Joint Budget Committee
Colorado PERA Question Responses

Hearing December 11, 2014

1. How does PERA's rate of return/discount rate compare to other STATE public pension plans not including other types of government pension plans? Is the unfunded liability going up or down over time? If unfunded liabilities are not going down with a rate of return of 15.6 percent, how will they decline with a rate of return of 7.5 percent? Will GASB 67 and 68 make pension plans more risk-prone?

Response:

A) Please see the attached graphics and documents that lay out both state public pension plan and corporate pension plan actuarial assumed investment rates of return. The Colorado PERA actuarial assumed investment rate of return is below or at both the median and average assumed rate of return for both the public and private pension plan universes of 240 pension plans.

B) As written in the Department of Personnel Briefing document, the recent actuarial history of PERA has been volatile with significant investment market movements, extensive plan changes made by the General Assembly, and a change in actuarial return assumption by the PERA Board from 8.0 percent to 7.5 percent. Although the unfunded liability has grown from levels in 2012 and 2011, it is still below levels in 2008. More importantly, due to the comprehensive pension reform enacted by the General Assembly via Senate Bill 10-001, PERA is sustainable for the long term, the unfunded liability is still projected to be eliminated in little over 30 years at the new 7.5 percent assumed rate of return, and PERA can meet its obligations to the members now and into the future. As written in the Briefing document, the unfunded liability is being amortized over payroll and over a 30-year period, and, therefore, it is not unexpected for the unfunded liability to grow slightly in earlier years and in later years decline at a fast rate due to the escalation in future payroll. The normal cost for PERA members' benefits will decrease over time, due to changes made by SB 10-001 such as later retirement ages and a lower COLA after retirement. These cost savings will help increase PERA's funded status. In addition, PERA's actuaries project that the State Division will remain sustainable without needing to adjust contribution rates even if the rate of return falls significantly below 7.5 percent.

C) GASB 67 and 68 do not inherently make pension plans more "risk-prone." The idea that GASB 67 and 68 incentivize plans to artificially increase their actuarial assumed investment rate of return to avoid calculating a "blended" discount on their actuarial liabilities may or may not be true. For Colorado PERA, this is certainly not the case as witnessed by the Board's actions to lower the actuarial assumed investment rate of return on two separate occasions during the past five years. (2009: 8.5 percent to 8.0 percent; 2013: 8.0 percent to 7.5 percent)

2. **Does PERA have an opinion on how GASB Statement 67 may affect the assumed rate of return/discount rate? How might that change impact unfunded liabilities and the funded status? How soon will PERA need to incorporate GASB no. 67 reporting requirements?**

Response:

The 2014 Colorado PERA *Comprehensive Annual Financial Report (CAFR)* will fully incorporate the reporting requirements of GASB 67 and will be released in late June 2015 after investment information is audited and the actuarial valuation is complete. Given that the 2014 year has yet to conclude, it is too early to know precisely what the funded status will be on December 31, 2014. Therefore, the possibility of needing to use a blended discount rate on the valuation of accrued liabilities is not yet known. A preliminary unaudited roll-forward estimate has been created by PERA's actuaries, and it indicates no blended rate is expected to be required in the State, Schools, Denver Public Schools, or Local Government Divisions of PERA. There is the potential for the blended discount rate to be necessary in valuing the liabilities of the Judicial Division.

The new GASB statements focus only on accounting and financial reporting requirements and do not affect the funding plan implemented via SB 10-001 nor impact the statutorily established contribution rates applied to employers and members.

3. **Why is the PERA statutory investment portfolio percentage limit for stocks set at 65 percent? Is this a risky level given the benefit that must be paid to retirees? What is the history of investment portfolio requirements as they have been defined or provided for in statute or by PERA to address risk? Please describe PERA's investment portfolio strategy as it regards risk and return.**

Response:

A) The statutory limitation on having no more than 65 percent of the fund's book value in stocks was instituted by the General Assembly by the enactment of Senate Bill 92-150. At the time, a survey by the National Conference of State Legislatures showed the average limitation for state public pension plans was 69 percent. PERA's stock investments remain below this statutory limitation.

B) PERA believes the 65 percent limitation on stock investments is prudent. It serves as an upper boundary on stock investments. PERA has an investment horizon of more than five decades. This long-term time horizon allows PERA to focus on creating long-term value as well as strive to weather shorter term volatility. PERA has over $45 billion in assets today and manages a portfolio that invests in stocks, bonds, real estate, private equity, and opportunistic investments. PERA manages and reduces risk by diversifying investments between asset classes and within asset classes. For example, stock investments include those inside the U.S. as well as outside the U.S., and those made in large companies as well as smaller companies. These and other investment attributes and advantages of a pooled employer hybrid defined benefit plan highlight the strengths of such a program in providing financial freedom and a secure retirement, while ensuring cost efficiencies for the program sponsor.

C) In 1961 the statute was changed to allow investments in stocks for the first time. The limit was set at 10 percent of assets. The limit was increased to 30 percent in 1969, then to 50 percent, and finally to the current limit of 65 percent which was set in 1992.

There are several other statutory provisions guiding the investment of the PERA portfolio contained in CRS 24-51-206 and other provisions limiting investments in companies that have business operations in Sudan.

24-51-206. Investments.

(1) The board shall have complete control and authority to invest the funds of the association. Preference shall be given to Colorado investments consistent with sound investment policy.

(2) Investments may be made without limitation in the following:

(a) Obligations of the United States government;

(b) Obligations fully guaranteed as to principal and interest by the United States government;

(c) State and municipal bonds;

(d) Corporate notes, bonds, and debentures whether or not convertible;

(e) Railroad equipment trust certificates;

(f) Real property;

(g) Loans secured by first or second mortgages or deeds of trust on real property; except that the origination of mortgages or deeds of trust on residential real property is prohibited. For the purposes of this paragraph (g) "residential real property" means any real property upon which there is or will be placed a structure designed principally for the occupancy of from one to four families, a mobile home, or a condominium unit or cooperative unit designed principally for the occupancy of from one to four families.

