DATE: May 20, 2015
TO: Colorado Transportation Commission
FROM: Heidi Humphries Division of Administrative Services, Director
SUBJECT: HQ/R1/R2 Relocation Projects

Purpose
CDOT is in the process of evaluating locations and creating budget estimates for relocating the CDOT Headquarters Campus, the Region 1 Headquarters Campus and the Region 2 Headquarters Campus. This agenda item is a status update on the progress of the Multiple Headquarters Relocation Projects.

Action
This presentation is intended for informational purposes only. The Commission is asked to review the information presented, ask questions and provide feedback so that Staff can return to the Commission in June with a request for a project funding resolution.

Background
In 2012, CDOT completed a report on the condition of the Headquarters, Region 1, Region 2 and Region 4* facilities. The goal of the facilities condition report was to create a road map that would allow CDOT to upgrade its major offices to a quality level that will help CDOT brand itself as the largest engineering employer in the state of Colorado, as well as recruit and retain top level employees. Key findings from the facilities condition assessment across the regions include fire/life safety concerns, floodplain concerns, ADA deficiencies, costly capital improvement repairs including mechanical systems and glass/glazing passed their useful life. Additionally, 4201 E Arkansas was originally designed as a K-12 school, which makes it functionally incompatible for office use and would be very costly to renovate. The upgrades contained in the facilities assessment were almost exclusively building system upgrades (HVAC, glazing insulation, etc). The upgrades would make the building more energy efficient, but would not create a more modern, collaborative work environment that would assist CDOT in its goal recruit and retain top level talent. There is no amount of money that could fix the inefficient layout of the existing facilities in Region 1, Region 2 or Headquarters.

In addition to the limitations of existing facilities, the market conditions are ideal for CDOT to relocate. Interest rates are low and the value of the 4201 E. Arkansas property is high due to its potential for redevelopment at higher and better use. Jones Lange LaSalle has run a net NPV analysis to capture the existing market conditions:

Total Cost of Construction
Less: Projected Sale of Existing Facilities
Total Net Cost

Total Cost over Term (repayment of COP financing and operating expenses)
Less: Projected Residual Value
Total Net Cost

NPV of Total Net Cost @ 5%
Less: NPV of Projected Residual Value
Total Net NPV

It is projected that the total net NPV of a consolidated HQ + R1 build to suit facility will cost approximately 36% more than improving and operating from the existing facilities.

In the above analysis JLL escalated the costs included in the facilities condition assessment that was completed in 2012 to reflect rising materials and labor costs. The projected value of the existing HQ and R1 facilities have been analyzed with considerations for current market conditions, zoning and entitlements, and projected environmental remediation and demolition costs. In the build to suite scenario, the value of the existing HQ and R1 facilities are modeled to reduce the total cost of construction. The cost to operate the existing HQ and R1 facilities are projected to be 20% higher than a new facility based on the projected efficiencies that will be generated in a new facility (e.g. building systems, insulation, glazing, etc.). The residual value of each facility has been included in the analysis to account for the value that would be derived if those facilities were sold at the end of the analysis period (e.g. 20 years to align with projected COP financing). As currently modeled, both scenarios (renovate and build to suit) are based on COP financing at 5% amortized over 20 years.

*CDOT began construction on the new Region 4 campus in September 2014, and is expected to be operating fully out of the new facilities in November 2015. The Region 4 Project is currently on budget and on schedule.

<u>Details</u>
Staff have engaged Jones Lang LaSalle as Real Estate Broker for the Headquarters/Region 1 Project. CBRE has been engaged as the real estate brokerage firm to represent CDOT on the Region 2 Project. H+L Architecture has been engaged by staff to complete programming and test fits for the Headquarters/Region 1 Project. Together with the consultant teams, staff have created an objective scorecard to evaluate each site option. Due diligence is currently being completed on the short listed sites for both projects. The project budgets listed below are intended to represent the highest potential project costs. CDOT is targeting occupancy of all buildings involved in both projects by August, 2017.

