



COLORADO

Department of Transportation

Division of Accounting and Finance

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

DATE: September 15, 2016
TO: Transportation Commission
FROM: Maria Sobota, Chief Financial Officer, and
David Fox, Deputy Property Management Program Manager
SUBJECT: Project Background and Financial Review for Approval of COPs for Region 2 Project

Purpose

This memorandum summarizes the methodology and mechanics of the proposed Colorado Department of Transportation (CDOT) issuance of Certificates of Participation (COPs) related to the funding of the relocation of the Region 2 HQ.

Action

Department staff is asking the TC to approve the use of COPs to finance Region 2 headquarters. In addition, the TC will be asked to provide a \$5.6 million loan to the Region 2 project for the Colorado State Patrol (CSP) portion of the building. CSP will repay the loan in one payment upon completion of the project in early 2018. In August, the Transportation Commission (TC) approved the use of COPs to finance HQ/Region 1, additionally the TC approved the use of COPs for Region 4 in July 2014.

Background

Information related to the background of CDOT's evaluation of new buildings for HQ/Region 1, Region 2 and Region 4 was provided to the TC in August 2016.

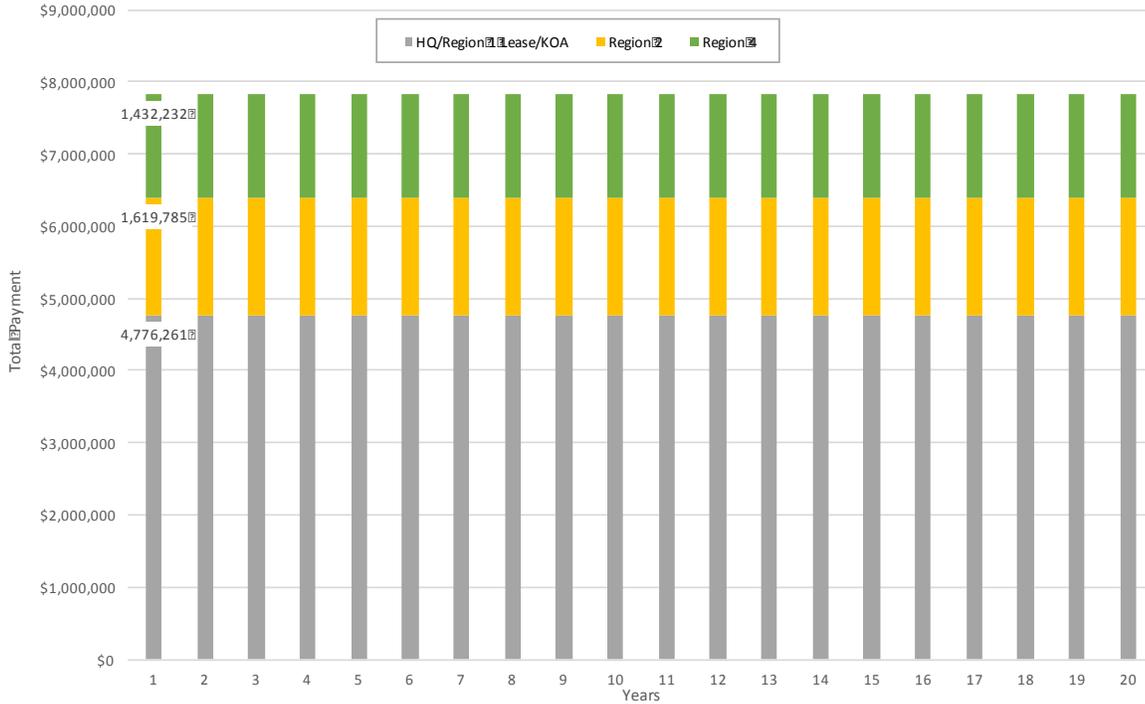
Plan of Action

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

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



**COLORADO DEPARTMENT OF TRANSPORTATION
HEADQUARTERS RELOCATIONS COPs
SUMMARY OF ANNUAL APPROPRIATION @ 4.00%**



The request of the TC for the purposes of this memorandum is to authorize the issuance of COPs for the financing of the Region 2 HQ. As a reminder for the Commission, the following timetable highlights the key steps to reach financial close on the proposed COPs for the entire program.

