COLORADO
Department of Transportation
Division of Accounting and Finance

4201 East Arkansas Ave., Room 262
Denver, CO 80222

DATE: August 17, 2016
TO: Transportation Commission
FROM: Maria Sobota, Chief Financial Officer and
David Fox, Deputy Property Management Program Manager
SUBJECT: Project Background and Financial Review for Approval of COPs for HQ/Region 1 Project

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Purpose

This memorandum summarizes the methodology and mechanics of the proposed Colorado Department of Transportation (CDOT) issuance of Certificates of Participation (COPs) related to the funding of the relocation of Regions 1/2/4, CDOT HQ and various other maintenance facilities.

Action

In August, the Transportation Commission (TC) is being asked to approve the use of COPs to finance HQ/Region 1. The TC approved the use of COPs for Region 4 in July 2014. In September, Department staff will ask the TC to approve the use of COPs to finance Region 2.

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 retain and recruit 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 East Arkansas was originally designed as a K-12 school, which makes it functionally incompatible for office use and would be very costly to renovate into a collaborative work environment. The upgrades recommended in the facilities assessment were almost exclusively building system upgrades (HVAC, glazing, insulation, etc). Attempting to fix the inefficient layout of the existing facilities in Region 1, Region 2 or Headquarters would not be financially viable.

In July of 2014, the TC approved Reimbursement Resolution #TC-3178. The resolution authorized the future issuance of COPs to reimburse expenses related to the construction of a new headquarters for Region 4 in Greeley. The facility was placed into service in October 2015 and a portion of this request from staff considers executing the issuance of COPs to reimburse $21,805,000 of expenses related to the construction of this facility.

Furthermore, CDOT has been evaluating various real estate property relocation options for a number of years and has determined the current financial and real estate conditions provide significant value to the State; taking advantage of a low interest rate environment and a robust real estate market. The Denver Region 1 and HQ Buildings house over 600 State employees. These facilities have outlived their useful life. The operating and capital cost to operate and maintain the outdated facilities is considerably higher than it would be in new building. Estimates show the Region 1 and HQ facilities need $23.2 million in upgrades to make them safe and bring up to modern codes (repairs are roughly equal to the value of the properties). Those repairs and renovations would do little to improve the office environment of a headquarters building that was originally designed as an elementary school. Please refer to Attachment A for the full fiscal impact summarized in a financial summary.

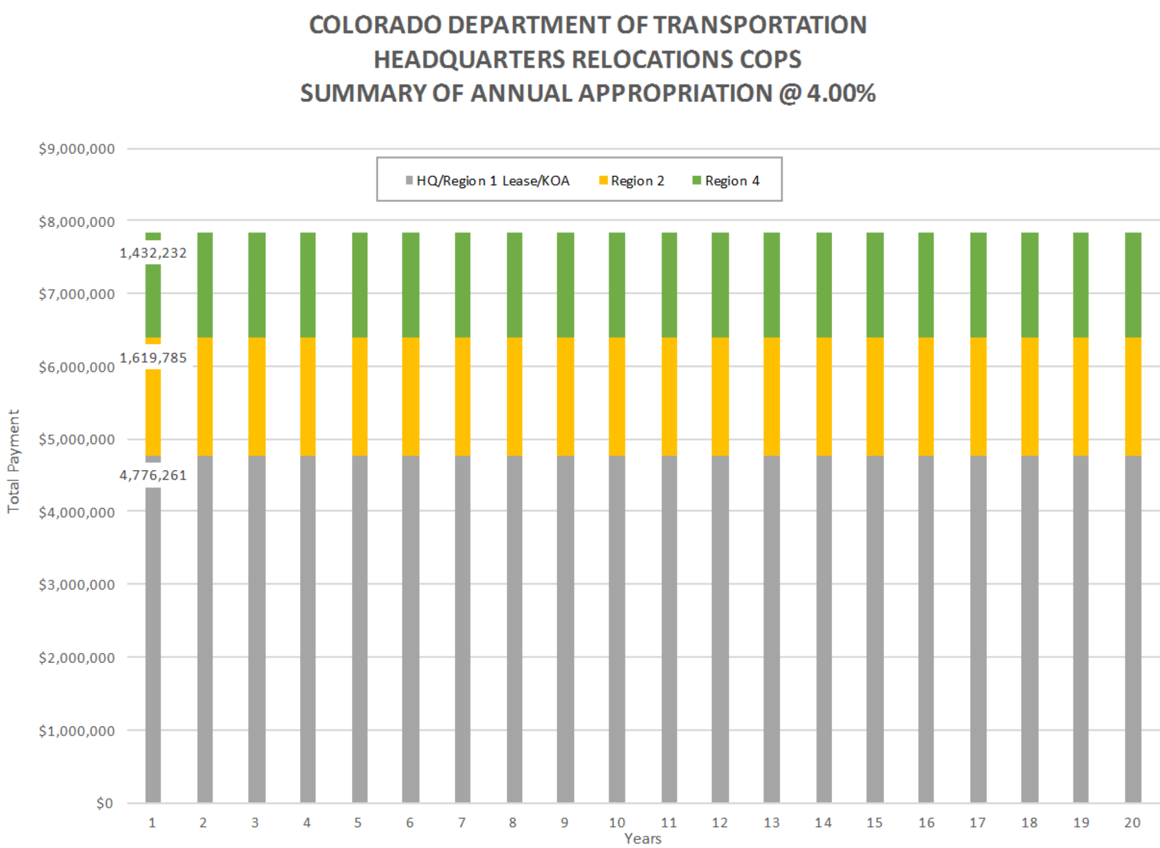
As the TC will recall from the information presented during the July 2016 TC Meeting, an annual fiscal impact of $2.9 million was presented in regards to the HQ/Region 1 project (total net project cost of $40,385,584). This memorandum will detail the modifications of the requested fiscal impact related to the full scope of projects presented for approval in August and September 2016. The prior analysis was comparing the use of cash compared to the issuance of COPs ONLY related to the HQ/Region 1. The information presented in this memorandum contemplates the financing of the HQ/Region 1, Region 2 and Region 4 with a annual fiscal impact of $7.8 million (using a 4% interest rate and monthly amortization) and an 20-year total cost of $156.6 million (as further detailed in Attachment A).

In regards to the procurement process for the contemplated COPs and following the precedent established with past CDOT underwriting procurement processes and the legislation passed in Senate Bill 12-150[1]. CDOT is legally required to pursue a competitive procurement process through the State Treasurer's office for the contemplated offering of the COPs and the associated underwriting syndicate of banks. In June of 2016, CDOT and the Treasurer's Office released an Request For Proposal (RFP) for qualified underwriting firms to provide services related to issuing the proposed COPs. Proceeding with the RFP process, however, does not lock CDOT or the State into any engagement of issuance on COPs.

Plan of Action

CDOT's Plan of Action is to issue COPs to fund the aggregate project list up to a total $128.5 million and to begin development and construction immediately upon securing project funding (estimated for November 2016). Once the new facilities are completed, CDOT has the intent to dispose of the existing facilities and has the ability to use those proceeds to redeem a portion of the COPs. CDOT's payment obligations on the new COPs would amortize over a 20-year term, but would not start until FY17/18. Payment could also be shifted into further fiscal years with the use of capitalized interest payments.

The existing CDOT capital building budget is $22 million per year to maintain 1600 facilities around the state. The annual COP expenditure for the full capital building headquarters program will add approximately $7.8 million a year to that budget for twenty years ($156.5 million overall). This additional investment represents .5% of CDOT's budget. Even if CDOT chose not to build new but instead make repairs and renovations to the existing buildings, $4.4 million annually for twenty years would still need to be added to the CDOT capital building budget ($88 million overall). The following chart displays the annual appropriation impact related to each of the proposed new facilities.



[1] https://legiscan.com/CO/text/SB150/id/635834/Colorado-2012-SB150-Enrolled.pdf

The request of the TC for the purposes of this memorandum is to authorize the issuance of COPs for the financing of HQ/Region 1; with a subsequent request related to Region 2 anticipated in September 2016. The following timetable highlights the key steps to reach financial close on the proposed COPs for the entire program.

