

P3 DELIVERS APM AT LAWA

ON JUNE 8 2018, THE CITY OF LOS ANGELES, ACTING THROUGH THE LOS ANGELES WORLD AIRPORTS (LAWA) BOARD OF AIRPORT COMMISSIONERS, AND LAX INTEGRATED EXPRESS SOLUTIONS, LLC (LINXS) SUCCESSFULLY REACHED FINANCIAL CLOSE ON THE US\$4.9BN AUTOMATED PEOPLE MOVER (APM) PROJECT. BY **ANDRÉE BLAIS**, PARTNER IN THE INFRASTRUCTURE PRACTICE GROUP, LOS ANGELES, **NOSSAMAN**.

LAWA chose to procure the APM project through an innovative availability payment public-private partnership (P3) approach, which brings with it the element of private finance. LAWA's APM is the first APM system to be procured through an availability payment P3 delivery model.

Under the project agreement, the largest contract ever awarded in the City's history, LINXS is required to design, build and finance the APM system and then operate and maintain it over a 25 year operating period, the DBFOM agreement.

This article surveys various elements that shaped the APM project and provides some insight into this remarkable procurement.

LAWA's objectives

LAX is an urban airport bordering on the Pacific Ocean. Over time, the volume of passengers using the airport has grown tremendously, putting pressure on airport infrastructure and creating landside access and mobility challenges for travellers.

Currently travellers experience unreliable travel times to and from the airport and significant traffic congestion on freeways and surrounding surface streets.

At this time there is no intuitive passenger connection to Los Angeles County Metropolitan Transportation Authority (Metro) rail, and rental car facilities are dispersed throughout the area surrounding the airport, resulting in significant shuttle traffic around the Central Terminal Area (CTA) loop. Passenger pick-up and drop-off areas are also within the CTA loop, further contributing to the congestion.

To help remedy this situation, LAWA embarked on its Landside Access Modernization Program (LAMP). As its name suggests, LAMP is designed to address challenges to landside access, as opposed to airside access, experienced by travellers arriving at or leaving LAX from the CTA.

LAMP comprises several significant capital projects including the APM system, a consolidated rent-a-car facility (ConRAC), an intermodal transportation facility and roadway and utility improvements.

Ultimately, completion of the various components of LAMP will improve access and the travel experience by offering time-certain

transportation options to and from the airport, providing a seamless connection to the Metro rail and transit system, creating new and convenient locations for passenger pick-up, drop-off and parking, and providing a direct connection to a ConRAC.

LAMP is a strategic and comprehensive approach to transforming the passenger landside experience at LAX, but it is not without its challenges. The projects comprising LAMP are large and complicated and are generally running concurrently, creating various interface challenges that must be managed. The projects must also be carried out while traffic and airport operations continue at the fifth busiest airport in the world and second busiest in the US.

The APM system, the centrepiece of LAMP, has received strong support from the Board of Airport Commissioners and City Council throughout its procurement, ultimately resulting in unanimous approval by both the board and city council of award of the DBFOM Agreement to LINXS this spring.

Community values

Another key goal of the City and LAWA in delivery of the APM project is ensuring meaningful participation of the local community and businesses in the economic opportunities created throughout the project.

The importance of this goal was reflected in the evaluation criteria for selection of the developer and is borne out in the terms of the DBFOM agreement, which include contractual commitments to specified participation levels for local, small firms, disabled veteran firms, and local workers and commitments to develop programmes for business inclusion and workforce development.

As a result of LAWA's approach and the quality of LINXS' proposal in response to this goal, a historic investment is being made in Los Angeles' emerging businesses and workforce through the APM project.

More than US\$580m has been identified for local, small or disabled veteran-owned businesses, with a US\$94m commitment exclusively to local, small businesses in Los Angeles. The project will create more than 1,500 construction jobs, with

30% of those opportunities being reserved for residents of Los Angeles and the highly impacted communities near LAX.

Sixty percent of careers during the 25-year operations and maintenance phase are designated for local workers. LINXS has developed partnerships with community-based organisations to focus on expanding the pipeline of workers, particularly workers from non-traditional backgrounds.

Through more than US\$900,000 in investments, the APM project will create career pathways for women in infrastructure, former foster youth, individuals in re-entry and transitioning out of gang involvement, and persons with disabilities. HireLAX, LAWA's Apprenticeship Readiness Program, will be a key partner in this effort, as will other resources offered by the building trades and other industry partners.

