

STATE OF COLORADO

DEPARTMENT OF TRANSPORTATION



DATE: January 16, 2014
TO: Transportation Commission
FROM: Scott Richrath, CFO, Division of Accounting and Finance
SUBJECT: Financing Options for New Region 4 HQ Building

Purpose

The intent of this memorandum is to provide additional information to the Commission in regards to the approved Region 4 HQ Building (the “Project”); CDOT staff is seeking approval from the Commission to use Certificates of Participation (“COPs”) to finance the project. As described below, there are various considerations for CDOT to finance the project through the use of COPs.

Action Requested

Determine funding source for the Project. Staff recommendation is to provide authorization for the use of COPs to finance the new Region 4 HQ Building.

Executive Summary

As further detailed below, the purpose of this memorandum is to explain the pros and cons of utilizing COPs to finance the project. The following items will be included to clarify the request; a background on the history of CDOT issuing COPs, three alternatives with the appropriate details on each option, the key benefits to CDOT financing the project and the next steps to complete the financing.

Background

The Commission previously adopted the proposed resolution at the November 2013 Commission Meeting, authorizing the project. However, the decision to consider financing the project was deferred to a later date, staff is now seeking approval to utilize COPs to finance the project.

Previous Success of COP Funded Projects: In 2006, CDOT successfully eliminated the use of lease space for all of its office needs. CDOT was able to purchase buildings as long-term investments by using COPs. As a result of using COPs CDOT currently has equity in over 120,000 square feet of office space that was previously leased on an annual basis.

Alternatives

Option #1 – Issue COPs and seek through a Decision Item, an approximately additional \$2.4 million of annual lease payments for 10 years beginning at financial close

CDOT staff will work with its Financial Advisor, Stifel, Nicolaus & Company, Incorporated (“Stifel” or “Financial Advisor”) to craft a Request for Proposal (“RFP”) with the intent of sending to both investment banks and loan providers to solicit the lowest cost of borrowing.

This process would be identical to the steps taken in early 2013 for the Taxable Series 2013 TRANs refunding.

Based on current market rates, the following table highlights the total borrowing cost and repayment for a 10 and 15-year amortization. The recommendation of staff would be to use a 10-year amortization for the financing due to a savings of nearly 80 basis points in True Interest Cost.

	10 Year Amortization		15 Year Amortization	
	Par	Proceeds	Par	Proceeds
Dated Date	6/15/2014	6/15/2014	6/15/2014	6/15/2014
First Coupon	12/15/2014	12/15/2014	12/15/2014	12/15/2014
Last Maturity	6/15/2024	6/15/2024	6/15/2029	6/15/2029
True Interest Cost (TIC)	2.564%	2.564%	3.388%	3.389%
Average Life (years)	5.721	5.721	8.585	8.585
Par Amount	20,400,000	19,960,000	20,400,000	20,140,000
Bond Proceeds	21,018,227	20,564,495	20,829,046	20,563,463
Total Interest	3,620,000	3,542,550	6,429,163	6,349,013
Total Debt Service	24,020,000	23,502,550	26,829,163	26,489,013
Average Annual Debt Service	2,402,000	2,350,255	1,788,611	1,765,934

Option #2 – Pay for the New CDOT R4 HQ with Property Management Baseline + RAMP Budget

Paying for the design and construction of the new R4 Headquarters with the FY15 Property Management Budget would require the expenditure of the entire budget (\$20.8M Baseline + RAMP). \$2.7M of the \$20.8M budget is set to be used to make annual payments on existing COP's. CDOT Property Management has a stated goal of reducing the inventory of "F" rated vehicle storage facilities by 5% over the course of the next 5 years. The asset management plan that allows for the reduction of "F" rated inventory requires preventative maintenance and replacement of existing buildings. Using the FY 15 Property Management Budget for the new R4 Headquarters building would eliminate all controlled and deferred maintenance, delay the construction of eight new sand sheds, and put on hold the replacement of 4 "F" buildings, two "D" buildings as well as put a stop to completing major renovations to two additional "D" buildings.

