COLORADO GENERAL ASSEMBLY

JOINT BUDGET COMMITTEE

FY 2008-09 STAFF BRIEFING:

DEPARTMENT OF TREASURY

JBC Working Document - Subject to Change

Staff Recommendation Does Not Represent Committee Decision

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November 8, 2007

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FY 2008-09 BUDGET BRIEFING
STAFF PRESENTATION TO THE JOINT BUDGET COMMITTEE:

DEPARTMENT OF TREASURY

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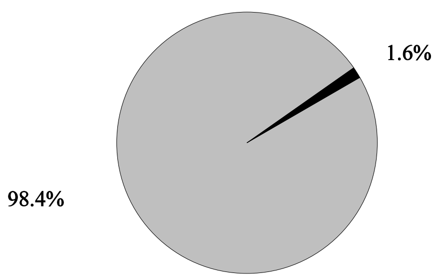

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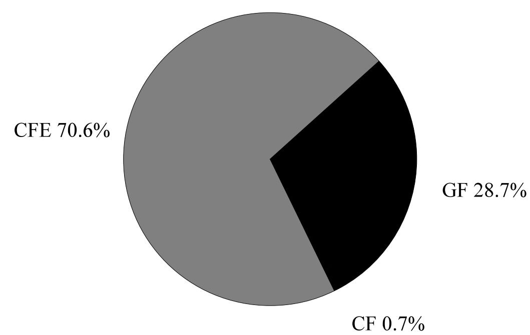

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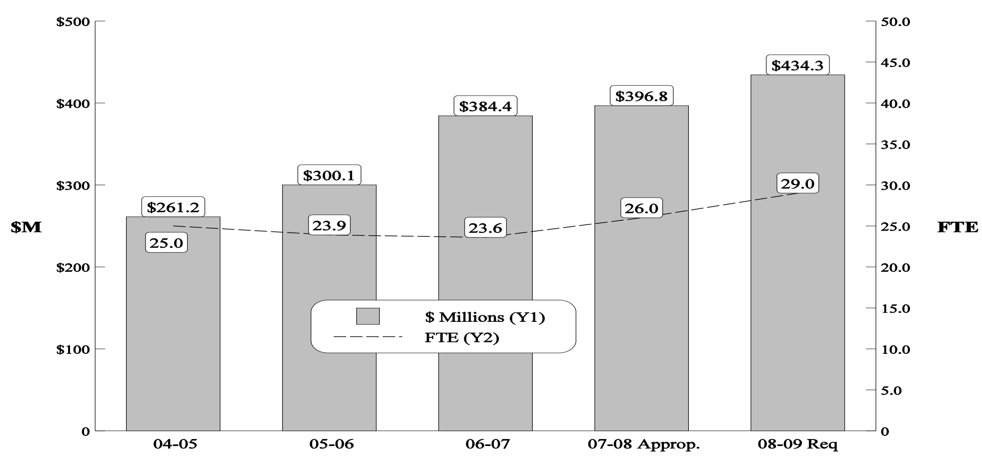

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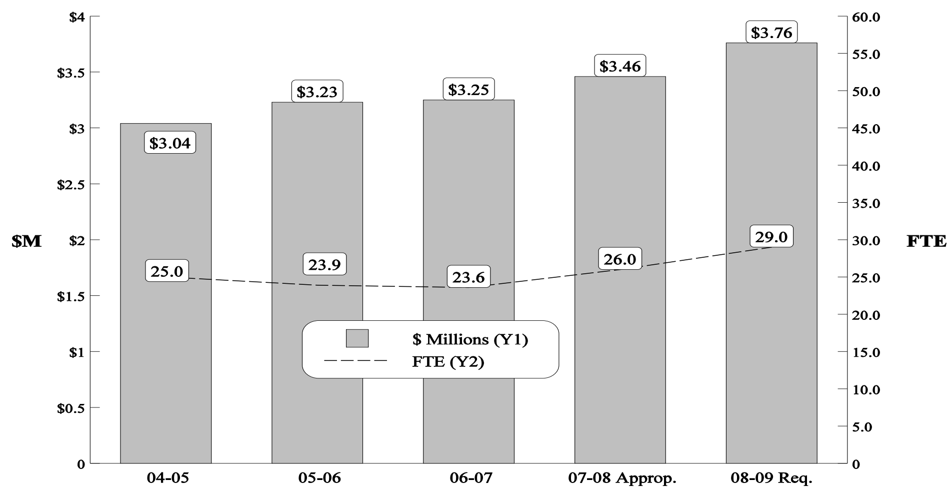

Key Responsibilities

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 and making loans from the General Fund
- 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 Senior Citizen Property Tax Exemption payments to local governments
- 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

Senior Citizen Property Tax Exemption

Article X, Section 3.5 of the Colorado Constitution, approved by voters in November 2000 and implemented through Sections 39-3-201 to 208, C.R.S., grants a property tax exemption to qualifying senior citizens and disabled veterans[1]. This provision exempts from taxation 50 percent

[1] 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 tax year 2007, the exemption also applies if a property owner-occupier is a disabled veteran (100 percent permanent service-connected disability) as of the assessment date.

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 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 from $200,000 to $0 for tax years 2003, 2004, and 2005, thereby eliminating the associated state expenditures for fiscal years 2003-04, 2004-05, and 2005-06. The Treasurer made $74.2 million in payments for FY 2006-07. [Appendix A provides details related to the 2006 exemption for each county.]

These payments are subject to the TABOR limitation on fiscal year spending[2], but are not subject to the statutory six percent limit on General Fund appropriations. The costs associated with the exemption are treated outside of the six percent 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 Property Tax Exemption			
	FY 02-03 Actual	FY 06-07 Actual /a	FY 07-08 Approp. /b
County Reimbursement for Tax Exemption	$61,491,764	$74,232,895	$78,600,000
Number of Exemptions Granted /b	123,326	146,836	not projected
Average Property Tax Exempted	$499	$506	not projected
Percent of Residences Granted Exemption	8.0%	8.5%	not projected
Actual Value Exempted	$8,865,984,923	$11,737,065,090	not projected
Assessed Value Exempted	$811,237,620	$934,270,381	not projected

/a The statutory limit on the value that may be exempted was lowered from $200,000 to $0 for FY 2003-04 through FY 2005-06, eliminating state spending on the exemptions for those years.
/b The appropriation is based on estimates included in the Legislative Council staff March 2007 revenue forecast. Legislative Council's September 2007 revenue forecast shows $76,200,000 for FY 2007-08.

[2] 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.

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. For FY 2005-06 through FY 2007-08, 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 six percent limit on General Fund appropriations.

Senate Bill 03-263 suspended the State's annual $25.3 million FPPA contribution for FY 2003-04 and FY 2004-05 and extended state payments by two years to FY 2011-12. This bill also required the State to pay the amount of unfunded liability that accrued as a result of the suspension of the state contribution. This additional payment may be 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. Appendix B details the distribution of state funding among old hire plans since 1980.

The following table provides a summary of remaining state contributions to "old hire" pension plans using two different assumptions about the payment schedule. The first column details contributions required under current law, and the second identifies an alternative payment schedule should the FY 2007-08 appropriation level be sustained through FY 2009-10. The latter approach would allow the General Assembly to make a reduced payment in April 2011 and avoid the payment otherwise scheduled for April 2012.

