



4201 East Arkansas Avenue, Room 235  
 Denver, CO 80222

**MEMORANDUM**

**TO: TRANSPORTATION COMMISSION**  
**FROM: MARIA SOBOTA, ACTING CHIEF FINANCIAL OFFICER**  
**DATE: JUNE 18, 2014**  
**SUBJECT: STATE INFRASTRUCTURE BANK INTEREST RATE RECOMMENDATION FOR THE FIRST HALF OF FY2016**

Purpose

This memo summarizes information related to the State Infrastructure Bank interest rate for loans originating in the first half of State Fiscal Year 2016.

Action

The Office of Financial Management and Budget (OFMB) recommends that the Transportation Commission maintain the current interest rate at 2.50% for loans originating in the first half of the State fiscal year 2016.

Background

The State Infrastructure Bank (SIB) 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:

|                      |                     |                     |
|----------------------|---------------------|---------------------|
| FY2014 3Q3/Q4: 2.50% | FY2015 Q1/Q2: 2.75% | FY2015 Q3/Q4: 2.50% |
|----------------------|---------------------|---------------------|

Rate Recommendation/Interest Rate Outlook for US Treasury Market

The Market Consensus and Department’s financial adviser’s Projections for the US Treasury Market are used in conjunction to determine the SIB interest rate. Based on the 10-year US Treasury Market rate, the Department’s recommendation is that the interest rate remain at 2.50% This is based off of the following:

- CDOT’s financial adviser, Stifel Nicolaus & Company, projects that treasury yields will most likely decrease from current levels.
- The Market Consensus is that the yields will continue to rise in 2015.
- The Federal Funds policy rate target is not expected to increase until the fourth quarter of 2015. They are supportive of short term rates remaining relatively low until late 2015.
- The informational data used to determine the SIB interest rate is provided in Table 1.



Table 1:

| Stifel Projections for US Treasury Market |         |       |       |       |       |
|-------------------------------------------|---------|-------|-------|-------|-------|
|                                           | Current | 2Q15  | 3Q15  | 4Q15  | 1Q16  |
| <b>Fed Funds</b>                          | 0.25%   | 0.25% | 0.25% | 0.50% | 0.75% |
| <b>2-year</b>                             | 0.59%   | 0.70% | 0.90% | 1.10% | 1.25% |
| <b>5-year</b>                             | 1.55%   | 1.45% | 1.55% | 1.65% | 1.70% |
| <b>10-year</b>                            | 2.25%   | 2.00% | 2.10% | 2.20% | 2.25% |
| <b>30-year</b>                            | 3.05%   | 2.60% | 2.70% | 2.75% | 2.80% |

Note: Current rates as of 5/21/15. Projections as of 4/13/2015.

| Market Consensus Projections for US Treasury Market |         |       |       |       |       |
|-----------------------------------------------------|---------|-------|-------|-------|-------|
|                                                     | Current | 2Q15  | 3Q15  | 4Q15  | 1Q16  |
| <b>Fed Funds</b>                                    | 0.25%   | 0.25% | 0.45% | 0.70% | 0.95% |
| <b>2-year</b>                                       | 0.59%   | 0.70% | 0.96% | 1.22% | 1.48% |
| <b>5-year</b>                                       | 1.55%   | NA    | NA    | NA    | NA    |
| <b>10-year</b>                                      | 2.25%   | 2.17% | 2.33% | 2.51% | 2.68% |
| <b>30-year</b>                                      | 3.05%   | 2.83% | 2.98% | 3.14% | 3.28% |

Note: Current rates as of 5/21/15. Projections as of 4/13/2015.

| "Simplified" AAA Municipal Index Projections |         |       |       |       |       |
|----------------------------------------------|---------|-------|-------|-------|-------|
|                                              | Current | 2Q15  | 3Q15  | 4Q15  | 1Q16  |
| <b>1-year</b>                                | 0.22%   | 0.22% | 0.22% | 0.44% | 0.66% |
| <b>2-year</b>                                | 0.62%   | 0.74% | 0.95% | 1.16% | 1.31% |
| <b>5-year</b>                                | 1.45%   | 1.36% | 1.45% | 1.54% | 1.59% |
| <b>10-year</b>                               | 2.30%   | 2.04% | 2.15% | 2.25% | 2.30% |
| <b>30-year</b>                               | 3.28%   | 2.80% | 2.90% | 2.96% | 3.01% |

Note: Current rates as of 5/21/15. 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. Maintain the current interest rate of 2.50% for all SIB loans originating in the first half of fiscal year 2016. **Staff Recommendation**
2. Adopt a new interest rate, different from staff recommendation.
3. Deny the recommended SIB loan interest rate, request additional staff analysis, and/or delay for a future month.

Next Steps

Apply the approved interest rate to all SIB loans originating in the first half of fiscal year 2016.



**Transportation Commission of Colorado  
June 18, 2015**

**Resolution Number TC-**

**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 V) 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 first half of fiscal year 2016; and

**WHEREAS**, based on current market conditions, the Department has recommended an interest rate of two and one half percent (2.50%) on all loans originating in the first half of the State fiscal year 2016; 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 (2.50%) on all bank loans for the first half of the State fiscal year 2016.

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Herman Stockinger, Secretary  
Transportation Commission of Colorado

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Date