

JOINT BUDGET COMMITTEE



STAFF BUDGET BRIEFING FY 2019-20

DEPARTMENT OF THE TREASURY AND PERA

JBC WORKING DOCUMENT - SUBJECT TO CHANGE
STAFF RECOMMENDATION DOES NOT REPRESENT COMMITTEE DECISION

PREPARED BY:
ALFREDO KEMM, JBC STAFF
NOVEMBER 26, 2018

JOINT BUDGET COMMITTEE STAFF
200 E. 14TH AVENUE, 3RD FLOOR • DENVER • COLORADO • 80203
TELEPHONE: (303) 866-2061 • TDD: (303) 866-3472

CONTENTS

| | |
|--|---|
| Department Overview | 1 |
| Department Budget: Recent Appropriations..... | 2 |
| Department Budget: Graphic Overview | 3 |
| General Factors Driving the Budget..... | 5 |
| Summary: FY 2018-19 Appropriation & FY 2019-20 Request | 7 |

ISSUES

| | |
|---|----|
| TRE – R1 Public School Fund Investment Board – Fund Managers..... | 9 |
| PERA – S.B. 18-200 and PERA Update | 12 |

APPENDICES

| | |
|--|----|
| A. Numbers Pages..... | 18 |
| B. Recent Legislation Affecting Department Budget | 24 |
| C. Update on Long Bill Footnotes and Requests for Information..... | 28 |
| D. Department Annual Performance Report | 34 |

DEPARTMENT OF THE TREASURY

DEPARTMENT OVERVIEW

The State Treasurer is one of five independently elected constitutional officers of the state. The Department of the Treasury consists of three sections: Administration, Unclaimed Property Program, and Special Purpose unit, and is responsible for the following:

Primary Functions

- Ensures the safekeeping and management of public funds by depositing and investing all funds received by state agencies.
- Ensures sufficient funds are maintained in cash accounts to pay outstanding warrants.
- Administers the Unclaimed Property Program.

School Districts and Charter Schools

- Provides short-term financing to school districts by issuing tax and revenue anticipation notes.
- Assists charter schools with long-term financing by making direct bond payments.

Other Distributions and Loans

- Distributes Highway Users Tax Fund revenues to counties and municipalities.
- Distributes federal mineral leasing funds received for the state's share of sales, bonuses, royalties, and rentals of public lands within Colorado.
- Disburses reimbursements to local governments for the Senior Citizen and Disabled Veteran Property Tax Exemption.
- Makes loans to elderly individuals and military personnel through the Property Tax Deferral Program.
- Provides property tax reimbursements for property destroyed by a natural cause.
- Transmits money from the Unclaimed Property Trust Fund to the Adult Dental Fund.
- Beginning in FY 2019-20 and for every year in which the unfunded liability remains, provides a direct distribution of \$225.0 million to the Public Employees' Retirement Association (PERA) pursuant to Section 24-51-414, C.R.S., as enacted in S.B. 18-200 (Eliminate Unfunded Liability in PERA).

ADMINISTRATION

In addition to overall management of the Department, the Administration section is responsible for accounting, cash management, and investments. The Department is responsible for ensuring the safekeeping and management of public funds by maintaining sufficient funds in cash accounts to meet the state's daily cash needs and depositing all funds received by state agencies in statutorily authorized investments. In addition, the Department ensures that sufficient funds are maintained in cash accounts to meet the state's daily cash needs. The income earned on these investments augments the state's revenues from taxes and fees and decreases the tax burden on Colorado's citizens. The Department's three investment offices manage five investment portfolios with short, intermediate, and long-term fixed income goals.

UNCLAIMED PROPERTY DIVISION

The Unclaimed Property Division is established to take custody of dormant or abandoned property and return the property to the rightful owners or heirs. The value of intangible property, excluding securities, is held in the Unclaimed Property Trust Fund (UPTF); and the value of securities is held in the Unclaimed Property Tourism Promotion Trust Fund (UPTPTF). Funds from the UPTF support the administration of the Unclaimed Property Program and a portion of the Administration division's personal services line item.

As outlined above, the UPTPTF is managed separately from the four remaining investment accounts, and pursuant to Section 38-13-116.7, C.R.S., distribution for earned interest of this fund is allocated as follows: 25.0 percent to the Colorado State Fair Authority Cash Fund, 65.0 percent to the Agriculture Management Fund, and 10.0 percent to the Colorado Travel and Tourism Promotion Fund.

SPECIAL PURPOSE DIVISION

The Special Purpose Division disburses money to local governments and other authorized recipients of state funds for the following programs:

- The Senior Citizen and Disabled Veteran Property Tax Exemption from the General Fund;
- Disbursements of Highway Users Tax Fund proceeds to counties and municipalities in the state; and
- Reimbursement of property taxes paid for property that has been destroyed in a natural disaster or by another cause beyond the control of the property owner.
- Beginning in FY 2019-20 and for every year in which the unfunded liability remains, provides a direct distribution of \$225.0 million to the Public Employees' Retirement Association (PERA) pursuant to Section 24-51-414, C.R.S., as enacted in S.B. 18-200 (Eliminate Unfunded Liability in PERA).

These programs, which are created in the State Constitution or statute, are appropriated in the Department of the Treasury section of the Long Bill, but are pass-through programs in which the Treasury disburses or transfers money, but does not administer the programs.

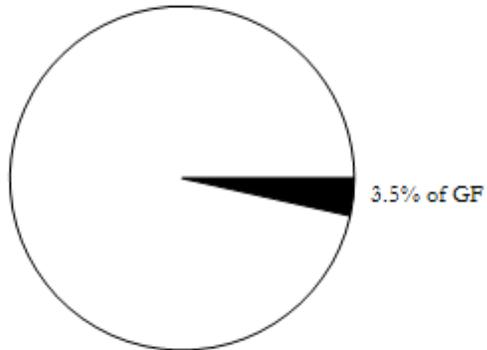
DEPARTMENT BUDGET: RECENT APPROPRIATIONS

| FUNDING SOURCE | FY 2016-17 | FY 2017-18 | FY 2018-19 | FY 2019-20 * |
|------------------------|----------------------|----------------------|----------------------|----------------------|
| General Fund | \$139,308,257 | \$151,447,545 | \$400,329,817 | \$354,159,960 |
| Cash Funds | 354,267,675 | 354,874,465 | 396,084,849 | 448,376,623 |
| Reappropriated Funds | 17,775,175 | 17,773,025 | 17,685,263 | 17,434,250 |
| Federal Funds | 0 | 0 | 0 | 0 |
| TOTAL FUNDS | \$511,351,107 | \$524,095,035 | \$814,099,929 | \$819,970,833 |
| Full Time Equiv. Staff | 32.9 | 32.9 | 32.9 | 32.9 |

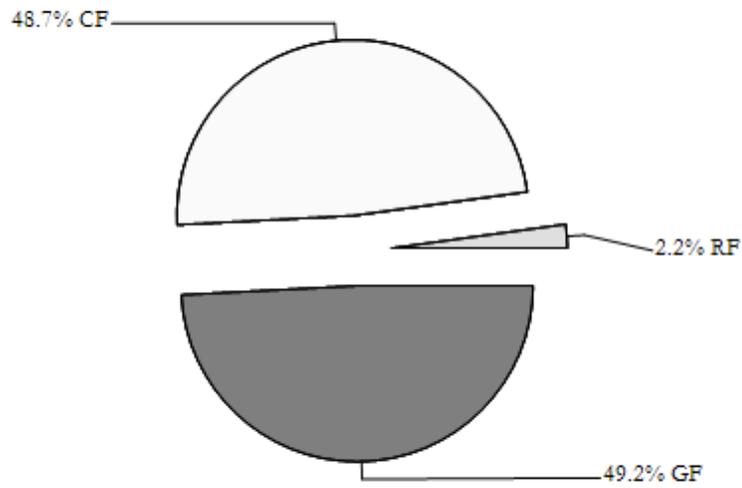
*Requested appropriation.

DEPARTMENT BUDGET: GRAPHIC OVERVIEW

Department's Share of Statewide General Fund

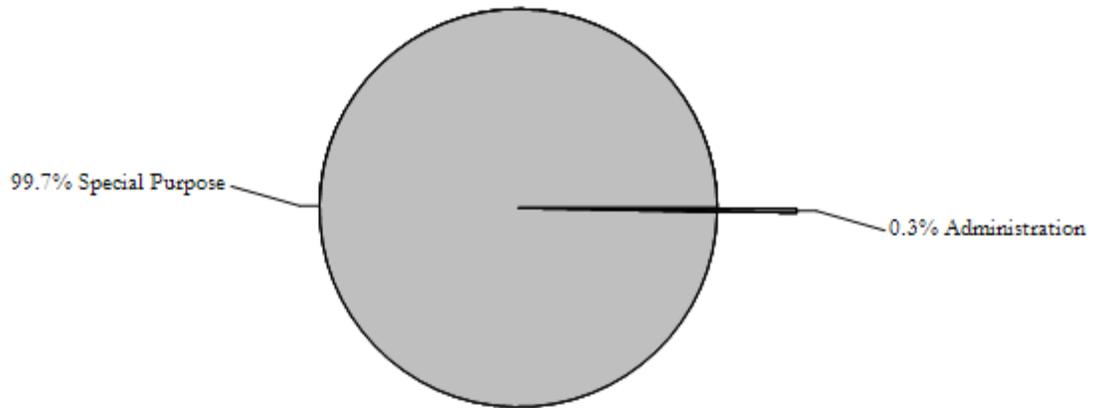


Department Funding Sources

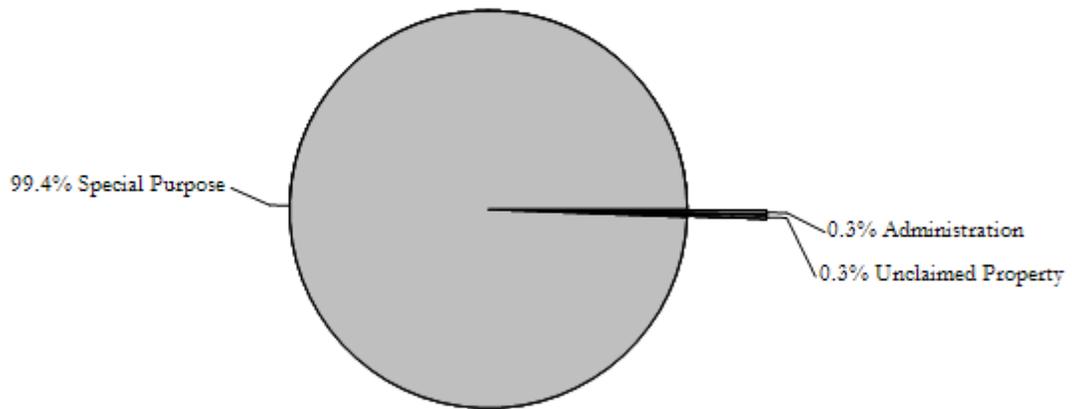


All charts are based on the FY 2018-19 appropriation.