LAWA's approach to supporting the community and achieving its diversity goals through the APM project creates a new benchmark in the P3 industry and has been described as "one of the most ambitious efforts in the US to ensure that local businesses and affected communities participate in the design, construction and operations of a major infrastructure improvement."¹

The APM project demonstrates that community values and objectives can be fostered within the context of a privately financed fixed price deal structure.

Financing the deal

LINXS expects to incur costs related to the planning, development, design, construction and financing of the APM project of approximately US\$2.72bn, which costs are expected to be expended over a 66-month period². LINXS expects to pay these costs through a combination of private financing sources and payments from LAWA.

After LAWA and LINXS signed the DBFOM Agreement on April 11 2018, LINXS proceeded to secure equity contributions and to arrange and close both bond and bank financings for the APM project.

At financial close on June 8 2018, LINXS had arranged private financing for the project comprising approximately (a) US\$1.2bn in private activity bonds issued by the California Municipal Finance Authority on behalf of LINXS, the LINXS bonds; (b) a US\$270m construction period credit facility, the design build loan facility, with loan commitments from Canadian Imperial Bank of Commerce New York Branch, Mizuho Bank Ltd, Sumitomo Mitsui Banking Corporation, Korea Development Bank and Toronto-Dominion Bank; and (c) an aggregate equity contribution of US\$103m secured by letters of credit provided by Fluor Enterprises Inc (27%), Balfour Beatty Investments Inc (27%), Hochtief LINXS Holding LLC (18%), ACS LINXS Holdings LLC (18%) and Bombardier Transportation (Holdings) USA Inc (10%).

LAWA is contributing a total of approximately US\$1bn to the capital costs of the APM project through five milestone payments payable to LINXS during the construction period and a sixth milestone payment paid after final completion, subject to the terms of the DBFOM agreement.

LINXS' debt obligations under the LINXS Bonds and to the banks, and distributions to equity providers, will be paid through revenues generated by the APM project, the principal source of which are the payments from LAWA to LINXS under the terms of the DBFOM agreement.

The design build loan facility is expected to be repaid by LINXS at final completion from LAWA's sixth milestone payments together with equity contributions³.

LINXS' obligations under the LINXS bonds and distributions to equity providers will be paid through the availability payments paid by LAWA to LINXS under the terms of the DBFOM agreement - availability payments. Availability payments will commence when the APM system is available for passenger service and continue through the operations and maintenance period.

Under the terms of the DBFOM agreement LAWA may make downward adjustments to milestone payments to compensate for deficient performance by LINXS of its obligations during construction, and to availability payments if the APM system does not meet specified availability and performance requirements.

As such, LINXS' private financing is at risk to performance, creating a strong incentive for LINXS to provide high quality infrastructure and service throughout the operating period.

LAWA's funding sources

LAWA expects to fund its payment obligations under the DBFOM agreement through a combination of its own revenue bonds, which will fund the milestone payments, existing airport revenues such as revenues generated through LAWA's rate agreements with airlines and concession revenues, passenger facility charges for certain eligible APM system expenditures subject to Federal Aviation Administration approval, and customer facility charge collections in excess of amounts required to pay the capital costs for the ConRAC, if any. No city, state or federal tax revenue will be used to fund the APM project.

Rating the LINXS bonds

Since the LINXS bonds are repaid from availability payments made by LAWA to LINXS under the terms of the DBFOM agreement, the rating of the LINXS bonds depended in part on the rating of LAWA's payment obligations under the DBFOM agreement, which required an assessment of the priority of availability payments relative to LAWA's other obligations.

On May 25 2018, Fitch assigned an A rating to LAWA's payment obligations associated with the then anticipated issuance of the LINXS bonds⁴.

Although the capital component of availability payments payable by LAWA to LINXS is treated as an unsecured obligation paid from LAWA's discretionary account, which is junior to LAWA's outstanding senior and subordinate lien revenue bonds, third lien obligations and reserve deposits, Fitch concluded that the payment structure still provides a satisfactory framework for an A rating for LAWA's payment obligations.

The rating rationale included Fitch's assigned ratings on LAWA's own revenue bond obligations, including an AA rating on approximately US\$3.5bn of senior revenue bonds and an AA- rating on approximately US\$2.27bn of subordinate revenue bonds.

Fitch remarked on LAWA's extremely strong market economics reflected in its status as the nation's largest origination and destination airport and one of the largest US international gateway airports, and LAWA's sound rate agreements with airlines.

