



Annual Financial Statements Fiscal Years 2019 and 2020



Colorado High Performance Transportation Enterprise
Financial Statements and Independent Auditor's Reports
Financial Audit
Years Ended June 30, 2020 and 2019
Compliance Audit
Year Ended June 30, 2020

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Members of the Legislative Audit Committee

We have completed the financial statement and compliance audits of the Colorado Department of Transportation's High Performance Transportation Enterprise (the Enterprise or HPTE) as of and for the years ended June 30, 2020 and 2019. Our audits were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We were engaged to conduct our audits pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions and agencies of State government. The reports which we have issued as a result of this engagement are set forth in the table of contents which follows.

BKD, LLP

Denver, Colorado
December 4, 2020

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Colorado High Performance Transportation Enterprise
June 30, 2020 and 2019

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Colorado High Performance Transportation Enterprise

Report Summary

Year Ended June 30, 2020

Purposes and Scope of Audit

The Office of the State Auditor engaged BKD, LLP (BKD) to conduct a financial and compliance audit of the Colorado High Performance Transportation Enterprise for the fiscal year ended June 30, 2020. BKD performed the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The audit of the Colorado High Performance Transportation Enterprise (the Enterprise or HPTE) was performed under authority of Section 2-3-103, C.R.S.

The purposes and scope of this audit were to:

- Express opinions on the financial statements of the Enterprise as of and for the years ended June 30, 2020 and 2019, including consideration of internal control over financial reporting as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards* for the year ended June 30, 2020.
- Review the Enterprise's compliance with rules and regulations governing the expenditure of federal and state funds for the year ended June 30, 2020.
- Issue a report on the Enterprise's internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters based on our audit of the financial statements performed in accordance with *Government Auditing Standards* for the year ended June 30, 2020.

Audit Opinions and Reports

The independent auditor's reports included herein expressed unmodified opinions on the Enterprise's financial statements as of and for the years ended June 30, 2020 and 2019.

No instances of noncompliance considered material to the financial statements were disclosed by the audit.

Summary of Key Findings and Recommendations

There are no findings in the current year.

Colorado High Performance Transportation Enterprise

Report Summary

Year Ended June 30, 2020

Summary of Progress in Implementing Prior Year Audit Recommendations

There were no prior year audit recommendations.

Significant Audit Adjustments

There were no significant audit adjustments proposed.

Auditor's Communication to Legislative Audit Committee

The auditor's communication to the Legislative Audit Committee describes the auditor's responsibility under auditing standards generally accepted in the United States of America and significant management judgments and estimates. This communication is located on page 79.

Colorado High Performance Transportation Enterprise

Background

Year Ended June 30, 2020

On March 2, 2009, former Governor Ritter signed into law Colorado SB 09-108, *Funding Advancement for Surface Transportation and Economic Recovery Act*, otherwise known as FASTER, creating the High Performance Transportation Enterprise (HPTE or the Enterprise) as a government-owned business within the Colorado Department of Transportation (CDOT). The new law created the High Performance Transportation Enterprise, replacing the Colorado Tolling Enterprise (CTE) that had been established in 2002. With the passage of the new legislation, the CTE ceased to exist on March 2, 2009 and CTE's activities for the remainder of the fiscal year were assumed by HPTE. Any residual funds available from the original CTE were consolidated into HPTE.

The HPTE has the legal responsibility to seek out opportunities for innovative and efficient means of financing and delivering important surface transportation infrastructure projects in the State. It has the statutory power, among others, to impose tolls and other user fees, to issue revenue bonds secured by those fees, and to enter into contracts with public and private entities to facilitate Public Private Partnerships (P3s), which are partnerships between a government and a private sector company that can be used to finance, build, and operate projects.

The law also introduced a new governance structure, creating a HPTE Board of Directors (the Board) which includes a mix of State Transportation Commissioners and external stakeholders appointed by the Governor to provide expertise and guidance in analyzing P3s and other creative financings mechanisms.

The revised Colorado High Performance Transportation Enterprise statute, Section 43-4-806 C.R.S., requires two separate funds for management of the Enterprise. The Statewide Transportation Special Revenue Fund is referred to in statute and herein as the Transportation Special Fund. The Transportation Special Fund receives revenues collected from tolls, fees and other fines with the intent to separately account for authorized projects. The principal revenues for this fund comes primarily from the Mountain Express Lanes (MEXL) and the I-25 North Segment II Managed Lanes (I-25N). Prior to March 7, 2014, HPTE collected revenue from the I-25 Central Reversible Lanes. However, revenues from those lanes ceased when Plenary Roads Denver (PRD) commenced operations under the U.S. 36 Managed Lanes Concession Agreement.

The second fund, the Enterprise Operating Fund, referred to as the Operating Fund, was created to house the monies loaned by the Transportation Commission from the State Highway Fund. These monies are intended to defray expenses incurred by the Enterprise prior to the receipt of revenues either from bond proceeds or user fees. Beginning in 2016, HPTE's fees earned for providing services pursuant to the Fee for Service Interagency Agreement are also deposited into the Operating Fund. Statutes require that the Operating Fund is to be maintained and reported separate from the Transportation Special Fund. Therefore, the financial information for each fund is separately presented with combined totals in the accompanying financial statements for the Enterprise.

The Enterprise retains the status of an enterprise for purposes of Section 20 of Article X of the State Constitution (commonly referred to as "TABOR"), and accordingly, is not subject to the revenue and spending limitations of TABOR as long as it receives less than 10 percent of its total revenues in grants from the State and local governments. Management did not identify any violations of this enterprise status for Fiscal Years 2019-20 or 2018-19.

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Independent Auditor's Report

Members of the Legislative Audit Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the Colorado High Performance Transportation Enterprise (the Enterprise or HPTE), an enterprise fund of the State of Colorado, Department of Transportation, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Enterprise's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise as of June 30, 2020 and 2019, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 – Nature of Operations and Summary of Significant Accounting Policies, the financial statements of the Enterprise are intended to present the net position and changes in financial position and, cash flows for only that portion of the financial reporting entity, State of Colorado, Department of Transportation, that is attributable to the transactions of the Enterprise. They do not purport to, and do not present fairly the financial position of the State of Colorado, Department of Transportation as of June 30, 2020 and 2019 and the changes in its financial position, or cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and pension and other postemployment benefits information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Enterprise's basic financial statements. The report summary and background as listed in the table of contents are presented for additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2020, on our consideration of the Enterprise's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Enterprise's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
December 4, 2020

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Colorado High Performance Transportation Enterprise

Management's Discussion and Analysis

(Unaudited)

June 30, 2020 and 2019

Management's Discussion and Analysis (MD&A) was prepared by the Colorado High Performance Transportation Enterprise (the Enterprise or HPTE) and is designed to provide an analysis of the Enterprise's financial condition and operating results for the fiscal years ended June 30, 2020 and 2019. The MD&A also informs the reader of the financial issues and activities related to the Enterprise. It should be read in conjunction with the Enterprise's financial statements.

Program Overview

The revised Colorado High Performance Transportation Enterprise statute requires two separate funds for management of the Enterprise. The Statewide Transportation Special Revenue Fund is referred to in statute and herein as the Transportation Special Fund. The principal revenues of the Enterprise are deposited into this fund and include toll revenue from the Mountain Express Lanes (MEXL), I-25 North Segment II Managed Lanes (I-25N) and Segment III Managed Lanes. The fund is statutorily authorized to separately account for authorized projects as well as to repay loans made to the HPTE Operating Fund (see below) when sufficient revenues are generated to do so.

The second fund is the Enterprise Operating Fund, referred to herein as the Operating Fund. The Operating Fund was initially funded with monies loaned by the Transportation Commission to HPTE from the State Highway Fund (such monies were intended to defray expenses incurred by the Enterprise prior to the receipt of revenues either from bond proceeds or fees). Beginning in 2016, HPTE's fees earned for providing services pursuant to the Fee for Service Intragency Agreement are also deposited into the Operating Fund. Statutes require that the Operating Fund is to be maintained and reported separately from the Transportation Special Fund. Therefore, the financial information for each fund is presented with combined totals in the accompanying financial statements for the Enterprise.

Including the Director, the Enterprise presently has eight staff for administration of the program. In Fiscal Year 2018-19, the Board completed a nationwide search for a new Director and one was hired by the Board in July 2019. HPTE also created a new Tolling Operations Supervisor position in summer 2019, and hired a new Project Manager. The time CDOT staff works for the Enterprise is billed to and paid by the Enterprise.

The Enterprise retains the status of an enterprise for purposes of Section 20 of Article X of the State Constitution (TABOR) so long as it retains the authority to issue revenue bonds and receives less than 10 percent of its total revenues in grants from the State and local governments. Management has not identified any violations of this enterprise status for Fiscal Years 2018-19 or 2019-20.

Program Planning and Future Project Development

Strategic Planning

After the creation of the Enterprise, a professional study team engaged by the HPTE Board initiated a strategic planning process and reported potential funding revenue sources for Enterprise eligible projects. The process culminated in development of procedures to determine eligible projects and the adoption of a 2010 Action Plan which formed the basis of early enterprise activities. Since 2010, HPTE has held

Colorado High Performance Transportation Enterprise

Management's Discussion and Analysis

(Unaudited)

June 30, 2020 and 2019

planning retreats with its Board to ensure that HPTE is growing sustainably and pursuing projects and policies that are in service of its mission laid out in the Funding Advancement for Surface Transportation and Economic Recovery Act (FASTER) legislation. In February 2019, HPTE held a retreat focused on tolling operations and has since drafted a comprehensive toll rate setting policy that was adopted by the HPTE Board in July 2019. In February 2020, a second strategic planning retreat was held with a focus on reviewing the HPTE mission and vision. Additional goals for staff to pursue were also identified including updating the CDOT-HPTE Memorandum of Understanding (MOU) which staff will work on in Fiscal Year 2020-21.

Fee For Service

A study in early 2015 was completed and concluded that HPTE provides a necessary benefit to CDOT and assigned values for HPTE services and tasks. In June 2015, HPTE entered into its first Fee for Service Interagency Agreement (IAA) with CDOT, which compensates HPTE for providing CDOT direct benefits by accelerating infrastructure projects that ordinarily would not have been undertaken due to the constrained fiscal environment. HPTE's status as an enterprise under Section 20 of Article X of the Colorado Constitution, also known as TABOR, has allowed HPTE to accelerate the development and delivery of critical transportation infrastructure projects through the use of innovative financing, public-private partnerships, user fees, revenue bonds and private commercial loan agreements.

This and subsequent IAA's divide HPTE's tasks into categories linked to the stage of development of the various surface transportation projects and requires HPTE and CDOT to create an annual scope of work. HPTE is required to provide CDOT a progress report every January 15th and July 15th of each fiscal year. The progress reports are used by CDOT and HPTE to recognize revenue and expenses respectively. Per the agreement, HPTE will invoice CDOT for services that will be provided under the scope of work and the agreement will be renewed annually (or as often as additional work arises). HPTE's fees earned for providing services pursuant to the IAA are deposited into the Operating Fund. HPTE earned \$5,169,000 and \$5,600,000 in Fiscal Years 2018-19 and 2019-20, respectively, from the Fee For Service IAA.

Express Lanes Master Plan

To assist in planning for future projects, HPTE is implementing an Express Lane Master Plan (ELMP) to process and evaluate the provision and functionality of an integrated, statewide Express Lanes network. The ELMP will provide the state of Colorado with an articulate, financially sustainable, and beneficial Express Lanes plan to enhance mobility, safety, and accessibility for statewide travelers in support of economic vitality. A kickoff workshop was held with stakeholders from around the state in August 2018 to confirm the overall goals and objectives of the master planning effort (e.g. review the scope of the study, identify how the study will benefit stakeholders, discuss policies needed for different parts of the state to implement the plan); provide input on the initial list of the potential Express Lane corridors that should be evaluated in the study, and provide input on the evaluation criteria that will be used to shape the technical analysis of the study. A second workshop was held in December 2018 to review the screening methodology and the results of the initial corridor screening and to work with the stakeholders to select a group of corridors for a more detailed analysis. A final workshop was held in November 2019 to seek any

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final input on the ranking of future potential projects from stakeholders. The ELMP Final Report will be completed in late 2020 or early 2021.

Express Lane Project Highlights

Mountain Express Lane

In 2014, HPTE arranged financing for the construction of the I-70 Mountain Express Lanes through a \$25 million construction loan with Banc of America Preferred Funding Corporation, to be repaid from toll revenues from the lane. Interest accrues at the rate of 2.79 percent and is due each December. Principal payments start yearly in Fiscal Year 2022-23 with the maturity date in December 2024.

Prior to the lanes opening, HPTE and CDOT negotiated agreements for the details of this project with Clear Creek County, Federal Highway Administration (FHWA), and the City of Idaho Springs. The existing shoulders on I-70 between the Twin Tunnels to Empire Junction were expanded to allow tolled traffic on the eastbound shoulders during peak travel times.

The I-70 Mountain Express Lanes (MEXL) project opened for tolling on December 19, 2015. The most recent winter season and summer season showed success across all travel lanes in reducing congestion, improving travel times and safety. Given the beneficial results of the eastbound Mountain Express Lanes, CDOT and HPTE are implementing a westbound Mountain Express Lane from the Veterans Memorial Tunnel to Empire Junction. Construction started in the summer of 2019, and tolling is expected to start in spring of 2021.

I-25 North Corridor

Another HPTE and CDOT project is the extension of the I-25 Central Express Lanes to the entrance of RTD's Wagon Road Park and Ride near 120th Avenue (I-25 North Segment II). This project was awarded a \$15 million Transportation Investment Generating Economic Recovery (TIGER) Grant by USDOT in June 2012. This project largely used the existing highway infrastructure to expand the capacity of I-25 in this portion of the Denver Metro area and to also assist CDOT with traffic management of the I-25 corridor. This project opened for toll collection in July 2016. RTD provided a contribution towards the project to ensure effective and efficient operation of RTD's buses.

On February 24, 2016, the HPTE closed on a \$23,630,000 loan with Banc of America Preferred Funding Corporation to close the funding gap on the I-25N 120th to E-470 Project (Segment III). In 2013, CDOT allocated the use of Responsible Acceleration of Maintenance and Partnerships (RAMP) funds or State Highway funds to HPTE, which were then used on the project. The project continues the managed lanes that are currently operating from U.S. 36 up to 120th Avenue. In addition, the project resurfaced the existing lanes along this six mile stretch. Extending the project past the limits of Segment II from 120th Avenue to E-470 will bring continuity for the traveling public while decreasing travel time and expanding transportation choices further along the I-25 north corridor. The loan is to be repaid from toll revenues earned from the Segment III Express Lanes. Interest on the loan accrues at the rate of 1.99 percent and payments are due annually in December. Principal payments start yearly in December 2023 with the maturity date in December 2025. The project was originally anticipated to be complete in fall of 2019, but

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Management's Discussion and Analysis

(Unaudited)

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was delayed. As a result, HPTE and CDOT amended the project interagency agreement (IAA) in the fall of 2018 with CDOT to reflect that CDOT is responsible for debt service payments if the project was not completed to the original schedule. HPTE invoiced CDOT in the fall of 2019 for the amount that HPTE owed Banc of America \$782,183 for the previous six months. The I-25N Segment III Project opened for toll collection in June 2020.