Distribution of General Fund by Division



Distribution of Total Funds by Division



All charts are based on the FY 2018-19 appropriation.

GENERAL FACTORS DRIVING THE BUDGET

The Department's funding for FY 2018-19 consists of 49.2 percent General Fund, 48.7 percent cash funds, and 2.2 percent reappropriated funds.

SENIOR CITIZEN AND DISABLED VETERAN PROPERTY TAX EXEMPTION

Section 3.5 of Article X of the Colorado Constitution grants a property tax exemption to qualifying senior citizens and disabled veterans. A senior citizen is eligible for the property tax exemption if the property owner-occupier is at least 65 years of age on the assessment date and has occupied the residence for at least ten years, or is the surviving spouse of a person who previously qualified for the exemption. An honorably discharged disabled veteran is eligible for the property tax exemption if the owner-occupier has a 100.0 percent service-connected disability on the assessment date. Property tax is exempted on 50.0 percent of the first \$200,000 of actual property value for qualifying homeowners. The State Treasurer is required to reimburse local governments for the resulting loss of property tax revenues. The Constitution grants the General Assembly the power to raise or lower the amount of residence value that is exempt from taxation.

PROPERTY TAX REIMBURSEMENTS FOR PROPERTY DESTROYED BY A NATURAL CAUSE

In the 2014 Session, the General Assembly passed H.B. 14-1001 providing a property tax reimbursement for real or business property listed on a single tax schedule that was destroyed by a natural cause (fire, explosion, flood, tornado, action of the elements, act of war or terror, etc.). This property tax reimbursement is subject to an amount equal to the property tax liability applicable to the destroyed property in the property tax year in which the natural cause occurred. Funds made available for this property tax reimbursement are subject to annual appropriation by the General Assembly.

HIGHWAY USERS TAX FUND DISBURSEMENTS

The Department distributes revenues from the Highway Users Tax Fund (HUTF) to counties and municipalities for use on local transportation projects pursuant to statutory formulas. The amounts anticipated to be distributed to counties and municipalities are reflected as cash funds appropriations within the Special Purpose section of the Long Bill for informational purposes.

TRANSFERS FROM THE UNCLAIMED PROPERTY TRUST FUND

The Unclaimed Property Program in the Department of the Treasury is established to take custody of dormant or abandoned property and return the property to the rightful owners or heirs. Such intangible property is subject to the custody of the state as unclaimed property and is held in trust on behalf of the owners in the Unclaimed Property Trust Fund (UPTF). Aside from the payment of claims to owners and heirs, the fund balance is used to cover the costs of administering the program, including personal services, operating expenses, promotion and correspondence, leased space, and contract auditor services for the division. In addition, it is used to cover a portion of the Department of Treasury's administrative costs, and a percentage of the salaries paid to the Treasurer and Deputy Treasurer.

TRANSFERS TO THE STATE EDUCATION FUND

Pursuant to S.B. 13-234, on May 31, 2013, the State Treasurer transferred \$132,409,339 from the General Fund to the FPPA in order to fully resolve the liability created under Section 31-30.5-307,

C.R.S. This transfer served to satisfy all future payments to the fund; and upon this transfer, no other transfers will be made to the benefit plan. The transfer reduced the amount of the General Fund surplus that would otherwise have been transferred to the State Education Fund. In order to reimburse this fund, the General Assembly established a repayment schedule for transfers from the General Fund to the State Education Fund. Annual transfers of \$25,321,079 were scheduled for April of each year from 2015 through 2018, with a final transfer of \$24,991,739 scheduled for April of 2019.

DIRECT DISTRIBUTION TO PERA FOR THE UNFUNDED LIABILITY

Section 24-51-414, C.R.S., as enacted in S.B. 18-200 (Eliminate Unfunded Liability in PERA), requires the State Treasurer to issue a warrant equal to \$225.0 million to PERA as a direct distribution for the unfunded liability on July 1, 2018, and each July 1st thereafter as long as there remains an unfunded liability.

Statute specifies that funding is provided from the General Fund, or any other fund. Subsection (2) specifies further that the Governor's Office of State Planning and Budgeting (OSPB) may include funding sources other than the General Fund in the annual budget request. While statute provides this flexibility in identifying fund sources, it is unclear how the State would justify charging cash and federal funds for the statewide purpose of a direct distribution intended to better satisfy the State's responsibility for its actuarially required contribution for the PERA unfunded liability.

The Governmental Accounting Standards Board (GASB) accounting standards requires that the unfunded liability of pensions be reflected in the employer's financial statements. Further GASB and credit ratings agencies judge the credit worthiness of public entities on the satisfaction of the actuarially required contribution which is equal to the payment for the full cost of the current year-current employee (current cost) pension liability plus a payment for the unfunded liability (legacy cost) that will fully pay for the unfunded liability within 30 years.

Beginning with the FY 2019-20 budget, statute requires that the direct distribution payment be included for informational purposes in the Long Bill. Statute does not provide authority for the General Assembly to make an annual appropriation related to this payment. Statute further specifies that estimates be included for the amount of the distribution attributable to the state and attributable to public schools. This requirement is simply a reflection of the estimated amount of the direct distribution that will be provided to each of the PERA divisions. While statute excludes distributions to the Local Government Division, distributions to the State, Judicial, Public Schools, and Denver Public Schools divisions are distributed proportionate to the annual payroll of each division. While the State makes the direct distribution from state funds, for GASB purposes the State is the employer for the State and Judicial divisions, while school districts are the employer for the schools-related divisions.

SUMMARY: FY 2018-19 APPROPRIATION & FY 2019-20 REQUEST

| DEPARTMENT OF THE TREASURY | | | | | |
|--|----------------------|----------------------|----------------------|----------------------|-------------|
| | TOTAL FUNDS | GENERAL FUND | CASH FUNDS | REAPPROPRIATED FUNDS | FTE |
| FY 2018-19 APPROPRIATION: | | | | | |
| HB 18-1322 (Long Bill) | 589,099,929 | 175,329,817 | 396,084,849 | 17,685,263 | 32.9 |
| Other legislation | 225,000,000 | 225,000,000 | 0 | 0 | 0.0 |
| TOTAL | \$814,099,929 | \$400,329,817 | \$396,084,849 | \$17,685,263 | 32.9 |
| FY 2019-20 REQUESTED APPROPRIATION: | | | | | |
| FY 2018-19 Appropriation | \$814,099,929 | 400,329,817 | \$396,084,849 | \$17,685,263 | 32.9 |
| R1 Public School Fund Investment Board - fund managers | 1,260,000 | 0 | 1,260,000 | 0 | 0.0 |
| Non-prioritized requests | 52,436 | 52,436 | 0 | 0 | 0.0 |
| Revenue forecast adjustments | 60,594,971 | 10,004,277 | 50,841,707 | (251,013) | 0.0 |
| Centrally appropriated line items | 427,671 | 240,144 | 187,527 | 0 | 0.0 |
| Annualize prior year legislation and budget actions | 6,925 | 4,385 | 2,540 | 0 | 0.0 |
| PERA direct distribution adjustment | (56,471,099) | (56,471,099) | 0 | 0 | 0.0 |
| TOTAL | \$819,970,833 | \$354,159,960 | \$448,376,623 | \$17,434,250 | 32.9 |
| INCREASE/(DECREASE) | \$5,870,904 | (\$46,169,857) | \$52,291,774 | (\$251,013) | 0.0 |
| Percentage Change | 0.7% | (11.5%) | 13.2% | (1.4%) | 0.0% |

R1 PUBLIC SCHOOL FUND INVESTMENT BOARD – FUND MANAGERS: The request includes an increase of \$1.3 million cash funds spending authority from interest earnings from the Public School Fund for FY 2019-20 for investment vehicle fund managers. For more information, see issue 1.

NON-PRIORITIZED REQUESTS: The request includes an increase of \$52,436 General Fund, which includes \$39,046 for an OSPB/Governor's request for a 3.0 percent General Fund set-aside for elected officials and \$13,390 for two requests from the Governor's Office of Information Technology (OIT).

| NON-PRIORITIZED REQUESTS | | | |
|--|-----------------|-----------------|------------|
| | TOTAL FUNDS | GENERAL FUND | FTE |
| Treasury 3% GF Placeholder | \$39,046 | \$39,046 | 0.0 |
| NP1 OIT Securing IT operations | 13,024 | 13,024 | 0.0 |
| NP2 OIT Optimize self-service capabilities | 366 | 366 | 0.0 |
| TOTAL | \$52,436 | \$52,436 | 0.0 |

REVENUE FORECAST ADJUSTMENTS: The request includes an increase of \$60.6 million total funds, including an increase of \$10.0 million General Fund and \$50.8 million cash funds for FY 2019-20 for revenue forecast adjustments for special purpose pass-through payments made by the Department.

| REVENUE FORECAST ADJUSTMENTS | | | | | |
|-------------------------------|--------------|--------------|--------------|----------------------|-----|
| | TOTAL FUNDS | GENERAL FUND | CASH FUNDS | REAPPROPRIATED FUNDS | FTE |
| Lease purchase COP adjustment | \$37,748,987 | \$16,500,000 | \$21,500,000 | (\$251,013) | 0.0 |
| HUTF forecast adjustment | 29,339,207 | 0 | 29,339,207 | 0 | 0.0 |

| REVENUE FORECAST ADJUSTMENTS | | | | | |
|---|---------------------|-------------------|---------------------|----------------------|------------|
| | TOTAL FUNDS | GENERAL FUND | CASH FUNDS | REAPPROPRIATED FUNDS | FTE |
| Charter school facilities financing svcs adjustment | 2,500 | 0 | 2,500 | 0 | 0.0 |
| Property tax exemption forecast adj | (6,495,723) | (6,495,723) | 0 | 0 | 0.0 |
| TOTAL | \$60,594,971 | 10,004,277 | \$50,841,707 | (\$251,013) | 0.0 |

Centrally appropriated line items: The request includes adjustments to centrally appropriated line items including the following: health, life, and dental; short-term disability; supplemental state contributions to the Public Employees' Retirement Association (PERA) pension fund; merit pay; workers' compensation and payments to risk management; legal services; Capitol complex leased space; payments to the Governor's Office of Information Technology (OIT); and CORE operations.