	EVENT
August 17, 2016	Transportation Commission Workshop
August 18, 2016	August Transportation Commission Meeting – Authorizing Moving Forward on COPs related to HQ/Region 1
Week of 08/22/16	Selection of Underwriters Working Group Kick-off Meeting and Begin Document Preparation
Week of 09/05/16	First Round of Documents Distributed[2]
Week of 09/12/16	Document Review Meeting
September 15, 2016	September Transportation Commission Meeting – Authorizing Moving Forward on COPs related to Region 2
Week of 09/19/16	Revised Documents Distributed
Week of 09/26/16	Second Document Review Meeting Send Documents to Rating Agencies
Week of 10/03/16	Rating Calls
Week of 10/17/16	▪ Entire COP Financing Approved at October 2016 TC Meeting ▪ Receive Ratings ▪ Post POS
Week of 10/31/16	Pricing of COPs
Week of 11/07/16	Obtain Signatures for Closing Documents
11/15/16	Closing

Key Benefits

Utilizing COPs for this project will allow CDOT to obtain the following operational and financial benefits:

- Take advantage of historically low interest rate environment
- Rare opportunity to finance large capital program without any current bonding capacity; these projects represents one of the only opportunities to utilize financing to complete several significant projects and retain cash on hand for other non-financing eligible projects
- Reduce operational costs 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

Recommendation and Options

1. Approve proceeding with the preparation of the issuance of $83.4 million of COPs for the financing of facilities related to HQ/Region 1. (Staff Recommendation)
2. Request further information.
3. Reject issuance of COPs for the related projects.

Next Steps

1. Begin the COP issuance process, as detailed above.
2. Develop request for authorization related to Region 2 for the September TC Meeting.
3. Department staff to consider use of proceeds in the amount of $21.8 million related to the reimbursement resolution for Region 4. Recommendation will be discussed with TC at a later date.

Attachments

A. CDOT Capital Building Program 20 Year Analysis
B. Proposed Reimbursement Resolution
C. Stifel Bond Market Weekly
D. New Headquarters Region 1 Fact Sheet

2 Financing documents include associated real estate documents, lease purchase agreement, site lease, indenture, resolution and Preliminary/Final Official Statement

Attachment A

CDOT Capital Building Program 20 Year Analysis

		Renovate COP	BTS COP	Delta Renovate v. BTS COP	Annual Savings/Cost Over 20 Years
1	**Cost of Land purchase, Design and Construction**				
2	HQ + R1	$23,230,563	$83,382,500	$60,151,938	$3,007,597
3	R2 (Pueblo)	$23,245,400	$23,275,000	$29,600	$1,480
4	R4 (Greeley)	$13,994,189	$21,805,000	$7,810,811	$390,541
5		$60,470,152	$128,462,500	$67,992,348	$3,399,617
6	**Proceeds from Sales of Existing Assets**				
7	HQ + R1	$0	-$17,700,216	-$17,700,216	-$885,011
8	R2 (Pueblo)	$0	-$1,000,000	-$1,000,000	-$50,000
9	R4 (Greeley)	$0	-$2,109,200	-$2,109,200	-$105,460
		$0	-$20,809,416	-$20,809,416	-$1,040,471
10	**Total Net Cost**				
11	HQ + R1	$23,230,563	$65,682,284	$42,451,722	$2,122,586
12	R2 (Pueblo)	$23,245,400	$22,275,000	-$970,400	-$48,520
13	R4 (Greeley)	$13,994,189	$19,695,800	$5,701,611	$285,081
		$60,470,152	$107,653,084	$47,182,932	$2,359,147
14	**COP Repayment (Prin. + Int.)**				
15	HQ + R1	$33,785,433	$95,525,213	$61,739,780	$3,086,989
16	R2 (Pueblo)	$33,807,012	$32,395,708	-$1,411,304	-$70,565
17	R4 (Greeley)	$20,352,488	$28,644,642	$8,292,153	$414,608
		$87,944,934	$156,565,563	$68,620,629	$3,431,031
18	**OpEx + Cap Ex**				
19	HQ + R1	$69,925,401	$57,527,602	-$12,397,799	-$619,890
20	R2 (Pueblo)	$29,817,246	$21,005,076	-$8,812,170	-$440,609
21	R4 (Greeley)	$27,518,416	$21,668,394	-$5,850,021	-$292,501
		$127,261,063	$100,201,072	-$27,059,990	-$1,353,000
22	**Total COP Repayment + OpEx + CapEx**				
23	HQ + R1	$103,710,834	$153,052,815	$49,341,981	$2,467,099
24	R2 (Pueblo)	$63,624,259	$53,400,785	-$10,223,474	-$511,174
25	R4 (Greeley)	$47,870,904	$50,313,036	$2,442,132	$122,107
		$215,205,997	$256,766,635	$41,560,639	$2,078,032
26	**Total Residual Value**				
27	HQ + R1	$26,396,829	$62,250,000	$35,853,171	$1,792,659
28	R2 (Pueblo)	$1,491,328	$17,456,250	$15,964,922	$798,246
29	R4 (Greeley)	$3,131,789	$16,353,750	$13,221,961	$661,098
		$31,019,946	$96,060,000	$65,040,054	$3,252,003
30	**Total COP Repayment + OpEx + CapEx - Total Residual Value**				
31	HQ + R1	$77,314,005	$90,802,815	$13,488,809	$674,440
32	R2 (Pueblo)	$62,132,931	$35,944,535	-$26,188,396	-$1,309,420
33	R4 (Greeley)	$44,739,115	$33,959,286	-$10,779,829	-$538,991
		$184,186,051	$160,706,635	-$23,479,416	-$1,173,971

Attachment B

Transportation Commission of Colorado
August 18, 2016

Resolution Number TC-XXX

A RESOLUTION OF THE COLORADO STATE TRANSPORTATION COMMISSION DECLARING THE OFFICIAL INTENT OF THE COLORADO DEPARTMENT OF TRANSPORTATION TO REIMBURSE ITSELF FROM THE PROCEEDS OF A FUTURE LEASE PURCHASE FINANCING FOR CAPITAL EXPENDITURES AND PROVIDING CERTAIN OTHER MATTERS IN CONNECTION THEREWITH

WHEREAS, the Colorado Department of Transportation ("CDOT") is an executive department of the State of Colorado; and

WHEREAS, the Colorado State Transportation Commission (the "Commission") is the governing body of CDOT; and

WHEREAS, CDOT presently intends to acquire, renovate and construct certain properties to house CDOT operations (the "Project"), including but not limited to facilities in Denver, Colorado; and

WHEREAS, June 18, 2015, the Transportation Commission approved resolution #15-6-8 to authorize staff to expend $2,000,000 (in aggregate, including the initial design amount) to fund design through the Design Development phase, provide earnest money in an effort to secure potential site location(s) for the Project and establish the Project GMP; and

WHEREAS, CDOT has successfully negotiated a Purchase and Sale Contract for approximately three acres of Project Property located at the northeast corner of Federal Blvd and Howard Place; and

WHEREAS, the contracted purchase price for the Project Property is $5,999,999; and

WHEREAS, CDOT currently intends and reasonably expects to participate in a lease purchase financing to finance the Project, including an amount of approximately $83,400,000 (the "Reimbursement Amount") for reimbursing CDOT for capital expenditures made by CDOT for the Project prior to the date when funds for the Project are available from such financing; and

WHEREAS, the initial expenditure of funds of CDOT for the Project, other than preliminary expenditures, as such term is defined in 26

C.F.R. § 1.150-2(f)(2) ("Preliminary Expenditures"), occurred on a date that is within 60 days prior to the date hereof; and

WHEREAS, such lease purchase financing is to occur within 18 months of either the date that CDOT first expended funds other than Preliminary Expenditures for the Project or the date that the Project is placed in service, whichever is later (but in no event more than three years after the date of the original expenditure of CDOT funds, other than Preliminary Expenditures, for the Project); and

WHEREAS, the Commission hereby desires to declare the official intent of CDOT, pursuant to 26 C.F.R. § 1.150-2, to reimburse itself for the expenditure of CDOT funds for the Project from the proceeds of a future lease purchase financing of CDOT;

NOW, THEREFORE, BE IT RESOLVED BY THE COLORADO STATE TRANSPORTATION COMMISSION:

Section 1. Dates of Capital Expenditures. All of the capital expenditures covered by this Resolution were or will be made not earlier than 60 days prior to the date of this Resolution. For the avoidance of doubt, the expenditures referenced in the preceding sentence do not include the Preliminary Expenditures, certain of which were made before 60 days prior to the date of this Resolution.

