



**MEMORANDUM**

**TO: THE TRANSPORTATION COMMISSION**  
**FROM: JEFF SUDMEIER, CDOT CHIEF FINANCIAL OFFICER**  
**DATE: NOVEMBER 18, 2021**  
**SUBJECT: STATE INFRASTRUCTURE BANK (SIB) INTEREST RATE RECOMMENDATION FOR THE SECOND HALF OF FISCAL YEAR 2021-22**

**Purpose**

The purpose of this memorandum is to outline the proposed State Infrastructure Bank (SIB) interest rate for loans originating in the second half of State Fiscal Year 2021-22 and the origination fee schedule for Fiscal Year 2021-22.

**Action**

The Division of Accounting and Finance (DAF) recommends that the Transportation Commission (TC) maintain the current SIB interest rate of 2.00% for loans originating in Fiscal Year 2021-22 Q3/Q4, and maintain the recommended origination fee schedule detailed in the memorandum.

**Background**

SIB Loan Rates: The SIB, established in 43-1-113.5(3) CRS. Rule V. Article 2 of 2CCR 605-1, requires that the TC set bi-annual interest rates for SIB Loans. Established rates over the past 18 months have been:

FY 2020-21 Q1/Q2: 2.00%	FY 2020-21 Q3/Q4: 2.00%	FY 2021-22 Q1/Q2: 2.00%
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Origination Fee Schedule: Rule V, Article 3 of 2 CCR 605-1 outlines the following origination fee schedule to be maintained for the current fiscal year as adopted by the TC. The TC may at their discretion apply the fee, the maximum of:

- 1.00% for loan proceeds up to \$1 million
- 0.75% on the loan proceeds over \$1 million up to \$2.5 million
- 0.50% on the loan proceeds over \$2.5 million up to \$5 million
- 0.25% on the loan proceeds over \$5 million

**Rate Recommendations/Interest Rate Outlook for US Treasury Market**

The current U.S. Treasury market and Federal Funds Rate, as well as the Department’s Financial Advisor’s projections for the US Treasury market and Federal Funds Rate are used to determine the SIB interest rate. Current interest rates remain at historically low levels, slightly above the record lows set in August 2020. The market consensus projects that interest rates will continue to increase over the next year. However, with the forecasted increases, the 10-year US Treasury yield, which serves as the benchmark for the SIB interest rate, is projected to remain just below 2.00% over the next year.

Accordingly, DAF staff proposes that the TC maintain a minimum interest rate of 2.00% for all State Infrastructure Bank loans originating in the second half of Fiscal Year 2021-22. This minimum interest rate will apply when projected interest rates are below 2.00%. If interest rates are projected above the 2.00% minimum

at the next interest rate setting opportunity, the TC may consider increasing the interest rate.

This recommendation is based on the following:

- Interest rates have seen increased volatility over the last several months, but remain at historically low levels, slightly above the record lows set in August 2020.
- At the November FOMC Meeting on November 3<sup>rd</sup>, the Fed opted to keep rates unchanged at 0.00-0.25%. Also as expected, the Committee formally announced a beginning of its taper process.
- According to the FOMC statement, the Committee will reduce the monthly pace of its net asset purchases by \$10 billion for Treasury securities and \$5 billion for agency mortgage-backed securities beginning later this month.
- The next step – arguably the more important phase, or at least the component that investors are focused on – is rate hikes. There was no mention of a higher rate policy in the November statement, but it is the obvious next step. The question remains, however, when and how fast will the Fed begin to raise rates? Committee members remain divided over the first rate hike with half forecasting 2022 and half 2023.

Market Consensus Yield Curve Projections <sup>1</sup>					
	Current	Q4 2021	Q1 2022	Q2 2022	Q3 2022
Fed Funds	0.25%	0.25%	0.25%	0.25%	0.30%
2-Yr UST	0.40%	0.38%	0.46%	0.56%	0.67%
10-Yr UST	1.46%	1.69%	1.79%	1.89%	1.97%
30-Yr UST	1.89%	2.24%	2.36%	2.47%	2.54%

### **Options and Recommendation**

1. **Staff Recommendation:** Maintain the minimum interest rate of 2.00% for all SIB loans originating in Fiscal Year 2021-22 Q3/Q4, and maintain the recommended origination fee schedule for all loans during the same period.
2. Adopt a new interest rate determined by the Transportation Commission.
3. Deny the recommended SIB loan interest rate, request additional staff analysis, and/or delay approval consideration for a future month.

### **Next Steps**

If approved as recommended, Department Staff will apply the approved interest rate and origination fee schedule to all SIB loans originating in the second half of Fiscal Year 2021-22.

### **Attachments:**

Attachment A: Proposed SIB Rate Resolution

<sup>1</sup> Source: U.S. Treasury Department, Bloomberg, Reuters as of 11/5/2021