



4201 East Arkansas Avenue, Room 235
 Denver, CO 80222

MEMORANDUM

TO: TRANSPORTATION COMMISSION

FROM: MARIA SOBOTA, CHIEF FINANCIAL OFFICER

DATE: DECEMBER 8, 2016

SUBJECT: STATE INFRASTRUCTURE BANK INTEREST RATE RECOMMENDATION FOR THE SECOND HALF OF FY 2016-17

Purpose

This memo summarizes information related to the State Infrastructure Bank (SIB) interest rate for loans originating in the second half of State fiscal year 2016-17 (FY 2016-17) and origination fee schedule for FY 2016-17.

Action

The Division of Accounting and Finance (DAF) recommends that the Transportation Commission increase the current interest rate of 2.25% by 25 basis points to 2.50%, for loans originating in the second half of FY 2016-17 and continue to assess the adopted origination fee schedule detailed in this memorandum. There has been no SIB activity in the first half of FY 2016-17. Please refer to the end of FY 2015-16 SIB Report (August 2016) for information on all active loans and asset balances.

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:

FY 2015-16 Q1/Q2: 2.50%	FY 2015-16 Q3/Q4: 2.50%	FY 2016-17 Q1/Q2: 2.25%
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Rate Recommendation/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 increase the interest rate to 2.50%. This is based off of the following:

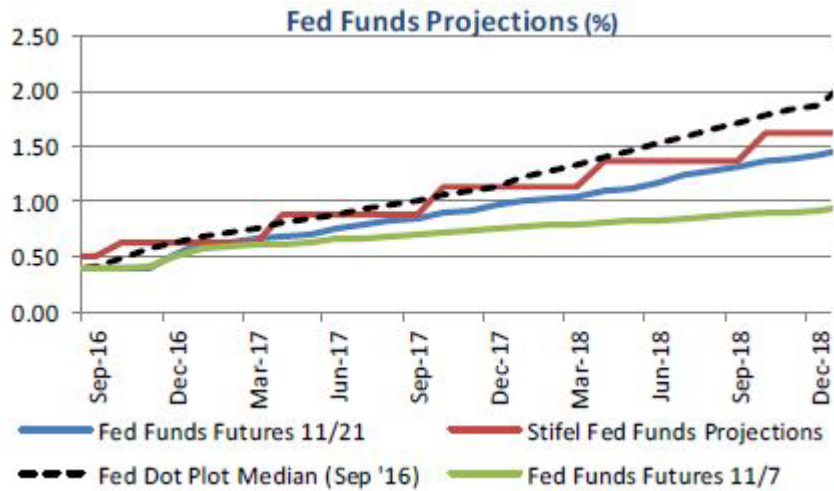
- The Fed’s September 2016 forward guidance (dotted line) implies 150 bps of rate increases by the end of 2018. In Table 1, the bond market (blue line) expects the Fed to move much less aggressively, with futures pricing in only 100 bps of rate hikes over that period. CDOT’s Financial Advisor’s Chief Economist forecast (red line) lies between these two opposing vies and assumes 125 bps of tightening.
- CDOT’s Financial Advisor’s Chief Economist anticipates one 25 bps rate hike this year (December Federal Open Market Committee meeting on December 14th) followed by two 25 bps increase annually in 2017 and 2018.



- Assuming that U.S. fiscal policy overcomes structural overseas weakness, the 2-year yield should gravitate toward 2.0% and the 10-year yield should approach 3.0% by the end of 2018, as seen in Table 2.

The informational data used to determine the SIB interest rate is provided in the following tables.

Table 1: Federal Funds Projections



Source: Bloomberg L.P. as of 11/21/16

Table 2: Treasury Yield Curve Projections

Stifel U.S. Treasury Yield Curve Projections						
	Current	4Q16	1Q17	2Q17	3Q17	4Q17
Fed Funds	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%
2-year	1.04%	1.00%	1.10%	1.25%	1.35%	1.50%
5-year	1.73%	1.75%	1.85%	2.00%	2.10%	2.20%
10-year	2.29%	2.30%	2.40%	2.50%	2.65%	2.75%
30-year	3.01%	3.10%	3.25%	3.40%	3.60%	3.75%

Note: Current rates, Stifel and "Simplified" projections as of 11/14/16. Market Consensus Projections as of 11/17/16.



Origination Fee Schedule:

Rule V, Article 3 of 2 CCR 605-1 outlines the following origination fee schedule to be assessed for the current fiscal year as adopted by the Transportation Commission in June 2016.

- 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 and Recommendation

1. Increase the interest rate to 2.50% for all SIB loans originating in the second half of FY 2016-17 and continue to assess the adopted origination fee schedule for all loans originating in FY 2016-17. **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 second half of FY 2016-17 and apply the adopted origination fee schedule for all loans originating in FY 2016-17.



**Transportation Commission of Colorado
December 8, 2016**

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 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 interest rate 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 current 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 fiscal year; and

WHEREAS, pursuant to 2CCR 605-1 (rule 5) on June 16, 2016, the Transportation Commission adopted an origination fee for all loans originating in State fiscal year 2016-17 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 Division of Accounting and Finance (DAF) has recommended an interest rate of two and one half percent (2.50%) on all loans and that, at the discretion of the Transportation Commission, the adopted origination fee schedule be assessed on bank assistance for the second half of the State fiscal year 2017.

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 half percent (2.50%) on all bank loans and at its discretion assess the adopted origination fee schedule on bank loans for the second half of the State fiscal year 2017.

Herman Stockinger, Secretary
Transportation Commission of Colorado

Date