| CENTRALLY APPROPRIATED LINE ITEMS | | | | | |
|--|------------------|----------------|------------------|------------|--|
| | TOTAL FUNDS | GENERAL FUND | CASH FUNDS | FTE | |
| Legal services adjustment | \$203,933 | \$101,967 | \$101,966 | 0.0 | |
| Merit pay adjustment | 80,167 | 49,753 | 30,414 | 0.0 | |
| CORE adjustment | 69,071 | 31,082 | 37,989 | 0.0 | |
| PERA Direct Distribution | 52,281 | 33,006 | 19,275 | 0.0 | |
| Health, life, and dental adjustment | 10,638 | 10,815 | (177) | 0.0 | |
| Workers' comp and risk mgt and prop funds adjustment | 6,422 | 6,422 | 0 | 0.0 | |
| Payments to OIT adjustment | 5,216 | 4,419 | 797 | 0.0 | |
| AED adjustment | 2,821 | 5,046 | (2,225) | 0.0 | |
| SAED adjustment | 2,821 | 5,046 | (2,225) | 0.0 | |
| Leased space adjustment | 1,733 | 0 | 1,733 | 0.0 | |
| Short-term disability adjustment | 233 | 253 | (20) | 0.0 | |
| Capitol Complex leased space adjustment | (7,665) | (7,665) | 0 | 0.0 | |
| TOTAL | \$427,671 | 240,144 | \$187,527 | 0.0 | |

ANNUALIZE PRIOR YEAR LEGISLATION AND BUDGET ACTIONS: The request includes an increase of \$12,994 General Fund to annualize prior year legislation and budget actions.

| ANNUALIZE PRIOR YEAR LEGISLATION AND BUDGET ACTIONS | | | | |
|---|----------------|--------------|----------------|------------|
| | TOTAL FUNDS | GENERAL FUND | CASH FUNDS | FTE |
| Annualize SB 18-200 (PERA) | \$6,925 | \$4,385 | \$2,540 | 0.0 |
| TOTAL | \$6,925 | 4,385 | \$2,540 | 0.0 |

PERA DIRECT DISTRIBUTION ADJUSTMENT: The request includes a reflected decrease of \$56.5 million General Fund for FY 2018-19 for the statutory informational appropriation for the PERA Direct Distribution made by the Treasurer to PERA.

ISSUE: R1 PUBLIC SCHOOL FUND INVESTMENT BOARD - FUND MANAGERS

The Department, on behalf of the Public School Fund Investment Board, requests increased cash funds spending authority from interest and dividends earned from investments of the Public School Fund. A ruling from the Office of the State Controller has determined that the anticipated, non-discretionary, fund manager fees typically paid out of the return on investment, and included in a periodic net return on investment statement, must be accounted for within the administrative expenses appropriation located in the Department's special purposes budget.

SUMMARY

- The Public School Fund Investment Board (Investment Board) was established in S.B. 16-035 (*The Public School Fund*) to generate increased returns through investments in diversified assets.
- Through FY 2017-18, the Investment Board diversified available liquid assets totaling \$200.0 million; anticipates investing \$180.0 million in FY 2018-19; and anticipates investing an additional \$135.0 million in FY 2019-20.
- Liquid assets reside in the Treasury Pool, earning a return of approximately 1.8 percent, until invested. The Treasury Pool is intended to be a highly liquid asset pool to provide for the daily cash needs of the State. The money in the Public School Fund is set aside in trust for perpetuity and does not need to be positioned for liquidity purposes.
- An unanticipated ruling from the State Controller determined that fund management fees, typically paid on an industry-standard net return basis, should be included or paid out of the administrative expenses line item in the Department of the Treasury's special purposes section.
- The Investment Board projects that it will require an additional \$1,260,000 in the administrative expenses appropriation to cover the fund management fees on total assets invested for FY 2019-20.
- The State Land Board in the Department of Natural Resources with support from the Investment Board and the Department of the Treasury, will seek legislation in the 2019 legislative session to clarify that such off-the-top, net-return, fund management fees should not be included in the annual appropriation, given their nature as a non-discretionary, investment expense.

RECOMMENDATION

Staff will likely recommend that the Committee approve this request at figure setting consistent with the recommendation made for a similar September 2018 interim supplemental request. Staff additionally recommends support for the State Land Board's and Investment Board's request for legislation that would eliminate the need for annual adjustments to this appropriation for an essentially non-discretionary investment expense calculated on total assets under investment.

DISCUSSION

The Public School Fund, established as a trust for the public schools of the State from public lands set aside for this purpose, is valued at about \$4.3 billion. Approximately \$1.0 billion is in liquid assets and the balance is in land and mineral rights. Historically the fund was only allowed to invest its liquid assets in bonds. The Public School Fund Investment Board was established in S.B. 16-035 (The Public School Fund) to generate increased returns through investments in diversified assets. As bonds mature and convert to cash, the Investment Board invests in statutory allowable investments which include "only mutual funds, index funds, and any other instrument that is not a direct investment in a corporation."

To date, the Investment Board has diversified available liquid assets totaling \$200.0 million and has another \$100.0 million in cash immediately available to be invested in diversified assets. Cash assets are expected to increase by an additional \$80.0 million over FY 2018-19. This includes approximately \$33.0 million in earnings from the State Land Board, \$7.0 million in marijuana excise tax revenues, and \$40.0 million in maturing bond proceeds and principal payments. For FY 2019-20, cash holdings are expected to increase by an additional \$135.0 million, including \$40.0 million in earnings from the State Land Board, \$8.0 million in marijuana excise tax revenues, and \$87.0 million in maturing bond proceeds and principal payments.

The \$315.0 million total to be invested in FY 2018-19 and FY 2019-20 could earn at least 2.0 percent more than the 1.8 percent it will earn in the Treasury Pool, where it resides until invested. The Treasury Pool is intended to be a highly liquid asset pool to provide for the daily cash needs of the State. The money in the Public School Fund is set aside in trust for perpetuity and does not need to be positioned for liquidity purposes. The 10-year average rate of return on a portfolio of 70 percent global equities and 30 percent investment grade bonds is 5.47 percent; and represents the goal or benchmark return for the Investment Board's diversified assets.

This request was submitted as a result of an unanticipated determination by the Office of the State Controller. That determination was that fund management fees calculated on total assets under management and paid on a "net-return" basis should be included in and paid out of the annual appropriation for administrative expenses for the Public School Fund Investment Board (Investment Board) located in the Department of Treasury budget. The current appropriation for Investment Board expenses is \$500,000. An interim supplemental was approved in September 2018 to increase the FY 2018-19 appropriation to \$800,000. The identified need for FY 2019-20 is \$1,760,000.

Representatives from the Investment Board, the State Land Board and the Department of Natural Resources (DNR) state that the administrative expenses line item was set at its current \$500,000 not anticipating that fund management fees would also be included or paid out of that appropriation. They state that it was assumed such fees would be treated simply as an annual net-return on investment, since such fees are not technically billed to and actively paid by an investor. Traditionally such fees are simply collected off-the-top annually, based on a percentage of assets under management, and a "net-return" is earned on the fund after management fees.

According to a 2017 study of fund fees by Morningstar, investors paid an average of 0.52 percent (or 52 basis points) for fund management. The Investment Board estimates a blended fund management rate of 0.45 percent (or 45 basis points) for fund management fees for a variety of investment vehicles.

Staff agrees that the determination by the Office of the State Controller appears to have been reasonably unanticipated at the time that S.B. 16-035 was contemplated and passed and that fund management fees were always anticipated as a part of the Investment Board's activities. Fund management fees calculated as a percentage of total assets under management are well understood in the world of financial investment.

Due to the nature of the fees annual growth due to the growth in assets under management, this line item will have to be adjusted annually in order to accommodate the increasing cost of fund management on a substantial and growing pool of assets. The State Land Board in the Department of Natural Resources with support from the Investment Board and the Department of the Treasury, will seek legislation in the 2019 legislative session to clarify that such off-the-top, net-return, fund management fees should not be included in the annual appropriation, given their nature as a non-discretionary expense. Conceptually, staff supports such a clarification to eliminate the annual adjustments necessary for the non-discretionary nature of fund management fees.

At this time, the Investment Board projects that it will require an additional \$1,260,000 in the administrative expenses appropriation to cover the fund management fees on total assets invested for FY 2019-20. Staff agrees with the projection and expects to recommend at figure setting that the Committee approve the request.

ISSUE: S.B. 18-200 AND PERA UPDATE

Senate Bill 18-200 (Eliminate Unfunded Liability in PERA) made changes to PERA's funding and cost components to enable PERA to achieve full funding for all divisions within 30 years. This issue provides an overview of the specifics included in S.B. 18-200 as well as actuarial projections as result of the bill's passage and included in PERA's 2017 Comprehensive Annual Financial Report (CAFR).

SUMMARY

- With passage of S.B. 18-200, PERA's 2017 CAFR projects the period to achieve full funding for the State Division at 27 years compared to 58 years reported in the 2016 CAFR and compared to 44 years and 45 years reported in the 2015 and 2016 CAFRs, respectively.
- Additionally, the Judicial Division is now projected to achieve full funding at 15 years as compared to 54 years; the Local Government Division is projected at 15 years as compared to 55 years; the Denver Public Schools (DPS) Division is projected at 17 years as compared to 56 years; and the School Division is projected at 30 years as compared to 78 years.
- PERA experienced an investment return of 18.1 percent in 2017; for the last three, five, 10, and 35 years, the annualized rate of return was 8.8, 9.5, 6.0, and 9.5 percent, respectively.
- PERA division trust funds have an aggregated funded ratio of 61 percent as of the end of 2017, up from 58 percent as of the end of 2016.
- PERA's signal light indicators are green for the State and School Divisions and dark green for the Local Government, Judicial, and DPS Divisions.

DISCUSSION

S.B. 18-200 OVERVIEW

Senate Bill 18-200 modified the hybrid defined benefit plan administered by the Colorado Public Employees' Retirement Association (PERA) with the goal of eliminating the unfunded actuarial accrued liability of each of PERA's divisions within 30 years. The bill creates ongoing state revenue reductions; ongoing state and local expenditure increases; and ongoing PERA revenue increases.

Changes to the defined benefit plan include the following:

- *DIRECT DISTRIBUTION*: On July 1, 2018, and on July 1 each year thereafter until each PERA division that receives a direct distribution is fully funded, the State Treasurer is required to issue a warrant to PERA in an amount equal to \$225.0 million to be paid from the General Fund or any other fund. PERA is required to allocate the direct distribution to the trust funds of each division of PERA, except for the Local Government Division, as it would an employer contribution, in a manner that is proportionate to the annual payroll of each division (State, Judicial, School, and DPS).

