



TO: HPTE BOARD OF DIRECTORS
FROM: PIPER FRODE, ENTERPRISES BUDGET ANALYST
DATE: NOVEMBER 16, 2016
SUBJECT: FISCAL YEAR 2017-18 DRAFT BUDGETS FOR FUND 536 AND FUND 537

Purpose

This memorandum presents Fiscal Year (FY) 2017-18 draft budgets for Fund 536 (Statewide Transportation Enterprise Special Revenue Fund) and Fund 537 (Statewide Transportation Enterprise Operating Fund) for review by the High Performance Transportation Enterprise (HPTE) Board of Directors.

Action

The purpose of this memo is informational only and no action this month is required.

Background

In alignment with the new annual budget timeline for HPTE, this month staff is bringing draft versions of the operational budgets for Fund 536 and 537, as well as a draft scope of work describing the work supporting the draft budgets. These draft budgets include revenue information being presented as part of the CDOT FY 2017-18 Proposed Annual Budget being approved this month by the Transportation Commission prior to its submission to the Office of State Planning and Budget (OSPB) and the Joint Budget Committee (JBC) for review.

Details

The HPTE FY 2017-18 budget allocations are based on an estimated \$11.2 Million of projected HPTE revenue (including both toll revenue and fee-for-service revenue) for FY 2017-18. The estimate is comprised of the following revenue sources:

Statewide Transportation Enterprise Special Revenue Fund (Fund 536):

US 36 Managed Lanes (cost center T8620-536) Revenues:

- \$70,000 Express Lanes Advertising Reimbursement from Plenary Roads Denver
- \$175,000 in Interest Income
- \$400,000 for the annual Concessionaire Management Fee from Plenary Roads Denver

I-25 North Managed Lanes (cost center T8630-536) Revenues:

- \$450,000 in Transponder Revenue
- \$4,491,000 in projected Toll Revenue

I-70 West Mountain Express Lanes (cost center T8640-536) Revenues:

- \$777,000 in projected Toll Revenue

Statewide Transportation Enterprise Operating Fund (Fund 537):

Administrative Cost Center (T8700-537) Revenues:

- \$4,774,500 in Fee-for-Service Revenue
- \$20,000 in Interest Income

Details regarding individual expense line items that that been identified thus far are outlined in *Attachment A: FY 2017-18 Draft HPTE Budget for Fund 536* and *Attachment B: FY2017-18 Draft HPTE Budget for Fund 537*.

In line with the development of the draft FY 2017-18 budget, a draft scope of work for FY 2017-18 has also been developed and is included as *Attachment C*. The draft scope of work includes a draft outline of the anticipated activities that CDOT will task HPTE to perform on its behalf. HPTE engaged Stifel, Nicolaus & Company to provide an updated market analysis of the market value that HPTE provides to CDOT. This updated valuation is attached as *Attachment D*, and supports the Fund 537 budget request for the upcoming fiscal year.

Options and Recommendations

The Board is being asked to review the attached draft FY 2017-18 budgets.

Next Steps

Over the next several months, HPTE staff will be finalizing the budgets for Fund 536 and 537 and will return to the Board in February with a final budget for Board comment and in March for adoption of final FY 2017-18 budgets.

Attachments

Attachment A: FY 2017-18 Draft Budget for Fund 536

Attachment B: FY 2017-18 Draft Budget for Fund 537

Attachment C: Colorado High Performance Transportation Enterprise Scope of Work Fiscal Year 2018 Outline

