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1/21/10

Denver Union Station

City and County of Denver
Department of Finance

January 21, 2010

Executive Summary

- Denver Union Station (DUS) is a true multimodal project that promotes livability, public/private partnership, job creation and is shovel ready
- DUS is proposing an innovative use of existing USDOT loan programs (RRIF & TIFIA) to solve the immediate funding shortfall and maintain the current schedule
  - This model would be a template for future funding of intermodal projects
  - Would successfully finance a project that fulfills USDOT's, the Obama Administration's, and Congress's transportation policy goals as well as a local and statewide vision
  - USDOT has granted DUSPA the ability to move forward with both loans by paying the TIFIA credit subsidy which would keep the TIFIA approval process on the same timetable as RRIF
- In order to finalize approvals for both loans the City and County of Denver has been asked to use a moral obligation to support the subordinate RRIF loan
- The unique aspects of the Federal loans provide for very little risk to the moral ob
  - Ability to defer payments for 6 years provides no exposure until 2016
  - Ability to shape the debt service to match projected revenues
  - Reserves allow for no tax increment revenue until 2020 (total of $24.4 M in reserves)

Sources & Uses

Source	Description	Amount	Max Annual Debt Service	Deferred Interest	Total Reserves
FHWA	PNRS	$45.3 M			
FTA	5309	$9.3 M			
CDOT	SB-1	$17.3 M			
DRCOG	TIP funds	$2.5 M			
	ARRA (stimulus) grant	$18.6 M			
RTD	ARRA (stimulus) grant	$9.8 M			
	Property sales proceeds	$38.4 M			
	RTD FasTracks contribution	$40.8 M			
Total		$182 M			
RRIF loan proceeds		$152.1 M	$16 M	$32 M	$18.5 M
TIFIA loan proceeds		$145.6 M	$11.9 M	$4.9 M	$5.9 M
Total Sources		$479.7 M	$27.9 M	$36.9 M	$24.4* M
Current Project Budget		$479.7 M			

*The full amount of reserves would be available to pay RRIF debt service

RRIF & TIFIA overview

Railroad Rehabilitation & Improvement Financing Act (RRIF)

- Loan administered by the Federal Railroad Administration (FRA)
  - Funding authorization in place and not dependent on Highway Trust Fund, etc.
- DUS application submitted in April, 2009
  - FRA has hired independent financial advisor (IFA) and review is under way
    - TIFIA will use same IFA
- FRA has expressed interest in funding eligible portions of the project
  - Includes all of the passenger rail
  - Portion of light rail & bus facility directly attributed to passenger rail (approx. 33%)
- Asking for approval on approximately $152 M loan

Transportation Infrastructure Finance & Innovation Act (TIFIA)

- Administered jointly by FHWA & FTA
  - Can be a secured loan, line of credit or loan guarantee
  - Limited to 33% of eligible project cost
- DUS submitted LOI in Fall 2008
  - Moratorium placed on new applications following DUS LOI due to oversubscription
  - USDOT allowed for DUSPA to pay credit subsidy and final application submitted in November 2009
- Allows for flexible repayment terms giving DUSPA the ability to structure payments to match projected revenue
- DUS is requesting approximately $146 M in TIFIA loan

