COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE

FY 2012-13 STAFF BUDGET BRIEFING

DEPARTMENT OF TREASURY

JBC Working Document - Subject to Change
Staff Recommendation Does Not Represent Committee Decision

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FY 2012-13 BUDGET BRIEFING
STAFF PRESENTATION TO THE JOINT BUDGET COMMITTEE

DEPARTMENT OF TREASURY

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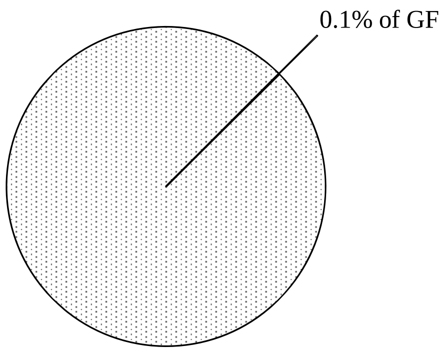
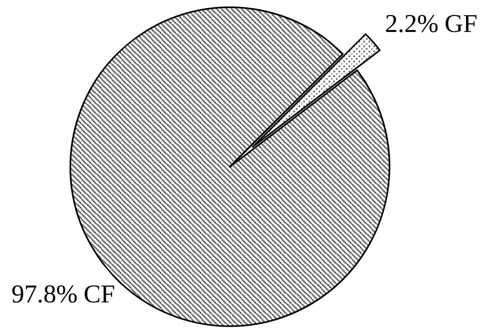
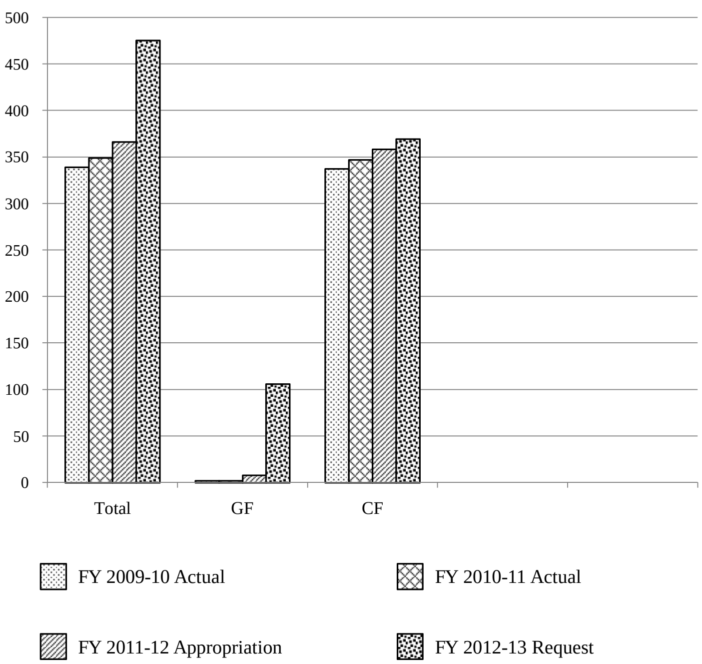


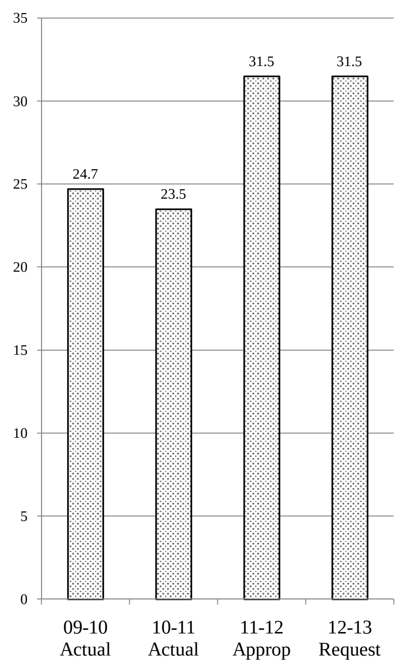
Department Funding Sources



Budget History
(Millions of Dollars)

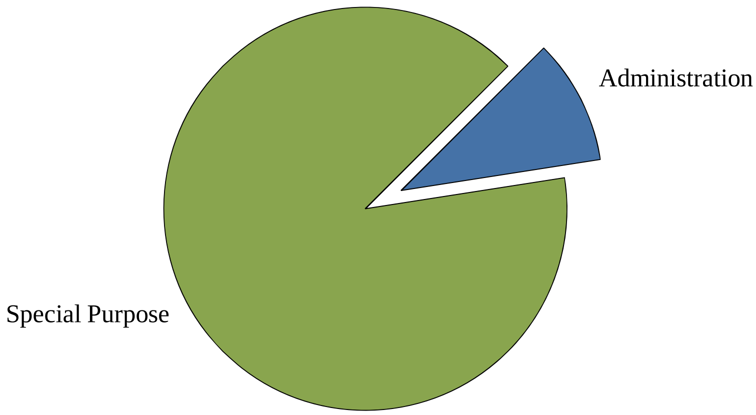


FTE History

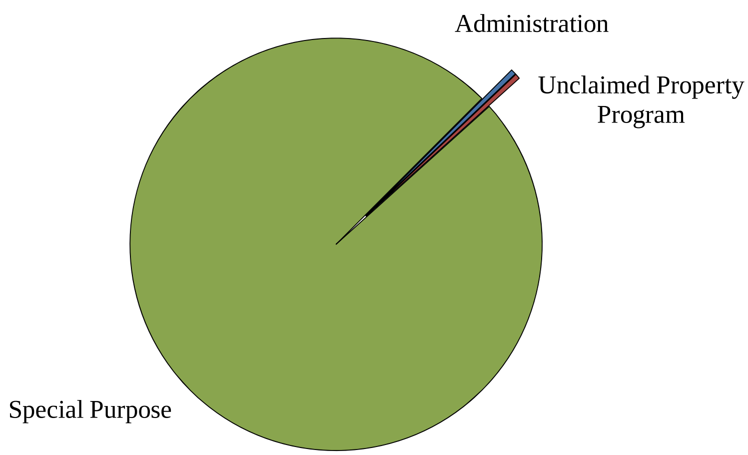


Unless otherwise noted, all charts are based on the FY 2011-12 appropriation.

Distribution of General Fund by Division



Distribution of Total Funds by Division



FY 2012-13 Joint Budget Committee Staff Budget Briefing
Department of Treasury

DEPARTMENT OVERVIEW

Key Responsibilities

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 to local governments reimbursement for the Senior Citizen and Disabled Veteran Property Tax Exemption reimbursements.
- Makes loans to elderly individuals and military personnel through the Property Tax Deferral Program.
- Transfers moneys to the Fire and Police Pension Association for local "old hire" plans.
- Transmits moneys from the Unclaimed Property Trust Fund to CoverColorado.

Factors Driving the Budget

The State Treasurer provides banking and investment services for all funds deposited with the State Treasury. While maintaining sufficient funds in cash accounts to meet the State's daily cash needs, deposits are invested in statutorily authorized investments. The income earned on investments augments the State's revenues from taxes and fees to decrease the tax burden on Colorado citizens. The Treasury Department consists of three sections, Administration, the Unclaimed Property Division, and a Special Purpose unit.

In addition to overall management of the Department, the Administration section is responsible for accounting, cash management, and investments. The Investments section manages all the State's investment portfolios, including: The Treasurer's Pooled Funds; the Public School Permanent Fund; the Major Medical Insurance Fund; Colorado State Education Fund; the Unclaimed Property Trust Fund; and the Unclaimed Property Tourism Promotion Trust Fund.

The Unclaimed Property Division is established to take custody of dormant or abandoned property and return the property to the rightful owners or heirs. Administration of the program is funded through the Unclaimed Property Trust Fund, while the property returned comes from either the Unclaimed Property Trust Fund or the Unclaimed Property Tourism Fund. In FY 2010-11, the Unclaimed Property Division returned $23.0 million to the rightful owners, and since the program's inception, it has returned nearly $250 million.

The Special Purpose Division transfers or disburses moneys to local governments and other authorized recipients of state funds for the following programs: The Senior Citizen and Disabled Veterans Property Tax Exemption from the General Fund; CoverColorado from the Unclaimed Property Trust Fund; State payments to the "Old Hire" fire and police pension plans from the General Fund (Exempt); and disbursements of Highway Users Tax Fund proceeds to the counties and municipalities in the State.

These programs, which are created in the State Constitution or statutes, are appropriated in the Department of the Treasury Section of the Long Bill, but are "pass-through" programs where the Treasury disburses or transfers these moneys, but does not administer the programs. The programs are described below.

Senior Citizen and Disabled Veteran Property Tax Exemption

Article X, Section 3.5 of the Colorado Constitution, approved by voters in November 2000 and implemented by Sections 39-3-201 to 208, C.R.S., grants a property tax exemption to qualifying senior citizens and disabled veterans. This provision exempts 50 percent of the first $200,000 of actual home value. The State Treasurer is required to reimburse local governments for the resulting lost property tax revenues.

The exemption applies if (a) the property owner-occupier is sixty-five years of age or older (as of the assessment date) and has occupied the property as a primary residence for the past ten years; or (b) the owner-occupier is the spouse or surviving spouse of an owner-occupier who previously qualified for the exemption. Pursuant to the passage of Referendum E, beginning in tax year 2007, the exemption also applies if the property owner-occupier is a disabled veteran (100 percent permanent service-connected disability) as of the assessment date.

The constitution grants the General Assembly the power to raise or lower the maximum amount of residence value that is exempt from taxation. For tax year 2002, the first year this exemption was made available, the exemption was limited to the first $200,000 of actual residence value. The General Assembly lowered this amount to $0 for tax years 2003, 2004, and 2005, and again for tax years 2009 (S.B. 09-276), 2010, and 2011 (S.B. 10-190), thereby eliminating the associated state expenditures for fiscal years 2003-04, 2004-05, 2005-06, and for fiscal years 2009-10, 2010-11, and 2011-12.

These payments are subject to the TABOR limitation on fiscal year spending[1], but are not subject to the statutory limit on General Fund appropriations. The costs associated with the exemption are treated outside of the statutory limit and are not built into the funding base used to calculate the limit for subsequent fiscal years. Estimated General Fund expenditures are included in the Department of Treasury's budget for informational purposes.

Senior Citizen and Disabled Veteran Property Tax Exemption						
	FY 07-08 Actual.	FY 08-09 Actual	FY 09-10 Actual /a	FY 2010-11 Actual /b	FY 2011-12 Estimated /b	FY 2012-13 Projected
County Reimbursement for Tax Exemption	$79,828,168	$85,586,694	$1,335,704	$1,578,459	$1,700,000	$95,900,000
Number of Exemptions Granted	157,099	165,596	3,122	3,012	N/A	N/A
Average Property Tax Exempted	$508	$517	$428	$524	N/A	N/A
Percent of Residences Granted Exemption	8.9%	9.3%	0.2%	0.2%	N/A	N/A
Actual Value Exempted ($ millions)	$13,018.4	$13,788.2	$211.2	$249.9	N/A	N/A
Assessed Value Exempted ($ millions)	$1,036.3	$1,097.5	$16.8	$19.9	N/A	N/A

/a Pursuant to S.B. 09-276, the exemption for senior citizens was suspended for FY 2009-10. The figures for FY 2009-10 represent the exemptions taken by persons eligible due to their status as disabled veterans.

/b Pursuant to S.B. 10-190, the exemption for senior citizens was suspended for FY 2010-11 and FY 2011-12. The projections are based on the estimate included in the Legislative Council Staff September 2010 revenue forecast and is limited to those persons eligible for the exemption due to their status as disabled veterans.

CoverColorado

Colorado does not require insurance companies that offer individual health coverage to accept everyone who applies, regardless of their health status. The General Assembly created a program in 1990 (now called CoverColorado) to offer health insurance to those "high risk" individuals who are unable to obtain health insurance except at prohibitive rates or with restrictive exclusions.

Until May 1, 2008, the program was funded from premiums, special fees assessed against insurers, gifts, grants, and donations, and with transfers from the Unclaimed Property Fund. Prior to the

[1] The provision specified that voter approval of the measure constituted a voter-approved revenue change, thereby allowing the TABOR limit for FY 2001-02 to increase by $44.1 million and that such an amount should be included for the purpose of calculating subsequent fiscal year spending limits. However, by the time the State was required to pay the first year reimbursement in April 2003, state revenues no longer exceeded the TABOR limit. Thus, this measure never increased the State's TABOR limit.

passage of H.B. 08-1390, it was estimated that the increasing needs of the program would have depleted the Unclaimed Property Fund within five years.

In the 2008 session, the General Assembly passed House Bills 08-1309 and 08-1390 to address the deficits for CoverColorado. H.B. 08-1309 extended the state's authority to impose assessments against insurance carriers to help fund the program, which had been subject to sunset. H.B. 08-1390 changed the funding structure of the program to: 25 percent from the Unclaimed Property Fund; up to 25 percent from special fees assessed against insurers; and 50 percent from premiums, grants, donations, and other available funds.

In addition, the bills created a task force to develop a plan to fund CoverColorado for at least ten years, considering the following:

- The anticipated enrollment growth of the program;
- The long-term viability of using existing funding sources;
- Increasing the premium tax credit for donations to the program;
- Revising the methods, administration, and collection of the assessment;
- Creating an all-payer system; and
- Reducing claims cost to the program.

The task force submitted its plan to the General Assembly on March 31, 2009.

In the 2010 session, the General Assembly passed S.B. 10-020, which allowed the CoverColorado Board of Directors to establish a fee schedule for covered services. The fees must be set to exceed the reimbursements generally paid by Medicare.

In addition, the federal health care legislation (Patient Protection and Affordable Care Act) enacted in 2010 established a high-risk pool similar to CoverColorado and provided federal funds to implement and subsidize the program. The legislation included some important caveats, the most important of which are that the State must maintain its existing efforts for high-risk individuals and that the new program is only available to those who have been without health insurance for six months. Existing members of CoverColorado would have to drop out of the program for six months to be eligible for the new high-risk program.

Discussion of how these pieces of legislation affect CoverColorado is the subject of a briefing issue later in this document.

State Contributions for Local Fire and Police Pension Plans

Section 31-30.5-307 C.R.S., requires the State to pay part of the unfunded liability of retirement plans that cover police and firefighters who were hired before 1978 ("old hire" pension plans). The Department annually transfers the required amount from the General Fund to the Fire and Police Pension Association (FPPA), which administers these plans. Since 1980, the State has contributed almost $540 million to the FPPA to eliminate the unfunded liability of the "old-hire" pension plans.

Since FY 2005-06, this appropriation is reflected as coming from the General Fund Exempt Account. The annual General Fund transfer is included in the Long Bill for informational purposes; this appropriation is not subject to the statutory limit on General Fund appropriations.