Attachment D: Stifel, Nicolaus & Company Updated HPTE Market Assessment

Attachment A: FY 2017-18 Draft Budget for Fund 536

Fiscal Year 2017-18 Draft Budget		
Statewide Transportation Enterprise Special Revenue Fund (C.R.S. 43-4-806(3)(a)) 536		
Expenses by Corridor	Estimated Revenues	Estimated Expenses
US 36 Managed Lanes (Cost Center T8620-536)		
Fiscal Year Revenues		
Express Lanes Advertising Reimbursement from Plenary	\$ 70,000	
Interest Earnings	\$ 175,000	
Annual Concessionaire Management Fee	\$ 400,000	
Total US 36 FY 2017-18 Available Revenue	\$ 645,000	
Fiscal Year Expenses		
CDOT Staff Consulting		\$ (15,000)
Project Oversight		\$ (400,000)
Toll Processing Oversight		\$ (200,000)
Annual Audit		\$ (5,100)
Attorney General Fees		\$ (10,000)
Total US 36 FY 2017-18 Estimated Expenses		\$ (630,100)
		US36 Remaining Balance
		\$ 14,900
I-25 North Managed Lanes (Cost Center T8630-536)		
Fiscal Year Revenues		
Tolling Revenue	\$ 4,491,000	
Transponder Revenue	\$ 450,000	
I-25 North Loan Funds	\$ 470,237	
Total I-25 N FY 2017-18 Available Revenue & Funds	\$ 5,411,237	
Fiscal Year Expenses		
I-25 North Loan Payment		\$ (470,237)
CDOT Staff Consulting		\$ (15,000)
General Reimbursable and Toll Processing Costs		\$ (2,191,924)
Corridor Operations & Maintenance		\$ (500,000)
Note Registrar		\$ (1,000)
Total I-25 N FY 2017-18 Estimated Expenses		\$ (3,178,161)
		I-25 N Remaining Balance
		\$ 2,233,076
I-70 West Mountain Express Lane (MEXL) (Cost Center T8640-536)		
Fiscal Year Funds and Revenue		
Tolling Revenue	\$ 777,000	
MEXL Loan Funds	\$ 697,500	
Total I-70 W MEXL FY 2017-18 Available Revenue & Funds	\$ 1,474,500	
Fiscal Year Expenses		
MEXL Loan Interest Payment		\$ (697,500)
CDOT Staff Consulting		\$ (15,000)
General Reimbursable and Toll Processing Costs		\$ (151,200)
Corridor Operations & Maintenance		\$ (383,625)
Note Registrar		\$ (1,000)
Total I-70 W MEXL FY 2017-18 Estimated Expenses		\$ (1,248,325)
		I-70 W MEXL Remaining Balance
		\$ 226,175
Total Fund 536 Revenues & Funds	\$ 7,530,737	
Total Fund 536 Expenses	\$ (5,056,586)	
Remaining Unbudgeted Funds	\$ 2,474,151	

Attachment B: FY 2017-18 Draft Budget for Fund 537

Fiscal Year 2017-18 Draft Budget		
Statewide Transportation Enterprise Operating Fund (C.R.S. 43-4-806(4)) 537		
Operations Expenses	Estimated Revenues	Estimated Expenses
Fiscal Year 2017-18 Revenue		
Fee for Consulting Services	\$ 4,774,500	
Interest Earnings	\$ 25,000	
Total FY 2017-18 Operating Revenue	\$ 4,799,500	
Fiscal Year 2017-18 Expenses		
Administrative Cost Center (T8700-537)		
Overall Program Operations		
HPTE Staff Costs		\$ (563,900)
CDOT Staff Consulting		\$ (100,000)
Attorney General		\$ (90,000)
Annual Accounting & Audit Services		\$ (55,200)
Board Expenses		\$ (18,400)
Staff Training and Certifications		\$ (45,000)
Administrative and Office Expenses		\$ (12,000)
Conferences and Industry Memberships		\$ (10,000)
Miscellaneous		\$ (25,000)
Program Planning & Development		
Program Management		\$ (100,000)
Express Lanes Outreach and Communications		\$ (495,000)
Public Affairs Support		\$ (18,000)
P3 Advisor		\$ (350,000)
Toll Operations Advisor		\$ (300,000)
Professional Services		\$ (500,000)
Surveillance Fees		\$ (75,000)
Long-Term Strategic Planning and Partnerships		\$ (300,000)
Aconex Document Management System		\$ (224,000)
Express Lane Project Development Support		\$ (1,500,000)
In and Out of State Travel Expenses		\$ (18,000)
Total FY 2017-18 Operating Revenue	\$ 4,799,500	
Total FY 2017-18 Operating Expenses		\$ (4,799,500)
Total Fund 537 Revenues \$ 4,799,500		
Total Fund 537 Expenses \$ (4,799,500)		
Remaining Unbudgeted Funds \$ -		

