MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Baa1 rating on I-4 Mobility Partners Opco LLC's senior secured and subordinate facilities; outlook revised to negative

28 Jun 2018

New York, June 28, 2018 -- Moody's Investors Service ("Moody's") affirmed the Baa1 rating on I-4 Mobility Partners Opco LLC's ("I-4MP" or "Project Co") $483 million senior construction bank loan, $131 million of subordinate short term Tranche A TIFIA loans, and $818 million of subordinate long term Tranche B TIFIA loans. The outlook was revised to negative.

The loans are funding the reconstruction and expansion of a 21-mile segment of Interstate 4 through Orlando, FL including adding 2 express lanes in each direction (the "Project"). The Project is being procured under an availability-payment based public-private partnership (PPP) agreement with payments being made by the State of Florida (GO rated Aa1 stable).

RATINGS RATIONALE

The Baa1 rating affirmation of I-4MP's senior secured bank loan and subordinate TIFIA loans reflects the ongoing construction of the I-4 Ultimate project by a financially sound and experienced DBJV team (Skanska-Granite-Lane, "SGL"), with significant combined experience on similar projects in central Florida as well as completing projects under a public private partnership (PPP) framework. The revision of the outlook to negative from stable reflects the current 245 day delay to the Baseline Substantial Completion Date caused primarily by drilled shaft failures, an associated claim filed with the Florida Department of Transportation (FDOT) for $100 million in compensation, and a high level of accumulated noncompliance points in the month of May associated with minor flooding which have led to lane closures and increased oversight by FDOT. The drilled shaft failures highlight the complex subsurface geological conditions in the Project area, and according to Project Co, it also relates to particular design specifications which increased the subsurface risk. There is uncertainty surrounding the timing for when the claim will be resolved, and per the Concession Agreement, FDOT has 120 days to review and issue a decision on the claim. That said, discussions between the parties concerning the matter are likely to be held over the coming weeks and months. In the meantime, the contractors are implementing mitigation strategies to try and reduce the impact on the schedule.

The almost doubling of noncompliance points in the month of May brought the total level of points to 147 from 74 in April, which is above the threshold for Increased Oversight per the Concession Agreement ("CA") of 100 points, and getting closer to the event of default threshold of 175 noncompliance points within a one year period. The Project Co has disputed these recently assessed points and while in dispute, the points would not count towards accumulated points for a noncompliance default. However, under the lenders' agreement, the default threshold is set lower at 167 and if reached, would give lenders the ability to accelerate debt repayment, or the eventual ability to step-in. We believe this scenario is highly unlikely as there are still two and a half years of project construction remaining (prior to any schedule adjustments) and an ability to expedite within limits. Moreover, relevant project parties continue to have active communication with mitigation strategies already in place. Further, FDOT has increased oversight which is viewed positively given both parties' intent to have the project completed.

The rating recognizes the strength of the security package which includes DBJV parent company guarantees on a joint and several basis for up to 40% of the contract price, the large payment and performance bonds ($750 million each) and the $30 million cash retainage. Further, the project has a flexible debt repayment structure where principal is due at the earlier of substantial completion or August 2023, which is still two years post revised substantial completion. The intent to replace the existing $30 million of retainage to backstop DBJV liquidated damages (LDs) with an L/C recourse to the sponsors is not viewed to have a significant credit impact to the project.

The negative outlook reflects the uncertainty surrounding the timing and outcome of the outstanding claim filed with FDOT with respect to the treatment and acceptance of a 245-day delay as relief days, as well as the related uncertainty concerning compensation. We understand that Project Co and FDOT are in continuous conversations concerning the matter with a resolution expected around year-end. The outlook also considers the decreased margin between accumulated noncompliance points and default thresholds under both the lender and concession agreements.

Given the negative outlook and the current schedule delay and pending claim outcome, the rating is unlikely to be upgraded at this time. The outlook could be stabilized if a favorable outcome is achieved for the project and sponsor/developers per FDOT's decision with respect to both the schedule delay and compensation claim. The rating could be upgraded after successful project completion and demonstration of ability to meet operating performance requirements and satisfy forecasted financial metrics with minimal noncompliance points and deductions.

The rating could be downgraded if the resolution outcome for the outstanding claim to FDOT is unfavorable for the project and sponsors/developers, signaling a contentious relationship among the private and public sector parties, with cost increases being absorbed by the project owners; if additional noncompliance points are assessed, leading to a default under either the lenders' agreement or the concession agreement; or if further geotechnical conditions are discovered which could lead to increased delays and costs than already envisioned.

I-4 Mobility Partners Inc is a special purpose entity owned by sponsors Skanska Infrastructure Development Inc. (50%) and John Laing Investments Limited (50%), created to design, build, finance, operate and maintain the I-4 Ultimate project. I-4 Mobility Partners Inc consists of three legal entities, including I-4 Mobility OpCo LLC, I-4 Mobility Midstream LLC and I-4 Mobility HoldCo LLC. I-4 Mobility OpCo is the borrower and has entered into all material project and financing agreements. The OpCo is directly owned by I-4 Mobility Midstream, which has no ability to issue debt or transfer its interest in the OpCo at any future time. I-4 Mobility Midstream is 100% owned by I-4 Mobility HoldCo. Ownership of HoldCo is 50/50 between Skanska ID and John Laing, though their equity contributions to the project are not equal. Corporate governance and oversight of the HoldCo is provided by a board of directors made up of individuals representing Skanska ID and John Laing, who are responsible for project governance and steering, appointment and oversight of the project's executive, accountability for the financial performance of the project, in addition to approval and sign-off on significant issues. The board meets monthly during both the construction and O&M phases.

The methodologies used in this rating were Construction Risk in Privately-Financed Public Infrastructure (PFI/PPP/P3) Projects published in June 2016, and Operational Privately Financed Public Infrastructure (PFI/PPP/P3) Projects published in March 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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