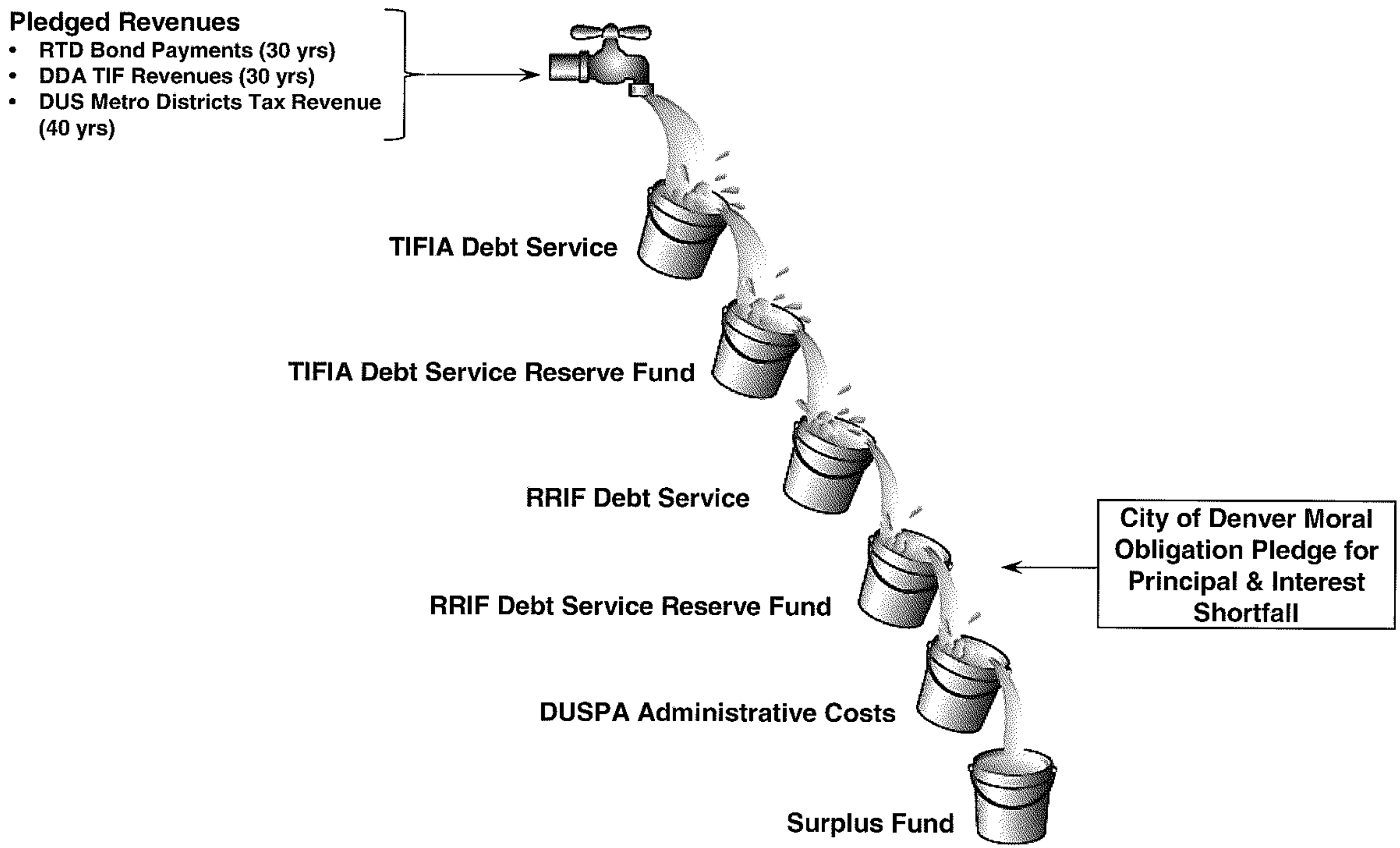
Why City Should Consider a Moral Obligation

- Innovative structure of combined RRIF/TIFIA loans only available if City is willing to stand behind the Project
- Access to low cost loans with flexible repayment structure requires additional security
  - Credit enhancement may be necessary to secure final approval of the RRIF loan
- Moral ob expresses City's confidence in both the DUS Project as well as the economic future of Lower Downtown
- Reserves in the current structure can support no tax increment revenue until 2020
  - There is a total of $24.4 M in reserves ahead of the moral ob
  - Only 44% of total projected taxes are required over 30 years to repay the loan without a call on the City's moral ob
  - There is currently 385,000 sf of development within the DDA that will begin producing property tax increment in 2010

Why the City Should be Comfortable with the Moral Obligation

- There is minimum risk to the City
  - There is no required payment exposure prior to 2016 due to deferred payments
  - Tax increment is not needed until 2020 due to the amount of reserves
  - There is new tax increment that will begin in 2010
- Any advances under the agreement would become a repayment obligation of DUSPA from future revenues
- Reserve funds provide adequate protection
  - RRIF interest reserve account ($10.5 M)– capitalized revenue that will be set aside during construction for any payment shortfall on the RRIF loan
  - TIFIA debt service reserve fund ($5.9 M)– TIFIA has granted access to RRIF to use money in this account in the event there is a potential shortfall in revenue available for debt service
  - RRIF debt service reserve fund ($8 M) – standard reserve fund that would require replenishment if drawn upon

Flow of Funds (Post-Construction) – Preliminary & subject to USDOT approval



Waterfall of accounts in the event annual revenue is insufficient to pay debt service on RRIF loan

Surplus Revenue Fund
- Any money in this account will be drawn up first

RRIF Interest Reserve Account ($10.5 M)
- This will be an account created solely for payment of interest or principal on the RRIF loan

TIFIA Debt Service Reserve Fund ($5.9 M)
- Due to the credit quality of the RTD payments, TIFIA has allowed access to RRIF for these funds
- There is not a replenishment requirement on this account