Colorado High Performance Transportation Enterprise Scope of Work Fiscal Year 2018 Draft Outline

Project Finance / Oversight & Management

US 36

- Coordinate with CDOT Region 1 staff, OMPD and the CDOT's Communications Office on all stakeholder outreach efforts
- Work with TSM&O, OMPD staff and the CDOT annual budget team to develop a budget for routine maintenance and snow and ice removal costs. In addition, CDOT will have cost savings in routine maintenance and snow removal due to the concession agreement. These cost savings will also be passed through from HPTE to CDOT

Estimated Cost

\$50,000

CENTRAL 70

- Review and comment on all documents prepared by legal counsel
- Work with the CBE and OMPD to prepare the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan and Private Activity Bonds (PABs) applications
- Review and comment on other consultants work product, for example, technical requirements, tolling requirements, project staffing levels
- Participate in meetings with CDOT/HPTE consultants to keep the procurement process on schedule
- Assist in the proposal evaluation process
- Lead or assist (depending on the funding source) the procurement process of additional services for the project
- Lead the TIFIA and PABs application and negotiation process
- Assist CDOT OMPD with the project's tolling strategy
- Lead negotiations with stakeholders to procure additional project funding
- Coordinate with E470 and OMPD on the integration of E-470 into the project documents
- Guide litigation strategy
- Assist with the evaluation of both the technical and financial proposals
- Oversee commercial and financial close

Estimated Cost

\$500,000

C-470 EXPRESS LANES PROJECT

- Support OMPD's other primary responsibilities as they related to the C470 Project
- Prepare finance plan and other related documents relating to the TIFIA loan
- Manage the disbursements of the TIFIA Loan and monitor the loans reporting requirements
- Monitor financing documents
- Work with legal counsel and other consultants regarding the TIFIA loan, PABs and other potential financing for the project

- Work with OMPD to develop a tolling strategy for the corridor
- Coordinate with E470 and OMPD on the toll installation and testing of the hardware and software on the express lanes
- Coordinate with CDOT Region 1, OMPD, and the CDOT Communications Office regarding stakeholder outreach
- Pay for the Surveillance of the C470 TIFIA Loan and the PABs (\$75,000)

Estimated Cost **\$500,000**

I-25 NORTH SEGMENT 3

- Coordinate with CDOT Region 1, OMPD, and the CDOT Communications Office regarding stakeholder outreach.
- Support OMPD's other primary responsibilities as they related to the Project
- Coordinate with legal counsel, the Attorney General's Office, CDOT Region 1/4 and OMPD staff to ensure HPTE is complying with the covenants in the loan agreement

Estimated Cost **\$50,000**

I-25 NORTH SEGMENTS 7 AND 8

- Coordinate with CDOT Region 4, OMPD, and the CDOT Communications Office regarding stakeholder outreach.
- Support OMPD's other primary responsibilities as they related to the Project

Estimated Cost **\$100,000**

I-70 MOUNTAIN EXPRESS LANE (EAST BOUND)

- Coordinate with CDOT Region 1 to ensure HPTE is complying with the December 19, 2014 Intra Agency Agreement (IAA) between CDOT and HPTE.
- Coordinate with legal counsel, the Attorney General's Office, CDOT Region 1 and OMPD staff to ensure HPTE is complying with the covenants in the loan agreement
- Coordinate with CDOT, OMPD and Region 1 staff regarding the MEXL tolling strategies
- Work with TSM&O, OMPD staff and the CDOT annual budget team to develop a budget for HPTE's share of operations and maintenance cost on the lanes.