Fire and Police Pension Association - State-Assisted "Old Hire" Pension Plans		
Payment Date	Annual State Contribution Required Under Current Law	Alternative Contribution Schedule
April 2009	25,321,079	34,777,172
April 2010	25,321,079	34,777,172
April 2011	25,321,079	23,501,178
April 2012 (estimate)	20,971,594	0

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 funds exempt 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 2007-08 and FY 2008-09.

Highway Users Tax Fund (HUTF) /a					
Actual Revenues and Distributions				Projections	
	FY 04-05	FY 05-06	FY 06-07	FY 07-08	FY 08-09
Total Revenues	$766,011,277	$787,427,989	$779,927,512	$788,032,426	$785,014,948
Annual Percent Change	*1.6%*	*2.8%*	*-1.0%*	*1.0%*	*-0.4%*
Treasury Distributions:					
Counties	$155,980,977	$159,784,050	$159,769,834	$160,553,271	$157,961,361
Municipalities	102,184,633	104,524,983	103,105,022	102,772,042	102,492,743

/a Actual data provided by State Treasurer's Office. Figures exclude transfers that occur pursuant to Section 24-75-218, C.R.S. ("one-third/two-thirds" transfers) and Section 39-26-113 (Sales and Use Tax or S.B. 97-1 transfers). Projected data provided by Legislative Council staff based on their September 2007 revenue forecast.

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 CoverColorado in 1990 to offer health insurance to those "high risk" individuals who are unable to obtain health insurance except at prohibitive rates or with restrictive exclusions. Although CoverColorado premiums are currently set at 140 percent of the industry average[3], premium revenues currently cover only 43 percent of program costs. Thus, the program requires a subsidy from one or more other sources of revenue. These other sources of revenue currently include: contributions from insurance companies provided in exchange for a 100 percent premium tax credit (a maximum of $5.0 million total per year); interest and principal from the Unclaimed Property Trust Fund; and insurance carrier assessments.

The following table provides a summary of CoverColorado costs, premiums, and other sources of revenue. CoverColorado expenses began to exceed annual revenues in FY 2001-02. Absent the insurance carrier assessments that occurred in August 2003 and May 2004, program costs in FY 2003-04 would have exceeded program revenues by $4.5 million.

[3] This is a reduction from recent years. Prior to January 1, 2007, premiums had been set at 150 percent of the industry average. The CoverColorado board reduced premiums to attract additional participants.

CoverColorado: Recent Funding History						
Fiscal Year	**Claims and Administrative Costs**	**Premiums Paid by Enrollees**	***Ratio: Premiums/ Total Costs***	**Total Subsidy Required**	**Other Sources of Revenue <a>**	**Annual Surplus/ (Deficit)**
98-99	$5,300,177	$3,043,656	*57.4%*	($2,256,521)	$3,685,669	$1,429,148
99-00	6,600,410	3,388,467	*51.3%*	(3,211,943)	6,191,425	2,979,482
00-01	10,163,795	5,149,955	*50.7%*	(5,013,840)	6,054,890	1,041,050
01-02	17,715,896	9,380,110	*52.9%*	(8,335,786)	8,144,133	(191,653)
02-03	28,163,622	17,064,208	*60.6%*	(11,099,414)	3,527,552	(7,571,862)
03-04	34,505,598	21,361,177	*61.9%*	(13,144,421)	40,843,100	27,698,679
04-05	34,668,993	21,402,805	*61.7%*	(13,266,188)	6,268,704	(6,997,484)
05-06	36,786,073	23,878,912	*65.0%*	(12,907,161)	14,230,799	1,323,638
06-07	47,859,232	24,257,015	*50.7%*	(23,602,217)	17,266,139	(6,336,078)
Projections:						
07-08 <b>	69,735,182	29,397,288	*42.2%*	(40,337,894)	30,093,585	(10,244,309)
08-09 <b>	92,830,895	39,517,276	*42.6%*	(53,313,619)	55,070,516	1,756,897
09-10 <b>	118,307,649	50,657,110	*42.8%*	(67,650,539)	66,700,739	(949,800)
10-11 <b>	147,177,493	63,526,587	*43.2%*	(83,650,906)	131,312,973	47,662,067
11-12 <b>	181,185,410	78,813,969	*43.5%*	(102,371,441)	143,229,348	40,857,907

<a> Other sources of funding include: interest earned on the CoverColorado Cash Fund, moneys made available from the Unclaimed Property Program, insurance carrier assessments, federal funds, and (beginning in 2005) annual contributions from insurance carriers in exchange for a premium tax credit.
<b> Projections prepared by Leif Associates, dated October 26, 2007. Reflects "baseline" actuarial scenario. Projections include insurance carrier assessments of $71.8 million in FY 2010-11 and $103.1 million in FY 2011-12.

The only revenue source that is reflected in the annual Long Bill is the amount anticipated to be transferred from the Unclaimed Property Trust Fund; this amount appears in the Treasury section. CoverColorado is defined as a "special purpose authority" for purposes of TABOR, so none of CoverColorado's expenditures are subject to TABOR limits, including moneys transferred from the Unclaimed Property Trust Fund.

Summary of Major Legislation

- ❑ **S.B. 07-49 (Isgar/McGihon): CoverColorado Coordination of Benefits Plans.** Authorizes the Board of Directors for CoverColorado to offer one or more coordination of benefits plans to supplement Medicare reimbursement for hospital, medical, or surgical expenses for an eligible participant. Includes a provision to identify the additional amount that is anticipated to be transferred from the Unclaimed Property Trust Fund in FY 2007-08 as a result of this act ($1,062,000).

- ❑ **S.B. 06-180 (Isgar/Green): CoverColorado Premium Rates.** Establishes a minimum and maximum *average* premium rate for coverage under CoverColorado. Specifies that the statutory premium rate range does not apply to individuals approved by the Board of Directors of CoverColorado for participation in a premium subsidy program established by the Board.

- ❑ **S.C.R. 06-1 (Gallegos/Evans): Expansion of Homestead Exemption.** Refers a measure to the voters at the November 2006 general election to allow for the senior homestead exemption to be extended to veterans who are 100 percent permanently disabled due to a service-connected disability. Specifies that the cost associated with the backfill of revenue to local governments for lost property taxes is a voter-approved revenue change, thereby allowing the State to retain the revenue necessary to backfill local governments out of surplus revenue.

- ❑ **S.B. 04-211 (Hillman/Spradley): Unclaimed Property and CoverColorado.** Makes changes to unclaimed property publication requirements. Specifies that the Unclaimed Property Trust Fund principal, plus any interest earnings, be transferred to CoverColorado to the degree that moneys are available in the Fund and are needed for CoverColorado.

- ❑ **S.B. 04-256 (Taylor/White): Sale of Unclaimed Property Securities and Tourism Promotion.** Directs the Department to sell securities that have been held as unclaimed property for at least a year and deposit the proceeds in the Unclaimed Property Tourism Promotion Trust Fund. Limits the use of Trust Fund principal to payment of unclaimed property claims. Requires associated interest earnings to be credited to the Colorado Travel and Tourism Promotion Cash Fund for the promotion of tourism and the Colorado State Fair.