EVENT	
August 17, 2016	Transportation Commission Workshop
August 18, 2016	August Transportation Commission Meeting - Authorizing Moving Forward on COPs related to HQ/Region 1
Week of 08/22/16	Selection of Underwriters Working Group Kick-off Meeting and Begin Document Preparation
Week of 09/05/16	First Round of Documents Distributed ¹
Week of 09/12/16	Document Review Meeting
September 15, 2016	September Transportation Commission Meeting - Authorizing Moving Forward on COPs related to Region 2
Week of 09/19/16	Revised Documents Distributed
Week of 09/26/16	Second Document Review Meeting Send Documents to Rating Agencies
Week of 10/03/16	Rating Calls
Week of 10/17/16	<ul style="list-style-type: none"> ▪ Entire COP Financing Approved at October 2016 TC Meeting ▪ Receive Ratings ▪ Post POS
Week of 10/31/16	Pricing of COPs
Week of 11/07/16	Obtain Signatures for Closing Documents
11/15/16	Closing

¹ Financing documents include associated real estate documents, lease purchase agreement, site lease, indenture, resolution and Preliminary/Final Official Statement



Key Benefits

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

- Take advantage of historically low interest rate environment.
- Rare opportunity to finance an important project without any current bonding capacity; this project represents one of the only opportunities to utilize financing to complete several significant projects and retain cash on hand for other non-financing eligible projects.
- Reduce operational costs by constructing LEED Certified, energy efficient buildings and collocating programs to reduce the overall square footage of occupied buildings.

Recommendation and Options

1. Approve proceeding with the preparation of the issuance of \$23.275 million of COPs for the financing of facilities related to Region 2. In addition, the TC will be asked to provide a \$5.6 million loan to the Region 2 project for the Colorado State Patrol (CSP) portion of the building. **(Staff Recommendation)**
2. Request further information.
3. Reject issuance of COPs for this project.

Next Steps

1. If approved, Begin the COP issuance process, as detailed above.
2. Develop request for authorization related to Region 2 for the September TC Meeting.
3. Department staff to consider use of proceeds in the amount of \$21.8 million related to the reimbursement resolution for Region 4. Recommendation will be discussed with TC at a later date.
4. If not approved or if further information is required, Department staff will prepare responses to the TC as requested.

Attachments

- A. CDOT Capital Building Program 20 Year Analysis
- B. Proposed Reimbursement Resolution
- C. Stifel Bond Market Weekly
- D. Presentation Related to Business Case for the new R2 Headquarters Project



CDOT Capital Building Program 20 Year Analysis

	Renovate <u>COP</u>	BTS <u>COP</u>	Delta Renovate v. BTS <u>COP</u>	Annual Savings/Cost <u>Over 20 Years</u>
Cost of Land purchase, Design and Construction				
1 HQ + R1	\$23,230,563	\$83,382,500	\$60,151,938	\$3,007,597
2 R2 (Pueblo)	\$23,245,400	\$23,275,000	\$29,600	\$1,480
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4	\$60,470,152	\$128,462,500	\$67,992,348	\$3,399,617
Proceeds from Sales of Existing Assets				
5 HQ + R1	\$0	-\$17,700,216	-\$17,700,216	-\$885,011
6 R2 (Pueblo)	\$0	-\$1,000,000	-\$1,000,000	-\$50,000
7 R4 (Greeley)	\$0	-\$2,109,200	-\$2,109,200	-\$105,460
8	\$0	-\$20,809,416	-\$20,809,416	-\$1,040,471
Total Net Cost				
9 HQ + R1	\$23,230,563	\$65,682,284	\$42,451,722	\$2,122,586
10 R2 (Pueblo)	\$23,245,400	\$22,275,000	-\$970,400	-\$48,520
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12	\$60,470,152	\$107,653,084	\$47,182,932	\$2,359,147
COP Repayment (Prin. + Int.)				
13 HQ + R1	\$33,785,433	\$95,525,213	\$61,739,780	\$3,086,989
14 R2 (Pueblo)	\$33,807,012	\$32,395,708	-\$1,411,304	-\$70,565
15 R4 (Greeley)	\$20,352,488	\$28,644,642	\$8,292,153	\$414,608
16	\$87,944,934	\$156,565,563	\$68,620,629	\$3,431,031
OpEx + Cap Ex				
17 HQ + R1	\$69,925,401	\$57,527,602	-\$12,397,799	-\$619,890
18 R2 (Pueblo)	\$29,817,246	\$21,005,076	-\$8,812,170	-\$440,609
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20	\$127,261,063	\$100,201,072	-\$27,059,990	-\$1,353,000
Total COP Repayment + OpEx + CapEx				
21 HQ + R1	\$103,710,834	\$153,052,815	\$49,341,981	\$2,467,099
22 R2 (Pueblo)	\$63,624,259	\$53,400,785	-\$10,223,474	-\$511,174
23 R4 (Greeley)	\$47,870,904	\$50,313,036	\$2,442,132	\$122,107
24	\$215,205,997	\$256,766,635	\$41,560,639	\$2,078,032



