

This document has two parts:

1. The February 23, 2011 JBC Staff figure setting document.
2. A March 17, 2011 memorandum that contains a recommendation from Staff regarding the interest free school loan program.

**COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE**



**FY 2011-12 STAFF FIGURE SETTING
DEPARTMENT OF THE TREASURY**

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

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FY 2011-12 Staff Figure Setting
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

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**Fiscal Year 2010-11 Joint Budget Committee Staff Figure Setting
Department of the Treasury**

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	Change	
	Actual	Actual	Appropriation	Request	Requests	
				Recommendation		
DEPARTMENT OF THE TREASURY						
State Treasurer: Walker Stapleton						
(1) ADMINISTRATION						
Provides accounting, cash management, and investment services for the State as well as administrative services for the Treasury Department. Cash funds sources are the Unclaimed Property Trust Fund, Treasury Transactions Fee revenue, and the Charter School Financing Administrative Cash Fund.						
Personal Services	1,219,169	1,242,508	1,238,499	1,269,485	1,250,006	DI #3
FTE	<u>15.1</u>	<u>15.8</u>	<u>16.0</u>	<u>16.0</u>	<u>16.0</u>	
General Fund	222,376	245,182	262,689	316,529	311,344	
Cash Funds a/	996,793	997,326	975,810	952,956	938,662	
Health, Life, and Dental	<u>123,208</u>	<u>134,302</u>	<u>188,858</u>	<u>190,203</u>	<u>190,203</u>	NP
General Fund	64,309	67,423	93,321	91,600	91,600	
Cash Funds	58,899	66,879	95,537	98,603	98,603	
Short-term Disability	<u>2,119</u>	<u>2,360</u>	<u>2,838</u>	<u>3,311</u>	<u>3,225</u>	
General Fund	1,417	1,596	1,794	1,948	1,998	
Cash Funds	702	764	1,044	1,363	1,227	
S.B. 04-257 Amortization Equalization Disbursement	<u>26,027</u>	<u>31,855</u>	<u>43,939</u>	<u>52,376</u>	<u>50,638</u>	
General Fund	15,808	20,588	27,788	30,815	31,226	
Cash Funds	10,219	11,267	16,151	21,561	19,412	
S.B. 06-235 Supplemental Amortization Equalization Disbursement	<u>12,052</u>	<u>19,137</u>	<u>32,049</u>	<u>42,088</u>	<u>40,524</u>	
General Fund	7,509	11,632	20,261	24,762	24,925	
Cash Funds	4,543	7,505	11,788	17,326	15,599	

**Fiscal Year 2010-11 Joint Budget Committee Staff Figure Setting
Department of the Treasury**

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12		Change
	Actual	Actual	Appropriation	Request	Recommendation	Requests
Salary Survey and Senior Executive Service	<u>71,339</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
General Fund	48,625	0	0	0	0	
Cash Funds	22,714	0	0	0	0	
Performance-based Pay Awards	<u>25,162</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
General Fund	16,623	0	0	0	0	
Cash Funds	8,539	0	0	0	0	
Workers' Compensation and Payment to Risk Management and Property Funds - GF	2,377	2,208	1,452	2,187	Pending	NP
Operating Expense	<u>148,884</u>	<u>146,629</u>	<u>194,710</u>	<u>198,709</u>	<u>198,649</u>	NP
General Fund	148,884	140,420	194,710	198,709	198,649	
Cash Funds	0	6,209	0	0	0	
Information Technology Asset Maintenance	<u>8,748</u>	<u>9,738</u>	<u>12,568</u>	<u>12,568</u>	<u>12,568</u>	
General Fund	2,464	3,454	6,284	6,284	6,284	
Cash Funds	6,284	6,284	6,284	6,284	6,284	
Legal Services for 575 Hours	<u>39,411</u>	<u>25,859</u>	<u>42,188</u>	<u>42,262</u>	<u>Pending</u>	NP
General Fund	17,820	4,187	21,094	21,131		
Cash Funds	21,591	21,672	21,094	21,131		
Purchase of Services from Computer Center - GF	21,767	21,767	3,811	101,633	Pending	NP
Capitol Complex Leased Space - GF	54,919	54,954	53,949	57,740	Pending	NP
Charter Schools Facilities Financing Services - CF b/	2,579	2,803	5,000	5,000	5,000	
Discretionary Fund - GF	614	0	5,000	5,000	5,000	

**Fiscal Year 2010-11 Joint Budget Committee Staff Figure Setting
Department of the Treasury**

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	Change	
	Actual	Actual	Appropriation	Request	Recommendation	
					Requests	
					<i>Recommend. v. Appropriation</i>	
Subtotal - (1) Administration	1,758,375	1,694,120	1,824,861	1,982,562	1,755,813	-3.8%
FTE	<u>15.1</u>	<u>15.8</u>	<u>16.0</u>	<u>16.0</u>	<u>16.0</u>	0.0%
General Fund	625,512	573,411	692,153	858,338	671,026	-3.1%
Cash Funds	1,132,863	1,120,709	1,132,708	1,124,224	1,084,787	-4.2%

a/ For purposes of this document, revenues received from the Treasury Transaction fees, pursuant to Section 24-36-120, C.R.S. are applied against the Personal Services line item for all fiscal years.

