



Series 2024A – Denver Post Building & Series 2024B – Embassy Suites Certificates of Participation (COP)

**Finance and Governance Committee
February 27, 2024**

Agenda

- Summary of Requested Actions
- Certificate of Participation (COP) Overview
- Key Financing Terms
- 2024A – Denver Post Building
- 2024B – Embassy Suites
- Timeline



Requested City Council Actions

BR 24-049: Denver Post Building

Authorizes the execution and delivery of City and County of Denver Series 2024A Certificates of Participation (COPs), in a principal amount not to exceed \$90 million for the purpose of funding:

- Approximately \$88.5 million toward the acquisition of an office building at 101 W. Colfax
- Associated costs of issuance (attorney fees, rating agencies fees, underwriter fees, etc.)

BR 24-0250: Embassy Suites Building

Authorizes the execution and delivery of City and County of Denver Series 2024B Certificates of Participation (COPs), in a principal amount not to exceed \$25 million for the purpose of funding:

- Approximately \$21 million toward the acquisition of a former hotel site at 7525 E. Hampden Ave.
- Additional costs related to acquisition, dependent on meeting qualifying standards
- Associated costs of issuance (attorney fees, rating agencies fees, underwriter fees, etc.)

Certificates of Participation (COP) Overview

- Take the form of a lease purchase (“rent-to-own”) transaction: Certificates represent an interest in a lease between a trustee (representing the COP holders/investors) and a state or local government
- Are typically used for the purchase or construction of real property
- Are not considered debt
- Are subject to annual appropriation by City Council
- Must have a city-owned asset as collateral (leased property)
 - Collateral is released when the COP is retired
 - If the city fails to appropriate the annual COP lease payment, the Trustee takes possession of the pledged collateral for the benefit of the COP holders

Capital Funding Financial Due Diligence

- The best candidates for COP financings are long-term assets with high acquisition costs that would otherwise be disruptive if financed with cash
- Capital projects to be financed must be essential to delivering city services
- New revenue stream and/or measurable cost savings dedicated to annual lease payments
- Aggregate annual lease payments shall not exceed 5% of acquiring fund's annual revenues
 - Current aggregate annual COP lease payments, including proposed COPs, represent less than 3% of total current General Fund

Key Financing Terms – 2024A & 2024B

- To be sold via a direct placement to J.P. Morgan Chase Bank (JPM), who was selected via competitive bid process
- Final interest rate will be locked upon City Council approval

New Series	Tax Status*	Interest Rate*	Purpose	Pledged Collateral	Estimated Par Amount*	Average Annual Payment	Final Maturity
Series 2024A	Taxable	Not to exceed 7.0%	Acquisition of 101 W. Colfax and costs of issuance	101 W. Colfax Ave.	\$90 Million	\$6.8M**	12/1/2033
Series 2024B	Taxable	Not to exceed 7.0%	Acquisition of 7525 E. Hampden Ave. and costs of issuance	7525 E. Hampden Ave.	\$25 Million	\$3.6M	12/1/2033

* Par amount, interest rate, and annual lease payments will be finalized on the day of the rate-lock after Council approval.

** We can restructure remaining amount due as soon as 2029 but no later than 2033.

2024A – Denver Post Building

2024A Finance Overview

- City Council approved the \$88.5 million Purchase and Sale agreement in January 2024
- Master Lease with Denver Media, LLC **producing \$47 million in revenue**
 - Denver Media retains full tenant authority over the entire building
 - Denver Media retains all sub-lease revenues, including parking management and collections
 - City takes full possession of building and parking in Q4 2029
- Annual COP payments expected to be paid from Master Lease revenues

2024A Financing Strategy and Objectives

COPs structured to optimize costs while managing risk and meeting project needs

- **Funding Sources**

- General Fund is the traditional source and backstop for COP
- Denver Post COP payment is expected to be fully covered by **new revenue source**

- **Budget Impacts**

- Post purchase provides **revenue and cost savings** for the city

- **Flexible structure**

- Post COPs can be restructured in 2029 to align with Master Lease term

General Fund Savings in 2024

Expenditures & Revenues*	2024
Master Lease Agreement Revenue from DP Media	7,800,000
COP Payment Estimate*	<u>-6,800,000</u>
Remaining Revenue after COP Payment	1,000,000
CCD Sub-Lease Payment (City expenditure regardless of COP, reduces over six-year period)	<u>-5,193,177</u>
Net Cost to General Fund (CCD Sub-Lease offset by Master Lease Revenue)	-4,193,177

Estimated Savings to the General Fund = \$1M in 2024

* Subject to change, interest rate, and annual payments will be determined on the day of pricing and is dependent on timing & market conditions.

General Fund Savings – 2025 to 2029

In 2029, Denver Media, LLC lease ends and the city intends to exercise call option and refinance COPs to align with the needs of the city

Expenditures & Revenues*	2025-2029
Master Lease Average Annual Revenue	8,000,000
COP Annual Payment Estimate*	<u>-6,800,000</u>
Average Annual Remaining Revenue	1,200,000
Average Annual CCD Sub-Lease Payment	<u>-1,900,000</u>
Average NET Cost to City General Fund	-700,000

* Subject to change, interest rate, and annual payments will be determined on the day of pricing and is dependent on timing & market conditions.

2024B – Embassy Suites

2024B Financing Strategy and Objectives

COPs structured to optimize costs while managing risk and meeting project needs

- **Funding Source**

- Embassy Suites COP payment will be fully funded from **Homelessness Resolution Fund** given nexus to housing support

- **Budget Impacts**

- Embassy provides **cost avoidance**

- **Flexible structure**

- Embassy Suites COP can be prepaid in 3-years which aligns with City's intent to sell.

2024B Finance Overview

- City Council approved the Purchase and Sale agreement in December 2023
- City takes full possession upon COP closing (April 2024)
- The purchase of the Embassy Suites versus continuing to lease this facility provides measurable cost avoidance to the city
 - \$9.9 million annual lease costs versus \$3.6 million (P&I) annual COP payment
 - Over 3-year period, city would have paid \$30 million to lease versus \$3 million interest

2024B Financial Terms

- 10-year term of the COP aligns with the city's desire to hold this property for a short period of time while managing annual payment amount
- Option for COP refunding available on 12/1/2027 to align with city's plan to sell property
- Annual COP payment of ~\$3.6 million subject to annual appropriation by City Council

Financing Timetable - 2024A and 2024B

Tentative Dates*	
February 27	Finance & Governance Committee
March 4	Reading of 20-93 at City Council
March 5	Mayor Council
March 6	Filing of Documents with City Council
March 11	First Reading
March 18	Second Reading
March 22	Publication of Ordinance
Week of March 25 th	Rate Lock with Bank
Week of April 8 th	Real Estate Closing and COP Closing

** Subject to change*

Bill Request 24-0247

Contingency Appropriation

Overview

- Appropriates \$2 million in Capital Improvement Program (CIP) Contingency funds to provide an escrow payment associated with the acquisition of 101 Colfax Avenue.
- Per the Purchase & Sale Agreement, a \$2,000,000 escrow payment is due to Kayan, LLC. To meet this payment obligation, the city has identified CIP contingency as the most suitable funding source for this payment. CIP contingency is determined annually during the budget process and based on ~4% of CIP revenues.
- This expenditure is included in the total financing for the 2024A Series and will be reimbursed upon approval of the Denver Post COP Ordinance.