Estimated Cost **\$50,000**

I-70 MOUNTAIN EXPRESS LANE (WEST BOUND)

- Coordinate with CDOT, OMPD and Region 1 staff regarding the Collaborative Process on any potential west bound project

Estimated Cost **\$50,000**

Tolling Operations

I-25 NORTH SEGMENT 3

- Coordinate with CDOT OMPD, Region 1 and 4 staff regarding the tolling strategies for Segment 3
- Work with OMPD to develop a tolling strategy for the corridor

Estimated Cost **\$50,000**

I-25 NORTH SEGMENT 7 AND 8

- Coordinate with CDOT OMPD, Region 1 and 4 staff regarding the tolling strategies for Segments 7 and 8
- Work with OMPD to develop a tolling strategy for the corridor
- Coordinate with legal counsel, the Attorney General’s Office, CDOT Region 1 and OMPD staff to ensure HPTE is complying with the covenants in the loan agreement (if applicable)

Estimated Cost **\$50,000**

I-70 MOUNTAIN EXPRESS LANE (EAST BOUND)

- Study a toll rate increase, and if feasible, implement through public outreach and Board action

Estimated Cost **\$100,000**

Innovative Finance Operations

US 36

- Work on a FHWA Dynamic Road Share grant
- Provide project updates to Legislators and the US 36 Mayors and County Commissioners
- Study turning the I-25 Central Lanes from a barrier separated facility into a bi-directional facility

Estimated Cost **\$300,000**

CENTRAL 70

- Facilitate the study of connecting to a bi-directional I-25 Central Express Lanes
- Additional traffic and revenue study to support financing
- Explore RoadX project incorporation

Estimated Cost **\$800,000**

C-470 EXPRESS LANES PROJECT

- Explore RoadX project incorporation

Estimated Cost **\$50,000**

I-70 MOUNTAIN EXPRESS LANE (WEST BOUND)

- Investment grade traffic and revenue study

Estimated Cost **\$930,000**

Overall Program Services

INCREASE TRANSPARENCY AND EDUCATION ON PUBLIC-PRIVATE PARTNERSHIPS + INNOVATIVE FINANCE

- Conduct telephone town halls as required by the Transparency Policy
- Conduct surveys to gauge public sentiment
- Conduct public meetings and stakeholder outreach as required by the Transparency Policy
- Maintain current and updated information on project websites regarding project status and public participation activities and events.
- Produce Annual Report to Colorado General Assembly as required by 43-4-806 C.R.S.
- Coordinate with the CDOT Public Information Office on updating transponder and HOV policy, motorcycle transponder policy, and HOV carpooling technology.
- Conduct ongoing outreach for Express Lanes
- Community and public affairs support
- Staff training costs
- Legislative activity

Estimated Cost **\$514,000**

OUT OF STATE TRAVEL

- Travel to conferences, trainings, and project related meetings to comply with the training requirement from the US 36 Legislative Audit and to promote HPTE’s projects to the infrastructure finance industry

Estimated Cost **\$16,500**

Aconex	\$224,000
Long-Term Strategic Planning and Partnerships	\$190,000
Parking P3 with RTD [DTR?]	\$100,000
Explore new Tolling Service Provider	\$150,000
TOTAL	\$4,774,500

To: David Spector, Director, High Performance Transportation Enterprise (the “Enterprise” or “HPTE”)
 CC: Maria Sobota, CFO, Colorado Department of Transportation
 From: Stifel
 Date: November 10, 2016
 Subject: Updated HPTE Market Assessment (formerly referred to as the 10 Year Plan/Benefit to CDOT)

At the request of the Director of the High Performance Transportation Enterprise (“HPTE” or the “Enterprise”); Stifel, Nicolaus & Company, Incorporated (“Stifel”) has prepared the following updated analysis for the benefit of HPTE to the Colorado Department of Transportation (“CDOT” or the “Department”) and within the scope of work defined by HPTE. As such, any third parties should be aware of the limitations in scope and the assumptions detailed below were provided by HPTE and were not designed for the purpose of reliance by anyone other than HPTE or CDOT.

BACKGROUND

Beginning in fiscal year (FY) 2014-15, the HPTE staff was tasked with creating a 10-year plan to demonstrate the Enterprise’s ability to operate autonomously from CDOT, without continued loans from the Transportation Commission and simultaneously repaying all outstanding obligations. In connection with this, HPTE prepared and presented to CDOT a market assessment and value of HPTE to CDOT, utilizing publicly available documents from other tolling agencies throughout the country.