Headquarters/Region1 Project:
CDOT is committed to living its mission as a multimodal transportation organization, recruiting and retaining top level employees and minimizing costs in an escalating construction market. With that in mind the site selection process for this project has centered around three guiding principles:

- Access to Multimodal Transportation Facilities
- Employee Satisfaction (Walkability and Access to Amenities and Open Space)
- Speed to Occupancy

The Headquarters/Region 1 Project programming requirement consists of approximately 173,000 square feet of Class B offices. This program includes the opportunity to consolidate several satellite offices on one efficient campus. The programs included in this project are:

- CDOT Headquarters, Main Building and Shumate (4210 E. Arkansas)
- Region 1 professional staff functions (2000 South Holly)
- Maintenance and Operations and Property Management (Camp George West in Golden)
- Aeronautics (Front Range Airport in Watkins)

The estimated budget for this portion of the project is $80M

The project would also require the relocation of approximately 30,000 square feet of non-professional ancillary programs to CDOT owned property in Aurora (old Region 1 Headquarters). The ancillary programs include:

- Motor Pool
- Print Shop
- Sign Shop
- R1 Traffic Operations

The estimated budget for this portion of the project is $10M

Region 2 Project:
Staff is currently evaluating relocation sites in Pueblo, Pueblo West, Fountain and Colorado Springs. The evaluation of these properties is still in the early stages. Each of the locations would dictate a different set of program criteria. For instance, choosing a site in Pueblo or Colorado Springs would require a satellite office in the opposite location. However, choosing a site in Fountain would allow for consolidation of the existing main office in Pueblo and the current satellite office in Colorado Springs. For

the purposes of this memo, staff is using the Fountain site for budgeting because it would require the most initial expense to build the larger, consolidated program.

Total estimated budget for combined Region 2 program is $35M

Key Benefits

This project will allow CDOT to obtain the following operational and financial benefits

- Recruit and retain top level employees by creating safe, efficient and collaborative work environments
- Reduce operational costs by approximately 20% by constructing LEED Certified, energy efficient buildings and collocating programs to reduce the overall square footage of occupied buildings
- Take advantage of an extremely strong real estate market: CDOT's existing real estate at 4201 E. Arkansas and 2000 S. Holly are both attractive redevelopment sites

Next Steps

Staff will continue to evaluate sites and refine project budgets over the course of the next month. Staff will return to Commission to request a project funding resolution in June, 2015.

Attachments

Power Point Summary.

COLORADO
Department of Transportation
Division of Accounting and Finance

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

MEMORANDUM

TO: Transportation Commission
FROM: Maria Sobota, Acting Chief Financial Officer
DATE: May 20, 2015
SUBJECT: Considerations Related to Potential Issuance of Certificates of Participation:

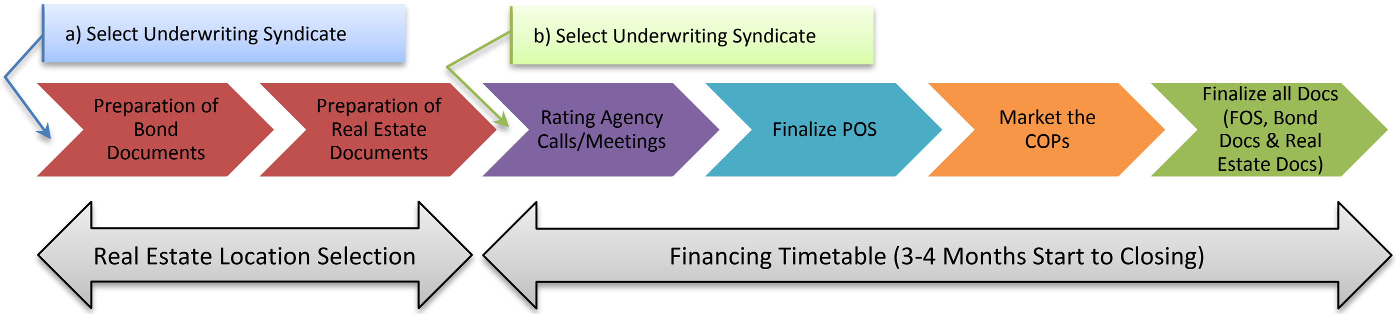
Purpose:
You may recall the Transportation Commission ("TC" or "Commission) approved a resolution last year related to the potential reimbursement of funds expended on the Greeley headquarters, if and when additional properties were identified and were bundled into a single Certificates of Participation ("COPs") financing.

The goal of this memorandum is to provide general information to the Commission on the COP issuance process. Specifically, it will address the potential issuance of COPs for the financing of several combined properties. This memorandum will address timing considerations, estimated repayment costs and additional considerations for the issuance of the COPs. Supplementary Colorado COP market information and background information related to the reimbursement resolution are also included as an Appendix for the benefit of the Commission.