- *INCREASE IN MEMBER CONTRIBUTIONS:* On July 1, 2019, and on July 1, 2020, the monthly member contribution to PERA will increase by 0.75 percent of salary. On July 1, 2021, the monthly member contribution to PERA will increase by 0.5 percent of salary. When all increases are fully implemented, the total contribution will be 10.0 percent of salary each month for PERA members who are not state troopers and 12.0 percent each month for PERA members who are state troopers.
- *INCREASE IN EMPLOYER CONTRIBUTIONS:* On July 1, 2019, the monthly employer contribution to PERA on behalf of members will increase by 0.25 percent of salary; except that the increase does not apply to employers in the Local Government Division. The total increased contribution will be equal to 10.4 percent of salary each month for most PERA employers, 13.1 percent each month for PERA employers who employ state troopers, and 13.91 percent for PERA employers in the Judicial Division.
- *COST OF LIVING ADJUSTMENT (COLA) FOR ALL RETIREES, MEMBERS, AND INACTIVE MEMBERS:* For the years 2018 and 2019, the COLA is reduced from 2.0 percent to 0.0 percent. For each year thereafter, the COLA is 1.5 percent, unless it is adjusted pursuant to the automatic adjustment provision. In addition, benefit recipients whose effective date of retirement is on or after January 1, 2011, and who have not received a COLA on or before May 1, 2018, receive benefits for at least a 36-month period following retirement before receiving a COLA adjustment.
- *AUTOMATIC CONTRIBUTION, ANNUAL INCREASE, AND DIRECT DISTRIBUTION AMOUNT CHANGES:* When the blended total contribution (BTC) amount is less than 98.0 percent or greater than or equal to 110.0 percent of the blended total actuarially required contribution (BRTARC), also known or referred to as the actuarially determined employer contribution (ADEC or ADC) rate, provides automatic yearly adjustments to the following components so the fund remains on a path to pay off the unfunded liability within 30 years:
 - Increases or decreases by 0.5 percent yearly and up to 2.0 percent total on the employer contribution rate;
 - Increases or decreases by 0.5 percent yearly and up to 2.0 percent total on the member contribution rate;
 - Increases or decreases by 0.25 percent yearly and 0.5 percent total on the annual increase percentage (also known as the cost-of-living adjustment or COLA) for retirement benefits, with an annual increase percentage no greater than 2.0 percent; and
 - Increases or decreases by \$20.0 million yearly for the direct distribution to PERA, with a direct distribution not to exceed \$225.0 million.
- *HIGHEST AVERAGE SALARY (HAS):* For PERA members not in the Judicial Division hired on or after January 1, 2020, or who do not have 5 years of service credit as of January 1, 2020, the HAS calculation is modified to be based on an average of the highest annual salaries associated with 5 periods of 12 consecutive months of service with a base year, rather than 3 periods of 12 consecutive months of services with a base year. For Judicial Division members the HAS calculation is modified to be based on an average of the highest annual salaries associated with 3 periods of 12 consecutive months of service with a base year, rather than 12 consecutive months of service.

- *SERVICE RETIREMENT ELIGIBILITY FOR NEW MEMBERS:* For PERA members hired on or after January 1, 2020, the age and service requirements for full-service retirement benefits for most divisions is increased to age 64 with a minimum of 30 years of service credit, or for state troopers age 55 with a minimum of 25 years of service credit or any age with a minimum of 35 years of service credit. For PERA members who begin employment on or after January 1, 2020, a reduced service retirement benefit increase to 55 years with a minimum of 25 years of service credit; except that, for state troopers, the requirements are increased to 55 years with a minimum of 20 years of service credit.
- *DEFINITION OF SALARY:* For PERA members hired on or after July 1, 2019, amounts deducted from pay pursuant to a cafeteria plan or a qualified transportation plan are included in the definition of salary. For all PERA members, unused sick leave converted to cash payments is included in the definition of salary and insurance premiums paid by employers are not included in the definition of salary.
- *DEFINITION OF STATE TROOPER:* The definition of state trooper is expanded to include a county sheriff, undersheriff, deputy sheriff, noncertified deputy sheriff, or detention officer hired by a local government division employer, and a corrections officer I through IV hired by a state division employer, on or after January 1, 2020.
- *SENSITIVITY ANALYSIS:* The PERA Board is required to perform an annual sensitivity analysis to determine when model assumptions are meeting targets and achieving sustainability. The Board is required to deliver an annual report detailing the findings of the analysis to the Office of the Governor, the Joint Budget Committee, the Legislative Audit Committee, and the Finance Committees of the Senate and the House of Representatives.
- *TERMINATION OF AFFILIATION:* An employer in the Local Government Division that ceases operations or ceases to participate in PERA for any reason is deemed to have terminated its affiliation with PERA. Any such employer is required to fully fund its share of the unfunded liability of the defined benefit plan and its share of the unfunded liability of the Health Care Trust Fund. Such members may elect to have their member contributions credited to an alternative pension plan or refunded. In the absence of such election, the member contributions will remain with PERA.

Changes to the defined contribution plan include the following:

- *ELIGIBILITY TO PARTICIPATE IN DEFINED CONTRIBUTION PLAN:* Beginning January 1, 2019, the defined contribution plan is expanded to include members of the Local Government Division and State Division members in the state personnel system employed by a state college or university. A new member's participant account will receive the same employer contribution as received by current members of the defined contribution plan.
- *DEFINED CONTRIBUTION SUPPLEMENT:* Beginning January 1, 2021, employer contribution rates will be adjusted to include a defined contribution supplement. The defined contribution supplement for each division will be the employer contribution amount paid to defined contribution plan participant accounts, for employees hired on or after January 1, 2019, that would

have otherwise gone to the defined benefit trusts to pay down the unfunded liability, plus any defined benefit investment earnings thereon, expressed as a percentage of salary on which employer contributions have been made. The defined contribution supplement will reflect a dollar total for a completed year plus interest, to be collected by PERA employer, converted to a percentage of salary, and added to the standard employer contribution rate as a percentage of total salary.

In addition to the changes to the defined benefit and defined contribution plans administered by PERA, the Police Officers' and Firefighters' Pension Reform Commission was changed to the Pension Review Commission. The number of legislators on the Commission and the manner in which they are appointed was modified beginning in January 2019, and the Commission has oversight over both the Fire and Police Pension Association and PERA. A subcommittee of the Pension Review Commission consisting of legislative and non-legislative members was also created to study specified issues and to make recommendations to the commission.

AREA OF CONCERN – DEFINITION OF STATE TROOPER PROVISION

The Human Resources Director from the Department of Corrections has alerted staff that the Department of Corrections has a concern with the provision added which provides that correctional officers participate in PERA within the State Trooper designation. The State Trooper designation essentially provides for a 25-year career until retirement that is achieved through increased contribution rates; employer contributions are 2.7 percent greater and employee contributions are 2.0 percent greater than non-State Trooper members. The provision added in S.B. 18-200 provides for this State Trooper designation only for correctional officers who are hired on or after 2020.

No provision was added to allow current correctional officers and those hired before 2020 to participate in an actuarially fair or equivalent, graduated form of the designation. This leads to a potential situation in which correctional officers who have been hired since 2010 and are vested (five years in PERA) would likely choose to resign their positions, cash out their current PERA balance, and then re-apply to become correctional officers in 2020. Similarly, correctional officers hired before 2015 who are not yet vested, would wait until their PERA is vested and then do the same. Correctional officers hired after 2015, with no opportunity to become vested before 2020, may choose to remain until vested and then do the same or may immediately cash out and return in 2020.

With essentially one year remaining until January 2020, the Department is concerned that as correctional officers become aware that the State Patrol designation does not provide an opportunity for participation for correctional officers hired before 2020, it will create a particularly high turnover rate environment and lead to difficulty in recruiting until January 2020.

It is staff's understanding that this policy concept and provision that made it into S.B. 18-200, had been pursued as an independent policy change outside of the PERA recommendations that made up the majority of the bill. Additionally, this was a policy change that was not pursued by PERA. But this provision made it into S.B. 18-200 as a part of the grand bargain that became the bill. In that process, the basics of the policy change were included for future correctional officers only; but a transition for current correctional officers was not included.

While staff is not recommending that the Committee pursue legislation to resolve this concern, staff is recommending that the Committee have a conversation at the Department of Corrections hearing regarding the Department's concerns and efforts to seek resolution of this issue in the upcoming

session. Additionally, staff recommends that the Committee have a similar conversation with PERA regarding possible technical solutions for this concern.

PERA 2017 CAFR UPDATE

PERIOD TO FULL FUNDING

With the passage of S.B. 18-200, all divisions are projected to be fully funded within 30 years. The amortization period for each division is as follows:

- State Division – 27 years – a decrease of 31 years from 58 years at the end of 2016;
- School Division – 30 years – a decrease of 48 years from 78 years;
- Local Government Division – 15 years – a decrease of 40 years from 55 years;
- Judicial Division – 15 years – a decrease of 39 years from 54 years; and
- DPS Division – 17 years – a decrease of 39 years from 56 years.

FUNDED RATIO

PERA division trust funds have an aggregated funded ratio of 61 percent as of the end of 2017, up from 58 percent as of the end of 2016. Division funded ratios as of the end of 2017, include:

- State Division – 57.5 percent
- School Division – 59.4 percent
- Local Government Division – 79.5 percent
- Judicial Division – 72.4 percent
- DPS Division – 79.7 percent

INVESTMENT RETURN

For 2017, PERA experienced an investment return of 18.1 percent. PERA's annualized rate of return over extended periods include the following:

- 8.8 percent over three years;
- 9.5 percent over five years;
- 6.0 percent over 10 years; and
- 9.5 percent over 35 years.

PERA's investment returns can be expected to move with the market generally, although in recent years PERA has earned returns slightly higher than benchmarks and peer averages.

LONG-TERM RATE OF RETURN

PERA's current long-term rate of return assumption is set at 7.25 percent. This assumption was decreased from 7.5 percent by the PERA Board in November 2016. PERA anticipates its next review of the long-term rate of return at the end of 2019.