Improvements at the northern most portion of the corridor will be along the I-25N from Johnstown to Fort Collins Project (I-25N Segments 7 and 8), which encompasses the 14 miles of highway between state highways 402 and 14, and will include one tolled express lane in each direction. The planned improvements will provide much needed capacity and help ease congestion in this rapidly growing corridor. CDOT is proceeding with a Design-Build project procurement. The preferred proposer was selected in November 2017, and notice to proceed was provided in April 2018. Construction started in the fall of 2018, and is scheduled to be complete in the fall of 2023. Other potential funding sources for the I-25N Segments 7 and 8 include federal grants (such as FASTLANE), Senate Bill (SB) 09-228 transfers allocated to the project in Fiscal Year 2017-18, toll revenue-backed loans, and general fund appropriations. This project is also supported by all of the communities and counties served by this corridor by contribution of funds totaling more than \$25 million.

C-470

HPTE is also working closely with CDOT to complete the C-470 project. After examining the level II traffic and revenue study and incorporating those results into a preliminary value for money analysis, the HPTE Board recommended to the Transportation Commission in November 2014 that the C-470 project be procured using the design build public funding delivery method. In a design build public funding method, HPTE takes the toll risk vs the developer taking the toll risk. The preliminary value for money for analysis came to the conclusion that the project did not receive any additional value in delivering it as a Public-Private Partnership.

In April 2016, Flatiron Construction and AECOM were selected as the preferred proposer team and the Design Build contract was executed in June 2016.

In August 2016, after years of planning and collaboration, federal, state, and local officials and members of the community joined CDOT and HPTE to celebrate the groundbreaking of the C-470 Express Lanes Project, which increased mobility and user choice on a 12.5 mile stretch of C-470 primarily between I-25 and Wadsworth Boulevard. Over 100,000 motorists currently use this segment of C-470 each day, with volumes projected to increase 40 percent by 2035.

HPTE received credit assistance from Transportation Infrastructure Finance and Innovation Act (TIFIA) in the amount of \$106 million and \$176.5 million toll revenue backed bonds, which closed in June 2017 for the C-470 project. Additionally, CDOT contributed \$20 million in RAMP Development Funds. HPTE started to draw down the TIFIA loan facility in December 2018, and has received \$51.7 million, leaving a balance of \$55.3 million left to disburse as of June 30, 2020.

On July 18, 2019, CDOT presented Flatiron/AECOM (F/A) with a Notice of Breach Under the Design-Build Contract and a rejection of F/A's June 21, 2019 Monthly Progress Schedule. On July 26, 2019,

Colorado High Performance Transportation Enterprise

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(Unaudited)

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CDOT and HPTE rejected the F/A's demands for additional time and potential costs due to winter weather delays. Then on August 2, 2019, because the F/A was unable to cure the breach of contract, CDOT notified F/A that they have been placed in default under the contract because they were unable to meet the Project Completion Deadline. Presently, F/A is over 98 percent complete with construction and is committed to reaching substantial completion by August 2020.

On September 10, 2019, Fitch Ratings placed the C-470 project on Rating Watch Negative for the C-470 revenue bonds and TIFIA loan. The Rating Watch Negative is a reflection of construction delays on the project, and F/A being placed in default. In early April 2020, Fitch affirmed the current rating and maintained the Rating Watch Negative for the project. As of June 30, 2020 final acceptance testing on the tolling equipment had started and in August 2020 tolling began on the C-470 express lanes.

I-25 South

Widening I-25 from four to six lanes for the 17 miles between Monument and Castle Rock has long been a focus for corridor travelers and elected officials. In 2017, CDOT was able to accelerate the environmental planning for this project by redirecting \$15 million of flexible state funds from C-470 project that were originally allocated to serve as a "backstop" for loans that would be financing the project in order to allow the project to progress. The accelerated environmental study examined opportunities to improve operations, reduce congestion and provide more predictable travel times for users. The I-25 South environmental study was also funded in part by \$3.75 million in RAMP Development Funds. This project was awarded a \$65 million Infrastructure for Rebuilding America (INFRA) Grant by the U.S. Department of Transportation in June 2018. Kramer North America was selected as the preferred proposer team and the Construction Manage/General Contractor (CM/GC) contract was executed. Construction started in the fall of 2018 and is expected to be completed in 2022.

Public Private Partnerships (P3)

Central 70

HPTE is working closely with CDOT and the Colorado Bridge Enterprise (CBE) on the Central 70 project. In February 2015 the Transportation Commission approved using a Design, Build, Finance, Operate and Maintain (P3 DBFOM) availability payment Public-Private Partnership procurement. The P3 DBFOM structure was selected as the delivery method because of its ability to transfer more risk to the private sector in several key areas including the long-term costs of maintaining the corridor. In this model, the concessionaire is given annual performance payments and must meet strict operations and maintenance standards. Central 70 is HPTE's second major P3 project.

In November 2017, HPTE and CBE reached commercial close with Kiewit Meridiam Partners LLC (KMP). The financial close of the project agreement between HPTE and KMP was completed in December 2017. The construction started in the summer of 2018.

The full project scope includes removing the elevated section of I-70 between Brighton and Colorado boulevards, lowering this portion of the highway below ground, constructing a cover over a portion of the

Colorado High Performance Transportation Enterprise

Management's Discussion and Analysis

(Unaudited)

June 30, 2020 and 2019

lowered highway, and installing one additional Express Lane in each direction along the length of the project from Brighton Boulevard to Chambers Road.

This project includes a 1.8-mile viaduct bridge, which ranks as the highest priority project for CBE to complete. CDOT, in collaboration with HPTE and CBE, have identified a total project delivery cost of approximately \$1.2 billion to construct the 10-mile project. Funding sources currently committed to the Central 70 Project include \$850 million from CBE, \$50 million from Denver Regional Council of Governments (DRCOG), transfers from SB16-228 funds totaling \$180 million, HPTE toll revenues, and \$37 million from the City and County of Denver.

A Settlement Agreement was executed on May 9, 2019 between Colorado Bridge Enterprise (CBE), HPTE and KMP, to resolve four Supervening Events (potential claims). The Settlement Agreement involved amendments to the project documents, including a settlement payment of \$7.6 million and time extension to address these events, which will be paid by CBE and CDOT. The payment of \$7.6 million is due at substantial completion.

Other Supervening Events on the project are mainly related to Union Pacific Railroad Company (UPRR) related design processes and are not covered by the Settlement Agreement. Currently, there is a 10-month delay in Milestone 5, with a corresponding 10-month delay in the substantial completion. Key factors influencing the delay are: developer's schedule was aggressive; delays in executing the UPRR Railroad Agreement; developer's final design schedule; project and stakeholder agreement regarding final design; contractor access to skilled labor to support the construction schedule; and asphalt paving restrictions. KMP is considering mitigating measures including adding double shifts and additional nightly closures to address this delay and is committed to completing the construction in 2022. HPTE, CBE and the Developer continue to meet regularly to discuss potential schedule saving mitigation measures on the project.

U.S. 36

In the February 2014, HPTE and Plenary Roads Denver (PRD) completed the financial close of a 50-year concession agreement. The concession agreement was HPTE and CDOT's first P3 project. The U.S. 36 project added a new Express Lane in each direction and installed Intelligent Transportation Systems (ITS) for tolling, transit, traveler information and incident management. In addition, U.S. 36 was widened to accommodate 12-foot-wide inside and outside shoulders, installed an 18 mile bikeway along the U.S. 36 corridor, improved several Regional Transportation District (RTD) stations, and replaced several bridges. In March 2016, the Express Lanes were open for tolling and operations and maintenance of the U.S. 36 Corridor and the existing I-25 Central Reversible Express Lanes were transferred to PRD. As part of the financial close between HPTE and PRD, \$20 million of private activity bonds (PABs) were issued by PRD, with HPTE acting as a conduit issuer. The PABs are not a liability of HPTE and will be repaid by the concessionaire with future toll revenues. HPTE does not receive any toll revenue generated from the U.S. 36 Express Lanes project.

In May 2019, the CDOT Transportation Commission provided funding to complete a package of repair work that was originally agreed to be done before plenary took over maintenance of the U.S. 36 corridor

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Management's Discussion and Analysis

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(referred to as Initial Works). The concession agreement allowed for PRD to procure a contractor and oversee construction management on the project. The U.S 36 Initial Works Pavement Repairs were completed in two phases:

Phase 1 (October 2019 – January 2020)

- The project completed approximately 2,000 square yards of concrete panel repairs from the Westbound Federal Boulevard off ramp to underneath the Federal Boulevard bridge.

Phase 2 (April 2020 – May 2020)

- The project completed approximately 6,500 square yards of concrete panel repairs on U.S. 36 between Pecos Street and Federal Boulevard.
- The contractor also completed milling and paving of approximately 3,600 tons of SMA (Stone Matrix Asphalt) on the Federal Boulevard on and off ramps.
- During Phase 2, HPTE and Plenary worked closely with CDOT Region 1 traffic operations to implement daytime lane closures on U.S. 36 during low traffic volumes related to COVID -19 restrictions. Originally scheduled for 150 days, the project was completed in 39 days.

In July 2019, CDOT, HPTE and PRD worked together on a U.S. 36 emergency rebuild project to repair a retaining wall between Church Ranch Boulevard and Wadsworth Boulevard, following a crack in the concrete of the eastbound lanes of U.S. 36 near Westminster. Immediately following the appearance of the crack, two lanes of eastbound traffic were redirected via a constructed cross-over to the westbound side of the highway. Through emergency contracting, a contractor was selected to rebuild the failed retaining wall and by October 2019 U.S. 36 eastbound was re-opened in its original configuration, including the Express Lanes. In April 2020 all work related to the retaining wall failure was completed including 77 concrete wall panels installed, 141 concrete caissons drilled and poured as well as 4,500 geofam blocks installed.

COVID-19 Pandemic and Impacts to HPTE

In response to the COVID-19 pandemic, the City and County of Denver issued a stay-at-home order on March 24, 2020 that remained in effect until May 8, 2020. This was also coupled with a statewide stay-at-home order which was in effect from March 26, 2020 to April 27, 2020. With a large portion of the Denver metro area working from home under the stay-at-home orders, HPTE saw a significant reduction in I-25 North Express Lanes traffic from U.S. 36 to 120th (Segment II), with tolled volumes during the 8-week stay-at-home period declining by approximately 66 percent relative to volumes for the same time period in 2019.

Following this issuance of an executive order from the Governor on March 14, 2020 for Colorado ski resorts to suspend operations for one week to slow the spread of COVID-19 and conserve medical resources in the state's mountain communities, many ski resorts decided to remain closed for the remainder of the 2019-20 ski season. Early closure of resorts along with the statewide stay-at-home order, resulted in overall lower travel to the mountains during April and May. As a result, the I-70 Mountain Express Lane did not open during those months. Historically, April and May see very low volumes in the Express Lanes, so the revenue impact of the lane being closed was minimal.

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As of June 30, 2020 in a statewide “Safer at Home and in the Vast, Great Outdoors” phase of the COVID-19 response, HPTE has seen a strong recovery over the seven weeks since the expiration of the initial stay-at-home orders. As of June, traffic in the I-25 North Segment II Express Lanes had recovered by approximately 15 percent per week on average and the I-70 Mountain Express Lane was seeing higher capture rates than the prior year (18 percent vs. 16 percent). On I-25 North Segment II, HPTE saw a 14 percent increase in revenues through the third quarter of Fiscal Year 2019-20, when compared to the same period in Fiscal Year 2019-20.

Overall, Colorado saw a decline in COVID-19 cases through the summer months of 2020. As a result HPTE did observe some recovery in express lane volumes and revenue. However, overall amounts were less compared to the same period in 2019 for lanes open in both years. As the possibility of an increase in COVID-19 cases exists for the foreseeable future, it is possible express lanes volumes and revenue will be less than originally projected. HPTE anticipates that the observed recovery in Express Lane volumes and revenues will continue over the summer as individuals return to places of work, business and travel to outdoor recreation in the mountains.

Using This Annual Report

This annual report consists of a series of financial statements.

The Enterprise reports two major funds, the Transportation Special Fund and the Operating Fund.

The statements of net position includes the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position and provides information about HPTE's assets and liabilities and reflects the financial position of HPTE as of June 30, 2020 and 2019. Over time, increases or decreases in the net position continue to serve as a useful indicator of whether the financial position of the Enterprise is improving or deteriorating.

The statements of revenues, expenses, and changes in net position presents the revenues earned and expenses incurred for the years ended June 30, 2020 and 2019. Revenues and expenses are reported on the accrual basis. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal years.

The statements of cash flows presents information of cash inflows and outflows related to the Enterprise's activities for the years ended June 30, 2020 and 2019.

Revenues and expenses of the Enterprise are accounted for on a fiscal year basis and are presented herein.

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Net Position Analysis

Condensed Statements of Net Position

As of June 30	Transportation Special Revenue Fund			Operating Fund		
	2020	2019	2018	2020	2019	2018
Assets						
Current Assets	\$ 30,776,446	\$ 39,895,130	\$ 26,124,338	\$ 6,256,744	\$ 3,493,228	\$ 2,813,257
Noncurrent Assets	16,794,745	28,748,712	90,314,983	-	-	-
Capital Assets	624,772,519	541,600,819	438,745,045	-	-	-
Total Assets	672,343,710	610,244,661	555,184,366	6,256,744	3,493,228	2,813,257
Deferred Outflows of Resources	25,786	932	51,116	564,545	1,348,729	869,775
Liabilities						
Current Liabilities	31,495,224	40,123,836	36,018,870	594,984	353,174	323,780
Noncurrent Liabilities	278,925,874	281,692,366	229,879,543	3,296,357	4,689,473	5,242,745
Total Liabilities	310,421,098	321,816,202	265,898,413	3,891,341	5,042,647	5,566,525
Deferred Inflows of Resources	130,832,833	133,945,456	136,981,219	969,680	1,273,284	131,693
Net Position (Deficit)						
Net Investment in Capital Assets	203,323,983	141,051,148	198,515,110	-	-	-
Restricted for Debt Service	-	16,881,811	24,626,580	-	-	-
Unrestricted (Deficit)	27,791,582	(3,449,024)	(70,785,840)	1,960,268	(1,473,974)	(2,015,186)
Total Net Position (Deficit)	\$ 231,115,565	\$ 154,483,935	\$ 152,355,850	\$ 1,960,268	\$ (1,473,974)	\$ (2,015,186)

Fiscal Year 2019-20 Analysis

Transportation Special Revenue Fund

Assets

The Transportation Special Revenue Fund total assets increased by \$62.1 million.

Current Assets

Current assets decreased by \$9.1 million due to a decrease in accounts receivable of \$9.4 million. The decrease in accounts receivable was related to a C-470 TIFIA loan facility proceeds request, which was received by HPTE in July 2019.

Noncurrent Assets

Noncurrent assets, excluding capital assets decreased by \$12 million due to the reduction in restricted cash from the spending of C-470 bond proceeds.

