

Schedule 13

Funding Request for the FY 2016-17 Budget Cycle

Department of Regulatory Agencies

Request Title

NP-02 Annual Fleet Vehicle Request

Dept. Approval By: <u><i>[Signature]</i> 10/29/15</u>	<input checked="" type="checkbox"/>	Supplemental FY 2015-16
	<input type="checkbox"/>	Change Request FY 2016-17
	<input type="checkbox"/>	Base Reduction FY 2016-17
OSPB Approval By: <u><i>[Signature]</i> 10/22/15</u>	<input type="checkbox"/>	Budget Amendment FY 2016-17

Summary Information	Fund	FY 2015-16		FY 2016-17	FY 2017-18	
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
	Total	\$219,218	\$0	\$219,218	\$17,980	\$17,980
	FTE	0.0	0.0	0.0	0.0	0.0
Total of All Line Items Impacted by Change Request	GF	\$0	\$0	\$0	\$0	\$0
	CF	\$219,218	\$0	\$219,218	\$17,980	\$17,980
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Line Item Information	Fund	FY 2015-16		FY 2016-17	FY 2017-18	
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
	Total	\$219,218	\$0	\$219,218	\$17,980	\$17,980
	FTE	0.0	0.0	0.0	0.0	0.0
01. Executive Director's Office and Administrative Services - Vehicle Lease Payments	GF	\$0	\$0	\$0	\$0	\$0
	CF	\$219,218	\$0	\$219,218	\$17,980	\$17,980
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Letternote Text Revision Required? Yes <input type="checkbox"/> No <input type="checkbox"/> X <input checked="" type="checkbox"/>	If Yes, describe the Letternote Text Revision:
Cash or Federal Fund Name and CORE Fund Number:	
Reappropriated Funds Source, by Department and Line Item Name	
Approval by OIT? Yes <input type="checkbox"/> No <input type="checkbox"/> Not Required: X <input checked="" type="checkbox"/>	
Schedule 13s from Affected Departments:	
Other Information:	

Schedule 13

Funding Request for the FY 2016-17 Budget Cycle

Department of Regulatory Agencies

Request Title

NP-03 Secure Colorado

Dept. Approval By: <u><i>[Signature]</i> 10/28/15</u>	<input checked="" type="checkbox"/>	Supplemental FY 2015-16
	<input type="checkbox"/>	Change Request FY 2016-17
	<input type="checkbox"/>	Base Reduction FY 2016-17
OSPB Approval By: <u><i>[Signature]</i> 10/20/15</u>	<input type="checkbox"/>	Budget Amendment FY 2016-17

Summary Information	Fund	FY 2015-16		FY 2016-17	FY 2017-18	
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
	Total	\$3,844,690	\$0	\$2,601,170	\$19,193	\$0
	FTE	0.0	0.0	0.0	0.0	0.0
Total of All Line Items Impacted by Change Request	GF	\$161,603	\$0	\$109,334	\$0	\$0
	CF	\$3,683,087	\$0	\$2,491,836	\$19,193	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Line Item Information	Fund	FY 2015-16		FY 2016-17	FY 2017-18	
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
	Total	\$3,844,690	\$0	\$2,601,170	\$19,193	\$0
	FTE	0.0	0.0	0.0	0.0	0.0
01, Executive Director's Office and Administrative Services - Payments to OIT	GF	\$161,603	\$0	\$109,334	\$0	\$0
	CF	\$3,683,087	\$0	\$2,491,836	\$19,193	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Letternote Text Revision Required?	Yes	No	X	If Yes, describe the Letternote Text Revision:
Cash or Federal Fund Name and CORE Fund Number:				
Reappropriated Funds Source, by Department and Line Item Name:				
Approval by OIT?	Yes	X	No	Not Required
Schedule 13s from Affected Departments:				
Other Information:				

Schedule 13

Funding Request for the FY 2016-17 Budget Cycle

Department of Regulatory Agencies

Request Title

R-01 Annualize New Lease

Dept. Approval By: <u><i>[Signature]</i> 10/27/15</u>	<input checked="" type="checkbox"/>	Supplemental FY 2015-16
	<input type="checkbox"/>	Change Request FY 2016-17
	<input type="checkbox"/>	Base Reduction FY 2016-17
OSPB Approval By: <u><i>[Signature]</i> 10/29/15</u>	<input type="checkbox"/>	Budget Amendment FY 2016-17

Summary Information	Fund	FY 2015-16		FY 2016-17	FY 2017-18	
		Initial	Supplemental	Change	Continuation	
		Appropriation	Request	Request		
Total		\$3,193,641	\$0	\$3,193,641	(\$2,374,717)	\$41,989
FTE		0.0	0.0	0.0	0.0	0.0
Total of All Line Items Impacted by Change Request	GF	\$97,037	\$0	\$97,037	(\$97,037)	\$1,275
	CF	\$2,653,882	\$0	\$2,653,882	(\$1,964,299)	\$34,893
	RF	\$372,072	\$0	\$372,072	(\$272,917)	\$4,892
	FF	\$70,650	\$0	\$70,650	(\$40,464)	\$929

