



## Legislative Council Staff

*Nonpartisan Services for Colorado's Legislature*

Room 029 State Capitol, Denver, CO 80203-1784

Phone: (303) 866-3521 • Fax: (303) 866-3855

lcs.ga@state.co.us • leg.colorado.gov/lcs

## Memorandum

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March 10, 2022

**TO:** Capital Development Committee

**FROM:** Nina Forbes, Research Analyst, 303-866-4785

**SUBJECT:** Governor's Mansion Parking Lot Development Project

### Summary

This memorandum summarizes the approval process for projects on unused, state-owned property and gives an overview of the Governor's Mansion Parking Lot Development project. This process was established by House Bill 21-1274 and calendar year 2022 is the first year that such requests have come before the Capital Development Committee (CDC).

### Approving Projects on Unused State-Owned Real Property

Under Section 24-82-102.5, C.R.S., the Department of Personnel and Administration (DPA) must maintain, annually update, and post online an inventory of unused, state-owned, real property. Property owned by the Division of Parks & Wildlife or a state institution of higher education is excluded. The department must determine if any such property is suitable for the construction of affordable housing, child care, public schools, residential mental and behavioral health care, or renewable energy facilities, with consultation from the State Architect, the Department of Local Affairs, the Colorado Housing and Finance Authority, and other subject matter experts. DPA may also recommend that the property be sold or that is suitable for other uses besides those outlined above.

DPA may seek proposals from qualified developers for the construction of the beneficial uses outlined above. Prior to entering into a contract or lease regarding unused state property, DPA must submit a report to the CDC outlining the anticipated use of the property. The CDC shall review the report, make recommendations to DPA about the anticipated use of the property, and approve or deny the anticipated use. DPA cannot enter into a contract or lease without the approval of the CDC. Budget requests for these projects must go through the standard capital request process and are not eligible to be submitted as supplemental requests.

Project activities are funded through the Unused State-owned Real Property Fund, which consists of proceeds from the sale, rent, or lease of unused, state-owned, real property. DPA may use the fund to

carry out these duties, including appraisals, surveys, and property improvements, subject to annual appropriations.

## **Governor's Mansion Parking Lot Development Lease**

DPA is requesting permission to enter into a development lease for a half-acre parcel of land adjacent to the Governor's Mansion, currently used as a parking lot, for redevelopment into a mixed-use building. Under the proposal, the property will provide affordable housing while also maintaining dedicated parking for the Governor's mansion within the structure.

The minimum requirements for the public developer bidding process are as follows:

- at least 28 parking spaces dedicated to the Governor's Mansion;
- mitigation of security concerns related to Governor's Mansion;
- at least 20 percent of the units must be affordable at 80 percent Area Median Income (AMI) or less;
- a market-based, annual, 99-year ground lease payment based on percent of appraised land value, revenue participation, or combination; and
- a maximum height of eight stories (as required by zoning).

DPA conducted stakeholding work with the Department of Local Affairs' Division of Housing and the State Land Board on determining the affordable housing need in the area. DPA says it will assemble an evaluation team including state agency staff, private sector experts, and other stakeholders during the bid approval process. DPA's project proposal memo is included as Attachment A.

## **CDC Action Required**

*Approval Language:* Approve the proposal for the Governor's Mansion Parking Lot Development Lease project and authorize the Department of Personnel and Administration to enter into a contract or lease to carry out the project under the anticipated use outlined in DPA's January 20, 2022, memo to the CDC.

In addition to approving (or rejecting) the project, the CDC may make specific recommendations for the project.

## CDC Staff Questions for DPA

1. Can you provide additional clarity on how the number of affordable units and the level of affordability (AMI limits) was calculated?
  - a. A minimum of 20 percent affordable units seems low. The statute seems to imply that most or all should be affordable.
  - b. 80 percent AMI seems high considering City of Denver's affordability recommendations in high cost markets call for either 10 percent of units at 60 percent AMI or 15 percent of units at 70 percent AMI. Is this project exempt from city requirements as a state-owned property?
2. Considering the need for 28 dedicated spaces for the Governor's Mansion, will there be sufficient space to meet city requirements for resident parking?
3. Are there any more details on what mitigating security concerns for the Governor's Mansion would look like?

### DPA Responses:

1. During the negotiations phase of the P3, the length of the lease will be set which will determine the length of time the developer has to amortize the costs of the development. Our intent was to provide a broad enough range of AMI to maximize the conversations before the state determines which developer can deliver the best solution for the state and the building occupants. The chart below is an example of a possible scenario.