Capital Assets

In Fiscal Year 2019-20, HPTE capital assets increased by \$83.2 million due to the construction of C-470 and I-25 Segment III managed lanes.

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Liabilities

Liabilities decreased by \$11.4 million. Accrued interest decreased by \$2.6 million due to the C-470 bond payment not being accrued. In Fiscal Year 2019-20, June 30th was on a Sunday, which caused the payment by the Trustee to occur on Monday, July 1st, causing the debt service payment to be accrued. The June 30, 2020 payment occurred before year-end and as such an accrual for debt service was not required. Additionally, the pending draw on C-470 TIFIA loan facility decreased to zero as the funds have been received from TIFIA, and as previously stated, an accrual was not required for June 30, 2020. Additionally, accrued liabilities decreased by \$8.6 million due to less project expenses to accrue due to the opening of the Segment III project.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources increased by \$24,854 and deferred inflows of resources decreased by \$3.1 million due to transactions related to pensions. The decrease in deferred inflows of resources was also attributed to the U.S. 36 Concession Agreement.

Net Position

The net effect of these changes was an increase in net position for the Transportation Special Revenue Fund of \$76.6 million. Of the total net position, \$203.3 million represents the net investment in capital assets.

In addition, the balance of net position contains the effects of PERA pension and OPEB liabilities and related items, required under Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Reporting for Pensions* (GASB 68) and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), which are detailed in the table below:

	Transportation Special Revenue Fund		
	Fiscal Year 2019-20	Fiscal Year 2018-19	Fiscal Year 2017-18
Net Position (GAAP Basis)	\$ 231,115,565	\$ 154,483,935	\$ 152,355,850
GASB 68-Pension Related Items			
Net Pension Liability	30,822	6,988	269,932
Deferred Outflows of Resources	(24,759)	(921)	(51,080)
Deferred Inflows of Resources	80,007	283,544	415,853
Net GASB 68 Pension related items	86,070	289,611	634,705
GASB 75 OPEB Related Items			
Postemployment Benefit Liability	1,361	293	6,174
Deferred Outflows of Resources	(1,027)	(11)	(36)
Deferred Inflows of Resources	13,581	17,340	15,488
Net GASB 75 OPEB	13,915	17,622	21,626
Net Position excluding Pension and OPEB	<u>\$ 231,215,550</u>	<u>\$ 154,791,168</u>	<u>\$ 153,012,181</u>

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In Fiscal Years 2019-20, 2018-19, and 2017-18, pension expense (credit) recognized in accordance with GASB 68 totaled (\$203,551), (\$345,084), and (\$259,162), respectively. OPEB expense (credit) recognized under GASB 75 in Fiscal Years 2019-20, 2018-19, and 2017-18 totaled (\$3,707), (\$4,001), and (\$2,537), respectively. The credit for pension and OPEB was the result of HPTE's proportional share of the net pension liability decreasing and also the State's contribution to the Trust Fund in accordance with C.R.S §24-51-413, during 2018-19 and 2019-20. As a result, total pension and OPEB liabilities decreased.

Operating Fund

Assets

The operating fund total assets increased by \$2.8 million from Fiscal Year 2018-19 to Fiscal Year 2019-20 due to an increase in accounts receivable. Accounts receivable increased by \$1.9 million due to a receivable from CDOT, regarding an IAA with CDOT to perform traffic and revenue studies for I-270 and Floyd Hill. Cash also increased due an increase in investment income.

Liabilities

As explained below, total liabilities decreased by \$1.1 million due to HPTE repaying the remaining balance of the Transportation Commission loans.

Current Liabilities

Current liabilities increased by \$241,280 due to an increase in accrual payments to vendors.

Noncurrent Liabilities

Noncurrent liabilities decreased by \$1.4 million primarily due to HPTE repaying the entire balance of Transportation Commission loans of \$2 million. HPTE paid the Transportation Commission loans with the remaining toll revenue from the I-25 Central Reversible lanes, before the tolls were turned over to the Plenary through the concession agreement.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources decreased by \$784,184 and deferred inflows of resources decreased by \$303,604. Both the decrease of deferred outflows of resources and of deferred inflows of resources were due to pensions and OPEB.

Net Position

The effect of these changes was an increase in the net position of the operating fund of \$3.4 million from the previous fiscal year.

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In addition, the balance of net position contains the effects of PERA pension and OPEB liabilities and related items which are detailed in the following table:

	Operating Fund		
	Fiscal Year 2019-20	Fiscal Year 2018-19	Fiscal Year 2017-18
Net Position (GAAP Basis)	\$ 1,960,268	\$ (1,473,974)	\$ (2,015,186)
GASB 68-Pension Related Items			
Net Pension Liability	1,920,810	2,464,396	2,860,175
Deferred Outflows of Resources	(529,786)	(1,305,816)	(854,352)
Deferred Inflows of Resources	945,379	1,273,126	130,598
Net GASB 68 Pension related items	<u>2,336,403</u>	<u>2,431,706</u>	<u>2,136,421</u>
GASB 75 OPEB Related Items			
Postemployment Benefit Liability	75,547	104,022	65,423
Deferred Outflows of Resources	(34,759)	(42,913)	(15,423)
Deferred Inflows of Resources	24,301	158	1,095
Net GASB 75 OPEB	<u>65,089</u>	<u>61,267</u>	<u>51,095</u>
Net Position excluding Pension and OPEB	<u>\$ 4,361,760</u>	<u>\$ 1,018,999</u>	<u>\$ 172,330</u>

In Fiscal Years 2019-20, 2018-19, and 2017-18 pension expense (credit) recognized in accordance with GASB 68 totaled (\$95,303), \$295,285, and \$797,851, respectively. OPEB expense recognized under GASB 75 in Fiscal Years 2019-20, 2018-19, and 2017-18 totaled \$3,821, \$5,087, and \$7,398 respectively.

Fiscal Year 2018-19 Analysis

Transportation Special Revenue Fund

Assets

The Transportation Special Revenue Fund total assets increased by \$55.1 million.

Current Assets

Current assets increased by \$13.7 million due to an increase in accounts receivable of \$9.4 million. The increase in accounts receivable was related to a C-470 TIFIA loan facility proceeds request, which was approved in June 2018 but was not received until July 2019.

Noncurrent Assets

Noncurrent assets, excluding capital assets decreased by \$61.6 million due to the reduction in restricted cash from the spending of C-470 bond proceeds.

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Capital Assets

In Fiscal Year 2018-19, HPTE capital assets increased by \$102.9 million due to the construction of C-470 and I-25 Segment III managed lanes.

Liabilities

Liabilities increased by \$55.9 million due the C-470 TIFIA loan facility. In Fiscal Year 2018-19 HPTE started to requisition the C-470 TIFIA loan facility proceeds, which caused the liability to be recorded, per the terms of the loan. Additionally, HPTE has a pending draw totaling \$9.2 million. The pending draw is a requisition for the TIFIA loan facility that has been approved by TIFIA but the funds were not received until after June 30, 2019.

HPTE accrued \$5.4 million of interest for Fiscal Year 2018-19 for the C-470 bonds, C-470 TIFIA loan facility, Segment III and MEXL loans.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources decreased by \$50,184 and deferred inflows of resources decreased by \$3 million due to transactions related to pensions. The decrease in deferred inflows of resources was also attributed to the U.S. 36 Concession Agreement.

Net Position

The net effect of these changes was an increase in net position for the Transportation Special Revenue Fund of \$2.1 million. Of the total net position, \$141.1 million represents the net investment in capital assets.

In addition, the balance of net position contains the effects of PERA pension and OPEB liabilities and related items, required under Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Reporting for Pensions* (GASB 68) and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), which are detailed in the table below:

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	Transportation Special Revenue Fund		
	Fiscal Year 2018-19	Fiscal Year 2017-18	Fiscal Year 2016-17
Net Position (GAAP Basis)	\$ 154,483,935	\$ 152,355,850	\$ 154,595,306
GASB 68-Pension Related Items			
Net Pension Liability	6,988	269,932	987,296
Deferred Outflows of Resources	(921)	(51,080)	(298,321)
Deferred Inflows of Resources	283,544	415,853	207,862
Net GASB 68 Pension related items	<u>289,611</u>	<u>634,705</u>	<u>896,837</u>
GASB 75 OPEB Related Items			
Postemployment Benefit Liability	293	6,174	-
Deferred Outflows of Resources	(11)	(36)	-
Deferred Inflows of Resources	17,340	15,488	-
Net GASB 75 OPEB	<u>17,622</u>	<u>21,626</u>	<u>-</u>
Net Position excluding Pension and OPEB	<u>\$ 154,791,168</u>	<u>\$ 153,012,181</u>	<u>\$ 155,492,143</u>

In Fiscal Years 2018-19, 2017-18 and 2016-17, pension expense (credit) recognized in accordance with GASB 68 totaled (\$345,084), (\$259,162) and \$303,070, respectively. OPEB expense recognized under GASB 75 in Fiscal Years 2018-19, 2017-18 and 2016-17 totaled (\$4,001), (\$2,537) and \$0, respectively.

Operating Fund

Assets

The operating fund total assets increased by \$679,971 from Fiscal Year 2017-18 to Fiscal Year 2018-19 due to an increase in cash. Cash increased due an increase in investment income. The interest rate of return increased from 1.66 percent to 2.22 percent in Fiscal Year 2018-19. Additionally, prepaid items decreased by \$30,321 due to C-470 surveillance and rating fees.

Liabilities

As explained below, total liabilities decreased by \$523,878 due to HPTE repaying a portion of the Transportation Commission loans.

Current Liabilities

Current liabilities increased by \$29,294 due to an increase in accrual payments to vendors.

Noncurrent Liabilities

Noncurrent liabilities decreased by \$553,272 primarily due to HPTE's Transportation Commission loan payment of \$1.3 million, which included both principal and interest. The HPTE will continue to make

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loan payments from monies in its Transportation Special Revenue or Operating Fund from future revenue generating activities, such as toll revenues, the issuance of revenue bonds, concession fees, or fee for services when such funds are not restricted and available for the general use of the HPTE.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources increased by \$478,954 and deferred inflows of resources increased by \$1.1 million. Both the decrease of deferred outflows of resources and the increase of deferred inflows of resources were due to pensions and OPEB.

Net Position

The effect of these changes was a decrease in the deficit net position of the operating fund of \$541,212 from the previous fiscal year.

In addition, the balance of net position contains the effects of PERA pension and OPEB liabilities and related items which are detailed in the following table:

	Operating Fund		
	Fiscal Year 2018-19	Fiscal Year 2017-18	Fiscal Year 2016-17
Net Position (GAAP Basis)	\$ (1,473,974)	\$ (2,015,186)	\$ (3,411,996)
GASB 68-Pension Related Items			
Net Pension Liability	2,464,396	2,860,175	2,070,667
Deferred Outflows of Resources	(1,305,816)	(854,352)	(675,032)
Deferred Inflows of Resources	1,273,126	130,598	58,819
Net GASB 68 Pension related items	<u>2,431,706</u>	<u>2,136,421</u>	<u>1,454,454</u>
GASB 75 OPEB Related Items			
Postemployment Benefit Liability	104,022	65,423	-
Deferred Outflows of Resources	(42,913)	(15,423)	-
Deferred Inflows of Resources	158	1,095	-
Net GASB 75 OPEB	<u>61,267</u>	<u>51,095</u>	<u>-</u>
Net Position excluding Pension and OPEB	<u>\$ 1,018,999</u>	<u>\$ 172,330</u>	<u>\$ (1,957,542)</u>

In Fiscal Years 2018-19, 2017-18 and 2016-17 pension expense recognized in accordance with GASB 68 totaled \$295,285, \$797,851 and \$351,575, respectively. OPEB expense recognized under GASB 75 in Fiscal Years 2018-19, 2017-18 and 2016-17 totaled \$5,087, \$7,398 and \$0, respectively.

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Revenue and Expense Analysis

Condensed Statements of Revenues, Expenses, and Changes in Net Position

For Year Ended June 30	Transportation Special Revenue Fund			Operating Fund		
	2020	2019	2018	2020	2019	2018
Operating Revenues						
Charges for Tolls and Services	\$ 13,198,852	\$ 13,942,225	\$ 13,452,778	\$ 6,819,175	\$ 5,169,500	\$ 5,169,500
Other Operating Revenues	1,199,491	731,541	439,770	85,230	74,068	21,811
Total Operating Revenues	14,398,343	14,673,766	13,892,548	6,904,405	5,243,568	5,191,311
Operating Expenses						
Salaries and Benefits	(153,631)	(307,355)	(226,394)	890,411	1,172,351	1,545,123
Operating and Travel	2,518,097	3,497,166	2,624,939	1,207,582	712,095	302,254
Construction Expenses	(20,467)	67,843	(110,628)	-	-	-
Professional Services	2,200,318	803,712	532,782	3,754,060	2,944,884	1,857,136
Depreciation Expense	8,800,224	8,580,530	8,548,369	-	-	-
Total Operating Expenses	13,344,541	12,641,896	11,369,068	5,852,053	4,829,330	3,704,513
Operating Income (Loss)	1,053,802	2,031,870	2,523,480	1,052,352	414,238	1,486,798
Nonoperating Revenues (Expenses)						
Investment Income	1,726,403	1,943,814	1,173,529	260,833	180,882	28,453
CDOT I-25 North Segment III construction delay payment	782,183	-	-	-	-	-
Interest Expense	(2,257,994)	(2,990,715)	(6,748,722)	(21,415)	(53,908)	(68,565)
Net Nonoperating Revenues (Expenses)	250,592	(1,046,901)	(5,575,193)	239,418	126,974	(40,112)
Transfer for Transportation Commission Loan Payment	(2,142,472)	-	-	2,142,472	-	-
Transfer of I-25 North Segment II and III managed lanes to HPTE	77,469,708	1,143,116	836,578	-	-	-
Change in Net Position	76,631,630	2,128,085	(2,215,135)	3,434,242	541,212	1,446,686
Beginning Net Position (Deficit)	154,483,935	152,355,850	154,570,985	(1,473,974)	(2,015,186)	(3,461,872)
Net Position (Deficit), End of Year	\$ 231,115,565	\$ 154,483,935	\$ 152,355,850	\$ 1,960,268	\$ (1,473,974)	\$ (2,015,186)

Variances for Fiscal Year 2019-20

Transportation Special Revenue Fund

Revenues

Total operating revenues decreased by \$275,423. This decrease in operating revenues is primarily a result of a decrease in toll revenue totaling \$743,373, offset by an increase of \$467,950 of other operating revenue. The increase in other operating revenue is caused by an increase in toll fines resulting in Colorado State Patrol providing increased toll enforcement. The decrease in toll revenue is related to reduction of traffic in the toll lanes due to COVID-19. The decrease in toll revenue was offset by an increase of \$467,939 in other operating revenues, which is related to an increase in tolling fines. In Fiscal Year 2019-20 HPTE increased tolling enforcement on the I-25 North Segment II and MEXL managed lanes due to safety concerns.