Line Item Information	Fund	FY 2015-16		FY 2016-17	FY 2017-18	
		Initial	Supplemental	Change	Continuation	
		Appropriation	Request	Request		
Total		\$3,193,641	\$0	\$3,193,641	(\$2,374,717)	\$41,989
FTE		0.0	0.0	0.0	0.0	0.0
01, Executive Director's Office and Administrative Services - Leased Space	GF	\$97,037	\$0	\$97,037	(\$97,037)	\$1,275
	CF	\$2,653,882	\$0	\$2,653,882	(\$1,964,299)	\$34,893
	RF	\$372,072	\$0	\$372,072	(\$272,917)	\$4,892
	FF	\$70,650	\$0	\$70,650	(\$40,464)	\$929

Letternote Text Revision Required? Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	If Yes, describe the Letternote Text Revision:
Cash or Federal Fund Name and CORE Fund Number:	
Reappropriated Funds Source, by Department and Line Item Name:	
Approval by OIT? Yes <input type="checkbox"/> No <input type="checkbox"/> Not Required: <input checked="" type="checkbox"/>	
Schedule 13s from Affected Departments:	
Other Information:	



COLORADO

Department of
Regulatory Agencies

Priority: R-01
Annualize Terms of New Department Lease Agreement
FY 2016-17 Change Request

Cost and FTE

- The Department requests that its Leased Space line item be adjusted to reflect the terms and savings of the Department's newly executed lease for its space at 1560 Broadway. Specifically, this includes reducing spending authority by \$2,374,717 total funds for FY 2016-17 associated with one-time savings. The request will annualize to \$41,989 total funds for FY 2017-18, with annual adjustments each year after pursuant to the terms of the lease.

Current Program

- The Department presently occupies consolidated space at 1560 Broadway in Denver to house operations of approximately 600 employees, over 300 board members, and 55 regulatory programs.
- The current rate is \$18.10 per square foot for 165,764 square feet of space. The Department is in the tenth year of a 10-year agreement for this lease which expires June 30, 2016.
- For FY 2015-16, the Department is appropriated \$3,193,641 for leased space, which includes \$97,037 General Fund, \$2,653,882 Cash Funds, \$372,072 Reappropriated Funds and \$70,650 federal funds.

Problem or Opportunity

- *New Lease Executed July 2016.* After two years of planning efforts to determine options for future leased space, the Department executed a lease agreement for its existing 165,764 square feet beginning July 1, 2016 and ending March 31, 2027. This lease agreement includes a period of free rent between July 1, 2016 and March 31, 2017, resulting in one-time savings of over \$2 million, followed by ten years of paid rent at an average rate of \$22.77 per square foot.
- *Follow-up from FY 2015-16 Cycle.* The request is provided in follow-up to information and terms provided by the Department to the JBC during the last legislative session at the Department's budget hearing and figure-setting presentations.
- *Favorable Budget Impact.* The budget impact of the new lease agreement is significantly less than expected in both the short and long term, owing to \$4.2 million in rent credits, graduated lease escalations, and \$2 million in up-front free rent.

Consequences of Problem

- If the proposed solution is not approved, the Department will have significant excess spending authority in its leased space appropriation.

Proposed Solution

- The proposed solution is to reduce the Leased Space line item by \$2.4 million in FY 2016-17 to capture one-time savings associated with the newly executed lease agreement. The Department will make annual adjustments pursuant to the terms of the lease for each year after through FY 2026-27 when the new leased expires.



COLORADO
Department of Regulatory
Agencies

John W. Hickenlooper
Governor

Joe Neguse
Executive Director

FY 2016-17 Funding Request | November 1, 2015

Department Priority: R-01
Request Detail: Annualize Terms of New Department Lease Agreement

Summary of Incremental Funding Change for FY 2016-17	Total Funds	General Fund
Annualize Terms of New Department Lease Agreement	(\$2,374,716)	(\$97,037)

Problem or Opportunity:

New Lease Executed July 2015. With the assistance of Jones Lange LaSalle (JLL) and DPA's Division of State Buildings and Real Estate Programs (SBREP), the Department successfully negotiated and on July 27, 2015, signed a new 10-year lease agreement for the period after the Department's current lease expires June 30, 2016. The Department requests that its Leased Space line item be adjusted to reflect the new terms of the Department's lease. The following information is provided in follow-up to information and terms provided by the Department to the JBC during the last legislative session at the Department's budget hearing and figure-setting presentations.