	Renovate	BTS	Delta Renovate v. BTS	Annual Savings/Cost
	<u>COP</u>	<u>COP</u>	<u>COP</u>	<u>Over 20 Years</u>
26 Total Residual Value				
27 HQ + R1	\$26,396,829	\$62,250,000	\$35,853,171	\$1,792,659
28 R2 (Pueblo)	\$1,491,328	\$17,456,250	\$15,964,922	\$798,246
29 R4 (Greeley)	\$3,131,789	\$16,353,750	\$13,221,961	\$661,098
	<u>\$31,019,946</u>	<u>\$96,060,000</u>	<u>\$65,040,054</u>	<u>\$3,252,003</u>
Total COP Repayment + OpEx + CapEx - Total Residual Value				
30				
31 HQ + R1	\$77,314,005	\$90,802,815	\$13,488,809	\$674,440
32 R2 (Pueblo)	\$62,132,931	\$35,944,535	-\$26,188,396	-\$1,309,420
33 R4 (Greeley)	\$44,739,115	\$33,959,286	-\$10,779,829	-\$538,991
	<u>\$184,186,051</u>	<u>\$160,706,635</u>	<u>-\$23,479,416</u>	<u>-\$1,173,971</u>
34 NPV of Total Cost				
35 HQ + R1	\$70,069,440	104,181,337.94	34,111,897.97	1,705,594.90
36 R2 (Pueblo)	\$43,218,204	36,345,054.40	-6,873,149.95	-343,657.50
37 R4 (Greeley)	\$32,427,144	34,210,171.91	1,783,028.34	89,151.42
	<u>\$145,714,788</u>	<u>174,736,564.25</u>	<u>29,021,776.36</u>	<u>1,451,088.82</u>
38 PV of Residual Value				
39 HQ + R1	-\$11,876,650	-28,007,964.41	16,131,314.78	-806,565.74
40 R2 (Pueblo)	-\$670,989	-7,854,040.62	-7,183,051.66	-359,152.58
41 R4 (Greeley)	-\$1,409,077	-7,357,995.95	-5,948,919.12	-297,445.96
	<u>-\$13,956,715</u>	<u>-43,220,000.99</u>	<u>29,263,285.56</u>	<u>1,463,164.28</u>
Total Net NPV of Project				
42				
43 HQ + R1	\$58,192,790	76,173,373.52	17,980,583.19	899,029.16
44 R2 (Pueblo)	\$42,547,215	28,491,013.78	14,056,201.61	-702,810.08
45 R4 (Greeley)	\$31,018,067	26,852,175.96	-4,165,890.78	-208,294.54
46	<u>\$131,758,072</u>	<u>131,516,563.26</u>	<u>-241,509.19</u>	<u>-12,075.46</u>





CBRE

HPA | DESIGN GROUP

NEENAN
ARCHITSTRUCTION

CDOT

Transportation Commission Presentation



905 N. Erie Avenue | Pueblo, CO

Existing Building Stats

- 79,821 SF existing space in ten buildings (administration and maintenance)
- Several 20 – 30 year old prefabricated metal buildings
- Temporary double wide trailer
- Administrative offices, maintenance shop, materials laboratory, co-location with State Patrol operations
- Difficult site access

KEY ISSUES

Facility Deficiencies

“CDOT’s current Region 2 headquarter buildings are functionally obsolete and will require significant capital investment.”

JF Sato completed an in depth assessment of the existing facilities in Pueblo in 2012. The report provided many examples of building deficiencies such as:

- Inconsistent space allocations and office environment
- Dispersed personnel in the same department
- Lack of number and sizes of meeting rooms
- Some Buildings do not have a restroom
- Limited connectivity between buildings
- Outdated mechanical, electrical and plumbing systems that are past their life expectancy
- Deficiencies in code compliance and ADA including lack of sprinklers and alarms
- Maintenance bays are too small
- Deficient on-site drainage; site consistently floods
- On-site vehicular and pedestrian traffic conflicts

The estimated project cost is \$19-21M to demolish and build new with renovations of select buildings which excluded new technology and provided limited FF&E upgrades. However, this does not resolve the major site constraints and limitations for CDOT functions.



