FITCH RATES DENVER, CO'S SR. AIRPORT REVS 'A+'; OUTLOOK POSITIVE

Fitch Ratings-San Francisco-28 November 2017: Fitch Ratings has assigned an 'A+' rating to the City and County of Denver, Colorado's approximately $278.5 million of series 2017A and 2017B senior airport system revenue bonds.

The Rating Outlook is Positive.

KEY RATING DRIVERS

The 'A+' rating reflects a strong pricing framework, a large air trade service area, and the airport's strategic location as a connecting hub within the large, diverse and growing Denver region. These strengths are somewhat offset by a moderate degree of concentration in the largest carrier with a significant amount of connecting traffic. The airport's strong financial metrics for the senior lien general airport revenue bonds have improved and are in line with 'AA' category peers, even with the inclusion of estimated future debt financings related to the CIP. The Positive Outlook reflects ongoing positive trends in enplanements and financial performance, highlighted by sound senior and subordinate coverage ratios. While the airport's recently announced capital program will elevate leverage in the near term, Fitch expects longer-term financial metrics to remain intact and potentially support a rating upgrade.

Sizable Traffic Base Subject to Connecting Exposure - Revenue Risk (Volume): Stronger
Denver International Airport (DIA) is the primary airport for a large and economically strong air trade service area with a long-term history of enplanement growth and low volatility. These strengths are somewhat offset by the airport's moderate reliance on connecting traffic and a somewhat high degree of carrier concentration, with United Airlines (United; BB/Stable) and Southwest Airlines (Southwest; BBB+/Stable) together accounting for 71% of enplanements in 2016.

Stable Rate-Setting Structure - Revenue Risk (Price): Stronger
The stronger assessment reflects the airport's hybrid airline use and lease agreement (AUL) framework that provides for substantial cost recovery of operations, debt service, and capital expenditures. The assessment also reflects a safety net provision that assures the airport can charge airlines any amount required to adhere to its rate covenant. Cost per enplanement (CPE) in 2016 was $10.92 but is anticipated to rise to over $16 based higher costs to support the capital program focused in part on concourse expansions and the refurbishment of the Great Hall.

Debt Supported Capital Program - Infrastructure Development and Renewal: Midrange
The airport recently unveiled a sizeable five-year (2018-2022) capital improvement program (CIP) estimated at $3.5 billion, of which roughly $3.2 billion will necessitate additional senior and subordinate debt issuances, and the remainder funded by airport cash and federal grants. The concourse expansions, costing $1.5 billion, are demand-driven while the $650 million Great Hall project, to be procured under a public-private partnership approach, should result in more modern facilities and higher concession spending.

Flexible Structure, Adequate Covenants - Debt Structure: Stronger/Midrange (Senior/Subordinate)

The stronger assessment for the new and existing senior debt reflects its senior lien, rapid amortization, predominantly fixed interest rates, limited use of bullet debt, and cash-funded debt service reserves. The midrange assessment for the subordinate debt reflects its subordinated lien. Covenants and reserve levels are adequate for large-hub airport credits. The long-term obligations for the airport hotel and Great Hall projects are treated as junior lien costs for the airport

Financial Profile
DIA's financial metrics are expected to narrow when compared to recent historical results as the airport makes significant capital-related debt issuances over the next several years. Given estimated future issuances, liquidity is anticipated to remain at a minimum of 500 days cash on hand (DCOH) with senior debt service coverage (DSC) of 1.8x (2.1x when passenger facility charges (PFCs) are treated as an offset to debt service) and total DSC of 1.5x (1.6x) in Fitch's rating case scenario. Total leverage is currently moderate at about 5x but will rise to close to 8x with the inclusion of future debt.

PEER GROUP
Comparable rated airport peers include Chicago O'Hare (A/Stable) and Minneapolis-St. Paul (senior lien AA-/junior lien A+/Stable), both of which have high carrier concentration in a large air trade service area. Chicago O'Hare's lower rating reflects its substantially higher leverage. Although Denver's financial metrics are consistent overall with those of Minneapolis-St. Paul, they could shift, as the ultimate size and structure of Denver's CIP are unknown.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:
--Successful cost management and execution of the current capital program
--Maintenance of overall leverage below 8x on a sustained basis while maintaining coverage levels at sponsor-forecast levels in an environment of continued traffic and revenue growth.

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:
--Material traffic deterioration without offsetting expenditure reductions, or leverage well in excess of current expectations as a consequence of the planned capital expenditures, resulting in materially weaker financial performance.