- ❑ **S.B. 03-184 (Teck/Witwer): Treasury Transaction Fee.** Authorizes the State Treasurer to deduct from interest earnings a per-transaction fee for cash management transactions performed on behalf of state departments and agencies. Exempts all constitutionally-restricted funds.

- ❑ **S.B. 03-263 (Owen/Witwer): State Assistance To FPPA Old Hire Plans.** Eliminates the annual $25.3 million General Fund contribution to the Fire and Police Pension Association for "old hire" pension plans for both FY 2003-04 and FY 2004-05. Requires that payments be made in two additional fiscal years (FY 2010-11 and FY 2011-12) and any accrued unfunded liability attributable to these reductions be replaced prior to April 30, 2012. Changes the date of annual payments from September 30 to April 30.

- ❑ **S.B. 03-265 (Teck/Young): Suspend Senior Property Tax Exemption.** Eliminates the General Fund required for the Senior Citizen Property Tax Exemption for three years (FY 2003-04 through FY 2005-06) by lowering the home value subject to the exemption to zero.

- ❑ **H.B. 03-1274 (Mitchell/Arnold): Loans to School Districts.** Permits the Treasurer to issue tax anticipation notes to finance interest-free loans to school districts. Requires school districts to submit financial statements demonstrating the ability to repay loans.

- ❑ **H.B. 02-1349 (King/Alexander): Charter School Facilities Financing Act.** Increases charter school access to capital funding. Creates an "intercept program" through which the Treasury can make direct payments of principal and interest due on bonds on behalf of a charter school.

- ❑ **H.B. 02-1392 (Young/Reeves): Unclaimed Property Refinance.** Requires the Unclaimed Property Program and associated administrative expenses to be funded from the Unclaimed Property Trust Fund, rather than the General Fund, beginning in FY 2001-02.

- ❑ **S.B. 00-181 (George/Wham): K-12 Capital Construction.** Authorizes the Treasurer to loan moneys in the Public School Fund to school districts for capital construction projects.

- ❑ **S.B. 95-228 (Rizzuto/Grampsas): Funding of State Assistance to FPPA.** Requires the transfer of an additional amount in September 1995 to the FPPA, up to $25.5 million General Fund, to pay the state contribution that was not made as scheduled in 1987, plus associated interest. Prospectively provides for a level of funding for FPPA "old hire" plans ($25.3 million per year) sufficient to ensure the state's financial obligation is terminated by 2010.

Major Funding Changes FY 2006-07 to FY 2007-08

Action *(Source)*	**General Fund**	**Other Funds** *(Source)*	**Total Funds**	**Total FTE**
Senior citizen property tax exemption *(Statutory)*	$14,000,000	$0	$14,000,000	0.0
Highway Users Tax distributions *(Based on projected revenues)*	0	9,716,800 *(HUTF)*	9,716,800	0.0
Estimated transfer to CoverColorado *(Statutory)*	0	6,085,278 *(Unclaimed Property Trust Fund)*	6,085,278	0.0
Other	38,893	23,581	62,474	0.0
Total	**14,038,893**	**15,825,659**	**29,864,552**	**0.0**

*** This table displays funding changes as reflected in the FY 2007-08 Joint Budget Committee Appropriations Report.**

Major Funding Changes FY2006-07 to FY 2007-08 Narrative:

- Reflects a $14.0 million General Fund increase, compared to the FY 2006-07 appropriation, in payments to local governments to offset the local property tax revenues that will be foregone for tax year 2007 due to the senior citizen and disabled veteran property tax exemption.

- Reflects a $9.7 million cash funds exempt increase in the projected disbursements of HUTF revenues to counties and municipalities.

- Reflects a $6.1 million increase in the amount that is anticipated to be transferred from the Unclaimed Property Trust Fund to CoverColorado, including $1.1 million related to the new benefit coordination plans authorized through S.B. 07-49.

FY 2008-09 Joint Budget Committee Staff Budget Briefing
Department of Treasury
Decision Items

Priority	Division: Description *[Statutory Authority}*	GF	CF *Source*	CFE *Source*	FF	Total	FTE
1	**Administration: Transparency Initiative** Provide funding to implement "Phase II" of the Treasurer's Transparency Initiative, including: annual publication of the State Taxpayer Accountability Report (STAR, first published in 2007), publication of additional reports and materials on state finances, and the development of an interactive website to provide citizens with localized information on state finances. *[Sections 24-36-102,24-36-109, 24-36-11.5, 24-36-112, 24-36-113, 24-22-107(4), 24-6-401, and 24-22-104, C.R.S.]*	46,575	0	0	0	46,575	0.0
2	**Administration: Information Security Officer** Provide funding to hire an Information Security Officer to oversee the Department's cybersecurity program. Amount requested would be allocated as: $94,144 for personal services and $4,194 for operating costs. *[Sections 24-37.5.-401 and 24-37.5-404, C.R.S.]*	98,338	0	0	0	98,338	1.0
3	**Administration: BondEdge Investment Software** Provide additional funds to allow the Department to subscribe to BondEdge, an investment tool for fixed income portfolios *[Sections 24-36-109 through 113, 22-41-101 through 106, 24-75-601.1 through 601.5, 8-46-210, 38-13-116.7, 22-55-103, 24-22-115.5 and 24-75-302.5, 23-3.1-206.7, C.R.S.]*	47,188	0	0	0	47,188	0.0
4	**Unclaimed Property Program: Audit Intern** Provide funding to hire an entry level desk auditor to contact non-reporting companies to encourage additional participation in the Unclaimed Property Program, conduct additional outreach to property owners, and assist auditors with field audits *[Sections 38-13-103 through 109.7 and 38-13-110, C.R.S.]*	0	46,036 *[CF - Unclaimed Property Trust Fund]*	0	0	46,036	1.0
5	**Unclaimed Property Program: Administrative Assistant** Provide funding to hire a Lead Phone Operator for the Unclaimed Property Division, a position currently filled by temporary staff. Cost shown is additional cost of converting from temporary staff to permanent FTE. *[Section 38-13-117, C.R.S.]*	0	8,650 *[CF - Unclaimed Property Trust Fund]*	0	0	8,650	1.0
	Total Request	**192,101**	**54,686**	**0**	**0**	**246,787**	**3.0**

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DEPARTMENT OF TREASURY
OVERVIEW OF NUMBERS PAGES

The following table highlights changes contained in the Department's FY 2008-09 budget request, as compared with the FY 2007-08 appropriation.

