



4201 East Arkansas Avenue, Room 235
 Denver, CO 80222

MEMORANDUM

TO: TRANSPORTATION COMMISSION
FROM: SCOTT RICHRATH, CHIEF FINANCIAL OFFICER
DATE: DECEMBER 18, 2014
SUBJECT: STATE INFRASTRUCTURE BANK INTEREST RATE RECOMMENDATION FOR THE SECOND HALF OF FY2015

Purpose

This memo summarizes information related to the State Infrastructure Bank (SIB) interest rate for loans originating in the second half of the State fiscal year 2015.

Action

The Department recommends that the Transportation Commission (TC) set the interest rate at 2.5% for loans originating in the second half of the State fiscal year 2015.

Background

The SIB was established under Title § 43-1-113.5(3) C.R.S. Rule V, article 2 of 2 CCR 605-1 and requires that the TC set bi-annual interest rates for SIB loans. The past 18 months of established SIB interest rates are in the chart below:

FY2014 Q1/Q2: 2.25%	FY2014 Q3/Q4: 2.50%	FY2015 Q1/Q2: 2.75%
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Interest Rate Outlook for US Treasury Market:

The Market Consensus Projections for the US Treasury Market is used to determine the SIB interest rate. The Federal Funds policy rate target is not expected to increase until third quarter of 2015, the Department’s financial consultant, Stifel Nicolaus & Company, also indicates that treasury yields will rise, but less than the Market Consensus through the fourth quarter of 2015. Based on the 10-year US Treasury Market rate, the Department’s recommendation is that the interest rate be set at 2.5% for SIB loans originating in the second half of fiscal year 2015. The informational data used to determine the SIB interest rate is provided in the charts below.

Stifel Projections for US Treasury Market						
	Current	4Q14	1Q15	2Q15	3Q15	4Q15
Fed Funds	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%
2-year	0.52%	0.40%	0.55%	0.75%	0.90%	1.10%
5-year	1.56%	1.50%	1.60%	1.75%	1.90%	2.00%
10-year	2.25%	2.25%	2.35%	2.50%	2.60%	2.75%
30-year	2.95%	3.00%	3.05%	3.15%	3.20%	3.30%

Note: Current rates as of 11/28/2014. Projections as of 11/13/2014.



Market Consensus Projections for US Treasury Market

	Current	4Q14	1Q15	2Q15	3Q15	4Q15
Fed Funds	0.25%	0.25%	0.25%	0.40%	0.65%	0.95%
2-year	0.52%	0.59%	0.79%	1.04%	1.29%	1.57%
5-year	1.56%	NA	NA	NA	NA	NA
10-year	2.25%	2.52%	2.72%	2.91%	3.10%	3.23%
30-year	2.95%	3.25%	3.41%	3.61%	3.75%	3.89%

Note: Current rates as of 11/28/2014. Source is Bloomberg as of 11/13/2014.

"Simplified" AAA Municipal Index Projections

	Current	4Q14	1Q15	2Q15	3Q15	4Q15
1-year	0.14%	0.14%	0.14%	0.14%	0.28%	0.28%
2-year	0.38%	0.29%	0.40%	0.55%	0.66%	0.80%
5-year	1.15%	1.11%	1.18%	1.29%	1.40%	1.47%
10-year	2.08%	2.08%	2.17%	2.31%	2.40%	2.54%
30-year	3.01%	3.06%	3.11%	3.21%	3.27%	3.37%

Note: Current rates as of 11/28/2014. Simplified projections uses Stifel's Treasury forecasts and assumes that the current ratio between Municipal rates and US Treasury rates remains constant.

Options and Recommendation

1. Adopt the recommended interest rate of 2.5% for all SIB loans originating in the second half of fiscal year 2015. (Staff Recommendation)
2. Maintain the current interest rate of 2.75% for SIB loans originating in the second half of fiscal year 2015.
3. Deny the recommended SIB loan interest rate, and/or request additional staff analysis and delay for a future month.

Next Steps

Apply the approved interest rate to all SIB loans originating in the second half of fiscal year 2015.



**Transportation Commission of Colorado
December 18, 2014**

Resolution Number TC-

WHEREAS, the Colorado State Infrastructure Bank is a transportation investment bank with the ability to make loans to public and private entities for the formation of public transportation projects within the state; and

WHEREAS, the General Assembly has passed Legislation (§ 43-1-113.5, C.R.S.) that established the transportation infrastructure revolving fund and required that the fund include a highway account, a transit account, an aviation account and a rail account; and

WHEREAS, the Transportation Commission has adopted rules, pursuant to § 43-1-113.5(3) C.R.S., regarding the eligibility requirements, disbursement of funds, interest rates, and repayments of loans from the bank; and

WHEREAS, pursuant to 2CCR 605-1, Rule V, the Transportation Commission is required to set the bank's interest rate no later than December 31, of each year for loans originating during the ensuing months of January; February; March; April; May; June of the second half of fiscal year 2015; and

WHEREAS, based on current market conditions, the Department has recommended an interest rate of two and one half percent (2.5%) on all loans originating in the second half of the State fiscal year 2015; and

NOW THEREFORE BE IT RESOLVED, the Transportation Commission authorizes the Department, under the guidance and direction of the Chief Financial Officer, under the terms and provisions set forth in the adopted rules, to assess an interest rate of two and one half percent (2.5%) on all bank loans originating in the second half of fiscal year 2015.

Herman Stockinger, Secretary
Transportation Commission of Colorado

Date