

MEMORANDUM

DIVISION OF ACCOUNTING AND FINANCE



Office of Financial Management and Budget

4201 East Arkansas Avenue, Room 235
Denver, Colorado 80222
(303) 757-9262

DATE: December 19, 2013

TO: Transportation Commission

FROM: Scott Richrath, Chief Financial Officer

SUBJECT: State Infrastructure Bank (SIB) Interest Rate Recommendation for the Second Half of FY2014

Purpose

This memo summarizes information related to the State Infrastructure Bank interest rate which will support a decision to set the interest rate for loans originating in the second half of the State FY2014.

Action Requested

The Office of Financial Management and Budget (OFMB) recommends that the Transportation Commission set the interest rate at 2.5% on loans originating in the second half of the State fiscal year 2014.

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:

FY14Q1/Q2: 2.25%
FY13Q3/Q4: 2.00%
FY13Q1/Q2: 2.50%

Recommendation

Our financial consultant, Stifel Nicolaus & Company, indicates that treasury yields have likely peaked for 2013 and should remain in fairly well defined trading ranges through the third quarter of 2014. Since they expect a very gradual steepening, with respect to the yield curve, to resume in late 2014, our recommendation is that the interest rate be set at 2.5% for CO SIB loans applied for during the second half of fiscal year 2014.

Interest Rate Outlook

We expect the following ranges in intermediate and long-term Treasury yields to prevail through the end of 2014:

- 5-year: 1.20% to 1.70%
- 10-year: 2.45% to 3.00%
- 30-year: 3.55% to 4.00%

We expect Treasury yields to move modestly lower through year-end, as expectations continue to rationalize. In late 2014, the trend toward higher yields and a steeper curve should resume, if GDP growth firms and the Fed winds down QE3as expected.

Projected Fed Timeline:

- Tapering March to December 2014
- Total QE3 Purchases: \$1.9T
- First Rate Hike: 4Q 2015

Yield Curve Projections					
	4Q13	1Q14	2Q14	3Q14	4Q14
5-year	1.20%	1.25%	1.45%	1.55%	1.70%
10-year	2.45%	2.50%	2.75%	2.90%	3.00%
30-year	3.55%	3.60%	3.85%	3.90%	4.00%
<i>Updated as of October 22, 2013</i>					
Source: Stifel Fixed Income Research and Strategy Group					

Transportation Commission Decision Request

The Transportation Commission is being asked to consider the attached resolution in setting the rate for CO SIB loans made during the second half of fiscal year 2014.

If you have questions regarding this matter please call me (303-757-9793) or Will Ware (303-757-9061).

Thank you.

**Transportation Commission of Colorado
December 19, 2013**

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 5) the Transportation Commission is required to set the bank's interest rate and the origination fee on loans no later than December 31, of each year for loans originating during the ensuing months of January; February; March; April; May; June of the remaining fiscal year; and

WHEREAS, based on current market conditions, the Office of Financial Management and Budget (OFMB) has recommended an interest rate of 2.5 percent on loans and that no origination fee shall be assessed on bank assistance for the second half of the State fiscal year 2014.

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 2.5 percent and no origination fee on bank loans for the second half of the State fiscal year 2014.