Senate Bill 09-227 suspended the State's annual contribution to FPPA for FY 2008-09, FY 2009-10, and FY 2010-11. Under this bill, payments of $25.3 million were to resume starting April 30, 2012, and were extended until April 30, 2015, or until the unfunded liability of the pension plans is eliminated. The bill also requires the unfunded liability to be eliminated by the April 2015 payment. Appendix D details the distribution of state funding among old hire plans since 1980. Since 1980, the State has contributed almost $540 million to the FPPA to eliminate the unfunded liability of the "old-hire" pension plans.

The following table provides a summary of remaining state contributions to "old hire" pension plans required by current law. The amount of the final contribution in April 2015 is based on market conditions that existed in January 2009.

Fire and Police Pension Association State-Assisted "Old Hire" Pension Plans	
Payment Date	**Annual State Contribution Required Under Current Law**
April 2012	$5,321,079
April 2013	10,000,000
April 2014	25,321,079
April 2015	25,321,079
April 2016	25,321,079
April 2017	25,321,079
April 2018	25,321,079
April 2019 /a	$49,443,768

/a Estimate for final payment is based on expected returns through this date. Actual payment may be higher or lower depending on actual investment returns.

State payments to the FPPA "old-hire" pension plan is the subject of a briefing issue later in this document.

Highway Users Tax Fund Disbursements

The Department of Treasury distributes revenues from the Highway Users Tax Fund (HUTF) to counties and municipalities for use on local transportation projects pursuant to statutory formulas in Sections 43-4-207 and 208, C.R.S. The amounts anticipated to be distributed to counties and municipalities are reflected as cash fund appropriations within the Treasury section of the Long Bill for informational purposes. The following table details recent distributions of HUTF revenues, as well as projected distributions, for FY 2010-11 and FY 2011-12.

Highway Users Tax Fund (HUTF) Actual Revenues and Distributions					
	FY 08-09 (Actual)	**FY09-10 (Actual)**	**FY 10-11 (Actual)**	**FY 11-12 (Estimate)/a**	**FY 2012-13 (Projection) /a**
Total Revenues	$862,381,858	$903,926,111	$938,352,968	$929,700,000	$960,000,000
Annual Percent Change	12.4%	4.6%	3.7%	-0.9%	3.2%
Treasury Distributions					
Counties	$155,403,560	$182,937,213	$185,391,721	$186,797,920	$189,977,570
Municipalities	101,133,396	125,023,791	125,305,258	127,662,293	130,454,281

Revenue Estimate and Projection source: Legislative Council Staff Economic Forecast dated September 2011

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DECISION ITEM PRIORITY LIST

Budget Request	GF	CF	RF	FF	Total	FTE
1	$0	$10,000	$0	$0	$10,000	0.0
Unclaimed Property Database Software Support						
Unclaimed Property Program. Request is to allow for an increase in support fees for the division's database software. *Statutory authority: Requires statutory change to Section 38-13-116.5 (2), C.R.S.*						
2	$2,470	$0	$0	$0	$2,470	0.0
Investment Tools						
Administration. Request is to provide funding for an increase in subscription costs for software that the Department uses to provide information for use in determining investments made by the State. *Statutory authority: Section 24-36-113, C.R.S.*						
NP-1	$221	$0	$0	$0	$221	0.0
Statewide Risk Management Base Adjustment						
Administration. Statewide request to adjust the risk management base.						
NP-2	(120,094)	0	0	0	($120,094)	0.0
Statewide GGCC Base Reduction						
Administration. Statewide request to reduce the base for the General Government Computer Center.						
NP-3	6,263	0	0	0	$6,263	0.0
Statewide CCLS Base Adjustment						
Administration. Statewide request for adjustment in the Capitol Complex Leased Space rate.						
Total	**($111,140)**	**$10,000**	**$0**	**$0**	**($101,140)**	**0.0**

Though not included in the Department of the Treasury request, the Governor has proposed extending the suspension of the Senior Citizen Homestead Property Tax Exemption through FY 2012-13. The Governor estimates that this would save $98.6 million General Fund in FY 2012-13, though the Treasurer's request is only for $95.9 million (which is in line with the latest Legislative Council Staff Economic Forecast). The Governor's proposal keeps in place the Disabled Veteran exemption, which is estimated to cost $1.7 million. The Governor also proposes to expand the Old Age Heat and Fuel and Property Tax Grant program (administered in the Department of Revenue) by $9.5 million to assist lower income homeowners with property tax assistance. Using the Legislative Council estimates, the two proposals together would save $84.7 million General Fund in FY 2012-13.

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OVERVIEW OF NUMBERS PAGES

The following table summarizes the total change, in dollars and as a percentage, between the Department's FY 2011-12 appropriation and its FY 2012-13 request. The GFE (General Fund Exempt) column is included here to reflect payments made to the FPPA "old hire" police and fire pension plans. These payments are included in the General Fund category and are also shown for informational purposes. S.B. 11-221 requires an increase of $4.7 million in payments to the FPPA for FY 2012-13. In addition, the expiration of the provision of S.B. 10-190, which suspended payments for the Senior Citizen Homestead Property Tax Exemption, increases the request by $94.2 million General Fund in FY 2012-13.

Total Requested Change, FY 2010-11 to FY 2011-12 (millions of dollars)

Category	GF	CF	RF	FF	Total	GFE	FTE
FY 2010-11 Appropriation	$7.9	$358.5	$0.0	$0.0	$366.4	$5.3	31.5
FY 2011-12 Request	106.7	369.5	0.0	0.0	476.2	10.0	31.5
Increase / (Decrease)	$98.8	$11.0	$0.0	$0.0	$109.8	$4.7	0.0
Percentage Change	1250.4%	3.1%	n/a	n/a	30.0%	87.9%	0.0%

The following table highlights the individual changes contained in the Department's FY 2012-13 budget request, as compared with the FY 2011-12 appropriation. For additional detail, see the numbers pages in Appendix A.

Requested Changes, FY 2010-11 to FY 2011-12

Category	GF	CF	RF	FF	Total	FTE
Administration						
Common policy adjustments per DPA recommendations	27,223	5,829	0	0	33,052	0.0
Annualization of PERA contribution rates	29,150	0	0	0	29,150	0.0
Capitol Complex Leased Space base adjustment	6,263	0	0	0	6,263	0.0
Investment Tools (BR #2)	2,470	0	0	0	2,470	0.0
Annualization of National Association of State Treasurers dues increase	800	0	0	0	800	0.0
					0	

Category	GF	CF	RF	FF	Total	FTE
Statewide risk management base adjustment	221	0	0	0	221	0.0
Statewide General Government Computer Center base adjustment (NP#2)	(120,094)	0	0	0	(120,094)	0.0
Subtotal	**($53,967)**	**$5,829**	**$0**	**$0**	**($48,138)**	**0.0**
Unclaimed Property Program						
Annualization of PERA contribution rates	0	16,824	0	0	16,824	0.0
Increase in costs in database software support	0	10,000	0	0	10,000	0.0
Annual increase in leased space costs	0	1,733	0	0	1,733	0.0
Subtotal	**$0**	**$28,557**	**$0**	**$0**	**$28,557**	**0.0**
Special Purpose						
Reinstatement of senior citizen property tax exemption	$94,200,000	$0	$0	$0	$94,200,000	0.0
Adjustments to forecast distributions of HUTF moneys to counties and municipalities	0	5,971,638	0	0	5,971,638	0.0
Increase in transfer to CoverColorado	0	5,000,000	0	0	5,000,000	0.0
Increase in payment to FPPA "old-hire" pension plans a/	4,678,921	0	0	0	4,678,921	0.0
Subtotal	**$98,878,921**	**$10,971,638**	**$0**	**$0**	**$109,850,559**	**0.0**
Net Change	**$98,824,954**	**$11,006,024**	**$0**	**$0**	**$109,830,978**	**0.0**

a/ Payments to the Fire & Police Pension Association (FPPA) "old-hire" pension plans is appropriated from the General Fund Exempt account.

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Department of The Treasury

BRIEFING ISSUE

ISSUE: Performance-based Goals and the Department's FY 2012-13 Budget Request

This issue brief summarizes the Department of The Treasury report on its performance relative to its strategic plan and discusses how the FY 2012-13 budget request advances the Department's performance-based goals. Pursuant to the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act (H.B. 10-1119), the full strategic plan for the Department of the Treasury can be accessed from the Office of State Planning and Budgeting web site.

The issue brief assumes that the performance-based goals are appropriate for the Department. Pursuant to the SMART Government Act, legislative committees of reference are responsible for reviewing the strategic plans and recommending changes to the departments. The issue brief also assumes that the performance measures are reasonable for the performance-based goals. Pursuant to the SMART Government Act the State Auditor periodically assesses the integrity, accuracy, and validity of the reported performance measures. Please note that the Department's strategic plan does not specifically identify the Department's overarching highest priority objectives, however two critical objectives can be inferred from the the text of the strategic plan.

DISCUSSION:

Performance-based Goals and Measures

The Department's two top priority objectives are:

1. Investment Income

Objective: Maximizing dollars available for state use.

Income Earned on State Funds Colorado Treasury Pool Combined a/		
Year	**Benchmark**	**Actual**
FY 2006-07	Meet Benchmark	Exceeded Benchmark by 60 basis points
FY 2007-08	Meet Benchmark	Exceeded Benchmark by 140 points
FY 2008-09	Meet Benchmark	Exceeded Benchmark by 220 basis points
FY 2009-10	Meet Benchmark	Exceeded Benchmark by 190 basis points

Income Earned on State Funds Colorado Treasury Pool Combined a/		
Year	**Benchmark**	**Actual**
FY 2010-11	Meet Benchmark	Exceeded Benchmark by 180 basis points
FY 2011-12	Meet Benchmark	Not Reported Yet

a/ The actual is the weighted average calculation for the five Treasury-managed funds: Treasury Pool, Major Medical Insurance Fund, Public School Permanent Fund, State Education Fund, and the Unclaimed Property Tourism Fund.

a. How is the Department measuring the specific goal/objective?
The Department measures the actual weighted investment returns for the five funds it manages. The General Fund and all cash funds are invested through one of these Treasury-managed funds. The Department then compares those funds to Benchmarks (also weighted) for each of the managed funds.

b. Is the Department meeting its objective, and if not, why?
Yes. The Department has exceeded its benchmark performance by an average of 158 basis points annually over the last five years.

c. How does the budget request advance the performance-based goal?
The Department has submitted a decision item that requests an increase in its appropriation by $2,470 General Fund for investment tools subscriptions (Bloomberg Terminals, BondEdge software and S&P's CreditWire service) which are used by the investment officers to make timely investment decisions on behalf of the State. The increase is to provide funding for subscription increases for those services.

2. Unclaimed Property Program

Objective: Reuniting owners with their unclaimed property.

Unclaimed Property Program Dollars Returned to Rightful Owners		
Year	**Benchmark**	**Actual**
FY 2006-07	Not Specified	$16,700,000
FY 2007-08	Not Specified	23,700,000
FY 2008-09	Not Specified	25,500,000
FY 2009-10	Not Specified	25,200,000
FY 2010-11	Not Specified	23,000,000

a. How is the Department measuring the specific goal/objective?
The Department reports the total dollar amounts that it returns to the rightful property owners.

b. Is the Department meeting its objective, and if not, why?
Unknown. The Department has not identified a benchmark to use for the amount of dollars returned to its rightful property owners.

c. How does the budget request advance the performance-based goal?
The Department has submitted a decision item that requests an increase in its appropriation by $10,000 cash funds from the Unclaimed Property Trust Fund for the purpose of covering the increase in costs for software support for the database program that is used to administer the Unclaimed Property Program.

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Department of Treasury

BRIEFING ISSUE

ISSUE: State Auditor's Office Performance Evaluation of the Treasury Investment Program

The State Auditor's Office contracted with Buck Global Investment Advisors to conduct an audit of the Department of the Treasury's Investment Program for: (1) An analysis of the investments as a whole and by segment; (2) A review of the short- and long-term investment objectives, policies, and practices, including a determination of whether the practices are in compliance with state law, prudent industry practice, and other applicable criteria; (3) A review of the asset mix in relationship to stated objectives, including implied risk, diversification, and return; (4) A review of internal controls over investments; (5) A review of the efficiency and effectiveness of electronic and manual systems used to tack and report on investments, investment performance, earnings, and interest allocations; and (6) Status of prior recommendations contained in the State Auditor's Office November 2007 performance review of the Treasury's Investment Program.

SUMMARY:

❏ The Department of the Treasury manages five different funds for the State, each with its own set of investment performance objectives.

❏ Buck Global Investment Advisors (Buck) was retained as contract auditors by the State Auditor's Office to review the Colorado Treasury Investment Program.

❏ Over the last five State fiscal years, the Treasury Investment Program has provided more than $1.75 billion in investment earnings to the various investment funds that the Treasury manages.

❏ The contract auditors evaluated the investment portfolios and found that over the period from January 1, 2007 through December 31, 2010, the investments for each of the five portfolios met or exceeded their performance benchmarks and that the portfolios generally achieved the Investment Program's objectives of legality, safety, liquidity, and yield.

❏ The contract auditors identified several areas where the Treasury Department should make improvements to its investment program.

❏ The full auditor's report is available from the State Auditor's Office or on-line at the State Auditor's website.

DISCUSSION:

Background Information

The Department of the Treasury's Investment Program manages all funds invested by the state in one of five separate funds. These funds are identified below along with their investment objectives.

- **Treasury Pool Combined (includes Treasury Cash and Treasury Pool):** The State's primary operating fund, it is invested in short-term, high quality fixed income instruments. The Treasury Pool Combined is comprised of the Treasury Cash Pool, which is invested in instruments with a maturity of less than one year and the Treasury Pool, which is invested in instruments with a maturity of between one and five years.

- **Public School Permanent Fund:** Invested safely and in perpetuity to provide a benefit to state education.

- **Major Medical Insurance Fund:** Pays benefits related to workers' injuries.

- **Unclaimed Property Tourism Promotion Trust Fund:** Pays claims related to unclaimed property. The interest earned on the fund provides a benefit to tourism promotion.

- **State Education Fund:** Provides for specified education-related purposes.

The following table provides the fund balances for each of the funds as of December 31, 2010.

Colorado Department of the Treasury
Funds and Fund Balances as of December 31, 2010
(All figures are $Millions)

Pool/Fund		**Treasury Pool Total Value**	
Treasury Pool Cash		$2,498	
Treasury Pool		3,419	
Subtotal Treasury Pool Combined		$5,917	
Other Individual Funds	**Held in Treasury Pool**	**Held outside of the Treasury Pool**	**Total Value**
Public School Permanent Fund	$58	$557	$615
Major Medical Insurance Fund	0	104	104
Unclaimed Property Tourism Promotion Trust Fund	65	47	112
State Education Fund	233	53	286
Subtotal Individual Funds	356	761	1,117
Total of All Funds (Unduplicated)		**$6,678**	

Source: Buck Global Investment Advisors analysis of the Colorado Department of the Treasury Holdings Spreadsheet.