Requested Changes, FY 2007-08 to FY 2008-09

Description	GF	CF	CFE	Total	FTE
Administration:					
Salary Survey and Performance-based Pay Awards	$14,450	$4,934	$0	$19,384	0.0
Personal Services (DI #1 and 2)	119,706	32,145	0	151,851	1.0
Amortization Equalization Disbursement	7,060	3,408	0	10,468	0.0
Supplemental Amortization Equalization	3,788	1,769	0	5,557	0.0
Health, Life, and Dental	(3,321)	4,459	0	1,138	0.0
Operating (DI #3)	83,176	0	0	83,176	0.0
Risk Management	(47,744)	0	0	(47,744)	0.0
Other	(1,303)	53	0	(1,250)	0.0
Unclaimed Property Program:					
Personal Services (DI #4 and 5)	0	73,584	0	73,584	2.0
Operating	0	4,194	0	4,194	0.0
Leased Space	0	1,733	0	1,733	
Special Purpose:					
HUTF - County Payments	0	0	5,229,475	5,229,475	0.0
Transfer to CoverColorado	0	0	31,398,765	31,398,765	0.0
HUTF - Municipality Payments	0	0	1,928,079	1,928,079	0.0
Senior Citizen Property Tax Exemption	(1,400,000)	0	0	(1,400,000)	0.0
Net Change	**($1,224,188)**	**$126,279**	**$38,556,319**	**$37,458,410**	**3.0**

Total Funding. Excluding changes related to the Senior Citizen Property Tax Exemption, Highways Users Tax Fund distributions, and transfers to CoverColorado, the Treasury Department is requesting an increase of $302,091 in total funding (8.7 percent).

FY 2008-09 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF TREASURY
FY 2007-08 LONG BILL FOOTNOTE UPDATE

4 **All Departments, Totals** -- The General Assembly requests that copies of all reports requested in other footnotes contained in this act be delivered to the Joint Budget Committee and the majority and minority leadership in each house of the General Assembly.

Comment:

Copies of Reports. The Department indicates that it has forwarded copies of the reports requested through footnotes 125 (investments), 126 (bank services contracts), and 127 (issuance of tax and revenue anticipation notes for school districts) to the six members of leadership, as requested.

5 **All Departments, Totals** – Every Department is requested to submit to the Joint Budget Committee information on the number of additional federal and cash funds exempt FTE associated with any federal grants or private donations that are applied for or received during FY 2007-08. The information should include the number of FTE, the associated costs (such as workers' compensation, health and life benefits, need for additional space, etc.) that are related to the additional FTE, the direct and indirect matching requirements associated with the federal grant or donated funds, the duration of the grant, and a brief description of the program and its goals and objectives.

Comment: The Governor vetoed this footnote on May 2, 2007 on the basis that: 1) it violates the separation of powers in that it is attached to federal funds and private donations, which are not subject to legislative appropriation; and (2) placing information requirements on such funds could constitute substantive legislation in the Long Bill. In his letter to the General Assembly concerning the Long Bill, the Governor also indicated that this footnote is an unfunded mandate and that it would require a significant devotion of resources. After the General Assembly overrode all Long Bill vetoes, the Governor directed departments to comply to the extent that the footnote could be adhered to without adversely impacting the operation of the executive branch or the delivery of government services.

The Department of Treasury does not have federal grants or private donations in its budget.

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

Comment: The Department submitted the annual investment performance report with its FY 2008-09 budget request, as it has in past years. The document includes data for a number of funds and portfolios, including: the Treasury Pool[4], the State Education Fund, the Major Medical Insurance Fund, the Public School Fund (often called the "permanent fund"), and the Unclaimed Property Tourism 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 report is one of a series of quarterly reports that are available through the Department's web site.

For FY 2006-07, with the exception of the Treasury Pool, the book yield for each fund/portfolio matched or outperformed the relevant benchmarks identified by the Department. With regard to the Treasury Pool, the book yield of 4.7 percent for FY 2006-07 was less than the 5.0 percent performance benchmark (which is based on the 12-month moving average of the constant maturity yield on the one-year Treasury note at the end of the period). A copy of the information provided by the Department is included in Appendix C.

126 **Department of the Treasury, Administration** -- The State Treasurer is requested to provide to the Joint Budget Committee, by November 1, 2007, 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 2006-07 as well as projected expenditures for FY 2007-08. The requested report should be submitted as part of the State Treasurer's annual budget request.

Comment: The State Treasurer manages the State's banking service agreements and bank accounts. Bank service costs include processing warrants and electronic payments, safekeeping and accounting for investments, and depositing all state revenues. Bank fees are deducted from interest earned on bank account balances, and are thus not reflected in appropriations to the Department.

Department staff have previously indicated that bank service costs totaled $2.4 million in FY 2003-04, $1.6 million in FY 2004-05, and $1.6 million in FY 2005-06. The information provided in response to this footnote identifies costs totaling $964,666 for FY 2006-07, as well as estimated costs of $1,166,000 for FY 2007-08, once earnings allowances and credits for FY 2005-06 overcharges are included. A copy of the information provided by the Department for fiscal years 2006-07 and 2007-08 is included in Appendix D.

127 **Department of the Treasury, Administration** -- The State Treasurer is requested to provide to the Joint Budget Committee, by November 1, 2007, 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

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

include actual data for FY 2006-07, as well as projected data for FY 2007-08. The requested information should be submitted as part of the State Treasurer's annual budget request.

Comment:

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 district. 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[5] 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 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

[5] 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.

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 districts' 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. This occurred in FY 2004-05, FY 2005-06, and FY 2006-07, when the loan program actually resulted in net benefits to the General Fund of $694,118, $1,840,770, and $1,669,598, respectively.

Current Participation. In FY 2006-07, the Treasury issued a total of $345 million in tax and revenue anticipation notes on behalf of 16 school districts. 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. A copy of the data provided by the Department for fiscal years 2006-07 and 2007-08 is included in Appendix E.

128 **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, 2007, and by February 1, 2008, that contain enrollment, revenue, expenditure, and assessment projections for the CoverColorado program for FY 2007-08 and FY 2008-09.

Comment: CoverColorado provided the information requested. Most recently, staff received data prepared by Leif Associates dated October 26, 2007, containing projections for FY 2007-08 through FY 2011-12.

Further, please note that Section 10-8-530, C.R.S., includes three statutory reporting requirements related to CoverColorado:

- Subsection (1.3): "The [Board of Directors of CoverColorado] shall report to the state treasurer annually, based on the projected operating revenues of the program, combined with the projected cash balance of all program accounts, if the program's moneys will not be adequate over the next twenty-four-month period to provide for the projected claims, administrative expenses, reserves for claims incurred but not reported, and surplus equal to ten percent of projected annual claims. The report shall be substantiated by the actuarial evaluations required by paragraph (c) of subsection (1.5) of this section."

- Subsection (1.5) (e): "In the event the assessment [against insurers] ... equals fifty percent of the administrative and claims expenses totaled that are projected for the program, the [Board of Directors of CoverColorado] shall conduct a review of the premium levels, benefit design, costs of administration, cost containment measures available, and any other factors that might contribute to the continued financial solvency of the program. Such review shall be presented to the members of the joint budget committee within ninety days after an assessment that equals fifty percent of the expenses of the program is made."

- Subsection (4) (c) (I): "The executive director of [CoverColorado] shall report annually to the joint budget committee concerning the receipts and expenditures of the moneys in the accounts of the program."

With regard to the third statutory reporting requirement, above, CoverColorado prepares financial statements for each calendar year of operation. Staff has received year-end financial statements for CY 2006. Staff has included more detailed information about CoverColorado in the issue brief that begins on page 30.

129 **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, 2007. 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, 2012, 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.

<u>Comment</u>: The Vice Chairman of the Fire and Police Pension Association (FPPA) Board of Directors sent a letter dated August 29, 2007, to the Chairman of the Joint Budget Committee. This letter provides much of the information requested through the above footnote, including the accrued unfunded liability for each state-assisted plan. Staff has provided more information about the history of these plans and potential funding scenarios in Appendix B and in the issue brief that begins on page 24.