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Expenses

Total operating expenses increased in Fiscal Year 2019-20 by \$702,645. Operating and travel expenses decreased by \$979,069. The decrease in operating and travel totaling \$979,069 is due to HPTE purchasing less transponders for resale. In Fiscal Year 2018-19 HPTE purchased more transponders to sell to public for preparation of the opening of I-25 North Segment II managed lanes. Professional services increased by \$1.4 million due to IAA agreement between CDOT and HPTE for I-270. Salaries and benefit expenses were more than offset by a credit from pension and other postemployment benefits allocations.

Net nonoperating expenses decreased by \$1.3 million due to a reduction of interest expense, offset by a payment from CDOT totaling \$782,183. Less interest expense was accrued on the C-470 TIFIA loan facility due to HPTE not drawing on the C-470 TIFIA loan facility. The payment from CDOT is to compensate HPTE for construction delays related to the Segment III project per the IAA.

Net Position

The outcome of these changes was an increase in net position of \$76.6 million in Fiscal Year 2019-20.

Operating Fund

Revenues

Total operating revenues increased by \$1.7 million due to an increase in charges for tolls and services. The increase in charges for services was due to HPTE collecting fees for the review of unsolicited proposals. Other operating revenues increased due to the Operating Fund being reimbursed by the Transportation Special Revenue Fund. The Transportation Special Revenue Fund reimburses the Operating Fund for staff time being charged to the tolling corridors.

Expenses

Total operating costs increased by \$1 million due to an increase in operating and travel. The increase in operating and travel was due to increase legal expenses related to the Central 70 and C-470 projects. Salaries and benefits decreased by 281,940 due to staff time being allocated to the tolling corridors in the Transportation Special Revenue Fund.

Net nonoperating revenues increased by \$112,444 due to an increase in investment income.

Net Position

The outcome of these changes was an increase in net position of \$3.4 million in Fiscal Year 2019-20.

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Variations for Fiscal Year 2018-19

Transportation Special Revenue Fund

Revenues

Total operating revenues increased by \$781,218. This increase in operating revenues is primarily a result of an increase in toll revenue totaling \$489,447. Toll rates on MEXL were increased from \$5 per trip to \$6 or \$7 (depending on traffic), in addition HPTE was allowed to toll MEXL for 100 days per the terms of the agreement, which increased from the number of tolling days from the prior fiscal year. Toll rates on I-25N Segment II were also increased. Additionally, there was an increase in other operating revenues totaling \$291,771. The increase in other operating revenues is related to an increase in tolling fines. In Fiscal Year 2018-19 HPTE increased tolling enforcement on the I-25N Segment II and MEXL managed lanes.

Expenses

Total operating expenses increased in Fiscal Year 2018-19 by \$1.3 million. Operating and travel expenses increased by \$872,227 and professional services increased by \$270,930. The increase in operating and travel is due to the change in the sales tax laws, requiring HPTE to pay sales tax to states outside of Colorado. In prior fiscal years, HPTE collected and remitted the sales tax collected on the sale of transponders to the State of Colorado. HPTE now pays the full sales tax liability to the State of Colorado and other states as needed. Construction expenses increased by \$178,471 due to the C-470 and I-25 South projects. Salaries and benefits were a credit expense due to a credit from pension expense and other postemployment benefits expense (OPEB).

Net nonoperating expenses decreased by \$4.5 million due to the increase in investment income of \$770,285, and a decrease in interest expense of \$3.8 million. The decrease of interest expense is due to HPTE repaying the Master Installment Purchase Agreement in Fiscal Year 2017-18.

Net Position

The outcome of these changes was an increase in net position of \$2.1 million in Fiscal Year 2018-19.

Operating Fund

Revenues

Total operating revenues increased by \$52,258 due to an increase in other operating revenues. Other operating revenues increased due to the Operating Fund being reimbursed by the Transportation Special Revenue Fund. The Transportation Special Revenue Fund reimburses the Operating Fund for staff time being charged to the tolling corridors.

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Expenses

Total operating costs increased by \$1.1 million due to an increase in operating and travel. The increase in operating and travel was due to increase legal expenses related to the Central 70 and C-470 projects.

Net nonoperating revenues increased by \$167,086 due to an increase in investment income. Interest rate of return increased from 1.66% to 2.22% in Fiscal Year 2018-19.

Net Position

The outcome of these changes was an increase in net position of \$541,212 in Fiscal Year 2018-19.

Capital Assets and Debt Administration

Transportation Special Revenue Fund

Capital Assets

As of June 30	2020	2019	2018
Capital Assets, Non-depreciable	\$ 232,242,778	\$ 238,621,091	\$ 128,333,253
Capital Assets	<u>392,529,741</u>	<u>302,979,728</u>	<u>310,411,792</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 624,772,519</u>	<u>\$ 541,600,819</u>	<u>\$ 438,745,045</u>

In Fiscal Year 2019-20, capital assets increased overall by \$83.2 million due HPTE projects such as Segment III and C-470. In Fiscal Year 2019-20, the net decrease in non-depreciable capital assets totaling \$6.4 million was due to HPTE's direct costs related to the I-25 North Segment III managed lanes, recorded as assets under construction and not depreciated, were moved to capital assets being depreciated upon completion. Depreciable capital assets increased by a net \$89.6 million in Fiscal Year 2019-20, due to the completion of the I-25 North Segment III managed lanes including the transfer of assets from CDOT totaling \$77.5 million.

Debt Outstanding

In December 2014 HPTE entered into \$25 million loan with Banc of America Preferred Funding Corporation. The loan will be repaid with toll revenue from the MEXL project. Interest accrues at the rate of 2.79 percent and is due each December. Principal payments start in December 2022 with the maturity date in December 2024.

In February 2016 HPTE entered into a \$23.6 million loan with Banc of America Preferred Funding Corporation. The loan will be repaid with toll revenue from I-25 North Segment III. Interest accrues at the rate of 1.99 percent and is due in December. Principal payments begin in fiscal year 2024, maturing in December 2025.

Colorado High Performance Transportation Enterprise
Management's Discussion and Analysis
(Unaudited)
June 30, 2020 and 2019

HPTE closed on the financing for the C-470 Managed Lanes Project in June 2017, which consisted of a TIFIA loan totaling \$106 million and revenue backed bonds totaling \$176.5 million including a bond premium of \$14.1 million. As of June 30, 2020, HPTE had received \$51.7 million of the TIFIA loan. Debt service payments for the TIFIA loan do not start until after substantial completion, and are scheduled to start in Fiscal Year 2023-2024. The C-470 revenue backed bonds interest payments began in December 2017 and principal payments are due December 2045. The C-470 bonds mature in December 2056.

Operating Fund

The operating fund does not hold any capital assets.

Debt Outstanding

The long-term portion of the debt due to the Transportation Commission loans was \$1.97 million in Fiscal Year 2018-19 and \$2.04 million in Fiscal Year 2017-18. A payment of \$1.25 million, including \$988 thousand of principal was made to CDOT in January 2019. In Fiscal Year 2019-20, HPTE made a payment totaling \$2.1 million, including \$1.97 million of principal, which paid off the remaining principal balance and interest of the Transportation Commission loans.

Financial Contact

If you have questions about this report please contact:

High Performance Transportation Enterprise
2829 West Howard Place
Denver, Colorado 80204
Attn: Kay Hruska

Colorado High Performance Transportation Enterprise

Statements of Net Position

June 30, 2020 and 2019

	June 30, 2020			June 30, 2019		
	Transportation Special			Transportation Special		
	Revenue Fund	Operating	Total	Revenue Fund	Operating	Total
Assets						
Current assets:						
Cash and pooled cash investments	\$ 29,935,334	\$ 4,342,397	\$ 34,277,731	\$ 30,210,317	\$ 3,449,566	\$ 33,659,883
Receivables	241,112	1,884,274	2,125,386	9,684,813	1,418	9,686,231
Prepaid items	600,000	30,073	630,073	-	42,244	42,244
Total current assets	30,776,446	6,256,744	37,033,190	39,895,130	3,493,228	43,388,358
Noncurrent assets:						
Restricted cash	16,794,745	-	16,794,745	28,748,712	-	28,748,712
Capital assets, nondepreciable	232,242,778	-	232,242,778	238,621,091	-	238,621,091
Capital assets, net of accumulated depreciation	392,529,741	-	392,529,741	302,979,728	-	302,979,728
Total noncurrent assets	641,567,264	-	641,567,264	570,349,531	-	570,349,531
Total assets	672,343,710	6,256,744	678,600,454	610,244,661	3,493,228	613,737,889
Deferred Outflows of Resources						
Related to pensions	24,759	529,786	554,545	921	1,305,816	1,306,737
Related to postemployment benefits	1,027	34,759	35,786	11	42,913	42,924
Total deferred outflows of resources	25,786	564,545	590,331	932	1,348,729	1,349,661
Liabilities						
Current liabilities:						
Accounts payable and accrued liabilities	31,495,224	594,984	32,090,208	40,123,836	353,174	40,477,010
Total current liabilities	31,495,224	594,984	32,090,208	40,123,836	353,174	40,477,010
Noncurrent liabilities						
Due to Transportation Commission	-	-	-	-	1,968,437	1,968,437
C-470 Bonds, including bond premium	175,927,637	-	175,927,637	176,117,822	-	176,117,822
C-470 TIFIA loan facility	51,678,344	-	51,678,344	42,499,961	-	42,499,961
Pending draw on C-470 TIFIA loan facility	-	-	-	9,178,383	-	9,178,383
MEXL program loan	25,000,000	-	25,000,000	25,000,000	-	25,000,000
I-25 North Segment III program loan	23,630,000	-	23,630,000	23,630,000	-	23,630,000
Accrued interest	2,657,710	-	2,657,710	5,258,919	152,618	5,411,537
Unearned revenue	-	1,300,000	1,300,000	-	-	-
Net pension liability	30,822	1,920,810	1,951,632	6,988	2,464,396	2,471,384
Net other postemployment benefits	1,361	75,547	76,908	293	104,022	104,315
Total noncurrent liabilities	278,925,874	3,296,357	282,222,231	281,692,366	4,689,473	286,381,839
Total liabilities	310,421,098	3,891,341	314,312,439	321,816,202	5,042,647	326,858,849
Deferred Inflows of Resources						
Related to pensions	80,007	945,379	1,025,386	283,554	1,273,126	1,556,680
Related to postemployment benefits	13,581	24,301	37,882	17,340	158	17,498
Concession agreement	130,739,245	-	130,739,245	133,644,562	-	133,644,562
Total Deferred Inflows of Resources	130,832,833	969,680	131,802,513	133,945,456	1,273,284	135,218,740
Net Position (Deficit)						
Net investment in capital assets	203,323,983	-	203,323,983	141,051,148	-	141,051,148
Restricted for debt service	-	-	-	16,881,811	-	16,881,811
Unrestricted (deficit)	27,791,582	1,960,268	29,751,850	(3,449,024)	(1,473,974)	(4,922,998)
Total net position (deficit)	\$ 231,115,565	\$ 1,960,268	\$ 233,075,833	\$ 154,483,935	\$ (1,473,974)	\$ 153,009,961

The accompanying notes are an integral part of these financial statements

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Colorado High Performance Transportation Enterprise
Statements of Revenues, Expenses, and
Changes in Net Position
Years Ended June 30, 2020 and 2019

	June 30, 2020			June 30, 2019		
	Transportation Special		Total	Transportation Special		Total
	Revenue Fund	Operating		Revenue Fund	Operating	
Operating Revenues						
Charges for tolls and services	\$ 13,198,852	\$ 6,819,175	\$ 20,018,027	\$ 13,942,225	\$ 5,169,500	\$ 19,111,725
Other operating revenues	1,199,491	85,230	1,284,721	731,541	74,068	805,609
Total operating revenues	14,398,343	6,904,405	21,302,748	14,673,766	5,243,568	19,917,334
Operating Expenses						
Salaries and benefits	(153,631)	890,411	736,780	(307,355)	1,172,351	864,996
Operating and travel	2,518,097	1,207,582	3,725,679	3,497,166	712,095	4,209,261
Construction expenses	(20,467)	-	(20,467)	67,843	-	67,843
Professional services	2,200,318	3,754,060	5,954,378	803,712	2,944,884	3,748,596
Depreciation expense	8,800,224	-	8,800,224	8,580,530	-	8,580,530
Total operating expenses	13,344,541	5,852,053	19,196,594	12,641,896	4,829,330	17,471,226
Operating income	1,053,802	1,052,352	2,106,154	2,031,870	414,238	2,446,108
Nonoperating Revenues (Expenses)						
Investment income	1,726,403	260,833	1,987,236	1,943,814	180,882	2,124,696
CDOT payment for Segment III construction delay	782,183	-	782,183	-	-	-
Interest expense	(2,257,994)	(21,415)	(2,279,409)	(2,990,715)	(53,908)	(3,044,623)
Net nonoperating revenues (expenses)	250,592	239,418	490,010	(1,046,901)	126,974	(919,927)
Transfer for Transportation Commission Loan Payment	(2,142,472)	2,142,472	-	-	-	-
Transfer of I-25 North Segment II and III Managed Lanes	77,469,708	-	77,469,708	1,143,116	-	1,143,116
Change in Net Position	76,631,630	3,434,242	80,065,872	2,128,085	541,212	2,669,297
Beginning Net Position	154,483,935	(1,473,974)	153,009,961	152,355,850	(2,015,186)	150,340,664
Net Position (Deficit), End of the Year	\$ 231,115,565	\$ 1,960,268	\$ 233,075,833	\$ 154,483,935	\$ (1,473,974)	\$ 153,009,961

The accompanying notes are an integral part of these financial statements

Colorado High Performance Transportation Enterprise

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	June 30, 2020			June 30, 2019		
	Transportation Special Revenue Fund	Operating	Total	Transportation Special Revenue Fund	Operating	Total
Cash Flows from Operating Activities						
Cash received from users and grants	\$ 11,758,343	\$ 721,550	\$ 12,479,893	\$ 11,580,306	\$ 43,336	\$ 11,623,642
Cash payments for salaries and benefits	(53,627)	(956,794)	(1,010,421)	(41,683)	(852,781)	(894,464)
Cash payments to contractors and suppliers of goods and services	(5,547,899)	(4,732,760)	(10,280,659)	(4,261,196)	(3,580,125)	(7,841,321)
Net cash provided by (used in) operating activities	6,156,817	(4,968,004)	1,188,813	7,277,427	(4,389,570)	2,887,857
Cash Flows from Noncapital Financing Activities						
Principal paid on interagency loans	-	(1,968,437)	(1,968,437)	-	(74,836)	(74,836)
Interest paid on interagency loans	-	(174,033)	(174,033)	-	(175,164)	(175,164)
Cash received (paid) from transfer	(2,142,472)	2,142,472	-	-	-	-
Payments from intergovernmental agreement	782,183	5,600,000	6,382,183	-	5,169,500	5,169,500
Net cash provided by (used in) noncapital noncapital financing activities	(1,360,289)	5,600,002	4,239,713	-	4,919,500	4,919,500
Cash Flows from Capital and Related Financing Activities						
Interest paid on debt	(13,499,505)	-	(13,499,505)	(9,444,565)	-	(9,444,565)
Proceeds from issuance of long-term debt	9,178,384	-	9,178,384	42,318,002	-	42,318,002
Acquisition and construction of capital assets	(14,430,760)	-	(14,430,760)	(99,256,384)	-	(99,256,384)
Net cash used in capital and related financing activities	(18,751,881)	-	(18,751,881)	(66,382,947)	-	(66,382,947)
Cash Flows from Investing Activities						
Investment income	1,726,403	260,833	1,987,236	1,943,814	180,882	2,124,696
Net cash provided by investing activities	1,726,403	260,833	1,987,236	1,943,814	180,882	2,124,696
Net increase (decrease) in cash and cash equivalents	(12,228,950)	892,831	(11,336,119)	(57,161,706)	710,812	(56,450,894)
Cash and cash equivalents, beginning of year	58,959,029	3,449,566	62,408,595	116,120,735	2,738,754	118,859,489
Cash and cash equivalents, end of year	\$ 46,730,079	\$ 4,342,397	\$ 51,072,476	\$ 58,959,029	\$ 3,449,566	\$ 62,408,595