Option #3 – Use Commission Contingency to pay for the New CDOT R4 HQ

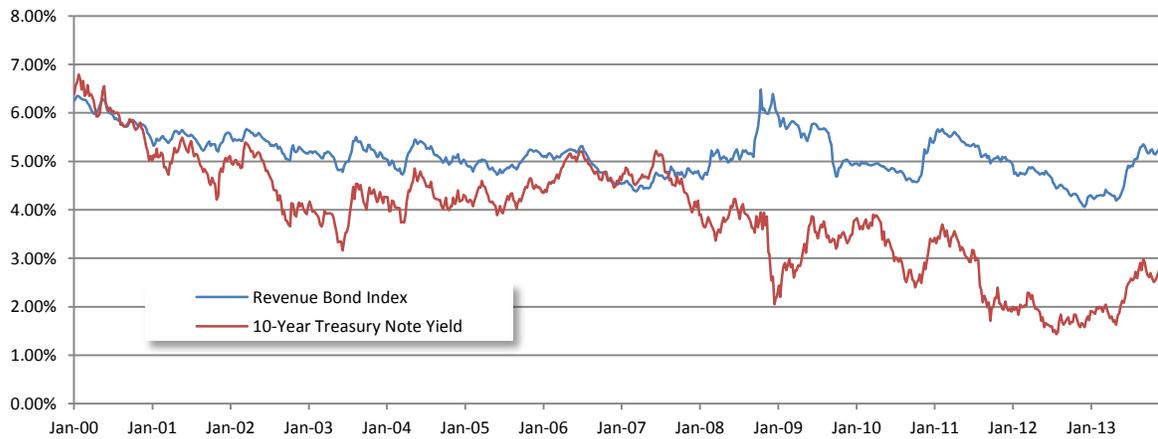
Entering January 2014, the Transportation Commission Contingency Reserve Fund is approximately \$25M, awaiting reimbursement of Emergency Relief expenditures but knowing that some portion of that reimbursement was targeted for RAMP prior to the flood. The estimated total project cost for the new R4 Headquarters project is \$20.4M. The use of contingency funds for this project would use 82% of the remaining contingency funds.

Key Benefits

Issuing COPs to finance the project offers CDOT several key benefits versus the other two options:

Interest Rates Remain at Historical Lows

As shown in the following chart, while interest rates have risen since May 2013 when Fed Chairman Bernanke first made comments regarding a reduction in the monthly \$85M Fed Bond Buying Program, interest rates remain at very favorable levels from a historical standpoint. The chart shows the 10-year Treasury Rate and the Bond Buyer Revenue Index (a municipal bond index) since 2000, while the 10-year Treasury has recently hit 3.00% for the first time in two years; it remains well below the 6.55% in January 2000 and solidly below the average since 2000 of 3.89%.



Favorable Financial Market Conditions

Certainly the big story in the markets has been the Federal Reserve’s announcement it will begin tapering its bond-buying program. The purchases of longer-term Treasuries and mortgage-backed securities will be cut to \$75 billion per month from \$85 billion. While most market participants feel the taper was largely priced into the market, the market did react by weakening on December 19th before immediately tightening back on December 20th. Municipal activity and reaction was far more muted than in the Treasury market, where the yield curve flattened with shorter bonds cheapening and longer bonds better bid.

The action alleviated some uncertainty, which was weighing on the markets. Consequently, two-way trading flow picked up following the announcement.

Lipper reports money flowed out of muni mutual funds for the 30th straight week in the week ended December 18. Investors pulled a net \$1.71 billion in the week, down from approximately \$1.9 billion the prior week. The outflows ticked up notably in the past two weeks, which is likely attributable to year-end tax-loss selling by investors.

Cash Flow and Administrative Benefits

By financing the project, whether over 10 or 15 years, CDOT will better be able to match the repayment schedule to the depreciation of the asset financed. While the useful life of the project will be much longer than 10 or 15 years, shortening the repayment of the financing will reduce the overall cost to CDOT and take advantage of the current steep slope of the

yield curve. Also, by financing the project, CDOT will be able to continue funding baseline and RAMP Property Management and continue to address new Property Management needs as they arise, such as a potential future Region 2 Headquarters relocation.

Next Steps under Staff Recommendation

Following approval from the Commission to finance the project with COPs, the ensuing steps will be taken to complete the financing:

1. Issue the RFP to prospective investment banks and loan providers
2. Review the responses and select the best financing partner for the financing
3. Work with Stifel and Bond Counsel to draft the appropriate financing documents
4. Complete the appropriate title work for the property
5. Finalize the terms and pricing of the financing
6. Close the transaction and deliver the funds

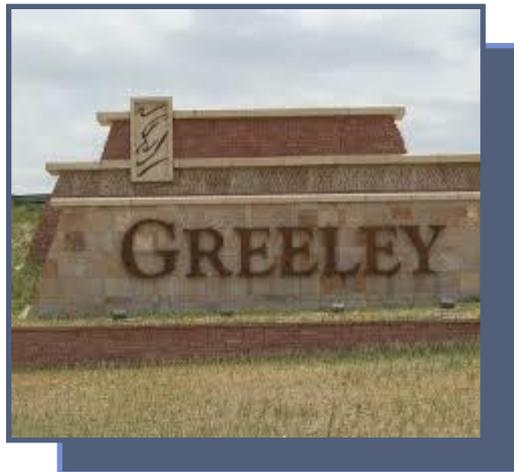
All of these steps should be able to be completed within 90 days from the selection of the financing partner.