TRANSACTION SUMMARY
DIA intends to issue approximately $278.5 million in series 2017A and 2017B senior airport system revenue bonds by the end of 2017. Proceeds of the series 2017A Bonds are expected to refund the currently outstanding series 2007A and series 2007D airport revenue bonds. Proceeds of the series 2017B bonds are expected to refund the currently outstanding series 2007C airport revenue bonds. The refunding is anticipated to achieve debt service savings while the overall debt service structure of the new bonds will remain largely unchanged from the refunded debt.

Performance Update

Airport operations performed well in 2016, and broadly in line with Fitch's prior base case expectations. Enplanements grew rapidly by 7.9% in 2016, led by continued O&D growth and capacity expansion amongst existing carriers. YTD 2017 enplanements have grown an average of 6.3% from the year prior as a result of fleet up-gauging, new routes, and continued expansion of Denver's population and economic activity. Fitch views the Denver region as well positioned for continued long-term growth and supportive of management's expectations of low single-digit enplanement growth moving forward.

Audited financial performance in 2016 was strong, with operating revenues growing 8% from the year prior. While aviation fees from carriers were only modestly lower in fiscal 2016, leading areas of revenue growth were primarily in terminal concessions and the recently opened airport hotel facility, which generated $43 million. Due to increased operational activity, O&M also grew significantly by 8%. Cash flow available for debt service (CFADS) grew by 3.1% to $478 million. Senior and subordinate debt service coverage was solid overall at 2.3x and 1.6x, respectively, on a bond ordinance approach (2.0x and 1.5x when all PFCs are treated as revenues and not an offset to debt service). In recent years, leverage has been trending lower as a result of rising net cash flow to a low-to-moderate 5.7x and 4.0x on a total and senior basis, respectively.

The airport is finalizing the full scope of its five-year CIP, estimated at $3.5 billion that will include airfield and roadway improvements, additional gates at all three concourses, and a major terminal renovation at DIA's Great Hall. The latter portion of the CIP is being procured via a public/private partnership through 2051 with Ferrovial Airports. The developer will be responsible for the design, construction, financing and operation of the Great Hall project. The project will be structured under a 34-year agreement with the airport making progress payments during the construction phase and annual availability payments to the developer during the operation phase. These payments are junior in position relative to the senior and subordinate debt.

Fitch Cases

Fitch's base case scenario adopts the sponsor's recent consultant forecasts, and assumes fiscal 2017 enplanement growth of 5.6%, based on YTD performance. Out-year enplanements are conservatively projected to grow between 2.2%-2.6% annually. Total revenues are assumed to grow at a CAGR of 3.7% over the next five years. O&M is assumed to grow at a five-year CAGR of 6%, and considers the opening of new terminal facilities in later years. Estimated future debt issuances are incorporated each year.

Based on these base case assumptions, senior DSC averages 1.8x through the five-year forecast period, and senior leverage reaches 4.3x by the conclusion of the forecast. Subordinate DSC ranges averages 1.5x and total leverage grows to 7.7x over the same period. Cost per enplanement (CPE) averages $11.2, which is similar to 2016 levels.

Fitch's rating case assumes a 2% traffic loss in 2018 and expenditure growth of 50bps higher than the base case beginning in 2020, when the majority of new terminal facilities are completed. Coverage and leverage remain largely unchanged from the base case as a function of cost recovery mechanisms, though CPE becomes more inflated, averaging $13.58.

Asset Description

DIA is the primary air carrier airport for the Denver air service region. The airport site encompasses approximately 53 square miles located about 24 miles northeast of Denver's central business district. DIA's airfield includes six runways - five of which are 12,000 feet long by 150 feet wide, with the sixth 16,000 feet long by 200 feet wide, making it the longest commercial service precision-instrument runway in North America. The terminal complex consists of a landside terminal, three airside concourses with a total of 111 gates, and the Hotel and Transit Center. The airport was ranked as the 6th busiest airport in the nation and the 18th busiest airport in the world based on total passengers in 2016.

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Applicable Criteria
Rating Criteria for Airports—Effective Dec. 14, 2016 to Nov. 27, 2017 (pub. 14 Dec 2016)
https://www.fitchratings.com/site/re/891804
Rating Criteria for Infrastructure and Project Finance - Effective from 8 July 2016 to 24 August 2016 (pub. 08 Jul 2016)
https://www.fitchratings.com/site/re/882594