DEPARTMENT OF THE TREASURY
FY 2011-12 JOINT BUDGET COMMITTEE
HEARING AGENDA

Wednesday November 17, 2010
1:30 p.m. -- 3:00 p.m.

INTRODUCTIONS AND OPENING COMMENTS (1:30 P.M. – 2:00 P.M.)

DEPARTMENT OVERVIEW (2:00 P.M. – 2:25 P.M.)

1. Please identify your department's three most effective programs and your department's three least effective programs, and explain why you identified them as such. How do your most effective programs further the department's goals? What recommendations would you would make to increase the effectiveness of the three least effective programs?

Treasury's three most effective programs include (1) accounting, cash management and investments; (2) unclaimed property and (3) financing and credit enhancements for higher education capital construction and K-12 education capital construction.

Accounting, Cash Management and Investments

Treasury ensures state funds are safe, appropriately managed and invested, and that the state has sufficient liquidity to meet daily cash flow needs.

Treasury closed FY 2009-10 with 2.3% earnings in the state's investment pool, ($133 million). In the first quarter of FY 2010-11, Treasury earned 2.4% on the pool. The Department has exceeded its investment performance benchmark each of the last four years.

Treasury's investment team provides exceptional value for Colorado's taxpayers. Three investment officers manage nearly $6 billion in assets. Total administrative costs were $485,555 for this division in FY 2009-10, which on a $5-6 billion portfolio is less than one basis point in administrative costs. A comparable private sector portfolio would cost 15 – 20 basis points.

Treasury also provides cash management and banking services, including credit card services, for the state efficiently and with low administrative overhead.

Unclaimed Property

The Unclaimed Property (UP) Program reunites owners with their unclaimed property. Since its inception, $637 million of unclaimed property has been deposited in the UP Trust Fund and the state has paid $190 million in claims. In each of the last two fiscal years, the division responded to more than 130,000 inquiries each year, processed over 18,000 claims and returned more than $25 million.

Financing and Credit Enhancements for Higher Education Capital Construction and K-12 Education Capital Construction

Since 2008, Treasury has worked with school districts and state-supported colleges and universities to assist them in financing capital projects. In 2008, the General Assembly passed the Higher Education Lease Purchase program to finance infrastructure on college campuses across the state. That year the legislature also created the higher education intercept program to lower financing costs for higher education institutions. Additionally, in that same year, the general assembly passed the Building Excellent Schools Today legislation to provide financing through Treasury for high-priority school construction projects throughout the state. Each of these programs is administered through Treasury and has achieved significant cost-savings for Colorado's taxpayers.

Treasury is a small department with specifically defined responsibilities, so it is difficult to identify its least effective programs. Treasury is statutorily authorized to provide technical assistance to local governments (C.R.S. 24-22-107(6.5)). Treasury's cash manager assists local governments with banking and credit-card services on an as-needed basis, but the Department does not have the capacity to advise localities on the "efficient management of the entity's public funds" as authorized in statute.

2. **For the three most effective and the three least effective programs identified above, please provide the following information:**

    a. **A statement listing any other state, federal, or local agencies that administer similar or cooperating programs, and outline the interaction among such agencies for each program;**

    No other state, federal or local agencies perform similar programs.

    b. **A statement of the statutory authority for these programs and a description of the need for these programs;**

    See the Department's FY 2011-12 Budget Request for the statutory authority and description of need for Treasury Department activities.

c. **A description of the activities which are intended to accomplish each objective of the programs, as well as, quantified measures of effectiveness and efficiency of performance of such activities;**

See the Department's FY 2011-12 Budget Request for program descriptions and quantified measures of effectiveness and efficiency of performance.

d. **A ranking of the activities necessary to achieve the objectives of each program by priority of the activities; and**

e. **The level of effort required to accomplish each activity associated with these programs in terms of funds and personnel.**

The Department's FY 2011-12 Budget Request identifies the personnel and funds required to accomplish the Department's objectives.

3. **Detail what could be accomplished by your Department if funding for the department is maintained at the fiscal year 2009-10 level.**

If funding for the Treasury Department is maintained at the FY 2009-10 level, it would require a reduction of $124,447 in the Administration and Unclaimed Property divisions. This would require the roll-back of common policy increases that have been provided since FY 2009-10, or the equivalent of 16 furlough days. It is important to recognize that the efficient and timely deposit and investment of state funds earns money for the state.