Section 2. Declaration of Official Intent. CDOT presently intends and reasonably expects to participate in a lease purchase financing within 18 months of either the date of the first expenditure of funds by CDOT for the Project (other than Preliminary Expenditures) or the date that the Project is placed in service, whichever is later (but in no event more than three years after the date of the original expenditure of CDOT funds, other than Preliminary Expenditures, for the Project), and to allocate an amount approximately equal to the Reimbursement Amount of the proceeds thereof to reimburse CDOT for its expenditures in connection with the Project.

Section 3. Authorization for CDOT to Participate in Lease Purchase Financing. The Commission hereby authorizes CDOT, pursuant to 26 C.F.R. § 1.150-2 and consistent with this Resolution, to reimburse itself for the expenditure of CDOT funds on the Project, in an amount not to exceed $83,400,000, from the proceeds of a future lease purchase financing of CDOT.

Section 4. Confirmation of Prior Acts. All prior actions of the officials and agents of CDOT that are in conformity with the purpose and intent of this Resolution and in furtherance of the Project shall be and the same hereby are in all respects ratified, approved and confirmed.

Section 5. Effective Date of Resolution. This Resolution shall take effect immediately upon its passage.

INTRODUCED AND ADOPTED at a regular meeting of the Commission on August 18, 2016

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Herman Stockinger, Secretary
Transportation Commission of Colorado

Attachement C

Performance Summary

The recent gyrations in Treasury yields largely reflect the uncertainties surrounding the Fed's next policy move. With other central banks across the globe embarking on a fresh round of post-Brexit easing measures, a premature rate hike from the Fed could cause another counter-productive surge in the value of the U.S. Dollar. At the same time, if the surprisingly upbeat July employment report represents the beginning of a strong rebound in second half economic growth, the hawkish voices within the FOMC will grow progressively louder in the coming months.

Faced with these conflicting considerations, the 10-year Treasury has bounced around in a 15 basis point range over the past two weeks. After dropping by 12 bps to finish July at 1.45%, the 10-year yield added 14 bps last week to close at 1.59%, following the much better-than-expected July nonfarm payroll report. The 2-year yield followed a similar pattern within a narrower range, dropping by 4 bps to 0.66% through July 29th, then rising by 6 bps to 0.72% as of Friday's close. Despite two consecutive weeks of meaningful volatility, Treasury yields across the curve remained within 2 to 3 bps of their levels as of July 22nd. The shape of the curve has also been range bound in recent weeks, with the 2s to 10s spread moving up by 7 bps last week to 87 bps.

The Treasury Index more than erased the previous week's gain, with a decline of 70 bps. Despite last week's sell-off, the Treasury Index has generated an impressive total return of 5.36% year-to-date. The Broad Market Index followed in the footsteps of government bonds last week, suffering a loss of 51 bps to lower its year-to-date return to 5.56%. In contrast to the weakness in government debt, the credit sensitive sectors staged an impressive recovery last week, after stumbling during the last week in July. Excess returns were in plentiful supply, led by High Yield with 96 bps, Foreign Government with 47 bps, and Municipals with 38 bps.

Market Outlook

The post-Brexit wave of monetary easing that we envisioned after the June 23rd UK referendum continued to unfold last week. Following the Bank of Japan's action the previous week, the Bank of England (BoE) stepped forward with a set of bold measures on Thursday to mitigate the impact of the Brexit vote on the U.K. economy. The BoE's plan was multi-faceted and included the following components: 1) reduced the overnight bank borrowing rate from 50 bps to 25 bps; 2) signaled another rate cut within the next few months to bring the overnight rate very close to the zero bound; 3) expanded the size of its government-bond QE program by $78 billion; 4) announced a new corporate bond purchase program of $13 billion over 18-months. The BoE should have been quite pleased with the initial market reaction, as the 10-year Gilt yield fell by 13 bps to a record low of 0.67%, and the British Pound depreciated by 1.9% against the U.S. Dollar and by 1.4% against the Euro. We expect the ECB will be the next central bank to act, by reducing rates and increasing the size and length of its QE program within the next few months.

While the Fed is not likely to follow its European counterparts with explicit new easing measures, we believe the U.S central bank will contribute to the goal of stronger global economic growth by pushing out the timing of its next rate hike and lowering the dot plot medians at its September meeting. Prior to Brexit, the FOMC appeared to be setting up for a rate move at the September 21st FOMC meeting. The implied odds for a rate hike in the fed funds futures market are now below 50% until the March 2017 meeting. While we generally agree with the probabilities assigned by the futures market, investors should not completely discount the chance of a Fed rate hike in December, given the cumulative strength of the past two employment reports. NY Fed President Dudley made a similar point in a speech last week, noting that "it is premature to rule out further monetary policy tightening this year."

Description	Total Return (%)		Excess Return (%)	
	Weekly	YTD	Weekly	YTD
US Broad Market Idx	-0.51	5.56	0.10	0.58
US Treasury	-0.70	5.36	0.00	-0.06
US Agency	-0.35	3.42	0.02	0.25
Foreign Govt/Supra	-0.04	5.79	0.47	1.43
Taxable Munis	-1.19	12.47	0.16	2.35
Corporates	-0.70	8.35	0.08	2.36
Financials	-0.51	5.19	0.06	0.52
Industrials	-0.76	9.64	0.08	3.25
Mortgages	-0.08	3.23	0.22	-0.44
ABS	-0.11	1.98	0.03	0.37
CMBS	-0.31	5.54	0.15	1.73
Covered Bonds	-0.21	2.96	0.06	0.62
High Yield Index	0.55	12.67	0.96	8.82
Municipal Bond Idx	-0.13	4.21	0.38	0.00

Source: Bank of America Merrill Lynch as of 8/5/2016

The July employment report outperformed consensus expectations in all material respects.

- July nonfarm payrolls increased by 255K, compared to consensus of 180K. Prior reports were revised higher by 18K.
- Average hourly earnings grew by 0.3% vs. 0.2% consensus.
- Average weekly hours ticked higher by 0.1% to 34.5 hours vs. 34.4 consensus.
- Labor force participation rate edged up by 0.1% to 62.8%.

The solid employment numbers, along with the reasonably strong ISM measures for July, suggest that GDP growth will rebound to 2.5% to 3.0% in the third quarter after averaging just 1% over the first half of the year. The Fed will undoubtedly be encouraged by these positive trends for July, but policy makers will want to see this improvement sustained throughout the third quarter, at a minimum, before taking any tightening action.

The initial reading on third quarter GDP will not be released until late October, which essentially rules out a September rate hike in our view. Coming one week prior to the November election, the November 2nd meeting will also likely be considered off-limits for a major policy announcement. That leaves the December 14th FOMC meeting as the next plausible opening for the Fed to resume rate normalization. Committee members will try to sell December as a live meeting to keep their options open, and Yellen may signal that a rate hike is possible in the coming months during her August 26th speech at Jackson Hole.

While the chatter regarding a December rate hike seems poised to increase over the next few weeks, we are still not convinced that a 2016 rate hike is the most likely outcome. We will closely monitor domestic and international developments in the coming weeks, but for the time being, we remain comfortable with our rate projections, as shown in the following table.