Colorado High Performance Transportation Enterprise

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	June 30, 2020			June 30, 2019		
	Transportation Special Revenue Fund	Operating	Total	Transportation Special Revenue Fund	Operating	Total
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:						
Operating income	\$ 1,053,802	\$ 1,052,352	\$ 2,106,154	\$ 2,031,870	\$ 414,238	\$ 2,446,108
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation expense	8,800,224	-	8,800,224	8,580,530	-	8,580,530
Adjustment to net pension and net other postemployment benefit liability	24,902	(572,061)	(547,159)	(268,826)	(357,180)	(626,006)
Deferred inflows of resources - pension and net other postemployment benefits related	(207,306)	(303,605)	(510,911)	(130,444)	1,141,591	1,011,147
Deferred inflows of resources - concession agreement	(2,905,317)	-	(2,905,317)	(2,905,320)	-	(2,905,320)
Deferred outflows of resources - pension and net other postemployment benefits related	(24,854)	784,184	759,330	50,184	(478,954)	(428,770)
Direct state allocation to pension - expense	11	1,327	1,338	47	15,650	15,697
Direct state allocation to pension - revenue	(11)	(1,327)	(1,338)	(47)	(15,650)	(15,697)
Changes in assets and liabilities						
Receivables, net	265,317	(7,482,846)	(7,217,529)	(188,093)	(5,168,980)	(5,357,073)
Prepaid items	(600,000)	12,171	(587,829)	250	30,321	30,571
Accounts payable and accrued liabilities	(249,951)	241,801	(8,150)	107,276	29,394	136,670
Unearned revenue	-	1,300,000	1,300,000	-	-	-
Net cash provided by (used in) operating activities	\$ 6,156,817	\$ (4,968,004)	\$ 1,188,813	\$ 7,277,427	\$ (4,389,570)	\$ 2,887,857
Noncash Investing, Capital and Financing Activities						
Acquisition of capital assets, on account	\$ 31,264,875	\$ -	\$ 31,264,875	\$ 39,643,537	\$ -	\$ 39,643,537
Transfer of managed lanes	\$ 77,469,708	\$ -	\$ 77,469,708	\$ 1,143,116	\$ -	\$ 1,143,116
Unrealized gain (loss)	\$ (780,688)	\$ (115,713)	\$ (896,401)	\$ 141,873	\$ 16,079	\$ 157,952
Pending TIFIA Loan Facility	\$ -	\$ -	\$ -	\$ 9,178,384	\$ 1,418	\$ 9,179,802

The accompanying notes are an integral part of these financial statements

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Colorado High Performance Transportation Enterprise

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The High Performance Transportation Enterprise (the Enterprise or HPTE) is a self-supporting enterprise fund of the State of Colorado. It was established as an entity of the Colorado Department of Transportation (CDOT) under the provisions of Colorado Revised Statutes (C.R.S.) Section 43-4-806. The Enterprise is tasked with pursuing innovative means to more efficiently finance infrastructure projects that will improve the safety, capacity, and accessibility of the transportation system. Financing projects may come through, among other means, public-private partnerships with other entities, user fee-based revenues and debt issuance. The Enterprise is under the direction of its Board, consisting of seven members. The Enterprise was statutorily established with two distinct funds, the Transportation Special Revenue Fund and the Transportation Enterprise Operating Fund.

Transportation Special Fund

The Statewide Transportation Special Revenue Fund is referred in statute and herein as the Transportation Special Fund. The Fund is authorized to receive monies from any tolling projects. Currently those revenues come primarily from the I-25 Express Lane tolls and I-70 Mountain Express Lanes. Through an intergovernmental agreement with Regional Transportation District (RTD), revenues generated from I-25 Central Reversible Lanes cannot be used for purposes other than the operation and maintenance of the I-25 Central Reversible Lanes and of the U.S. 36 corridor.

Operating Fund

The Transportation Enterprise Operating Fund, referred to herein as the Operating Fund, accounts for the administration of non-fee supported activities of the Enterprise. The Operating fund is currently funded through an interagency (IAA) agreement with the Colorado Department of Transportation (CDOT). These proceeds from the intragency agreement continue to be drawn upon for general administrative activities of the Enterprise that do not involve the operations and administration of HPTE's Express Lanes.

Basis of Accounting and Presentation

For financial reporting purposes, the Enterprise is considered a special-purpose government entity engaged only in business-type activities. Accordingly, the Enterprise uses the accrual basis of accounting to summarize its activities. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation is incurred.

The financial statements of the Enterprise have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The Enterprise uses self-balancing accounting funds to record its financial accounting transactions. The guidelines further require that intra-fund accounting transactions be eliminated. The Enterprise reports two major funds, the Transportation Special Fund and the Operating Fund.

Colorado High Performance Transportation Enterprise

Notes to Financial Statements

June 30, 2020 and 2019

The basic financial statements of the Enterprise present the financial position, results of operations, and, where applicable, cash flows for only the Enterprise. They do not purport to, and do not present, the financial position of CDOT as of June 30, 2020 or 2019, or the results of operations, or cash flows where applicable, thereof for the years then ended.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Pooled Cash Investments

Cash and pooled cash investments consist of cash on deposit with the State Treasurer. For purposes of the statements of cash flows, cash and pooled cash investments are defined as instruments with maturities of three months or less at date of acquisition, and pooled cash held by the Colorado State Treasurer.

Receivables

Receivables are recorded for charges for services as well as funds due from other governments. Enterprise receivables are discussed in Note 3.

Capital Assets

The Enterprise records property and equipment at historical cost. Contributed capital assets are valued at their estimated acquisition value on the date donated. Maintenance and repairs are charged to current period operating expense; additions and improvements are capitalized. Interest cost relating to construction is capitalized. Certain applicable labor costs are also capitalized. The Enterprise's capitalization level is \$500,000 for infrastructure and \$5,000 for other capital assets. Tolling software and equipment are depreciated using a straight-line methodology over a useful life of five to seven years. Toll lanes are depreciated over a useful life of 40 to 50 years, also using a straight-line methodology. Upon retirement or other disposition of property and equipment, the costs and related accumulated depreciation will be removed from the respective accounts and any gains or losses will be included in operating expenses.

Liabilities

Amounts due within one year are reported as current liabilities. Amounts owed after one year are reported as noncurrent liabilities. Current liabilities include amounts that are payable to contractors and vendors as well as an amount recorded for accrued wages as discussed in Note 5. Noncurrent liabilities include outstanding debt and debt service, compensated absences, amounts due to other funds, and unearned revenue.

Colorado High Performance Transportation Enterprise

Notes to Financial Statements

June 30, 2020 and 2019

Compensated Absences

Employees of the Enterprise are entitled to paid vacations, sick days, and personal days off, depending on job classification, length of service, and other factors. The Enterprise has recorded the amount of compensation for future absences as an accrued liability in the accompanying financial statements. The estimated liability is based on hours earned up to assigned maximums. One-fourth of unused sick days or a maximum of 520 hours may be paid to employees upon retirement or death. Unused vacation days are paid to employees upon termination.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future reporting period(s) and so will not be recognized as outflows of resources (expense or reduction of liability) until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future reporting period(s) and so will not be recognized as inflows of resources (revenue) until that time.

HPTE's deferred outflows of resources and deferred inflows of resources consist of pension and OPEB related items. These amounts will be amortized to pension and OPEB expense in a later period, or in the case of the deferred outflows of resources relating to contributions made subsequent to the measurement date, will be recognized as a reduction of the net pension or OPEB liability in the subsequent year. Also included in deferred inflows of resources are items related to the service concession agreement. This amount is being amortized to revenue over the duration of the agreement.

Capitalized Interest

Interest incurred during construction is reflected in the capitalized value of the asset constructed. Total interest expense incurred was \$11,088,481 and \$10,029,827 during the years ended June 30, 2020 and 2019, respectively. Interest expense capitalized during the years ended June 30, 2020 and 2019 was \$8,640,302 and \$7,039,112, respectively.

Net Position

The net position of the Enterprise is classified as follows:

Net Investment in Capital Assets

Net investment in capital assets represents capital assets, less accumulated depreciation reduced by the outstanding balances of debt attributable to the acquisition, construction or improvement of these assets.

Restricted Net Position

Restricted net position represents resources in which HPTE is contractually obligated to spend or reserve in accordance with restrictions imposed by external parties.

Colorado High Performance Transportation Enterprise

Notes to Financial Statements

June 30, 2020 and 2019

Unrestricted Net Position

Unrestricted net position represents resources that are not restricted for any project or other purpose. These resources are used to pay the operating costs of the Enterprise.

Classification of Revenues and Expenses

The Enterprise has classified its revenues and expenses as either operating or nonoperating. Operating revenues and expenses generally result from providing services or incurring expenses in connection with the Enterprise's principal activities. Nonoperating revenues and expenses include transactions such as interest earned on deposits and interest expense.

Budgets and Budgetary Accounting

The Enterprise prepares an annual operating budget as set by the Board with periodic reviews and changes. By statute, the Enterprise is continuously funded through user service charges. Therefore, the budget is not legislatively adopted and budgetary comparison information is not a required part of these financial statements.

Application of Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available to pay an expense, the Enterprise's policy is to first use unrestricted resources per State policy.

NOTE 2 – CASH AND POOLED CASH INVESTMENTS

The Enterprise deposits its cash with the Colorado State Treasurer as required by Colorado Revised Statutes. The State Treasurer pools these deposits and invests them in securities authorized by C.R.S. 24-75-601.1. The State Treasury acts as a bank for all State agencies and institutions of higher education, with the exception of the University of Colorado. Monies deposited in the Treasury are invested until the cash is needed. As of June 30, 2020 and 2019, the Enterprise had cash on deposit with the State Treasurer of \$34,277,731 and \$33,659,883, respectively, which represented less than 1.0 percent of the total \$9,633.8 million fair value of investments in the State Treasurer's Pool (Pool) as of June 30, 2020 and less than 1.0 percent of the total \$9,096.5 million fair value of investments in the Pool as of June 30, 2019. As of June 30, 2020, the Pool's resources included \$16 million of cash on hand and \$9,167.8 million of investments.

Colorado High Performance Transportation Enterprise

Notes to Financial Statements

June 30, 2020 and 2019

On the basis of the Enterprises' participation in the Pool, the Enterprise reports as an increase or decrease in cash for its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

Additional information on investments of the State Treasurer's Pool may be obtained in the State's Comprehensive Annual Financial Report for the year ended June 30, 2020.

As of June 30, 2020 HPTE had \$16,794,745 of restricted cash in the Transportation Special Revenue Fund and a balance of \$28,748,712 as of June 30, 2019. The restricted cash in the Transportation Special Revenue Fund is related to the C-470 Transportation infrastructure Finance and Innovation Act (TIFIA) Loan Facility and revenue bond proceeds.

NOTE 3 – ACCOUNTS RECEIVABLE

The Enterprise expects to receive matching funds from local governments remitted for approved projects, *i.e.* U.S. 36 Phase II. The amounts are recorded in the financial statements directly from CDOT's Federal Aid Billing system based on the project status.

The Enterprise also records receivables from CDOT, Plenary Roads Denver (PRD) and E-470 for services provided.

The amounts recorded as receivables as of June 30 are as follows:

	2020	2019
Tolling revenues receivable	\$ 200,047	\$ 176,609
CDOT receivable	1,884,274	174,572
Federal receivable	-	9,178,383
Other receivable	41,065	156,667
Total accounts receivable	\$ 2,125,386	\$ 9,686,231

No allowance has been recorded as all amounts above are believed to be collectible.

Colorado High Performance Transportation Enterprise
Notes to Financial Statements
June 30, 2020 and 2019

NOTE 4 – CAPITAL ASSETS

A summary of changes in capital assets is as follows for the years ended June 30, 2020 and 2019:

	2020				Balance at June 30, 2020
	Balance at June 30, 2019	Additions	Disposals	Transfers	
Capital assets, not being depreciated					
Assets under construction	\$ 238,621,091	\$ 14,502,215	\$ -	\$ (20,880,528)	\$ 232,242,778
Total capital assets, not being depreciated	238,621,091	14,502,215	-	(20,880,528)	232,242,778
Capital assets, being depreciated					
Tolling software	2,220,182	-	-	269,974	2,490,156
Tolling equipment	3,452,100	165,349	-	745,716	4,363,165
Toll lanes	327,876,433	77,304,360	-	19,864,838	425,045,631
Total capital assets, being depreciated	333,548,715	77,469,709	-	20,880,528	431,898,952
Less accumulated depreciation					
Tolling software and equipment	(1,554,481)	(448,519)	-	-	(2,003,000)
Toll lanes	(29,014,506)	(8,351,705)	-	-	(37,366,211)
Total accumulated depreciation	(30,568,987)	(8,800,224)	-	-	(39,369,211)
Total capital assets, being depreciated, net	302,979,728	68,669,485	-	20,880,528	392,529,741
Total capital assets, net	<u>\$ 541,600,819</u>	<u>\$ 83,171,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 624,772,519</u>
	2019				Balance at June 30, 2019
	Balance at June 30, 2018	Additions	Disposals	Transfers	
Capital assets, not being depreciated					
Assets under construction	\$ 128,333,253	\$ 110,287,838	\$ -	\$ -	\$ 238,621,091
Total capital assets, not being depreciated	128,333,253	110,287,838	-	-	238,621,091
Capital assets, being depreciated					
Tolling software	2,220,182	-	-	-	2,220,182
Tolling equipment	3,446,750	5,350	-	-	3,452,100
Toll lanes	326,733,317	1,143,116	-	-	327,876,433
Total capital assets, being depreciated	332,400,249	1,148,466	-	-	333,548,715
Less accumulated depreciation					
Tolling software and equipment	(1,110,461)	(444,020)	-	-	(1,554,481)
Toll lanes	(20,877,996)	(8,136,510)	-	-	(29,014,506)
Total accumulated depreciation	(21,988,457)	(8,580,530)	-	-	(30,568,987)
Total capital assets, being depreciated, net	310,411,792	(7,432,064)	-	-	302,979,728
Total capital assets, net	<u>\$ 438,745,045</u>	<u>\$ 102,855,774</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 541,600,819</u>

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NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Current liabilities include amounts payable to contractors and vendors as well as an amount recorded for accrued wages. Under C.R.S. Section 24-75-201, salaries and wages earned during the month of June are paid in July of the following year. An accrued liability was recorded on June 30 for these earned wages.