Summary of objective relative rankings indicates the BTS Pueblo Scenario is the most viable option for CDOT Region 2.

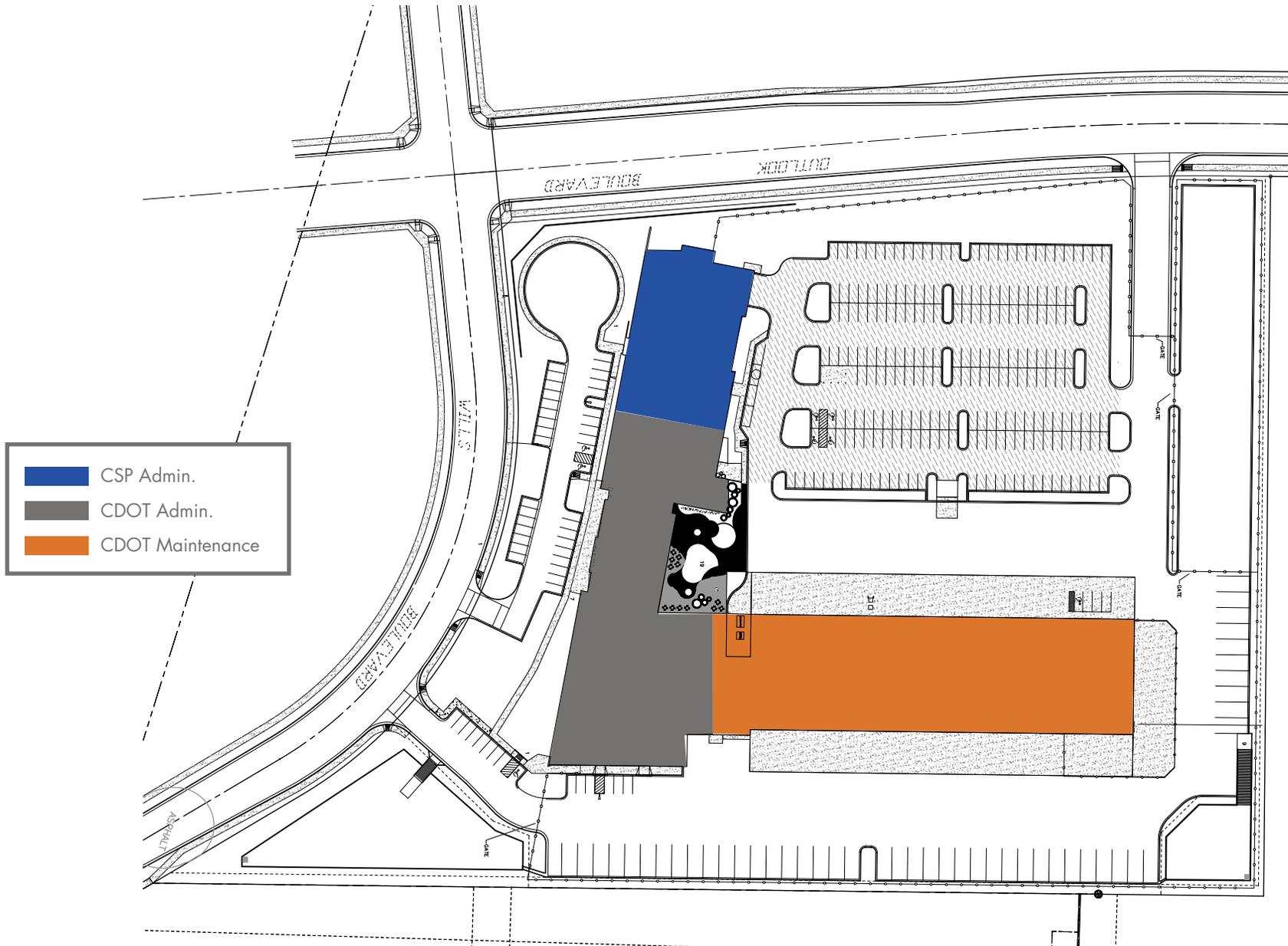
	Strategic <small>(Access to the labor market and employee amenities)</small>	Operational <small>(Efficiency to operation)</small>	Workplace <small>(quality of the environment)</small>	Market <small>(Constrained)</small>	Financial <small>(Cost neutral / beneficial)</small>	
SCENARIO  2 BTS in Pueblo	2	4	4	3	3	SCORE TOTAL 16
SCENARIO  4 Colorado Springs Administration Building	4	1	3	4	1	SCORE TOTAL 13
SCENARIO  3 BTS in Fountain	3	2	2	2	2	SCORE TOTAL 11
SCENARIO  1 Renovate Current Space	1	3	1	1	4	SCORE TOTAL 10





