

**COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE**



SUPPLEMENTAL REQUESTS FOR FY 2008-09

DEPARTMENT OF THE TREASURY

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

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FY 2008-09 SUPPLEMENTAL RECOMMENDATIONS
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Prioritized Supplementals

Supplemental Request, Department Priority #1

Reversion of Fire and Police Pension Association Payments to Schedule Required by Law

	Request	Recommendation
General Fund Exempt	(\$9,456,093)	(\$9,456,093)

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? [An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.]	YES
JBC staff and the Department agree that this request is the result of <i>an unforeseen contingency</i> .	

Department Request: The Department request is to revert to the minimum contribution required by statute of the appropriation for the Fire and Police Pension Association (FPPA) - Old Hire Plans. That would reduce the General Fund Exempt appropriation by \$9,456,093.

Staff Analysis: 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 amount of the annual state contribution to FPPA is reflected as a General Fund Exempt 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. 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.

Under current law, the State is required to contribute \$25.3 million per year through FY 2011-12, plus an additional make-up payment related to the most recent suspended contributions, or until the plans are fully funded. For FY 2006-07 through FY 2008-09, the General Assembly increased that payment by \$9.5 million each year. The plan adopted by the Joint Budget Committee was based on a scenario that avoided the balloon payment otherwise required on April 30, 2012. The plan increased the appropriation for four years during the Referendum C "time-out" period, and then paying the remaining obligations in FY 2010-11 and FY 2011-12.

When the "JBC Plan" was originally proposed, the plan was to provide for increased payments during the Referendum C "time-out" followed by two payments of \$25,321,079 as required by statute. The \$34.8 million figure during those four "time-out" years was the amount needed to complete the state's obligations by April 2012.

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Due to strong investment returns, updated actuarial information in January 2008 reduced the State's obligations. The State's contributions of \$34.8 million for the four fiscal years from 2006-07 to 2009-10, would have allowed for a reduced payment in FY 2010-11 and no payment in FY 2011-12. Returns in 2006 were 15.3 percent and 9.7 percent in 2007.

In 2008, however, investment returns have been sharply negative with a loss of 8 percent through August 2008. Currently, the actuaries anticipate that if the state reverts to the original payment schedule of \$25.3 million for FY 2008-09 through FY 2010-11, a payment of \$48.3 million will be required in FY 2011-12.

The table below shows what the payments would have been if the minimum amount had been paid since April 2007, and the effects of the increased payments in April 2007 and April 2008.

Fire and Police Pension Association Effects of Reversion to Minimum Payments Required by Statute		
<u>Payment Date</u>	<u>Schedule in Law</u>	<u>"JBC Plan"</u>
April 2007	\$25,321,079	\$34,774,141
April 2008	25,321,079	34,777,172
April 2009	25,321,079	25,321,079
April 2010	25,321,079	25,321,079
April 2011	25,321,079	25,321,079
April 2012	<u>75,017,180</u>	<u>48,262,620</u>
Total	\$201,622,575	\$191,772,170

Staff Recommendation: Staff recommends approval of the Department's request to revert to the minimum payment required by law. This will reduce General Fund expenditures by \$9.5 million in FY 2008-09. Staff recommends this action due to the current financial conditions in the State.

**Supplemental Request, Department Priority #1 A
 Suspension of Payments to the Fire and Police Pension Association "Old Hire" Pension Plans
 Statutory Change Required**

	Request	Recommendation
General Fund Exempt	(\$25,321,079)	(\$25,321,079)

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Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? [An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.]	YES
JBC staff and the Department agree that this request is the result of <i>an unforeseen contingency</i> .	

Department Request: The Department requests a three-year suspension of the appropriation for the Fire and Police Pension Association (FPPA) - Old Hire Pension Plans. That would reduce the General Fund Exempt appropriation by \$25,321,079 for the current fiscal year as well as the next two fiscal years. The request will require approval of a statutory change to Section 31-30.5-307, C.R.S.

Staff Analysis: Twice since 1980, the General Assembly has temporarily suspended the state contribution to the old hire plans. The first year that the annual contribution was eliminated was 1987. In 1996, the state contribution was increased to cover the missed 1987 payment plus accrued interest. In addition, S.B. 95-228 increased the state contribution from \$18.7 million to \$25.3 million. The legislation provided that state support would end when the local old hire pension plans became fully funded or in FY 2009-10, whichever came first. Prior to S.B. 95-228, it was anticipated that state funding would continue through 2024. The earlier end-date was intended to coincide with the point at which all "old hire" employees would be retired.