The amounts recorded as current liabilities as of June 30 are as follows:

	2020	2019
Vendors payable	\$ 774,902	\$ 796,419
Contractors payable	31,264,875	39,643,537
Other payables, including accrued compensation and compensated absences	50,431	37,054
Total current accounts payable and accrued liabilities	\$ 32,090,208	\$ 40,477,010

NOTE 6 – LONG-TERM LIABILITIES

Transportation Commission Loan

Noncurrent liabilities included loans from the Transportation Commission to the Operating Fund to pay a portion of its operating expenses until sufficient revenues become available. A total of \$4 million was borrowed from the Transportation Commission. For the year ended June 30, 2019, HPTE made a payment of \$250,000, including principal of \$74,836. For the year ended June 30, 2020, HPTE made a payment of \$2,142,472, including principal of \$2,100,000 fully refinancing the loan. Therefore, as of June 30, 2020 all amounts have been repaid.

C-470 TIFIA Loan Facility and Revenue Bonds

In June 2017, HPTE closed a \$106 million loan facility with TIFIA and \$176.5 million revenue backed bonds which included a premium and interest rate of 5 percent, for the C-470 project to make up the difference in funding that is needed to complete construction. Payment for the C-470 bonds begin in December 2045, with a maturity date of December 2056. Both the TIFIA loan facility and revenue bonds will be repaid with toll revenues earned from the C-470 managed lanes. The TIFIA loan facility accrues interest at the rate of 2.81 percent and principal payments begin when the C-470 project has reached substantial completion. For Fiscal Year 2019-20, HPTE has received \$9.2 million of TIFIA loan facility proceeds, leaving \$55.3 million to be requisitioned. Accrued interest of \$1.94 million was recognized in Fiscal Year 2019-20 for the C-470 TIFIA loan facility. \$8.9 million of the C-470 revenue bond proceeds are available for requisitions. Both the TIFIA loan facility balance and bonds debt service would be paid by CDOT if HPTE was to default.

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I-25 North Segment III Commercial Loan

To close the funding gap on the I-25 North Segment III project (120th Avenue to E-470), HPTE entered into a \$23.6 million construction loan with Banc of America Preferred Funding Corporation during Fiscal Year 2015-16. This loan is to be repaid from toll revenues earned from I-25 North Segment III. Interest accrues at the rate of 1.99 percent and is due in December. Principal payments begin in December 2023 with a maturity date in December 2025. Future toll revenue was pledged for the repayment of the loan. If HPTE is to default on this loan, CDOT will take over the debt service payments.

Mountain Express Lanes (MEXL Program Loan)

To assist CDOT with traffic management on I-70 between the Twin Tunnels and Empire Junction, the existing shoulders would be expanded to allow tolled traffic during peak travel times under the Mountain Express Lanes (MEXL) project. To fund the MEXL project, HPTE entered into a \$25 million loan with Banc of America Preferred Funding Corporation in December 2014. This loan is to be repaid from toll revenues earned from the MEXL. Interest accrues at the rate of 2.79 percent and is due each December. Principal payment start in December 2022 with a maturity date in December 2024. For the repayment of the loan, future toll revenue was pledged. If HPTE is to default on this loan, CDOT will take over the debt service payments.

U.S. 36 TIFIA Loan

In accordance with the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan disbursement schedule, the Enterprise has drawn the full \$54 million under the TIFIA loan agreement for U.S. 36. Toll revenue from the existing I-25 HOT lanes and future toll revenues from U.S. 36 were pledged to establish the TIFIA loan. Per the terms of the concession agreement, the TIFIA loan liability was transferred to PRD when tolling commenced on U.S. 36 Phase I on July 22, 2015. Therefore, the U.S. 36 TIFIA loan is not reflected in the financial statements.

As of June 30, 2020, \$2.7 million in accrued interest was recorded in relation to the MEXL loan, I-25 North Segment III loan, and C-470 TIFIA loan facility. For Fiscal Year 2019-20 and 2018-19, \$253,205 of interest was accrued for the I-25 North Segment III loan. \$375,580 was accrued as interest in Fiscal Year 2019-20 and 2018-19 for the MEXL loan. \$1,442,192 was accrued for the C-470 TIFIA loan facility in Fiscal Year 2019-20 and \$585,259 in Fiscal Year 2018-19.

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Other long-term liabilities include net pension liability of \$1.9 million and OPEB liability of \$75,414. The changes in the total liabilities for Fiscal Year 2019-20 and for Fiscal Year 2018-19 are as follows:

	Balance at June 30, 2019	Increase	Decrease	Balance at June 30, 2020	Due Within One Year
Transportation Commission	\$ 1,968,437	\$ -	\$ (1,968,437)	\$ -	\$ -
C-470 Bonds	161,795,000	-	-	161,795,000	-
Premium on C-470 Bonds	14,322,822	-	(190,185)	14,132,637	-
C-470 TIFIA Loan Facility	42,499,961	9,178,383	-	51,678,344	-
Pending Draw	9,178,383	-	(9,178,383)	-	-
I-25 North Segment III Loan	23,630,000	-	-	23,630,000	-
MEXL Program Loan	25,000,000	-	-	25,000,000	-
Accrued Interest	5,411,537	7,469,135	(10,222,962)	2,657,710	-
Net Pension Liability	2,471,384	55,895	(575,647)	1,951,632	-
Other Postemployment Benefits	104,315	2,489	(29,896)	76,908	-
Total liability	\$ 286,381,839	\$ 16,705,902	\$ (22,165,510)	\$ 280,922,231	\$ -

	Balance at June 30, 2018	Increase	Decrease	Balance at June 30, 2019	Due Within One Year
Transportation Commission	\$ 2,043,273	\$ -	\$ (74,836)	\$ 1,968,437	\$ -
C-470 Bonds	161,795,000	-	-	161,795,000	-
Premium on C-470 Bonds	14,504,781	-	(181,959)	14,322,822	-
C-470 TIFIA Loan Facility	-	42,499,961	-	42,499,961	-
Pending Draw	-	9,178,383	-	9,178,383	-
I-25 North Segment III Loan	23,630,000	-	-	23,630,000	-
MEXL Program Loan	25,000,000	-	-	25,000,000	-
Accrued Interest	4,947,530	13,446,099	(12,982,092)	5,411,537	-
Net Pension Liability	3,130,107	1,335	(660,058)	2,471,384	-
Other Postemployment Benefits	71,597	38,673	(5,955)	104,315	-
Total liability	\$ 235,122,288	\$ 65,164,451	\$ (13,904,900)	\$ 286,381,839	\$ -

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Total future debt service payments over the life of the C-470 bonds is as follows:

Fiscal Year	Interest Due	Principal Due	Debt Service Payment
2021	\$ 8,089,750	\$ -	\$ 8,089,750
2022	8,089,750	-	8,089,750
2023	8,089,750	-	8,089,750
2024	8,089,750	-	8,089,750
2025	8,089,750	-	8,089,750
2026-2030	40,448,750	-	40,448,750
2031-2035	40,448,750	-	40,448,750
2036-2040	40,448,750	-	40,448,750
2041-2045	40,448,750	-	40,448,750
2046-2050	33,874,125	55,075,000	88,949,125
2051-2055	18,031,375	72,215,000	90,246,375
2056-2057	1,746,875	34,505,000	36,251,875
	<u>\$ 255,896,125</u>	<u>\$ 161,795,000</u>	<u>\$ 417,691,125</u>
Total payments			

Total future debt service payments over the remaining life of the I-25 North Segment III program loan is as follows:

Fiscal Year	Interest Due	Principal Due	Debt Service Payment
2021	\$ 470,237	\$ -	\$ 470,237
2022	470,237	-	470,237
2023	470,237	-	470,237
2024	1,654,100	7,875,000	9,529,100
2025	1,102,850	7,875,000	8,977,850
2026	551,600	7,880,000	8,431,600
	<u>\$ 4,719,261</u>	<u>\$ 23,630,000</u>	<u>\$ 28,349,261</u>
Total payments			

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Total future debt service payments over the remaining life of the MEXL program loan is as follows:

Fiscal Year	Interest Due	Principal Due	Debt Service Payment
2021	\$ 697,500	\$ -	\$ 697,500
2022	697,500	-	697,500
2023	1,750,000	6,500,000	8,250,000
2024	1,295,000	8,250,000	9,545,000
2025	717,500	10,250,000	10,967,500
Total payments	<u>\$ 5,157,500</u>	<u>\$ 25,000,000</u>	<u>\$ 30,157,500</u>

NOTE 7 – COMMITMENTS

The Enterprise has commitments at the end of Fiscal Year 2019-20 totaling \$4,490,580 related to professional services and construction for the Transportation Special Fund and for consulting services in the amount of \$5,558,245 for the Operating Fund.

NOTE 8 – DEFINED BENEFIT PENSION PLAN

The Enterprise participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees’ Retirement Association of Colorado (“PERA”). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees’ Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to certain benefit provisions. Some, but not all, of these changes were in effect as of June 30, 2020.

A. Plan Description

Eligible employees of the HPTE are provided with pensions through the SDTF—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available

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comprehensive annual financial report (CAFR) that can be obtained at www.copera.org/investments/pera-financial-reports.

B. Benefits Provided as of December 31, 2019

PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit.
- The value of retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) benefit structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit.
- \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of the highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether five years of service credit has been obtained and the benefit structure under which contributions were made.

As of December 31, 2019, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive postretirement cost-of-living adjustments, referred to as annual increases in the C.R.S., once certain criteria are met. Pursuant to SB 18-200, the annual increase for 2019 is 0.00 percent for all benefit recipients. Thereafter, benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007, and all benefit recipients of the DPS benefit structure will receive an annual increase of 1.25 percent unless adjusted by the automatic adjustment provision (AAP) pursuant C.R.S. § 24-51-413. Benefit recipients under the PERA benefit structure who began eligible employment on or after January 1, 2007, will receive the lesser of an annual increase of 1.25 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers for the

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prior calendar year, not to exceed 10 percent of PERA’s Annual Increase Reserve (AIR) for the SDTF. The AAP may raise or lower the aforementioned annual increase by up to 0.25 percent based on the parameters specified in C.R.S. § 24-51-413.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. State Troopers whose disability is caused by an on-the-job injury are immediately eligible to apply for disability benefits and do not have to meet the five years of service credit requirement. The disability benefit amount is based on the lifetime retirement benefit formula(s) shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

C. Contributions Provisions as of June 30, 2020

Eligible employees and HPTE are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, et seq and § 24-51-413. Employee contribution rates are summarized in the table below:

	January 1, 2019 to June 30, 2019	July 1, 2019 to June 30, 2020	July 1, 2020 to December 31, 2020
Employee Contribution Rate (all employees except State Troopers)**	8.00%	8.75%	10.00%

**Contribution rates for the SDTF are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

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The employer contribution requirements for all employees except State Troopers are summarized in the summarized in the table below:

	January 1, 2019 to June 30, 2019	July 1, 2019 to June 30, 2020	July 1, 2020 to December 31, 2020
Employer Contribution Rate**	10.15%	10.40%	10.90%
Amount of Employer Contribution Apportioned to the Health Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f)	(1.02)%	(1.02)%	(1.02)%
Amount Apportioned to the SDTF	9.13%	9.38%	9.88%
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	5.00%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411	5.00%	5.00%	5.00%
Total Employer Contribution Rate to the SDTF	19.13%	19.38%	19.88%

**Contribution rates for the SDTF are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42)

As specified in C.R.S. § 24-51-414, the State is required to contribute \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the total annual payroll of the SDTF, School Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. A portion of the direct distribution allocated to the SDTF is considered a nonemployer contribution for financial reporting purposes.

Subsequent to the SDTF's December 31, 2019, measurement date, HB 20-1379 *Suspend Direct Distribution to PERA Public Employees Retirement Association for 2020-21 Fiscal Year*, was passed into law during the 2020 legislative session and signed by Governor Polis on June 29, 2020. This bill suspends the July 1, 2020, \$225 million direct distribution allocated to the State, School, Judicial, and DPS Divisions, as required under Senate Bill 18-200.

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the HPTE is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from the Enterprise were \$146,779 and \$135,075 for the years ended June 30, 2020 and 2019, respectively.

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D. Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of December 31, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018 and 2017. Standard update procedures were used to roll forward the total pension liability to December 31, 2019 and 2018. The HPTE proportion of the net pension liability was based on HPTE's contributions to the SDTF for the calendar year 2019 relative to the total contributions of participating employers and the State as a nonemployer contributing entity for participating employers of the SDTF that are outside of the State's financial reporting entity.

At June 30, 2020 the HPTE reported a liability of \$1,951,632 and \$2,471,384 on June 30, 2019 for its proportionate share of the net pension liability that reflected a reduction for support for the State as a nonemployer contributing entity. The HPTE proportionate share of the net pension liability is as follows:

At December 31, 2019, the HPTE proportion was .020 percent, which was a decrease of .02 percent from its proportion measured as of December 31, 2018.

At December 31, 2018, the Enterprise's proportion was .022 percent, which was an increase of .006 percent from its proportion measured as of December 31, 2017.

For the years ended June 30, 2020 and 2019, the HPTE recognized pension expense (credit) of \$298,853 and \$49,799, respectively. At June 30, 2020 and 2019, the Enterprise reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 72,918	\$ -	\$ 70,673	\$ -
Changes in assumptions or other inputs	-	559,771	130,131	1,276,185
Net difference between projected and actual earnings on pension plan investments	-	210,265	124,833	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	414,151	255,350	922,459	280,495
Contributions subsequent to the measurement date	67,476	-	58,641	-
Total	\$ 554,545	\$ 1,025,386	\$ 1,306,737	\$ 1,556,680

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\$67,476 was reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30

2021	\$ (345,798)
2022	(112,713)
2023	(8,252)
2024	(71,554)
	\$ (538,317)

E. Actuarial Assumptions

The total pension liability in the December 31, 2018 and 2017 actuarial valuations were determined using the following actuarial cost method, actuarial assumptions and other inputs:

	2018	2017
Actuarial cost method	Entry age	Entry age
Price inflation	2.40 percent	2.40 percent
Real wage growth	1.10 percent	1.10 percent
Wage inflation	3.50 percent	3.50 percent
Salary increases, including wage inflation	3.50-9.17 percent	3.50-9.17 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.25 percent	7.25 percent
Discount rate	7.25 percent	4.72 percent
Post-retirement benefit increases:		
PERA Benefit Structure hired prior to January 1, 2007 and DPS Benefit Structure (automatic) ¹	1.25 percent compounded annually	2.00 percent compounded annually
PERA Benefit Structure hired after December 31, 2006 (ad hoc, substantively automatic) ¹	Financed by the Annual Increase Reserve	Financed by the Annual Increase Reserve

¹ For 2019, the annual increase was 0.00 percent

Additionally, the following actuarial assumptions were utilized for both the December 31, 2018 and 2017 actuarial valuations:

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Postretirement non-disabled mortality assumptions were based on the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

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- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the SDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the current long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income-Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

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In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25 percent.