The following table outlines PERA's long-term rate of return (LTROR) and reported investment return, aggregate funded status, and State Division funded ratio and amortization period since 2010.

| PERA Reported - CY 2010-17 | | | | | |
|----------------------------|-------------|-------------------|------------------------|-----------------------------|-----------------------------------|
| CY | LTROR | Investment Return | Aggregate Funded Ratio | State Division Funded Ratio | State Division Years to Full Fund |
| 2017 | 7.25% | 18.1% | 61.3% | 57.5% | 27 |
| 2016 | 7.50%/7.25% | 7.3% | 58.1% | 54.6% | 58 |
| 2015 | 7.50% | 1.5% | 62.1% | 57.6% | 44 |
| 2014 | 7.50% | 5.7% | 62.3% | 57.8% | 45 |
| 2013 | 7.50% | 15.6% | 60.4% | 57.5% | 44 |
| 2012 | 8.00% | 12.9% | 61.9% | 59.2% | 36 |
| 2011 | 8.00% | 1.9% | 59.9% | 57.7% | 35 |
| 2010 | 8.00% | 14.0% | 64.7% | 62.8% | 28 |

SIGNAL LIGHT INDICATORS

PERA's signal light indicators are green for the State and School Divisions and dark green for the Local Government, Judicial, and DPS Divisions. Dark green represents 100-percent funded by 2041 (23 years) and green represents 100-percent funded by 2048 (30 years). PERA's other indicators include: Light green, representing full funding by 40 years; yellow, representing full funding by 50 years; orange, representing solvent but longer than 50 years for full funding; red, representing insolvent in more than 20 years; and dark red, representing insolvent within 20 years.

Appendix A: Number Pages

| | FY 2016-17 Actual | FY 2017-18 Actual | FY 2018-19 Appropriation | FY 2019-20 Request | Request vs. Appropriation |
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

DEPARTMENT OF THE TREASURY Walker Stapleton, State Treasurer

(1) ADMINISTRATION

Provides accounting, cash management, and investment services for the State as well as administrative services for the Treasury Department. Cash funds are the Unclaimed Property Trust Fund, Treasury Transactions Fee revenue, and the Charter School Financing Administrative Cash Fund.

| | | | | |
|---|------------------|------------------|------------------|------------------|
| Personal Services | <u>1,336,454</u> | <u>1,330,733</u> | <u>1,444,572</u> | <u>1,526,506</u> |
| FTE | 14.3 | 15.0 | 17.4 | 17.4 |
| General Fund | 383,498 | 377,777 | 491,616 | 573,550 |
| Cash Funds | 952,956 | 952,956 | 952,956 | 952,956 |
| Health, Life, and Dental | <u>237,461</u> | <u>255,011</u> | <u>309,908</u> | <u>320,546</u> |
| General Fund | 143,038 | 158,832 | 181,552 | 192,367 |
| Cash Funds | 94,423 | 96,179 | 128,356 | 128,179 |
| Short-term Disability | <u>3,280</u> | <u>3,432</u> | <u>3,444</u> | <u>3,677</u> |
| General Fund | 2,021 | 2,146 | 2,068 | 2,321 |
| Cash Funds | 1,259 | 1,286 | 1,376 | 1,356 |
| S.B. 04-257 Amortization Equalization Disbursement | <u>82,215</u> | <u>89,845</u> | <u>105,318</u> | <u>108,139</u> |
| General Fund | 50,392 | 54,627 | 63,186 | 68,232 |
| Cash Funds | 31,823 | 35,218 | 42,132 | 39,907 |
| S.B. 06-235 Supplemental Amortization Equalization Disbursement | <u>81,311</u> | <u>89,839</u> | <u>105,318</u> | <u>108,139</u> |
| General Fund | 49,809 | 54,621 | 63,186 | 68,232 |
| Cash Funds | 31,502 | 35,218 | 42,132 | 39,907 |

* Line item includes a decision item.

Appendix A: Number Pages

| | FY 2016-17 Actual | FY 2017-18 Actual | FY 2018-19 Appropriation | FY 2019-20 Request | Request vs. Appropriation |
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
| PERA Direct Distribution | <u>0</u> | <u>0</u> | <u>0</u> | <u>52,281</u> | |
| General Fund | 0 | 0 | 0 | 33,006 | |
| Cash Funds | 0 | 0 | 0 | 19,275 | |
| Salary Survey | <u>0</u> | <u>38,555</u> | <u>65,893</u> | <u>0</u> | |
| General Fund | 0 | 23,797 | 38,503 | 0 | |
| Cash Funds | 0 | 14,758 | 27,390 | 0 | |
| Merit Pay | <u>0</u> | <u>16,124</u> | <u>0</u> | <u>80,167</u> | |
| General Fund | 0 | 9,083 | 0 | 49,753 | |
| Cash Funds | 0 | 7,041 | 0 | 30,414 | |
| Workers' Compensation and Payment to Risk Management and Property Funds | <u>2,653</u> | <u>4,221</u> | <u>3,951</u> | <u>10,373</u> | |
| General Fund | 2,653 | 4,221 | 3,951 | 10,373 | |
| Operating Expenses | <u>126,420</u> | <u>138,683</u> | <u>180,481</u> | <u>180,481</u> | |
| General Fund | 126,420 | 138,683 | 180,481 | 180,481 | |
| Information Technology Asset Maintenance | <u>6,673</u> | <u>10,173</u> | <u>12,568</u> | <u>12,568</u> | |
| General Fund | 1,552 | 4,006 | 6,284 | 6,284 | |
| Cash Funds | 5,121 | 6,167 | 6,284 | 6,284 | |
| Legal Services | <u>52,574</u> | <u>38,541</u> | <u>125,802</u> | <u>329,735</u> | |
| General Fund | 27,327 | 19,271 | 62,901 | 164,868 | |
| Cash Funds | 25,247 | 19,270 | 62,901 | 164,867 | |
| Capitol Complex Leased Space | <u>57,670</u> | <u>66,982</u> | <u>61,657</u> | <u>53,992</u> | |
| General Fund | 57,670 | 66,982 | 61,657 | 53,992 | |

* Line item includes a decision item.

Appendix A: Number Pages

| | FY 2016-17 Actual | FY 2017-18 Actual | FY 2018-19 Appropriation | FY 2019-20 Request | Request vs. Appropriation |
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
| Payments to OIT | <u>44,493</u> | <u>65,282</u> | <u>58,582</u> | <u>77,188</u> * | |
| General Fund | 44,493 | 62,753 | 56,284 | 74,093 | |
| Cash Funds | 0 | 2,529 | 2,298 | 3,095 | |
| CORE Operations | <u>154,696</u> | <u>172,690</u> | <u>188,575</u> | <u>257,646</u> | |
| General Fund | 69,613 | 77,710 | 84,859 | 115,941 | |
| Cash Funds | 85,083 | 94,980 | 103,716 | 141,705 | |
| Charter School Facilities Financing Services | <u>6,200</u> | <u>6,577</u> | <u>5,000</u> | <u>7,500</u> | |
| Cash Funds | 6,200 | 6,577 | 5,000 | 7,500 | |
| Discretionary Fund | <u>1,343</u> | <u>2,388</u> | <u>5,000</u> | <u>5,000</u> | |
| General Fund | 1,343 | 2,388 | 5,000 | 5,000 | |
| Governors Office Set-Aside for Elected Officials | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | |
| General Fund | 0 | 0 | 0 | 0 | |
| TOTAL - (1) Administration | 2,193,443 | 2,329,076 | 2,676,069 | 3,133,938 | 17.1% |
| <i>FTE</i> | 14.3 | 15.0 | 17.4 | 17.4 | 0.0% |
| General Fund | 959,829 | 1,056,897 | 1,301,528 | 1,598,493 | 22.8% |
| Cash Funds | 1,233,614 | 1,272,179 | 1,374,541 | 1,535,445 | 11.7% |

* Line item includes a decision item.

Appendix A: Number Pages

| | FY 2016-17 Actual | FY 2017-18 Actual | FY 2018-19 Appropriation | FY 2019-20 Request | Request vs. Appropriation |
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

(2) UNCLAIMED PROPERTY PROGRAM

This program collects unclaimed property and attempts to locate and return it to the legal owners or heirs. Funding source is the Unclaimed Property Trust Fund.

| | | | | | |
|---|----------------|------------------|----------------|----------------|------|
| Personal Services | <u>863,533</u> | <u>868,993</u> | <u>888,864</u> | <u>918,794</u> | |
| FTE | 12.8 | 13.7 | 15.5 | 15.5 | |
| Cash Funds | 863,533 | 868,993 | 888,864 | 918,794 | |
| Operating Expenses | <u>174,654</u> | <u>318,391</u> | <u>336,619</u> | <u>336,619</u> | |
| Cash Funds | 174,654 | 318,391 | 336,619 | 336,619 | |
| Promotion and Correspondence | <u>197,591</u> | <u>192,487</u> | <u>200,000</u> | <u>200,000</u> | |
| Cash Funds | 197,591 | 192,487 | 200,000 | 200,000 | |
| Leased Space | <u>53,460</u> | <u>53,293</u> | <u>58,680</u> | <u>60,413</u> | |
| Cash Funds | 53,460 | 53,293 | 58,680 | 60,413 | |
| Contract Auditor Services | <u>844,359</u> | <u>1,716,373</u> | <u>800,000</u> | <u>800,000</u> | |
| Cash Funds | 844,359 | 1,716,373 | 800,000 | 800,000 | |
| TOTAL - (2) Unclaimed Property Program | 2,133,597 | 3,149,537 | 2,284,163 | 2,315,826 | 1.4% |
| FTE | <u>12.8</u> | <u>13.7</u> | <u>15.5</u> | <u>15.5</u> | 0.0% |
| Cash Funds | 2,133,597 | 3,149,537 | 2,284,163 | 2,315,826 | 1.4% |

* Line item includes a decision item.