(g.5) Investments in stock or beneficial interests in entities formed for the ownership of real property by tax-exempt organizations pursuant to section 501(c)(25) of the federal "Internal Revenue Code of 1986," as amended; except that the percentage of any entity's outstanding stock or bonds owned by the association shall not be limited by the provisions of paragraph (b) of subsection (3) of this section;

(h) Participation agreements with life insurance companies; and

(i) Any other type of investment agreements.

(3) Investments may also be made in either common or preferred stock with the following limitations:

(a) The aggregate amount of moneys invested in corporate stocks or corporate bonds, notes, or debentures which are convertible into corporate stock or in investment trust shares shall not exceed sixty-five percent of the then book value of the fund.

(b) No investment of the fund in common or preferred stock, or both, of any single corporation shall be of an amount which exceeds five percent of the then book value of the fund, nor shall the fund acquire more than twelve percent of the outstanding stock or bonds of any single corporation.

(c) (I) Each investment firm offering for sale to the board corporate stocks, bonds, notes, debentures, or a mutual fund that contains corporate securities, shall disclose, in any research or other disclosure documents provided in support of the securities being offered, to the board whether the investment firm has an agreement with a for-profit corporation that is not a government-sponsored enterprise, whose securities are being offered for sale to the board and because of such agreement the investment firm:

(A) Had received compensation for investment banking services within the most recent twelve months; or

(B) May receive compensation for investment banking services within the next three consecutive months.

(II) For the purposes of this paragraph (c), “investment firm” means a bank, brokerage firm, or other financial services firm conducting business within this state, or any agent thereof.

In addition to statutory guidelines, the PERA Board instituted numerous policies and procedures to guide and govern the investment portfolio. The Board has a *Governance Manual* requiring these investment policies and procedures to be reviewed regularly, and that asset/liability studies will be performed regularly as well. The Board has adopted a *Statement of Investment Philosophy* that helps guide the nature and intent of the investment policies and procedures of the Board, here is a summary of that philosophy:

The diversification of assets, also known as the strategic asset allocation policy, is the primary approach to managing investment risk and expected returns. The plan’s obligations to its members are long term in nature, and the investment time horizon will also be many decades. Long-term or strategic decisions will prevail in managing the portfolio rather than tactical or short-term market timing decisions. Investment opportunities and risks evolve and change over time, and the diversification of assets will be reviewed periodically. The portfolio will employ various strategies, some of which will look to mimic market returns and others that will look to exceed market returns.

4. Is it true that PERA's is the largest unfunded liability in the state at this point.

Response:

There are a multitude of future potential human endeavors within Colorado that could be considered "unfunded liabilities" today; examples may include future needs for roads, Medicaid, Medicare, bridge repair, environmental reclamation, water, and a variety of other governmental responsibilities. Colorado PERA is in no position to speculate about or calculate such a range of possibilities.

It is important to note again that the comprehensive pension reform enacted by the General Assembly via Senate Bill 10-001 is working as intended, and PERA is expected to reach full funded status in a little over 30 years. During this time, PERA remains sustainable and will continue to pay all promises benefits while growing plan assets.



JOINT BUDGET COMMITTEE HEARING

GREGORY W. SMITH, EXECUTIVE DIRECTOR

DECEMBER 11, 2014

COLORADO PERA

Latest News

- KPMG performed the State Auditor's Office 2013 annual audit of PERA
  - No findings or recommendations for best practices or improvements
- Audited financial statements showed a 15.6 percent investment return for 2013
- Investment income for 2013 was over $6 billion
- Board of Trustees' lowered the future actuarial investment return assumption from 8.0 percent to 7.5 percent for 2013 financial statements
  - Reduced assumption increased actuarial accrued liabilities by $3.1 billion, but investment income outpaced the increase in liabilities
  - Total Pension Fund Market Value of Assets Funded Ratio:
    - 2012 = 64.4 percent
    - 2013 = 65.2 percent
- Governmental Accounting Standards Board (GASB) implementation
- Senate Bill 10-001 and Memorial Hospital lawsuits

COLORADO PERA

What is Colorado PERA?

As of December 2013

- » Instrumentality of the state, founded on August 1, 1931
- » Substitute for Social Security
  - Members contribute 8 percent or more
- » Hybrid defined benefit retirement plan qualified under IRC 401(a)
- » Administers:
  - Defined Benefit Plan, including disability and survivor benefit programs
  - One of the country's largest public 401(k), 457, and DC Choice Plans (combined assets of $3.3 billion)
  - Health care, dental, and vision plans for largest coverage group in the state (over 155,000 lives)
  - Life insurance plan
- » Largest pension fund in Colorado, 21st largest public plan in United States

PERA Board Authority

- » Limited to implementing statutes adopted by the General Assembly
- » Oversight
  - Investment of assets
  - Administration of benefits
  - Collection of contributions
- » Monitors actuarial assumptions and performance
- » Benefit and contribution structure set by the General Assembly
  - Not subject to change via collective bargaining arrangements
  - Not changeable by employer and labor union negotiations
  - Consistently applied among all employers within a PERA Division