F. Discount Rate

The discount rate used to measure the total pension liability for December 31, 2019 and 2018 was 7.25 percent. The projection of cash flows used to determine the discount rate applied to the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50 percent.
- Employee contributions were assumed to be made at the member contribution rates in effect for each year, including scheduled increases in SB 18-200 and the additional 0.50 percent resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective July 1, 2020. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the scheduled increase in SB 18-200 and the additional 0.50 percent, resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective July 1, 2020. Employer contributions also include current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. Additionally, estimated employer contributions reflect reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- As specified in law, the State provides an annual direct distribution of \$225 million, which commenced July 1, 2018, that is proportioned between the State, School, Judicial, and DPS Division Trust Funds based upon the covered payroll of each Division. The annual direct distribution ceases when all Division Trust Funds are fully funded.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.

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- The projected benefit payments reflect the lowered AI cap, from 1.50 percent to 1.25 percent resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective July 1, 2020.
- Benefit payments and contributions were assumed to be made at the middle of the year.

Based on the above assumptions and methods, the projection test indicates the SDTF’s fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent. There was no change in the discount rate from the prior measurement date.

G. Sensitivity of the HPTE Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	June 30, 2020		
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	\$ 2,510,716	\$ 1,951,632	\$ 1,478,511

H. Pension Plan Fiduciary Net Position

Detailed information about the SDTF’s fiduciary net position is available in PERA’s comprehensive annual financial report which can be obtained at www.copera.org/investment/pera-financial-reports.

NOTE 9 – OTHER RETIREMENT PLANS

Voluntary Investment Program (PERAPlus 401 (k) Plan)

A. Plan Description

Employees of HPTE that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available CAFR which includes additional information on the Voluntary Investment Program. That report can be obtained at www.copera.org/investments/pera-financial-reports.

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B. Funding Policy

The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions.

Defined Contribution Retirement Plan (DC Plan)

A. Plan Description

Employees of the State of Colorado that were hired on or after January 1, 2006, and employees of certain community colleges that were hired on or after January 1, 2008, which were eligible to participate in the SDTF, a cost-sharing multiple-employer defined benefit pension plan, have the option to participate in the SDTF or the Defined Contribution Retirement Plan (PERA DC Plan). Pursuant to C.R.S. § 24-51-1501(4), the PERA DC Plan eligibility was extended to certain new classified employees at State Colleges and Universities beginning on January 1, 2019. The PERA DC Plan is an Internal Revenue Code Section 401(a) governmental profit-sharing defined contribution plan. Title 24, Article 51, Part 15 of the C.R.S., as amended, assigns the authority to establish Plan provisions to the PERA Board of Trustees. The DC Plan is also included in PERA's CAFR as referred to above.

B. Funding Policy

All participating employees in the PERA DC Plan are required to contribute a percentage of the participating employees' PERA-includable salary to the PERA DC Plan. The employee and employer contribution rates for the period January 1, 2019 through December 31, 2020 are summarized in the table below:

	January 1, 2019 to June 30, 2019	July 1, 2019 to June 30, 2020	July 1, 2020 to December 31, 2020
Employee Contribution rates:			
Employee Contribution (all employees except State Troopers)	8.00%	8.75%	10.00%
State Troopers Only	10.00%	10.75%	12.00%
Employer Contribution Rates:			
On behalf of all employees except State Troopers	10.15%	10.40%	10.90%
State Troopers	12.85%	13.10%	13.60%

Additionally, the employers are required to contribute to AED and SAED to the SDTF as follows:

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	As of June 30, 2020 and 2019
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411 ¹	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411 ¹	5.00%
Total employer contribution rate to the SDTF ¹	10.00%

¹ Rates are expressed as a percentage of salary as defined in C.R.S. §24-51-101(42).

Contribution requirements are established under Title 24, Article 51, Section 1505 of the C.R.S., as amended. Participating employees of the PERA DC Plan are immediately vested in their own contributions and investment earnings and are immediately 50 percent vested in the amount of employer contributions made on their behalf. For each full year of participation, vesting of employer contributions increases by 10 percent. Forfeitures are used to pay expenses of the PERA DC Plan in accordance with PERA Rule 16.08 as adopted by the PERA Board of Trustees in accordance with Title 24, Article 51, Section 204 of the C.R.S. As a result, forfeitures do not reduce pension expense. Participating employees in the PERA DC Plan contributed \$12,967,000 and \$10,573,000 for the years ended June 30, 2020 and 2019, respectively, and the HPTE did not recognize any pension contributions for the PERA DC plan for the years ended June 30, 2020 and 2019.

PERAPlus 457 Plan

The PERA Deferred Compensation Plan (457 Plan) was established July 1, 2009 as a continuation of the State's deferred compensation plan, which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 Plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2019, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by the percentage of their PERA contribution) to a maximum of \$19,000. Participants who are age 50 and older, and contributing the maximum amount allowable were allowed to make an additional \$6,000 contribution in 2019. Contributions and earnings are tax-deferred. At December 31, 2019 HPTE had two participants.

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NOTE 10 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN

A. OPEB

The HPTE participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

B. Plan Description

Eligible employees of the HPTE are provided with OPEB through the HCTF—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.copera.org/investments/pera-financial-reports.

C. Benefits Provided

The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure and all retirees under the DPS benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare. Upon the death of a DPS benefit structure retiree, no further subsidy is paid.

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Enrollment in the PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll into the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

D. PERA Benefit Structure

The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF or the DPS HCTF on behalf of benefit recipients not covered by Medicare Part A.

E. Contributions

Pursuant to Title 24, Article 51, Section 208(1) (f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the HPTE is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from HPTE were \$6,872 and \$6,368 for the year ended June 30, 2020 and 2019 respectively.

F. OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020 and 2019, the HPTE reported a liability of \$76,908 and \$104,315, respectively for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2019 and 2018. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2019 from the actuarial valuation date of December 31, 2018. The HPTE's proportion of the net OPEB liability was based on HPTE's contributions to the HCTF for the calendar year 2019 relative to the total contributions of participating employers to the HCTF.

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At December 31, 2019, the HPTE proportion was .007 percent, which was a decrease of .001 from its proportion measured as of December 31, 2018.

At December 31, 2018, the HPTE proportion was .008 percent, which was an increase of .002 percent from its proportion measured as of December 31, 2017.

For the years ended June 30, 2020 and 2019, the HPTE recognized OPEB expense of \$113 and \$6,169, respectively. At June 30, 2020, the HPTE reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 256	\$ 12,923	\$ 379	\$ 158
Changes of assumptions or other inputs	638	-	732	-
Net difference between projected and actual earnings on OPEB plan investments	-	1,284	600	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	31,343	23,675	38,086	17,340
Contributions subsequent to the measurement date	3,549	-	3,127	-
Total	<u>\$ 35,786</u>	<u>\$ 37,882</u>	<u>\$ 42,924</u>	<u>\$ 17,498</u>

\$3,551 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30

2021	\$ (552)
2022	(552)
2023	(181)
2024	13
2025	(4,115)
Thereafter	(258)
	<u>\$ (5,645)</u>

G. Actuarial Assumptions

The total OPEB liability in the December 31, 2018 and 2017, actuarial valuations were determined using the following actuarial cost method and actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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	2018	2017
Actuarial cost method	Entry age	Entry age
Price inflation	2.40 percent	2.40 percent
Real wage growth	1.10 percent	1.10 percent
Wage inflation	3.50 percent	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate	3.50 percent in aggregate
Long-term investment Rate of Return, net of OPEB plan investment expenses, including price inflation	7.25 percent	7.25 percent
Discount rate	7.25 percent	7.25 percent
Health care cost trend rates		
PERA benefit structure:		
Service based premium subsidy	0.00 percent	0.00 percent
PERACare Medicare plans	5.60 percent in 2019 gradually decreasing to 4.50 percent in 2029	5.00 percent in 2019 gradually decreasing to 4.50 percent in 2029
Medicare Part A premiums	3.50 percent in 2019, gradually increasing to 4.50 percent in 2029	3.25 percent in 2018, gradually increasing to 5.00 percent in 2025
DPS benefit structure		
PERA benefit structure:		
Service based premium subsidy	0.00 percent	0.00 percent
PERACare Medicare plans	N/A	N/A
Medicare Part A premiums	N/A	N/A

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each actuarial valuation and on the pattern of sharing of costs between employers of each fund to that point.

The actuarial assumptions used in the December 31, 2018, valuation were based on the results of the 2016 experience analysis for the periods January 1, 2012 through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA's actuary, as discussed below.

In determining the additional liability for PERACare enrollees who are age 65 or older and who are not eligible for premium-free Medicare Part A, the following monthly costs/premiums are assumed for 2019 for the PERA Benefit Structure:

Medicare Plan	Cost for Members Without Medicare Part A	Premium Without Medicare Part A
Medicare Advantage/Self-Insured Prescription	\$601	\$240
Kaiser Permanente Medicare Advantage HMO	605	237

The 2019 Medicare Part A premium is \$437 per month.

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In determining the additional liability for PERACare enrollees in the PERA Benefit Structure who are age 65 or older and who are not eligible for premium-free Medicare Part A, the following charge details the initial expected value of Medicare Part A benefits, age adjusted to age 65 for the year following the valuation date:

<u>Medicare Plan</u>	<u>Costs for Members Without Medicare Part A</u>
Medicare Advantage/Self-Insured Prescription	\$562
Kaiser Permanente Medicare Advantage HMO	571

All costs are subject to the health care cost trend rates, as discussed below:

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and industry methods developed by health plan actuaries and administrators. In addition, projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services are referenced in the development of these rates. Effective December 31, 2018, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

The PERA benefit structure health care cost trend rates that were used to measure the total OPEB liability are summarized in the table below:

<u>Year</u>	<u>PERACare Medicare Plans</u>	<u>Medicare Part A Premiums</u>
2019	5.60%	3.50%
2020	8.60%	3.50%
2021	7.30%	3.50%
2022	6.00%	3.75%
2023	5.70%	3.75%
2024	5.50%	3.75%
2025	5.30%	4.00%
2026	5.10%	4.00%
2027	4.90%	4.25%
2028	4.70%	4.25%
2029+	4.50%	4.50%

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Mortality assumptions for the determination of the total pension liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Postretirement non-disabled mortality assumptions for the State and Local Government Divisions were based on the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The following health care cost assumptions were updated and used in the measurement of the obligations for the HCTF:

- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2019 plan year.
- The morbidity assumptions were updated to reflect the assumed standard aging factors.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

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Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income-Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25 percent.

H. Sensitivity of the HPTE Proportionate Share of the Net OPEB Liability to Changes in Health Care Cost Trend Rates

The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

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	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.60%	5.60%	6.60%
Ultimate PERACare Medicare trend rate	3.50%	4.50%	5.50%
Initial Medicare Part A trend rate	2.50%	3.50%	4.50%
Ultimate Medicare Part A trend rate	3.50%	4.50%	5.50%
Net OPEB Liability	\$ 75,081	\$ 76,908	\$ 79,019

I. Discount Rate

The discount rate used to measure the total OPEB liability for December 31, 2019 and 2018 was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2019 measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50 percent.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the HCTF's fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

J. Sensitivity of the HPTE Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

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	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$ 86,960	\$ 76,908	\$ 68,312

K. OPEB Plan Fiduciary Net Position

Detailed information about the HCTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

NOTE 11 – RISK MANAGEMENT

The State of Colorado currently self-insures its agencies, officials, and employees for the risks of losses to which they are exposed. That includes general liability, motor vehicle liability, worker's compensation, and medical claims. Property claims are not self-insured; rather the State has purchased insurance. HPTE participates in the Risk Management Fund of the State of Colorado through the Department of Transportation. Agency premiums are based on an assessment of risk exposure and historical experience. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount of claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. There were no significant reductions or changes in insurance coverage from the prior year in any of the above mentioned risk management arrangements and had no settlements that exceeded insurance coverage for the past three years.

NOTE 12 – CONCESSION AGREEMENT

On February 25, 2014, HPTE and Plenary Roads Denver (PRD) completed the financial close of a concession agreement. The commercial close of the concession agreement finalized the terms of the agreement. The concession agreement with PRD transferred the operations, maintenance, and revenues from the I-25 High Occupancy Toll lanes and the U.S. 36 Phase I project to PRD from HPTE for the next 50 years. The concession agreement was HPTE and CDOT's first public-private partnership (P3) project, where public and private sectors work together to provide transportation improvements.

The concession agreement meets the criteria of a service concession arrangement under the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (SCA), and upon the financial close of the concession agreement the Enterprise adopted and implemented GASB 60. The standard addresses SCAs concession agreements between a government and a governmental or nongovernmental entity in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration and the operator collects and is compensated by fees from third parties. The statement also includes required disclosures about SCAs. The adoption of GASB 60 did not result in any effect on beginning net position. In accordance with the standard, the Enterprise recorded the U.S. 36 Phase II construction as an asset at acquisition value upon being placed

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in operation and being transferred to the Enterprise from PRD in the spring of 2016.

Under the agreement, the Enterprise received from PRD a transfer of capital assets and the assumption of the TIFIA loan. In accordance with GASB 60 (as amended) the Enterprise recorded the capital assets consisting of tolling software and toll lanes at the acquisition value of \$88,716,505. The book value of the TIFIA loan assumed by PRD was \$54 million. These amounts were included in deferred inflows of resources on the statements of net position, and are being amortized over the life of the agreement. As of June 30, 2020 and 2019 the amount of deferred inflow related to the concession agreement recorded was \$130,739,245 and \$133,644,562, respectively.

NOTE 13 – TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20 (TABOR), which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment excludes from its provision Enterprise operations. Enterprises are defined as government-owned businesses authorized to issue revenue bonds, which receive less than 10 percent of their annual revenue in grants from all state and local governments combined. HPTE qualifies as an Enterprise pursuant to C.R.S. 43-4-806(2)(d).

NOTE 14 – REPAYMENT OF PRIOR YEAR TRANSFER

The Colorado Tolling Enterprise (CTE) was established as a government-owned nonprofit business operating within, and as a division of the Colorado Department of Transportation. The CTE was authorized by House Bill 02-1310 and created by the Transportation Commission pursuant to Section 43-4-803(1), C.R.S., prior to the repeal and reenactment of said section by Senate Bill 09-108 by a resolution adopted on August 15, 2002.

The CTE requested Transportation Commission draws of \$1,000,000 in Fiscal Year 2002-03, \$2,000,000 and \$4,000,000 in Fiscal Year 2005-06 totaling \$7,000,000 and corresponding interagency agreements. These draws were to assist the CTE with their start-up costs in connection with the formation and operations of the CTE. The CTE planned to repay the draws when they receive sufficient bond proceeds or toll revenues. Under the terms of the interagency agreement, the CTE Transportation Commission draws were classified as a transfer. Before the abolishment of the CTE, the CTE made payments of \$2,500,000 and \$930,000 in Fiscal Year 2007-08 and \$301,822 in Fiscal Year 2008-09, leaving a balance of \$3,057,178 outstanding.