Action Requested:
The Commission is asked to review the information presented in the memo and provide feedback related to the use of Certificates of Participation as a financing mechanism for the various identified property needs related to the Headquarters, Region 1, Region 2 and Region 4.

Context:
The current finance plan proposes the use of proceeds of the COPs to reimburse the Department for expenditures paid prior to the issuance of the COPs in connection with the project presently underway in Region 4; and to finance the other projects simultaneously through a single issuance of COPs.

Timing Considerations:
Given the timing associated with other potential buildings and the authorized reimbursement resolution associate with the Region 4 property, the Department has at least two initial choices to structure its financing schedule: (1) select the underwriting syndicate at the beginning of the process, to work in conjunction with the existing project team, through completion of the financing; or (2) utilize the existing project team to prepare the necessary lease and real estate documents while the real estate matters (including site selection) are being concluded, and hire the underwriting syndicate towards the end of the process to access the capital markets. The following diagram highlights these two alternatives with a generic schedule of events:



Estimated Repayment Costs:

Based on the current cost estimates of each project and current interest rates, the following table summarizes the estimated repayment costs for the proposed COP transaction;

	Low-End Budget		JLL Budget Estimate	
	20 Years	25 Years	20 Years	25 Years
Project Amount	$121,600,000	$121,600,000	$146,800,000	$146,800,000
Average Annual Payment	8,947,541	8,200,586	10,801,801	9,900,049
Total Repayment	178,950,817	205,014,645	216,036,019	247,501,233

These figures reflected above are based on a 4.00% interest rate for the 20 year amortization (approximately 50 basis points above current market rates) and a 4.50% interest rate for the 25 year amortization (approximately 75 basis points above current market rates). Estimated project costs are as follows;

Project/Property	Estimated Cost [1]
HQ/R1 Admin	$80,000,000
R1 Relocation	10,000,000
R2 Admin/Maintenance	35,000,000
R4 Admin/Maintenance	21,800,000
Total	$146,800,000

Additional Condsiderations:
The following table highlights several considerations related to the issuance of COPs and a brief commentary on each concept;

Concept	Commentary
'All or None' Allocation	The current proposed structure bundling all of the contemplated properties into a single financing (an 'all or none' allocation, can't choose to not allocate on a single property), will provide the strongest credit package to investors and thus, the lowest cost of borrowing for CDOT.

[1] Provided by JLL

Concept	Commentary
3rd Party Site Lease	If the current real estate negotiations assume a 3rd party site lease (between the current owner and CDOT), Stifel does not believe there is precedent for type of financing structure, nor does CDOT currently have legal authority to enter into such arrangement and accordingly, we do not believe a site with this type of real estate agreement provides a viable option to CDOT. To our knowledge, a 3rd party site lease (with a state level entity), has never been financed through a COP structure.
Allocation Timing	Investors prefer appropriation procedures that are as rigid as possible, with long lead times between budget passage and debt service payments. S&P has recently indicated, albeit informally, that they have a more rigid rule of 60 days between the first day of a fiscal year and the first debt service payment within each fiscal year. CDOT's budgetary process and anticipated payment dates will serve as a credit strength.
Municipal Bond Spend Down Requirements[2]	CDOT must reasonably expect that at least 85% of the net proceeds of the COPs will be used to finance governmental purposes within three years of the date the COPs are issued.
Sale of CDOT-Owned Property	As the Department is aware, anytime plans are made to dispose of a property (either through a sale or lease), the property must first be offered at a market rate to political subdivisions of the State within whose boundaries the property lies (C.R.S. 43-1-210.(5)).[3] The Department anticipates encountering issues associated with this statute in connection with the conveyance to the trustee for the COPs of the property that is to be the subject of the COP lease at closing. Sufficient time should be set aside to permit the Department and the working group to structure the financing to accommodate the statute.

Summary Of Discussion:
Through timely finalization of financing plans, CDOT will be able to structure a flexible plan of finance that may permit the Department to enter into a single COP financing to provide necessary funding for the Headquarters, Region 1, Region 2 and Region 4.

Next Steps:
Staff will return to Commission to request a project funding resolution in June, 2015.