COLORADO PERA

PERA is Transparent

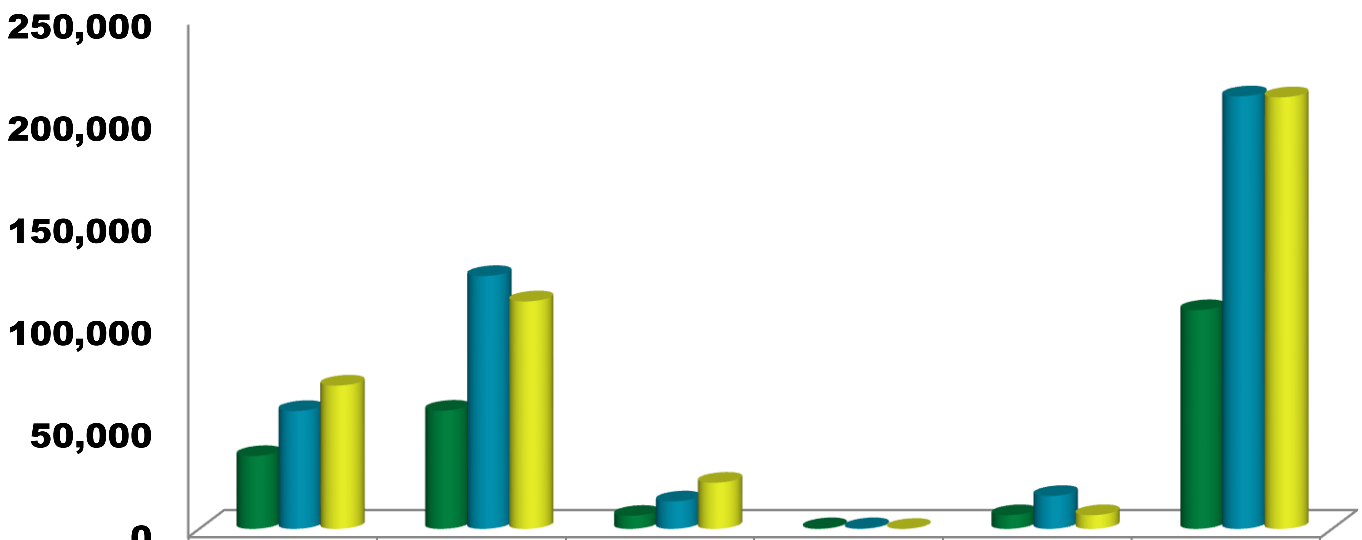
- All board meetings are public and include time for public comment
- PERA reports annually to the Joint Finance Committee, Joint Budget Committee, and Legislative Audit Committee of the Colorado General Assembly and the Governor
- PERA is audited annually by a firm selected by the State Auditor whose findings are reported to the Legislative Audit Committee
- PERA's *Comprehensive Annual Financial Report (CAFR)* is used as a model for other public pension plans, receiving the GFOA financial reporting excellence award for the last 28 consecutive years
- Annual financial audit for 2013 found no material weaknesses in PERA's internal controls, accounting policies, and practices; no recommendations
- PERA's website is an excellent resource for plan and financial information

COLORADO PERA

PERA Membership

October 31, 2014

Total: 529,386



	State	School	Local Gov't	Judicial	DPS	Total
Benefit Recipients	35,686	57,902	6,407	330	6,728	107,053
Active Members	57,749	123,699	13,478	334	16,136	211,396
Inactive Members	70,207	111,348	22,632	14	6,736	210,937

COLORADO PERA

PERA Financial Recap

$40,201,578 net assets as of December 31, 2012

(in thousands of dollars; does not include defined contribution plans)

2013

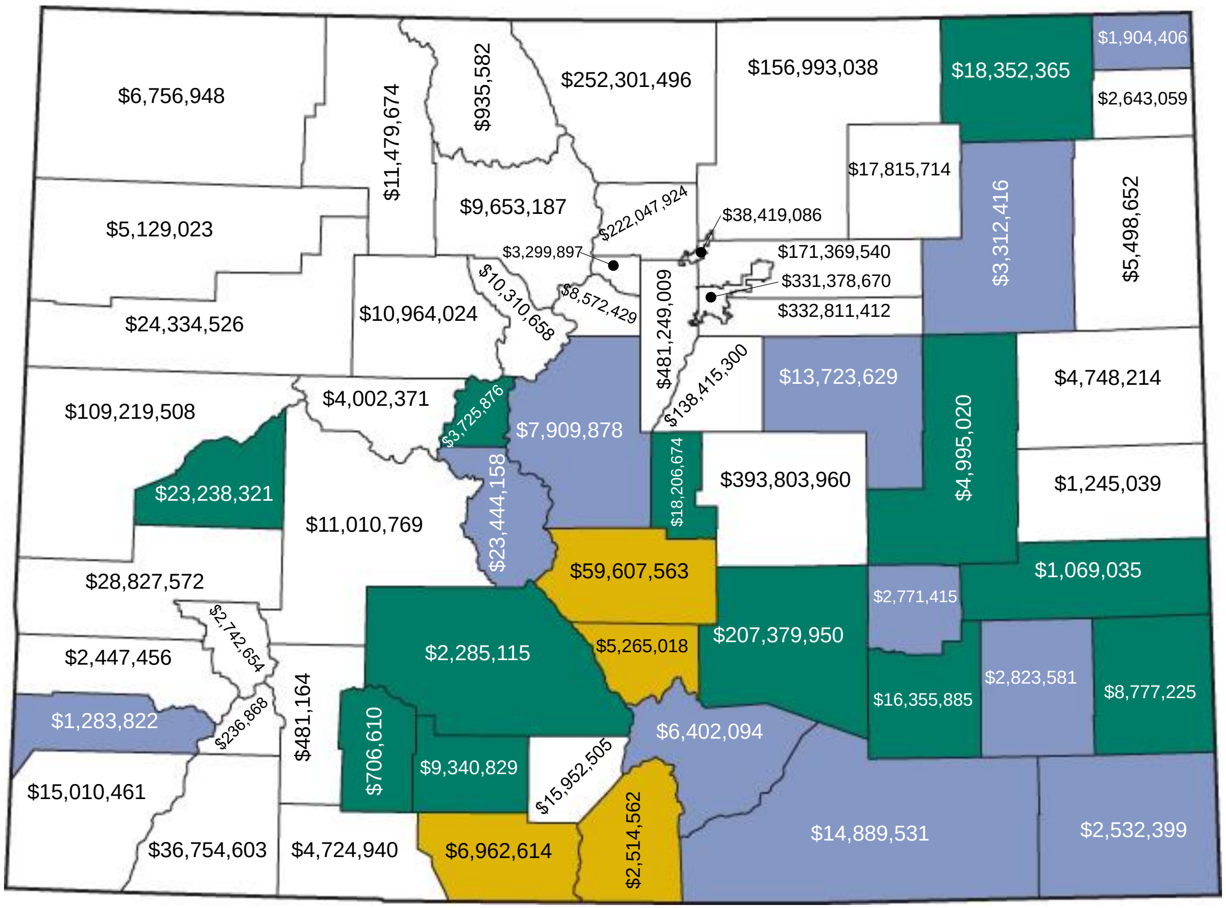
Contributions $2,022,072		Investments $6,091,243		Benefits Paid ($4,192,436)	
Employer – Pension – Regular	$675,864	Net Change in Fair Value	$5,215,751	Pension Benefits	($3,702,948)
Employer – Pension – AED	$240,155	Interest	$288,423	Health Care Benefits	($234,082)
Employer – Pension – SAED	$209,364	Dividends	$518,531	Disability/Life Insurance	($6,872)
Employer – Health Care	$78,342	Real Estate/Opportunity Fund/ Alternative Investments	$203,399	Refunds	($185,313)
Member	$614,431			Other	($15,390)
Purchased Service	$50,963	Securities Lending	$10,561	Administrative Expense	($47,831)
Retiree Health Care Premiums	$119,083	Investment Expense	($145,422)		
Federal Health Care Subsidies	$16,294				
Other Additions	$17,576				