CRITERIA	WEIGHT	OUTLOOK (PREFERRED LOCATION)		SPAULDING	
		RAW	WEIGHTED	RAW	WEIGHTED
Proximity to Major Highways	2	2	4	1	2
Access to External Employee Amenities	3	2	4	1	2
Wellness Potential	2	1	2	2	4
Ease of Site Access	3	1	2	2	4
Infrastructure Risk	3	1	2	2	4
Compatible Neighborhood	2	1	2	2	4
Efficiency of Region Operations	3	2	4	1	2
Project Cost	2	2	4	1	2
TOTAL		12	24	12	24

Tiebreaker: CSP Needs Proximity to I-25





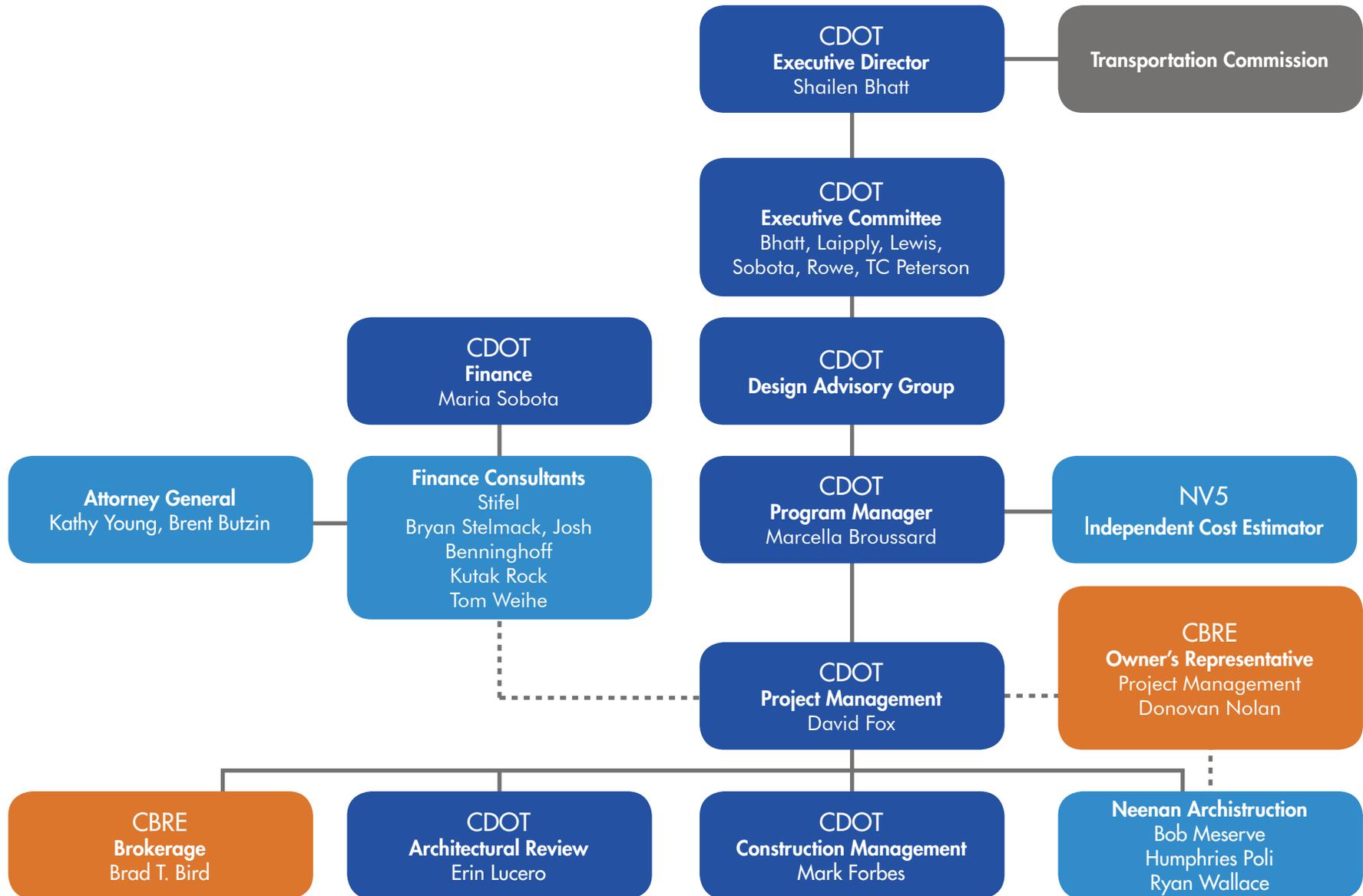
South (looking East)



