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2012 Bond Program Update

Availability of Reserves to Release

Bond Oversight Committee

November 7, 2014

Background & Context

- When the ballot initiative was approved in August 2012, all of the \$466 million was allocated directly to projects, or designated contingency/reserve buckets.
- Within the overall bond program, several shared contingency/reserve buckets were established centrally where there was a need to plan for costs, but the funding needs of specific projects were unknown at the time. These funds are allocated to projects throughout the program when needed to ensure committed project requirements can be delivered:

Reserve	2012 Budget Established (<i>millions</i>)
Inflation	\$22.6
Environmental Remediation (HazMat)	\$10.9
Code/ADA Requirements	\$17.0
Program Contingency	<u>\$5.9</u>
Total	\$56.4

- When the bonds were sold following voter approval in November 2012, original issue premium was obtained and used to establish a 10% contingency reserve to ensure committed projects could be delivered:
 - Following issuance of the remaining authorization in early 2014, the total available funding for projects within the bond program was \$537.75 million.
 - Of this amount, **\$46.349 million (the “premium reserve”)** has not been allocated to any projects or cost budgets

Current Financial Status of the 2012 Bond – 23 months into Program

- As of September 30, 2014, we have spent or committed over \$260 million of the total available funding, a little under 50% total available bond project funding, with ~\$275 million remaining.
- We are currently in the midst of a period of high-than-anticipated construction cost escalation, experiencing significant inflation since Spring 2014 which is projected to continue at least through the middle of 2015. Beyond that time, we anticipate the level of inflation moderating given historical trends (more towards a range of 4-5% annually), but this is uncertain.
 - Cost inflation impacted a number of projects which were early in the bidding or design stages in 2014 as the economy picked up and the labor supply became constrained, and is expected to impact 2015 construction projects.
 - Reserves have been allocated where appropriate to projects to address cost escalation.
- 92 projects have been closed out financially, and have under-run approximately \$1.4 million compared to budget. Those funds were returned to appropriate funding accounts.
- Staff has completed a forecast of bond projects (see Appendix which provides a view of major projects and categories of costs/projects):
 - Completed projects, not yet closed out financially: forecast should have high accuracy
 - In-process projects: forecast accuracy dependent upon project stage of completion, but expected to be reasonably accurate
 - Projects not yet begun: unless known otherwise, established budget used
- The current forecast projects a cost under-run (savings) of \$5.7m based upon projects to be completed and closed out through the remainder of the bond.

Status of Unallocated/Uncommitted 2012 Bond Reserve Funds

The table below summarizes the remaining unallocated/uncommitted balances in the originally-established reserve accounts as of September 30, 2014:

Reserve Account	2012 Budget Established (millions)	Remaining Unallocated/Uncommitted Balance (millions)
Inflation	\$22.6	\$10.8
Environmental Remediation (HazMat)	\$10.9	\$4.8
Code/ADA Requirements	\$17.0	\$5.4
Program Contingency	<u>\$5.9</u>	<u>\$2.8</u>
Total Unallocated/Uncommitted Funds	\$56.4	\$23.8

- *We expect to spend these reserves over the next 2 years of the bond program, and are not considering them available to release to new projects.*
- Staff will provide another update on the status of these reserve accounts in Fall 2015.

Status of Unallocated/Uncommitted 2012 Premium/Project Bond Funds

The table below summarizes the remaining unallocated/uncommitted balances in the premium reserve account as well as forecasted savings in the project accounts as of September 30, 2014.

Account	Budget Established (millions)	Remaining Uncommitted Balance (millions)
Premium Reserve	\$46.3	\$46.3
Actual/Forecasted Project Savings		<u>\$5.7</u>
Total Unallocated/Uncommitted Funds		\$52.0

- *A portion of these should be considered to be released to meet other project needs.*

