



MEMORANDUM

TO: THE TRANSPORTATION COMMISSION
FROM: JEFF SUDMEIER, CDOT CHIEF FINANCIAL OFFICER
DATE: NOVEMBER 15, 2018
SUBJECT: STATE INFRASTRUCTURE BANK (SIB) INTEREST RATE RECOMMENDATION FOR THE SECOND HALF OF FY 2018-19

Purpose

The purpose of this memorandum is to summarize information related to proposed changes to the State Infrastructure Bank interest rate for loans originating in the second half of State fiscal year 2018-19, and retain origination fee information on the Origination Fee Schedule for fiscal year 2018-19.

Action

The Division of Accounting and Finance (DAF) requests that the Transportation Commission increase the interest rate to 3.25% for loans originating in FY 2018-19 Q3/Q4. No changes to the amounts in the Origination Fee Schedule are proposed at this time.

Background

SIB Loan Rates:

The State Infrastructure Bank (SIB), established in 43-1-113.5(3) CRS. Rule V. Article 2 of 2 CCR 605-1, requires that the Transportation Commission set bi-annual interest rates for SIB Loans.

For information, rates over the past 18 months have been:

FY 2017-18 Q1/Q2: 2.50%	FY 2017-2018 Q3/Q4: 2.50%	FY 2018-19 Q1/Q2: 3.00%
-------------------------	---------------------------	-------------------------

Rate Recommendations/Interest Rate Outlook for US Treasury Market

The market consensus and Department’s financial advisor’s projections of the US Treasury market are used in conjunction to propose recommendations of the SIB interest rate. Based on the projected 10-year US Treasury market rate, as detailed in Table 2, the Department’s recommendation is to increase the interest rate from 3%, to 3.25%.

This recommendation is based on the following data trends:

- Federal funds rate hike in March 2018 from 1.50% to 1.75%
- Federal funds rate hike in June 2018 from 1.75% to 2.00%



- Federal funds rate hike in September 2018 from 2.00% to 2.25%
- Market consensus expects an additional Fed rate hike in December 2018
- Federal Reserve expected to continue gradual pace of rate increases with economic recovery
- Three Fed rate hikes are currently expected in 2019

Table 1: Federal Funds Projections

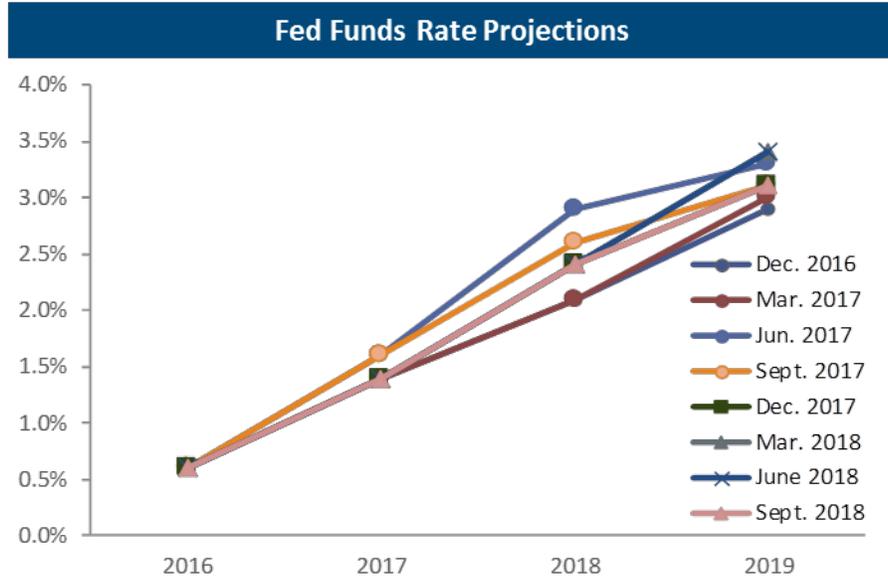


Table 2: Treasury Yield Curve Projections

Market Consensus Yield Curve Projections					
	Current	4Q18	1Q19	2Q19	3Q19
Fed Funds	2.25%	2.50%	2.70%	2.90%	3.05%
2-Year UST	2.85%	2.89%	3.02%	3.13%	3.21%
10-year UST	3.12%	3.17%	3.26%	3.33%	3.36%
30-year UST	3.34%	3.35%	3.43%	3.51%	3.56%

Origination Fee Schedule:

Rule V, Article 3 of 2CCR 605-1 outlines the following origination fee schedule be applied at the discretion of the Transportation Commission. If an origination fee is to be assessed, the fee shall be a maximum of: 1.00% for loan proceeds up to \$1 million, 3/4th a percent on loan proceeds over \$1 million and up to \$2.5 million, one-half percent on the amount of loan proceeds over \$2.5 million and up to \$5 million, and one quarter percent on the amount of loan proceeds over \$5 million.



Options and Recommendation

1. Increase the interest rate to 3.25% for all SIB loans originating in the FY 2018-19 Q3/Q4 period, and maintain the recommended origination fee schedule for all loans during the same period. **Staff Recommendation**
2. Adopt a new interest rate, per TC guidance.
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 to all SIB loans originating in the second half of FY 2018-19.

Attachments:

Attachment A: Proposed Resolution



Resolution # TC-18-11-XX

Resolution to adopt proposed changes to the State Infrastructure Bank interest rate for loans originating in the second half of State fiscal year 2018-19, and the origination fee schedule for fiscal year 2018-19.

Approved by the Transportation Commission on (Insert Date).

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, 43-1-113.5 CRS establishes 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, and December 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, at their discretion, able to apply the origination fee schedule on loans originating during Resolution period; and

WHEREAS, pursuant to 2CCR 605-1 (rule 5) the Transportation Commission adopted the established origination fee for all loans originating in State fiscal year 2018-19 based on the following schedule: the fee shall be a maximum of: 1.00% for loan proceeds up to \$1 million, 3/4th a percent on loan proceeds over \$1 million and up to \$2.5 million, one-half percent on the amount of loan proceeds over \$2.5 million and up to \$5 million, and one quarter percent on the amount of loan proceeds over \$5 million; and

WHEREAS, based on current market conditions, the Division of Accounting and Finance (DAF) has recommended an interest rate be increased to three and one quarter (3.25%) on all loans applied for in the second half of the State fiscal year 2018-19; and

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 three and one quarter (3.25%) on all bank loans, and at the discretion of the Transportation Commission apply the origination fee schedule on bank loans for the second half of the State fiscal year 2018-19.

Herman Stockinger, Secretary
Transportation Commission of Colorado

Date