate of 5.3% from the first fully ramped-up year (2022). The resulting Fitch case had a minimum total DSCR of 1.26x (or 1.63x total DSCR with ramp-up reserve), with an average senior DSCR of 3.76x and total DSCR of 2.46x through the debt life. Leverage metrics are similar to the base case results and LLCR remains ample with is a minimum of 2.72x with an average of 4.04x.

Fitch analyzed a number of coverage ratio breakeven scenarios related to the proposed financial structure and considers the levels consistent with investment grade. When run on the Fitch rating case the model indicates the project would require a 2.44% revenue CAGR post ramp-up (2022) to fully pay off all debt service obligations. Fitch requested a second breakeven analysis that showed the rating case revenue line could be lowered 55% and still pay off all debt service obligations.

SECURITY

Both the toll revenue bonds and the TIFIA loan are paid from gross toll revenues, ahead of any repayment obligations for operating costs. The TIFIA loan will constitute a subordinate obligation, springing to senior following a bankruptcy-related event. The two securities are rated on parity because the TIFIA loan springs to senior under the loan agreement's bankruptcy related event.

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Applicable Criteria
Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016) (https://www.fitchratings.com/site/re/882594)
Rating Criteria for Toll Roads, Bridges and Tunnels (pub. 11 Aug 2016) (https://www.fitchratings.com/site/re/886038)

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