COLORADO
Department of Transportation
Division of Accounting and Finance

4201 East Arkansas Avenue, Room 262
Denver, CO 80222-3400

MEMORANDUM

TO: Transportation Commission
FROM: David Fox, Property Management Deputy Program Manager
DATE: August 1, 2014
SUBJECT: Denver Headquarters Relocation Potential

Purpose:

In June, 2014, Staff made a presentation to the Commission regarding the financial implications and strategy for a potential relocation of the Denver CDOT headquarters complex. The Commission requested staff provide additional information on the following topics:

Background:

Financial Sensivity Analysis

Staff worked with Jones Lang Lasalle to create a sensitivity model. The model can be sensitized by inputing different variables for construction costs, financing rates and terms and building size. The table below shows a range of those variables that Staff feels incorporate the high and low ends of the financial risk spectrum.

		15 Year COP - 3.5%					
		85% Total Cost Estimate - $339 PSF		100% Total Cost Estimate - $399 PSF		115% Total Cost Estimate - $459 PSF	
		Initial Investment ($M)	Net NPV ($M)	Initial Investment ($M)	Net NPV ($M)	Initial Investment ($M)	Net NPV ($M)
Baseline - Renovate Existing HQ	552 Employees 344 SF / Employee 190,000 SF	($13.9)	($29.1)	($16.3)	($31.3)	($18.8)	($33.5)
BTS New HQ	552 Employees 200 SF / Employee 110,400 SF	($25.9)	($18.4)	($32.5)	($24.5)	($39.1)	($30.5)
BTS New HQ	552 Employees 250 SF / Employee 138,000 SF	($35.3)	($26.7)	($43.5)	($34.2)	($51.8)	($41.8)
BTS New HQ + R1	706 Employees 200 SF / Employee 141,200 SF	($36.3)	($27.6)	($44.8)	($35.4)	($53.2)	($43.1)
BTS New HQ + R1	706 Employees 250 SF / Employee 176,500 SF	($48.3)	($38.1)	($58.9)	($47.8)	($69.4)	($57.5)

The table above shows that the lowest NPV of a new build to suit HQ project would be $18.4M if the building was programmed for 200 sf/FTE at 85% of the projected construction cost. The highest NPV for the project would be $57.5M if R1 is included in the move, the sf/FTE is adjusted to 250 and the construction cost is increased by 15% from what is projected.

Options and Recommendations:

Project Delivery Methods

In conjunction with Jones Lang LaSalle, Staff evaluated three typical project delivery methods:

1. Developer led model
    a. RFP for development partner
    b. Developer financed
    c. Disposition of exisitng HQ included in RFP
2. Site owner conrtrolled build to suit
    a. Site owner is development partner
    b. Site owner financed
    c. May require separate RFP for disposition of existing HQ Campus
3. Tennant/Broker led model
    a. No development partner
    b. CDOT hires design build team
    c. Reduced development fees
    d. Requires separate transaction for disposition of existing HQ Campus

Staff is recomending a hybrid model that combines elements from each of the above models. The proposed hybrid model allows CDOT to select a development partner through an RFP porcess prior to site selection, reduce the cost of the project by self financing, control the site selection and design process as well as the ability to align the disposition of the existing HQ campus with the occupancy of a new building. The hybrid model also allows for a design-build contracting process that increases speed to market.

Estimated Project Schedule

By using the hybrid project delivery model described above, Staff estimates that contractor procurement, site selection, site due dillegence, site acquisition and ground breaking could all be completed by May, 2015. Construction of a building this size would likely take an additional 12-18 months.

Next Steps:

Staff is requesting direction on how proceed with the next steps of this project:

1. Proceed with the hybrid project development model described above
2. Proceed with an alternative project delivery method as recommended by the Comission
3. Return to the Commission at a subsequent meeting with additional information