### OPTION 3 - 8 STORIES

A. 118 Units -20% of the Units are Affordable @ an AMI Average of 70%			
AMI%	Number of Units	Factor	
30%	1	0.3	
40%	1	0.4	
50%	1	0.5	
60%	1	0.6	
70%	10	7	
80%	10	8	
100%	0	0	
120%	0	0	
<b>Total Number of Affordable Units Underserved</b>	<b>24</b>	<b>16.8</b>	
<b>Sector Units</b>	<b>4</b>	<b>17%</b>	
<b>Avg AMI%</b>		<b>70%</b>	

This chart represents a building that is:

- > 8 floors above grade
- > 60 parking spaces (below grade) including the 20 stalls for the governor's mansion
- > 118 apartments are based on building footprint and an average of 785 SF/unit
- > 30% of units are studio / 50% are one bedroom / 20% are two bedroom

When examining affordability, it should be noted that the state is not required to meet the City of Denver's affordability requirements. This proposal was led by information from the Department of Local Affairs and their recommendations.

In determining the parameters of the AMI, an examination was made of the areas of need within the neighborhood. In consideration of projects currently available and the outstanding needs, this range was set broadly to address the needs at the time of agreement with the selected developer.

For instance, the State Land Board is currently constructing an affordable living project at the corner of 13th and Sherman. Their AMI breakdown is as follows:

- > 103 total units; 73 are 1 bedroom/1 bath, 30 are 2 bedroom/2 bath.
- > 77 parking spaces
- > Financed using CHFA LIHTC tax credits (and other sources)
- > Units will be available at 30%, 40%, 50%, 60%, 70% and 80% of AMI using new income averaging rules to stay at an overall rate of 60%

It was noted that the project above does not include any studio units. Our research indicates that studio units may be a recognized need. This will be discussed further with the developers during the ITN phase.

2. The state is exempt from local building code and requirements. We assumed the Governor's requirements for dedicated spaces, but we did not presume the final number of available spaces. A greater number of spaces is possible, but would be determined during the negotiation phase with the developer.
3. Each proposed design would be evaluated by CSP to determine risk and the developers may need to modify the design. This will be part of the ITN process prior to award.

To: Capital Development Committee

From: Tobin Follenweider, Deputy Exec Director, Department of Personnel & Administration  
Cheri Gerou, Colorado State Architect, Department of Personnel & Administration

Date: 1/20/2022

Re: The Governor's Mansion parking lot development lease

### Summary

As per section 24-82-102 and 24-82-102.5, C.R.S, any state land transaction or non state use of state land managed by the Department of Personnel and Administration (DPA) requires Capital Development Committee (CDC) review and approval.

The following memo is a request to approve the development lease of the Governor's Mansion parking lot for redevelopment as a mixed use building. The development lease will be subject to a public solicitation following the Invitation to Negotiate (ITN) format through the Office of the State Architect prior to award.

### Property Background

The site is situated directly across from the historic Governor's Residence at the Boettcher Mansion located at 799 Logan Street, Denver, Colorado. The half acre parking lot is readily accessible to grocery, schools, parks and medical treatment. It is currently zoned as General Urban Multi-Unit 8 stories maximum height (G-MU-8) and Historic Structure Use Overlay District (UO-3).



### Redevelopment Project

The redevelopment of the parking lot is an opportunity to bring the property to its highest and best use as well as meet the goals of the 24-82-102.5, C.R.S. to put unused/underutilized state land to beneficial use as affordable housing. The property will continue to provide the Governor's Mansion with dedicated parking and the structure will be designed to mitigate security concerns.

### **Invitation to Negotiate (ITN)**

Subject to CDC approval, DPA will conduct a public solicitation using the Invitation to Negotiate (ITN) process. ITN is a public solicitation process that sets minimum requirements, determines developer qualifications, and negotiates with qualified bidders. Each bid would include a preliminary building design and project plan for redevelopment of the property that meets or exceeds the ITN requirements (see ITN requirements below) as well as provide a list of developer qualifications and references. Once the ITN evaluation group identifies the top qualified bidders, the state will negotiate with each qualified developer before awarding the development lease to a developer. The development lease contract will comply with all applicable state rules and requirements.

The minimum ITN requirements are outlined below:

- At least 28 parking spaces dedicated for the Governor's Mansion
- Building must consider the security of the Governor's Mansion
- At least 20% of the units would be affordable housing units based on no more than 80% AMI (the ITN will include a schedule of AMI units by level (30%, 40%, 60%, etc) based on market research)
- Market-based annual 99 year ground lease payment based on percent of appraised land value, revenue participation, or combination
- Max height of 8 stories and consideration of local zoning and historic district requirements

Developer qualifications are numerically scored based on:

- Past project experience of a similar nature
- Project team experience
- Financing approach most advantageous to the state
- Proposed Schedule
- Concept Design

### **Stakeholder Engagement**

In order to outline the requirements of the INT, DPA engaged DOLA's Division of Housing staff. The Division of Housing staff provided key input into determining the affordable housing need in the area surrounding the parking lot property. DPA also consulted with other experts including the State Land Board that issued a development lease with an affordable housing requirement on its property at 13th and Sherman.

During the ITN evaluation and award process, DPA will assemble an evaluation team including state agency staff, private sector experts, and other stakeholders who will select the developer that meets the ITN requirements and provides the best outcomes for the state.