



# COLORADO

## Department of Transportation

Division of Accounting and Finance

4201 East Arkansas Avenue, Room 235  
Denver, CO 80222

### MEMORANDUM

**TO: TRANSPORTATION COMMISSION**  
**FROM: MARIA SOBOTA, CHIEF FINANCIAL OFFICER**  
**DATE: JUNE 16, 2016**  
**SUBJECT: STATE INFRASTRUCTURE BANK INTEREST RATE RECOMMENDATION FOR THE MONTHS OF JULY 2016 TO NOVEMBER 2016**

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#### Purpose

This memo summarizes information related to the State Infrastructure Bank (SIB) interest rate for loans originating in the months of July 2016 - November 2016, and origination fee schedule for the entire FY 2016-17.

#### Action

The Office of Financial Management and Budget (OFMB) recommends that the Transportation Commission lower the interest rate from 2.50% to 2.25% for loans originating in the first half of FY 2016-17 (Item A), and assess the recommended origination fee schedule detailed in this memorandum (Item B).

#### 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. For informational purposes, the established rates over the past 18 months have been 2.5%:

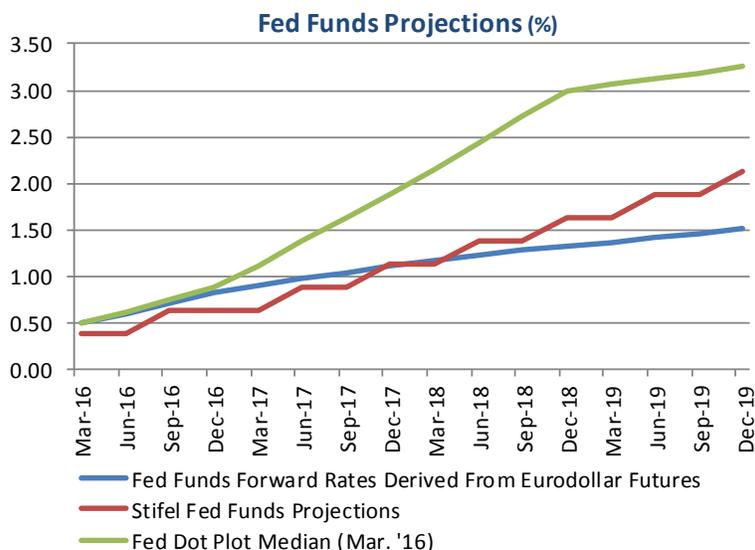
#### (A) Rate Recommendation and Interest Rate Outlook for US Treasury Market

The market consensus and Department's Financial Advisor'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 to decrease the interest rate to 2.25%. This is based off of the following supporting informational data provided in the following tables:

- Referencing Table 1 below titled *Federal Funds Projections*, The Fed's March 2016 forward economic guidance (green line) implies 275 basis points (bps) of rate increases through 2019. The bond market (blue line) expects the Fed to move much less aggressively, with futures pricing in only one rate hike per year, on average. CDOT's Financial Advisor's Chief Economist forecast (red line) lies between these two extremes, but closer to market expectations.
- CDOT's Financial Advisor's Chief Economist anticipates one rate hike this year (September Federal Open Market Committee meeting), followed by two increases annually in 2017, 2018, and 2019.

- Amid low international sovereign bond yields and sustained global easing, Treasury rates should remain range-bound and finish 2016 with little change year-over-year, as seen in Table 2 titled *Treasury Yield Curve Projections*.
- Due to the unstable geopolitical environment, the risks to our interest rate forecasts are skewed to the downside.

**Table 1: Federal Funds Projections**



**Table 2: Treasury Yield Curve Projections**

Treasury Yield Curve Projections					
	2Q16	3Q16	4Q16	1Q17	2Q17
Fed Funds - Upper Bound	0.50%	0.75%	0.75%	0.75%	1.00%
2-year	0.80%	0.90%	1.00%	1.10%	1.25%
5-year	1.35%	1.50%	1.65%	1.75%	1.80%
10-year	1.90%	2.05%	2.20%	2.35%	2.40%
30-year	2.75%	2.90%	3.00%	3.15%	3.20%
2s to 10s	+110 bps	+115 bps	+120 bps	+125 bps	+115 bps

\* Updated April 4, 2016

Source: Jim DeMasi, Chief Fixed Income Strategist.

All projections are as of the end of the respective quarters.

Fed funds represents the upper bound of the FOMC's target range.

**(B) Origination Fee Schedule:**

Rule V, Article 3 of 2 CCR 605-1 outlines the following origination fee schedule to be assessed for the ensuing fiscal year, 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 for TC Consideration, and Staff Recommendations

1. Lower the interest rate to 2.25% for all SIB loans originating in the first half of FY 2016-17, and assess the recommended origination fee schedule for all loans originating in FY 2016-17. **Staff Recommendation**
2. Adopt a new interest rate, different from staff recommendation, and/or not impose an origination fee.
3. Deny the recommended SIB loan interest rate, request additional staff analysis, and/or delay for a future month.

Next Steps

At the direction of the TC, and if adoption is approved, Department Staff will apply the approved interest rate to all SIB loans originating in the first half of FY 2016-17, and apply the approved origination fee schedule for all loans originating in FY 2016-17 per this memo.

The rate approval is for July to November (not December), because the TC is not planning to convene in December. As such, Department Staff plans to prepare a similar request in November.

**Transportation Commission of Colorado  
June 16, 2016**

**Resolution Number TC-**

**STATE INFRASTRUCTURE BANK INTEREST RATE FOR THE MONTHS OF JULY  
2016 TO NOVEMBER 2016**

**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 on loans no later than June 30, of each year for loans originating during the ensuing months of July; August; September; October; November of the next fiscal year; and

**WHEREAS**, pursuant to 2CCR 605-1 (rule 5) the Transportation Commission is required to set the bank's origination fee schedule 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**, pursuant to 2CCR 605-1 (rule 5) not later than June 30, of each year the Transportation Commission shall determine whether or not to assess an origination fee for the ensuing fiscal year based on the following schedule:

- 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

**WHEREAS**, based on current market conditions, the Office of Financial Management and Budget (OFMB) has recommended an interest rate of two and one quarter percent (2.25%) on all loans and that, at the discretion of the Transportation Commission, the adopted origination fee schedule be assessed on bank assistance for the ensuing months of July; August; September; October; November of the next fiscal year.

**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 one quarter percent (2.25%) on all bank loans and at its discretion assess the adopted origination fee schedule on bank loans for the ensuing months of July; August; September; October; November of the next fiscal year.

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Herman Stockinger, Secretary  
Transportation Commission of Colorado

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Date