Actuarial Assumptions. Pursuant to Section 31-30.5-306, C.R.S., each employer receiving state assistance is required to file an actuarial study of its old hire plans by April 30 of each year through 2012. The FPPA Board of Directors is required to specify the actuarial assumptions to be used in each actuarial study, and the FPPA is required to designate actuaries to supervise, conduct, or review these annual actuarial studies. The FPPA submitted an August 2007 report concerning the actuarial valuation of the statewide death and disability plan and the statewide defined benefit plan administered by the FPPA. This report reflects that actuarial valuation of each plan as of January 1, 2007. Actuarial assumptions include mortality rates, disability rates, retirement rates, and demographic and other details for actual participants. Consistent with last year, the Board assumes an investment return of 8.0 percent, compounded annually, composed of an assumed 3.5 percent inflation rate and a 4.5 percent net real rate of return (net of all investment and administrative expenses)

In addition, the FPPA submitted a copy of its comprehensive annual financial report for the fiscal year ended 12/31/05. The report is published by June 30 each year and is also available through the FPPA website at the following address:

www.fppaco.org/toc_frames.html

FY 2008-09 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF TREASURY
Options for Paying State Contributions to "Old Hire" Pension Plans

ISSUE:

There are a number of early payment options should the General Assembly elect to continue to pay state contributions to "old hire" fire and police pension plans sooner than required under current law.

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 $503 million General Fund to 110 local "old hire" pension plans since 1980.

❑ Current law requires 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 in recent years due to budgetary constraints.

❑ FPPA's actuarial projections have changed significantly since last year, showing a reduced state obligation. If the General Assembly elects to appropriate $25.3 million annually from FY 2008-09 through FY 2010-11, the total payment required in FY 2011-12 is estimated to be $21.0 million. Under last year's projections, appropriating the statutory minimum through FY 2010-11 would have required a $61.1 million "balloon payment" in FY 2011-12.

❑ In FY 2006-07 and FY 2007-08, the General Assembly appropriated $34.8 million to the "old hire" plans each year. According to FPPA projections, appropriating at that level through FY 2009-10 would allow a reduced ($23.5 million) payment in FY 2010-11, with no payment necessary in FY 2011-12.

RECOMMENDATION:

Staff recommends that the Committee maintain the General Fund appropriation for old hire plans at $34.8 million for each of the next two fiscal years, followed by an appropriation of $23.5 million in FY 2010-11. Under FPPA's recent projections, doing so would eliminate the need for a payment in FY 2011-12. Alternatively, the Committee could consider appropriating the $25.3 million minimum through FY 2010-11 and $21.0 million in FY 2011-12.

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 plan. Although the General Assembly had provided some state funding for local pension plans and state statute provided some structure for local plans, the plans' administration and funding 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[6], 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 provisions of [this bill] are enacted in the exercise of the police powers of this 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 old hire plans 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[7].

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

[6] To put this figure in perspective, the total state General Fund operating budget in the FY 1978-79 Long Bill was $1,034,958,278. 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 expressed in terms of the FY 2007-08 state General Fund operating budget, it would exceed $3.5 *billion*.

[7] The September 11, 2007, report to the legislative Police Officer's and Firefighter's Pension Reform Commission indicates that the ratio of the actuarial value of statewide defined benefit plan assets to the actuarial accrued liability is 122.5 percent -- a surplus of $147.3 million.

> recognition that said local governments are currently burdened with financial obligations relating to pensions in excess of their present financial capacities. It is the intent of the general assembly in providing state moneys to assist said local governments that state participation decrease annually, terminating at the earliest possible date." *(emphasis provided)*

Since 1980, the State has contributed a total of $503 million to 110 local police and fire departments. [A history of state contributions and the allocation of state funding among local plans is provided in Appendix B.] 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. For FY 2005-06 through FY 2007-08, 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 six percent 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[8].

Twice since 1980, 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 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, which ever 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 General Assembly again suspended the state contribution for old hire pension plans (through S.B. 03-263) 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. This additional payment may be 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.

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[8] In addition, Sections 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.

As of December 31, 2006, 92 percent of the 3,642 "old hire" members were retired. Of the 54 affiliated local plans, seven are currently eligible for state assistance, including:

- Denver Fire
- Denver Police
- Grand Junction Police
- Greeley Fire
- Pueblo Fire
- Lakewood Fire
- North Washington Fire

The FPPA is projecting that all seven of the above departments will become fully funded by 2012 (the last year that a state contribution would be paid under current law).

Future State Contributions for "Old Hire" Pension Plans

Under current law, the State is required to contribute $25.3 million per year through FY 2011-12 or until the plans are fully funded, whichever comes first, plus an additional make-up payment (if necessary) related to recent suspended contributions. For FY 2006-07 and FY 2007-08, the Joint Budget Committee voted to increase the appropriation by $9.5 million (to $34,774,141 in FY 2006-07 and $34,772,172 in FY 2007-08). The Committee's plan was based on a scenario which avoids the balloon payment otherwise required in April 2012; 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.

The FPPA's actuarial projections have changed significantly for FY 2008-09, resulting in a significant reduction in the state's overall obligation. According to FPPA staff, the key change affecting the payment projections has been the performance of the pension fund's investments. In 2006, the association's investments earned approximately 15 percent interest, nearly double the 8 percent assumed in the actuaries projections for that year. Likewise, the investments have performed well thus far in 2007.

As a result of these changes in projections, the General Assembly's options for paying down the FPPA obligation have changed significantly. For example, under the projections for the FY 2007-08 Long Bill, continuing to pay $34.8 million per year through FY 2009-2010 would still have required the state to pay the minimum $25.3 million in both FY 2010-11 and FY 2011-12. Under this year's projections, continuing the $34.8 million payment through F 2009-2010 would allow the state to make a reduced ($23.5 million) payment in FY 2010-11 and avoid making any payment in FY 2011-12. The changed projections have had a similar effect on each of the options that staff presented to the committee for FY 2007-08.

Staff has provided a table on page 29 to detail the remaining state contributions to old hire pension plans using different assumptions about the payment schedule. Each of the options detailed in the table is described below:

A: *Current Law 2008+*. Appropriate the minimum amount required statutorily ($25.3 million), for the next three fiscal years. This option is estimated to require a payment of $21.0 million in April 2012.

B: *JBC Plan.* Consistent with the Committee's action last Spring, continue to appropriate a higher amount for the next two fiscal years ($34.8 million) and appropriate $23.5 million in FY 20010-11. Current FPPA projections indicate that this option would eliminate the need for any payment in FY 2011-12.

C: *Four Equal Payments.* Appropriate the same amount ($24.4 million) for each of the next four fiscal years.

D: *Two Equal Payments.* Appropriate the same amount ($45.2 million) for each of the next two fiscal years (consistent with the Referendum C "time-out" period), paying off the State's obligations in April 2010.

E: *April 09 Payoff.* Pay off the State's obligations in April 2009 ($87.2 million).

Spreadsheet of payment options

FY 2008-09 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF TREASURY
Funding for the CoverColorado Program

ISSUE:

The existing funding structure for CoverColorado will provide sufficient revenue to support anticipated program expansion through FY 2009-10 but the program will require significant insurance carrier assessments in FY 2010-11 and FY 2011-12.

