Eagle P3: Light rail lifted

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The Regional Transportation District (RTD), the transit authority for the Denver metropolitan area, awarded Fluor and Macquarie-led DTP the $1.64 billion, 30-year Eagle P3 concession on 15 June. The consortium beat HSBC, Veolia and Siemens Financial Services Mountain-Air Transit Partners (MTP). The deal is the first design, build, finance, operate and maintain availability-based transit concession in the US. Barclays Capital and Bank of America Merrill Lynch (BoA Merrill), which underwrote $397.8 million in private activity bonds, closed them on 4 August, little more than six weeks after the concession was awarded.

The Eagle P3 project includes the 36.7km East corridor, 11.7km gold line, 8.4km northwest electrified rail segment (NWES) and a new maintenance facility. The project is part of the agencys 225km FasTracks light rail, commuter rail and bus rapid transit expansion plan. RTD retained Goldman Sachs and JP Morgan as advisers and held meetings with potential bidders and the community before releasing a request for qualifications (RFQ) in June 2008.

Three consortiums DTP (Fluor, Macquarie, Ames Construction, Balfour Beatty, Alternate Concepts and HDR Global Design), Mile High Transit (John Laing, Hochtief, Bombardier, Flatiron, Archer-Western, Aldridge Electric, AECOM and CH2M-Hill) and MTP (HSBC, Siemens, Veolia, Kiewit, Herzog, Stacy and Witbeck, HNTB and Mass Electric Construction) replied to the RFQ and were subsequently short-listed to bid on the project.

But the deal had to be restructured to work within TABOR, Colorados taxpayer bill of rights, which restricts the amount of money government agencies can raise from citizens based on a combination of population growth and inflation. The Eagle P3 was structured outside TABOR, meaning availability payments would have to be reapproved annually by RTD as part of its budgeting process, something that unnerved private bidders. RTD restructured the deal and released the request for proposals (RFP) on 30 September 2009.

The document was only sent to DTP and MTP after Mile High Transit dropped out of the bidding process in November 2009. The consortium attributed its withdrawal to the short procurement timeline; because RTD planned to award the contract in the third quarter of 2010, which they said was not enough time for them to put together a competitive bid.

The two remaining groups submitted their final proposals on 14 May 2010, and DTP won because of its financial proposal, which reduced the projects overall cost by roughly $300 million. The final evaluation scores were 77.05 for DTP (financial 56.15 and technical 20.90) and 41.95 for MTP (financial 21.33 and technical 20.62).

DTP mandated Barclays and BoA Merrill to underwrite the private activity bonds (PABs) and the leads launched a $404 million issuance on 23 July. The preliminary offering documents estimated average yield at 6.17% over a term of 30 years and that the debt service coverage ratio (DSCR) at the end of construction in 2017 would be 1.52x, rising to 2.04x by 2040. The sponsors, Fluor and Macquarie, would contribute $55.1 million in equity (split 10% and 90% respectively) and RTD would make $1.14 million in construction payments, $44 million in availability payments before the end of construction and $4.9 million in interest payments.

The sponsors and underwriters held a roadshow in late July and financial close took place by 4 August. The PABs were 3x oversubscribed and, according to Nicholas Hann, an executive director for Macquarie Capital Advisers, who worked on the project, priced at a better-than-expected margin when they hit the market between the sovereign debt-provoked volatility of late June and before the August holidays. The final issuance was slightly smaller then planned, $397.8 million, because of the better margin, averaging 6.078% with a spread between 217bp and 247bp against the benchmark municipal market data AAA index.

The PABs were split into 14 semi-annual series tranches and three term tranches. The semi-annual series totalled $80.3 million with yields ranging from 4.85% to 6.13% and maturities between 15 July 2015 and 15 January 2026. The term tranches totalled $62.5 million (maturity 2030), $79.97 million (maturity 2034) and $175.1 million (maturity 2041), and yielded 5.9%, 6.08% and 6.13% respectively. According to the final term sheet, DSCR on the bonds ranged from 1.56x in 2017 and 2.09x at maturity.

Fitch rated the bonds at BBB- stable and Moodys rated the PABs Baa3, because of concerns over construction phase risk. The agency cited the deals high reliance on RTD financing and the concessions termination payment regime.

John Laing and Uberior Infrastructure Investments, a subsidiary of Lloyds Banking Group, bought Macquaries equity stake at financial close. Each took a 45% stake in the project. The deal marks a return for Macquaries strategy of syndicating down infrastructure equity, after a period of retrenchment from principal investments in favour of advisory work.

A joint venture of Fluor and Balfour Beatty, joined by local contractor Ames Construction, is building the rail lines. Construction is phased, with the first phase including the 36.7km East Corridor and maintenance facility and the second the 20.1km gold line and NWES. DTP and city officials broke ground on phase one on 26 August and RTD has until 31 December 2011 to decide whether to proceed with phase two.

Monthly availability payments will be made to the project company upon commencement of service. Payments will be contingent on operational performance, not ridership or farebox collections. Denver Transit Services, a join venture comprised of Alternate Concepts, operator of the 637.5 mile Massachusetts Bay Transportation Authority Commuter Rail system, Balfour Beatty and Fluor, hold the O&M contract.

Denver Transit Partners
Status: Closed 12 August 2010
Size: $1.64 billion
Location: Denver, Colorado
Description: 56.3km commuter line and maintenance facility
Awarding authority: Regional Transportation District
Government contribution: $1.14 billion construction payments and $44 million pre-completion service payments
Sponsors: Fluor (10%), Uberior (45%) and John Laing (45%)
Equity: $54.3 million
Debt: $397.8 million in PABs
Underwriters: Barclays Capital and Bank of America Merrill Lynch
Financial adviser: Macquarie
Sponsor counsel: Orrick and Kutak Rock
Bond counsel: Sherman and Howard
Underwriter counsel: Mayer Brown
Grantor counsel: Marla Lien and Freshfields
Bond trustee: Bank of New York Mellon
Technical adviser: Arup
Contractors: Fluor and Balfour Beatty
Operations and maintenance: ACI and Fluor
Rolling stock: Hyundai-Rotem