$44,122,457 net assets as of December 31, 2013

COLORADO PERA

PERA Benefit Distributions and Distributions Relative to Payroll by County

Total Distributions = $3,355,533,059



Over 25 percent of Payroll

15-25 percent of Payroll

10-15 percent of Payroll

Less than 10 percent of Payroll

Percentage of payroll data from 2011 County Business Patterns, U.S. Census Bureau adjusted to 2013 dollars, calculation from Pacey & McNulty

Annual benefit payments as of December 31, 2013 (unaudited)

COLORADO PERA

Positively Impacting Colorado's Economy

PERA provides **$3.35 billion** in annual retirement benefit payments to **90,155** Colorado residents

Benefit payments result in **$4.78 billon** in total economic output (all goods and services transactions)

Creates **$1.12 billion** in labor income

Adds **$2.07 billion** to the State's gross domestic product

Sustains **25,923 jobs** statewide

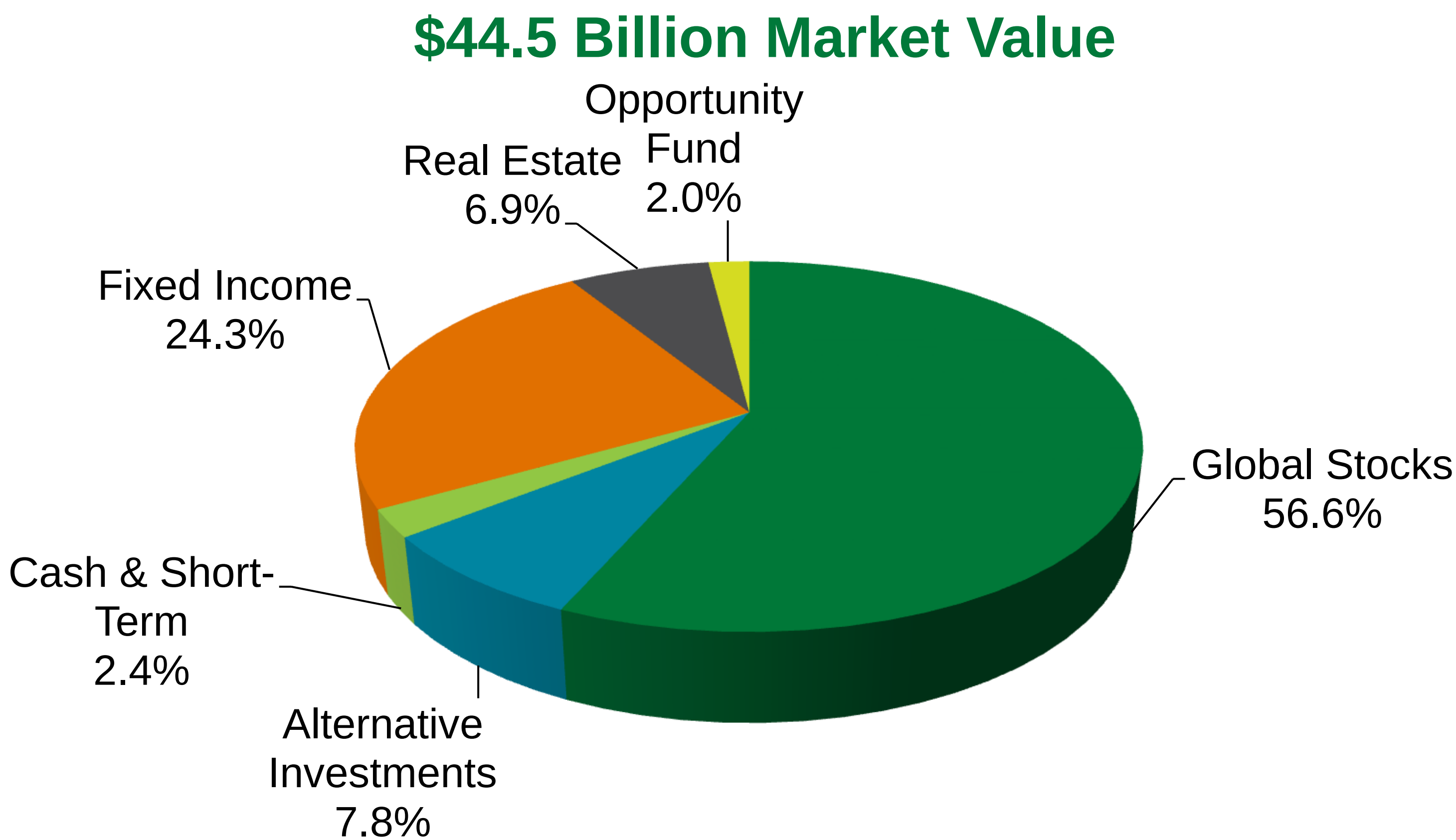
Produces **$282.4 million** in state and local tax revenue

