



**MEMORANDUM**

**TO:** TRANSPORTATION COMMISSION  
**FROM:** MARIA SOBOTA, CHIEF FINANCIAL OFFICER (CFO)  
**DATE:** OCTOBER 19, 2016  
**SUBJECT:** NEW BUILDINGS PROJECT UPDATE

---

**Purpose**

This memorandum summarizes financing information for the new CDOT Headquarters (HQ)/Region 1 and Region 2 buildings that were announced in August 2016 and September 2016, respectively. Information for reimbursement of the new Region 4 HQ is also included.

**Action**

No action for the Transportation Commission (TC). This memorandum is informational only.

**Background & Details**

***CDOT New HQ/Region 1 and Region 2 Building***

In 2012, CDOT completed a report on the condition of the Headquarters, Region 1, Region 2 and Region 4 facilities. The goal of the facilities' condition report was to create a road map that would allow CDOT to upgrade its major offices to a quality level that will help CDOT retain and recruit top-level employees. Key findings from the facilities' condition assessment across the regions include fire/life safety concerns, floodplain concerns, Americans with Disabilities Act (ADA) deficiencies, costly capital improvement repairs, including mechanical systems and glass/glazing past their useful life.

On August 17, 2016, Executive Director Shailen P. Bhatt announced that the new CDOT HQ/Region 1 building would be constructed in Denver near the intersection of 14<sup>th</sup> Avenue and Decatur Street at 2829 West Howard Place. The move is expected to take place in early 2018, and will allow CDOT to sell five existing building structures and pieces of land. A new Region 2 building in Pueblo located in north Pueblo at the intersection of Outlook Boulevard and Wills Boulevard, and shared with Colorado State Patrol, was also announced and will be built by April 2018. These new buildings are in addition to the new Region 4 HQ in Greeley. After consolidating HQ/Region 1, Region 2 and Region 4 land and buildings, accounting for the maintenance and operational savings of moving into new buildings, and adding property tax revenue back into state coffers, there is expected to be a positive fiscal impact of \$23.0 million. The property value of all buildings (including Region 2 and 4 properties), is expected to be \$65.0 million more than the value of current buildings.



### Progress

The HQR1 Gross Maximum Price (GMP) contract amendment has been signed and the contractor is working on completion the construction document phase of the project. A Voluntary Cleanup (VCUP) application for environmental issues at the site has been submitted to the Colorado Department of Public Health and Environment (DPHE). The Voluntary Cleanup Program (VCUP), once approved, will allow for reimbursement of some expenditures related to environmental mitigation. The sellers of the property are on track to have all of their releases complete to allow for a property closing in late November/early December. The team is on track to start construction as scheduled in the first part of December. CDOT is progressing with the sale of existing HQ and R1 Facilities. CDOT is taking steps to make sure that the property value is maximized before officially marketing the property for sale.

The R2 GMP contract amendment has also been signed and the contractor is working on completion the construction document phase of the project. The Pueblo Project is on track to start construction, as planned, in the first part of November.

### Certificates of Participation

With the useful life of the buildings anticipated for several decades, the preferred method of financing for the new building sites is through the use of Certificates of Participation (“COPs” or “Certificates”), which allow the repayment over the term of the financing through the use of lease payments. COPs provide CDOT the most efficient way to finance the construction of these facilities over the useful life of the properties. In this instance, CDOT will be making lease payments to repay the Certificates. In the event of non-allocation from the Transportation Commission, CDOT would lose the use of the facilities and the Trustee would seek remedies on behalf of investors. The current plan anticipates COPs will be issued to finance the HQ/Region 1, Region 2, and Region 4 facilities up to an aggregate \$128.0 million, building before the end of the calendar year. All repayment will be made with Highway User Tax Fund (HUTF) revenues, a dedicated funding source. Issuance of the COPs is estimated for December 2016. Repayment by CDOT to investors will occur two times per year (June and December 15) for twenty-five years. Once the new facilities are completed, CDOT intends to cooperate with local agencies to sell its existing facilities, and will retain the ability to use those sale proceeds to redeem a portion of the COPs. Meetings were held between all financial stakeholders on September 13 and September 30 to discuss the Preliminary Official Statement (POS) and financing of the new facilities.

CDOT is legally required to pursue a competitive procurement process through the State Treasurer’s office for the contemplated offering of the COPs and the associated underwriting syndicate of banks. In June 2016, CDOT and the Treasurer’s Office released a Request for Proposal (“RFP”) for qualified underwriting firms to provide services related to issuing the proposed COPs. After receiving eleven qualified responses to the RFP, the State Treasurer’s office and CDOT selected three firms - Wells Fargo Securities, George K. Baum Company, and Loop Capital Markets - to underwrite the transaction.



### **Existing Buildings and Lands**

An important reason to build new HQ/Region 1 and Region 2 buildings is to consolidate existing resources and save space. By moving employees and equipment into fewer land and buildings, CDOT will realize financial benefits along with greater collaboration between employees. The space will also maximize area efficiencies per employee. Currently, CDOT has facilities providing as much as 325 gross square feet per employee. The new buildings will provide 225 gross square feet per employee, a 30% space reduction per employee. Once the new buildings are operational, CDOT will sell existing buildings and/or pieces of land for approximately \$21.0 million, which will be used to redeem a portion of the COPs issued for HQ/R1 and reduce future lease payments. These buildings include the current CDOT Headquarters building, the Region 1 South Holly office building, the former Region 4 Headquarters building in Greeley, and two residency buildings in Region 4. These properties will be sold after both Region 1 and Headquarters staff have relocated to the new Headquarters property in early 2018.

### **Key Benefits**

COPs allow CDOT to borrow money at historically low interest rates and use dedicated funding for repayment of the new buildings, reducing ongoing operations and maintenance (O&M) for the existing facilities and providing new state of the art facilities for CDOT employees. Disposition of existing buildings and land will return funds to CDOT to redeem COPs (and reduce the ongoing lease payments) and return the tax base of the state and local municipalities.

### **Options and Recommendations**

N/A

### **Next Steps**

The Division of Accounting and Finance (DAF) will update the Transportation Commission in future months on the status of the COPs and the overall financing of the HQ/Region 1 and Region 2/4 facilities.