REVIEW OF INVESTMENT PERFORMANCE:

The performance review was conducted with the following parameters:

- An analysis of the performance of the Treasury's investments as a whole and by segment. This includes analyses of the performance of each of the Treasury's major portfolios on an annual basis and overall for the period of January 1, 2007 through December 31, 2010.

- A review of the Treasury's short- and long-term investment objectives, policies, and practices, including a determination of whether the investment practices are in compliance with state law, prudent industry practice, and other applicable criteria. This review also includes an analysis of cash management strategies, liquidity needs, and associated monitoring practices.

- A review of asset mix in relationship to stated objectives, including implied risk, diversification, and return. The review also includes a determination of the appropriateness of the asset mix.

- A review of internal controls over investments.

- A review of the efficiency and effectiveness of electronic and manual systems used to track and report on investments, investment performance, earnings, and interest allocations.

- Status of prior recommendations contained in the Office of the State Auditor's November 2007 performance review of the Colorado Department of the Treasury Investment Program.

A review of the book yield of the Treasury investments reveals that for the last four years, the investments by the Treasury have exceeded the benchmarks, though some of the funds may not have exceeded the benchmarks in all of the individual years. The four-year performance of each fund against its benchmark, along with the benchmark, is provided in the next table.

Colorado Investment Performance compared to Benchmarks
Calendar Years 2007 through 2010

Fund	Investment Performance	Benchmark Performance	Benchmark
Treasury Pool Combined	3.7%	2.6%	1-year Constant Maturity Index
Treasury Pool Cash	3.0%	2.3%	30-day Treasury Bill
Treasury Pool (1 to 5 year maturities)	2.8%	4.2%	2-year Constant Maturity Index
Public School Permanent Fund	5.1%	3.4%	5-year Constant Maturity Index
Major Medical Insurance Fund	4.8%	3.7%	7-year Constant Maturity Index
Unclaimed Property Tourism Promotion Trust Fund	4.7%	3.7%	7-year Constant Maturity Index
State Education Fund	3.9%	2.6%	7-year Constant Maturity Index

REVIEW OF INVESTMENT POLICY AND INTERNAL CONTROLS

This section covers the review of the Treasury's investment objectives, policies, and internal controls over investments. The statutory requirements that the Treasurer must follow are detailed in Section 24-36-113, C.R.S. which requires that investments meet acceptable standards of legality, safety, liquidity, and yield. The Treasurer's primary method of ensuring that investments meet these requirements are through the Treasurer's Investment Policy Statement, which outlines the appropriate mix of investment and asset holdings, and also communicates the roles and responsibilities of the Treasury, the Investment Officers, and the Advisory Committee.

Buck found the Treasury's cash management practices and performance comply with the requirements of the Treasury Investment Policy Statement, though they did find two instances where the Treasury did not invest funds in accordance with the Investment Policy Statement. First, during 2009, the Treasury's investment in U.S. Treasury securities was only 7.2 percent of the Treasury Combined portfolio, whereas the Investment Policy Statement requires between 10.0 and 100.0 percent be invested in such securities. Second, during 2010, 59.6 percent of the Unclaimed Property Tourism Promotion Trust Fund portfolio was invested in the Treasury Pool, whereas the Investment Policy Statement limits that investment to 30.0 percent.

The Auditors made four recommendations, as detailed in the following table.

Audit Recommendations June 2011			
Recommendation	**Treasury Response**	**Date**	**Treasury Response Comments**
The Department of the Treasury (Treasury) should obtain written approval from the State Treasurer, or in his or her absence, the Deputy State Treasurer, for deviations from the Investment Policy Statement lasting longer than a three month period. The process of review and approval should be documented in writing and should occur prior to the occurrence of any such deviation.	Partially Agree	July 2011	The Treasury plans to obtain written approval from the State Treasurer, or in his or her absence, the Deputy State Treasurer, for deviations from the Investment Policy Statement lasting than a three month period. While the Treasury will strive to seek pre-approval for these deviations, there are instances where pre-approval will not be possible and in those cases, we will request that the State Treasurer or his or her designee ratify those deviations.
The Treasury should research the benefits of eliminating statutory limitations requiring that investments be only in U.S. Securities. Should the Department find it beneficial, the Department should work with the members of the General Assembly to seek statutory change eliminating the this requirement.	Agree	Ongoing	The Department plans to continue to work internally to determine the extent of statutory changes necessary to address the requirement that Treasury funds be invested only in U.S. securities. After sufficient evaluation, the Treasurer's Office plans to work with the members of the General Assembly to make any statutory changes deemed necessary.

Audit Recommendations June 2011			
Recommendation	**Treasury Response**	**Date**	**Treasury Response Comments**
The Treasury should revise the Investment Policy Statement to remove the implication that the Advisory Committee has a prominent role in the investment process and make it clear that the Advisory Committee is not a fiduciary to the Treasury Investment Program. Additionally, the Investment Policy Statement should be revised to specify the composition and minimum meeting schedule of the Advisory Committee.	Agree	December 2011	The Treasury plans to revise the Investment Policy Statement to remove the implication that the Advisory Committee has a prominent role in the investment process and make clear that the Committee is not a fiduciary to the Treasury Investment Program. The Treasury will also consider specifying the composition and minimum meeting schedule of the Committee.
The Treasury should continue to use internal research and seek additional sources of independent research, including purchasing subscriptions to independent credit rating research, to determine the quality of investment securities when making investment decisions.	Agree	Ongoing	The Treasury plans to continue to use internal research and seek additional sources of independent, third party research, including purchasing subscriptions to independent credit ratings research. Purchasing subscriptions to independent research will be subject to the Department's budgetary constraints.

DISPOSITION OF PRIOR RECOMMENDATIONS:

The table below identifies the status of recommendations made in the November 2007 performance review of the Treasurer's Investment Program.

Disposition of Recommendation Made in the November 2007 Audit of the Treasury Investment Program			
Recommendation Summary	**Agency Response**	**Status**	**Verification of Current Status**
The Department of the Treasury (Treasury) should continue to seek to maximize investment returns on the Treasury Pool (T-Pool) by reviewing the balances in T-Pool Cash and T-Pool on a daily basis along with projected cash flow needs, to ensure it maintains an appropriate balance in the two portfolios.	Agree	Implemented and ongoing	Buck confirmed that the Treasury has continued to maximize its investment returns by review balances daily and making appropriate adjustments to the T-Pool.

Disposition of Recommendation Made in the November 2007 Audit of the Treasury Investment Program			
Recommendation Summary	**Agency Response**	**Status**	**Verification of Current Status**
Treasury should consider broadening the investment policy of the Public School Permanent Fund to make it consistent with the Prudent Investor Standard. This change would include allowing investments in equities and cash equivalents, if the opinion from the Attorney General indicated that such investments are permissible.	Partially agree	Not Implemented	The Attorney General indicated that the State Constitution does not permit equity investments in the Public School Permanent Fund.
Treasury should evaluate the use of Treasury Inflation-Protected Securities (TIPS), particularly for the Public School Permanent Fund, Major Medical Insurance Fund, and the Unclaimed Property Tourism Promotion Trust Fund.	Agree	Implemented	Investment officers indicated that TIPS are considered as a possible investment, but they are not currently desirable for the portfolios.
Treasury should incorporate market values as well as total return and peer group benchmarks in the management of the funds. If market values are actively utilized to manage the funds, the investment policy guidelines for each fund should be based on market values instead of book values.	Disagree	Not Implemented	Not Implemented.
Treasury should amend the investment policy for the State Education Fund to include a more comprehensive description of the guidelines and investment strategy.	Agree	Implemented	The investment policy now has explicit guidelines regarding the State Education Fund.
Treasury should modify the investment policy to indicate: (1) timing for a regular review of each fund's policy, perhaps annually; (2) who has authority to amend the policy; and (3) when the policy was last amended.	Agree	Partially Implemented	The policy now describes who has authority to modify policy and indicates when it was last amended, but does not describe timing for a regular review.
Treasury should appoint a compliance officer who will prepare a quarterly compliance report for each fund, which certifies that the fund complies with the investment policy, or if a violation has occurred, the report would describe the steps to correct it.	Agree	Implemented	Treasury appoint a compliance officer in July 2008 to carry out these duties. In particular, the PDQ (job description) for this position (Cash Manager) includes a 10 percent duty allocation to the role of Compliance Officer. The tasks associated with this position include; ensure the Treasury Investment Program portfolios are in compliance with statute, detect when out of compliance, and provide notice to the Deputy State Treasurer when out of compliance.

Disposition of Recommendation Made in the November 2007 Audit of the Treasury Investment Program			
Recommendation Summary	**Agency Response**	**Status**	**Verification of Current Status**
Treasury should ensure that key historical performance data be maintained electronically, and if custodians are changed in the future, it should seek to load the prior custodian's return data in the new service provider's system.	Agree	Implemented	JP Morgan Chase, the custodian, now has electronic data, as described.
Treasury should seek to obtain a portfolio analytical application in order to improve the analytical tools utilized in managing the funds	Agree	Implemented	Treasury obtained and uses the BondEdge monitoring software.

FY 2012-13 Joint Budget Committee Staff Budget Briefing
Department of Treasury

BRIEFING ISSUE

ISSUE: Transfers from the Unclaimed Property Trust Fund to CoverColorado

CoverColorado is the State's plan to provide medical insurance to citizens of the state who cannot obtain insurance in the markets. The program requires a State an annual subsidy from the Unclaimed Property Trust Fund. The projected growth of the subsidy in coming years threatens to deplete the Unclaimed Property Trust Fund by the end of calendar year 2013.

SUMMARY:

- ❑ Transfers from the Unclaimed Property Trust Fund (UPTF) are required by statute to comprise one-quarter of the funding for CoverColorado. Projections in 2010 indicated that the UPTF would be depleted and unable to supply its portion of funding for CoverColorado at some point in 2013. The latest projections from CoverColorado show that while depletion of the UPTF remains a threat, there should be enough funds in the UPTF to make it through the end of 2013, when funding will no longer be needed as the insurance exchanges that are a provision of the federal health care program (Patient Protection and Affordable Care Act) will be running and CoverColorado will no longer be needed.

- ❑ With the enactment of H.B. 08-1390, the funding provided by the Unclaimed Property Trust Fund (UPTF) was reduced in FY 2009-10, but due to increased enrollment, the amount of subsidy required from the UPTF increased again for FY 2010-11 and is projected to continue to increase as enrollment in CoverColorado grows.

- ❑ The CoverColorado Long-Term Funding Task Force made a number of recommendations for providing adequate funding.

- ❑ Senate Bill 10-020 authorizes the Board of Directors of CoverColorado to establish a reimbursement schedule for services provided that is lower than the currently negotiated rate but higher than the medicare reimbursement rate, providing savings to CoverColorado.

DISCUSSION:

Background Information
Colorado does not require health insurance providers to offer individual health to everyone who applies, regardless of their health status. Like many other states that do not require "guaranteed issue," Colorado created a risk pool to offer subsidized health insurance coverage to those "high risk" individuals who are unable to obtain health insurance except at prohibitive rates or with restrictive exclusions.

House Bill 90-1305 created the "Colorado Uninsurable Health Insurance Plan (CUHIP)." The current term for the plan is the "Colorado High Risk Health Insurance Act," and the program created by the act is called "CoverColorado." CoverColorado is a nonprofit public entity that is governed by a seven-member board of directors, who are appointed by the governor. The board includes four insurance carrier representatives, two individuals who are insured or have been insured under CoverColorado, and one medical professional who specializes in chronic disease. For purposes of TABOR, CoverColorado is defined as a "special purpose authority" [Section 24-77-102 (15) (b) (XII), C.R.S.], and is thus not an agency of the State, is not subject to administrative direction by any department or agency of the State, and is not considered to be part of the State for the purposes of any spending limitations.

CoverColorado enrollees pay relatively high rates, which by statute (Section 10-8-512 (3) (a), C.R.S.) must be between 100 and 150 percent of the standard risk rate charged by the five largest carriers in Colorado with similar plans for health benefit plans. Currently, the rates charged by CoverColorado are set at 135 percent of the standard risk rate. For 2010, premiums paid by enrollees are projected to return 45.0 percent of CoverColorado's claims and administrative costs.

Certain individuals are not eligible to enroll in CoverColorado, including prison inmates and residents of public institutions, and individuals eligible for Medicaid. Those who are eligible for CoverColorado fall into one of two eligibility categories. First, of the State residents currently participating in the program, about 70 percent are "medically eligible" for the program because they have:

- applied for health insurance and been rejected because of a medical or health condition;
- applied for and been offered health insurance, but the premium rate exceeds the rate available through CoverColorado, or the coverage includes a reduction or exclusion for a preexisting medical or health condition for a period exceeding six months;
- had a health benefit plan involuntarily terminated by a Colorado insurance carrier for any reason other than nonpayment of premiums; or
- a medical or health condition that presumptively makes them eligible (e.g., diabetes, leukemia, lupus, multiple sclerosis, Parkinson's).

The remaining 30 percent of current CoverColorado participants are considered "federally" eligible for the program due to requirements of the federal Health Insurance Portabilility and Accountability Act of 1996 (HIPAA) and the federal Trade Adjustment Assistance Reform Act of 2002. The HIPAA group includes individuals who have lost group health insurance coverage and do not have coverage under another employer-sponsored program or through a spouse. The Trade Act group includes individuals participating the Trade Adjustment Assistance Program, as well as individuals aged 55 to 64 who receive pension benefits from the federal Pension Benefit Guarantee Corporation.

Program Funding Sources

Section 10-8-530 (1) (a) sets forth the following sources of income for the program:

- Moneys transferred from the Unclaimed Property Trust Fund (UPTF);

- premiums charged to the programs enrollees;
- special fees assessed against insurers; and
- gifts, grants, and donations (which include contributions received pursuant to the premium tax credit allocation provisions), and interest.

The following table provides a summary of CoverColorado costs, premiums, and other sources of revenues.

CoverColorado: Projected Claims, Administrative Expenses, and Revenues (Most Likely Scenario) <a>

Calendar Year	Claims and Administrative Costs	Special Fees	Transfers from Unclaimed Property Trust Fund	Premiums	Other (Interest, Credits, Grants) <b>	Net Change in Fund Balance
2010	($113,701,970)	$28,794,604	$29,142,431	$53,830,295	$8,707,439	$6,772,799
2011	(135,759,151)	34,694,251	34,694,251	65,854,692	7,885,164	7,369,207
2012	(165,265,180)	40,000,000	40,000,000	83,815,842	6,895,152	5,445,814
2013	(205,319,768)	51,329,942	51,329,942	106,343,256	5,547,584	9,230,956

<a> Projections provided by CoverColorado and their actuary, Leif and Associates.
<b> Other sources of funding include: interest earned on the CoverColorado Cash Fund, federal funds, annual contributions from insurance carriers in exchange for a premium tax credit, interest earnings, and grants.