[2] http://www.irs.gov/pub/irs-pdf/p4079.pdf
[3] http://www.lexisnexis.com/hottopics/colorado?app=00075&view=full&interface=1&docinfo=off&searchtype=get&search=C.R.S.+43-1-210.5

APPENDIX – ADDITIONAL INFORMATION

Structuring Considerations for Certificates of Participation:

Over the past few weeks, many COP transactions have struggled to garner strong investor support. The following credit features are often referenced in the price-talk dialogue with COP investors. Addressing these credit features in both the rating agency materials, as well as within any investor outreach strategies, should serve to broaden and deepen investor reception into garnering pricing leverage.

RESERVE ACCOUNTS

After the collapse of the insurance market, many issuers were able to issue COPs without a DSRF, particularly those with ratings of AA or higher. Stifel's market read suggests that a low-supply market permits dropping DSRFs for credits that may not have been able to do so in a higher volume market. However, when the market endures periods of weakness (such as the last two weeks), investors frequently cite a lack of a DSRF as a rationale to either 'pass' on a deal, or to advocate for higher rates.

Investors' reactions seem to be driven by whether the credit rating reports specifically "call out" the lack of a DSRF as a credit weakness. In a report released by Moody's Investor Services on April 21, 2015, entitled "Debt Service Reserve Funds: Sometimes Critical, Sometimes Immaterial"[4], Moody's goes on to elaborate that a debt service fund "varies by sector" and can be "critical or immaterial". As shown in Exhibit 2, Moody's assessment of the importance of a DSRF for CDOT's COPs would fall into two categories; "Sometimes Matters" for being a Transit Agency and "Seldom Matters" for being an Appropriation Lease.

The report goes on to elaborate the context for which a DSRF is of a heightened or limited importance, as summarized in the table below:

Debt Service Reserve Funds in Context

Heightened Importance of DSRF	Limited Importance of DSRF
Could partially meet debt service for a long time	Debt service is more likely "all or nothing"
A "bridge" can make all the difference	A "bridge" just delays the inevitable
Narrow liquidity, no alternative sources	Ample liquidity, or alternative sources
Passive management	Active management
Limitations on ability to raise rates, charges, fees, or taxes	Unlimited ability to raise rates, charges, fees, or taxes
Relatively greater default risk (lower-rated)	Relatively lower default risk (higher-rated)
Narrower debt service coverage by net revenues	Strong coverage

Source: Moody's Investors Services

[4] A full report can be found on Moody's website at: https://www.moodys.com/MdcAccessDeniedCh.aspx?lang=en&cy=global&Source=https%3a%2f%2fwww.moodys.com%2fviewresearchdoc.aspx%3fdocid%3dPBC_1003466%26lang%3den%26cy%3dglobal

Colorado Market Comparable Transactions: Since the beginning of 2013, there have been only 13 COP transactions in excess of $25 million. Only RTD, the State and Denver Public Schools have issued COP transactions in excess of $100 million. As shown in the following table, the majority of these sales have been able to drop their reserve funds, but they also carry ratings in the AA category. Additionally, RTD will be in the market with a $100+ million COP financing this summer.

Dated Date	Issuer	Size ($M)	Moody's	S&P	Fitch	DSRF
03/07/2013	Colorado	70.910	Aa2	AA-	NR	-
04/23/2013	Denver City and Co SD #1	536.855	Aa3	NR	AA	-
05/09/2013	Colorado Reg Transportation Dt	224.045	Aa3	A-	A+	10% Par[5]
05/01/2013	Denver City and Co SD #1	58.740	Aa3	NR	AA	-
07/24/2013	Colorado	111.780	Aa2	AA-	NR	-
10/09/2013	Denver City and Co-Colorado	34.030	Aa1	AA+	AA+	-
12/09/2013	Colorado	89.510	Aa2	AA-	NR	-
03/27/2014	Arapahoe Co (Aurora) JSD #28J	30.720	Aa3	NR	NR	-
07/01/2014	Colorado Reg Transportation Dt	440.915	Aa3	A	A	MADS[6]
06/24/2014	Montrose Recreation Dt	27.010	NR	BBB	NR	MADS
11/06/2014	Colorado	110.485	Aa2	AA-	NR	-
02/25/2015	El Paso Co (Falcon) SD #49	70.575	Aa3	NR	A+	-
03/31/2015	Boulder Co-Colorado	39.555	NR	AA	NR	-