Ultimately, a 10-year Plan/Pro-Forma Cash Flow was developed as a basis for this independent operating relationship between the two entities. Based on this analysis a two-year budget for HPTE’s services was approved by both CDOT and HPTE for FY 2015-16 and FY 2016-17.

In anticipation of upcoming FY 2017-18 budget planning, Stifel was asked by the HPTE Director to update the market analysis based on material changes that have occurred during the past two years. These changes include: accelerated growth of HPTE as a toll road operator; leadership changes within CDOT and HPTE; and updated legal analysis of Colorado enterprises. These changes necessitate revisions to the prior methodology and an update of the market analysis.

MATERIAL CHANGES TO HPTE AND THE LANDSCAPE

Since the original Fee for Service model was developed in FY 2014-2015, several key changes have taken place, causing the request to revisit the current model;

1. **New Leadership:** Since the original initiation of the inaugural 10-year plan, several key roles within the organization have changed. In addition to new members to the Transportation Commission and the HPTE Board, the following table highlights changes to key roles within the organization:

Role	Prior	Current
CDOT Executive Director	Don Hunt	Shailen Bhatt
CDOT CFO	Scott Richrath	Maria Sobota
HPTE Director	Mike Cheroutes	David Spector
OMPD Director	Ben Stein	Brett Johnson

With a new perspective on the ever changing backdrop of transportation in Colorado, this new leadership is in position to update and modernize the initial methodology adopted two years ago, to ensure the arrangement between CDOT & HPTE provides the necessary resources to HPTE, and the necessary value to CDOT, to continue to deliver key transportation infrastructure projects.

2. Updated Legal Framework - Hospital Provider Fee (“HPF”) Opinion: A key ruling by Attorney General Coffman in February 2016 has provided additional clarity to the legal and structural organization Colorado enterprises, including specifically, the nature of fee for service arrangements. Among other principles, the opinion provides:

- An enterprise “must charge a fee in exchange for government service.”¹
- An enterprise “must be financially distinct from its government owner, and any fees it collects must be dedicated to the enterprise’s purposes.”²
- An enterprise “must not be intended to create a revenue stream to fund general government functions.”³
- “An enterprise need not gain its revenue from market exchanges taking place in a competitive, arms-length manner.”⁴

These principles provide certainty as it relates to HPTE’s enterprise status relative to CDOT, and supports the fee for service structure (without a requirement for a market exchange to generate revenue).

3. New and Accelerated Services Delivered to CDOT: Since the adoption of the original 10-year plan, HPTE has helped deliver several new tolling facilities and other benefits to CDOT, representing a 10-fold increase in the number of tolled lanes overseen or operated by HPTE.
- a. Mountain Express Lane opened for tolling in January 2016
 - b. I-25 North Express Lanes
 - i. Segment 2 opened for tolling summer 2016
 - ii. Segment 3 loan funding closed in Q1 2016
 - iii. Segment 7&8 traffic and revenue study and stated preference survey being performed with expectation of HPTE financing a portion of the project
 - c. C-470 Express Lanes – Scheduled to close both the TIFIA Loan and Revenue Bonds in early 2017
 - d. Central 70– Continued progress with the procurement and the TIFIA loan, working towards awarding a contract and financial close in 2017.
 - e. I-25 South – HPTE contributed approximately \$3 million to the I-25 South PEL
 - f. P3 ‘Think Tank’ – Persistently pursuing innovative financing methods for other CDOT project delivery (e.g., tunnel lighting, park and rides, Road X)
 - g. Alternative Revenue Options – Released RFP for private sector partnerships to generate additional revenue options throughout the State
 - h. Performing legally required evaluation pursuant to C.R.S. Section 43-4-806(7)(a)

¹ Colorado Attorney General Opinion No. 16-01; Page 8 (Fee-for Service) *February 29, 2016*

² Colorado Attorney General Opinion No. 16-01; Page 9 (Financially Distinct) *February 29, 2016*