SUMMARY:

❑ Due to a combination of reduced premiums in relation to the standard risk rate and increased enrollment, CoverColorado premiums currently cover 43 percent of program costs, down from over 60 percent in prior years. The amount required to subsidize the program each year is projected to grow from $9.3 million in FY 2006-07 to $102.3 million in FY 2011-12.

❑ Under current law, program expansion will be financed by further depleting the available principal in the Unclaimed Property Trust Fund (UPF). Projections indicate that depletion of the UPF will trigger insurance carrier assessments in FY 2010-11 ($71.8 million) and FY 2011-12 ($103.1 million).

❑ The program's authority to levy insurance carrier assessments will sunset on July 1, 2008 unless the General Assembly takes action before then. A recent Department of Regulatory Agencies "sunset review" recommends extending the assessment but also recommends that the Governor appoint a task force to develop long-term funding solutions for CoverColorado.

❑ At the December 2006 Treasury Department hearing, the Committee asked CoverColorado to work toward smoothing out the assessment process and reducing the program's reliance on the UPF. CoverColorado is working with the insurance industry and others to do so but thus far does not have a proposal.

RECOMMENDATION:

Staff recommends that the Committee use the hearing to discuss CoverColorado's progress toward smoothing out the assessment process and developing a more stable funding source for the program. Potential questions are included at the end of this paper.

DISCUSSION:

Background Information

Colorado does not require insurance companies to offer individual health coverage 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. CoverColorado enrollees pay relatively high rates[9], but the rates are not sufficient to cover the costs of the claims associated with the high risk pool. In FY 2006-07, CoverColorado premiums covered 50.7 percent of program costs (claims plus administrative costs), though the share covered by premiums is projected to decline to 42.2 percent for FY 2007-08. Nationally, premiums from insured members of high risk pools accounted for 61 percent of total costs in FY 2006-07[10].

Originally created by the General Assembly in 1990[11], CoverColorado is a nonprofit unincorporated public entity that is governed by a seven-member board of directors[12]. For purposes of TABOR, CoverColorado is defined as a "special purpose authority" [see 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 purposes of TABOR's spending limitations.

Participants
Certain individuals are categorically <u>not</u> eligible for CoverColorado, including inmates and residents of public institutions, and individuals who are eligible for Medicaid. Those who are eligible for CoverColorado fall into one of two eligibility categories. First, about 70 percent of the Colorado residents currently participating in the program are "medically" eligible 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 at a premium rate higher than that available through CoverColorado (or with coverage including a reduction or exclusion for a preexisting condition for a period exceeding six months);
- had a health benefit plan involuntarily terminated by a Colorado 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).

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[9] Statutorily, the average premium rates for CoverColorado must be between 100 and 150 percent of the standard risk rate (the average rate for health benefit plans charged by the five largest carriers in Colorado that offer similar policies) [See Section 10-8-512, C.R.S.].

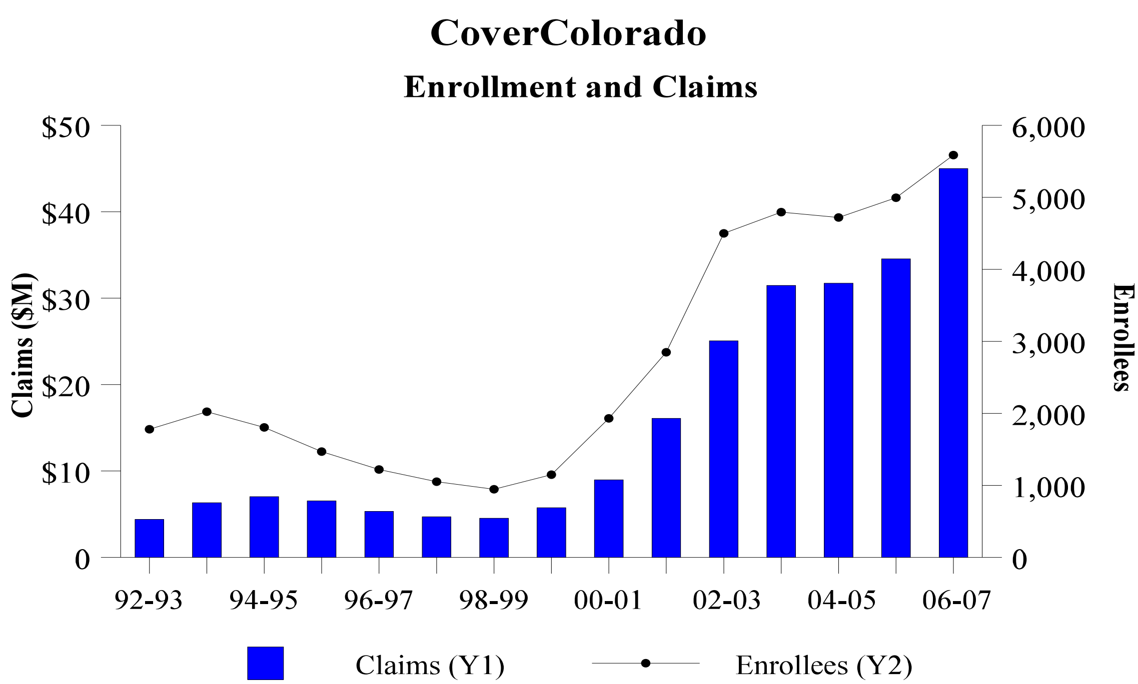
[10] Data from *Comprehensive Health Insurance for High-risk Individuals: A State-by-State Analysis*, Twenty-First Edition (2007-08), published by Communicating for Agriculture and the Self-Employed in cooperation with the National Association of State Comprehensive Health Insurance Plans.

[11] House Bill 90-1305 (Taylor-Little/Traylor) created the Colorado Uninsurable Health Insurance Plan or "CUHIP". The act establishing the program is now called the "Colorado High Risk Health Insurance Act", and the program created by the act is now called "CoverColorado".

[12] These seven members, who are all appointed by the Governor, include four insurance carrier representatives, two individuals who are insured or have been insured under CoverColorado, and one medical professional who specializes in chronic disease. The Insurance Commissioner, the State Treasurer, and a member of the General Assembly serve as non-voting members of the board.

The remaining 30 percent of current CoverColorado participants are considered "federally" eligible for the program due to requirements of the federal Health Insurance Portability 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 in the Trade Adjustment Assistance Program, as well as individuals ages 55 to 64 who receive pension benefits from the federal Pension Benefit Guarantee Corporation.

As illustrated in the following chart, CoverColorado enrollment and the associated cost of claims have varied since the inception of the program. According to program staff, the primary drivers of enrollment are the general economy (which affects the number of individuals losing group coverage through their employer) and the program premiums.