North Entry (looking East)



ORGANIZATIONAL CHART





Trade Description	CDOT Budget	CSP Budget	Total Budget
OWNER COSTS			
Permit & Tap Fees	\$ 327,000	\$ -	\$ 327,000
Geotech/Material Testing	\$ 224,102	\$ -	\$ 224,102
Project Management	\$ 364,526	\$ -	\$ 364,526
Brokerage Fee	\$ 200,000	\$ -	\$ 200,000
TOTAL SERVICES/FEES	\$ 1,115,628	\$ -	\$ 1,115,628
FIXED LIMIT OF DESIGN & CONSTRUCTION			
Design & Engineering	\$ 1,033,755	\$ 181,098	\$ 1,214,853
Administration	\$ 7,415,541	\$ 2,856,635	\$ 10,272,176
Maintenance/Traffic	\$ 7,571,329	\$ -	\$ 7,571,329
Site	\$ 3,718,025	\$ 1,431,767	\$ 5,149,792
TOTAL FLDC	\$ 19,738,651	\$ 4,469,500	\$ 24,208,151
TECHNOLOGY AND EQUIPMENT			
TOTAL TECHNOLOGY & EQUIPMENT	\$ 354,686	\$ -	\$ 354,686
FURNITURE, FIXTURES AND EQUIPMENT			
TOTAL FF&E	\$ 893,429	\$ -	\$ 893,429
RELOCATION			
TOTAL RELOCATION	\$ 167,866	\$ -	\$ 167,866
CONTINGENCY			
TOTAL PROJECT CONTINGENCY	\$ 1,004,740	\$ 1,130,500	\$ 2,135,240
PROJECT TOTALS	\$ 23,275,000	\$ 5,600,000	\$ 28,875,000

Original project budget for the site was \$23,275,000 without CSP



Off Site Infrastructure Improvements Provided by City of Pueblo

Project Construcion Bid Items	\$	1,482,325.00
Contingencies / Unlisted Items	\$	222,348.75
Construction Signing and Traffic Control	\$	17,046.74
Mobilization	\$	86,086.02
Subdivision & Design	\$	180,780.65
Phase 1 ESA	\$	5,000.00
Total Estimated Pueblo Construction Costs	\$	1,993,587.16