COLORADO PERA

As of October 2013

Investment Asset Allocation

October 31, 2014



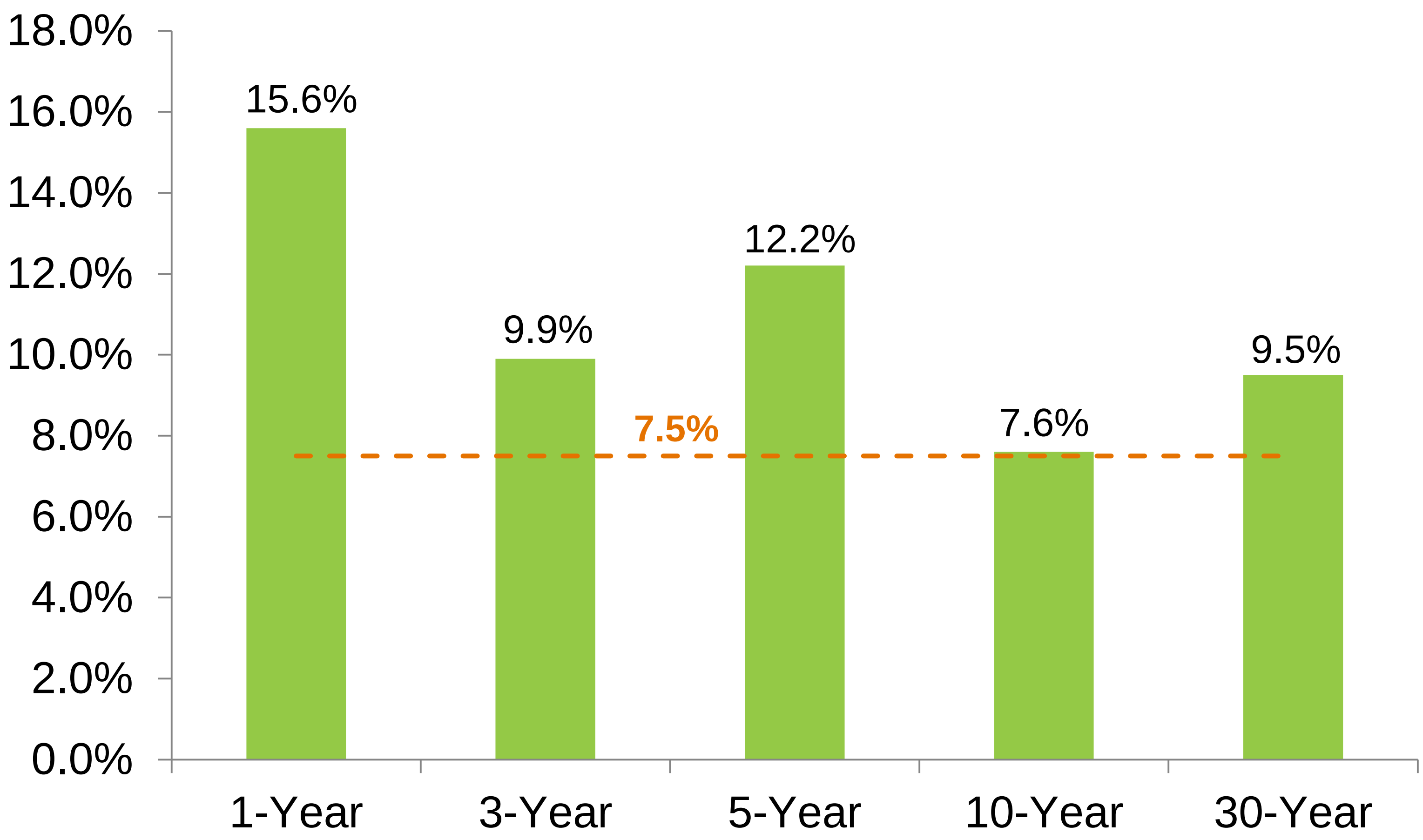
PERA's Colorado Investments

- Over $572 million invested in companies and properties domiciled in the state
- More than 55 percent of assets managed directly by PERA staff
- An additional $50 million is allocated to the Colorado Mile High Fund for private equity investments in the state