Recommended Release of Premium Reserves

- Given current market conditions, the magnitude of outstanding needs, the remaining balances in the originally-established reserve/contingency accounts, the balance in the premium reserve account and forecasted project savings, **we recommend releasing up to \$30 million** to be used towards funding other high priority needs.
- Assuming this release amount, the remaining (unallocated/uncommitted) amount in the premium reserve account and the forecasted under-run in the project accounts provides \$22.0 million in remaining unallocated/uncommitted funds.
- We believe this amount is adequate to deliver on remaining project commitments given expected needs, and providing an appropriate buffer against construction cost uncertainty.
- Staff to provide recommendations on priorities for use of the \$30 million to the Bond Oversight Committee on November 21, 2014.
- The use of the recommended “premium reserve” funds to release will be targeted at:
 - Current projects with high-priority changes in scope (e.g., adds significant value to the project; results in significant cost savings to do the work now while the current project is underway).
 - New high-priority facility expansion, facility maintenance, technology and security projects that are have a strong need to complete ahead of a 2016 bond program.
- Staff will continue to evaluate program financial status, and will provide any additional recommendations on premium reserve/savings releases in late 2015.

Backup

Current Status of Construction Costs

■ Construction Costs are up...

- Engineering News-Record (ENR)
- Rider Levett Bucknall (RLB)
- Associated General Contractors of America (AGC)
- Turner Construction Company (TCC)

■ Construction Cost Outlook (TCC)

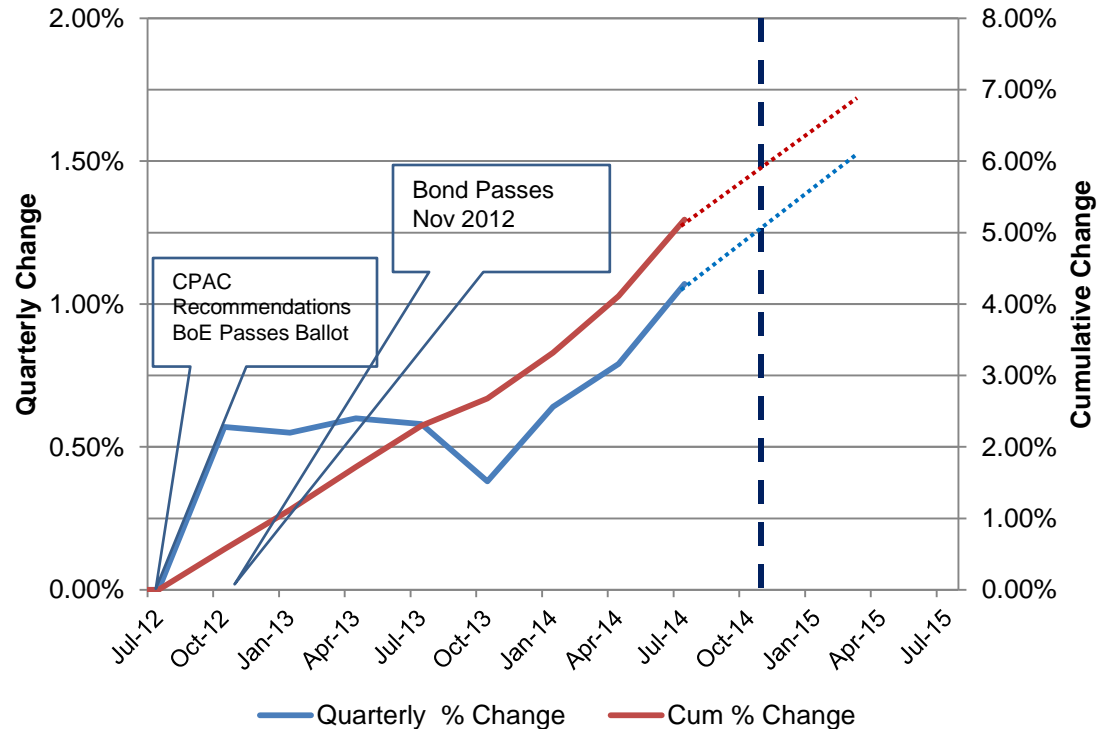
- The labor cost component in markets experiencing increased volumes of construction activity and tight labor availability is adding to the upward pressure on construction costs.

■ Changes Over last 12 Months

- Nationally up 4.2% - 4.3% (TCC-RLB)
- Locally up 2.9% (RLB) w/ spike May– Jul up 1.07%

■ Costs up 5.2% since Oct 2012 – Jul 2014

Denver Construction Cost Index



2015-16 DPS Construction Outlook
 The cost acceleration has impacted us in this window, but we are comfortable we are still tracking overall.