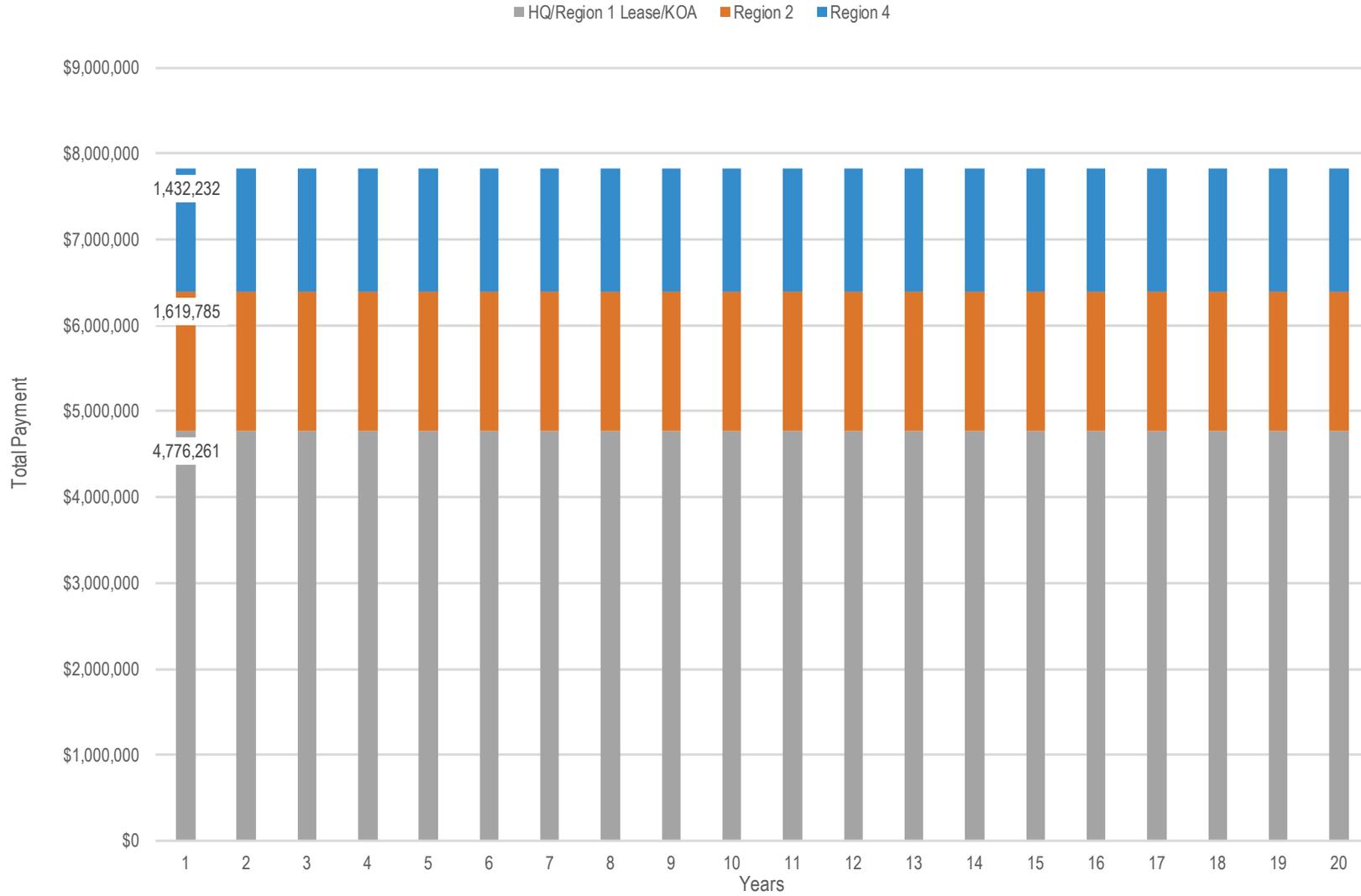
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46	\$131,758,072	131,516,563.26	-241,509.19	-12,075.46

Summary of Annual Appropriation @ 4.00%





A critically important aspect of the Region 2 relocation project is the disposition of CDOT’s outdated and inadequate facilities located at 905 North Erie Street in Pueblo, CO. The nine (9) buildings sit on approximately three and a-half (3.5) acres of commercial industrial land north and range in age, construction, zoning, quality, and use but are consistently well worn and have an estimated value as follows:

Building	SF	High	Low
Estimated Property Value	56,190 (9 Buildings)	\$1,603,700.00	\$1,049,300.00

The Property’s estimated value is between \$1M and \$1.6M. The \$1M figure was used in the financial analysis due to the numerous adverse conditions that impact the opinion of market value. The buildings would likely be sold within 18 months of being listed and vacated.



i. Adverse Conditions

It is important to understand that the Property has critical adverse conditions, which include but are not necessarily limited to (1) constrained commercial access, (2) limited market visibility, (3) insufficient parking capacity, (4) located within the FEMA five-hundred (500) and three-hundred (300) year flood zone, (5) dilapidated condition, (6) the age and historical uses of the buildings that make it practical to assume lead based paint, asbestos, and hazardous materials are reasonably anticipated or even expected.



ii. 902 North Erie & OIT Tower

There is a tenth building that is currently part of the CDOT property. 902 Erie is a 7,200 square foot building used by CDOT, CSP OIT and other Governmental entities. This building does not have nearly the deficiencies as the others and is being evaluated for other reuse possibilities.



iii. Statutory Requirements

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



Key Benefits

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

1. Take advantage of historically low interest rate environment.
2. Rare opportunity to finance an important project without any current bonding capacity; this project represents one of the only opportunities to utilize financing to complete several significant projects and retain cash on hand for other non-financing eligible projects.
3. Reduce operational costs by constructing LEED Certified, energy efficient buildings and collocating programs to reduce the overall square footage of occupied buildings.