POLITICAL SUPPORT

Investors continue to see ongoing unanimity as a positive credit quality, as their long-term investment is dependent upon ongoing appropriations extending beyond the term of any current board members or city councils. As a way of mitigating this risk, investors, as well as the rating agencies, tend to prefer passive policies mandating the appropriation for base rentals which must be included in the annually submitted budgets from staff. Historically, this has not been a major focus from investors, as most understand that the current composition of the board/council will not guarantee future behaviors. While not a critical credit factor among investors currently, every prospective COP issuer maintains a credit exposure to the decisions of every other COP-issuing entity. An event of non-appropriation, or threat thereof, would be a significant drag on the entire Colorado COP market. Accordingly, Stifel encourages its issuer-clients to be aware of any other agencies or entities that could be selling COPs at a similar time, as their political environment could spill into investors' perception of CDOT.

RELATIVE MAGNITUDE OF BASE RENTALS VS. BUDGET

At a basic level, an issuer's fundamental willingness and ability to appropriate is dependent on the cost of doing so. This "leverage ratio" approach is largely independent of the COP legal structure. The penalty of foregoing the use of the collateral offers Colorado COPs a credit strength that is not seen from issuers outside of Colorado that have the ability to issue appropriation-credits without the lease backing. Investors have started putting more emphasis upon this analysis, as it offers them an analytical point of comparison between credits.

[5] 10% of par currently, but the requirement will be recalculated to be the least of 10% of proceeds, MADS, and 125% of average annual debt service.

[6] MADS currently, but the requirement will be recalculated to be the least of 10% of proceeds, MADS, and 125% of average annual debt service.

"ESSENTIALITY" OF ASSET AND ASSET QUALITY

Historically, investors have viewed more strategic assets as preferable collateral for lease-appropriation credits. Stifel recently served as sole manager on COPs for the City of Aurora, utilizing police radios as a portion of the larger collateral pool, evidencing some liberalization of investors' views towards this factor. For Aurora, the relatively short repayment amortization (a 10 year final maturity with an average life of 6.2 years) served as critical credit counterweight. Interestingly, investors are faced with a challenging credit trade-off between expressing a preference for collateral with a robust and transparent resale market value, versus assets that would be harder to sell, or resell, but may be viewed as more mission-critical (such as City Hall, for a municipality).

APPROPRIATION TIMING

Investors prefer appropriation procedures that are as rigid as possible, with long lead times between budget passage and debt service payments. S&P has recently indicated, albeit informally, that they have a more rigid rule of 60 days between the first day of a fiscal year and the first debt service payment within each fiscal year. This issue also presented itself to Denver Public Schools ("DPS"), as they had structured a forward purchase agreement ("FPA") against their COP payments. Investors reacted favorably to this provision, as it essentially required annual prefunding of all COP payments; however, rating agencies cautioned that the limited time between the payments due under the FPA (July 11) and the start of the fiscal year (July 1) could increase the risk of a technical default if DPS was late in delivering its annual budget.

SUBSTITUTION RIGHTS AND THE COLLATERAL RELEASE SCHEDULE

Generous substitution rights, from an issuer's perspective, remain the market norm. For large COP issuances, Stifel has seen a positive market reaction from structuring a modest delay in the collateral release as a means of addressing investor concerns about collateral. In this approach, an issuer essentially agrees to release its collateral from the lease at a slightly slower schedule than the precise principal amortization. Subject to bond counsel review (due to TABOR concerns about economic inducement), a modest delay of up to 10% of collateral value has been seen to provide significant comfort to potential investors.

Reimbursement Resolution Discussion For Greeley Region 4 HQ:

The “reimbursement rules” of the federal tax code set forth two important timing requirements, and two exceptions, relating to the Department’s ability to use proceeds of the COPs to reimburse itself for capital expenditures paid prior to the date the COPs are issued.

First, the Department may not reimburse itself for capital expenditures originally paid more than 60 days prior to the date on which the Department adopts a “reimbursement resolution” (or, if later, the date on which the Department enters into the lease financing). A reimbursement resolution sets forth the Department’s intent to use COP proceeds to reimburse itself and establishes the date of the earliest reimbursable expenditures. The Department’s bond counsel will be able to prepare the reimbursement resolution.