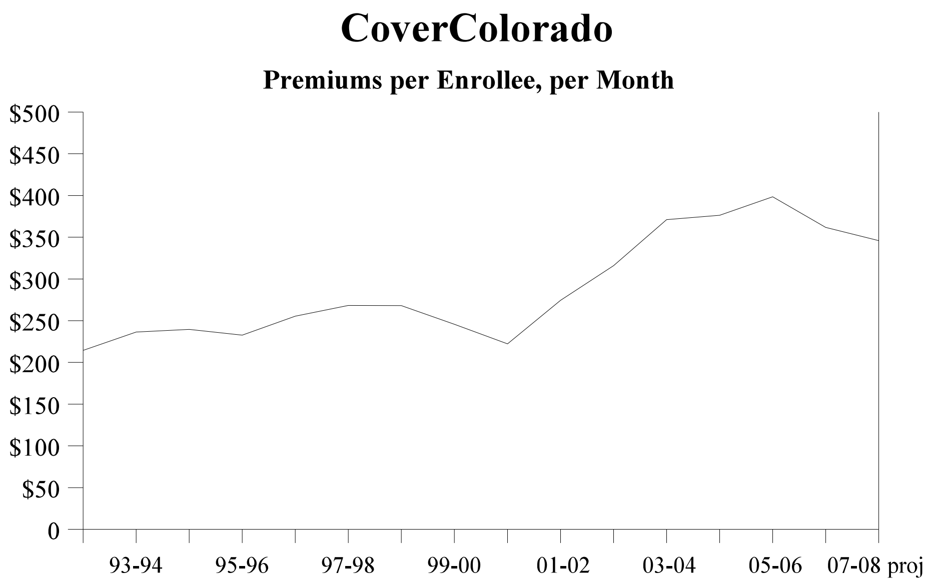


Funding Sources

Participant premiums have always provided the largest share of funding for CoverColorado. However, since its inception, the program has required additional (subsidy) funding from other sources. Originally, CoverColorado was subsidized by an income tax surcharge. In 1993, the income tax surcharge was repealed and the program gained access to moneys transferred from the state's *Unclaimed Property Trust Fund (UPF).* The UPF currently provides the bulk of non-premium funding but the program also receives up to $5 million per year from insurance premium tax credits, as well as some federal grant funding, though the grant funding is not expected to continue beyond FY 2007-08. Under current law, when projections show that the above sources will not be sufficient to fund the program, CoverColorado may levy assessments on insurance carriers (based on the number of lives insured by each company).

1. Participant Premiums

Historically, premiums have covered the majority of CoverColorado costs. Seeking to encourage additional enrollmentt, the CoverColorado Board has established a goal of achieving a 50/50 split in funding for CoverColorado, so that premiums and interest earned on the CoverColorado Cash Fund provide 50 percent of program funding, and "public" funding sources (i.e., transfers from the UPF, contributions from carriers in exchange for a premium tax credit, and federal funds) provide the other 50 percent. Consistent with this goal, the Board reduced certain premium rates, effective January 1, 2007, so that the average premium is now 140 percent of the standard risk rate rather than 150 percent as before. Further, the Board has established a premium subsidy program that allows individuals with an annual household income of \$50,000 or less to pay reduced rates[13]. The following chart illustrates changes in premium rates by depicting total premiums earned, divided by the average number of enrollees, divided by 12.



CoverColorado staff indicate that the premium subsidy program has made the program more affordable for many individuals, and is thus resulting in increased enrollment. Similarly, they anticipate that the recent Board actions to reduce rates in relation to the standard risk rate will increase enrollment in 2007. Specifically, CoverColorado projects enrollment increases ranging from 10 to 13 percent in each of the next four fiscal years.

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[13] Effective January 1, 2007, individuals with an annual household income below \$40,000 receive a 34 percent discount, and those with an annual household income of \$40,000 to \$50,000 receive a 20 percent discount.

2. Unclaimed Property Trust Fund

The General Assembly gave CoverColorado access to moneys transferred from the state's UPF in 1993, and the UPF has provided significant funding since that time, including an estimated $17.3 million in FY 2007-08. Treasury is currently estimating that a transfer of $48.7 million will be necessary for 2008-09. [See Appendix F for a summary of unclaimed property revenues, disbursements, and transfers.]

In 2004, the General Assembly changed the mechanism used to provide funding to CoverColorado from the UPF. Pursuant to S.B. 04-211, the Treasury Department is now required to transmit both interest and principal from the UPF to CoverColorado in order to cover expenses of the program that are not met by funding sources *other than* carrier assessments (i.e., premiums paid by those insured, contributions from insurance carriers pursuant to the premium tax credit, CoverColorado cash fund balance and interest earnings, and other federal funds made available to the program). If necessary, Section 38-13-116.5 (2.7), C.R.S., requires the transfer of the entire balance in the UPF, less:

- unclaimed property claims paid for each fiscal year;
- the reserve amount necessary to pay anticipated unclaimed property claims; and
- Unclaimed Property Program operating expenses.

3. Other Funding Sources

In 2004 (through H.B. 04-1206), the General Assembly authorized an *insurance premium tax credit for contributions* to CoverColorado [see Section 10-8-534, C.R.S.]. Specifically, an insurance company may claim a 100 percent credit against insurance premium taxes for a contribution to CoverColorado. This tax credit is authorized from 2005 through 2014. Procedurally, insurance companies declare their intent to contribute to CoverColorado on their October quarterly premium tax payments. The Insurance Commissioner is required to allocate up to a maximum of $5.0 million of premium tax credits annually among those companies that have expressed an intent to contribute to CoverColorado. CoverColorado indicates that $4.98 million has been pledged for the 2007 tax year, with contributions from five different companies. Statutorily, these contributions may only be expended when an assessment against health insurance companies would otherwise be necessary.

Finally, CoverColorado has received limited federal grant funding but does not anticipate such funding beyond FY 2007-08.

4. Insurance Carrier Assessments

In 2001 (through H.B. 01-1319), the General Assembly authorized an assessment on health insurance companies based on the number of individuals covered under their policies [see Section 10-8-530 (1.5), C.R.S.]. Currently, 28 of the 33 states with high risk pools use some form of insurance assessment to fund portions of their programs[14]. Under current law, CoverColorado can only assess

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[14] Data from *Comprehensive Health Insurance for High-risk Individuals: A State-by-State Analysis*, Twenty-First Edition (2007-2008), published by Communicating for Agriculture and the Self-Employed in cooperation with the National Association of State Comprehensive Health Insurance Plans, page 11.

these fees when it is determined that amounts available from all other sources will not be adequate to cover administrative expenses, reserves for claims, and a surplus equal to 10 percent of projected claims for the next 24-month period. Further, CoverColorado is required to provide carriers with notice of an assessment 12-months in advance. The amount of the assessment is based on dividing the total projected funding need by the total number of covered lives. Insurance carriers are allowed to pass this cost on to policy holders. There have been two assessments to date: $9.8 million in August 2003, and $29.8 million in May 2004.