Attachments

1. January 2014 Transportation Commission Resolution for R4 HQ Relocation

Financing Options for New Region 4 HQ Building

Transportation Commission Workshop Financing Options for New Region 4 HQ Building

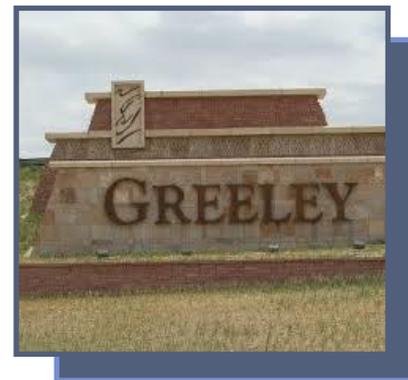


Scott Richrath
January 16, 2014



Background Information & Request of the Commission

- CDOT staff is seeking approval from the Commission to use Certificates of Participation (“COPs”) to finance the approved Region 4 HQ Building (the “Project”).
- The Commission previously adopted the proposed resolution at the November 2013 Commission Meeting, authorizing the project.
- The decision to consider financing the project was deferred to January; staff is now seeking approval to utilize COPs to finance the project.



Decision Points – Financing Alternatives

1. Issue COPs and seek through a Decision Item, an approximately additional \$2.4 million of annual lease payments for 10 years beginning at financial close:
 - a) CDOT staff will work with its Financial Advisor to distribute an RFP to solicit responses from interested parties to provide the funding at the lowest cost of capital (similar process to the Taxable Series 2013 TRANs).
2. Pay for the New CDOT R4 HQ with Property Management Baseline + RAMP Budget
 - a) Paying for the design and construction of the new R4 Headquarters with the FY15 Property Management Budget would require the expenditure of the entire budget (\$20.8M Baseline + RAMP).
3. Use Commission Contingency to pay for the New CDOT R4 HQ
 - a) The use of contingency funds for this project would significantly reduce remaining contingency funds.



Recommendation to the Commission

Staff's recommendation to the Commission is to issue COPs to finance the project; this strategy offers CDOT several key benefits versus the other two options:

- Interest Rates Remain at Historic Lows
 - While interest rates have risen since May 2013 when Fed Chairman Bernanke first made comments regarding a reduction in the monthly \$85M Fed Bond Buying Program, interest rates remain at very favorable levels from a historical standpoint.



Recommendation to the Commission

Staff's recommendation to the Commission is to issue COPs to finance the project; this strategy offers CDOT several key benefits versus the other two options:

- **Favorable Financial Market Conditions**
 - Certainly the big story in the markets has been the Federal Reserve's announcement it will begin tapering its bond-buying program, municipal activity and reaction was far more muted than in the Treasury market, where the yield curve flattened with shorter bonds cheapening and longer bonds better bid.
- **Cash Flow and Administrative Benefits**
 - Allow CDOT to better match the financing costs with the depreciation of the asset financed
 - Continue funding baseline and RAMP Property Management



Financing Options for New Region 4 HQ Building

Transportation Commission Workshop Financing Options for New Region 4 HQ Building

Questions?

Scott Richrath
January 16, 2014



Transportation Commission of Colorado
January 16, 2013

Resolution Number TC-XXX

WHEREAS, pursuant to C.R.S. 43-1-211, CDOT is authorized to purchase land and/or build buildings suitable for offices for housing machines, tools, and equipment and pursuant to C.R.S. 43-1-212, CDOT may enter into rental or leasehold agreements under which the department may acquire title to such buildings with the approval of the Governor, the Chief Engineer, the Director of the Office of State Planning and Budgeting and a majority of the Transportation Commission; and,

WHEREAS, a Facility Needs Assessment was completed by CDOT Property Management indicated that CDOT Region 4 Headquarters Building located in Greeley, CO, currently has facility deficiencies; and

WHEREAS, the building deficiencies include, but are not limited to, fire and other safety hazards, size constraints, inefficient access and site circulation; and

