



MEMORANDUM

TO: HPTE BOARD OF DIRECTORS
FROM: DAVID SPECTOR, HIGH PERFORMANCE TRANSPORTATION ENTERPRISE DIRECTOR
DATE: JANUARY 20, 2016
SUBJECT: PREVIEW OF DISCUSSION REGARDING HPTE ORGANIZATIONAL DEVELOPMENT

Purpose

To provide an overview of the topics staff will be discussing with the Board during the lunch meeting.

Action

No formal action is being requested. The purpose of this memo and the attached materials is to facilitate a discussion with the Board regarding the growth HPTE has been experiencing and the subsequent budgetary and programmatic impacts. Staff will also be seeking feedback on proposed short and long term solutions that are being explored in collaboration with CDOT.

Background

This month, HPTE and CDOT staff are holding a joint workshop for the Transportation Commission (TC) to discuss the current HPTE/CDOT business and financial relationship. This workshop is intended to update the TC on all of the key projects that HPTE is involved in and how CDOT can continue to appropriately and legally continue to support these initiatives. In order to facilitate the conversation during the workshop, staff has provided the TC with a memo and presentation, which are attached for Board review.

Details

During the lunch meeting staff will be reviewing the attached materials as well as discussing specific details with the Board regarding new proposed policies and procedures, potential organizational changes as well as suggested budget changes.

Attachments

Attachment A: Evolution of HPTE from Start-Up to Growth Enterprise
Attachment B: The CDOT/HPTE Business Relationship Transportation Commission Memo