Treasury Yield Curve Projections

	3Q16	4Q16	2Q17	4Q17	4Q18
Fed Funds - Upper Bound	0.50%	0.50%	0.75%	0.75%	1.25%
2-year	0.50%	0.60%	0.80%	1.00%	1.35%
5-year	0.90%	1.05%	1.30%	1.50%	1.75%
10-year	1.25%	1.45%	1.65%	1.90%	2.15%
30-year	2.00%	2.15%	2.35%	2.65%	2.85%
2s to 10s	+75 bps	+85 bps	+85 bps	+90 bps	+80 bps

Updated July 11, 2016

Source: Jim DeMasi, Chief Fixed Income Strategist.
All projections are as of the end of the respective quarters.
Fed funds represents the upper bound of the FOMC's target range.

The Week Ahead

This week's calendar is highlighted by the following economic reports and Fed events:

Monday: Labor Market Conditions Index - July

Tuesday: NFIB Small Business Optimism - July

Wednesday: JOLTS Job Openings - June

Thursday: Import Price Index - July

Friday: Retail Sales – July
PPI – July
UM Consumer Confidence - August

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Attachment D

CDOT HEADQUARTERS

FACT SHEET Aug 2016

OVERVIEW

- Over the past few years, CDOT has developed a road map that would allow CDOT to upgrade its major offices to a quality level that will help CDOT both better invest its building capital resources as well as better position itself as the largest engineering employer in the state of Colorado.
- CDOT's current offices around the state (in Region 4, Region 2, Region 1 and its Headquarters building) were built in the 1930s, 40s and 50s. A facilities condition assessment across the regions found fire/life safety concerns, floodplain concerns, ADA deficiencies, costly capital improvement repairs including mechanical systems and glass/glazing past their useful life.
- Making improvements and upgrades to these buildings was determined not to be an efficient use of taxpayer dollars. Given their age and condition they would be very costly to renovate. An independent facilities condition assesment completed by JF Sato indicated that many of the buildings in the capital headquarters building program could not be elevated to Class B office standards regardless of expenditures on renovations and repairs.
- CDOT Region 1 and Headquarters campuses consist of a total of 23 acres of potential urban infill. The combination of the uniqueness of the large parcels, their location and current market conditions makes the existing properties very valuable. In addition restoring these properties to the local tax rolls will result in an increase in tax revenues.
- CDOT will issue Certificates of Participation (COPs) to finance the capital building headquarters program (HQ/Region 1/Region 3 and Region 4), taking advantage of historically low interest rates and avoiding a large up-front construction payment that would reduce the road construction program.
- The overall CDOT capital building budget is $22 million per year to maintain 1600 facilities around the state.
- The annual COP expenditure for the full capital building headquarters program will be approximately $8 million a year for twenty years ($4.75 million for HQ/R1). This investment represents .5% of CDOT's budget.
- When considering the capital expenses, operations expenses and residual values of the new capital building headquarters program compared to repairing and renovating the existing buildings, there is a positive financial impact to the state.
- For the Denver location only, estimates show the two facilities need $23.2 million in upgrades to make safer and bring up to modern codes (repairs are equal to the value of the properties).
- When comparing the cost of building a new HQ/R1 headquarters plus the residual value of the new properties vs. repairing and renovating the existing buildings, reduced operating expenses and taking into account their residual value after twenty years, the new construction option's financial impact is $674,000 per year over 20 years.
- At the end of the twenty years, the taxpayers will have building assets worth $65 million more than repairing and renovating existing buildings.

THE PROCESS

- Over the past two years, CDOT completed an assessment of the market conditions and potential for relocation to determine if we should move forward with new headquarters facilities.
- In fall 2015, the Transportation Commission authorized staff to establish a Guaranteed Maximum Price (GMP) as assessments showed that potential renovations costs, coupled with market value would help to balance the investment in new work environments.
- Late 2015 – mid 2016 CDOT embarked on potential negotiations for possible sites in Region 2 and for HQ/Region 1 (the relocation of the Region 4 headquarters in Greeley began construction following the floods in 2014 and opened Nov 2015).
- CDOT has hired design/build contractors to complete early designs and to establish a GMP for the Region 2 and HQ/Region 1 headquarters.
- At this point in time, the Transportation Commission has not finalized any decision to move forward and will not do so until presented with the final GMP and financing strategy. That meeting is expected to occur on August 18, 2016.

LOCATION

- The proposed HQ/Region 1 site is located south of Mile High Stadium, just south of Colfax Avenue and east of Federal Boulevard, located in the Sun Valley neighborhood.
- The proposed Region 2 site is located in north Pueblo near Outlook Boulevard and Wills Boulevard. The headquarters site will also include space for the local Colorado State Patrol offices and emergency dispatch center.

FREQUENTLY ASKED QUESTIONS

Why is this needed?

CDOT is focused on being good stewards of the taxpayer dollars by:

- Ensuring that we are investing our building capital resources most effectively.
- Consolidating facilities, reducing building square footage, and creating collaborative work environments the new buildings will be more efficient to operate and promote higher productivity for staff.

How can CDOT have budget problems yet still have the money for a new building?

- CDOT has a $1.4 billion annual budget and a $1 billion a year funding gap to address the needs of our transportation system.
- This capital building headquarters program represents a rare opportunity to finance a large capital program and retain funds to build roads and bridges.
- One factor to consider when making the best use of taxpayer dollars is the product you are left with after completion. The independent facilities assessment completed by JF Sato indicated that many of the buildings in the capital building program could not be elevated to Class B office standards regardless of renovation expenses. Further, when comparing the value of the State property (land and buildings) after the twenty year financing is complete, the property value of the new buildings is $65 million greater than the value of keeping the older facilities. If this "residual value" was considered in the overall financial value of building new buildings versus renovating, the "delta" between the two options goes from a $42 million cost to build new, to a $23 million positive financial impact.
- It is important that employees who will design, build, operate and maintain our system have adequate office space Class B) to do their work. CDOT believes that an investment in the quality of our work environment will pay dividends in how we work together as well as in the talent that we can recruit and who will be working on behalf of the state of Colorado.

How is this a good decision for the city and taxpayers?

- The proposed location of CDOT's new headquarters in Denver and Pueblo are supported by a number of organizations including the City and County of Denver, Denver Urban Renewal Authority, Denver Housing Authority, Denver Broncos, Metropolitan Football Stadium District, Denver Mayor's Office and City of Pueblo.
    - The proposed HQ/R1 site is a catalytic centerpiece of Denver's Sun Valley Neighborhood Decatur-Federal Station Area Plan to create a livable, transit oriented development in this community.
- The current HQ and R1 sites along Arkansas Ave and Holly Street are located in areas with significant potential for redevelopment. The overall cost of $674,000 per year for building a new R1 and HQ campus does not take into account the value of adding the existing properties back onto the city tax rolls. Current estimates are $700,000 a year once property is developed. Adding $700,000 to the city tax rolls makes the additional $674,000 annual cost for the new Denver area headquarters building an overall fiscally neutral impact to the taxpayers.
- The proposed R2 location is also a critical element to the Pueblo's economic development plans. Additionally, the former R2 HQ site has potential to return to the Pueblo tax rolls.

Why should employees get a "fancy" new building?

- The building will be designed as a Class B office building, following the guidelines of the Office of the State Architect for office space and work space collaboration.

- Currently we have facilities providing as much as 325 gross square feet per employee. The new buildings will provide only 225 gross square feet per employee. Reducing our building footprints translates into real dollar savings for the taxpayers.

CDOT HQ / R1 Relocation Project

Transportation Commission Presentation

August 18th, 2016

Guiding Principles

- The Colorado Department of Transportation's mission is to provide the best multi-modal transportation system to the citizens of Colorado that most effectively and safely moves people, goods and information.
- The staff at the existing state Headquarters and Region 1 are functioning in out-of-date and inefficient facilities that do not provide an effective workplace to facilitate CDOT's mission.
- CDOT is the largest engineering employer in the State of Colorado. This includes over 3,000 professional and support staff that are critical to CDOT's mission. The vision for this project is to create a cost effective, 21st Century work environment that will help CDOT recruit and retain top level employees and allow CDOT to become the best DOT in the nation in providing services to Colorado's citizens.