4. **Please discuss how the charter school assistance program works. Is the assistance for any charter school or for only those charter schools receiving state assistance? What is the scope of this program?**

A charter school entitled to receive moneys from the state public school fund pursuant to the Charter Schools Act (C.R.S. 22-30.5-101 et seq.) may request that the State Treasurer make direct payments to the bank of principal and interest on capital construction bonds on its behalf. This program enhances the charter school's ability to obtain favorable financing terms on its bonds. Once an Intercept Agreement has been approved by all parties, the Treasurer withholds the moneys needed to make the bond payments from the monthly equalization payments to the Charter Authorizer (the school district in which the charter school is located or the State Charter School Institute) and wires them directly to the bank. The Treasurer only performs an intercept for a charter school that receives sufficient state equalization money to cover the entire annual amount of the principal and interest payments.

A subset of the assistance program is the "Moral Obligation Program." This program enhances the credit of a "qualified charter school" and enables them to obtain even more favorable financing terms on their capital construction bonds. A qualified charter school is one that has obtained an investment grade credit assessment on a "stand-alone" basis. The program is funded from a separate source of moneys from which the Treasury would make bond payments in the case of a default by a charter school. Each qualified charter school allowed into this program annually pays ten basis points of the principal amount of bonds outstanding into the State Charter School Debt Reserve Fund. At October 31, 2010, the fund had a balance of $1.95 million. In the event that a default occurs that exhausts the balance in the fund, as well as the $1 million appropriated in FY 2002-03 from the State Education Fund, the statute directs the Governor to notify the General Assembly so that it may consider whether or not to appropriate funds to pay off the bonds. This last element is the "moral obligation" aspect of the program.

There are currently 50 charter schools participating in the assistance program, 30 of which are qualified charter schools under the Moral Obligation Program.

5. **Please discuss the Property Tax Deferral program. How many participants are there in the program statewide? How much is currently owed to the State. Is interest charged on the loan, and is it simple or compound interest? If you are aware of a statewide program that allows people to work off their tax liabilities, please discuss that program, and discuss who takes advantage of that program.**

The Property Tax Deferral program helps eligible military personnel and senior citizens, many of whom live on a fixed income, continue to afford to live in their home by deferring the payment of their property taxes. The State Treasurer makes tax payments directly to the county on behalf of the participant for the tax amount due. The loan, logged as a lien against the participant's property, does not have to be remitted until the participant no longer qualifies to defer their property taxes.

The state Treasurer's office maintains an account for each tax-deferred property that accrues simple interest which is credited to the state's General Fund. Per C.R.S. 39-3.2-105(5), the interest rate is adjusted each year on February 1 to equal the rate per annum on the most recently issued ten-year US Treasury note, rounded to the nearest one-tenth of one percent, as reported by the Wall Street Journal; the rate is currently set at 3.375%.

At June 30, 2010, Treasury had 638 participants in the program. The outstanding principal balance owed to the state was $5.5 million, with interest due of $1.1 million.

A Property Tax Work-off Program was created in C.R.S. 39-3.7-102 and states that “Any taxing entity that levies and collects real property taxes may establish a property tax work-off program in accordance with the provisions of this article that allows any taxpayer who is sixty years or age or older or who is a person with a disability to perform work for the taxing entity in lieu of the payment of any real property taxes, or any portion thereof, due and owing on the homestead of such taxpayer for any given property tax year.”

UNCLAIMED PROPERTY TRUST FUND (2:25 P.M. – 2:30 P.M.)

6. **Please discuss the process used to calculate the reserve for the Unclaimed Property Trust Fund. Please advise the Committee of the total liability of the Unclaimed Property Fund and the current fund balance.**

   Using information dating back to FY 1996-97, Treasury reviews the claims paid figures for each fiscal year to determine in what fiscal year the claimed property was originally turned over as revenue to the state. From the compiled data, Treasury calculates the average percentage of a fiscal year's gross revenues that have been claimed in the fiscal year the state received it, claimed one year after receipt, claimed two years after receipt, etc. This calculation has shown that, on average, 40% of all revenues collected in any given fiscal year will be returned to the rightful owners within twenty years of receipt by the state. These average percentages are then applied to each fiscal year's gross revenues to calculate how much of those revenues are still projected to be claimed at some point within the next twenty years to arrive at a satisfactory reserve figure ($66.4 million at June 30, 2010).

   At June 30, 2010, the total potential liability of the Unclaimed Property Trust Fund (if 100% of moneys received by the state were to be claimed) was more than $400 million, while the balance in the fund was $103.8 million.