RRIF Debt Service Reserve Fund ($8 M)
- Minimum size of 6 months max annual debt service
- The City's moral ob would be used to replenish any funds drawn from this account

City of Denver Moral Obligation Pledge for Principal & Interest Shortfall

Moral Obligation Structure

- Contingent commitment used to provide additional credit support on the RRIF loan
- Structured as a debt service reserve fund (DSRF) replenishment and is subject to annual appropriation
- Any amount appropriated will become a repayment obligation of DUSPA secured by pledged revenue deposited in the surplus account
- Term of commitment is through RRIF repayment, but may be removed once the loan can achieve an investment grade rating on its own or any other pre-determined threshold
- City will charge DUSPA an interest rate on any funds advanced

Detail of CBRE Feasibility & EPS Peer Review

- CBRE was hired by the City in fall 2008 to analyze the viability of tax-increment financing for DUS
  - First report completed early 2009
  - Report updated in October 2009
- Economic & Planning Systems recently completed a peer review of CBRE's report for DUSPA
  - Confirms CBRE forecast (completed 11/09)
- CBRE Methodology
  - Market analysis
    - Stepped analysis based on population & employment growth projections (Region, City, Downtown, Site)
  - Generated demand projections for site & then normalized to account for real estate cycles
- Result is a conservative set of real estate assumptions by two firms that did not focus on the attractiveness of the site, but rather what future market demand would allow
  - Conservative numbers used as basis for debt structure and only 44% of total taxes needed over 30 years

Conclusion

- DUS is proposing an innovative use of existing USDOT loan programs (RRIF & TIFIA) that provides low cost borrowing and flexible repayment terms
  - Ability to defer payments for 6 years
  - Ability to shape the debt service to match projected revenues
- Conservative revenue forecasts have been developed by two independent firms and are used for the debt structure
  - Only 44% of total projected taxes required to repay the loan within 30 years
- There is minimal risk to the City
  - No exposure until 2016
  - Tax increment is not required until 2020
- The Department of Finance is recommending approval of the moral ob