Appendix A: Number Pages

| | FY 2016-17 Actual | FY 2017-18 Actual | FY 2018-19 Appropriation | FY 2019-20 Request | Request vs. Appropriation |
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

(3) SPECIAL PURPOSE

The expenditures in this section are included in the Long Bill for informational purposes only - they reflect continuous appropriations required by constitutional provisions or State statutes. The line items: reimburse local governments for property taxes foregone due to the Senior Citizen and Disabled Veteran Property Tax Exemption; allocate a portion of the Highway Users Tax Fund (HUTF) to local governments; and reimburse certain property taxes owed or paid for real and business personal property destroyed in a natural disaster. The General Fund appropriation for the Senior Citizen and Disabled Veteran Property Tax Exemption is exempt from the statutory limits on General Fund appropriations.

| | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|---|
| Senior Citizen and Disabled Veteran Property Tax Exemption | <u>136,390,808</u> | <u>148,000,000</u> | <u>162,806,461</u> | <u>156,310,738</u> | |
| General Fund | 136,390,808 | 148,000,000 | 162,806,461 | 156,310,738 | |
| Highway Users Tax Fund - County Payments | <u>208,067,347</u> | <u>216,547,660</u> | <u>215,623,312</u> | <u>233,269,254</u> | |
| Cash Funds | 208,067,347 | 216,547,660 | 215,623,312 | 233,269,254 | |
| Highway Users Tax Fund - Municipality Payments | <u>142,623,462</u> | <u>148,062,834</u> | <u>147,802,833</u> | <u>159,496,098</u> | |
| Cash Funds | 142,623,462 | 148,062,834 | 147,802,833 | 159,496,098 | |
| Property Tax Reimbursement for Property Destroyed by Natural Cause | <u>2,019</u> | <u>0</u> | <u>2,221,828</u> | <u>2,221,828</u> | |
| General Fund | 2,019 | 0 | 2,221,828 | 2,221,828 | |
| Lease Purchase of Academic Facilities Pursuant to Section 23-19.9-102, C.R.S. | <u>17,775,175</u> | <u>17,773,025</u> | <u>17,685,263</u> | <u>17,434,250</u> | |
| Reappropriated Funds | 17,775,175 | 17,773,025 | 17,685,263 | 17,434,250 | |
| Public School Fund Investment Board Pursuant to Section 22-41-102.5 C.R.S. | <u>0</u> | <u>199,166</u> | <u>500,000</u> | <u>1,760,000</u> | * |
| Cash Funds | 0 | 199,166 | 500,000 | 1,760,000 | |

* Line item includes a decision item.

Appendix A: Number Pages

| | FY 2016-17 Actual | FY 2017-18 Actual | FY 2018-19 Appropriation | FY 2019-20 Request | Request vs. Appropriation |
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
| S.B. 17-267 Collateralization Lease Purchase Payments | <u>0</u> | <u>0</u> | <u>37,500,000</u> | <u>75,500,000</u> | |
| General Fund | 0 | 0 | 9,000,000 | 25,500,000 | |
| Cash Funds | 0 | 0 | 28,500,000 | 50,000,000 | |
| Direct Distribution for Unfunded Actuarial Accrued PERA liability | <u>0</u> | <u>0</u> | <u>225,000,000</u> | <u>168,528,901</u> | |
| General Fund | 0 | 0 | 225,000,000 | 168,528,901 | |
| TOTAL - (3) Special Purpose | 504,858,811 | 530,582,685 | 809,139,697 | 814,521,069 | 0.7% |
| <i>FTE</i> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0%</u> |
| General Fund | 136,392,827 | 148,000,000 | 399,028,289 | 352,561,467 | (11.6%) |
| Cash Funds | 350,690,809 | 364,809,660 | 392,426,145 | 444,525,352 | 13.3% |
| Reappropriated Funds | 17,775,175 | 17,773,025 | 17,685,263 | 17,434,250 | (1.4%) |
| TOTAL - Department of the Treasury | 509,185,851 | 536,061,298 | 814,099,929 | 819,970,833 | 0.7% |
| <i>FTE</i> | <u>27.1</u> | <u>28.7</u> | <u>32.9</u> | <u>32.9</u> | <u>0.0%</u> |
| General Fund | 137,352,656 | 149,056,897 | 400,329,817 | 354,159,960 | (11.5%) |
| Cash Funds | 354,058,020 | 369,231,376 | 396,084,849 | 448,376,623 | 13.2% |
| Reappropriated Funds | 17,775,175 | 17,773,025 | 17,685,263 | 17,434,250 | (1.4%) |

* Line item includes a decision item.

APPENDIX B

RECENT LEGISLATION AFFECTING DEPARTMENT BUDGET

2017 SESSION BILLS

S.B. 17-254 (LONG BILL): General appropriations act for FY 2017-18. Includes provisions modifying FY 2016-17 appropriations to the Department.

S.B. 17-267 (SUSTAINABILITY OF RURAL COLORADO): Identifies the amount of reimbursement made by the State to local governments for exempted property taxes pursuant to Section 3.5 of Article X of the State Constitution (Senior Citizen and Disabled Veterans Property Tax Exemption) as a reasonable method to make required refunds of excess state revenues pursuant to Section 20 of Article X of the State Constitution (TABOR). For any state fiscal year commencing on or after July 1, 2017, for which state revenues, as defined in Section 24-77-103.6 (6)(c), C.R.S., exceed the excess state revenues cap as defined in Section 24-77-103.6 (6)(b)(I)(C) or (6)(b)(I)(D), C.R.S., and are required to be refunded in accordance with Section 20 of Article X of the State Constitution, the lesser of all reimbursement paid by the state treasurer to each county treasurer as required by Section 39-3-207 (4), C.R.S. for the property tax year that commenced during the state fiscal year, or an amount of such reimbursement equal to the amount of excess state revenues for the state fiscal year that are required to be refunded, is a refund of such excess state revenues. The bill also requires the Treasurer to make lease purchase payments, which can be found in the Special Purpose Division above. For more information, see the corresponding bill description in the "Recent Legislation" section at the end of Part III of the Department of Health Care Policy and Financing.

2018 SESSION BILLS

S.B. 18-200 (ELIMINATE UNFUNDED LIABILITY IN PERA): Modifies the hybrid defined benefit plan administered by the Colorado Public Employees' Retirement Association (PERA) with the goal of eliminating the unfunded actuarial accrued liability of each of PERA's divisions within 30 years. The bill creates ongoing state revenue reductions; ongoing state and local expenditure increases; and ongoing PERA revenue increases. Changes to the defined benefit plan include the following:

- *DIRECT DISTRIBUTION:* On July 1, 2018, and on July 1 each year thereafter until each PERA division that receives a direct distribution is fully funded, the State Treasurer is required to issue a warrant to PERA in an amount equal to \$225.0 million to be paid from the General Fund or any other fund; the Governor's Office of State Planning and Budgeting may include funding sources other than the General Fund in the Governor's annual budget request. PERA is required to allocate the direct distribution to the trust funds of each division of PERA, except for the Local Government Division, as it would an employer contribution, in a manner that is proportionate to the annual payroll of each division.
- *INCREASE IN MEMBER CONTRIBUTIONS:* On July 1, 2019, and on July 1, 2020, the monthly member contribution to PERA will increase by 0.75 percent of salary. On July 1, 2021, the monthly member contribution to PERA will increase by 0.5 percent of salary. When all increases are fully implemented, the total contribution will be 10.0 percent of salary each month for PERA members

who are not state troopers and 12.0 percent each month for PERA members who are state troopers.

- *INCREASE IN EMPLOYER CONTRIBUTIONS:* On July 1, 2019, the monthly employer contribution to PERA on behalf of members will increase by 0.25 percent of salary; except that the increase does not apply to employers in the Local Government Division. The total increased contribution will be equal to 10.4 percent of salary each month for most PERA employers, 13.1 percent each month for PERA employers who employ state troopers, and 13.91 percent for PERA employers in the Judicial Division.
- *COST OF LIVING ADJUSTMENT (COLA) FOR ALL RETIREES, MEMBERS, AND INACTIVE MEMBERS:* For the years 2018 and 2019, the COLA is reduced from 2.0 percent to 0.0 percent. For each year thereafter, the COLA is 1.5 percent, unless it is adjusted pursuant to the automatic adjustment provision. In addition, benefit recipients whose effective date of retirement is on or after January 1, 2011, and who have not received a COLA on or before May 1, 2018, receive benefits for at least a 36-month period following retirement before receiving a COLA adjustment.
- *AUTOMATIC CONTRIBUTION, ANNUAL INCREASE, AND DIRECT DISTRIBUTION AMOUNT CHANGES:* When the blended total contribution (BTC) amount is less than 98.0 percent of the blended total actuarially required contribution (BRTARC), provides automatic yearly adjustments to the following components so the fund remains on a path to pay off the unfunded liability within 30 years:
 - Up to 0.5 percent and up to 2.0 percent total on the employer contribution rate;
 - Up to 0.5 percent and up to 2.0 percent total on the member contribution rate;
 - Up to 0.25 percent yearly and 0.5 percent total on the annual increase percentage (also known as the cost-of-living adjustment or COLA) for retirement benefits; and
 - Up to \$20.0 million for the direct distribution to PERA.

The automatic adjustment provision similarly requires decrease adjustments when the BTC amount is greater than or equal to 110.0 percent of the BRTARC. The BTC represents the total contribution or its equivalent provided by the automatic adjustment components. The BRTARC represents the total actuarial required contribution or ARC, which represents a full annual payment to enable the unfunded liability to be paid within 30 years, as provided by the automatic adjustment components.

- *HIGHEST AVERAGE SALARY (HAS):* For PERA members not in the Judicial Division hired on or after January 1, 2020, or who do not have 5 years of service credit as of January 1, 2020, the HAS calculation is modified to be based on an average of the highest annual salaries associated with 5 periods of 12 consecutive months of service with a base year, rather than 3 periods of 12 consecutive months of services with a base year. For Judicial Division members the HAS calculation is modified to be based on an average of the highest annual salaries associated with 3 periods of 12 consecutive months of service with a base year, rather than 12 consecutive months of service.
- *SERVICE RETIREMENT ELIGIBILITY FOR NEW MEMBERS:* For PERA members hired on or after January 1, 2020, the age and service requirements for full-service retirement benefits for most divisions is increased to age 64 with a minimum of 30 years of service credit, or for state troopers age 55 with a minimum of 25 years of service credit or any age with a minimum of 35 years of service credit. For PERA members who begin employment on or after January 1, 2020, a reduced service retirement benefit increase to 55 years with a minimum of 25 years of service credit; except that, for state troopers, the requirements are increased to 55 years with a minimum of 20 years of service credit.

- *DEFINITION OF SALARY:* For PERA members hired on or after July 1, 2019, amounts deducted from pay pursuant to a cafeteria plan or a qualified transportation plan are included in the definition of salary. For all PERA members, unused sick leave converted to cash payments is included in the definition of salary and insurance premiums paid by employers are not included in the definition of salary.
- *DEFINITION OF STATE TROOPER:* The definition of state trooper is expanded to include a county sheriff, undersheriff, deputy sheriff, noncertified deputy sheriff, or detention officer hired by a local government division employer, and a corrections officer classified as I through IV hired by a state division employer, on or after January 1, 2020.
- *SENSITIVITY ANALYSIS:* The PERA Board is required to perform an annual sensitivity analysis to determine when model assumptions are meeting targets and achieving sustainability. The Board is required to deliver an annual report detailing the findings of the analysis to the Office of the Governor, the Joint Budget Committee, the Legislative Audit Committee, and the Finance Committees of the Senate and the House of Representatives.
- *TERMINATION OF AFFILIATION:* An employer in the Local Government Division that ceases operations or ceases to participate in PERA for any reason is deemed to have terminated its affiliation with PERA. Any such employer is required to fully fund its share of the unfunded liability of the defined benefit plan and its share of the unfunded liability of the Health Care Trust Fund. Such members may elect to have their member contributions credited to an alternative pension plan or refunded. In the absence of such election, the member contributions will remain with PERA.