Though these projections still indicate large growth in the program, they are down slightly from the projections made in 2010. For example, the original projections for the program for 2011 were for claims and administrative expenses to total $140.0 million, the latest projections show a decrease in that figure to $135.8 million. Likewise, in the final year of the program, 2013, the original projections for claims and administrative expenses was $242.9 million while the latest projections are $214.6 million, a reduction of $28.3 million. Since 25.0 percent of the program comes from the Unclaimed Property Trust Fund (UPTF), this will reduce the draw on that fund by about $7.1 million in 2013.

The slowdown in the growth of the fund would have only postponed the day of reckoning for the UPTF, but since the provisions in the federal Patient Protection and Affordable Care Act (PPACA) for the establishment of insurance exchanges are scheduled to start on January 1, 2014, the need for transfers from the UPTF will end at that point. Staff projections now indicate that the UPTF will be able to provide the funding required for CoverColorado through the end of calendar year 2013, though it is still close and an unexpected surge in growth for the program might still deplete the UPTF. The next table shows the revised projections for the UPTF through the end of 2013.

Funding Projection for Unclaimed Property Trust Fund ($ Millions)				
	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14 <a>
Beginning Balance	$106.3	$108.0	$104.2	$92.0
Net Revenue (Remittances less claims)	33.0	33.0	33.0	16.5
Interest Income	2.6	2.6	2.5	2.2
Unclaimed Property Program Operating Expenses	(2.0)	(2.0)	(2.0)	(1.0)
Estimated Transfers to CoverColorado <b>	(31.9)	(37.3)	(45.7)	(25.7)
Required Reserve	(66.4)	(70.0)	(73.2)	(76.8)
Available Balance	$41.6	$34.2	$18.9	$7.3

<a> The amounts shown for FY 2013-14 are for one-half year only, as the provisions of PPACA start in 2014, half-way through FY 2013-14.

<b> Transfers to CoverColorado are based on projections from CoverColorado through FY 2013-14. Under the federal Patient Protection and Affordable Care Act, the need for CoverColorado and the transfers from the Unclaimed Property Fund expires. The projections for estimated transfers to CoverColorado are from the "most likely" scenario provided by the actuaries for CoverColorado.

As can be seen from the table, there will only be a $7.3 million margin for error at the end of 2013 for the UPTF, and due to the fund's expected cash flow, there may be a month or two, especially early in FY 2013-14 where the UPTF will not have enough available moneys to transfer to the UPTF, but the fund should recover somewhat in subsequent months and enable the transfers to continue.

Recommendations of the CoverColorado Long-Term Fund Task Force
In its report to the Legislature, the Task Force had two short-term and five long-term recommendations to the General Assembly in order to provide fiscal stability for the CoverColorado program. These options are briefly outlined here, and are contained in the report given to the General Assembly on March 31, 2009.

Short-Term Recommendations

1. Grant the CoverColorado Board of Directors statutory authority to establish provider rates based upon a multiplier of Medicare reimbursement rates, which would provide immediate cost savings for the program after implementation while ensuring that providers are paid reasonable rates.

2. Authorize the Board to adjust the collection periods for the program's carrier assessment so that payments can be collected on a quarterly or monthly basis instead of semi-annually.

Long-Term Recommendations

3. Provide a more equitable, broad, and sustainable source of funding than the current carrier assessment mechanism though implementing either a health facility fee surcharge in lieu of carrier assessments or by adding third party administrators on a per-covered-life basis to the assessment base.

4. Extend the insurance premium tax credit for ten more years, to 2024, consider raising the $5 million annual maximum, and build flexibility into the annual maximum amount by tying it to the Consumer Price Index to keep the limit current with the rate of inflation.

5. Work with the relevant State and Federal agencies to draw down federal matching dollars through the Upper Payment Limit to effectively double the amount of funding for CoverColorado from eligible sources or revenue streams.

The Task Force did discuss the issue of the Unclaimed Property Trust Fund, but declined to make any recommendations. The task force report states: "Because contributions from the UPF [Unclaimed Property Trust Fund] now are derived from the Fund's principal, instead of just the interest gained, the funding demand for CoverColorado stands to exhaust monies available to the program from the UPF withing the coming decade." In fact, by staff's calculation, the UPTF will be exhausted in FY 2014-15.

Senate Bill 10-020

Senate Bill 10-020 authorized the CoverColorado Board of Directors to establish provider rate (s) that are lower than the current provider rates but higher than medicare provider rates. This action, which is now being worked on, is expected to reduce expenses by 20 percent. CoverColorado officials, however, state that there are problems, especially in rural areas, where many providers have indicated that they will not accept any reduction in rates and will not see CoverColorado patients if the proposed rate schedules are adopted.

Federal Patient Protection and Affordable Care Act

The federal Patient Protection and Affordable Care Act (PPACA) which passed during the 2010 session of Congress, has a provision to address insurance for high-risk individuals until insurance exchanges are set up in 2014. The program (Getting US Covered) is for individuals unable to obtain health insurance in the private market. Colorado has been awarded $90 million for the period from the establishment of the program until 2014.

Eligibility for coverage under the program is set forth as follows:

- Citizen of the United States or lawfully present.
- Not have been covered under creditable coverage (as defined in Section 2701(c)(1) of the Public Health Service Act) for the previous six months before applying for coverage.
- Have a pre-existing condition, as determined in a manner consistent with guidance issued by the Secretary of Health and Human Services.

Premiums for the high risk pool will be affordable for participants, such that they:

- Equal a standard rate for a standard population (i.e., not exceed 100 percent of the standard non-group rate).
- Do not vary by age by more than 4 to 1.

Getting US Covered will not eliminate the need for additional funding for CoverColorado. The federal program requires individuals to be without insurance for at least six months to be eligible. Most people covered by CoverColorado transition to the State program when their eligibility for COBRA[2] expires, meaning that those people are not eligible for the federal high-risk pool, unless they decide to go without insurance coverage for six months. The second requirement for the federal program is that the state continue its existing program maintaining at least the existing level of funding.

Currently, about 600 people per month are applying to CoverColorado, and approximately 90 percent of those go into CoverColorado as opposed to the federal program. This is primarily because they are transferring from other insurance and because of health issues, do not want to go without insurance for the required six months before they are eligible for the federal program.

[2] COBRA (Consolidated Omnibus Budget Reconciliation Act of 1986) coverage is insurance coverage required to be offered to most employees after their termination from employment, with the employee picking up the entire cost of the premium. The coverage generally lasts for 18 months, and a federal subsidy may be provided to help pay the premium, as currently offered under the American Recovery and Reinvestment Act.

BRIEFING ISSUE

ISSUE: "Old Hire" Fire and Police Pension Plans

Economic conditions, specifically the State's General Fund revenue, required the State to suspend payments to the Fire and Police Pension Association "Old-hire" pension plans for three years. This suspension significantly affected the State's obligation to fund contributions to the "old hire" fire and police pension plans.

SUMMARY:

- ❑ To assist in addressing the poor funding status of local pension plans for firefighters and police officers that existed in the late 1970s, the General Assembly has contributed $538 million General Fund to 110 local "old hire" pension plans since 1980.

- ❑ Prior to the 2009 General Assembly session, state law required continued state contributions of at least $25.3 million General Fund each fiscal year through FY 2011-12 unless the state fulfills its obligation ahead of that time, with an extra payment (if necessary) in FY 2011-12 to make up for state contributions that were deferred due to budget constraints during fiscal years 2002-03 through 2004-05.

- ❑ In 2009, the General Assembly passed S.B. 09-227, which suspended state payments to the FPPA for three fiscal years (Fiscal Years 2008-09, 2009-10, and 2010-11).

- ❑ Pursuant to S.B. 11-221, payments resumed at a reduced level for two years ($5.3 million in FY 2011-12 and $10.0 million in FY 2012-13). Full payments of $25.3 million resume in FY 2013-14 and the payment schedule is extended through FY 2018-19.

- ❑ Effective January 1, 2012, the FPPA Board adopted several changes to the actuarial assumptions that the FPPA uses.

DISCUSSION:

Background Information

Prior to 1978, each municipality or fire protection district with paid (rather than volunteer) police officers or firefighters administered its own employee pension plans. Although the General Assembly had provided some state funding for local pension plans and state statutes provided some structure for local plans, the plans' administration was largely a local responsibility. There was no state requirement that these plans be funded on an actuarially sound basis.

After learning in 1977 that these local pension plans had unfunded liabilities exceeding $500 million[3], the General Assembly enacted legislation in 1978 and 1979 to reform these local plans. The "Policemen's and Firemen's Pension Reform Law" (S.B. 78-46) included the following legislative declaration:

> "The general assembly finds and declares that the establishment of statewide actuarial standards regarding funded and unfunded liabilities of policemen's and firemen's pension funds ... is a matter of statewide concern affected with a public interest, and the provision of [this bill] are enacted in the exercise of the police powers of the state for the purpose of protecting the health, peace, safety, and general welfare of the people of this state."

The reform legislation limited membership in existing local pension plans to police officers and firefighters who were hired prior to April 8, 1978 (these plans are now referred to as "old hire" pension plans). In order to fund these programs on an actuarially sound basis, the General Assembly established a program to provide partial state funding for existing ("old hire") plans if local employers agreed to significant increases in employer contributions and minimum member contributions. With respect to newly hired police officers and firefighters, the General Assembly established a new statewide defined benefit plan and created the Fire and Police Pension Association (FPPA) to administer the newly created plan. The statewide plan is funded exclusively through member and employer contributions, and has been actuarially sound since its inception[4].

History of State Contributions for "Old Hire" Pension Plans

The legislation establishing a program to provide partial state funding for old hire pension plans clearly stated that the state's financial assistance was temporary. Specifically, S.B. 79-79 included the following language in the legislative declaration:

> "... The general assembly further declares that state moneys provided to municipalities and fire protection districts *do not constitute a continuing obligation of the state* to participate in the ongoing normal costs of pension plan benefits, except for state funding of death and disability benefits [as specified in this bill], but are provided in recognition that said local governments are currently burdened with financial obligation relating to pensions in excess of their present financial capacities. It is the intent of the general assembly in providing moneys to assist said local governments that state participation decrease annually, terminating at the earliest possible date." *(emphasis provided)*

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[3] To put this figure in perspective, the total state General Fund operating budget in the FY 1978-79 Long Bill was just over $1.0 million. Thus the $500 million shortfall in local plans represented nearly half of the annual state General Fund budget. If the magnitude of this shortfall were adjusted for inflation, it would exceed $1.8 billion.

[4] The latest FPPA Comprehensive annual report dated December 31, 2009 indicates that the ratio of the actuarial value to the statewide defined benefit plan assets to the actuarial liability is 101.0 percent.

Since 1980, the state has contributed a total of $537.8 million to 110 local police and fire departments. The state contribution for "old hire" pension plans is determined by statute and consists of General Fund revenues related to insurance company premium taxes. The amount of the annual state contribution to FPPA is reflected as a General Fund appropriation in the Treasury section of the annual Long Bill for informational purposes as required by Section 31-30.5-307 (3), C.R.S. Since FY 2005-06, this amount is reflected as coming from the General Fund Exempt Account. Such moneys are transferred pursuant to Section 31-30.5-307 (2), C.R.S., and are not deemed to be an appropriation subject to the limit on General Fund appropriations. The Treasury Department annually transfers the required amount from the General Fund to the FPPA, which distributes the moneys to eligible old hire pension plans[5].

The number of plans receiving state assistance has decreased over the years to where there are now six plans that the State is obligated to assist. The State's obligations to the other plans have been met and they are no longer receiving state assistance. These plans still receiving assistance and the unfunded liabilities associated with each of them are shown in the table below.

Summary of Unfunded Liabilities for State Assisted Plans

		Projected Year for Final Payment from:	
Plan	**Unfunded Liability as of January 1, 2011**	**State**	**Employer**
Denver Police	$189,321,284	2019	2019
Grand Junction Police	2,604,011	2019	2015
Greeley Fire (Union Colony)	2,507,144	2017	2008
Lakewood Fire	5,927,724	2019	2015
North Washington Fire	2,246,536	2019	Beyond 2019
Pueblo Fire	24,875,280	2019	Beyond 2019
Total	**$227,481,980**		

As of December 31, 2010, there are 90 active old-hire members and 3,319 retired members.

Three times since 1980 (for a total of seven years), the General Assembly has temporarily suspended the state contribution to old hire plans. The first year that the annual state contribution was eliminated was in 1987. In 1995, the state contribution was increased to cover the 1987 payment

[5] In addition, Section 31-30-1112 and 1134, C.R.S., require the State to help pay for *volunteer* firefighter pensions and an accidental death and disability plan covering volunteer firefighters statewide. Pursuant to S.B. 04-198, payments associated with volunteer firefighters are now administered by the Department of Local Affairs.

plus accrued interest. In addition the General Assembly (through S.B. 95-228) increased the annual state contribution from $18.7 million to $25.3 million. The legislation provided that state support would end when the local old hire pension plans became fully funded or in FY 2009-10, whichever came first. Prior to S.B. 95-228, it was anticipated that state funding would continue through 2024. The earlier end-date was intended to coincide with the point at which all "old hire" employees would be retired.

During the ensuing years, the State's contribution to the old hire plans equaled about 41 percent of the total combined contributions of the state, local governments and employees. These combined contributions, along with a robust stock market, reduced the unfunded liabilities of old hire pension plans to a low of $192.7 million in January 2001. The recession of the early 2000s and the stock market decline that began in March of 2000 reversed the trend of decreasing the unfunded liability.

Due to the General Fund shortfalls that occurred especially in 2002 and 2003, the General Assembly again suspended (through S.B. 03-263) the state contribution for old hire pension plans for FY 2003-04 and FY 2004-05 and extended state payments by two years to FY 2011-12. The legislation required the State to pay the amount of unfunded liability that accrued as a result of the suspension of the state contribution. That additional payment was to have been made at any time prior to April 30, 2012. Finally, S.B. 03-263 changed the date of the annual payment from September to April, which is more consistent with the State's General Fund cash flow. The annual required $25.3 million state contribution resumed in April 2006.

In the 2009 session, the General Assembly passed S.B. 09-227, which suspended contributions for fiscal years 2008-09, 2009-10 and 2010-011, and extended the date for repayment by three additional years until FY 2014-15. Payments of $25.3 million were scheduled to resume in FY 2011-12, with the final payment expected to be $83.9 million in FY 2014-15. Alternatively, the State could extend the payments of $25.3 million through FY 2016-17 and make a final payment of $16.9 million in FY 2017-18. The second alternative would require legislation prior to the final payment currently scheduled in FY 2014-15.