Appendix

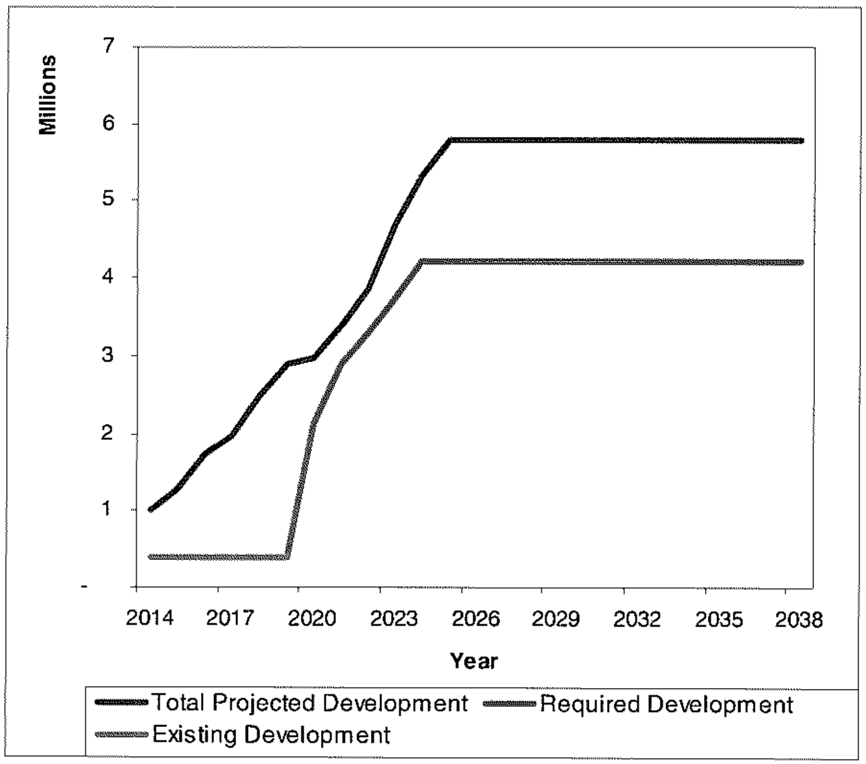
Schedule of Development Summary

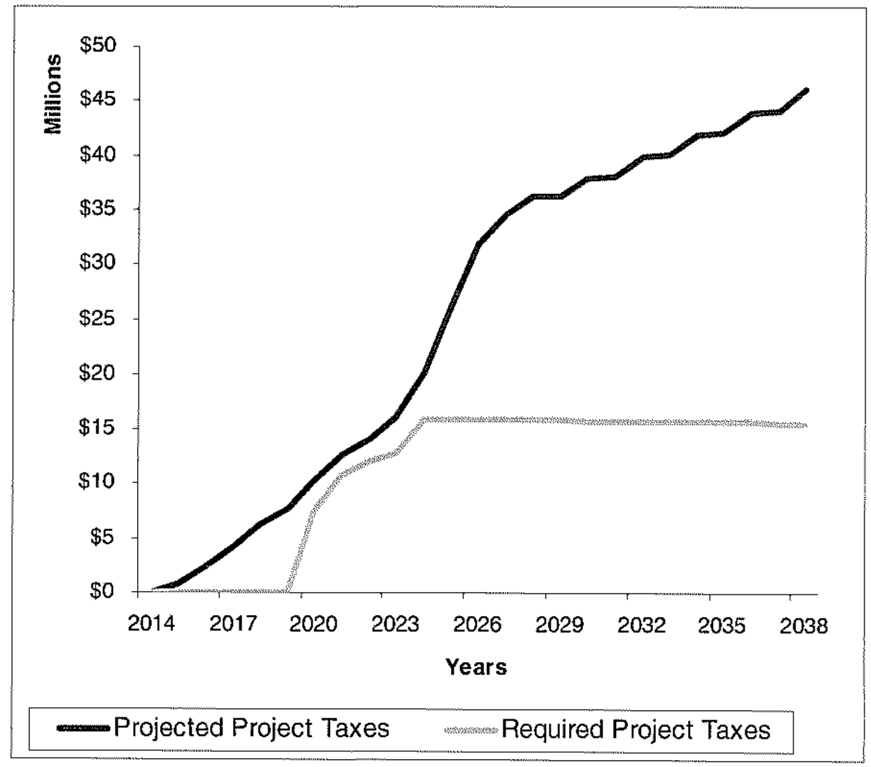
- CBRE developed two growth scenarios- office and residential
- Growth estimate for 2009-14 has been constructed
- Low growth forecast first ten years reflects conservative assumptions consistent with current market
- Several projects under discussion which would increase growth figures first ten years
- All development forecasts conform to Master Plan development limits

Absorption By 5-Year Phases	**2009-2014**	**2014-19**	**2019-24**	**2024-29**	**Total**
Alternative #1 (Strong Office Market)					
Residential - Multi Family	0	1,629	1,006	91	2,726
Commercial - Office	385,000	281,000	678,700	756,810	2,101,510
Commercial - Retail In-Line	0	141,381	164,700	80,000	386,081
Commercial - Retail Grocery	0	50,000	0	0	50,000
Total Retail	0	191,381	164,700	80,000	436,081
Commercial - Hotel	0	0	360,000	160,000	520,000
Commercial - Hotel Rooms	0	0	450	200	650
Total - Alt. #1 Residential Units	0	1,629	1,006	91	2,726
Total - Alt #1 Commercial SF	385,000	472,381	1,203,400	996,810	3,057,591
Alternative #2 (Strong Residential Market)					
Residential - Multi Family	214	1,752	1,060	510	3,536
Commercial - Office	385,000	240,000	659,310	299,000	1,583,310
Commercial - Retail In-Line	0	168,000	160,581	46,500	375,081
Commercial - Retail Grocery	0	50,000	0	0	50,000
Total Retail	0	218,000	160,581	46,500	425,081
Commercial - Hotel	0	0	160,000	200,000	360,000
Commercial - Hotel Rooms	0	0	200	250	450
Total - Alt. #2 Residential Units	214	1,752	1,060	510	3,536
Total - Alt #2 Commercial SF	385,000	458,000	979,891	545,500	2,368,391

Required Development and Revenue for the RRIF Loan

- By using the additional reserve accounts created for RRIF, no tax increment is required until 2020 and only 44% of total projected taxes are required over 30 years to repay the loan without a call on the City's moral ob





CBRE Study Area by Zones

- Zone 1 - DUS-Met District
  - *Union Station Parcels - A, B & G Blocks, North and South Wing, and Triangle*
- Zone 2 - Non-Met DDA 1
  - *Kennedy, Cascade and Sunshine*
- Zone 3 - Non-Met DDA 2
  - *Union Center A, B, C and D, Resolute and City House*
- Zone 4 - Non-Met DDA 3
  - *Nichols and Shafa*
- Zone 5 - Market St. Station
  - *Single parcel non-contiguous to other Zones*