Changes to the defined contribution plan include the following:

- *ELIGIBILITY TO PARTICIPATE IN DEFINED CONTRIBUTION PLAN:* Beginning January 1, 2019, the defined contribution plan is expanded to include members of the Local Government Division and State Division members in the state personnel system employed by a state college or university. A new member's participant account will receive the same employer contribution as received by current members of the defined contribution plan.
- *DEFINED CONTRIBUTION SUPPLEMENT:* Beginning January 1, 2021, employer contribution rates will be adjusted to include a defined contribution supplement. The defined contribution supplement for each division will be the employer contribution amount paid to defined contribution plan participant accounts that would have otherwise gone to the defined benefit trusts to pay down the unfunded liability, plus any defined benefit investment earnings thereon, expressed as a percentage of salary on which employer contributions have been made. The employer contribution amounts only include contributions made on behalf of eligible employees who commence employment on or after January 1, 2019.

In addition to the changes to the defined benefit and defined contribution plans administered by PERA, the Police Officers' and Firefighters' Pension Reform Commission is changed to the Pension Review Commission. The number of legislators on the Commission and the manner in which they are appointed is modified beginning in January 2019, and the Commission has oversight over both the Fire and Police Pension Association and PERA. A subcommittee of the Pension Review Commission consisting of legislative and non-legislative members is also created to study specified issues and to make recommendations to the commission.

H.B. 18-1169 (SUPPLEMENTAL BILL): Modifies FY 2017-18 appropriations to the Department.

H.B. 18-1322 (LONG BILL): General appropriations act for FY 2018-19.

APPENDIX C FOOTNOTES AND INFORMATION REQUESTS

UPDATE ON LONG BILL FOOTNOTES

There were no Department footnotes from FY 2018-19.

UPDATE ON REQUESTS FOR INFORMATION

1. Department of the Treasury, Administration – The State Treasurer is requested to submit an annual report to the Joint Budget Committee concerning the performance of the State's investments. The report should include comparisons to relevant benchmarks and a detailed discussion of the benchmarks. This report should be submitted as a part of the State Treasurer's annual budget request.

COMMENT: The State Treasurer included the requested report as part of the State Treasurer's annual budget request. A copy of the report follows.

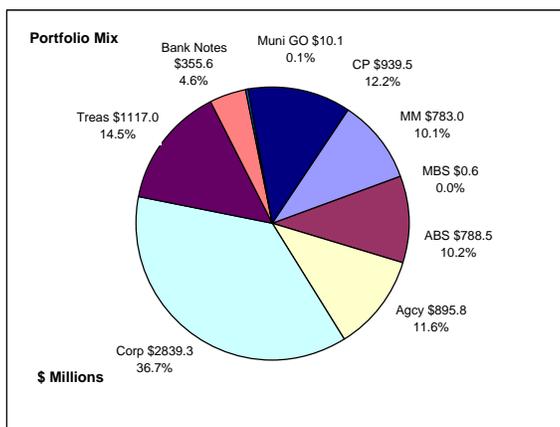
2. Department of the Treasury, Unclaimed Property Program – The State Treasurer is requested to submit an annual report to the Joint Budget Committee concerning the Department's progress in implementing the new information systems (KAPS, LexisNexis) for which the Department has received funding; and on the workload measures these systems are intended to improve. The report should be submitted as a part of the State Treasurer's annual budget request and should include but need not be limited to annual comparisons of the following:

- Average number of claims processed per year, by claim type (A, B, C, and D);
- Average number of contacts per claim;
- Average time per contact; and
- Total value of each claim type (A, B, C, and D) per year.

COMMENT: The State Treasurer included the requested report as part of the State Treasurer's annual budget request. A copy of the report follows.

**Department of Treasury
Responses to Requests for Information
FY 2019-20 Budget Request**

Colorado Treasury Pool June 30, 2018



Portfolio Value

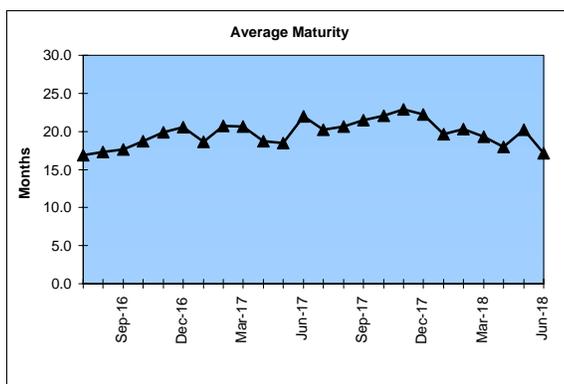
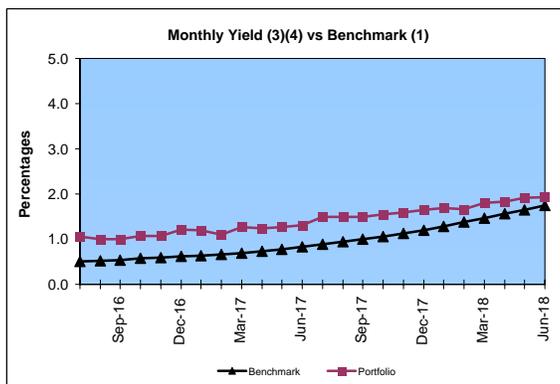
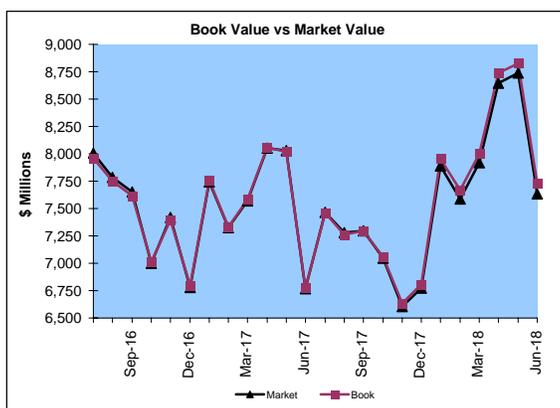
Market Value \$7,635.8 Million
Book Value \$7,729.4 Million

Yield and Average Maturity

Portfolio Book Yield 1.7%
Portfolio Average Maturity 18.0 Months

Portfolio Quality

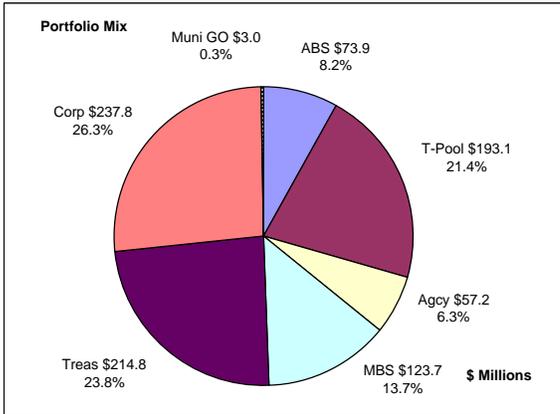
| | A1 / P1 | AAA | AA | A | BBB | BB | B | Other | Portfolio Percent |
|-------------------------|--------------|--------------|--------------|--------------|-------------|----|---|--------------|-------------------|
| Asset Backed | | 100.0% | | | | | | | 10.2% |
| Corporates | | 2.3% | 17.1% | 76.1% | 4.5% | | | | 36.7% |
| Mortgage Securities | | | 100.0% | | | | | | 0.0% |
| Commercial Paper | 100.0% | | | | | | | | 12.2% |
| Treasuries | | | 100.0% | | | | | | 14.5% |
| Federal Agencies | | 1.1% | 98.9% | | | | | | 11.6% |
| Bank Notes | | 8.8% | 91.2% | | | | | | 4.6% |
| Muni GOs | | | 100.0% | | | | | | 0.1% |
| Certificates of Deposit | | | | | | | | | |
| Money Market Funds | | | | | | | | 100.0% | 10.1% |
| Total Portfolio | 12.2% | 11.6% | 36.5% | 27.9% | 1.7% | | | 10.1% | 100.0% |



| | \$ Millions | | | Performance Benchmarks (2) | |
|----------------|-------------------|--------------------|------------|----------------------------|--|
| | Average Portfolio | Realized Income | Book Yield | | |
| FY '18 YTD | 7,744.9 | 130.5 ⁴ | 1.7% | 1.8% | |
| Last 12 months | 7,744.9 | 130.5 | 1.7% | 1.8% | |
| FY '17 | 7,635.0 | 87.8 ³ | 1.2% | 0.8% | |
| FY '16 | 7,972.4 | 77.0 | 1.0% | 0.5% | |
| FY '15 | 7,661.9 | 79.2 | 1.0% | 0.2% | |
| FY '14 | 7,842.0 | 77.4 | 1.0% | 0.1% | |
| FY '13 | 7,157.7 | 78.3 | 1.1% | 0.2% | |
| Avg FY '13-'17 | 7,653.8 | 79.9 | 1.0% | 0.4% | |

- (1) 12 month moving average of the constant maturity yield on the 1 year Treasury note
- (2) 12 month moving average of the constant maturity yield on the 1 year Treasury note at end of period
- (3) Excludes \$80K in net gains for FYTD 2017
- (4) Excludes \$14K in net losses for FYTD 2018