Lease Renewal Timeline. The Department presently occupies consolidated space at 1560 Broadway in Denver with a present total of 159,916 square feet (redrawn in April 2013 at existing industry standard space measurements as 165,764 square feet). The Department is presently in the tenth year of a 10-year agreement for this lease. After two years of planning efforts to determine options for future space as well as discussion during last year's JBC briefing, hearing, and JBC staff figure-setting, the Department executed a lease agreement for its existing 165,764 square feet beginning July 1, 2016 and ending March 31, 2027. This lease agreement includes a period of free rent between July 1, 2016 and March 31, 2017, followed by ten years of paid rent at an average rate of \$22.77 per square foot.

Proposed Solution:

Annualize Terms of New Lease Agreement. The Department proposes annualizing the new terms of the lease agreement effective July 1, 2017. For FY 2016-17, the impact to the budget is a reduction of \$2,374,716 total funds, including \$97,037 General Fund, \$1,964,298 Cash Funds, \$272,917 Reappropriated Funds, and \$40,464 Federal Funds. The following table shows the estimated rent schedule by fiscal year:

Proposed Rate Schedule

Year	Square Feet	Rate*	Total Cost	Max Rent Credit/SF	Effective Rate	Total Cost/ Appropriation
FY 16-17**	165,764	\$24.35	\$1,009,088.35	(\$5.88)	\$18.47	\$765,415.27
FY 17-18	165,764	\$24.85	\$4,119,235.40	(\$5.88)	\$18.97	\$3,144,543.08
FY 18-19	165,764	\$25.35	\$4,202,117.40	(\$5.88)	\$19.47	\$3,227,425.08
FY 19-20	165,764	\$25.85	\$4,284,999.40	(\$5.88)	\$19.97	\$3,310,307.08
FY 20-21	165,764	\$26.35	\$4,367,881.40	(\$5.88)	\$20.47	\$3,393,189.08
FY 21-22	165,764	\$26.85	\$4,450,763.40		\$26.85	\$4,450,763.40
FY 22-23	165,764	\$27.35	\$4,533,645.40		\$27.35	\$4,533,645.40
FY 23-24	165,764	\$27.85	\$4,616,527.40		\$27.85	\$4,616,527.40
FY 24-25	165,764	\$28.35	\$4,699,409.40		\$28.35	\$4,699,409.40
FY 25-26	165,764	\$28.85	\$4,782,291.40		\$28.85	\$4,782,291.40
FY 26-27**	165,764	\$29.35	\$3,648,880.05		\$29.35	\$3,648,880.05
			<u>\$44,714,839.00</u>			<u>\$40,572,396.64</u>

*Rates include base rate of \$16.50/SF escalating at \$0.50 annually, plus estimated operating at \$7.85/SF in each year

**Only 9 months' occupancy in FY 2016-17 and 3 months' occupancy in FY 2026-27 estimated here due to rent abatement in Year 1

Favorable Budget Impact. The budget impact of the new lease agreement is significantly less than expected in both the short and long term, owing to rent credits, graduated lease escalations, and up-front free rent, described in more detail below:

- If exercised fully and evenly during the first 5 years as is contemplated by this request, rent credits included in the lease agreement will bring the lease rate per-square foot down from \$24.35 to \$18.47 in the first year (compared with the Department's current rate of \$18.10 for FY 2015-16). It should be noted that with the termination of the 5-year period in which rent credits apply, the nominal lease rate of \$26.35 increases to \$26.85 but the effective lease rate would go up from \$20.47, changing requested appropriations figures at that time from approximately \$3.4 million to \$4.5 million.
- Due to an industry-standard practice of having lease rates rise in step with the term, the first year (final three months of FY 2016-17) will be \$18.47 but the tenth and last year would be \$29.35. These industry-standard escalations were reasonable in the context of other offers as well as the fact that some entities are presently paying in the neighborhood of \$26 to \$29 per square foot for space in the current year in the same building.
- The Department negotiated nine months of free rent during the first year, which represents a savings of over \$3 million. In facilitating up-front savings realized immediately, this serves to bring down the average cost over the full 10-year term.
- As a part of the master contract with its representation (Jones Lange LaSalle, or JLL), the Department is entitled to 30% of JLL's fee commission for the signed lease agreement. This amounts to \$497,292. In order to receive the benefit of this commission, the Department's lease includes a provision that this amount can be used as additional rent abatement or tenant improvements associated with the new lease. The Department's current plan is to utilize these

funds for tenant improvements (in lieu of securing additional space). However, the Department proposes committing no less than \$37,578 of this amount as an additional rent credit in year 1 of the lease. This amount will enable the Department to fully offset General Fund appropriations in the first year (adding this amount to an estimated \$59,459 in General Fund savings from the other abatement/credits in the lease). As a result, this request proposes eliminating the General Fund appropriation for Leased Space during the first year of the new lease.