Future State Contributions for "Old Hire" Pension Plans

Prior to the passage of S.B. 09-227, the State was required to contribute $25.3 million per year through FY 2011-12 or until the plans are fully funded, whichever comes first, and an additional payment (if necessary) related to recent suspended contributions. Starting in FY 2006-07, the Joint Budget Committee voted to increase the appropriation by $9.5 million. The Committee's plan was based on a scenario which avoids the balloon payment otherwise required in April 2012, and the amount was based on increasing the appropriation for four years, consistent with the Referendum C "time-out" period, and then appropriating the remaining obligation in FY 2010-11 and FY 2011-12, as necessary.

Due to the State's General Fund shortfall starting in 2009, the State suspended contributions to the plans that had been scheduled for April 2009, April 2010, and April 2011, and extended payments for three years until April 2015. Because the General Fund shortfall had not been sufficiently resolved by the 2011 session, the General Assembly passed S.B. 11-221, which provides for reduced payments for FY 2011-12 and FY 2012-13, and extends payments through FY 2018-19. The schedule of the remaining payments is provided in the table below:

Fire and Police Pension Association "Old-hire" Plans Schedule of Remaining Payments (Pursuant to S.B. 11-221)	
Year	**Amount**
FY 2011-12	$5,321,079
FY 2012-13	10,000,000
FY 2013-14	25,321,079
FY 2014-15	25,321,079
FY 2015-16	25,321,079
FY 2016-17	25,321,079
FY 2017-18	25,321,079
FY 2018-19	49,443,768
Total Estimated Payments /a	**$191,370,242**

/a Actual experience, including investment returns over this period, will determine final payment amounts and termination date.

Actuarial Factors Changed

At least every five years, the Board of Directors of the FPPA reviews its economic and demographic actuarial assumptions. Based upon recommendations of the actuaries, the Board made the following changes to its assumptions, effective January 1, 2012.

- Reduce the normal investment return assumption from 8.00 percent to 7.50 percent.
- Reduce the inflation assumption from 3.50 percent to 3.00 percent.
- Reduce the productivity component of the salary scale assumption from 1.25 percent to 1.00 percent.
- Reduce the payroll growth rate assumption from 4.25 percent to 3.50 percent.
- Revised the post-retirement mortality tables to reflect increased longevity.

The most significant change has to do with lowering the investment return assumption from 8.0 percent to 7.5 percent. This change has no effect on the state's total payments for restoring the old-hire plans to full funding status because it is an assumption upon which contributions are made. The State's final payment will depend on the history of payments and the investment returns until the final payment is due.

	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Appropriation	FY 2012-13 Request	Change Requests

DEPARTMENT OF THE TREASURY
State Treasurer: Walker Stapleton

(1) ADMINISTRATION

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

	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Appropriation	FY 2012-13 Request	Change Requests
Personal Services a/	1,242,508	1,208,310	1,264,300	1,293,450	
FTE	15.8	15.3	16.0	16.0	
General Fund	245,182	232,500	311,344	340,494	
Cash Funds	997,326	975,810	952,956	952,956	
Health, Life, and Dental	134,302	126,677	190,203	203,535	Common Policy
General Fund	67,423	31,140	91,600	105,892	
Cash Funds - Unclaimed Property Trust Fund	66,879	95,537	98,603	97,643	
Short-term Disability	2,360	2,652	3,225	3,296	Common Policy
General Fund	1,596	1,608	1,998	2,053	
Cash Funds - Unclaimed Property Trust Fund	764	1,044	1,227	1,243	
S.B. 04-257 Amortization Equalization Disbursement	31,855	37,711	50,638	59,596	Common Policy
General Fund	20,588	21,560	31,226	37,124	
Cash Funds - Unclaimed Property Trust Fund	11,267	16,151	19,412	22,472	
S.B. 06-235 Supplemental Amortization Equalization Disbursement	19,137	27,402	40,524	51,215	Common Policy
General Fund	11,632	15,614	24,925	31,903	
Cash Funds - Unclaimed Property Trust Fund	7,505	11,788	15,599	19,312	

	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Appropriation	FY 2012-13 Request	Change Requests
Workers' Compensation and Payment to Risk Management and Property Funds - GF	2,208	1,452	1,769	1,990	NP#1
Operating Expenses	146,629	148,441	198,649	201,919	
General Fund	140,420	148,441	198,649	201,919	DI#2
Cash Funds - Unclaimed Property Trust Fund	6,209	0	0	0	
Information Technology Asset Maintenance	9,738	8,942	12,568	12,568	
General Fund	3,454	2,658	6,284	6,284	
Cash Funds - Unclaimed Property Trust Fund	6,284	6,284	6,284	6,284	
Legal Services for 575 Hours	25,859	37,513	43,534	43,534	
General Fund	4,187	16,419	21,767	21,767	
Cash Funds - Unclaimed Property Trust Fund	21,672	21,094	21,767	21,767	
Purchase of Services from Computer Center - GF	21,767	3,811	132,062	11,968	NP#2
Capitol Complex Leased Space - GF	54,954	53,949	55,297	61,560	NP#3
Charter Schools Facilities Financing Services - Cash Funds - Charter School Financing Adminstrative Cash Fund b/	2,803	3,009	5,000	5,000	
Discretionary Fund - GF	0	362	5,000	5,000	

	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Appropriation	FY 2012-13 Request	Change Requests
					Request v. Appropriation
Subtotal - (1) Administration	1,694,120	1,660,231	2,002,769	1,954,631	-2.4%
FTE	15.8	15.3	16.0	16.0	0.0%
General Fund	573,411	529,514	881,921	827,954	-6.1%
Cash Funds	1,120,709	1,130,717	1,120,848	1,126,677	0.5%

a/ Revenues received from the Treasury Transaction fees pursuant to Section 24-36-120, C.R.S. are applied against the Personal Services Line Item.

b/ This line is continuously appropriated from the Charter School Financing Administrative Cash Fund pursuant to Section 22-30.5-406 (1) (a), C.R.S.

(2) UNCLAIMED PROPERTY PROGRAM

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

	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Appropriation	FY 2012-13 Request	Change Requests
Personal Service - CF - Unclaimed Property Trust Fund	708,306	676,887	764,966	781,790	
FTE	8.9	8.2	15.5	15.5	
Operating Expenses - CF - Unclaimed Property Trust Fund	108,845	121,414	121,869	131,869	DI#1
Promotion and Correspondence - CF - Unclaimed Property Trust Fund	140,130	199,246	200,000	200,000	
Leased Space - CF - Unclaimed Property Trust Fund	43,521	47,527	53,723	55,456	
Contract Auditor Services - CF - Unclaimed Property Trust Fund c/	530,633	296,789	800,000	800,000	

	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Appropriation	FY 2012-13 Request	Change Requests
					Request v. Appropriation
Subtotal - (2) Unclaimed Property Program - Cash Funds	1,531,435	1,341,863	1,940,558	1,969,115	1.5%
FTE	8.9	8.2	15.5	15.5	0.0%

c/ This line is continuously appropriated from the Unclaimed Property Trust Fund pursuant to Section 38-13-116.5 (2) (b), C.R.S.

(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. These line items: reimburse local governments for property taxes foregone due to the Senior Citizen and Disabled Veteran Property Tax Exemption; transfer money from the Unclaimed Property Trust Fund to CoverColorado; transfer General Fund to the Fire and Police Pension Association (FPPA) "old-hire" pension plans; and allocate a portion of the Highway Users Tax Fund (HUTF) to local governments. The General Fund appropriations are exempt from the statutory limits on General Fund appropriations.

	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Appropriation	FY 2012-13 Request	Change Requests
Senior Citizen and Disabled Veteran Property Tax Exemption - General Fund	1,333,604	1,574,580	1,700,000	95,900,000	
Fire and Police Pension Association "Old-hire" Pension Plans - General Fund Exempt	0	0	5,321,079	10,000,000	
CoverColorado - Cash Funds - Unclaimed Property Trust Fund	26,658,431	31,918,341	41,000,000	46,000,000	
Highway Users Tax Fund - County Payments - Cash Funds	182,937,213	185,391,721	186,797,920	189,977,570	
Highway Users Tax Fund - Municipality Payments - Cash Funds	125,023,791	127,305,258	127,662,293	130,454,281	

FY 2012-13 Joint Budget Committee Staff Budget Briefing
Department of the Treasury
Appendix A: Numbers Pages

	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Appropriation	FY 2012-13 Request	Change Requests
					Request v. Appropriation
Subtotal - (3) Special Purpose	335,953,039	346,189,900	362,481,292	472,331,851	30.3%
General Fund	1,333,604	1,574,580	1,700,000	95,900,000	5541.2%
General Fund Exempt	0	0	5,321,079	10,000,000	87.9%
Cash Funds	334,619,435	344,615,320	355,460,213	366,431,851	3.1%
					Request v. Appropriation
Department Total - Department of the Treasury	339,178,594	349,191,994	366,424,619	476,255,597	30.0%
FTE	24.7	23.5	31.5	31.5	0.0%
General Fund	1,907,015	2,104,094	2,581,921	96,727,954	3646.4%
General Fund Exempt	0	0	5,321,079	10,000,000	87.9%
Cash Funds	337,271,579	347,087,900	358,521,619	369,527,643	3.1%

APPENDIX B: SUMMARY OF MAJOR LEGISLATION

- ❑ **S.B. 11-076 (Steadman/Becker):** For the 2011-12 state fiscal year only, reduces the employer contribution rate for the State and Judicial division of the Public Employees' Retirement Association by 2.5 percent and increases the member contribution rate for these divisions by the same amount. Reduces the Department's total appropriation by $45,974, of which $29,150 is General Fund and $16,824 is cash funds.

- ❑ **S.B. 11-221 (Hodge/Becker):** Reduces State contributions to the Fire and Police Pension Association "old-hire" pension plans for two years (FY 2011-12 and FY 2012-13) and extends the final payment to the old-hire plans to FY 2018-19. The payment in FY 2011-12 is reduced by $20.0 million to $5.3 million and the payment in FY 2012-13 is reduced by $15.3 million to $10.0 million. Under the law, payments of $25.3 million resume in FY 2013-14 and continue through FY 2018-19 when the final payment is due.

FY 2012-13 Joint Budget Committee Staff Budget Briefing
Department of Treasury

APPENDIX C: UPDATE OF 2010
LONG BILL FOOTNOTES AND REQUESTS FOR INFORMATION

Long Bill Footnotes

5. **All Departments, Totals** -- Every department is requested to submit to the Joint Budget Committee, by November 1, 2011 information on the number of additional federal and cash funds FTE associated with any federal grants or private donations that were received in FY 2010-11. The Departments are also requested to identify the number of additional federal and cash funds FTE associated with any federal grants or private donations that are anticipated to be received during FY 2011-12.

   Comment: This footnote does not apply to the Department. It does not receive federal funding.

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 by November 1, 2011.

   Comment: The State Treasurer included the requested report as part of the State Treasurer's annual budget request. The document includes data for a number of funds and portfolios, including: the Treasury Pool Combined as well as its constituent parts[6], the State Education Fund, the Major Medical Insurance Fund, the Public School Fund(often called the "permanent fund"), and the Unclaimed Property Trust Fund. The report contains information concerning the value of each fund/portfolio, asset allocation, monthly yield, average maturity, and graphs that compare monthly performance against identified benchmarks.

   The performance of the various funds are summarized in the table below.

[6] The Treasury Pool is one portfolio that pools most agencies' cash for investment purposes, and earning are allocated out at a blended rate. Statutorily, this portfolio is invested for no longer than five years.

Investment Results for the State's Various Investment Funds Fiscal Year 2011-12				
Fund Name	Average Portfolio (000,000)	Income Realized (000,000)	Performance	Benchmark
Colorado Treasury Cash	$2,355.2	$3.2	0.1%	0.1%
Colorado Treasury Pool	3,363.5	109.8	3.3%	0.6%
Colorado Treasury Pool Combined	5,718.6	113.0	2.0%	0.3%
Colorado State Education Fund	207.6	5.9	2.8%	0.6%
Colorado Major Medical Insurance Fund	120.5	5.5	4.5%	2.4%
Colorado Public School Permanent Fund	580.7	27.0	4.6%	1.8%
Unclaimed Property Tourism Promotion Trust Fund	104.7	3.5	3.4%	2.4%

A copy of the reports for each of these funds is included at the back of this appendix. *For more information regarding State Auditor's Office performance evaluation of the Treasury Investment Program, please see the discussion of this issue that begins on page 15 of this document.*

2. **Department of the Treasury, Special Purpose, CoverColorado** -- Pursuant to Section 10-8-530 (4) (c) (I), C.R.S., the Executive Director of CoverColorado is required to report annually to the Joint Budget Committee concerning actual program receipts and expenditures. In addition, the Department is requested to work with the Executive Director to provide reports to the Joint Budget Committee by October 1, 2011, and by February 1, 2012, that contain enrollment, revenue, expenditure, and assessment projections for the CoverColorado program for FY 2011-12 and FY 2012-13.

   Comment: CoverColorado provided information regarding enrollment, revenue, expenditure and assessment projections for 2011 through 2013. *Please see the discussion of CoverColorado that begins on page 22 of this document.*

3. **Department of the Treasury, Special Purpose, Fire and Police Pension Association - Old Hire Plans** -- The Fire and Police Pension Association is requested to submit an annual report of operations and investments for state-supported programs to the Joint Budget Committee by October 1, 2011 This report shall include the following: (1) the amount of additional funding the State is required to transfer to the Association pursuant to Section 31-30.5-307 (5) (b), C.R.S., assuming such payment is made on April 30, 2015, along with a description of the actuarial assumptions used to calculate this amount; (2) the current estimated unfunded liability for each local plan still eligible to receive state assistance; and (3) the projected remaining funded period for each local plan still eligible to receive state assistance.

Comment: The Fire and Police Pension Association submitted the required report. *Please see the discussion on this issue that begins on page 28 of this document.*

4. **Department of the Treasury, Administration** -- The State Treasurer is requested to provide to the Joint Budget Committee, by November 1, 2011, providing information concerning state revenues and expenditures related to the issuance of tax and revenue anticipation notes for school districts pursuant to Section 29-15-112, C.R.S. The State Treasurer is requested to include actual data for FY 2010-11, as well as projected data for FY 2011-12.

   Comment: The State Treasurer included the requested report as part of the State Treasurer's annual budget request.