The General Assembly again suspended the state contribution (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 required annual contributions of \$25.3 million resumed in April 2006.

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. In addition, the State must make up the payments missed in FY 2003-04 and FY 2004-05. For FY 2006-07 through FY 2008-09, the General Assembly increased the annual payment by \$9.5 million each year. The plan ("JBC Plan") proposed by the Joint Budget Committee and adopted by the General Assembly was based on a scenario that avoided the balloon payment otherwise required on April 30, 2012. The plan increased the appropriation for four years during the Referendum C "time-out" period, and then paying the remaining obligations in FY 2010-11 and FY 2011-12.

When the "JBC Plan" was originally proposed, the plan was to provide for increased payments during the Referendum C "time-out" followed by two payments of \$25,321,079 as required by statute. The \$34.8 million figure during those four "time-out" years was the amount needed to

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complete the state's obligations by April 2012. Due to the State's current financial condition, the Department has requested statutory changes to allow the State to suspend its contribution to the FPPA for three years, starting in FY 2008-09, with payments to resume in FY 2011-12.

The FPPA's actuary has provided three scenarios where the payments are suspended for three years, with the State paying off the final obligation in April 2012 (as currently in statute), April 2015, or April 2018. The table below summarizes the current actuarial projections of suspending the pension payments for FY 2008-09 through FY 2010-11, and the options for extending those payments beyond April 2012.

FPPA "Old Hire" Fire & Police Pensions Selected Funding Scenarios Suspension of Payments for April 2009, April 2010, and April 2011			
Year	No Extension of Payment Schedule	Payment Schedule Extended Three Years	Payment Schedule Extended Six Years
2009	\$0	\$0	\$0
2010	0	0	0
2011	0	0	0
2012	137,041,159	25,321,079	25,321,079
2013	0	25,321,079	25,321,079
2014	0	25,321,079	25,321,079
2015	0	83,853,854	25,321,079
2016	0	0	25,321,079
2017	0	0	25,321,079
2018	<u>0</u>	<u>0</u>	<u>16,853,167</u>
Total Payments	137,041,159	159,817,091	168,779,641

Source: Gabriel, Roeder, Smith, actuaries for the FPPA.

It should be noted that by reducing payments, the FPPA will lose the ability to purchase investments at the lower costs currently available. When the payments resume, presumably after the economy improves, investment prices may have recovered at least some of their value, so the FPPA will be buying fewer shares of the investments at higher prices, reducing future returns and increasing the amount the State will have to contribute in the long run.

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Staff Recommendation: Staff recommends that the Committee consider approving a bill that would suspend the FPPA "Old-Hire" pension payments for three years and extend payments for six years beyond the current statutory pay off date of April 2012.

**Supplemental Request, Department Priority #2
 Funding Mix Change**

	Request	Recommendation
Total	\$0	\$0
General Fund	(176,634)	(176,634)
Cash Funds	176,634	176,634

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? [An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.]	YES
JBC staff and the Department agree that this request is the result of <i>data that was not available when the original appropriation was made.</i>	

Department Request: The Department request is to reduce the General Fund appropriation for Administration by \$176,634 and increase the cash funds appropriation from Treasury transactions fees by the same amount. This is due to the more accurate accounting of the total amount of Treasury Transaction fees.

Staff Analysis: The State Treasury is authorized by Section 24-36-120 (1), C.R.S. to collect a transaction fee for certain accounting transactions performed by the Treasurer on behalf of State departments and agencies. These fees are deducted from the interest earnings attributable to the fund for which the transaction was performed. Certain funds, such as the State Education Fund, the Highway Users Tax Fund, the Great Outdoors Colorado Trust Fund, the Public School Fund, the Old Age Pension Fund, the College Opportunity Fund, and any other fund for which the collection of these fees are prohibited by the State Constitution are exempt from the payment of these fees.

The amount of the fees available are estimated each year in the Long Bill process. Subsequent to the adoption of the Long Bill, the actual number of transactions and the amount of fees collected are finalized. The State Treasurer then requests a supplemental to shift funding from the General Fund to the transaction fee (cash funds). Per agreement with the Joint Budget Committee, the Treasury Transactions fee cash funding is assigned to offset General Fund in the Personal Services line in the department's Budget.

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Staff Recommendation: Staff recommends that the Committee approve the request to reduce General Fund by \$176,634 for Administration and increase cash funding (from Treasury Transaction fees) by the same amount. This is a nearly annual process that trues up funding between the General Fund and Treasury Transaction fee revenues.