All told, the initial year's leased space expense is projected at significantly less than the current appropriation of \$3.1 million, making this change request a budget reduction item in year one assuming full utilization of rent credits.

If the proposed solution is not approved, the Department will have significant excess spending authority in its leased space appropriation. If the leased space appropriation is not funded at all, technically speaking the Department would default on its leased space agreement and be required to terminate the contract under the "fiscal funding" termination provision, with no office space to house operations of approximately 600 employees, over 300 board members, and 55 regulatory programs.

This request represents follow-up that the Department committed to deliver when providing the information and lease terms in memo format during the FY 2015-16 request cycle. The Department did seek the involvement and input of all stakeholders including DPA's Division of State Buildings and Real Estate Programs (SBREP), the Governor's Office of State Planning and Budgeting (OSBP), and the legislative Joint Budget Committee (JBC) at every available opportunity. This request represents the first opportunity to formalize the agreement.

Alternatives Previously Examined. The Department did consider, but ultimately decided not to recommend or pursue, different alternatives. After having toured several prospective properties in the central business district as well as a property in the Denver Tech Center, and performing preliminary "test-fit" space-planning activities for the nearest and best alternative (101 W. Colfax) to the Department's current location (1560 Broadway), renewal at the current premises represented the best and most cost-effective option for a new leased space agreement. In addition to very favorable costs on the deal relative to current market rates, there are a few things worth noting in support of renewing at the current premises.

- Moving to other premises would have been more expensive than the differential in lease rates suggest, as out-of-pocket costs in order to move and to build-out/configure the new premises. JLL estimates that this would have been over \$3 million in and of itself.
- Other visited premises did not fit DORA's needs as well. This included 101 W. Colfax (the configuration of which would require reducing the number of offices, file rooms, supply/storage rooms, break rooms, and as many as 50 workstations), 1801 California, and 7800 East Union in DTC (toured but not priced).
- Significant movement (\$8.8 million in savings) from offered rate terms has been realized by JLL in the negotiation with the current landlord since January 2013. This included \$3.0 million in 9 months of free rent, \$2.4 million in savings related to rate reductions, and \$3.4 million in boosted tenant improvement allowance (more than half of which can be used as a rent credit during the first 5 years). This is an \$8.8 million swing on a total 10-year commitment of over \$40 million. Additionally, a cap on controllable operating expenses (7%) was obtained.

Anticipated Outcomes:

The desired outcome of this request is to annualize the new lease terms into the Department's Leased Space line item, and more importantly, to realize the significant one-time savings that have been achieved.

Assumptions and Calculations:

The rate schedule and approximate costs by year have been included in the narrative above. However, the following calculations apply to determining the exact requested change to the Leased Space line item:

Leased Space Line Item (Change from Base Appropriation)	Year 1 (FY 16-17) Amount	Year 2 (FY 17-18) Amount	Year 3 (FY 18-19) Amount
FY 15-16 Appropriation	\$3,193,641	\$3,193,641	\$3,193,641
New Lease Projected Costs			
FY 16-17 Rate	\$1,009,088.35	\$4,119,235.40	\$4,202,117.40
Max Rent Credit	(\$243,673)	(\$974,692)	(\$974,692)
Use of Vendor Commission to Offset GF NNN Operating @ 7% cap (\$7.85/SF estimated operating expense * 165,674 SF * 7%)	(\$37,578)		
	\$91,087	\$91,087	\$91,087
Total New Lease Costs	\$818,925	\$3,235,630	\$3,318,512
Difference	(\$2,374,716)	\$41,989	\$124,871
Revised Appropriation			

**7% of estimated \$7.85 per square foot operating charges applied to 165,764 total square feet*

The above table summarizes revised appropriations needs including full exercise of rent credits, representing an up-front budget savings of \$2.4 million. However, the table also includes a figure intended to ensure that the appropriation has sufficient room to pay required building operating costs. Under the existing lease, the Department pays an incremental share of the overall building operating costs relative to a base year (in this case calendar year 2006 when the Department first signed its current agreement). Under the new lease, the Department will be required to pay for 100% of its pro-rata share of building operating costs, which have been estimated in the above figures at \$7.85 per square foot. This method of payment for operating costs is known as "triple net" or "NNN" leasing and is industry standard for tenant funding of building operating costs. Given that the Department's operating expenses are subject to a cap of 7% in the lease document (meaning that its operating may increase no more than 7% above the prior year regardless of actual building operating expenses), the Department believes it is prudent to build in a 7% increase in the first year such that there is sufficient margin to avert unnecessary emergency supplemental requests due to insufficient spending authority.