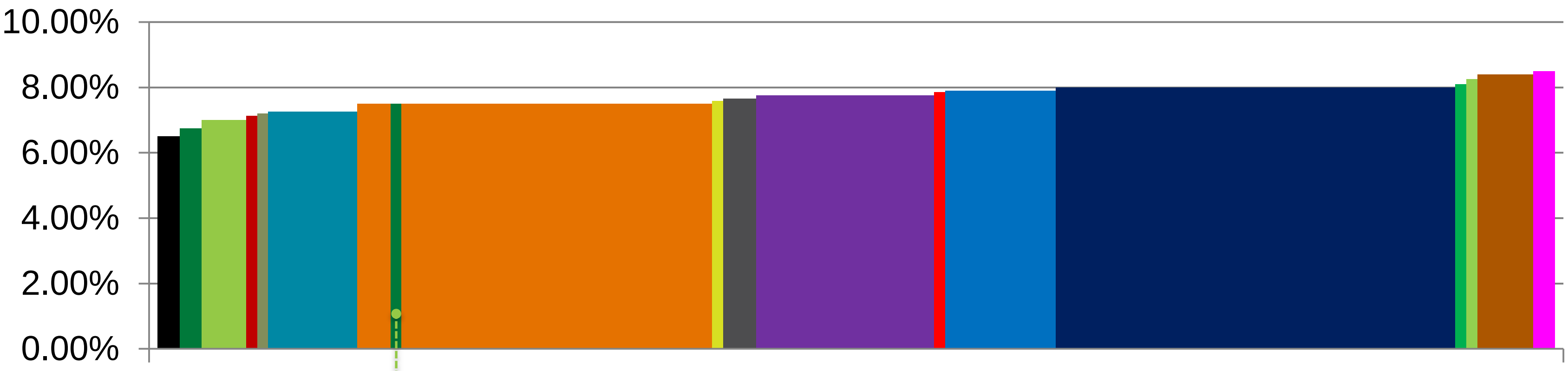
COLORADO PERA

Investing for Long Term

Annualized investment returns for periods ending December 31, 2013



Comparative Rates of Return – Public



6.50% DC Police & Fire
DC Teachers

6.75% Indiana Teachers
Indiana PERF

7.00% Idaho PERS
New York City ERS
Texas Municipal
Virginia Retirement System

7.13% Maine State and Teacher

7.20% Wisconsin Retirement System

7.25% Contra Costa County
Illinois SERS
Illinois Universities
Maine Local
Missouri Local
North Carolina Local Government
North Carolina Teachers and State Employees
South Dakota PERS

7.50% LA County ERS
California PERF
California Teachers
Colorado PERA
Colorado Fire & Police
Delaware State Employees
Georgia ERS
Georgia Teachers
Iowa PERS
Illinois Municipal
Illinois Teachers
Kentucky Teachers
NY State & Local Police & Fire
NY State & Local ERS
Oklahoma PERS
Pennsylvania School Employees
Pennsylvania State ERS
Rhode Island ERS
Rhode Island Municipal
South Carolina Police
South Carolina RS
Tennessee State & Teachers
Tennessee Political Subdivisions
Utah Noncontributory
Fairfax County Schools
Washington LEOFF
West Virginia Teachers
West Virginia PERS

7.58% San Francisco City & County

7.65% Florida RS
Maryland Teachers
Maryland PERS

7.75% Hawaii ERS
Kentucky ERS
Kentucky County
Louisiana SERS
Louisiana Teachers
Missouri DOT and Highway Patrol
Montana PERS
Montana Teachers
New Hampshire Retirement System
New Mexico PERF
New Mexico Teachers
Ohio School Employees
Ohio Teachers
Oregon PERS
City of Austin ERS
Wyoming Public Employees

7.85% Arizona Public Safety Personnel

7.90% New Jersey Teachers
New Jersey Police & Fire
New Jersey PERS
Vermont Teachers
Washington PERS
Washington Teachers
Washington School Employees

8.00% Alaska Teachers
Alaska PERS
Alabama ERS
Alabama Teachers
Arkansas PERS
Arkansas Teachers
Arizona SRS
Phoenix ERS
San Diego County
Denver Employees
Connecticut SERS
Chicago Teachers
Kansas PERS
Massachusetts SERS
Massachusetts Teachers
Michigan SERS
Michigan Public Schools
Michigan Municipal
St. Louis School Employees
Missouri State Employees
Missouri Teachers
Missouri PEERS
Mississippi PERS
North Dakota PERS
North Dakota Teachers
Nebraska Schools
Nevada Regular Employees
Nevada Police Officers & Firefighters
New York City Teachers
New York State Teachers
Ohio PERS
Oklahoma Teachers
Texas Teachers
Texas County & District
Texas ERS
Texas LECOS

8.10% Vermont State Employees

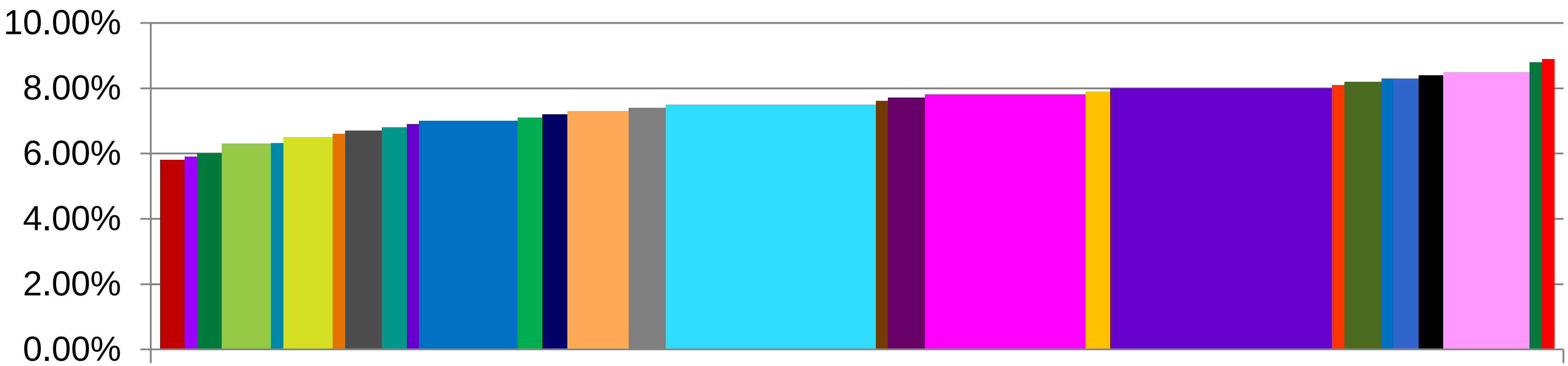
8.25% Ohio Police & Fire

8.40% Minnesota PERF
Minnesota State Employees
Minnesota Teachers
Duluth Teachers
St. Paul Teachers

8.50% Connecticut Teachers
Houston Firefighters

National Association of State Retirement Plan Administrators–October 2014

Comparative Rates of Return – Private



5.80% General Motors Co.; Kraft Foods Group Inc.

5.90% Philips Electronics North America Crop.

6.00% Shell Oil Co.; Corning Inc.

6.30% Prudential Financial Inc.; MetLife Inc.; Nationwide Insurance Group; Kimberly-Clark Corp.

