DUS News Digest

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Business Wire

Fitch Ratings affirms its 'A' rating on the following Denver Union Station Project Authority, CO (DUSPA) bonds:--$145.6 million senior lien note, series 2010.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by a senior lien on pledged revenues comprised of a $12 million annual payment from the Regional Transportation District, CO (RTD) and property, sales, and hotel tax revenue generated by development in a defined project area adjacent to the Denver Union Station (DUS) facility. RTD's $12 million annual payment obligation to DUSPA is secured by a first lien on RTD's 0.4% sales and use tax (approved by voters in November 2004) and excess 0.6% sales and use tax revenue after RTD's senior sales tax bonds are paid.

KEY RATING DRIVERS

COVERAGE NOT DEPENDENT ON DEVELOPMENT REVENUES: The senior lien note rating relies solely on the RTD portion of pledged revenue, since it covers senior lien debt service. In addition, RTD's obligation is evidenced by a bond, payment of which is an operating expense and subordinate to RTD's FasTracks sales tax bonds (rated 'AA' by Fitch). RTD's ability to make this payment is very strong despite past declines in sales tax revenue, given the payment's small size relative to RTD's 0.4% sales tax revenue for its FasTracks program, which includes the DUS project.

RATING DIFFERENTIAL DUE TO LEGAL PROVISIONS: The senior lien notes are rated below Fitch's rating on RTD's certificates of participation (rated 'AA-'). The distinction reflects the lack of a pledged asset, RTD's limited pledge of only its sales and use tax revenues to support its obligation to DUSPA, and Fitch's view that the debt service reserve fund (DSRF) does not provide any credit support.

BARRIERS TO ADDITIONAL DEBT: While additional debt is allowed by the indenture, the senior and subordinate note holder is somewhat protected by an additional bonds test and the veto rights of any of the four parties (Transportation Infrastructure and Finance Innovation Act (TIFIA), RRIF, City and County of Denver, and RTD).

HIGH PROFILE TRANSIT PROJECT: DUS is an important project to RTD, Denver, and other area municipal entities, as evidenced by voter support for the project, the city's many approvals that were required to proceed, other entities' revenue allocations, and the city's moral obligation pledged on the RRIF loan. DUS will serve as the new hub for Denver's large and growing transit

system, enabling RTD to co-locate its existing light rail system and bus network with its ongoing FasTracks expansion.

FAVORABLE CONSTRUCTION CONTRACT: The construction contract includes a guaranteed maximum price, thereby reducing potential construction cost variance and completion risks.

CREDIT PROFILE

DUSPA, a multi-agency non-profit corporation, was created in 2008 to finance and implement the DUS project. DUSPA agency members include Denver, RTD, the Colorado Department of Transportation (CDOT), and the Denver Regional Council of Governments (DRCOG). DUSPA has no power to levy taxes, assessments, or condemn property by eminent domain. As a result, it is not subject to the Taxpayer Bill of Rights (TABOR) requirements.

HIGH PROFILE TRANSIT PROJECT

The DUS project will serve as the new hub for Denver's transit system, linking RTD's existing light rail and bus network with its proposed FasTracks expansion which includes 119 miles of new light rail and commuter rail, 18 miles of rapid transit bus service, 21,000 new parking spaces at rail and bus stations, and expanded bus service in all areas.

The $484 million DUS project is to include: an underground bus terminal with 22 bays; a light rail station for current and future light rail lines; a commuter rail station (with eight tracks) that will also serve Amtrak; public plazas and spaces to integrate transit services, private development, and the 16th street (pedestrian) mall; and the renovation of historic Union Station. The project is being developed on 19.5 acres purchased by DUSPA's four member agencies. From this tract, 13.5 acres are designated for the transit facilities and six acres are to be sold for private commercial and residential development. The project budget includes a regional bus facility ($224 million), passenger rail ($140 million), a light rail station ($56 million), streets and utilities ($37 million), and renovation of Union Station ($23 million). The funding sources include the senior lien TIFIA loan, or series 2010 note ($146 million), a subordinate lien RRIF loan ($155 million), grants ($107 million), and cash contributed by RTD ($81 million).

FAVORABLE CONSTRUCTION CONTRACT

The master developer of the land to be sold by RTD is Union Station Neighborhood Corporation, a joint venture between Continuum Partners and East West Partners, both of which are very experienced residential and real estate developers. Kiewit, which served as the lead contractor on other RTD projects, was awarded one design/build contract for the entire project as the preferred construction partner. The construction contract includes a guaranteed maximum price, thereby reducing costs related to construction and completion risks. Trammel Crow Company-Denver was retained by DUSPA to serve as DUSPA's Owner's Representative.

ANNUAL RTD PAYMENT ONLY FIXED PLEDGED REVENUE SOURCE

DUSPA issued two levels of debt in 2010. Specifically, a $146 million TIFIA note and a $155 million RRIF note secured by a senior lien and a subordinate lien of pledged revenues, respectively. The senior lien notes are structured with a 30-year maturity. In addition to RTD's annual $12 million payment, pledged revenues on both levels of debt include incremental property and sales tax revenues collected within the DUS project area and DUS metro district mill levies, plus Denver's lodger's taxes on hotel rooms within the project area. While Fitch expects development activity to occur within the project area, the pace and scope of such development is considered very speculative and such revenues are not a rating factor for the senior lien note at this point.

COVERAGE NOT DEPENDENT ON DEVELOPMENT REVENUES

The senior lien note debt service has been sized not to exceed RTD's annual $12 million payment, which provides the basis for the investment grade rating. The senior note is structured with zero principal and 92.5% deferred interest through Dec. 1, 2014. Payments on the note extend through 2040 as does the funding agreement between RTD and DUSPA that obligates RTD to pay $12 million per year. The senior DSRF is equal to 50% of maximum annual debt service (MADS) but can be used to meet deficiencies in the payment of the subordinate RRIF note, leading Fitch to view the senior lien note as effectively without a reserve fund. Credit concern regarding this DSRF structure is offset by RTD's ample capacity and steady revenue source for its annual $12 million payment to DUSPA. Including RTD's Eagle P3 project to construct and operate $1.3 billion of its FasTracks capital plan, annual coverage of FasTracks bonds is ample at over 4x.

RATING DIFFERENTIAL DUE TO LEGAL PROVISIONS

The senior lien notes are rated below Fitch's rating on RTD's certificates of participation (rated 'AA-'). RTD's COP rating reflects a broader revenue base, including farebox revenues and other operating funds. In addition, the DSRF is not currently fully-funded, and the DSRF, once funded, can be used to meet any deficiencies in the payment of a subordinate lien note placed with the federal Department of Transportation under its Railroad Rehabilitation and Improvement Financing Act (RRIF). This structure leads Fitch to consider the senior lien note to be effectively without a reserve fund.

BARRIERS TO ADDITIONAL DEBT

The flow of funds for both notes is standard. Upon the established transfer date (Jan. 15, 2015), funds in a surplus fund may be used for the payment of city services and the prepayment of debt, contingent upon a coverage test. Additionally, the indenture requires that the subordinate RRIF note be prepaid in total ahead of any senior lien note prepayment. Additional bonds are allowed by the indenture but are subject to veto by TIFIA, RRIF, Denver, and RTD, and are further contingent on an ABT test requiring three successive years of 1.35x coverage of MADS by allpledged revenues. Notably, the senior lien note is not subject to accelerated repayment in the event of default under the RRIF obligation related to payment, covenant, misrepresentation, subordinate DSRF, or cross default.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.