Recommendation and Options

1. Approve proceeding with the preparation of the issuance of \$23.275 million of COPs for the financing of facilities related to Region 2. In addition, the TC will be asked to provide a \$5.6 million loan to the Region 2 project for the Colorado State Patrol (CSP) portion of the building. (Staff Recommendation)
2. Request further information.
3. Reject issuance of COPs for this project.

**Transportation Commission of Colorado
September 15, 2016**

Resolution Number TC-XXX

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

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

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

WHEREAS, CDOT presently intends to acquire, renovate and construct certain properties to house CDOT operations (the “Project”), including facilities in Pueblo, Colorado; and

WHEREAS, on June 18, 2015, the Transportation Commission approved resolution #15-6-9 to authorize staff to expend \$1,600,000 (in aggregate, including the initial design amount) to fund design through the Design Development phase, provide earnest money in an effort to secure potential site location(s) for the Project, and establish the Project GMP; and

WHEREAS, CDOT has made an agreement with the City of Pueblo (“City”) and W.L. Enterprises for the acquisition of approximately 12 acres of property located on the northeast corner of Outlook Blvd. and Wills Blvd.; and

WHEREAS, W.L. Enterprises is donating this land to the City, which will plat and rezone the property before deeding the property to CDOT for the purpose of constructing its new Region 2 headquarters; and

WHEREAS, the City has also agreed to pay for and construct the offsite improvements required to enable development of the site; and

WHEREAS, CDOT currently intends and reasonably expects to participate in a lease purchase financing to finance the Project, including an amount of approximately \$23,275,000 (the “Reimbursement Amount”) for reimbursing CDOT for capital expenditures made by CDOT prior to

the date when funds for the Project are available from such financing;
and **WHEREAS**, the new Region 2 project includes a co-location of certain facilities with the Colorado State Patrol (“CSP”); and

WHEREAS, CDOT has agreed to loan CSP up to \$5,600,000 for the cost of construction for their portion of the new building; and

WHEREAS, CDOT does not intend to reimburse itself with lease purchase financing for the CSP portion of the project; and

WHEREAS, CSP has submitted a funding request to the Capital Development Committee to secure funds to repay CDOT for the actual final sum of CSP construction costs in 2018, at the completion of construction; and

WHEREAS, the initial expenditure of funds of CDOT for the Project, other than preliminary expenditures, as such term is defined in 26 C.F.R. § 1.150-2(f)(2) (“Preliminary Expenditures”), occurred on a date that is within 60 days prior to the date hereof; and

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

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

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

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

Section 2. Declaration of Official Intent. CDOT presently intends and reasonably expects to participate in a lease purchase financing within 18 months of either the date of the first expenditure of funds by CDOT for the Project (other than Preliminary Expenditures) or the date that the Project is placed in service, whichever is later (but in no event more than

three years after the date of the original expenditure of CDOT funds, other than Preliminary Expenditures, for the Project), and to allocate an amount approximately equal to the Reimbursement Amount of the proceeds thereof to reimburse CDOT for its expenditures in connection with the Project.

Section 3. Authorization for CDOT to Participate in Lease Purchase Financing. In addition to any amounts authorized for reimbursement previously by separate Commission resolutions (including, for certainty, amounts to be reimbursed in relation to the construction of the Region 4 headquarters project in Greeley, Colorado, and the CDOT/Region 1 headquarters project in Denver, Colorado), the Commission hereby authorizes CDOT, pursuant to 26 C.F.R. § 1.150-2 and consistent with this Resolution, to reimburse itself for the expenditure of CDOT funds on the Project, in an amount not to exceed \$23,275,000, from the proceeds of a future lease purchase financing of CDOT.

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

Section 5. CSP Building Funds. CDOT intends to loan CSP \$5,600,000 from Commission Contingency Funds for the construction of their portion of the new building. CSP will pay CDOT back in one lump sum payment in 2018 at the completion of construction.

Section 6. Effective Date of Resolution. This Resolution shall take effect immediately upon its passage.

INTRODUCED AND ADOPTED at a regular meeting of the Commission on September 15, 2016

Herman Stockinger, Secretary
Transportation Commission of Colorado