Guiding Principles (by Category):

Site / Location
- Immediate access to mass transportation
- Accessibility to highway system
- Proximity to walking destinations
- Neighborhood amenities

Interior Amenities / Features
- Department break areas
- Fitness facility, including showers and lockers
- Adequate restrooms

Exterior Amenities / Features
- Bicycle parking
- Proximity to open space and paths
- Balcony, courtyard or other outdoor common space

Building Construction
- Class B office space
- Thermal comfort
- Efficient department adjacencies
- Energy efficient / LEED certified
- Daylight and views to exterior

Workplace Culture
- Directors located with their departments
- Collaborative office environment
- Comparable to private industry engineering facilities
- Include space for history museum and memorial garden equivalent

Parking
- Electric vehicle charging
- Secure parking for fleet vehicles

Conference Capability
- Multiple sizes and degrees of formality
- Commission meetings and seating capacity for 500
- Scheduling technologies for coordination

Safety & Security
- Physical security is paramount
- Single point for public entrance

Technology
- Wi-fi accessibility throughout the building
- White noise / acoustical control
- Infrastructure for networking technologies
- Availability of power for technology connections

Flexibility for Future
- Reduced physical barriers between departments
- Flexibility to grow / contract within open office footprint
- Ability to subdivide large conference areas for better utilization
- Hoteling and itinerant spaces

Storage
- Project files including active and inactive storage
- State statute requires hard copy storage of certain documents

Existing Facilities Condition

A comprehensive facility assessment of the existing Headquarters campus was completed by JF Sato in 2012. The report concluded that multiple building systems were beyond their useful life, and major / complete system upgrades are required. These include:

- *Mechanical / HVAC system*
- *Glazing system (Windows and Insulation)*
- *Class B finishes to 80% of the facility*
- *Reconfiguration of non-structural interior walls*
- *Fire-suppression system*
- *Replace light fixtures as required*

The estimated cost for the upgrades is $87.66 per GSF. For the HQ and Shumate building, this is approximately $16.65M to provide functional and aesthetic upgrades. The estimated cost for upgrades did not address inefficient space or work processes and excluded any costs for new technology, furniture and temporary workplace costs. More expensive structural upgrades, which would be required in order to accomplish a more flexible floor plate to promote 21st century work environment would be cost prohibitive, and result in the disturbance of likely asbestos containing materials. The current workplace occupancy for the headquarters is 308 GSF per FTE (and 326 GSF per filled positions), which is largely driven by the existing obsolete and structurally constrained floor plate and significantly above the GSF per FTE utilization metric outlined by the Office of the State Architect.

The overall age and quality of the 2000 S. Holly complex is comparable to the HQ facility; thus, a similar cost model has been applied to this facility. The 2000 S. Holly Complex is 56,000 SF. At a cost of $87.66 per GSF the total estimated functional and aesthetic upgrades for Region 1 would be $6.57M, without including costs for new technology, etc.

* Escalation from Q1 2012 to Q4 2016 is 25.0%.

An NPV analysis for renovating current facilities and new construction alternatives is included in a subsequent section.

Project Background continued

Workplace Strategies / SF per Employee

CDOT engaged RNL to establish a program plan to qualify the scope and size of the departments considered in the move. The preliminary target program is 225 GSF per employee. The reduction from CDOT's current 326 GSF to the target 225 GSF per person results in a 31% reduction to the building size, which provides a significant reduction to both operational and capital improvement costs. The recommendation published by the Office of the State Architect is for a utilization metric of 235 GSF per FTE, a factor that could not be achieved in the current building. The GSF recommendation by the Office of the State Architect as well as the SF / employee of other Denver Area engineering firms are outlined below:

Industry benchmarking - square feet per employee:

CDOT BTS - Target
200 SF / employee

COLORADO
Department of Transportation

CDOT HQ - Current
326 SF / employee

150 SF

350 SF

CH2MHill
180-190 SF / employee

Carollo Engineers
200 SF / employee

GSA
180 – 225 SF / employee

State of Colorado
220 SF / employee

MWH
230 SF / employee

Program

i. Building requirements

RNL was engaged to establish a program plan for multiple CDOT facilities to quantify the scope and size of the departments considered in the move to an alternate site. The studied programs include the administrative components of the following areas:

- HQ departments at East Arkansas, Shumate Building, Lewan Building and Camp George West
- Region 1 departments that currently use South Holly facilities

The CTMC, Region 1 West, and Region 1 North programs were not operationally nor financially feasible to relocate. Non-administrative functions (motor pool and sign shop) from relocated campuses will be moved to the CDOT KOA facility in Aurora, an existing real estate asset that CDOT already owns. The Region 1 South Engineering program will be consolidated into one new leased facility. The existing South Engineering facility will be sold as part of this project.

CDOT considered both FTE and filled positions for the baseline of the program. The final program incorporated a 7% growth factor on top of the current filled positions. The 7% growth factor was based on historical hiring trends combined with the anticipation that government has not and will not expand rapidly.

The following table shows current full-time equivalent vs. filled positions for the program considered for relocation.

Building Requirements	Filled Positions	+7% Flex	Consultants / Temps / Interns	Total Employee Count	Current Design GSF	Current Design GSF / Employee
Headquarters	530	24	75	629	141,430*	225.5
Region 1	137	10	1	148	33,570*	225.5
Subtotal	**667**	**34**	**76**	**777**	**175,000**	**225.5**

*HQ current facility excludes Motorpool and Printshop, which will be relocated to KOA

**R1 current facility excludes 19,000 GSF of sign shop and traffic programs, which will be relocated to KOA

Site Selection Process

i. Short List Map

- Station with parking
- Station without parking
- Existing light rail
- Planned light rail
- Commuter rail
- Bus rapid transit
- Downtown Denver
- Major highways
- Tier I site
- Tier II site

Key site criteria:

- Access to light rail system
- Walkability
- Occupancy timing
- Proximity to retail amenities

Site Selection Process continued

ii. Weighted Scorecard (Lowest Score = Best Option)

Weight	Criteria	Pepsi Center	Weighted	14th & Decatur	Weighted	Stapleton	Weighted
	Available to Accommodate Region 1	Y		Y		Y	
	Developer Controlled	N		N		N	
	Available for Sale	N		N		Y	
0.5	**Transaction Complexity**	**2**	**1.0**	**3**	**1.5**	**1**	**0.5**
1.0	Development Timing	2	2.0	3	3.0	1	1.0
0.5	**Access to Light Rail System**	**1**	**0.5**	**2**	**1.0**	**3**	**1.5**
0.5	**Proximity to Retail Amenities**	**1**	**0.5**	**2**	**1.0**	**3**	**1.5**
1.0	Access to Major Highways	1	1.0	2	2.0	3	3.0
1.0	Ease of Site Access	1	1.0	2	2.0	3	3.0
0.5	**Walkability**	**2**	**1.0**	**1**	**0.5**	**3**	**1.5**
1.0	Proximity to Open Space / Trails	1	1.0	2	2.0	3	3.0
1.0	Additional Parking Opportunitites	2	2.0	1	1.0	3	3.0
1.0	Infrastructure Risk	3	3.0	2	2.0	1	1.0
1.0	Entitlement Risk	3	3.0	2	2.0	1	1.0
1.0	Environmental Risk	2	2.0	3	3.0	1	1.0
1.0	Use Compatibility	3	3.0	1	1.0	2	2.0
	Scorecard Total	**24**	**21.0**	**26**	**22.0**	**28**	**23.0**