6.32% Acatel-Lucent

6.50% Bank of America Corp.; PG&E Corp.; American Electric Power Co.; CBS Corp.

6.60% National Grid USA

6.70% Reynolds American Inc.; BAE Systems North America; Southern California Edison Co.

6.80% Liberty Mutual Group; Computer Sciences Corp.

6.90% Siemens Corp.

7.00% Citigroup Inc.; Motorola Solutions Inc.; Aetna Inc.; J.C. Penney Co. Inc; PPL Corp.; HSBC North America; Reynolds Group Holdings; Sears Holdings Corp.

7.10% The Hartford Financial Services Group Inc.; Xcel Energy Inc.

7.20% Weyerhaeuser Co.; Goodyear Tire & Rubber Co.

7.30% Exxon Mobil Corp.; Bank of New York Mellon Corp.; Ashland Inc.; Ameren Corp.; PPG Industries Inc.

7.40% Ford Motor Co.; Chrysler Group LLC; BP America Inc.

7.50% Boeing Co.; General Electric Co.; Verizon Communications Inc.; JPMorgan Chase & Co.; Exelon Corp.; CenturyLink Inc.; Dow Chemical Co.; Chevron Corp.; Merck & Co. Inc.; Wells Fargo & Co.; The Walt Disney Co.; PNC Financial Services Group Inc.; Northwestern Mutual Life Insurance Co.; American International Group Inc.; Rock-Tenn Co.; Macy's Inc.; Union Pacific Crop.

7.60% Textron Inc.

7.70% United Technologies Corp.; Marsh & McLennan Cos. Inc.; Nestle USA Inc.

7.80% AT&T Inc.; Duke Energy; Honeywell International Inc.; Caterpillar Inc.; Hewlett-Packard Co.; PepsiCo Inc.; Deere & Co; FirstEnergy Corp; Abbott Laboratories; United States Steel Corp.; The Allstate Corp.; NextEra Energy Inc.; BB&T Corp.

7.90% MeadWestvaco Corp.; R.R. Donnelley & Sons Co Inc.

8.00% IBM Corp.; Lockheed Martin Corp.; Northrop Grumman Corp.; FedEx Corp.; 3M Co.; Consolidated Edison Co. of New York Inc.; International Paper Co.; American Airlines Inc.; Altria Group Inc.; Bristol-Myers Squibb Co.; New York Life Insurance Co.; Public Service Enterprise Group Inc.; Unisys Corp.; Emerson Electric Co; Cigna Corp.; Rockwell Automation Inc.; Parker-Hannifin Corp.; Target Corp.

8.10% General Dynamics Corp.

8.20% Raytheon Co.; Southern Co.; Eastman Kodak Co.

8.30% The Coca-Cola Co.; Exelis Inc.; DTE Energy

8.40% Du Pont; Eli Lilly & Co.

8.50% Pfizer Inc.; Johnson & Johnson; Alcoa Inc.; Dominion Resources Inc.; General Mills; Kellogg Co.; Entergy Corp.

8.80% United Parcel Service Inc.

8.90% Delta Air Lines Inc.

Pensions and Investments Database–November 2013

COLORADO PERA

Senate Bill 10-001 Puts PERA Back on Track

- PERA Board designed the reforms that became SB 10-001
- Shared sacrifice – 90 percent of changes come from current and future members and retirees
- All Divisions are expected to be fully funded
  - Pre-SB 10-001, most Divisions projected to be out of money as early as 2029
- Litigation status
  - Reforms sustained by the Colorado Supreme Court

Contact Us

- Web address
  - www.copera.org
- Social media
  - The Dime, www.thedimecolorado.com
  - Twitter, @ColoradoPERA and @thedimeCO
  - Facebook, www.facebook.com/thedimecolorado
- Office locations
  - 1301 Pennsylvania Street, Denver
  - 1120 West 122nd Avenue, Westminster
- Phone number
  - 1-800-759-PERA (7372)

COLORADO PERA

DEPARTMENT OF PERSONNEL AND PERA
FY 2015-16 JOINT BUDGET COMMITTEE HEARING AGENDA

Thursday, December 11, 2014
9:00 am – 12:00 pm

9:00-9:20 **INTRODUCTIONS AND OPENING COMMENTS**

9:20-9:50 **QUESTIONS COMMON TO ALL DEPARTMENTS**

(The following questions require both a written and verbal response.)

1. SMART Government Act:
   a. Please describe how the SMART Government Act is being integrated into the Department's existing processes (both in terms of service delivery and evaluating performance).
   b. How is the data that is gathered for the performance management system used?
   c. Please describe the value of the Act in the Department.

2. Do you have infrastructure needs (roads, real property, information technology) beyond the current infrastructure request? If so, how do these needs fit in with the Department's overall infrastructure priorities that have been submitted to the Capital Development Committee or Joint Technology Committee? If infrastructure should be a higher priority for the Department, how should the Department's list of overall priorities be adjusted to account for it?

3. Describe the Department's experience with the implementation of the new CORE accounting system.
   a. Was the training adequate?
   b. Has the transition gone smoothly?
   c. How has the implementation of CORE affected staff workload during the transition?
   d. Do you anticipate that CORE will increase the staff workload on an ongoing basis? If so, describe the nature of the workload increase and indicate whether the Department is requesting additional funding for FY 2015-16 to address it.

9:50-10:20 **DEPARTMENT OVERVIEW**

4. Please provide background on the role of the State Personnel Board? What does the Board provide for the state personnel system? What authority does the Board have over the state personnel process? Is there a policy overlap with the General Assembly?

5. Please provide an organizational history of the Department within the executive branch? Has statewide personnel policy always been consolidated in this manner? Why do we have one centralized personnel (human resources) system over all departments?