On June 7 2018, on the eve of financial close, Fitch assigned a rating of BBB+ to the LINXS bonds⁵, other than the insured bonds, and S&P Global Ratings assigned a rating of AA to the insured bonds on June 6 2018⁶.

In assigning the BBB+ rating to the LINXS bonds, Fitch focused on the design build, operation and maintenance, and lifecycle cost parent company guarantees included in the security package and stated that these guarantees, from strong counterparties, offset coverage and financial metrics on the lower end of the investment grade range.

Additional key rating drivers for Fitch include the highly capable team of contractors that have experience with similar large-scale capital projects, LAWA's strength as project revenue payer and the well-defined payment mechanism and operating standards included in the DBFOM Agreement.

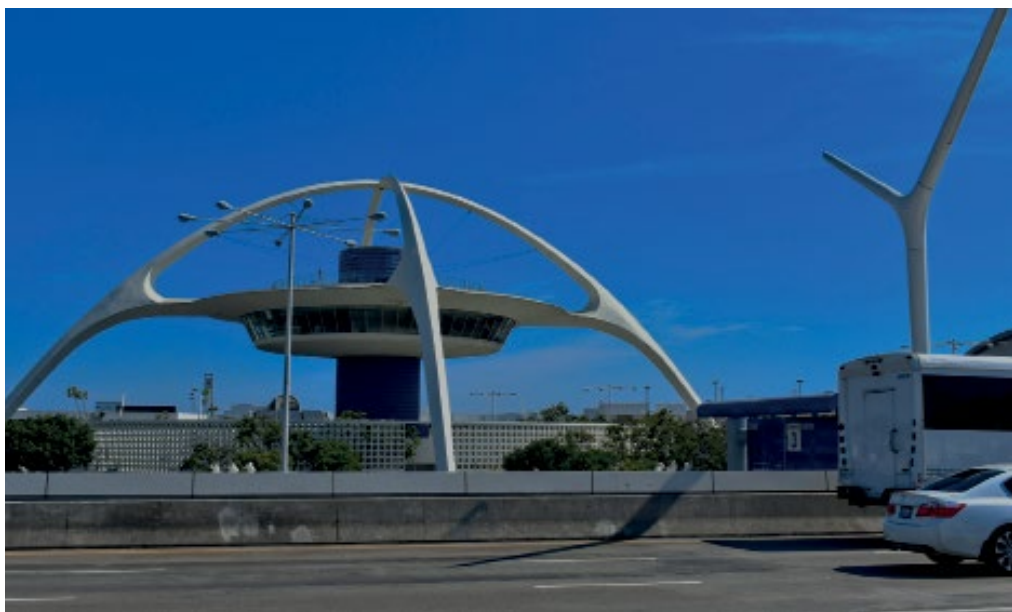
Notably, Fitch compared its rating of the LINXS bonds with the Fitch-rated bonds issued by Purple Line Transit Partners for the Maryland Purple Line P3 project and by Denver Transit Partners for the Denver Eagle P3 project. Fitch assigned a BBB+ rating to the bonds for both of these projects, each of which is a transit project in a major metropolitan area that also included similar creditworthy DB and O&M parent guarantees.

Moving forward

For the many among us who have travelled through LAX, the critical need for infrastructure to address landside traffic congestion and to improve and accelerate mobility is fully understood. With private financing in place, LINXS can proceed in earnest with the design and construction of the 2.25-mile long APM guideway, six stations and related works, the design and supply of the APM vehicles followed by extensive testing of the APM system to achieve passenger service by March 31 2023. Once in operation, the APM system will directly benefit airport users and the community by vastly improving mobility and access at LAX. ■

Footnotes

- 1 - Public Works Financing, May 2018, vol. 337, page 1, "DBFOM Model Offers a Better Way to Achieve Diversity Goals".
- 2 - As provided in Official Statement for the LINXS Bonds issued by the California Municipal Finance Authority on behalf of LINXS.
- 3 - As provided in Official Statement for the LINXS Bonds issued by the California Municipal Finance Authority on behalf of LINXS.
- 4 - Fitch Ratings news release May 25 2018, "Fitch Rates LAX (CA) Airport Payment Obligations 'A'; Outlook Stable".
- 5 - Fitch Ratings news release June 7 2018, "Fitch Rates LAX CMFA's Sr Project Revs (LINXS APM Project) 'BBB+'; Outlook Stable".
- 6 - S&P Global Ratings website.



The iconic space age theme building at LAX Airport on a sunny day © Anett22 | Dreamstime.com