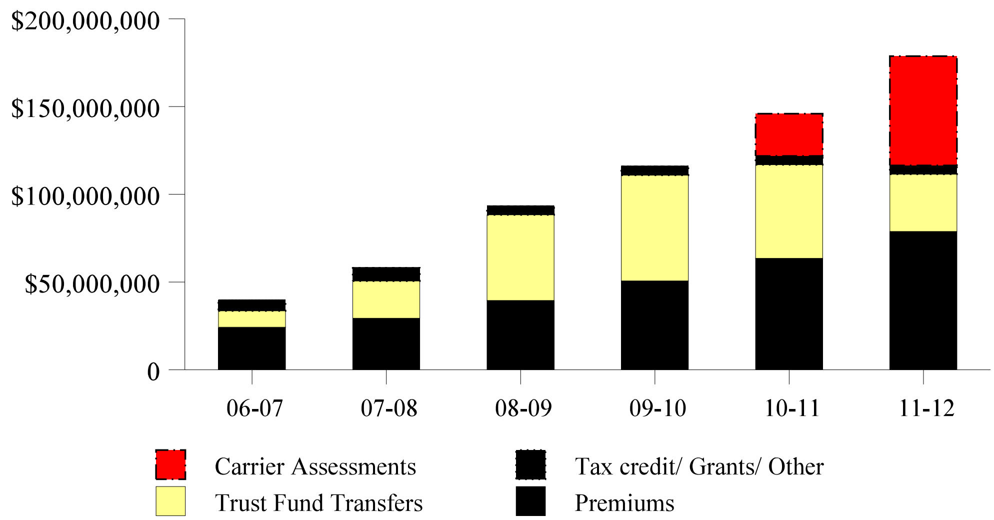
Future Funding Needs

According to CoverColorado staff, the program's goal is to continue to expand enrollment for the foreseeable future. Program expansion will drive up CoverColorado's claims and administrative costs (see the first column in the table below). While expanding enrollment will provide more premium revenue, the program's projections show costs continuing to grow faster than premium revenue, resulting in the program needing an increased subsidy to remain solvent.

As illustrated in the chart below, based on current law and projected growth, CoverColorado will rely heavily on increased transfers of principal from the UPF to finance expansion of the program over the next five fiscal years. However, by FY 2010-11, the UPF will have been depleted to the point that a carrier assessment would be necessary to continue to subsidize the program. Please note that while the chart reflects $24.1 million and $62.3 million in carrier assessments that would be necessary to cover expenses in FY 2010-11 and 2011-12, respectively, the total projected assessments would be $71.8 million and $103.1 million for those years. To put these numbers in perspective, the total assessment for FY 2003-04 was $39.6 million, with a total per capita costs of $33.82 per affected rate payer ($7.45 in CY 2003 and $26.37 in CY 2004).

CoverColorado

Projected Costs and Available Funds



The table below provides a comparison of CoverColorado premiums and costs for the last eight years as well as those projected through FY 2011-12. In addition, the table details the other revenue sources available to the program each year, along with the resulting annual surplus/deficit.

CoverColorado: Recent Funding History						
Fiscal Year	**Claims and Administrative Costs**	**Premiums Paid by Enrollees**	***Ratio: Premiums/ Total Costs***	**Total Subsidy Required**	**Other Sources of Revenue <a>**	**Annual Surplus/ (Deficit)**
98-99	$5,300,177	$3,043,656	*57.4%*	($2,256,521)	$3,685,669	$1,429,148
99-00	6,600,410	3,388,467	*51.3%*	(3,211,943)	6,191,425	2,979,482
00-01	10,163,795	5,149,955	*50.7%*	(5,013,840)	6,054,890	1,041,050
01-02	17,715,896	9,380,110	*52.9%*	(8,335,786)	8,144,133	(191,653)
02-03	28,163,622	17,064,208	*60.6%*	(11,099,414)	3,527,552	(7,571,862)
03-04	34,505,598	21,361,177	*61.9%*	(13,144,421)	40,843,100	27,698,679
04-05	34,668,993	21,402,805	*61.7%*	(13,266,188)	6,268,704	(6,997,484)
05-06	36,786,073	23,878,912	*65.0%*	(12,907,161)	14,230,799	1,323,638
06-07	47,859,232	24,257,015	*50.7%*	(23,602,217)	17,266,139	(6,336,078)
Projections:						
07-08 <b>	69,735,182	29,397,288	*42.2%*	(40,337,894)	30,093,585	(10,244,309)
08-09 <b>	92,830,895	39,517,276	*42.6%*	(53,313,619)	55,070,516	1,756,897
09-10 <b>	118,307,649	50,657,110	*42.8%*	(67,650,539)	66,700,739	(949,800)
10-11 <b>	147,177,493	63,526,587	*43.2%*	(83,650,906)	131,312,973	47,662,067
11-12 <b>	181,185,410	78,813,969	*43.5%*	(102,371,441)	143,229,348	40,857,907

<a> Other sources of funding include: interest earned on the CoverColorado Cash Fund, moneys made available from the Unclaimed Property Program, insurance carrier assessments, federal funds, and (beginning in 2005) annual contributions from insurance carriers in exchange for a premium tax credit.
<b> Projections prepared by Leif Associates, dated October 26, 2007. Reflects "baseline" actuarial scenario. Projections include insurance carrier assessments of $71.8 million in FY 2010-11 and $103.1 million in FY 2011-12.

The FY 2007-08 Long Bill includes a $17.3 million cash funds exempt appropriation from the UPF to CoverColorado This amount is included for informational purposes to identify the amount anticipated to be transferred to CoverColorado in FY 2007-08 as required by S.B. 04-211. The Treasury is currently estimating that CoverColorado will require transfers of $21.1 million in FY 2007-08 ($3.8 million above the amount shown in the Long Bill) and $48.7 million for FY 2008-09. Based on moneys anticipated to be available in the Trust Fund in future fiscal years, CoverColorado is currently projecting that no carrier assessment will be necessary until April 2011.

Update from Last Year's Joint Budget Committee Hearing
At last year's Department of Treasury hearing, the Joint Budget Committee asked CoverColorado to find a way to smooth out the assessment process. CoverColorado has discussed the concepts with the insurance industry and others but does not yet have a proposal to bring forward.

The Department of Regulatory Affairs recently completed a "Sunset Review" of the CoverColorado insurance carrier assessment authority. <u>The program's authority to levy such assessments will sunset on July 1, 2008 unless the General Assembly takes action before that date.</u> The sunset review concluded that CoverColorado should retain the assessment authority and recommended that the General Assembly remove the authority's sunset clause. However, the review also recommended that the Governor appoint a task force to develop a long-term, permanent funding source for Cover Colorado.

Finally, the "208 Commission" on health care policy is also considering proposals that could affect CoverColorado, including significantly increasing participation in the program. The Commission is expected to brief the General Assembly in January 2008.

CoverColorado is awaiting the conclusions of the Commission and looking forward to working with a potential task force, as recommended in the sunset review, to develop a permanent funding solution.

Questions for CoverColorado and the Department

Staff recommends that the Committee discuss the following questions with CoverColorado and the Department during the FY 2008-09 budget hearing:

1. Last year's projections showed the next assessment coming in 2012. What has changed since then to: 1) raise the level of assessment required and 2) move up the first assessment date to 2011?

2. What progress have you made since last year in developing either a way to smooth out the assessment process or provide an alternative funding source for the program?

3. Given that the insurance carrier assessment is currently set to expire on July 1, 2008, does CoverColorado have a plan going forward? Do you want to extend the current assessment authority, as recommended in the "sunset review" or will you be ready to propose changes that would smooth out the process?

4. How do you expect the work and recommendations of the "208 Commission" to affect CoverColorado?

5. Do you know whether the Governor intends to appoint the task force recommended in the "sunset review?"