**Supplemental Request, Department Priority #3
 Operating Expense Reduction Related to Cyber Security**

	Request	Recommendation
Total	(\$25,792)	(\$25,792)
General Fund	(25,792)	(25,792)

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? [An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.]	YES
JBC staff and the Department agree that this request is the result of <i>unforeseen contingency</i> .	

Department Request: The Department requests a reduction in the Operating Expenses line in the Administration Section of \$25,792 General Fund. These are funds that are related to a Cyber Security contract that has not yet been implemented between the Treasury Department and the Governor's Office of Information Technology.

Staff Analysis: H.B. 06-1157 requires the Department to have an "Information Security Officer" (ISO). Various options were explored and the Department originally requested a decision item to hire a full-time ISO. There were concerns that the Department was not large enough to require a full-time employee, and also over the decentralization of security within state government. The Department worked with the State's Chief Information Security Officer (CISO) and developed an alternative plan that would allow the Treasurer to contract with the CISO for 0.5 FTE to provide for the Department's cyber security needs.

The contract had not commenced as of January 1, 2009. The appropriation can be reduced to reflect the fact that the contract has not been implemented. This proposal includes a reduction of \$22,170 General Fund related to the personal services and \$3,622 General Fund for Security System Costs.

Staff Recommendation: Staff recommends that the Committee approve a reduction of \$25,792 General Fund for FY 2008-09 in Administration, Operating Expenses to account for a contract that has not commenced as January 1, 2009.

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**Supplemental Request, Department Priority #4
 Hiring Freeze Savings**

	Request	Recommendation
Total	(\$24,914)	(\$24,914)
FTE	(1.0)	(1.0)
Cash Funds	(24,914)	(24,914)

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? [An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.]	YES
JBC staff and the Department agree that this request is the result of <i>an unforeseen contingency</i> .	

Department Request: The Department requests a reduction of \$24,914 cash funds in Personal Services in the Unclaimed Property Trust Fund. This reduction is in the Unclaimed Property Program and is the result of the hiring freeze implemented by the Treasurer.

Staff Analysis: The Department estimates its hiring freeze from not hiring an audit intern in the Unclaimed Property Program will result in a savings to the Department of \$24,914 cash funds and 1.0 FTE from the Unclaimed Property Fund.

Staff Recommendation: Staff recommends that the Committee approve a reduction in the Personal Services appropriation in the Unclaimed Property Program of \$24,914 cash funds and 0.6 FTE from the Unclaimed Property Trust Fund for FY 2008-09.

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Non-Prioritized Supplementals

**JBC Staff Initiated Supplemental
 Partial Refinance of Personal Services from General Fund to Cash Funds (Unclaimed
 Property Trust Fund)**

	Request	Recommendation
Total	\$0	\$0
FTE	<u>0.0</u>	<u>0.0</u>
General Fund	0	(62,670)
Cash Fund	0	62,670

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? [An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.]	YES
This supplemental is the result of <i>an unforeseen contingency</i> .	

Department Request: The Department has not requested this supplemental.

Staff Recommendation: Staff recommends that the Committee reduce the Department's General Fund appropriation in (1) Administration, Personal Services by \$62,670 and increase the cash funds appropriation from the Unclaimed Property Trust Fund (UPTF) by the same amount.

Staff Analysis: The Department has identified three positions that have oversight or other responsibilities in the Unclaimed Property Program. These are the Treasurer and Deputy Treasurer, who have management oversight over the program, and an Accounting Technician II who works 50 percent of the time in the program. Historically, the appropriations for these positions have been funded from the General Fund and not the Unclaimed Property Trust Fund.

Section 38-13-116.5 (2), C.R.S., allows the General Assembly to appropriate from the principal of the Unclaimed Property Trust Fund to the Department for the direct and indirect costs of administering the Unclaimed Property Trust Fund. The Department estimates that the Treasurer spends 33 percent of her time and the Deputy Treasurer spends 28 percent of his time overseeing the program. Therefore, staff believes it is appropriate that the UPTF be charged for those services.

The table below shows the current (all General Fund) and proposed allocations of the salaries.

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Treasury Reallocation of Salary to Unclaimed Property Trust Fund				
Position	Salary (Currently General Fund)	Percent Allocated to UPTF	Revised General Fund	Cash Funds (UPTF)
Treasurer	\$68,500	33.0%	\$45,667	\$22,833
Deputy Treasurer	95,424	28.0%	68,659	26,765
Accounting Technician II	26,144	50.0%	13,072	13,072
Totals	\$190,068	N/A	\$127,398	\$62,670

Statewide Common Policy Supplemental Requests

At this time, OSPB has not provided any common policy supplementals. If there are any, the JBC will act on these items later when it makes decisions regarding common policies.

