

MEMORANDUM

DIVISION OF ACCOUNTING AND FINANCE



Office of Financial Management and Budget

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DATE: 6 Dec, 2012

TO: Transportation Commission

FROM: Ben Stein, Chief Financial Officer

SUBJECT: State Infrastructure Interest Rate

Semiannually the Transportation Commission resets the interest rates for State Infrastructure Bank Loans. These resets occur in June and December. The rate is set on the presumption that the borrower is seeking a loan for the maximum duration permitted for these loans: 10 years.

The recommendation for the current reset is 2.0%

Rationale for this rate is as follows:

The ten year treasury rate is currently hovering around the 1.7% mark (today it is actually 1.63%). Demand for highly rated "risk free" assets remains quite high leading to a very low interest rate for Treasury notes regardless of the possible fall out associated with the so called fiscal cliff and the ongoing negotiations in Washington DC over the debt limit, spending and taxes.

Current secondary market trades for Denver International Airport Bonds with about 10 years remaining until they mature are trading in an unusually wide range of about .75 to 4.0%. This is probably a reflection of the relative volatility of the market and also the size of the trades; the larger trades are at the more attractive interest rates.

The objective is to set a rate that is highly attractive yet at the same time provides a reasonable return for the SIB so that it can continue to have funds to lend. This recommendation is an attempt to strike a reasonable balance and a fair rate to both the Transportation Commission and the potential borrowers.

If you have any questions please do not hesitate to contact me to discuss this matter.