

of lease-purchase agreements authorized under the bill. The bill also directs how annual lease payments will be made and directs that all unencumbered and unspent revenue earned through the lease of commercial real property be deposited quarterly to the Permanent School Fund on behalf of K-12 education.

State Revenue

All income earned from tenants occupying commercial real property purchased on behalf of the Land Board through lease-purchase agreements will be credited to the Commercial Real Property Operating Fund, created by the bill. This fiscal note assumes that based on an issuance amount of about \$49.8 million, the Land Board will acquire one or more buildings with a total of about 340,000 rentable square feet. The anticipated average lease rate for FY 2014-15 is \$22 per rentable square foot. (The actual rent prices may differ by tenant and by floor, depending on the type of facility purchased or constructed.) After allowing for some vacancies and adding anticipated parking fee revenue, this fiscal note assumes that the fund will earn about \$7.2 million in the first year. The fund will be used to make annual lease payments and pay costs associated with managing the property.

Permanent School Fund. All unencumbered and unspent revenue earned through the lease of commercial real property will be credited to the Permanent School Fund on behalf of K-12 education. The principal of the fund may not be spent, but interest earnings are used to finance the operating expenses of K-12 education in the state. This fiscal note anticipates about \$600,000 will be deposited to the Permanent School Fund in FY 2014-15. This amount is anticipated to grow to about \$1.0 million by the end of the 25-year lease period. Based on an anticipated interest rate of 3.5 percent for FY 2014-15, an additional \$600,000 deposit to the fund will earn \$21,000.

Sale of certificates of participation. The bill authorizes the issuance of lease-purchase agreements in the form of certificates of participation (COPs) in the amount of \$50.0 million. Proceeds from the sale of the COPs will be held by a trustee, and so are not reflected as state revenue for purposes of this fiscal note.

State Transfers and Diversions

Beginning in FY 2014-15, the bill directs the establishment of a reserve equaling 10 percent of the principal amount of all outstanding lease-purchase agreements issued on behalf of the Land Board. Based on an issuance amount of \$49.8 million in FY 2014-15, this fiscal note assumes that \$4,980,000 will be transferred from the Land Board Investment and Development Fund to the State Board of Land Commissioners Lease-Purchase Fund (lease-purchase fund), created by the bill, in order to establish the reserve.

State Expenditures

Annual lease payments. This fiscal note assumes that the Land Board will begin making annual lease payments to repay the COPs beginning in FY 2014-15 from the lease-purchase fund. The bill limits the amount of the annual lease-payment to \$5.0 million, including principal and

interest. The projected cost of the annual lease payments is about \$3.2 million per year over a period of 25 years, for a total repayment cost of \$81.2 million. The bill directs that moneys for the annual lease payments be transferred from the Commercial Real Property Operating Fund from revenue earned through the lease of commercial real property. In the event there is not sufficient revenue available from this source, moneys for the annual lease payments shall come first from the 10 percent reserve established in the lease-purchase fund and then from the Land Board Investment and Development Fund. However, this fiscal note assumes that sufficient revenue will be earned through the lease of commercial real property to make the annual payments in full.

Operating expenses. The Land Board will incur annual operating costs associated with the management, operation, and maintenance of any commercial real property purchased or constructed through the issuance of COPs. This fiscal note assumes these costs will be paid from revenue earned from building tenants and deposited to the Commercial Real Property Operating Fund. For FY 2014-15, these costs are anticipated to be about \$3.1 million.

Potential costs savings. This fiscal note anticipates that the Land Board will work with the Department of Personnel and Administration and the Governor's Office of State Planning and Budgeting to evaluate the possibility of purchasing or constructing a building within the downtown Capitol Complex in order to provide some leased space to state agency tenants. To the extent a state agency or agencies relocates from private leased space in downtown Denver to leased space within the Capitol Complex operated by the Land Board, this fiscal note assumes some cost savings. The state has more than 415 private-sector leases, of which 20 are located within one mile of the State Capitol building. These 20 leases account for about 585,000 square feet of lease space and a total cost of about \$10.6 million per year. The average cost of space rented in downtown Denver by state agencies is \$18.64 per rentable square foot, as compared to a cost of \$12.84 per rentable square foot for Capitol Complex tenants. Based on current rent prices and assuming that state tenants in Land Board-operated properties receive a comparable rate to other state lessors within the Capitol Complex, relocating some agencies to state-owned or -operated facilities within the Capitol Complex may result in savings of between \$5 and \$6 per rentable square foot.

Performance audit. The bill directs the Office of the State Auditor (OSA) to conduct a performance audit of the lease-purchase program authorized by the bill no later than six months after the issuance of each lease-purchase agreement. This fiscal note assumes that the OSA will be required to conduct one performance audit in FY 2014-15, following a single COP issuance on behalf of the Land Board. The performance audit will cost about \$175,000 and will be funded from the existing General Fund appropriation to the OSA.

Departments Contacted

Education	Governor's Office
Joint Budget Committee	Legal Services
Legislative Council	Natural Resources
Personnel and Administration	State Auditor
State Treasurer	