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

(2) UNCLAIMED PROPERTY PROGRAM

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

Personal Service - CF	692,158	708,306	764,966	764,966	753,239	
FTE	<u>9.2</u>	<u>8.9</u>	<u>15.5</u>	<u>15.5</u>	<u>15.5</u>	
Operating Expenses - CF	116,152	108,845	121,869	121,927	121,869	
Promotion and Correspondence - CF	150,010	140,130	200,000	200,000	200,000	
Leased Space - CF	45,534	43,521	51,990	53,723	53,723	DI #2
Contract Auditor Services - CF a/	671,736	530,633	800,000	800,000	800,000	
						<i>Recommend. v. Appropriation</i>
Subtotal - (2) Unclaimed Property Program - Cash Funds	1,675,590	1,531,435	1,938,825	1,940,616	1,928,831	-0.5%
FTE	9.2	8.9	15.5	15.5	15.5	0.0%

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

**Fiscal Year 2010-11 Joint Budget Committee Staff Figure Setting
Department of the Treasury**

	FY 2008-09 Actual	FY 2009-10 Actual	FY 2010-11 Appropriation	FY 2011-12 Request	FY 2011-12 Recommendation	Change Requests
(3) SPECIAL PURPOSE						
The expenditures in this section are included in the Long Bill for informational purposes only - they reflect continuous appropriations required by constitutional provisions or State statutes. The line items: reimburse local governments for property taxes foregone due to the Senior Citizen and Disabled Veteran Property Tax Exemption; transfer money from the Unclaimed Property Trust Fund to CoverColorado; transfer General Fund to the Fire and Police Pension Association (FPPA) "old-hire" pension plans; and allocate a portion of the Highway Users Tax Fund (HUTF) to local governments. The General Fund appropriations are exempt from the statutory limits on General Fund appropriations. The appropriation for the Senior Citizen and Disabled Veteran Property Tax Exemption, the transfer to CoverColorado, and the appropriation for FPPA "old-hire" pension plans are not subject to the TABOR limitations.						
GF	85,586,694	1,333,604	1,670,802	1,700,000	1,700,000	
CoverColorado - Cash Funds	31,174,631	26,658,431	34,000,000	41,000,000	41,000,000	
GFE	0	0	0	0	25,321,079	DI #1
Highway Users Tax Fund - County Payments - Cash Funds	155,403,560	182,937,213	186,811,000	186,797,920	186,797,920	
Funds	101,133,396	125,023,791	130,720,000	127,662,293	127,662,293	
						<i>Recommend. v. Appropriation</i>
Subtotal - (3) Special Purpose	<u>373,298,281</u>	<u>335,953,039</u>	<u>353,201,802</u>	<u>357,160,213</u>	<u>382,481,292</u>	8.3%
General Fund	85,586,694	1,333,604	1,670,802	1,700,000	1,700,000	1.7%
General Fund Exempt	0	0	0	0	25,321,079	N/A
Cash Funds	287,711,587	334,619,435	351,531,000	355,460,213	355,460,213	1.1%
						<i>Recommend. v. Appropriation</i>
Department Total - Department of the Treasury	<u>376,732,246</u>	<u>339,178,594</u>	<u>356,965,488</u>	<u>361,083,391</u>	<u>386,165,936</u>	8.2%
FTE	<u>24.3</u>	<u>24.7</u>	<u>31.5</u>	<u>31.5</u>	<u>31.5</u>	0.0%
General Fund	86,212,206	1,907,015	2,362,955	2,558,338	2,371,026	0.3%
General Fund Exempt	0	0	0	0	25,321,079	N/A
Cash Funds	290,520,040	337,271,579	354,602,533	358,525,053	358,473,831	1.1%

**FY 2011-12 JOINT BUDGET COMMITTEE STAFF
FIGURE SETTING RECOMMENDATIONS
STATE TREASURER'S OFFICE**

JBC WORKING DOCUMENT - DECISION SUBJECT TO CHANGE
Staff Recommendation Does Not Represent Committee Decision