³ Colorado Attorney General Opinion No. 16-01; Page 10 (Financially Distinct) *February 29, 2016*

⁴ Colorado Attorney General Opinion No. 16-01; Page 12 (Private Sector Analogue) *February 29, 2016*

REVISED COMPARABLE ENTITY VALUATION

Since the original Fee for Service Model was evaluated, an identical methodology has been applied (to the same comparable tolling entities), in order to ascertain an updated value of HPTE to CDOT. This updated valuation accounts for the growth of HPTE and the corresponding updates to the comparable entities. Note that this comparison is to tolling entities that *do not* have a scope that is as expansive as HPTE; In addition to overseeing and operating Colorado’s tolled Express Lanes HPTE must also provide and deliver innovative financing solutions for other CDOT projects, as well as enable, procure and oversee CDOT’s public private partnerships.

The following two tables provide estimates for a high/low expense estimate for HPTE’s toll operations⁵.

CATEGORY	ESTIMATED ANNUAL VALUE	COMPARABLE ENTITY – LOW ESTIMATE		
		ENTITY	AMOUNT	YEAR
Overall Program	835,500	CTRMA	835,500	2012/2014
Program Planning	688,886	Foothills/Eastern	53,720,000	2017
Project Development	310,774	NTTA	310,774	2015
Project Procurement/Operations	580,696	E-470	41,386,029	2015
Construction	802,332	OTA	415,600,000	2016-2020
TOTAL	3,218,188			

CATEGORY	ESTIMATED ANNUAL VALUE	COMPARABLE ENTITY – HIGH ESTIMATE		
		ENTITY	AMOUNT	YEAR
Overall Program	835,500	CTRMA	835,500	2012/2014
Program Planning	1,504,914	Foothills/Eastern	53,720,000	2017
Project Development	310,774	NTTA	310,774	2015
Project Procurement/Operations	1,268,566	E-470	41,386,029	2015
Construction	1,752,742	OTA	415,600,000	2016-2020
TOTAL	5,672,496			

Methodology

In conjunction with the original 10-year pro-forma cash flow described above, HPTE staff reviewed the operations and financial statements of several other tolling agencies around the country, with the objective of quantifying the benefit HPTE provides to CDOT. HPTE staff began with an indirect cost assessment and a description assigning the source of resources and responsibilities for the fulfillment of the basic functions for CDOT and HPTE (broken out into five major categories⁶). Utilizing this assessment, five comparable tolling agencies were assigned to each of the five major categories, in which each agency best matched the description of each category. Finally, an expense factor calculation was used to adjust for the size of each agency relative to HPTE.⁷ This methodology has stayed the same for this update.

ADDITIONAL REVENUE CONSIDERATIONS

With the implementation of several tolling facilities in the past few years and several new facilities in progress or contemplated, HPTE has begun charging conduit issuer fees to better align the services provided to specific financings and projects. In order to align the fees with the services associated with financings for specific projects

⁵ Full analysis included as an attachment

⁶ i) overall program, ii) program planning, iii) project development, iv) project procurement/operations, and v) construction

⁷ Please see Attachment II for the estimate of value summary and supporting documentation from the related tolling agencies

(and due to the limitations associated with the current legislation, as it relates to revenues remaining in the corridor), HPTE expects to continue to assessing a conduit fee per transaction. For example, on the I-25NEL Loan, HPTE assessed a Fee for Service related to the transaction (paid from loan proceeds, similar to other vendors and consistent with other conduits around the region). Given the number of potential future financings, HPTE is considering developing a policy relating to imposing conduit fees on transactions.

CONCLUSION

Based on the summary detailed above, since the original market assessment was performed, HPTE has demonstrated increased value to CDOT as a “government-owned business.” An updated valuation (of HPTE’s tolling services only) based on comparable tolling agencies and their corresponding publicly available documents, is in the range of \$3.2 million to \$5.6 million. This updated valuation will be used in the FY 2017-18 budget planning process.

To reflect the current market conditions at the time of the budget process, HPTE anticipates updating this methodology and valuation on a biennial basis.