Defining the future

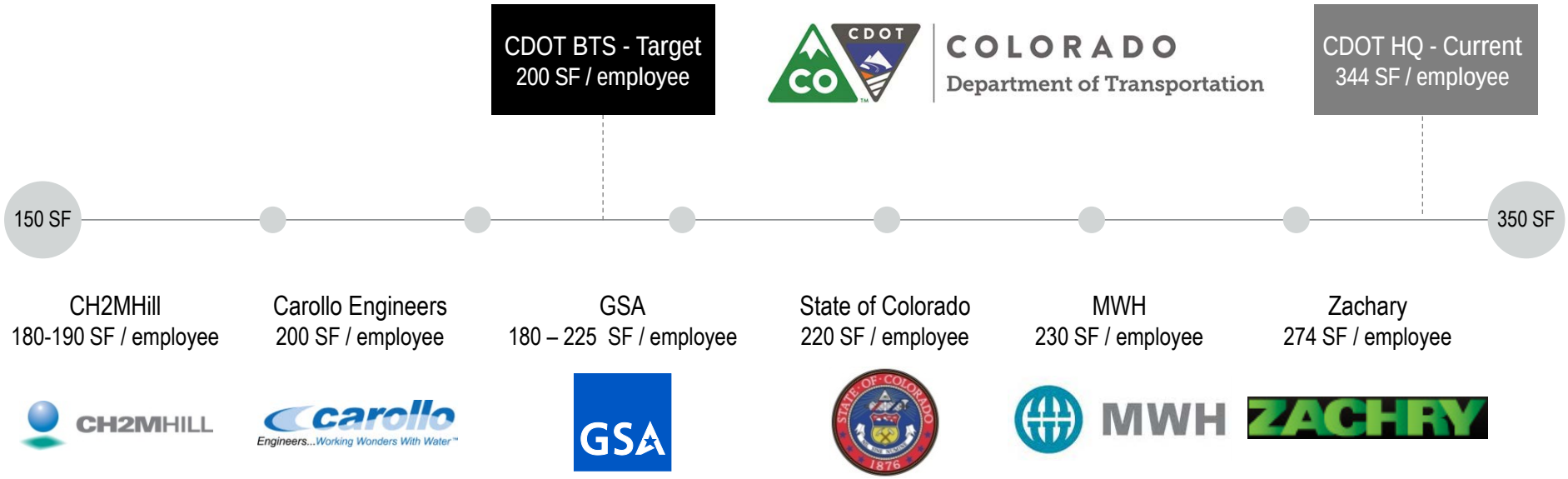
Headquarter location study
Presented to the Colorado Department of Transportation

August 2014

COLORADO
Department of Transportation

Engineering Benchmarking

Square feet per employee



Sensitivity Analysis

15 Year COP – 3.5%

Key Variables

	Baseliine		Build to Suit	
Size of Building	190,000		110,400	
Total Cost PSF	$86	100%	$399	100%
Net Sale Proceeds	$0		($11,540,740)	100%
COP Rate	3.5%		3.5%	
Amortization	15		15	
Operating Expenses	$9.60		$8.00	
Capital Reserve	$1.26		$1.10	
Residual Value	($16,750,232)	100%	($36,078,576)	100%

15 Year Summary of Costs - Financial Comparison (Estimated)

	Baseline - Renovate HQ	Build to Suit - Buy
Square Footage	190,000	110,400
Total Cost	($16,340,000)	($44,049,600)
Less: Sale of Existing Facility	$0	$11,540,740
Total Net Cost	($16,340,000)	($32,508,860)
Total Cost Over Term	($56,415,017)	($59,433,906)
Less: Projected Residual Value	$16,750,232	$36,078,576
Total Net Cost	($39,664,785)	($23,355,330)
NPV of Total Costs Over Term @ 5%	($39,230,314)	($41,558,972)
Less: NPV of Projected Residual Value	$7,924,588	$17,068,888
Total Net NPV	($31,305,726)	($24,490,084)

Delta	($6,815,642)

Sensitivity Table

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Less Expensive Than Baseline
< 10% More Expensive Than Baseline
> 10% More Expesivie Than Baseline

Project Delivery

Fee developer model

DESCRIPTION

- RFP to select fee development partner prior to site selection
- Tenant hires interior architect
- Design build
- Tenant provides debt / equity
- Tenant controls disposition process
- Existing HQ may be included in RFP

PROS

- Design control
- Flexibility in site selection
- Speed to market
- Reduced cost due to limited developer fees
- Reduced cost due to debt and equity
- RFP for existing HQ

CONS

- Design coordination
- Financing risk

ADDITIONAL CONSIDERATIONS

- Tenant controlled site selection reduces developer fees (e.g. land mark-up)
- Desired site may be developer controlled (e.g. only available for build-to-suit)
- Hire interior architect to design the building from the inside out for programmatic control
- Will require coordination between interior architect and design build architect
- Design build provides enhanced speed to market
- Tenant financing eliminates developer yield on debt and equity, but creates financing risk
- Ability to align disposition timeline of existing HQ with delivery of new build-to-suit

Steps & Timeline

Roles & Responsibilities