Project Background continued

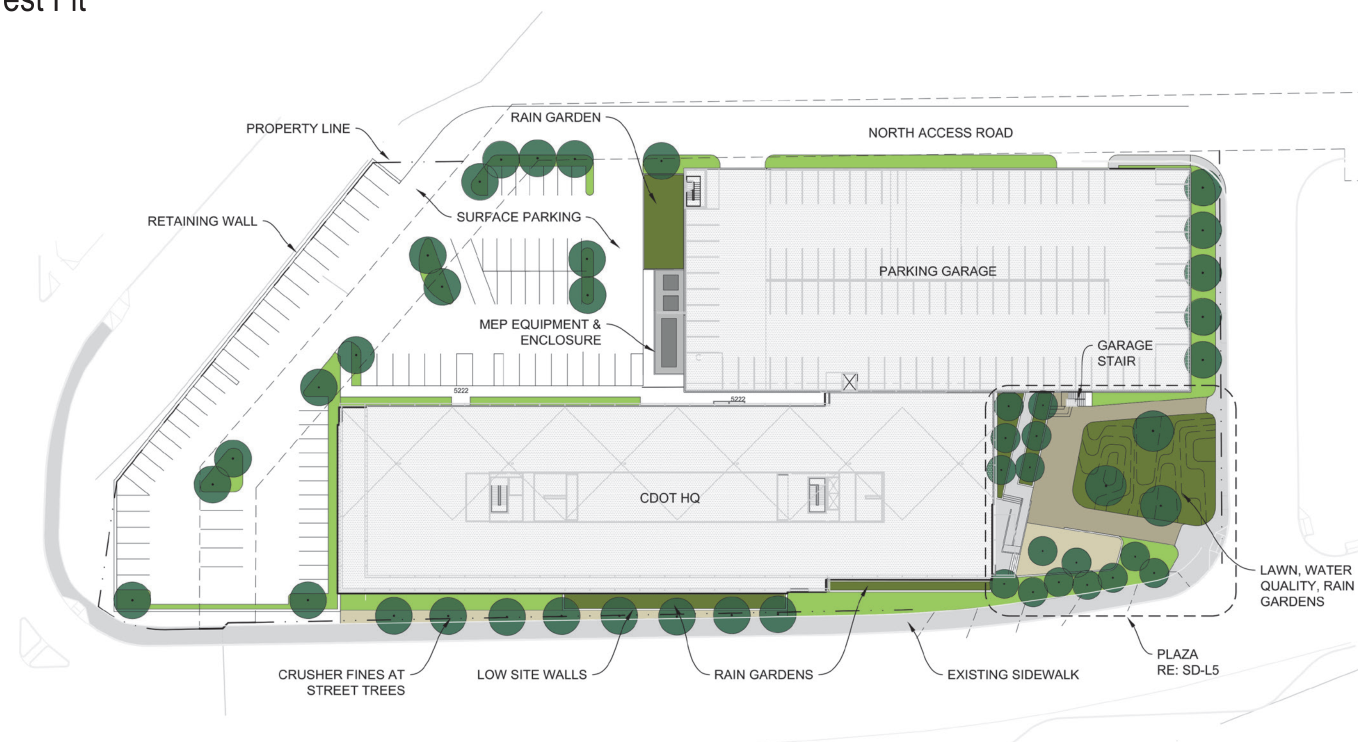
Site Selection Process continued

iii. 14th & Decatur Site Test Fit

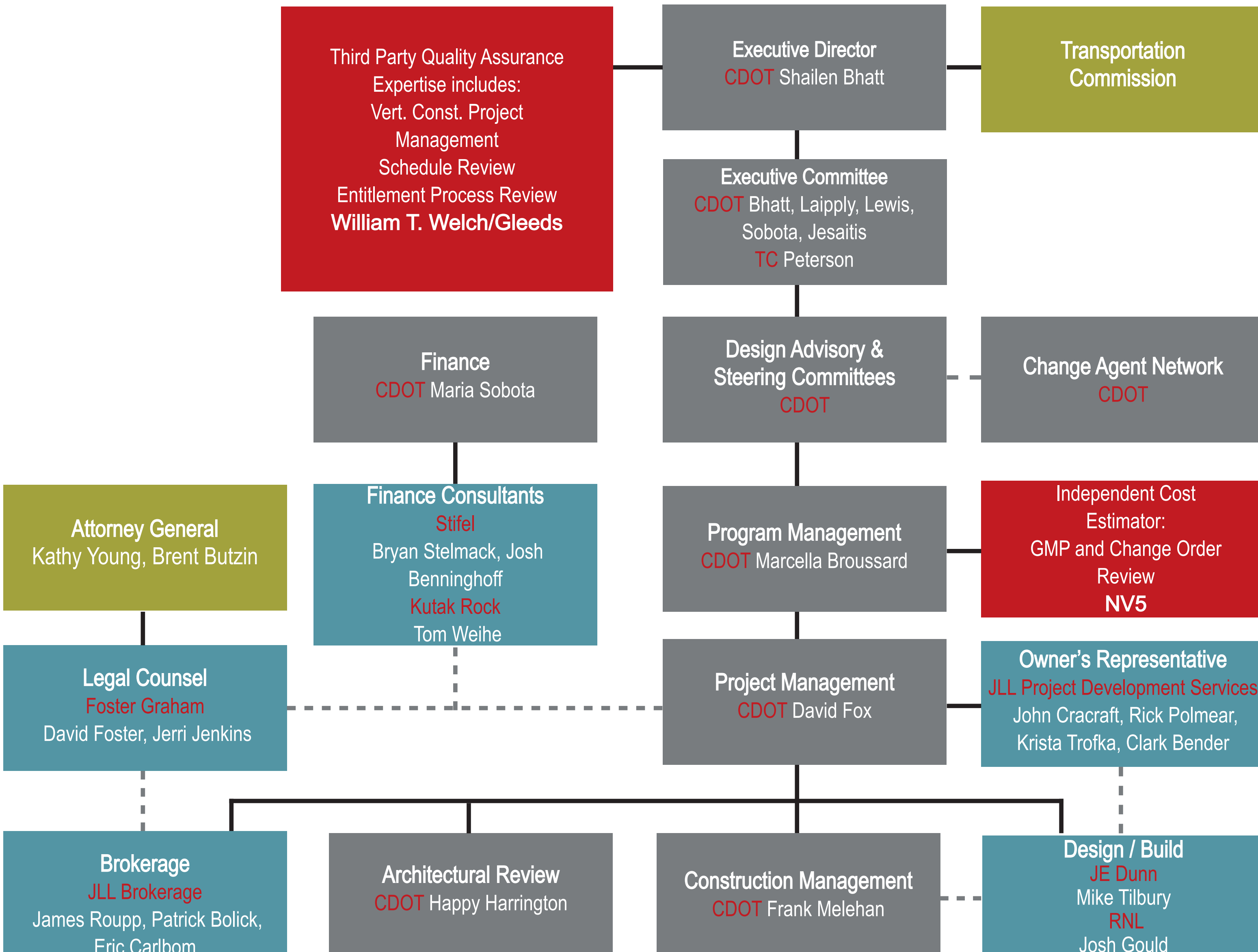
Project Background continued

Site Selection Process continued

iii. 14th & Decatur Site Test Fit



Organizational Chart – HQ/R1



Organization Chart continued

Risk Mitigation

CONTRACT COMPLIANCE: FOSTER GRAHAM MILSTEIN AND CALISHER LLP

- Design Build Contract Review and Verification
- Real Estate Contract Execution
- Change Order and Contract Amendment Compliance Verification

OWNERS REP/CONSTRUCTION MANAGEMENT: JLL PROJECT DEVELOPMENT SERVICES/CDOT PROPERTY MANAGEMENT

- Budget Management
- Schedule Management
- Construction Quality Oversight

INDEPENDENT COST ESTIMATOR: NV5

- Certification of Project GMP
- Change Order and Contract Amendment Cost Verification

INDEPENDENT PROCESS EVALUATION: WILLIAM T WELCH CO. / GLEEDS
Review of:

- Project Goals and Objectives
- Project Structure
- Project Team
- Project Contractual Documents
- D/B Team Quality Assurance/Control Program
- Entitlement Procedures / Execution
- Environmental / Site Due Diligence
- Project Risk Matrix
- Risk Analysis of D/B GMP Independent Review Process
- Owner's Project Budget
- Other Project Information / Documents as Requested

Organization Chart continued

Will Welch Corporation / Gleeds Independent Process Review

The independent process evaluation has identified potential risks and opportunities associated with:

1. Design Build Entity Contract
2. Owner Representative Contract
3. Design Build Entity GMP Proposal Process
4. Project Budget
5. Project Scheduling
6. Entitlement Process and Permitting
7. Site Environmental Conditions
8. Real Estate Acquisition and Project Development

The evaluation found the CDOT preconstruction and design processes to date have been robust.