Attachment A

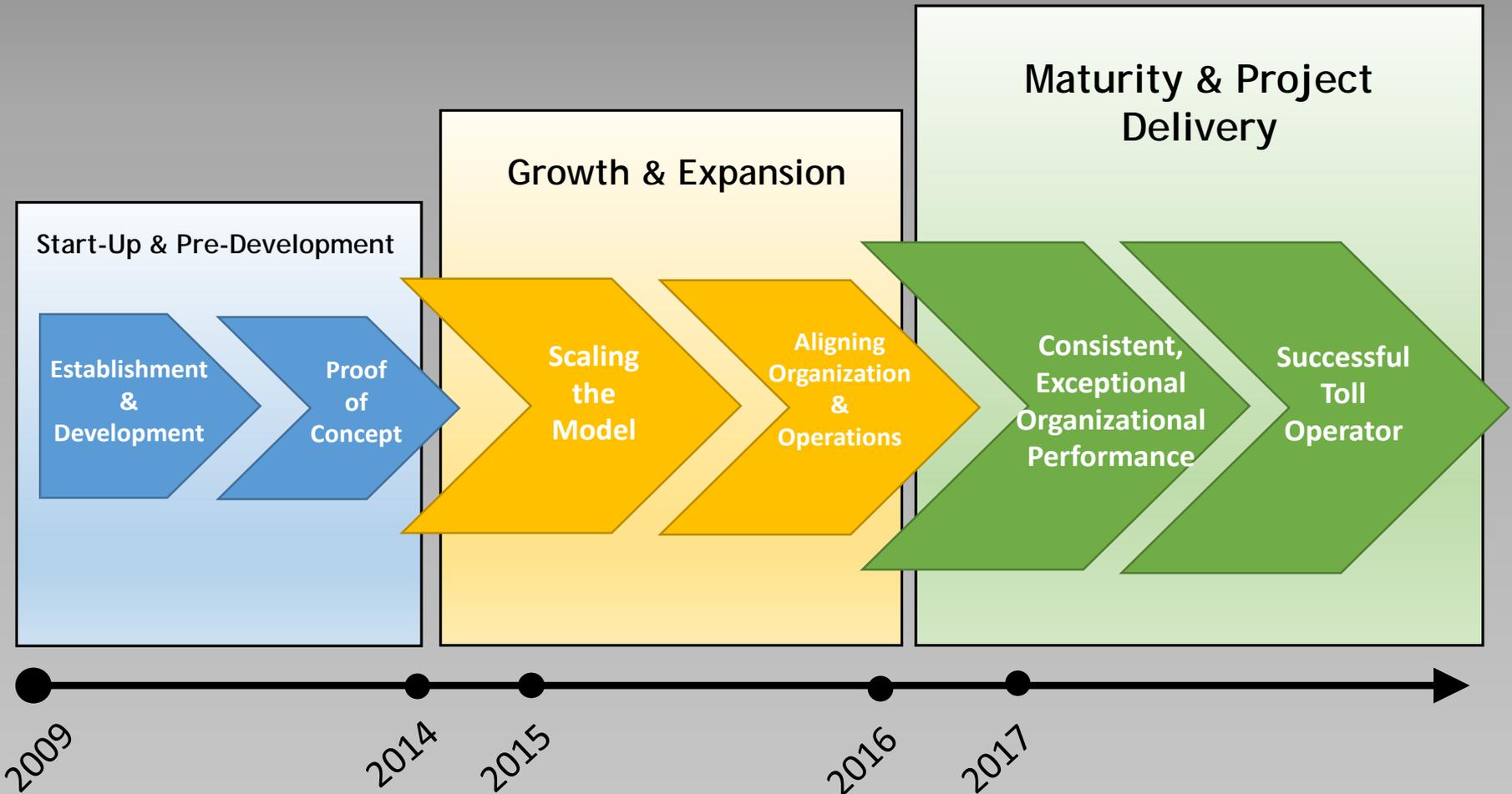


COLORADO
Department of
Transportation

Evolution of HPTE: from Start-Up to Growth Enterprise

START

Organizational Timeline & Phases of Growth





Start-Up & Pre-Development Phase: 2009-2014

Establishment & Development

- Created in 2009 to pursue public-private partnerships (P3) and other innovative and efficient means of financing important surface transportation infrastructure projects
- Building a Team: Staff of 4 with Support from CDOT Staff
- Operations funded by annual loans from Transportation Commission, no other revenue streams

Proof of Concept: US36

- Successful P3 with Plenary Roads Denver
- Delivered project 20 years in advance
- US 36 Express Lanes will begin tolling this spring
- Provided best value for taxpayers

Growth & Expansion Phase: 2015- Present

Scaling the Delivery Model

- US36 moves from procurement/construction to operations
- I-70 East (Central 70) pre-development & procurement
- PPSL direct loan financing
- I 25 North Segment 3 direct loan financing
- Mountain Express Lane-primary toll lane operator
- I-25 North Segment 2 toll lane operator

Align Operations & Organizational Performance

- Strategic planning, mission & vision
- Business model evolves (Fee for Service)
- Additional revenues sources (tolls, project revenues)
- New operational responsibilities (active contractor management)
- Implementation of organizational policies & procedures
- Evaluation of current staff roles & responsibilities
- Direct borrowing

Maturity & Project Delivery: 2017 & Beyond

Consistent, Exceptional Organizational Performance

- Institutionalize existing successful models & best practices
- P3 development manual, management procedures
- Policies and procedures to increase accountability and governance
- Debt policy, revenue policy
- Align resources based on needs, not history
- Strategic Plan, alternative projects

Successful Toll Operator

- Adjust revenue model
- Generate excess toll revenues
- Implementation of operations & project based fees
- CDOT's partner, toll operator, conduit borrower, project enabler



MEMORANDUM

TO: TRANSPORTATION COMMISSION
FROM: DAVID SPECTOR, HIGH PERFORMANCE TRANSPORTATION ENTERPRISE DIRECTOR
MARIA SOBOTA, CHIEF FINANCIAL OFFICER
DATE: JANUARY 20, 2016
SUBJECT: THE CDOT/HPTE BUSINESS RELATIONSHIP

Purpose

To provide an overview of the current business and financial relationship between CDOT and the High Performance Transportation Enterprise (HPTE). Topics include a discussion of how HPTE's business purpose has naturally evolved since HPTE was created in 2009, how this evolution has changed the nature of the relationship between CDOT and the Enterprise, as well as how HPTE can continue to provide borrowing, P3 development, and express-lane services to CDOT through legally compliant, exchange transactions.

Action

No formal action is being requested. The purpose of this memo is to facilitate an ongoing conversation with the Transportation Commission (TC) regarding the business structure between CDOT and HPTE.

Background

HPTE was formed in 2009 with the passage of Senate Bill 09-108, known as FASTER (Funding Advancements for Surface Transportation and Economic Recovery Act). As outlined in the legislation, the mission of HPTE is to aggressively pursue innovative means of more efficiently financing important surface transportation infrastructure projects. HPTE has legal and operational flexibility that CDOT does not, including the ability to pursue public-private-partnerships (P3) and impose user-fees (i.e., tolling). During its start-up phase, from 2009-2014, HPTE essentially functioned as an innovative finance think-tank, exploring ways to address congestion in critical corridors in the Denver metro area, specifically through a P3 structure. HPTE successfully established proof of concept with the procurement and delivery of the US 36 Managed Lanes P3 project.