Staff Recommendation: The staff recommendation for these requests is pending Committee approval of common policy supplementals. **Staff asks permission to include the corresponding appropriations in the Department's supplemental bill when the Committee approves this common policy supplemental.** If staff believes there is reason to deviate from the common policy, staff will appear before the Committee later to present the relevant analysis.

	FY 2007-08	FY 2008-09	Fiscal Year 2008-09 Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
DEPARTMENT OF THE TREASURY					
State Treasurer - Cary Kennedy					
Supplemental #1 - Reduce FPPA "Old Hire" pension plan payments to minimum required by law.					
<i>(3) Special Purpose</i>					
Fire and Police Pension Association - Old	<u>34,777,172</u>	<u>34,777,172</u>	<u>(9,456,093)</u>	<u>(9,456,093)</u>	<u>25,321,079</u>
General Fund Exempt	34,777,172	34,777,172	(9,456,093)	(9,456,093)	25,321,079
Supplemental #1A - Suspend FPPA "Old Hire" pension plan payments until FY 2011-12					
<i>(3) Special Purpose</i>					
Fire and Police Pension Association - Old	<u>25,321,079</u>	<u>25,321,079</u>	<u>(25,321,079)</u>	<u>(25,321,079)</u>	<u>0</u>
General Fund Exempt	25,321,079	25,321,079	(25,321,079)	(25,321,079)	0
Supplemental #2 - Funding Mix Change					
<i>(1) Administration</i>					
Personal Services	<u>1,184,006</u>	<u>1,236,712</u>	<u>0</u>	<u>0</u>	<u>1,236,712</u>
General Fund	426,518	479,223	(176,634)	(176,634)	302,589
Cash Funds (Treasury Transactions Fee)	757,488	757,489	176,634	176,634	934,123

	FY 2007-08	FY 2008-09	Fiscal Year 2008-09 Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
Supplemental # 3 - Operating Expenses Reduction Related to Cyber Security					
<i>(1) Administration</i>					
Operating Expenses - General Fund	109,888	266,586	(25,792)	(25,792)	240,794
Supplemental # 4 - Hiring Freeze Savings					
<i>(2) Unclaimed Property Program</i>					
Personal Services - Cash Funds	667,392	738,000	(24,914)	(24,914)	713,086
FTE	9.0	13.5	(1.0)	(1.0)	12.5
Staff Initiated Supplemental #1 - Partial Refinance of Personal Services to Unclaimed Property Trust Fund					
<i>(1) Administration</i>					
Personal Services	1,184,006	1,236,712	0	0	1,236,712
FTE	<u>16.0</u>	<u>16.0</u>	<u>0.0</u>	<u>0.0</u>	<u>16.0</u>
General Fund	426,518	479,223	0	(62,670)	416,553
Cash Funds (Unclaimed Property Trust Fur	757,488	757,489	0	62,670	820,159

	FY 2007-08	FY 2008-09	Fiscal Year 2008-09 Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
Totals Excluding Pending Items					
Department of the Treasury					
Totals for ALL Departmental line items	407,713,660	424,262,136	(34,827,878)	(34,827,878)	389,434,258
FTE	<u>23.2</u>	<u>29.5</u>	<u>(1.0)</u>	<u>(1.0)</u>	<u>28.5</u>
General Fund	80,543,025	87,231,672	(202,426)	(265,096)	86,966,576
General Fund Exempt	34,777,172	34,777,172	(34,777,172)	(34,777,172)	0
Cash Funds	2,575,933	302,253,292	151,720	214,390	302,467,682
Cash Funds Exempt	289,817,530	0	0	0	0
Statewide Common Policy Supplementals					
(see narrative for more detail)	<u>N.A.</u>	<u>N.A.</u>	0	Pending	<u>N.A.</u>
General Fund			0		
General Fund Exempt			0		
Cash Funds			0		
Cash Funds Exempt			0		
Totals Including Pending Items					
Department of the Treasury					
Totals for ALL Departmental line items	407,713,660	424,262,136	(34,827,878)	(34,827,878)	389,434,258
FTE	<u>23.2</u>	<u>29.5</u>	<u>(1.0)</u>	<u>(1.0)</u>	<u>28.5</u>
General Fund	80,543,025	87,231,672	(202,426)	(265,096)	86,966,576
General Fund Exempt	34,777,172	34,777,172	(34,777,172)	(34,777,172)	0
Cash Funds	2,575,933	302,253,292	151,720	214,390	302,467,682
Cash Funds Exempt	289,817,530	0	0	0	0

Key:

N.A. = Not Applicable or Not Available