   Background Information. Since 1993, Section 22-54-110, C.R.S., has directed the Treasury Department to provide interest-free loans to school districts in order to alleviate short-term cash flow deficits. The interest-free school loan program was created when the General Assembly mandated that the fiscal year for all school districts be converted from a calendar year to a year ending June 30, consistent with the State's fiscal year. The State Treasurer pays each school district the State's share of the district's total program funding in twelve equal installments [see section 22-54-115 (3), C.R.S.]. As the district's share of total program funding primarily consists of property taxes, the local share of funding is largely not available until late in the fiscal year. Particularly for those districts with a relatively large local share of funding, the timing of property tax receipts creates the possibility of cash flow deficits during certain months of the year.

   Prior to reforms enacted in 2003, the Treasurer used General Fund moneys to make interest-free cash flow loans to school districts. This resulted in a loss of interest earnings on the General Fund (e.g. $6.3 million in FY 1999-00). The General Assembly modified the school loan program in 2003[7] to alleviate the impact of the loan program on the State's cash flow and to better ensure that school districts do not default on their loans. Specifically, H.B. 03-1274 [see Section 22-54-110 and 29-15-112, C.R.S.] included the following provisions:

   - Permits the State Treasurer to issue tax and revenue anticipation notes for the purpose of making interest-free loans to school districts to alleviate temporary cash flow deficits. Specifies that the proceeds of notes, along with any associated investment earnings, may be used to make loans, to pay note issuance costs and associated expenses, and to pay the principal and interest on the notes. Requires notes to mature on or before August 31 of the fiscal year immediately following the fiscal year in which the notes are issued.

   - Requires a school district seeking a loan from the State Treasurer to submit any actual or projected financial or budgetary statements required by the State Treasurer to

[7] Three bills concerning the school loan program passed in the 2003 Session: S.B. 03-158, H.B. 03-1032, and H.B. 03-1274.

determine that the district will have a general fund cash deficit and that the district will be able to repay the loan by June 25 of the state fiscal year in which the loan is made. If a school district seeks to have notes issued on its behalf, requires the chief financial officer of the district and the district superintendent to request and obtain prior approval from the district board of education and to include specified need-related information in the request. Specifies that interest shall accrue on the loans if the loans are not repaid on or before the repayment date.

- Permits the State Treasurer to make a low-interest, emergency loan to a school district that has a cash flow deficit and that does not receive enough moneys from interest-free loans made from note proceeds. Establishes the interest rate for low-interest loans.

Under these reforms, the Treasury Department is now able to closely monitor the districts that borrow money and can reject a district's loan application if the district's ability to repay the loan is in question. In addition, by issuing tax and revenue anticipation notes and obtaining very clear information about participating district's cash flow needs, the Treasurer is able to issue the notes and invest the proceeds during the time that districts do not require the funding. This practice has significantly reduced the cost to the General Fund, and if the investment earnings exceed the interest paid on the notes and the cost of issuance, the State actually receives a net gain.

Current Participation. In FY 2009-10, the Treasury issued a total of $515 million in the tax and revenue anticipation notes. The program resulted in a net loss to the State General Fund of $1.6 million in FY 2009-10. The Districts' demand for loans to cover cash flow deficits is generally greatest in the months of December and January, with most occurring from October through April. The actual revenues and expenditures for FY 2008-09 through 2010-11 and estimate for FY 2011-12 are detailed in the table below.

School District Tax Revenue Anticipation Notes (TRAN)
Revenues and Expenditures

	FY 2008-09 Actual	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 (Projected)
Series A Principal	$215,000,000	$255,000,000	<a>	$100,000,000
Interest Rate	1.55%	0.58%	<a>	0.24%
Series B Principal	$300,000,000	$260,000,000	$325,000,000	$260,000,000
Interest Rate	0.97%	0.28%	0.33%	<b>
Total Principal Issued	$515,000,000	$515,000,000	$325,000,000	$360,000,000
Revenues				
Premium	523,100	5,240,000	3,009,750	1,683,000<c>
Interest Earned	3,039,827	648,183	175,099	<d>

School District Tax Revenue Anticipation Notes (TRAN)
Revenues and Expenditures

Expenditures				
Issue Costs	(241,181)	(262,101)	(202,820)	(237,498)<c>
Interest Due	(5,817,153)	(7,214,444)	(3,611,111)	(1,916,667)<c>
General Fund Net Gain/ (Loss)	(2,495,407)	(1,588,362)	(629,082)	<d>

<a> The first series was not issued in FY 2010-11 pending the results of the November 2010 election because a proposed constitutional amendment may have prohibited the issuance of such notes.
<b> The net interest cost of the second series cannot be estimated due to volatility of interest rates.
<c> Figures shown relate to the first series only.
<d> The interest earned, and therefore the net gain or loss, by these funds while they are held in Treasury's pooled cash cannot be estimated due to: (1) the volatility of interest rates; (2) the uncertainty of how much, and when, school districts will require loans from the second series; and (3) the uncertainty of the timing of the loan repayments by each school district.

A copy of this report is included at the back of this appendix.

5. **Department of the Treasury, Administration** -- The State Treasurer is requested to provide to the Joint Budget Committee, by November 1, 2011, providing information concerning expenditures related to the Department's bank services contract(s) which are paid through deductions from interest earned on bank account balances. The State Treasurer is requested to include actual expenditures for FY 2010-11 as well as projected expenditures for FY 2011-12.

   Comment: The State Treasurer included the requested report as part of the State Treasurer's annual budget request. The report, including data from the previous two years, is summarized in the table below.

Bank Services Contract Expenditures

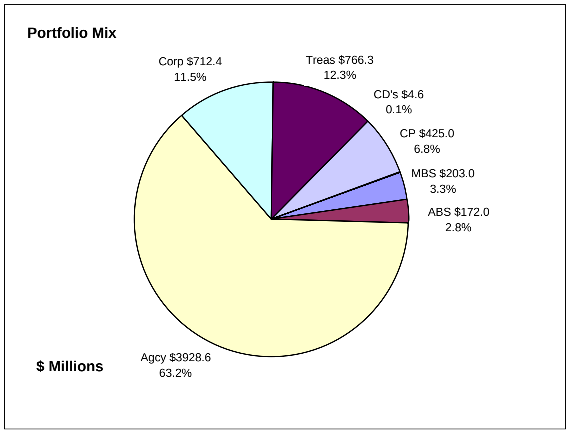
Vendor	Services Provided	FY 2008-09 Actual	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Estimated
Chase Bank	Bank account services	1,061,917	1,146,662	1,108,294	1,108,000
Wells Fargo	Bank account services	281,508	350,769	356,155	356,000
Key Bank	Lockbox Services	427,138	403,936	565,116	600,000
JP Morgan	Securities Safekeeping	91,432	92,193	87,363	90,000
JP Morgan	Investment Management Services	56,026	56,000	56,000	56,000
	Subtotal	$1,918,021	$2,049,560	$2,172,928	$2,210,000

Bank Services Contract Expenditures					
Vendor	Services Provided	FY 2008-09 Actual	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Estimated
	Credit for Overcharges	0	0	0	0
	Earning Allowances	(213,489)	(126,885)	(99,519)	(100,000)
	Total	**$1,704,532**	**$1,922,675**	**$2,073,409**	**$2,110,000**

A copy of this report is included at the back of this appendix.

Colorado Treasury Pool Combined

September 30, 2011

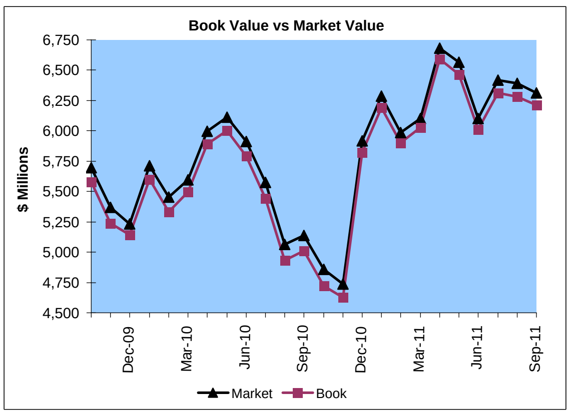


Portfolio Value

Market Value	$6,312.6	Million
Book Value	$6,211.9	Million

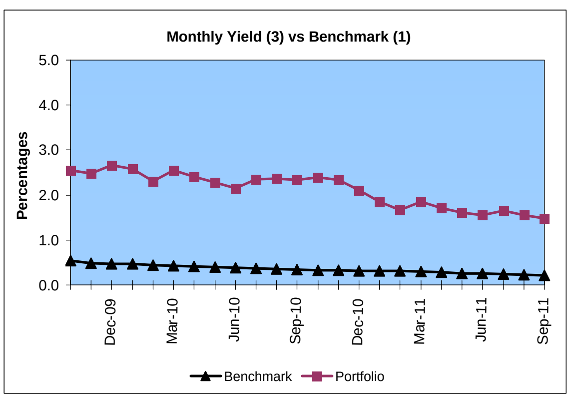
Yield and Average Maturity

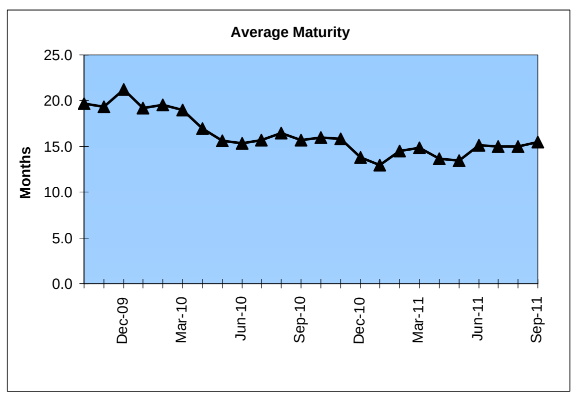
Portfolio Book Yield	1.6%	
Portfolio Average Maturity	15.5	Months



Portfolio Quality

	A1 / P1	AAA	AA	A	BBB	BB	B	Other	Portfolio Percent
Asset Backed		100.0%							2.8%
Corporates		5.5%	44.5%	46.8%	1.8%		1.4%		11.5%
Mortgage Securities			100.0%						3.3%
Commercial Paper	100.0%								6.8%
Treasuries			100.0%						12.3%
Federal Agencies			100.0%						63.2%
Certificates of Deposit								100.0%	0.1%
Money Market Funds									
Total Portfolio	6.8%	3.4%	83.9%	5.4%	0.2%		0.2%	0.1%	100.0%





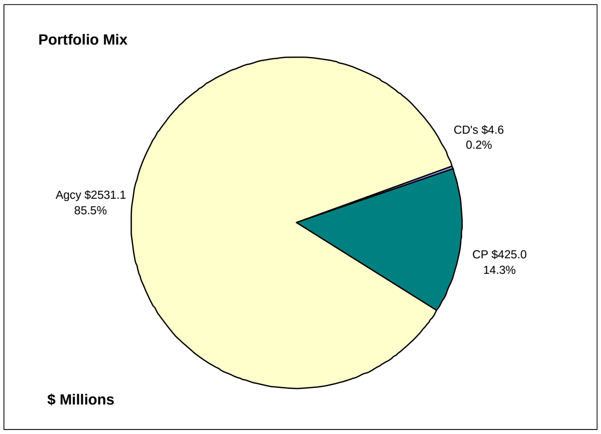
	$ Millions Average Portfolio	Realized Income	Book Yield	Performance Benchmarks (2)
FY '12 YTD	6,234.3	24.4	1.6%	0.2%
Last 12 months	5,959.2	106.4	1.8%	0.2%
FY '11	5,718.6	113.0	2.0%	0.3%
FY '10	5,717.7	139.0 [3]	2.4%	0.4%
FY '09	5,828.6	177.4	3.0%	1.1%
FY '08	5,835.7	249.9	4.3%	3.1%
FY '07	5,122.0	244.3	4.7%	5.0%
Avg FY '07-11	5,644.5	184.7	3.3%	2.0%

(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 $5.5 million in losses on sale of investments in July 2009.

Colorado Treasury Cash

(0 - 1 year maturities)

September 30, 2011



Portfolio Value

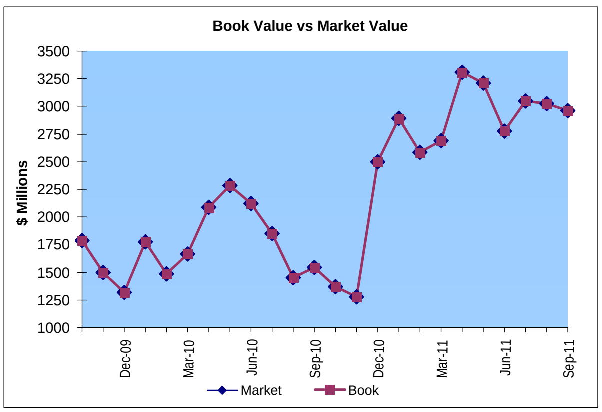
Market Value	$2,961.1	Million
Book Value	$2,960.7	Million

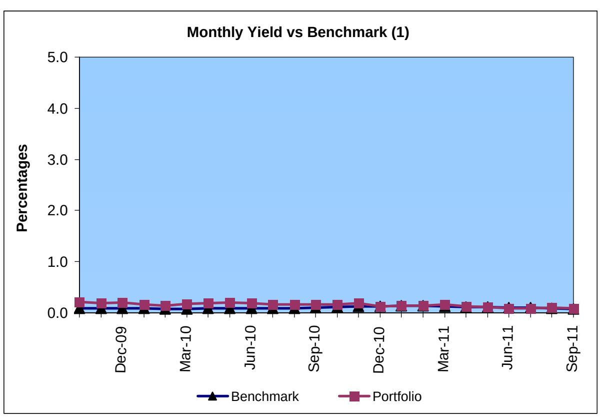
Yield and Average Maturity

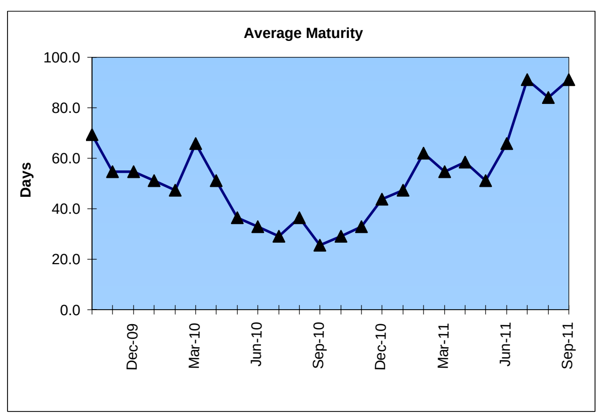
Portfolio Book Yield	0.1%	
Portfolio Average Maturity	91	Days

Portfolio Quality

	A1 / P1	AA	Other	Portfolio Percent
Commercial Paper	100.0%			14.3%
Federal Agencies		100.0%		85.5%
Treasuries				0.0%
Certificates of Deposit			100.0%	0.2%
Money Market Funds				0.0%
Total Portfolio	14.3%	85.5%	0.2%	100.0%