Over the last eighteen months, HPTE's role has expanded from primarily serving as a generator of ideas and facilitator of P3 transactions, to now also include being a managed lanes operator and CDOT's borrowing partner to enable projects (like I-25 North Segment 3 and the Mountain Express Lane (MEXL)). The following are key activities that HPTE has been responsible for over the last year:

- With the construction completion of Phase 1 of the US36 project, HPTE's first Public-Private-Partnership (P3) project is now in the operation phase. This phase requires ongoing operational expertise and contract management oversight on a daily basis.
- With the successful opening of MEXL, HPTE is now CDOT's managed lanes operator, responsible for toll collection, toll-rate setting, and ensuring operations and maintenance needs are met.
- Securing financing, as CDOT's borrower, for the construction of managed lanes on I-25 North Segment 3.
- Securing financing, as CDOT's borrower, for the construction of managed lanes on C-470.
- Co-leading the process of securing a P3 on the Central 70 Project.

Evolution and Current State of the CDOT/HPTE Business Relationship

During the start-up phase, from 2009-2014, HPTE was able to operate by receiving an annual loan from the TC. However in the fall of 2014, the idea of developing a fee-for-service model under which CDOT could legally pay HPTE for the services it was providing was first suggested. The idea underlying the model was that HPTE would have a dedicated revenue stream to support operations, allowing it to move away from receiving an annual operating loan while also allowing it to begin repaying existing TC loans. Outside research was undertaken to determine the value of services that HPTE was providing by looking at comparable tolling entities across the United States and it was validated that CDOT's payment would not jeopardize HPTE's Enterprise status. This new model was agreed upon by both the TC and the HPTE Board in January of 2015 and an Intra-Agency Agreement was put into place at the end of FY 2014-15, ensuring that the fee-for-service arrangement would be in place for the beginning of the current fiscal year. For FY2015-16, the revenue from the fee-for-service model is HPTE's only source of unrestricted operating revenue.

Now six months into the first year of this model, the increase in the number of corridors in both the operations and development phases has meant a corresponding increase in HPTE's ongoing operational obligations. This has significantly impacted HPTE's ability to manage the needs of its rapidly expanding program within the current fiscal year operating budget. HPTE and CDOT staff have been working to alleviate the budget pressures within the existing revenue constraints by working to find budget savings, identifying expenses that can be re-allocated between funds, and exploring deferring the TC loan repayment amount for FY2015-16.

These budget pressures, along with other organizational growing pains, caused HPTE and CDOT to more closely examine the existing fee-for-service model. A thorough review by HPTE and CDOT reveals that while the basic business model is sound, there are some key areas where the model must be improved that will result in increased accountability, better planning and budgeting as well as greater financial predictability. Over the course of the next eight months, HPTE, in alignment with CDOT, will focus on developing and implementing some of these changes for FY2016-17 and FY2017-18, including moving towards assessing project based fees when applicable, adopting a debt and revenue policy, and implementing overarching budget and spending policy directives.

Questions Being Considered:

In the process of examining the fee-for-service model, thinking about the short-term and long-term objectives of HPTE, and how CDOT and HPTE can continue to have a successful relationship, HPTE and CDOT staff will be considering the following questions over the next several months:

- How does HPTE continue to provide CDOT with exceptional service (in developing P3 projects, enabling projects like MEXL and I-25 N by partnering with CDOT to provide financing and borrowing capabilities, and operating multiple express lane corridors) while maintaining its responsiveness as a government-owned business?
- How can HPTE provide CDOT a more certain estimate of its expenses, including TC loan repayment obligations, on an annual basis?
- How can we ensure that HPTE operations can be adequately funded by toll revenues?
- Can HPTE effectively perform its necessary functions with the resources it currently has allocated?
- What organizational policies, procedures and directives need to be established to improve efficiencies and ensure greater accountability?

Next Steps

- HPTE and CDOT will, with the assistance of third-party consultants, review HPTE's operational structure, policies/procedures and organizational needs, and report back to TC with the findings.
- If the findings support changes in the CDOT/HPTE business model or FY2016-17 budget, TC would be asked to consider any such changes.
- HPTE will be engaging in a strategic planning process as well as re-examining its current vision and mission.

By pausing to examine the current partnership between CDOT and HPTE and make adjustments, HPTE can continue to be a vital partner on critical projects that help address congestion, expand choice and ultimately promote a healthy multi-modal system.