We believe the process risks and opportunities managed to date and identified in the report are within the normal range of project development risks for a project of this size, scope and nature.

The State's project team has responded to many of the items identified. Plans are underway to address additional items with adjustments to project processes, assigning contingency dollars, and assessing schedule impacts where deemed appropriate.

Site Selection Process

Development Budget

June 2015 development budget was $83 million.

Land	
Land and Easement Cost	$5,999,999
Environmental Remediation	$1,900,000
Fixed Limit of Design & Construction (FLODC)	
A&E	$3,696,595
Core / Shell and TI	$32,885,461
Parking Structure	$7,388,969
Site Work	$3,817,938
Subtotal FLODC	$47,788,963
Soft Costs	
Legal	$43,750
Transaction Fees (BTS & Dispositions)	$2,100,000
3rd Party Consultants	$407,360
PM	$1,050,000
Permits & Tap Fees	$525,000
Contingency	$3,947,428
Subtotal Soft Costs	$8,073,538
FF&E, Low-Voltage, Moving	
Furniture	$4,375,000
Low-Voltage Systems	$1,600,000
Move	$262,500
Subtotal FF&E, Low-Voltage, Move	$6,237,500
Land Cost	$5,999,999
Environmental Remediation	$1,900,000
Design and Construction	$62,100,001
KOA	$13,000,000
South Satellite	$382,500
Owner's Budget	**$83,382,500**

GMP Verification

NV5

NV5 preformed a detailed review of the JE Dunn DD GMP on August 4th, 2016.

Some of the key observations and updates include:

A

Subcontractor (trade partners) bid proposals made up over 80% of the cost.

B

General Conditions, General Requirements and other markups were found to be reasonable and consistent with industry norms and the JE Dunn initial proposal and contract for this project.

C

Design and bidding contingency were reduced from 2.50% of the direct costs to 1.23%. This is appropriate given the stage of design and is also under the limit allowed per contract.

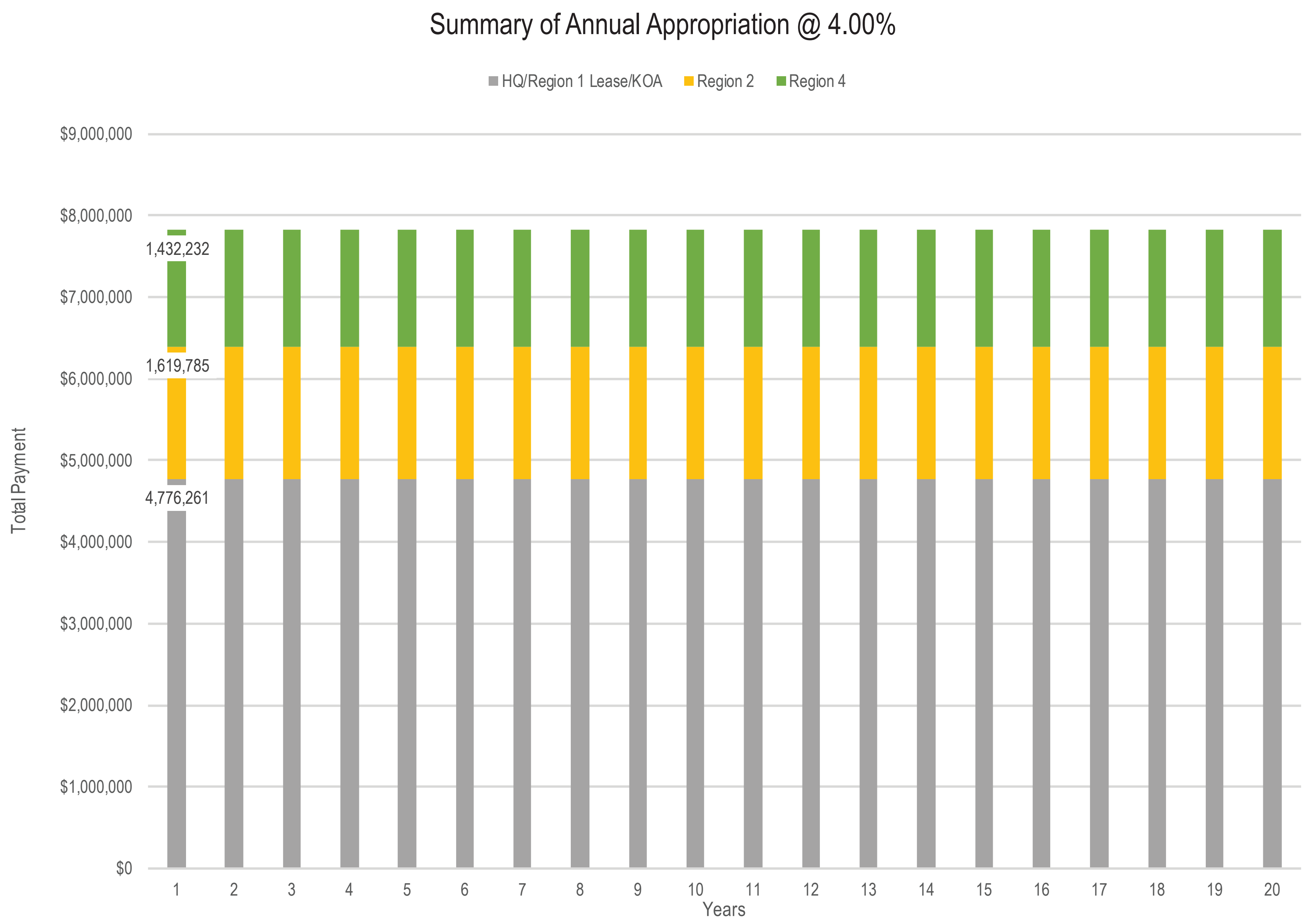
D

The review concluded that the proposal of $47,788,963 was competitive and the review team takes no exception to the execution of the contract with JE Dunn for this amount.

CDOT Capital Building Program 20 Year Analysis

		Renovate COP	BTS COP	Delta Renovate v. BTS COP	Annual Savings/Cost Over 20 Years
1	**Cost of Land purchase, Design and Construction**				
2	HQ + R1	$23,230,563	$83,382,500	$60,151,938	$3,007,597
3	R2 (Pueblo)	$23,245,400	$23,275,000	$29,600	$1,480
4	R4 (Greeley)	$13,994,189	$21,805,000	$7,810,811	$390,541
5		$60,470,152	$128,462,500	$67,992,348	$3,399,617
6	**Proceeds from Sales of Existing Assets**				
7	HQ + R1	$0	-$17,700,216	-$17,700,216	-$885,011
8	R2 (Pueblo)	$0	-$1,000,000	-$1,000,000	-$50,000
9	R4 (Greeley)	$0	-$2,109,200	-$2,109,200	-$105,460
		$0	-$20,809,416	-$20,809,416	-$1,040,471
10	**Total Net Cost**				
11	HQ + R1	$23,230,563	$65,682,284	$42,451,722	$2,122,586
12	R2 (Pueblo)	$23,245,400	$22,275,000	-$970,400	-$48,520
13	R4 (Greeley)	$13,994,189	$19,695,800	$5,701,611	$285,081
		$60,470,152	$107,653,084	$47,182,932	$2,359,147
14	**COP Repayment (Prin. + Int.)**				
15	HQ + R1	$33,785,433	$95,525,213	$61,739,780	$3,086,989
16	R2 (Pueblo)	$33,807,012	$32,395,708	-$1,411,304	-$70,565
17	R4 (Greeley)	$20,352,488	$28,644,642	$8,292,153	$414,608
		$87,944,934	$156,565,563	$68,620,629	$3,431,031
18	**OpEx + Cap Ex**				
19	HQ + R1	$69,925,401	$57,527,602	-$12,397,799	-$619,890
20	R2 (Pueblo)	$29,817,246	$21,005,076	-$8,812,170	-$440,609
21	R4 (Greeley)	$27,518,416	$21,668,394	-$5,850,021	-$292,501
		$127,261,063	$100,201,072	-$27,059,990	-$1,353,000
22	**Total COP Repayment + OpEx + CapEx**				
23	HQ + R1	$103,710,834	$153,052,815	$49,341,981	$2,467,099
24	R2 (Pueblo)	$63,624,259	$53,400,785	-$10,223,474	-$511,174
25	R4 (Greeley)	$47,870,904	$50,313,036	$2,442,132	$122,107
		$215,205,997	$256,766,635	$41,560,639	$2,078,032
26	**Total Residual Value**				
27	HQ + R1	$26,396,829	$62,250,000	$35,853,171	$1,792,659
28	R2 (Pueblo)	$1,491,328	$17,456,250	$15,964,922	$798,246
29	R4 (Greeley)	$3,131,789	$16,353,750	$13,221,961	$661,098
		$31,019,946	$96,060,000	$65,040,054	$3,252,003
30	**Total COP Repayment + OpEx + CapEx - Total Residual Value**				
31	HQ + R1	$77,314,005	$90,802,815	$13,488,809	$674,440
32	R2 (Pueblo)	$62,132,931	$35,944,535	-$26,188,396	-$1,309,420
33	R4 (Greeley)	$44,739,115	$33,959,286	-$10,779,829	-$538,991
		$184,186,051	$160,706,635	-$23,479,416	-$1,173,971