COVERCOLORADO (SUZANNE BRAGG-GAMBLE, EXECUTIVE DIRECTOR, COVERCOLORADO) (2:30 P.M. – 3:00 P.M.)

7. How is the projection of the number of clients who will need to use CoverColorado calculated?

Projections of future CoverColorado membership take into account recent membership growth patterns as well as information about factors that might increase or decrease future growth, such as changes in the premium rates, enrollment in the federal pool, economic conditions, efforts to publicize the program, and other external factors. The projections are updated every other month to reflect updated actual results as well as any new information that might impact future growth patterns.

8. What has the historical level of claims been?

Please see attachment, "CoverColorado - Historical Members and Claims."

9. Are the recommendations of the CoverColorado Long-Term Funding Task Force still relevant considering the passage of the Patient Protection and Affordable Care Act?

The short answer is yes, because CoverColorado is still in financial jeopardy - projected to be in 2013.

The CoverColorado Long-Term Funding Task Force was created by statute in 2008 to develop strategies for the continued funding of CoverColorado over a ten-year period (i.e., through 2018). The recommendations of the Task Force were provided to the General Assembly in March 2009.

Under the Patient Protection and Affordable Care Act (PPACA), health insurers will, in 2014, be required to offer coverage to individuals with pre-existing conditions. Thus, CoverColorado may not be a necessary program in 2014 and it is likely that our members will transition to the State Insurance Exchanges in 2014. However, CoverColorado is still experiencing growth right now, and needs funding until 2014.

The Unclaimed Property Trust Fund (UPF) pays 25% of CoverColorado's costs. But our present actuarial projections indicate that the UPF will not be able to provide the full 25% in 2013. There will be a shortfall of funding from the UPF in about March, 2013 (please see the attached "CoverColorado - UPF Fund Projections" file). Therefore, CoverColorado continues to look at strategies that can, in the short term, either increase revenues or decrease costs, to ensure that this important program remains in place until a transition can take place in 2014.

The first recommendation of the Task Force, to "Grant the CoverColorado Board of Directors statutory authority to establish a provider reimbursement schedule 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," was enacted by the General Assembly this year. And we are moving forward to create those reimbursement rates for 2011, which are planned to reduce claims cost by 15% to 20% each year.

Please also see the second attachment, "CoverColorado - UPF Fund Projections."

10. Please discuss in more detail the reasons more people are going to CoverColorado as opposed to the federal funded high-risk pool program.

The majority of applicants to CoverColorado have recently lost health insurance, either due to losing a job, being laid off, their employer eliminated health benefits, early retirement, or becoming self-employed. Most of the applicants are used to being insured, see the value of having health insurance, and have budgeted for it. These people generally apply in the individual market and are turned down because of a health condition, and when that happens, they are referred to CoverColorado.

And now, kids (under age 19) are denied because unless it is January or July, there is no carrier writing coverage for kids in Colorado, regardless of their health. The two carriers that do often charge far more than CoverColorado (we have recently seen a child of almost a year old with controlled asthma quoted a monthly rate of over $1,300).

We can verify that the majority of new members to CoverColorado have had coverage recently because when a person enrolls in CoverColorado, if they have not had coverage within the past 90 days, they will have a waiting period of up to six months with no coverage for their pre-existing condition. Of the 3,771 new applications received in the past six months, only 659 (17%) are in a pre-existing waiting period. And that is out of a total enrollment of 12,500 covered members today.

Because these new enrollees have had coverage recently, they do not qualify for GettingUSCovered, Colorado's new (federal) pre-existing conditions insurance plan.

CoverColorado offers a discounted premium program for household incomes under $50,000. Presently, about a third of total members are enrolled in a discount program.

ADDENDUM: OTHER QUESTIONS FOR WHICH SOLELY WRITTEN ANSWERS ARE REQUESTED.