When HPTE was created, a Level III transfer occurred which moved the CTE's powers, duties, functions, and financial balances to HPTE, which included the balance of the CTE's draws. HPTE made payments of \$301,822 and \$905,464 in Fiscal Year 2009-10 and Fiscal Year 2010-11, respectively, leaving an outstanding balance of \$2,060,892 of the CTE transfers. These amounts are not considered a liability of the Enterprise. This transfer was not recorded as a liability as these amounts are not required to be repaid by the HPTE.

In Fiscal 2019-20, the HPTE Board of Directors voted unanimously to not repay the outstanding balance of the CTE transfers totaling \$2,060,892.

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NOTE 15 – CENTRAL 70 PROJECT

On August 24, 2017, Kiewit Meridiam Partners LLC (KMP) was selected to be the Central 70 project developer to undertake the \$1.2 billion dollar project. On November 22, 2017, Colorado Bridge Enterprise (CBE) and the HPTE Boards approved the Project Agreement and completed the commercial close of the Central 70 project. On December 21, 2017, KMP and CBE completed the financial close of the project which included CBE issuing \$120,765,426 of Private Activity Bonds (PABs) and closing on a TIFIA loan totaling \$416,000,000. Since CBE acted as a conduit issuer for the TIFIA loan and the PABs, Construction officially started in the summer of 2018 with completion estimated to be in 2022.

NOTE 15 – SUBSEQUENT EVENT

Tolling commencement on the C-470 managed lanes occurred on August 18, 2020. The C-470 project increased mobility and user choice on a 12.5 mile stretch of C-470, primarily between I-25 and Wadsworth Boulevard. Over 100,000 motorists currently use this segment of C-470 each day, with traffic volumes projected to increase. To fund the project HPTE received credit assistance from TIFIA in the amount of \$106 million and \$176.5 million toll revenue backed bonds.

COVID-19

As a result of the COVID-19 pandemic, economic uncertainties have arisen which may negatively affect the financial position, results of operations, and cash flows of HPTE. The duration of these uncertainties and the financial effect cannot be reasonably estimated at this time.

Required Supplementary Information

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Colorado High Performance Transportation Enterprise
Required Supplementary Information
Schedule of HPTE's Proportionate Share of the Net Pension Liability
June 30

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016 *</u>	<u>2015 *</u>
HPTE's proportion of the net pension liability	0.020%	0.022%	0.016%	0.02%	0.02%	0.02%
HPTE's proportionate share of the net pension liability	\$ 1,951,632	\$ 2,471,384	\$ 3,130,107	\$ 3,057,963	\$ 2,139,258	\$ 1,914,042
HPTE's covered payroll	\$ 632,064	\$ 747,535	\$ 459,041	\$ 474,500	\$ 555,546	\$ 581,304
HPTE's proportionate share of the net pension liability as a percentage of its covered payroll	308.77%	330.60%	681.88%	644.46%	385.07%	329.27%
Plan fiduciary net position as a percentage of the total pension liability	62.24%	55.11%	43.20%	42.60%	56.10%	59.84%

Note: Information is not available prior to 2015. In future reports, additional years will be added until 10 years of historical data are presented. Information presented in this schedule has been determined as of the measurement date (December 31) of the collective net pension liability in accordance with Governmental Accounting Standards Board Statement No. 68.

* Amounts were not updated for the implementation of Governmental Accounting Standards Board Statement No. 82 as amounts were not readily available.

Colorado High Performance Transportation Enterprise
Required Supplementary Information
Schedule of HPTE Pension Contributions
June 30

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016 *</u>	<u>2015 *</u>
Statutorily required contribution	\$ 146,779	\$ 135,075	\$ 118,854	\$ 75,338	\$ 91,834	\$ 97,049
Contributions in relation to the statutorily required contribution**	<u>146,779</u>	<u>135,075</u>	<u>118,854</u>	<u>75,338</u>	<u>91,834</u>	<u>97,049</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
HPTE's covered payroll	<u>\$ 632,064</u>	<u>\$ 624,532</u>	<u>\$ 621,296</u>	<u>\$ 403,308</u>	<u>\$ 516,614</u>	<u>\$ 609,247</u>
Contributions as a percentage of covered payroll	21.79%	21.63%	19.13%	18.68%	17.78%	15.93%

Note: Information is not available prior to 2015. In future reports, additional years will be added until 10 years of historical data are presented. Information presented in this schedule has been determined as of HPTE's fiscal year-end (June 30) in accordance with Governmental Accounting Standards Board Statement No. 68.

* Amounts were not updated for the implementation of Governmental Accounting Standards Board Statement No. 82 as amounts were not readily available.

** Total contributions include the additional contributions from State per SB18-200. Thus causing the ratio to be higher than the statutory contribution rate as noted in the Notes to the Financial Statements

Colorado High Performance Transportation Enterprise
Required Supplementary Information
Schedule of HPTE's Proportionate Share of the Net OPEB Liability
June 30

	<u>2020</u>	<u>2019</u>	<u>2018*</u>
HPTE's proportion of the net OPEB liability	0.007%	0.008%	0.006%
HPTE's proportionate share of the net OPEB liability	\$ 76,908	\$ 104,315	\$ 71,597
HPTE's covered payroll	\$ 636,103	\$ 747,535	\$ 459,041
HPTE's proportionate share of the net OPEB liability as a percentage of its covered payroll	12.09%	13.95%	15.60%
Plan fiduciary net position as a percentage of the total OPEB liability	24.49%	17.03%	17.53%

*Note: Information is not available prior to 2018. In future reports, additional years will be added until 10 years of historical data are presented. Information presented in this schedule has been determined as of the measurement date (December 31) of the collective net OPEB liability in accordance with Governmental Accounting Standards Board Statement No. 75.

Colorado High Performance Transportation Enterprise
Required Supplementary Information
Schedule of HPTE OPEB Contributions
June 30

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 6,872	\$ 6,368	\$ 6,337
Contributions in relation to the statutorily required contribution	<u>6,872</u>	<u>6,368</u>	<u>6,337</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
HPTE's covered payroll	<u>\$ 682,055</u>	<u>\$ 624,314</u>	<u>\$ 925,166</u>
Contributions as a percentage of covered payroll	1.01%	1.02%	0.68%

Note: Information is not available prior to 2018. In future reports, additional years will be added until 10 years of historical data are presented. Information presented in this schedule has been determined as of HPTE's fiscal year-end (June 30) in accordance with Governmental Accounting Standards Board Statement No. 75.

Colorado High Performance Transportation Enterprise

Notes to Required Supplementary Information

June 30, 2020 and 2019

NOTE 1 – SIGNIFICANT CHANGES IN ASSUMPTIONS OR OTHER INPUTS AFFECTING TRENDS IN ACTUARIAL INFORMATION

2019 Changes in Assumptions or Other Inputs Since 2018:

- The assumption used to value the AI cap benefit provision was changed from 1.50 percent to 1.25 percent.

2018 Changes in Assumptions or Other Inputs Since 2017:

- The single equivalent interest rate (SEIR) for the State Division was increased from 4.72 percent to 7.25 percent to reflect the changes to the projection's valuation basis which no longer resulted in a projected year of depletion of the fiduciary net position (FNP), thereby eliminating the need to apply the municipal bond index rate.

2017 Changes in Assumptions or Other Inputs Since 2016:

- The SEIR for the State Division was lowered from 5.26 percent to 4.72 percent to reflect the changes to the projection's valuation basis, a projected year of depletion of the FNP, and the resulting application of the municipal bond index rate.

2016 Changes in Assumptions or Other Inputs Since 2015:

- The investment return assumption was lowered from 7.50 percent to 7.25 percent.
- The price inflation assumption was lowered from 2.80 percent to 2.40 percent.
- The wage inflation assumption was lowered from 3.90 percent to 3.50 percent.
- The postretirement mortality assumption for healthy lives for the State Division was changed to the RP-2014 Healthy Annuitant Mortality Table with adjustments for credibility and gender adjustments of a 73 percent factor applied to ages below 80 and a 108 percent factor applied to age 80 and above, projected to 2018, for males, and a 78 percent factor applied to ages below 80 and a 109 percent factor applied to age 80 and above, projected to 2020, for females.
- The postretirement mortality assumption for healthy lives for the Judicial Division was changed to the RP-2014 White Collar Healthy Annuitant Mortality Table with adjustments for credibility and gender adjustments of a 93 percent factor applied to ages below 80 and a 113 percent factor applied to age 80 and above, projected to 2018, for males, and a 68 percent factor applied to ages below 80 and a 106 percent factor applied to age 80 and above, projected to 2020, for females.
- For disabled retirees, the mortality assumption was changed to reflect 90 percent of RP-2014 Disabled Retiree Mortality Table.

Colorado High Performance Transportation Enterprise

Notes to Required Supplementary Information

June 30, 2020 and 2019

- The mortality assumption for active members was changed to RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.
- The rates of retirement, withdrawal, and disability were revised to reflect more closely actual experience.
- The estimated administrative expense as a percentage of covered payroll was increased from 0.35 percent to 0.40 percent.
- The SEIR for the State Division was lowered from 7.50 percent to 5.26 percent to reflect the changes to the projection's valuation basis, a projected year of depletion of the FNP, and the resulting application of the municipal bond index rate of 3.86 percent on the measurement date.

2015 Changes in Assumptions or Other Inputs Since 2014:

- The following programming changes were made:
 - Valuation of the full survivor benefit without any reduction for possible remarriage.
 - Reflection of the employer match on separation benefits for all eligible years.
 - Reflection of one year of service eligibility for survivor annuity benefit.
 - Refinement of the 18-month AI timing.
 - Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.
- The following methodology changes were made:
 - Recognition of merit salary increases in the first projection year.
 - Elimination of the assumption that 35 percent of future disabled members elect to receive a refund.
 - Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
 - Adjustments to the timing of the normal cost and UAAL payment calculations to reflect contributions throughout the year.
 -

2014 Changes in Assumptions or Other Inputs Since 2013:

- The SEIR for the Judicial Division was lowered from 6.66 percent to 6.14 percent to reflect the changes to the projection's valuation basis, a projected year of depletion of the FNP, and the resulting application of the municipal bond index rate from 4.73 percent on the prior measurement date to 3.70 percent on the measurement date.

Colorado High Performance Transportation Enterprise
Notes to Required Supplementary Information
June 30, 2020 and 2019

2013 Changes in Assumptions or Other Inputs Since 2012:

- The investment return assumption was lowered from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 3.50 percent to 2.80 percent.
- The wage inflation assumption was lowered from 4.25 percent to 3.90 percent.

NOTE 2 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFITS

- There were no changes to plan provisions

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**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards**

Independent Auditor's Report

Members of the Legislative Audit Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Colorado High Performance Transportation Enterprise (the Enterprise or HPTE), an enterprise fund of the State of Colorado, Department of Transportation, which comprise the statement of net position as of June 30, 2020 and the related statements of revenues, expenses, changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated December 4, 2020, which contained an emphasis of a matter paragraph regarding the financial statements of the Enterprise.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Enterprise's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Enterprise's internal control. Accordingly, we do not express an opinion on the effectiveness of the Enterprise's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Enterprise's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Enterprise's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
December 4, 2020

Members of the Legislative Audit Committee

As part of our audit of the financial statements and compliance of Colorado High Transportation Enterprise (the Enterprise or HPTE) as of and for the year ended June 30, 2020, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor’s Responsibility Under Auditing Standards Generally Accepted in the United States of America and the Standards Applicable to Financial Audits Contained in *Government Auditing Standards* Issued by the Comptroller General of the United States and U.S. Office of Management and Budget (OMB) Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)

An audit performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and U.S. Office of Management and Budget (OMB) *Uniform Guidance* is designed to obtain reasonable, rather than absolute, assurance about the financial statements and about whether noncompliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on a major federal program occurred. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our contract with the State of Colorado Office of the State Auditor more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement and compliance audits that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

Audits of the financial statements and compliance do not relieve management or those charged with governance of their responsibilities.

Members of the Legislative Audit Committee

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

HPTE's significant accounting policies are described in Note 1 of the audited financial statements.

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- No matters are reportable

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Depreciation and useful lives of capital assets
- Net pension liability and related items
- Net OPEB liability and related items

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Revenue recognition
- Defined benefit pension plan
- OPEB plan

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. A misstatement is a difference between the amount, classification, presentation or disclosure of a

Members of the Legislative Audit Committee

reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Proposed Audit Adjustments Recorded

- No matters are reportable

Proposed Audit Adjustments Not Recorded

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, but more than trivial to the financial statements as a whole

Auditor's Judgments About the Quality of HPTE's Accounting Principles

During the course of the audit, we made the following observations regarding HPTE's application of accounting principles:

- No matters are reportable

Disagreements with Management

The following matters involved disagreements which if not satisfactorily resolved would have caused a modified auditor's opinion on the financial statements:

- No matters are reportable

Consultation with Other Accountants

During our audit we became aware that management had consulted with other accountants about the following auditing or accounting matters:

- Matters related to Central 70

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Significant Issues Discussed with Management

Prior to Retention

During our discussion with management prior to our engagement, the following issues regarding application of accounting principles or auditing standards were discussed:

- No matters are reportable

During the Audit Process

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- No matters are reportable

Difficulties Encountered in Performing the Audit

Our audit requires cooperative effort between management and the audit team. During our audit, we found significant difficulties in working effectively on the following matters:

- No matters are reportable

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies

* * * * *

This communication is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, Board of Directors, and management of HPTE and is not intended to be and should not be used by anyone other than these specified parties. However, upon release by the Legislative Audit Committee, this report is a public document.

BKD, LLP

December 4, 2020

Colorado Department of Transportation

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflect the effects on the financial statements if the uncorrected misstatements identified were corrected.

HPTE - Fund 536

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	30,776,446		30,776,446	
Non-Current Assets & Deferred Outflows	641,593,050		641,593,050	
Current Liabilities	(31,495,224)		(31,495,224)	
Non-Current Liabilities & Deferred Inflows	(409,758,707)		(409,758,707)	
Current Ratio	0.977		0.977	
Total Assets & Deferred Outflows	672,369,496		672,369,496	
Total Liabilities & Deferred Inflows	(441,253,931)		(441,253,931)	
Total Net Position	(231,115,565)		(231,115,565)	
Operating Revenues	(14,398,343)		(14,398,343)	
Operating Expenses	13,344,541	134,842	13,479,383	1.01%
Nonoperating (Revenues) Exp	(250,592)		(250,592)	
Change in Net Position	(76,631,630)	134,842	(76,496,788)	-0.18%

Description	Financial Statement Line Item	Factual (F), Judgmental (J) or Projected (P)	Assets & Deferred Outflows				Liabilities & Deferred Inflows				Operating Revenues				Operating Expenses				Nonoperating (Revenues) Exp				Net Position			
			Current		Noncurrent		Current		Noncurrent		DR		CR		DR		CR		DR		CR		DR		CR	
			DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR
To post turnaround effect of accrued interest for calculation		F	0	0	0	0	0	0	0	0	0	0	0	0	134,842	0	0	0	0	0	0	0	0	0	0	
Beginning Net Position																										
Interest Expense															134,842											
Total passed adjustments			0	0	0	0	0	0	0	0	0	0	0	0	134,842	0	0	0	0	0	0	0	0	0	0	
			Impact on Change in Net Position												134,842											
			Impact on Net Position												0											