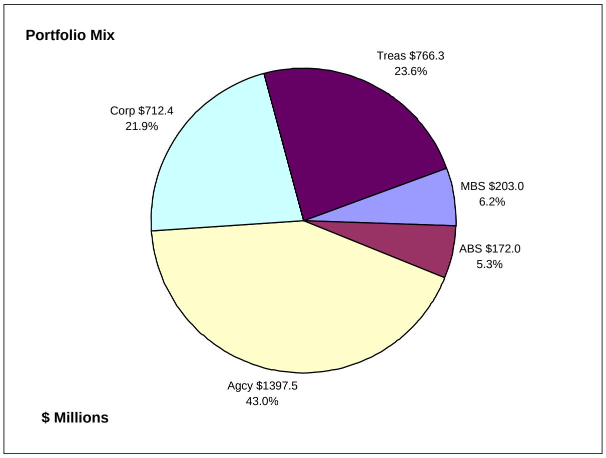
	$ Millions Average Portfolio	Realized Income	Book Yield	Performance Benchmarks (2)
FY '12 YTD	3,002.8	0.7	0.1%	0.1%
Last 12 months	2,671.1	3.2	0.1%	0.1%
FY '11	2,355.2	3.2	0.1%	0.1%
FY '10	2,013.9	4.1	0.2%	0.1%
FY '09	2,705.6	39.2	1.4%	0.4%
FY '08	2,895.9	114.9	4.0%	2.6%
FY '07	2,312.0	123.6	5.3%	4.8%
Avg FY '07-'11	2,456.5	57.0	2.2%	1.6%

(1) 12 month moving average of the 30 day Treasury bill
(2) 12 month moving average of the 30 day Treasury bill at end of period

Colorado Treasury Pool

(1 - 5 year maturities)

September 30, 2011



Portfolio Value

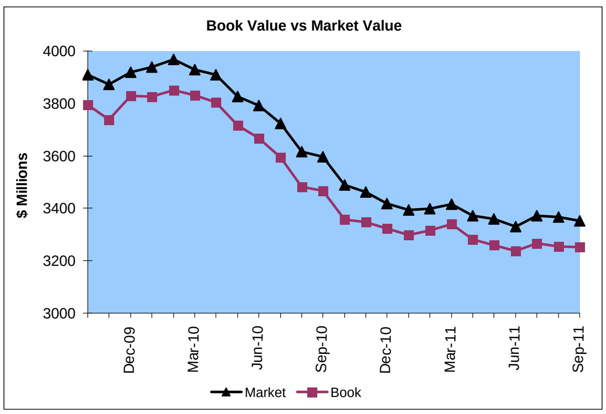
Market Value	$3,351.5	Million
Book Value	$3,251.2	Million

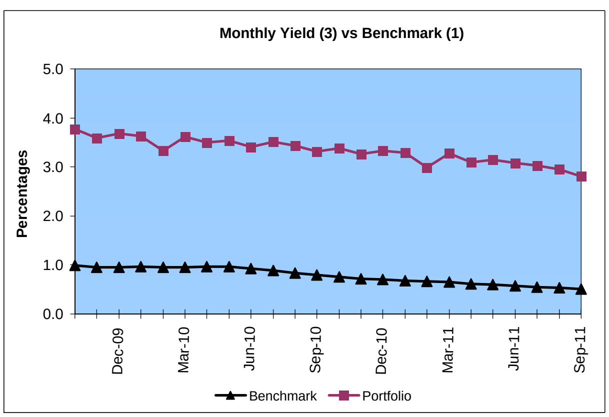
Yield and Average Maturity

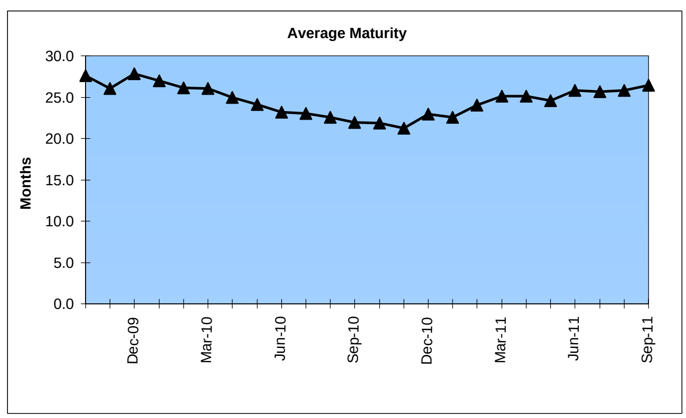
Portfolio Book Yield	2.9%	
Portfolio Average Maturity	26.4	Months

Portfolio Quality

	AAA	AA	A	BBB	BB	B	Other	Portfolio Percent
Asset Backed	100.0%							5.3%
Corporates	5.5%	44.5%	46.8%	1.8%		1.4%		21.9%
Mortgage Securities		100.0%						6.2%
Treasuries		100.0%						23.6%
Federal Agencies		100.0%						43.0%
Total Portfolio	6.5%	82.6%	10.2%	0.4%		0.3%		100.0%





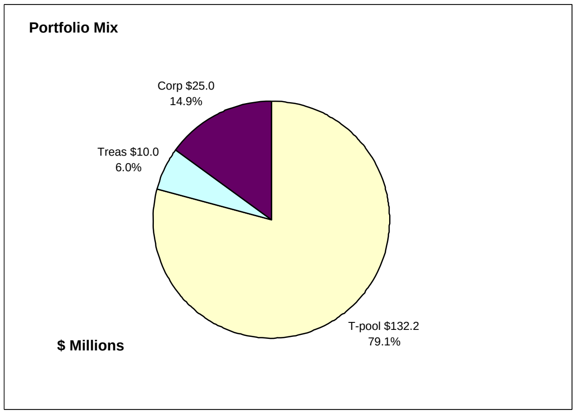


	$ Millions Average Portfolio	Realized Income	Book Yield	Performance Benchmarks (2)
FY '12 YTD	3,231.5	23.7	2.9%	0.5%
Last 12 months	3,288.1	103.2	3.1%	0.5%
FY '11	3,363.5	109.8	3.3%	0.6%
FY '10	3,703.9	134.9 [3]	3.6%	0.9%
FY '09	3,123.0	138.2	4.4%	1.4%
FY '08	2,939.8	134.9	4.6%	3.1%
FY '07	2,810.1	120.6	4.2%	4.8%
Avg FY '07-'11	3,188.0	127.7	4.0%	2.2%

(1) 12 month moving average of the constant maturity yield on the 2 year Treasury note
(2) 12 month moving average of the constant maturity yield on the 2 year Treasury note at end of period
(3) Excludes $5.5 million in losses on sale of investments in July 2009.

Colorado State Education Fund

September 30, 2011



Portfolio Value

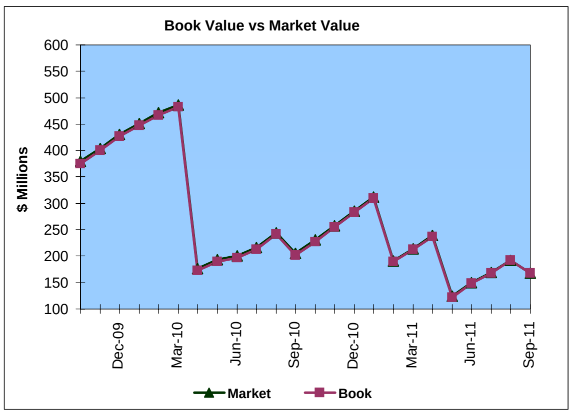
Market Value	$167.9	Million
Book Value	$167.2	Million

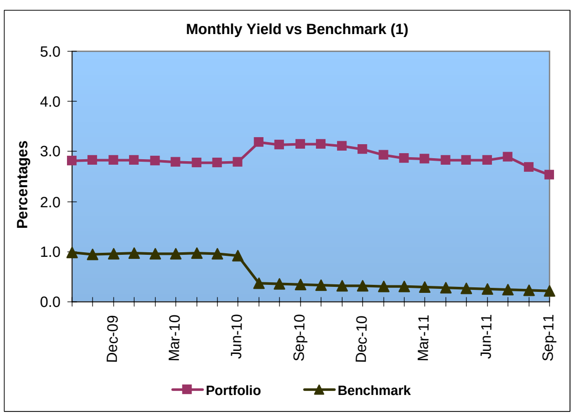
Yield and Average Maturity

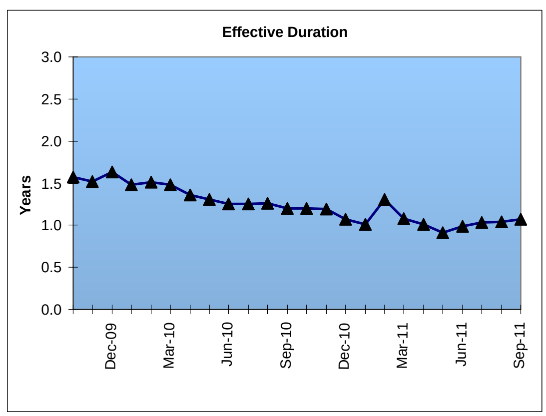
Portfolio Book Yield	2.5%	
Portfolio Effective Duration	1.1	Yrs

Portfolio Quality

	A1 / P1	AAA	AA	A	BBB	BB	B	Other	Portfolio Percent
Corporates			60.0%	40.0%					14.9%
Treasuries			100.0%						6.0%
Federal Agencies									0.0%
T-Pool Combined	6.8%	3.4%	83.9%	5.4%	0.2%	0.0%	0.2%	0.1%	79.1%
Total Portfolio	5.4%	2.7%	81.3%	10.2%	0.2%		0.1%	0.1%	100.0%







	$ Millions Average Portfolio	Realized Income	Book Yield	Performance Benchmarks (2)
FY '12 YTD	161.3	1.0	2.5%	0.2%
Last 12 months	198.9	5.4	2.7%	0.2%
FY '11	207.6	5.9	2.8%	0.6%
FY '10	365.7	10.2	2.8%	0.9%
FY '09	412.5	13.4	3.2%	1.4%
FY '08	383.2	16.7	4.3%	3.1%
FY '07	272.0	13.4	4.9%	4.8%
Avg FY '07-'11	328.2	11.9	3.6%	2.2%

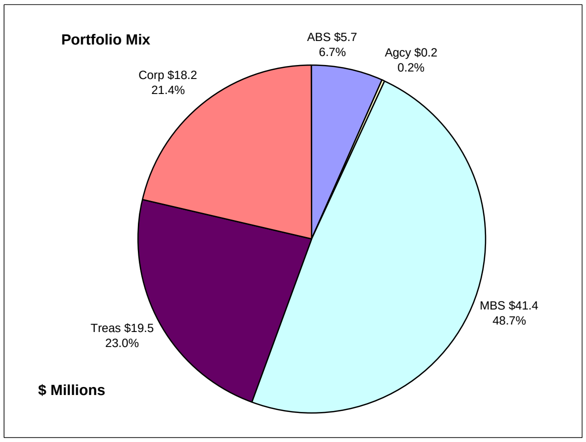
(1) 12 month moving average of the constant maturity yield on the 2 year Treasury note

*** Effective July 2010, changed to latest 12 month average of the constant maturity yield on the 1 year Treasury note to match current investment policy.**

(2) 12 month moving average of the constant maturity yield on the 2 year Treasury note at end of period

*** Effective July 2010, changed to latest 12 month average of the constant maturity yield on the 1 year Treasury note to match current investment policy.**

Colorado Major Medical Insurance Fund
September 30, 2011



Portfolio Value

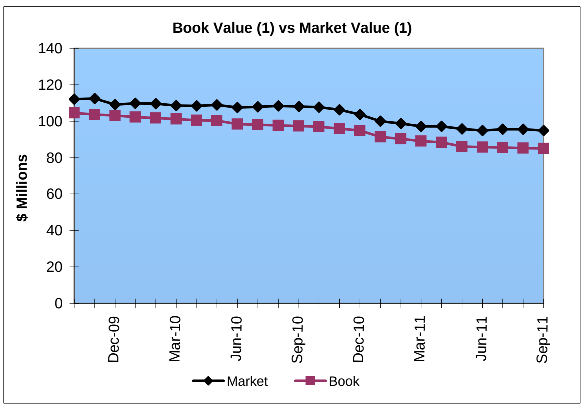
Market Value (1)	$94.9 Million
Book Value (1)	$85.0 Million

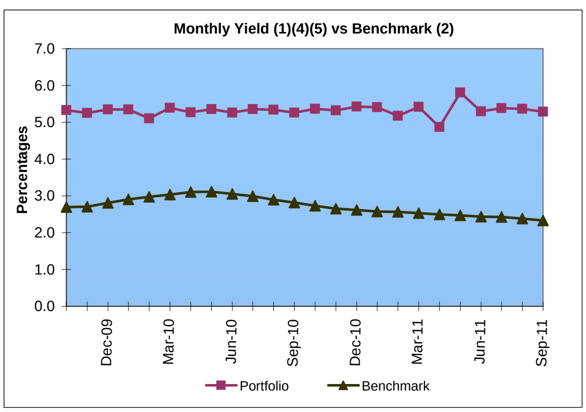
Yield and Duration

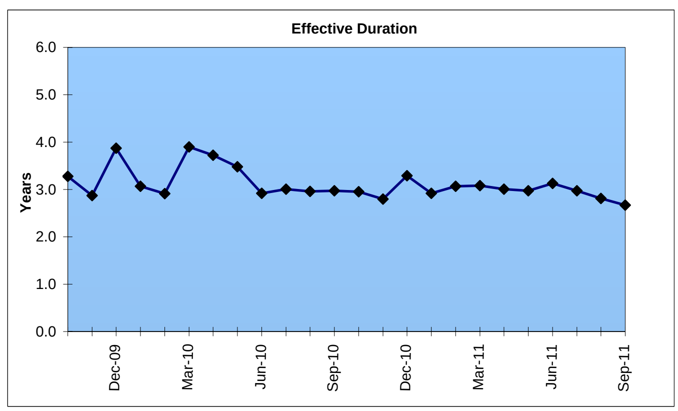
Portfolio Book Yield	4.6%
Portfolio Effective Duration	2.7 Yrs

Portfolio Quality

	AAA	AA	A	BBB	BB	Portfolio Percent
Asset Backed	100.0%					6.7%
Corporates	11.0%	27.5%	56.0%	5.5%		21.4%
Federal Agencies		100.0%				0.2%
Mortgage Securities		100.0%				48.7%
Treasuries		100.0%				23.0%
Total Portfolio	9.0%	77.8%	12.0%	1.2%		100.0%





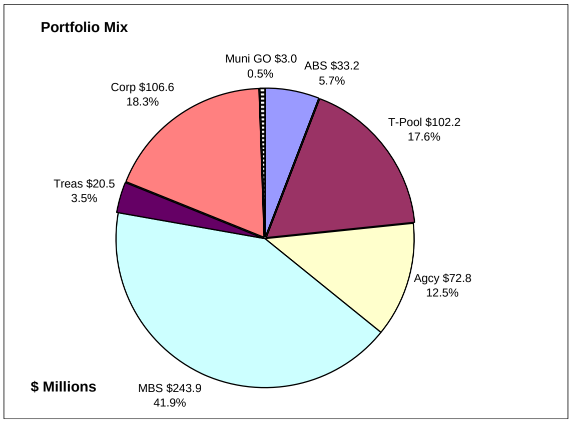


	Average Portfolio ($ Millions)	Realized Income ($ Millions)	Book Yield	Performance Benchmarks (3)
FY '12 YTD	103.5	1.2	4.6%	2.3%
Last 12 months	116.0	5.3	4.5%	2.3%
FY '11	120.5	5.5	4.5%	2.4%
FY '10	126.8	6.0 [5]	4.7%	3.1%
FY '09	163.0	7.4 [4]	4.6%	2.8%
FY '08	133.7	6.6	4.9%	3.8%
FY '07	76.2	3.8	5.0%	4.7%
Avg FY '07-'11	124.0	5.9	4.8%	3.4%

(1) Does not include State Treasury Pool 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 $.4 million in gains on sale of investments in May 2009.
(5) Excludes $.2 million in losses on sale of investments in July 2009.

