



4201 East Arkansas Avenue, Room 235
 Denver, CO 80222

MEMORANDUM

TO: TRANSPORTATION COMMISSION
FROM: MARIA SOBOTA, CHIEF FINANCIAL OFFICER
DATE: NOVEMBER 17, 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 maintain the interest rate of 2.25% 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 maintain the interest rate at 2.25%. 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 50 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 75 bps of tightening.
- CDOT's Financial Advisor's Chief Economist anticipates one rate hike this year (December Federal Open Market Committee meeting) followed by one increase annually in 2017 and 2018.
- Amid low international sovereign bond yields and sustained global easing, Treasury rates should remain range-bound through the forecast horizon, as seen in Table 2.
- The risks to our interest rate forecasts are skewed to the downside. The Fed may be forced to further delay its timetable for normalization or resume easing depending on domestic and international developments.

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

Table 1: Federal Funds Projections

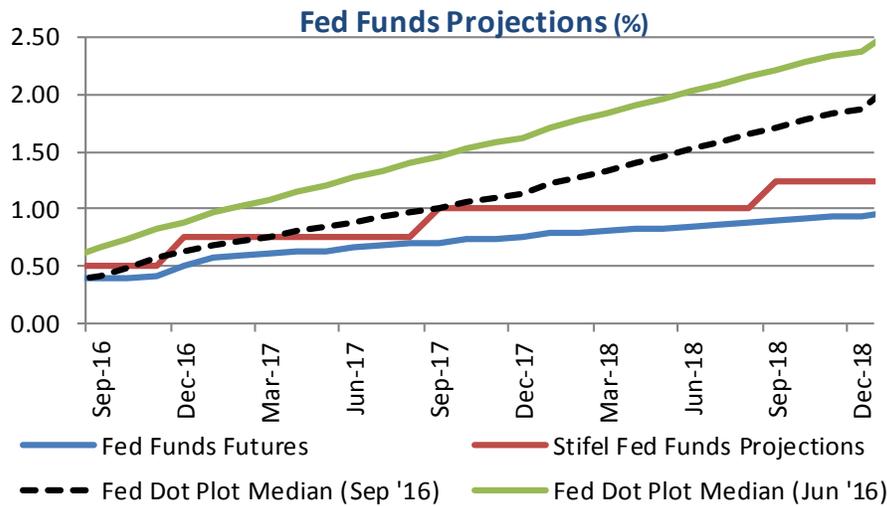


Table 2: Treasury Yield Curve Projections

Treasury Yield Curve Projections						
	4Q16	1Q17	2Q17	3Q17	4Q17	4Q18
Fed Funds - Upper Bound	0.75%	0.75%	0.75%	1.00%	1.00%	1.25%
2-year	0.85%	0.90%	0.95%	1.00%	1.10%	1.40%
5-year	1.25%	1.30%	1.40%	1.45%	1.50%	1.75%
10-year	1.65%	1.70%	1.80%	1.85%	1.90%	2.15%
30-year	2.25%	2.30%	2.40%	2.45%	2.50%	2.60%
2s to 10s	+80 bps	+80 bps	+85 bps	+85 bps	+80 bps	+75 bps

**Updated September 2, 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.



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. Maintain the current interest rate of 2.25% 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
November 17, 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 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 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 quarter percent (2.25%) 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