CDOT Cash Appropriations



Disposition Process

Fundamental to the proposed headquarters and Region 1 relocation project is the opportunity to dispose of CDOT's existing facilities at 4201 East Arkansas Avenue and 2000 South Holly.

In accordance with CRS 43-1-210(5), CDOT must appraise and sell any excess property for fair market value. Each of the properties CDOT intends to sell as part of this project have been appraised.

The range of appraised values for each property are as follows:

- 4201 East Arkansas Avenue: $11,790,000 - $14,130,000
- 2000 South Holly: $4,900,000 - $5,150,000
- 8833 Wadsworth Court: $290,000
- 7328 South Revere Parkway: $650,000
- Low End Valuation = Value Used in Financial Model $17,630,000
- High End Valuation = $20,220,000
- Value Used in Financial Model = $17,700,216

i. Entitlements

4201 East Arkansas Avenue:

A majority of the property is currently zoned CMP-EI (campus education institution). A portion of the property is zoned S-MX-5 (suburban mixed use 5 story). This zoning likely needs to be changed to achieve highest value.

2000 South Holly:

The property is currently zoned I-MX-3 (industrial mixed use 3 story). This zoning generally suits the neighborhood.

ii. OIT Tower

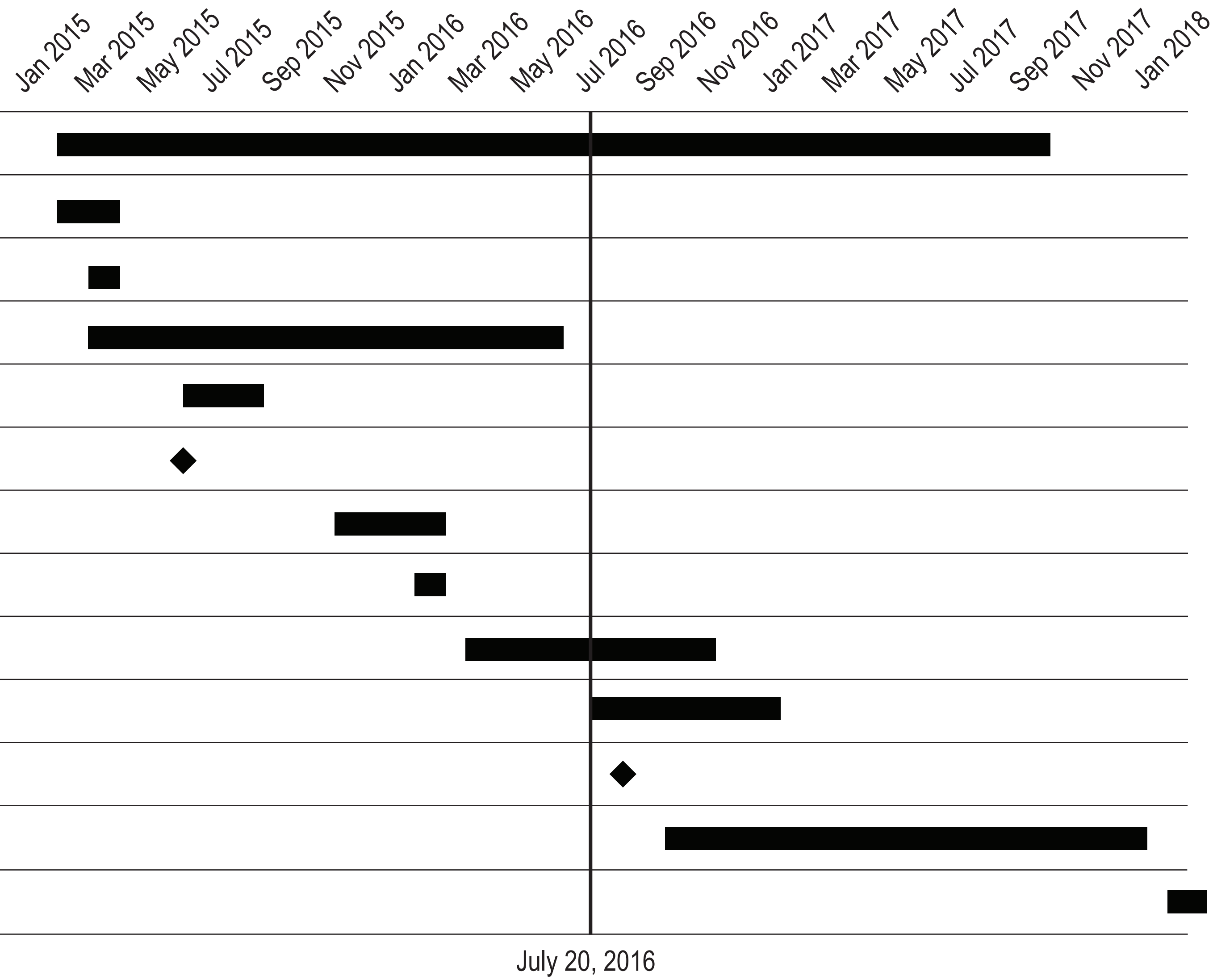
A significant communications tower owned and operated by the Office of Information and Technology ("OIT") is located on site at 4201 East Arkansas. Estimated relocation costs have been determined to be as high as $20M. CDOT and OIT have agreed that OIT will acquire the tower site and the motor pool / print shop building. The tower will remain in place and the current appraisal suggests that the tower will not impact the value of the remaining property at 4201 East Arkansas.

iii. Statutory requirements

There are a variety of applicable statutes affecting the sale of real property as advised by CDOT staff and legal counsel. We continue to consider these obligations to ensure compliance and avoid unnecessary delays. In summary, the obligation exists to provide a right of first refusal ("ROFR") to any governmental agency with jurisdiction over the site.

Timeline

Task Name	Duration
CDOT State HQ	34 months
Facility Programming	2 months
Project Planning	1 month
Site Selection	15 months
Procurement	3 months
Design Funding Approval	
Due Diligence	3.5 months
Conceptual Design	1 month
Design	8 months
Entitlement	6 months
Construction Funding Approval	
Construction	15.5 months
Owner Move-In	2 months



Summary

Key Benefits

Utilizing COPs for this project will allow CDOT to obtain the following operational and financial benefits:

1. Take advantage of historically low interest rate environment.

2. Rare opportunity to finance large capital program without any current bonding capacity; these projects represents one of the only opportunities to utilize financing to complete several significant projects and retain cash on hand for other non-financing eligible projects.

3. Reduce operational costs by constructing LEED Certified, energy efficient buildings and collocating programs to reduce the overall square footage of occupied buildings.

4. 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.

Recommendation & Options

1. Approve proceeding with the preparation of the issuance of $83.4 million of COPs for the financing of facilities related to HQ/Region 1. (Staff Recommendation)

2. Request further information.

3. Reject issuance of COPs for the related projects.