Second, a reimbursement from COP proceeds is only permitted if the Department enters into the lease financing and formally allocates COP proceeds to the reimbursement not later than 18 months after the later of (a) the date of the original expenditure or (b) the placed-in-service date of the property to which the reimbursement relates; provided that in no case may that allocation occur more than three years after the date of the original expenditure. For example, COPs may be issued and their proceeds applied to reimburse capital expenditures made on a project placed in service 18 months prior to the date of issuance of the COPs, but only for capital expenditures that were made not more than 18 months before the placed-in-service date (three years before the issuance date).

The first exception to these two timing rules is that the rules do not apply to reimbursements that are solely for “preliminary expenditures” (also referred to as soft costs). Soft cost only include costs that are paid prior to commencement of the project and include expenditures for architectural, engineering, surveying, soil testing, costs of issuance and similar costs that are incurred before the commencement of acquisition, construction or rehabilitation of the project. Soft costs do not include land acquisition, site preparation and similar costs related to the start of construction. Not more than 20% of the aggregate amount of the COPs may be used to reimburse for soft costs. The second exception is that the two rules do not apply to reimbursements if the total amount of such reimbursements is not more than $100,000.

Given the current project timeline and the guidelines highlighted above, it is anticipated CDOT will be able to fully reimburse all expenses related to the construction of the Region 4 HQ.

Defining the future

Headquarter location study
Presented to the Colorado Department of Transportation

May 2015

Program Requirements

R1 / HQ Admin	Program GSF	Fleet Vehicles
4201 Arkansas	130,792	113
CGW & Aeronautics	7,896	10
200 South Holly	34,910	52
Subtotal	173,598	175

R1 / HQ Ancillary	Program GSF	Fleet Vehicles
Print Shop	6,000	NA
Motor Pool	10,000	NA
Sign Shop	4,000	NA
R1 Traffic	10,000	NA
Subtotal	30,000	NA

R2 Admin	Program GSF	Fleet Vehicles
Pueblo	43,278	135
Co Springs	10,500	20
CSP	5,000	20
Subtotal	58,778	175

R2 Maintenance	Program GSF	Fleet Vehicles
Shop and Storeroom	43,000	NA
Subtotal	43,000	NA

Site ranking details *(lowest score = best option)*

Criteria	Site 1	Site 2	Site 3	Site 4
Ability to Accommodate Region 1	Y	Y	Y	Y
Developer Controlled	N	N	N	N
Available for Sale	N	Y	N	Y
Transaction Complexity	2	1	3	4
Development Timing	2	1	4	3
Access to Light Rail System	1	4	2	3
Proximity to Retail Amenities	2	3	4	1
Access to Major Highways	1	4	2	3
Ease of Site Access	3	2	4	1
Walkability	3	4	1	2
Proximity to Open Space / Trails	1	3	2	4
Additional Parking Opportunities	2	3	1	4
Infrastructure Risk	1	3	2	4
Entitlement Risk	2	1	4	3
Environmental Risk	2	1	3	4
Use Compatibility	4	2	3	1
Scorecard Total	26	32	35	37