1. **Please provide a table comparing the actual number of department FTEs in FY 2000-01 and the requested number of department FTEs in FY 2011-12, by division or program.**

	Actual FTEs FY 2000-01	Requested FTEs FY 2011-12
ADMINISTRATION	16.0	16.0
UNCLAIMED PROPERTY	7.3	15.5
DEPARTMENT TOTAL	23.3	31.5

2. **Please provide a table comparing the actual number of FTEs in FY 2008-09 and FY 2009-10 to the appropriated level of FTE for each of those fiscal years, by division or program.**

	FY 2008-09 FTEs		FY 2009-10 FTEs	
	Actual	Appropriated	Actual	Appropriated
ADMINISTRATION	15.1	16.0	15.8	16.0
UNCLAIMED PROPERTY	9.2	13.5	8.9	15.5
DEPARTMENT TOTAL	24.3	29.5	24.7	31.5

CoverColorado
Historical Members and Claims

Year	Year End Members	Incurred Claims	Avg Claims Per Member Per Year
2005	5,017	$31,915,849	$6,560
2006	5,426	$38,191,097	$7,326
2007	7,037	$50,062,327	$7,958
2008	8,545	$64,076,819	$8,170
2009	10,441	$76,562,527	$8,063
9 mo 2010	11,976	$78,998,483	$9,302