Colorado Public School Permanent Fund *
June 30, 2018



Portfolio Value

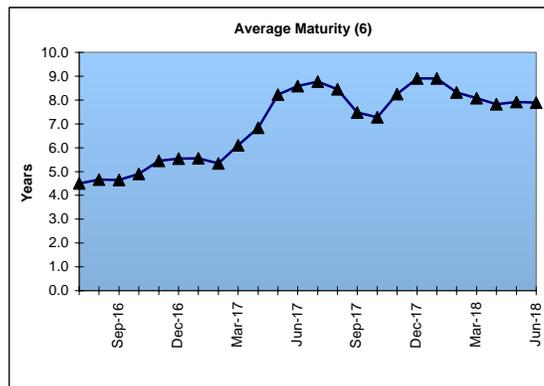
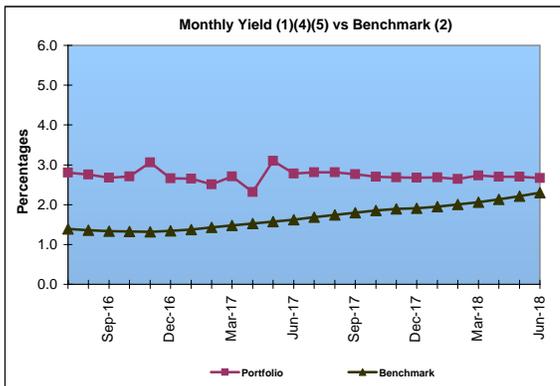
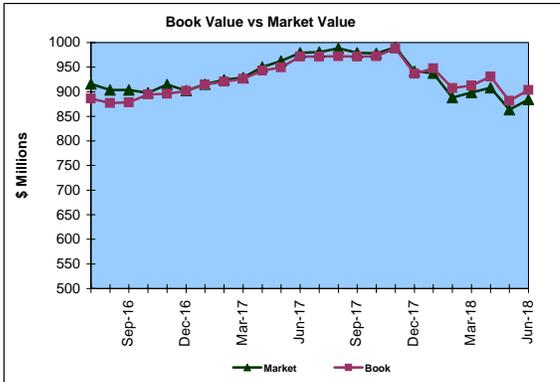
Market Value \$883.9 Million
Book Value \$903.5 Million

Yield and Average Maturity

Portfolio Book Yield 2.5%
Portfolio Average Maturity 7.8 Yrs

Portfolio Quality

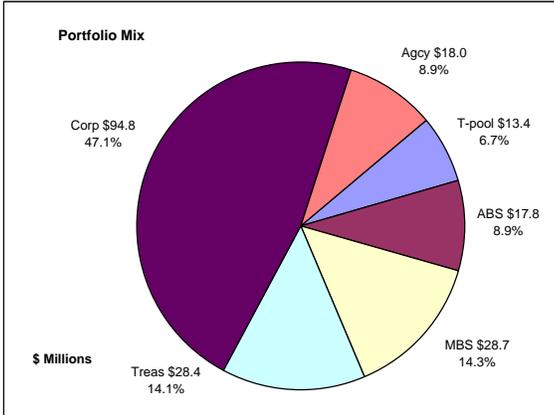
| | A1 / P1 | AAA | AA | A | BBB | BB | B | Other | Portfolio Percent |
|---------------------|---------|--------|--------|-------|-------|------|------|-------|-------------------|
| Asset Backed | | 100.0% | | | | | | | 8.2% |
| Corporates | | 7.6% | 35.5% | 35.6% | 21.3% | | | | 26.3% |
| Mortgage Securities | | | 97.1% | | | | | 2.9% | 13.7% |
| Treasuries | | | 100.0% | | | | | | 23.8% |
| Federal Agencies | | | 100.0% | | | | | | 6.3% |
| Muni GOs | | | 100.0% | | | | | | 0.3% |
| T-Pool Combined | 12.2% | 11.6% | 36.5% | 27.9% | 1.7% | 0.0% | 0.0% | 10.1% | 21.4% |
| Total Portfolio | 2.6% | 12.6% | 60.9% | 15.3% | 6.0% | | | 2.6% | 100.0% |



| | \$ Millions | | Book Yield | Performance Benchmarks (3) |
|----------------|-------------------|-------------------|------------|----------------------------|
| | Average Portfolio | Realized Income | | |
| FY '18 YTD | 938.0 | 23.4 ⁵ | 2.5% | 2.3% |
| Last 12 months | 938.0 | 23.4 | 2.5% | 2.3% |
| FY '17 | 902.4 | 21.6 ⁴ | 2.4% | 1.6% |
| FY '16 | 835.1 | 21.7 | 2.6% | 1.4% |
| FY '15 | 739.8 | 22.1 | 3.0% | 1.6% |
| FY '14 | 668.8 | 21.6 | 3.2% | 1.6% |
| FY '13 | 622.2 | 22.4 | 3.6% | 0.8% |
| Avg FY '13-'17 | 753.7 | 21.9 | 3.0% | 1.4% |

* Represents bond portion only; \$150.5 million in investments managed externally are excluded
 (1) Does not include State Treasury Pool cash balances in calculation.
 (2) Latest 12 month moving average of the constant maturity yield on the 5 year Treasury note
 (3) Latest 12 month moving average of the constant maturity yield on the 5 year Treasury note at end of period
 (4) Excludes \$4.15 million in net gains for FYTD 2017
 (5) Excludes \$1K in net gains for FYTD 2018
 (6) Does not include State Treasury Pool cash balances in calculation as of April 2017

Unclaimed Property Tourism Fund June 30, 2018



Portfolio Value

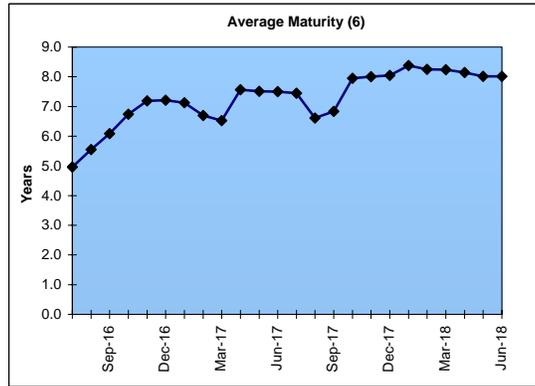
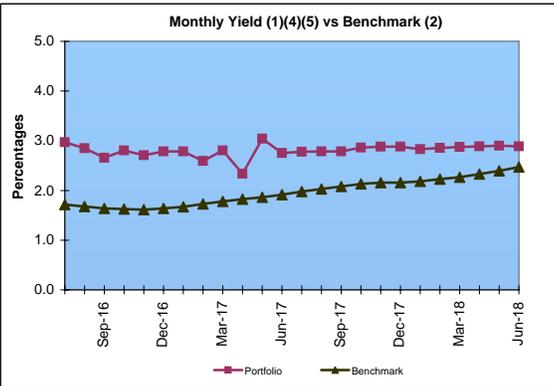
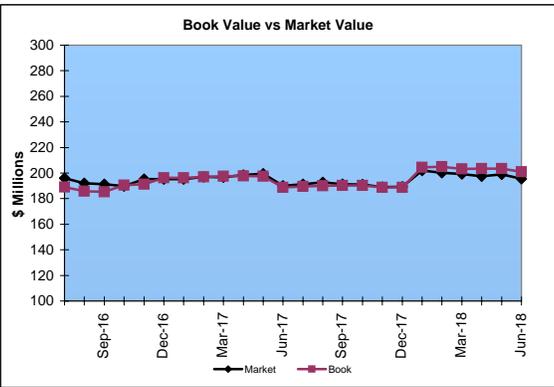
Market Value \$195.6 Million
Book Value \$201.1 Million

Yield and Average Maturity

Portfolio Book Yield 2.7%
Portfolio Average Maturity 8.1 Yrs

Portfolio Quality

| | A1 / P1 | AAA | AA | A | BBB | BB | B | Other | Portfolio Percent |
|---------------------|---------|-------|--------|-------|------|------|------|-------|-------------------|
| Asset Backed | | | 100.0% | | | | | | 8.9% |
| Corporates | | 3.2% | 18.1% | 70.3% | 8.4% | | | | 47.1% |
| Federal Agencies | | | 100.0% | | | | | | 8.9% |
| Mortgage Securities | | | 100.0% | | | | | | 14.3% |
| Treasuries | | | 100.0% | | | | | | 14.1% |
| T-Pool Combined | 12.2% | 11.6% | 36.5% | 27.9% | 1.7% | 0.0% | 0.0% | 10.1% | 6.7% |
| Total Portfolio | 0.8% | 11.1% | 48.3% | 35.0% | 4.1% | | | 0.7% | 100.0% |



| | Average Portfolio | Realized Income | Book Yield | Performance Benchmarks (3) |
|----------------|-------------------|------------------|------------|----------------------------|
| FY '18 YTD | 197.9 | 5.4 ⁵ | 2.7% | 2.5% |
| Last 12 months | 197.9 | 5.4 | 2.7% | 2.5% |
| FY '17 | 192.1 | 4.9 ⁴ | 2.6% | 1.9% |
| FY '16 | 169.5 | 4.6 | 2.7% | 1.8% |
| FY '15 | 153.7 | 4.6 | 3.0% | 2.0% |
| FY '14 | 136.9 | 4.3 | 3.1% | 2.2% |
| FY '13 | 122.9 | 4.1 | 3.3% | 1.2% |
| Avg FY '13-'17 | 155.0 | 4.5 | 2.9% | 1.8% |

- (1) Does not include State Treasury Pool cash balances in calculation.
- (2) 12 month moving average of the constant maturity yield on the 7 year Treasury note
- (3) 12 month moving average of the constant maturity yield on the 7 year Treasury note at end of period
- (4) Excludes \$353K in net gains for FYTD 2017
- (5) Excludes \$39K in net gains for FYTD 2018
- (6) Does not include State Treasury Pool cash balances in calculation as of April 2017

The new KAPS information system for the Unclaimed Property program went live on May 22, 2017. The FY 2017-18 figures below represent the first full year operating under this new system. Claims processed for the fiscal year increased from 17,091 (FY 2016-17) to 20,047 (FY 2017-18), or a 17.3% increase in productivity. We anticipate continued improvement in the next fiscal year.

| Claim Type | Average # of Claims Processed | Average # of Contacts per Claim | Average Time per Contact (minutes) | Total Value of Claims |
|-------------------|--------------------------------------|--|---|------------------------------|
| A | 5,012 | 1 | 7 | \$343,830 |
| B | 8,019 | 2 | 6 | \$3,858,985 |
| C | 6,014 | 3 | 7 | \$9,859,829 |
| D | 1,002 | 3 | 8 | \$16,710,134 |

APPENDIX D

DEPARTMENT ANNUAL PERFORMANCE REPORT

Pursuant to Section 2-7-205 (1)(a)(I), C.R.S., by November 1 of each year, the Department of the Treasury is required to publish an **Annual Performance Report** for the *previous fiscal year* by November 1 of each year. This report is to include a summary of the Department's performance plan and most recent performance evaluation for the designated fiscal year. In addition, pursuant to Section 2-7-204 (3)(a)(I), C.R.S., the Department is required to develop a **Performance Plan** and submit the plan for the *current fiscal year* to the Joint Budget Committee and appropriate Joint Committee of Reference by July 1 of each year.

The FY 2017-18 Annual Performance Report and FY 2018-19 Performance Plan for the Department of the Treasury are unavailable as of the date of this briefing. The Committee may wish to request an explanation as to why these documents were not available.