



MEMORANDUM

TO: Transportation Commission
FROM: Scott Richrath, Chief Financial Officer
DATE: June 19, 2014
SUBJECT: State Infrastructure Bank Interest Rate Recommendation for the First Half of FY 2015

Purpose:

This memo summarizes information related to the State Infrastructure Bank interest rate and origination fee which will support a decision to set the interest rate for loans originating in the first half of the State fiscal year 2015, and to adopt the origination fee schedule for loans \$5 million or more and any loan requiring complex financial analysis for loans originating in the State fiscal year 2015.

Action Requested:

The Department recommends that the Transportation Commission set the interest rate at 2.75% on loans originating in the first half of the State fiscal year 2015. For State fiscal year 2015, the Department recommends that for loans \$5 million or more and complex loans requiring complex financial analysis, the Transportation Commission adopt the origination fee schedule as outlined in Rule V, article 3 of 2 CCR 605-1.

Background:

The State Infrastructure Bank was created in 43-1-113.5(3) CRS. Rule V, article 2 of 2 CCR 605-1 require that the Transportation Commission set bi-annual interest rates for SIB loans. Established rates over the past 18 months have been:

| | | |
|------------------|------------------|------------------|
| FY13Q3/Q4: 2.00% | FY14Q1/Q2: 2.25% | FY14Q3/Q4: 2.50% |
|------------------|------------------|------------------|

Pursuant to 43-1-113.5 (7) CRS and Rule V, article 3 of 2 CCR 605-1, the Transportation Commission can, at its discretion, assess the annual origination fee to partially offset the cost of administering the Colorado State Infrastructure Bank. The Transportation



Commission has never before assessed origination fees on State Infrastructure Bank loans. However, given the size and complexity of some of the recent loan request, staff has had to rely on the Department’s financial consultant to evaluate loans.

Interest Rate Outlook for US Treasury Market:

| Stifel Projections for US Treasury Market | | | | | | | |
|--|----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Current | 2Q14 | 3Q14 | 4Q14 | 1Q15 | 2Q15 | 3Q15 |
| Fed Funds | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% |
| 2-year | 0.37% | 0.45% | 0.50% | 0.50% | 0.60% | 0.70% | 0.85% |
| 5-year | 1.57% | 1.70% | 1.80% | 1.85% | 1.95% | 2.05% | 2.15% |
| 10-year | 2.56% | 2.65% | 2.75% | 2.80% | 2.90% | 3.00% | 3.10% |
| 30-year | 3.43% | 3.45% | 3.55% | 3.60% | 3.70% | 3.80% | 3.85% |

Note: Current rates as of 5/22/2014. Projections as of 5/9/2014.

| Market Consensus Projections for US Treasury Market | | | | | | | |
|--|----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Current | 2Q14 | 3Q14 | 4Q14 | 1Q15 | 2Q15 | 3Q15 |
| Fed Funds | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.38% | 0.63% |
| 2-year | 0.37% | 0.49% | 0.62% | 0.76% | 0.93% | 1.13% | 1.38% |
| 5-year | 1.57% | NA | NA | NA | NA | NA | NA |
| 10-year | 2.56% | 2.83% | 3.05% | 3.23% | 3.36% | 3.50% | 3.63% |
| 30-year | 3.43% | 3.70% | 3.87% | 4.04% | 4.15% | 4.26% | 4.38% |

Note: Current rates as of 5/22/2014. Source is Bloomberg as of

| “Simplified” AAA Municipal Index Projections | | | | | | | |
|---|----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Current | 2Q14 | 3Q14 | 4Q14 | 1Q15 | 2Q15 | 3Q15 |
| 1-year | 0.15% | 0.15% | 0.15% | 0.15% | 0.15% | 0.15% | 0.15% |
| 2-year | 0.31% | 0.38% | 0.42% | 0.42% | 0.50% | 0.59% | 0.71% |
| 5-year | 1.17% | 1.27% | 1.34% | 1.38% | 1.45% | 1.53% | 1.60% |
| 10-year | 2.20% | 2.28% | 2.36% | 2.41% | 2.49% | 2.58% | 2.66% |
| 30-year | 3.30% | 3.32% | 3.42% | 3.46% | 3.56% | 3.66% | 3.70% |

Note: Current rates as of 5/22/2014. A simplified projection use Stifel’s Treasury forecasts and assumes that the current ratio between Municipal rates and US Treasury rates remains constant.



Origination fee schedule:

Rule V, article 3 of 2 CCR 605-1 outlines the following origination fee schedule to be assessed at the discretion of the Transportation Commission.

- 1.0% for loan proceeds up to \$1 million
- 0.75% on the loan proceeds amount over \$1 million up to \$2.5 million
- 0.50% on the loan proceeds amount over \$2.5 up to \$5 million
- 0.25% on the loan proceeds amount over \$5 million

Options:

1. Our financial consultant, Stifel Nicolaus & Company, indicates that treasury yields will rise, but less than the Market Consensus through the third quarter of 2015. Since the Federal Funds policy rate target is not expected to increase until 3Q 2015, they are supportive of short term rates remaining relatively low until late 2014. Based on the 10-year US Treasury Market rate, our recommendation is that the interest rate be set at 2.75% for CO SIB loans applied for during the first half of fiscal year 2015. Also, we recommend that for loans of \$5 million or more and complex loans requiring complex financial analysis the origination fee schedule be assessed during the fiscal year. (Staff's proposal for a loan origination fee is also highlighted in the resolution.)
2. Adopt the new interest rate without a loan origination fee.
3. Adopt different rate and/or request additional staff analysis with adoption in July.

Transportation Commission Decision Request

The Transportation Commission is being asked to accept staff recommendation for Option #1 and adopt the attached resolution in setting the rate for CO SIB loans made during the first half of fiscal year 2015, allowing for origination fees to cover the cost of independent financial analysis.

If you have questions regarding this matter please feel free to contact me by phone at (303-757-9793) or email at scott.richrath@state.co.us.



**Transportation Commission of Colorado
June 19, 2014**

Resolution Number TC-XXXX

WHEREAS, the Colorado State Infrastructure Bank (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 CRS) that made certain provisions for the bank and established within the bank, 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 CRS, regarding the eligibility requirements, disbursement of funds, interest rates, and repayments of loans from the bank; and

WHEREAS, pursuant to 2CCR 605-1 (rule 5) the Transportation Commission is required to set the bank's interest rate and the origination fee on loans no later than June 30, of each year for loans originating during the ensuing months of July; August; September; October; November; December of the next fiscal year; and

WHEREAS, based on current market conditions, the Office of Financial Management and Budget (OFMB) has recommended an interest rate of two and three quarter percent (2.75%) on all loans and that the origination fee on loans of \$5 million or more and complex loans requiring complex financial analysis shall be assessed on bank assistance for the first half of the State fiscal year 2015.

NOW THEREFORE BE IT RESOLVED, the Transportation Commission authorizes the Chief Financial Officer (CFO), under the terms and provisions set forth in the adopted rules, to assess an interest rate of two and three quarter percent (2.75%) on all bank loans and the origination fee on bank loans of \$5 million or more and complex loans requiring complex financial analysis for the first half of the State fiscal year 2015.