JLL

COLORADO
Department of Transportation

Budget Estimates

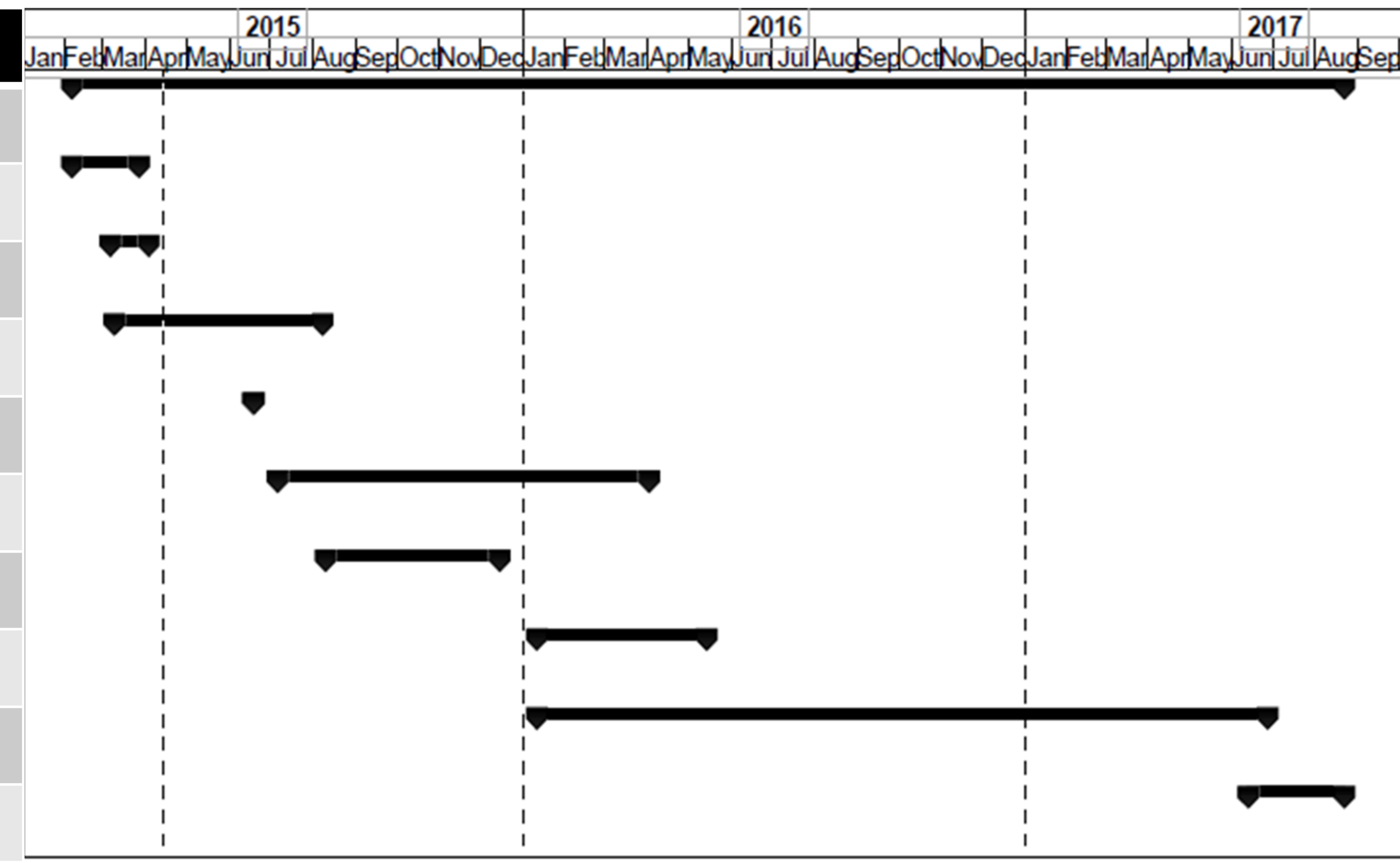
Category	HQ / R1 Admin New BTS	R1 Relocation to KOA*	R2 Admin / Maintenance New BTS*
Land	$62.23	N/A	$30.00
Soft Costs	$44.40	$316.35	$289.51
Hard Costs	$283.00	w/ above	w/ above
Owner FF&E / Move	$32.50	w/ above	$20.00
Contingency / Escalation	$35.01	$16.65	$17.87
Budget / GSF	$457.14	$333.00	$357.38
Building GSF	175,000	30,000	98,000
Total Project Cost	$80.0M	$10.0M	$35.0M

*R1, R2, and R4 budget estimates by CDOT

Schedule

CDOT HQ / R1 master project schedule

ID	Task Name	Duration	Start	Finish
1	CDOT State HQ	33.1 months	Friday 02/06/15	Monday 08/21/17
2	Facility Programming	1.75 months	Friday 02/06/15	Thursday 03/26/15
8	Project Planning	1 month	Friday 03/06/15	Thursday 04/02/15
12	Site Selection	5.5 months	Monday 03/09/15	Friday 08/07/15
23	Project / Funding Approval	0.05 months	Thursday 06/18/15	Thursday 06/18/15
25	Design	9.75 months	Monday 07/06/15	Friday 04/01/16
32	Due Diligence / Conceptual Design	4.55 months	Monday 08/10/15	Monday 12/14/15
35	Permitting	4.5 months	Monday 01/11/16	Friday 05/13/16
38	Construction	19.05 months	Monday 01/11/16	Monday 06/26/17
49	Owner Move-In	2.5 months	Tuesday 06/13/17	Monday 08/21/17



Next steps

- Site negotiations (on-going)
- Budget refinement (on-going)
- Test fit refinement (on-going)
- Commission budget approval – June
- Project RFP