Colorado Public School Permanent Fund

September 30, 2011



Portfolio Value

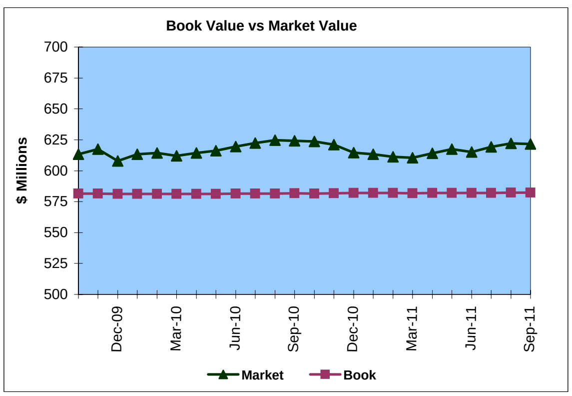
Market Value	$621.7	Million
Book Value	$582.2	Million

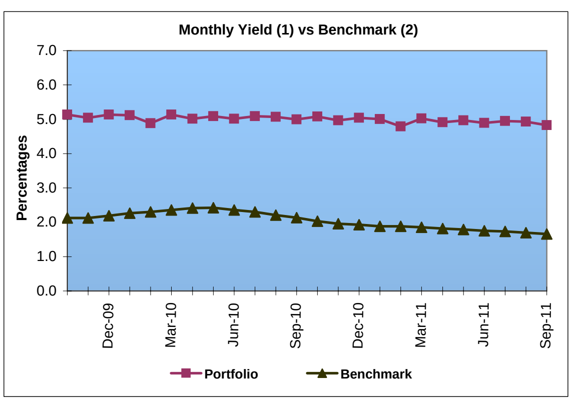
Yield and Average Maturity

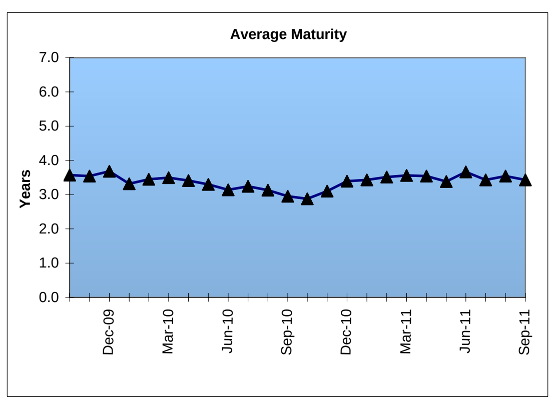
Portfolio Book Yield	4.3%	
Portfolio Average Maturity	3.4	Yrs

Portfolio Quality

	A1 / P1	AAA	AA	A	BBB	BB	B	Other	Portfolio Percent
Asset Backed		100.0%							5.7%
Corporates		8.4%	70.5%	18.7%	2.4%				18.3%
Mortgage Securities			100.0%						41.9%
Treasuries			100.0%						3.5%
Federal Agencies			100.0%						12.5%
Muni GOs			100.0%						0.5%
T-Pool Combined	6.8%	3.4%	83.9%	5.4%	0.2%	0.0%	0.2%	0.1%	17.6%
Total Portfolio	1.2%	7.8%	86.1%	4.4%	0.5%		0.0%	0.0%	100.0%





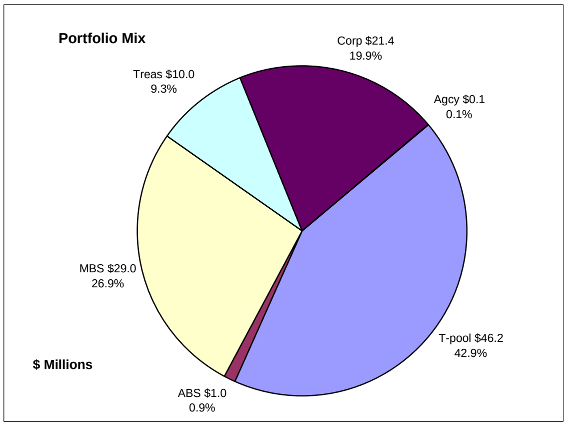


	$ Millions Average Portfolio	Realized Income	Book Yield	Performance Benchmarks (3)
FY '12 YTD	580.6	6.3	4.3%	1.7%
Last 12 months	580.7	26.3	4.5%	1.7%
FY '11	580.7	27.0	4.6%	1.8%
FY '10	580.8	28.5	4.9%	2.4%
FY '09	572.4	29.2	5.1%	2.3%
FY '08	519.3	27.1	5.2%	3.6%
FY '07	470.2	24.6	5.2%	4.7%
Avg FY '07-'11	544.7	27.3	5.0%	2.9%

(1) Does not include State Treasury Pool 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

Unclaimed Property Tourism Fund

September 30, 2011



Portfolio Value

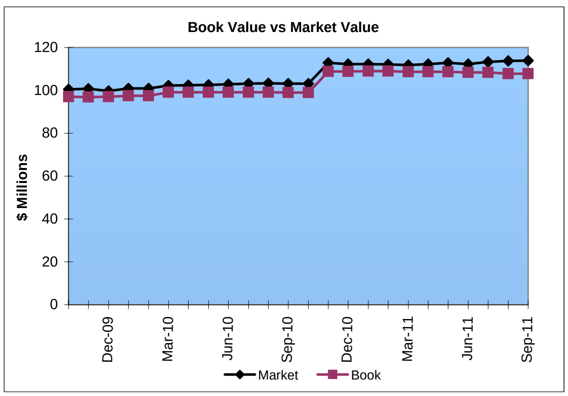
Market Value	$113.9	Million
Book Value	$107.7	Million

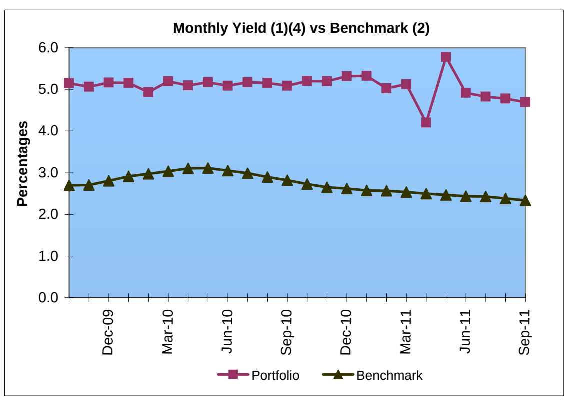
Yield and Average Maturity

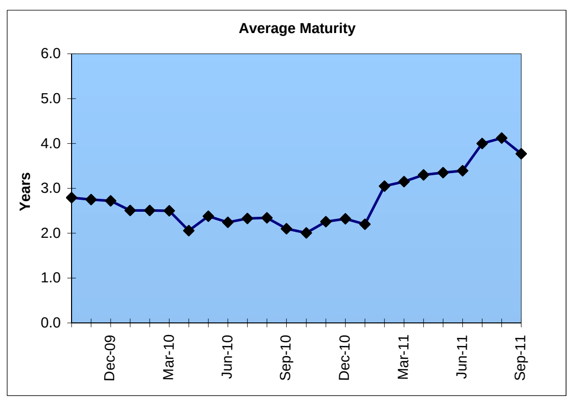
Portfolio Book Yield	3.3%	
Portfolio Average Maturity	3.8	Yrs

Portfolio Quality

	A1 / P1	AAA	AA	A	BBB	BB	B	Other	Portfolio Percent
Asset Backed		100.0%							0.9%
Corporates		4.7%	7.0%	83.6%	4.7%				19.9%
Federal Agencies			100.0%						0.1%
Mortgage Securities			100.0%						26.9%
Treasuries			100.0%						9.3%
T-Pool Combined	6.8%	3.4%	83.9%	5.4%	0.2%	0.0%	0.2%	0.1%	42.9%
Total Portfolio	2.9%	3.3%	73.7%	18.9%	1.0%		0.1%	0.1%	100.0%







	Average Portfolio ($ Millions)	Realized Income ($ Millions)	Book Yield	Performance Benchmarks (3)
FY '12 YTD	108.3	0.9	3.3%	2.3%
Last 12 months	106.9	3.5	3.3%	2.3%
FY '11	104.7	3.5	3.4%	2.4%
FY '10	87.9	3.4 [4]	3.9%	3.1%
FY '09	65.9	3.1	4.8%	2.8%
FY '08	65.7	3.3	5.0%	3.8%
FY '07	64.9	3.3	5.0%	4.7%
Avg FY '07-'11	77.8	3.3	4.4%	3.4%

(1) Does not include State Treasury Pool 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 $.2 million in losses on sale of investments in July 2009.

Bank Services Contract Expenditures for FY 2010-11 & 2011-12

Vendor	Services Provided	Actual FY 2010-11	Estimated FY 2011-12
CHASE BANK	Bank account services *	$1,108,294	$1,108,000
WELLS FARGO	Bank account services *	356,155	356,000
KEY BANK	Lockbox services **	565,116	600,000
JPMORGAN	Securities safekeeping	87,363	90,000
JPMORGAN	Investment management services	56,000	56,000
	SUBTOTAL	**$2,172,928**	**$2,210,000**
	Earnings Allowances	(99,519)	(100,000)
	TOTAL	**$2,073,409**	**$2,110,000**

* At this time Treasury has no reason to believe that annual transaction volumes will differ significantly from FY 2010-11 to FY 2011-12.
** Two new lockbox accounts were added - one in November 2010 and another in August 2011.

School District TRAN Revenues & Expenditures for FY 2009-10, 2010-11 & 2011-12

	Actual FY 2009-10	Actual FY 2010-11	Actual / Estimate FY 2011-12
SERIES A Principal	$255,000,000	*(a)*	$100,000,000
Net Interest Cost	.58%	*(a)*	*.24%*
SERIES B Principal	$260,000,000	$325,000,000	(est.) $260,000,000
Net Interest Cost	*.28%*	*.33%*	*(b)*
Total Principal	**$515,000,000**	**$325,000,000**	**$360,000,000**
Total Revenues:			
Premium	$5,240,000	$3,009,750	$1,683,000 (c)
Interest Earned	$648,183	$175,099	(d)
Total Expenditures:			
Issue Costs	($262,101)	($202,820)	($237,498) (c)
Interest Due	($7,214,444)	($3,611,111)	($1,916,667) (c)
General Fund Net (Loss) Gain	**($1,588,362)**	**($629,082)**	(d)

(a) A first series was not issued in FY 2010-11 pending the results of the November 2010 election because a proposed constitutional amendment may have prohibited the issuance of such notes.
(b) The Net Interest Cost of the second series cannot be estimated due to the volatility of interest rates.
(c) Figures shown relate to the first series only.
(d) The Interest Earned, and therefore the net gain or loss, by these funds while they are held in Treasury's pooled cash cannot be estimated due to the following:
   i) The volatility of interest rates;
   ii) The uncertainty of how much, and when, school districts will require loans from the second series; and
   iii) The uncertainty of the timing of the loan repayments by each school district.

FY 2012-13Joint Budget Committee Staff Budget Briefing
Department of Treasury

APPENDIX D:

State Auditor's Office Recommendations Not Entirely Implemented

State of Colorado

LEGISLATIVE AUDIT COMMITTEE
Legislative Services Building - Second Floor
200 East 14th Avenue
Denver, Colorado 80203

October 31, 2011

Representative Cheri Gerou, Chair
Joint Budget Committee

Dear Representative Gerou:

The Legislative Audit Committee has been concerned about departments not implementing audit recommendations that they have agreed to implement. The State Auditor and her staff have developed a database to track recommendations and produce reports identifying those not implemented. We are providing this report for your consideration as you evaluate the budget requests for the Office of the State Treasurer.

Attached you will find information regarding the following recommendations:

Office of the State Treasurer		
Number of Recommendations	Audit of Origination	Audit Date
1	State of Colorado Statewide Single Audit	Fiscal Year Ended June 30, 2009

Thank you for integrating this into your budget process.

Sincerely,

Senator Lois Tochtrop

Senator Lois Tochtrop, Chair
Legislative Audit Committee

Office of the State Auditor Recommendations

Financial Recommendations Not Entirely Implemented As of Fiscal Year Ending June 30, 2010

Agency	Recommendation	Statewide Single Audit, Fiscal Year Ending June 30, 2010 Current Recommendation or Disposition of Prior Recommendation				Statewide Single Audit, Fiscal Year Ending June 30, 2009 Report # 1994				Statewide Single Audit, Fiscal Year Ending June 30, 2008 Report # 1970				Statewide Single Audit, Fiscal Year Ending June 30, 2007 Report # 1901			
		Rec Number	Finding Classification	Implementation Status	Implementation Date or Disposition	Rec Number	Finding Classification	Implementation Status	Implementation Date or Disposition	Rec Number	Finding Classification	Implementation Status	Implementation Date or Disposition	Rec Number	Finding Classification	Implementation Status	Implementation Date or Disposition
Office of the State Treasurer	Implement procedures for monitoring counties' compliance with the earmarking requirements of the federal Secure Payments for States and Counties Containing Federal Lands program.	107	Material Weakness	Not Implemented	January 2011	149	Material Weakness	N/A	Partially agree - original implementation date is June 2010								