WHEREAS, CDOT Property Management and Region 4 contracted with real estate brokerage firm CRBE, Inc. to analyze and identify viable alternative relocation sites for the Region 4 Headquarters Building; and

WHEREAS, after a thorough analysis, CDOT and CRBE have identified a site located in Greeley, CO, and on the US 34 Business Loop as the preferred alternative location to build a new CDOT Region 4 Headquarters facility; and

WHEREAS, the current baseline budget for the new Region 4 Headquarters building and sufficient space for the Colorado State Patrol to purchase from CDOT as a part of this transaction is \$19,866,735, which includes LEED certification as required by C.R.S. 24-30-1301(13); and

WHEREAS, relocating the Region 4 Headquarters will also require that a new vehicle maintenance and regional storeroom supply facility be built; and

WHEREAS, CRBE's and CDOT's study of this issue has identified the best location for this facility to be on land that CDOT already owns in Gilcrest, CO, with the cost of erecting this facility included in the dollar amount specified in the prior paragraph; and

WHEREAS, in November 2013, the Transportation Commission approved the advancement of \$2M of FY15 Property Management Capital

Construction Budget to fund all pre-construction activities including design fees and purchase of the land required to build the new facility; and

WHEREAS, CDOT is still evaluating whether to finance the construction of the new CDOT Region 4 Headquarters building and the vehicle maintenance and storage building by issuing Certificates of Participation or to pay for the construction with existing CDOT funds; and

WHEREAS, as part of the CDOT Region 4 Headquarters relocation, CDOT will be able to market and sell the existing CDOT Region 4 Headquarters Building located at 1420 2nd Street, Greeley, CO, and also market and sell CDOT Region 4 Engineering Residency located in Loveland, CO, with any proceeds from such sales to be returned to the Transportation Commission for its allocation or, if so permitted by the covenants associated with any potential Certificates, to use such proceeds to accelerate the repayment of them; and

WHEREAS, CDOT's Engineering Residency in Evans, CO, was damaged beyond repair as a result of the flooding that occurred in September, 2013, and the building is scheduled to be demolished; and

WHEREAS, CDOT is coordinating with State Risk and FEMA to determine the total reimbursement CDOT will receive from damage caused to the Evans Residency by the flooding that occurred in September, 2013, with any such reimbursements to be returned to the Transportation Commission for its allocation or, if so permitted by the covenants associated with any potential Certificates, to use such proceeds to accelerate the repayment of them; and

WHEREAS, CDOT may be able to sell the property in Evans where the residency was located after the building is demolished, with any proceeds from such sales to be returned to the Transportation Commission for its allocation or, if so permitted by the covenants associated with any potential Certificates, to use such proceeds to accelerate the repayment of them; and

WHEREAS, key Region 4 Staff remain significantly allocated to flood restoration projects; and

WHEREAS, design work on the Administrative Headquarters Building will not commence until key Region 4 staff can allocate time to design decisions; and

NOW, THEREFORE, BE IT RESOLVED that the Transportation Commission hereby approves CDOT's plan to build a new CDOT Region 4 Headquarters Building in Greeley, CO, and a vehicle maintenance and storage building in Gilcrest, CO and authorizes CDOT to either issue sufficient Certificates of Participation, or to use existing CDOT funds not to exceed \$20.4 million, including the repayment of the \$2M budget supplement for pre-construction activities described above and including the cost of issuance of potential Certificates, to construct these buildings including LEED certification and sufficient space for the Colorado State Patrol, subject to arrival at a mutually satisfactory interagency agreement with the Colorado State Patrol to reimburse CDOT for the State Patrol's pro rata share of the facility.

IT IS FURTHER RESOLVED that the Transportation Commission authorizes CDOT to market and sell in accordance with 43-1-210(5) the existing CDOT Region 4 Headquarters Site and the residencies located in Evans, CO, and Loveland, CO, and authorizes that the funds received from the sale of these properties be returned to the Transportation Commission for it to allocate, or if so permitted by the covenants associated with any potential Certificates, to accelerate the pay down of the balance of the Certificates of Participation issued for the new Region 4 Headquarters project.

IT IS FURTHER RESOLVED that the primary source for the repayment of any potential certificates not repaid from the sale of these properties or the payments toward the cost of the facility reimbursed by the Colorado State Patrol (to the extent permitted by the covenants of the Certificates) shall be repaid through annual allocations made as a part of the annual budget process as approved by the Transportation Commission.

Herman Stockinger, Secretary
Transportation Commission of Colorado