6. Has there ever been a cost-benefit analysis of the property insurance program in regard to eliminating property insurance? Has an analysis been done to determine whether premiums paid for property insurance are worth what the insurance has provided in claims? Do we have property destruction events happen on a regular enough basis to need insurance? Do individual departments, such as Higher Education, insure their properties independently outside of the property insurance program? Should depreciation of capital assets be part of the property insurance discussion? If we have insurance do we really need depreciation to cover building maintenance? Is property insurance based on replacement value? If not, what is it based on? What is the replacement value of the Capitol? If it was destroyed, what materials could be used to rebuild it? Are there restrictions because it is a historical building? If so, how could we ever rebuild it? Would FEMA replace all our buildings if they were destroyed by a natural disaster? Please explain why or why not.

7. Can Fleet Management sell a portfolio of vehicles in a single sale to one buyer or do they have to have an actual auction of single vehicles? Are auctions conducted by private auction companies or are they conducted by state employees? Explain the auction process. Would it be beneficial to have statutory authority to sell a whole group of vehicles to one buyer as opposed to single vehicles to single buyers? Would that save money? How does Hertz dispose of vehicles?

10:20-11:15 BRIEFING ISSUES

<u>Fleet Management CNG Break-even Analysis</u>

8. Is the extra cost to drive to CNG fueling stations built into the methodology for the break-even analysis? Would it be better to allocate CNG vehicles based on where fueling stations are located?

9. What is CEOs opinion on this issue brief? What does DNR think of this? Will the departments who are under-utilizing CNG commit to increasing usage? What is the executive branch doing to increase usage of CNG in the vehicles as opposed to just purchasing the vehicles?

10. Does lowering of gas prices impact the break-even analysis?

11. How does the Department make the decision to request a given proportion of CNG vehicles in the total request? Does the Department take into account the availability of CNG stations in the area where the vehicles will be located? Who makes the policies on how and when a state employee should use CNG versus standard fuel in the alternative fuel vehicles? Why do employees choose not to use CNG in these vehicles? Has the department ever tried to determine this? If not, why not? Would a statutory change help to encourage more usage?

12. What is the Department's plan to increase CNG usage? What is the Department's opinion of the staff analysis?

13. Are the grants for CNG fueling stations primarily federal? Will they continue in the future or is the money drying up?

Cash Funds Excess Uncommitted Reserves Policy

14. If we were to implement the recommended changes would all the issues be resolved or would there still be issues?

15. Please provide feedback on the recommended changes.

Total Comp Request Overview

16. What is the status of the total compensation study that was funded last year? Was there a third party study for total compensation?

17. Please discuss the Total Compensation Request and provide an update on the HLD request.

18. Does the Department have plans to address the issue of narrowed salary ranges in which state employees are bumping up against the maximum, locked in by the maximum, and essentially unable to receive base increases due to this range narrowing? Please provide a brief history of this issue and if possible the cost to address this issue.

11:15-11:30 BREAK

11:30-11:40 PERA INTRODUCTION AND OPENING COMMENTS

11:40-12:00 PERA QUESTIONS

19. How does PERA's rate of return/discount rate compare to other STATE public pension plans not including other types of government pension plans? Is unfunded liability going up or down over time? If unfunded liabilities are not going down with a rate of return of 15.6 percent, how will they decline with a rate of return of 7.5 percent? Will GASB 67 and 68 make pension plans more risk-prone?

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21. Why is the PERA statutory investment portfolio percentage limit for stocks set at 65 percent? Is this a risky level given the benefits that must be paid to retirees? What is the history of

investment portfolio mix requirements as they have been defined or provided for in statute or by PERA to address risk? Please describe PERA's investment portfolio strategy as it regards risk and return.

22. Do current normal yearly contributions – member and state contributions – fully fund the retirement liabilities generated over the year for state employee PERA members? If not, what is the projected percentage of current year liabilities that are being funded by the normal yearly contribution and how much should the normal yearly contribution rate increase to fully fund the liability? If not, why hasn't PERA requested an increase in the normal contribution rates for member and state contributions in order to fully fund current year liabilities? Or why hasn't PERA requested an adjustment to future member benefits that would be fully funded by normal yearly contributions? If not, what percentage of AED and SAED are for the purpose of fully funding liabilities generated due to the shortfall in normal yearly contributions and what percentage are for the purpose of back-filling or paying off the unfunded liabilities that were recognized at the point that AED and SAED were implemented? Are AED and SAED compensation provided to current state employees or are they payments made for underfunding PERA benefits for state employees in the past? If AED and SAED are intended to cover a shortfall in the normal yearly contribution for current state employees, why shouldn't that percentage be included directly in the normal yearly contribution rather than being lumped in with amortization payments intended to cover existing unfunded liabilities?

23. Is it true that PERA's is the largest unfunded liability in the state at this point?

ADDENDUM: OTHER QUESTIONS FOR WHICH SOLELY WRITTEN RESPONSES ARE REQUESTED

1. Provide a list of any legislation that the Department has: (a) not implemented or (b) partially implemented. Explain why the Department has not implemented or has partially implemented the legislation on this list.

2. What is the turnover rate for staff in the department? Please provide a breakdown by office and/or division, and program.

3. Please identify the following:
   a. The department’s most effective program;
   b. The department’s least effective program (in the context of management and budget);
   c. Please provide recommendations on what will make this program (2.b.) more effective based on the department’s performance measures.

4. How much capital outlay was expended using either operating funds or capital funds in FY 2013-14? Please break it down between the amount expended from operating and the amount expended from capital.

5. Does Department have any outstanding high priority recommendations as identified in the "Annual Report of Audit Recommendations Not Fully Implemented" that was published by the State Auditor's Office on June 30, 2014? What is the department doing to resolve the outstanding high priority recommendations?
   http://www.leg.state.co.us/OSA/coauditor1.nsf/All/1FE335CE3162803F87257D7E00550568/$FILE/1422S%20-%20ANNUAL%20REPORT%20OF%20AUDIT%20RECOMMENDATIONS%20NOT%20FULLY%20IMPLEMENTED%20AS%20OF%20JUNE%2030,%202014.pdf