CoverColorado
UPF Fund Projections

		From UPF Reports							
	Month	Operating Cash	Warrants Payable	Vouchers Payable	Statutory Reserve	UPF Expenses	Transfer to CoverCO	Available to CoverCO	CoverCO Shortfall
	May-09	$174,322,112	$1,810,293	$166,036	$49,697,438	$2,000,000	$2,014,536	$120,648,344	
	Jun-09	$56,847,687	$2,410,715	$19,192	$49,697,438	$2,000,000	$2,014,536	$2,720,342	
	Jul-09	$99,607,837	$2,507,323	$149,284	$56,957,260	$2,000,000	$2,014,536	$37,993,970	
	Aug-09	$96,422,971	$2,419,966	$157,731	$56,957,260	$2,000,000	$2,014,536	$34,888,014	
	Sep-09	$93,568,359	$2,660,477	$166,098	$56,957,260	$2,000,000	$2,014,536	$31,784,524	
	Oct-09	$95,132,321	$2,297,229	$72,095	$56,957,260	$2,000,000	$2,014,536	$33,805,737	
	Nov-09	$111,846,154	$2,660,210	$504,240	$56,957,260	$2,000,000	$2,014,536	$49,724,443	
	Dec-09	$120,583,795	$2,425,782	$231,885	$56,957,260	$2,000,000	$2,014,536	$58,968,867	
	Jan-10	$119,698,315	$2,559,516	$26,079	$56,957,260	$2,000,000	$2,428,536	$58,155,461	
	Feb-10	$116,893,098	$2,261,204	$26,843	$56,957,260	$2,000,000	$2,428,536	$55,647,791	
	Mar-10	$112,902,641	$2,795,657	$227,712	$56,957,260	$2,000,000	$2,428,536	$50,922,012	
	Apr-10	$109,245,364	$2,021,416	$4,858	$56,957,260	$2,000,000	$2,428,536	$48,261,830	
	May-10	$109,809,943	$4,500,857	$157,107	$56,957,260	$2,000,000	$2,428,536	$46,194,719	
	Jun-10	$110,727,944	$5,665,298	$1,221,444	$56,957,260	$2,000,000	$2,428,536	$44,883,943	
	Jul-10	$107,495,181	$6,488,138	$62,059	$66,363,526	$2,000,000	$2,428,536	$32,581,458	
	Aug-10	$104,509,859	$6,601,793	$296,525	$66,363,526	$2,000,000	$2,428,536	$29,248,015	
Actual	Sep-10	$101,243,940	$6,824,066	$33,682	$66,363,526	$2,000,000	$2,428,536	$26,022,666	
Projected	Oct-10	$101,648,738	$5,350,261	$295,946	$66,363,526	$2,000,000	$2,428,536	$27,639,005	
	Nov-10	$102,053,535	$5,905,069	$344,460	$66,363,526	$2,000,000	$2,428,536	$27,440,480	
	Dec-10	$102,458,333	$6,139,104	$375,686	$66,363,526	$2,000,000	$2,428,536	$27,580,016	
	Jan-11	$102,400,478	$6,218,072	$234,726	$66,363,526	$2,000,000	$2,891,188	$27,584,154	
	Feb-11	$102,342,624	$6,173,061	$263,504	$66,363,526	$2,000,000	$2,891,188	$27,542,533	
	Mar-11	$102,284,770	$6,101,606	$258,001	$66,363,526	$2,000,000	$2,891,188	$27,561,637	
	Apr-11	$102,226,916	$5,981,195	$295,387	$66,363,526	$2,000,000	$2,891,188	$27,586,807	
	May-11	$102,169,061	$6,086,351	$295,294	$66,363,526	$2,000,000	$2,891,188	$27,423,890	
	Jun-11	$102,111,207	$6,116,565	$287,100	$66,363,526	$2,000,000	$2,891,188	$27,344,016	
	Jul-11	$102,053,353	$6,112,808	$272,335	$70,345,338	$2,000,000	$2,891,188	$23,322,871	
	Aug-11	$101,995,499	$6,095,264	$278,604	$70,345,338	$2,000,000	$2,891,188	$23,276,293	
	Sep-11	$101,937,644	$6,082,298	$281,120	$70,345,338	$2,000,000	$2,891,188	$23,228,888	
	Oct-11	$101,879,790	$6,079,080	$284,973	$70,345,338	$2,000,000	$2,891,188	$23,170,398	
	Nov-11	$101,821,936	$6,095,394	$283,238	$70,345,338	$2,000,000	$2,891,188	$23,097,965	
	Dec-11	$101,764,082	$6,096,902	$281,228	$70,345,338	$2,000,000	$2,891,188	$23,040,613	
	Jan-12	$100,717,522	$6,093,625	$280,250	$70,345,338	$2,000,000	$3,879,892	$21,998,310	
	Feb-12	$99,670,963	$6,090,427	$281,569	$70,345,338	$2,000,000	$3,879,892	$20,953,629	
	Mar-12	$98,624,404	$6,089,621	$282,063	$70,345,338	$2,000,000	$3,879,892	$19,907,382	
	Apr-12	$97,577,845	$6,090,842	$282,220	$70,345,338	$2,000,000	$3,879,892	$18,859,445	
	May-12	$96,531,286	$6,092,802	$281,761	$70,345,338	$2,000,000	$3,879,892	$17,811,385	
	Jun-12	$95,484,727	$6,092,370	$281,515	$70,345,338	$2,000,000	$3,879,892	$16,765,504	
	Jul-12	$94,438,168	$6,091,614	$281,563	$74,566,058	$2,000,000	$3,879,892	$11,498,932	
	Aug-12	$93,391,609	$6,091,279	$281,782	$74,566,058	$2,000,000	$3,879,892	$10,452,490	
	Sep-12	$92,345,050	$6,091,421	$281,818	$74,566,058	$2,000,000	$3,879,892	$9,405,753	
	Oct-12	$91,298,491	$6,091,721	$281,777	$74,566,058	$2,000,000	$3,879,892	$8,358,935	
	Nov-12	$90,251,932	$6,091,868	$281,703	$74,566,058	$2,000,000	$3,879,892	$7,312,303	
	Dec-12	$89,205,372	$6,091,712	$281,693	$74,566,058	$2,000,000	$3,879,892	$6,265,909	
	Jan-13	$86,978,978	$6,091,603	$281,722	$74,566,058	$2,000,000	$5,059,728	$4,039,594	
	Feb-13	$84,752,583	$6,091,601	$281,749	$74,566,058	$2,000,000	$5,059,728	$1,813,175	
	Mar-13	$82,939,456	$6,091,654	$281,744	$74,566,058	$2,000,000	$4,646,460	$0	$413,268
	Apr-13	$82,939,482	$6,091,693	$281,731	$74,566,058	$2,000,000	$2,833,307	$0	$2,226,421
	May-13	$82,939,470	$6,091,689	$281,724	$74,566,058	$2,000,000	$2,833,346	$0	$2,226,382
	Jun-13	$84,580,070	$6,091,659	$281,727	$74,566,058	$2,000,000	$1,192,733	$0	$3,866,995
	Jul-13	$87,413,404	$6,091,650	$281,733	$79,040,021	$2,000,000	$0	$0	$5,059,728
	Aug-13	$87,413,413	$6,091,658	$281,735	$79,040,021	$2,000,000	$2,833,324	$0	$2,226,404
	Sep-13	$87,413,420	$6,091,667	$281,732	$79,040,021	$2,000,000	$2,833,326	$0	$2,226,402
	Oct-13	$87,413,421	$6,091,669	$281,730	$79,040,021	$2,000,000	$2,833,333	$0	$2,226,395
	Nov-13	$87,413,416	$6,091,665	$281,730	$79,040,021	$2,000,000	$2,833,338	$0	$2,226,390
	Dec-13	$87,413,413	$6,091,661	$281,731	$79,040,021	$2,000,000	$2,833,336	$0	$2,226,392
									$24,924,777

Assumes $34 million in net UPF growth per year.