Summary of Staff Recommendations in this Packet					
Description	Total Funds	FTE	General Fund	General Fund Exempt	Cash Funds
FY 2010-11 Long Bill	\$448,729,015	31.5	\$94,279,335	\$0	\$354,449,680
S.B. 10-190 (Suspend Senior Citizen Property Tax Exemption) /a	(91,729,198)	0.0	(91,729,198)	0	0
FY 2010-11 Supplemental	<u>(34,329)</u>	<u>0.0</u>	<u>(187,182)</u>	<u>0</u>	<u>152,853</u>
FY 2010-11 Appropriation	\$356,965,488	31.5	\$2,362,955	\$0	\$354,602,533
<u>Recommended Changes from FY 2010-11 Appropriation</u>					
Annualize S.B. 09-227(Restores funding to FPPA) /a	25,321,079	0.0	0	25,321,079	0
Estimated changes in CoverColorado Funding	7,000,000	0.0	0	0	7,000,000
Annualize prior year funding	35,129	0.0	187,982	0	(152,853)
Estimated changes in funding for Senior Citizen and Disabled Veteran property tax exemption /a	29,198	0.0	29,198	0	0
Changes for total compensation	16,906	0.0	6,585	0	10,321
Funding for Unclaimed Property Program leased office space renewal	1,733	0.0	0	0	1,733
Change in fund mix from Treasury Transaction fees	0		(129,999)	0	129,999
Estimated changes in Highway Users Tax Fund distributions to local governments per Legislative Council forecast	(3,070,787)	0.0	0	0	(3,070,787)
Extension of PERA contribution shift	(45,974)		(29,150)	0	(16,824)
Vacancy savings base reduction	<u>(31,206)</u>	<u>0.0</u>	<u>(5,185)</u>	<u>0</u>	<u>(26,021)</u>
Total recommended changes	\$29,256,078	0.0	\$59,431	\$25,321,079	\$3,875,568

/a These amounts are not subject to the statutory limit on General Fund Appropriations

Budget Balancing Options Requiring Statutory Change					
Description	Total Funds	FTE	General Fund	General Fund Exempt	Cash Funds
<i>Proposed Reductions in General Fund Expenditures</i>					
Suspend payments to Fire and Police Pension Association for FY 2011-12	(25,321,079)	0.0	0	(25,321,079)	0
Charge interest payments on school loans (Education Tax and Revenue Anticipation Notes) to participating school districts	(1,604,246)	0.0	(1,604,246)	0	0

(1) ADMINISTRATION

The Administration Division is responsible for the operation and oversight of the Department of the Treasury. The Division performs three primary functions: accounting, cash management and investment services.

Accounting: The accounting section primarily performs daily reconciliation of all cash that flows in and out of the State's bank accounts. This section is responsible for allocating monthly interest earnings to various funds managed by the Treasury. This section manages disbursements and transfers, including: distributing Highway User Tax Fund (HUTF) moneys, tobacco settlement moneys, tobacco tax moneys, and federal mineral leasing funds; disbursing senior citizen and disabled veteran property tax exemption payments to local governments; transferring state contributions to the Fire and Police Pension Association; and transmitting moneys from the Unclaimed Property Trust Fund to CoverColorado. This section issues cash flow notes on behalf of school districts participating in the interest-free loan program, and it administers the school bond payment guarantee program, as well as the charter-school intercept and moral obligation credit enhancement program. Finally, this section is responsible for managing the Elderly Property Tax Deferral Program.

Cash Management: The cash management section manages the State's banking service agreements and bank accounts, coordinates receipts and disbursements, and works with the investment staff to ensure that sufficient funds are maintained in the State's bank accounts. One of the main goals of the cash management section is to maintain a sufficient amount of cash to allow the State to meet its financial obligations, while at the same time investing as much as possible in order to maximize interest and investment income.

Investment: The investment section manages large portfolios collectively worth approximately \$6 billion. The assets are managed under statutory guidelines with the objectives of reducing financial risk, maintaining desired portfolio liquidity, and maintaining high yields.

General Note Concerning Funding for the Administration Division

Pursuant to Section 24-36-120, C.R.S., the Administration Division is partially funded by a transaction fee imposed on cash transactions that the division conducts on behalf of the more than 100 interest-earning cash funds that are subject to the fee. 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 resulting revenue covers about one-half of the Administration Division's expenses, which would otherwise be paid by the General Fund. The fee per transaction for FY 2011-12 will be established at the start of the fiscal year: it will equal the FY 2011-12 appropriation for the Administration Division divided by the total number of cash transactions conducted by the Treasury during the prior year (FY 2010-11), including transactions conducted on behalf of funds that don't pay the fee. The

amount paid by an "eligible" fund during FY 2011-12 will then equal the per transaction fee multiplied by the number of transactions conducted on behalf of the fund during the prior year (FY 2010-11).

This means that the General Fund pays approximately half of any increased Administration Division appropriation while the rest is paid by eligible cash funds. For example, if the General Assembly increases the Administration Division's Operating Expenses appropriation by \$1,000, the per transaction fee will inch up a fraction of a cent, raising approximately \$500 more from the eligible cash funds; the General Fund will cover the remainder. In order to simplify the budgeting process, staff reflects all of the transaction fee revenue in the Personal Services line, making it appear that other Administration Division expenditures are financed exclusively from the General Fund.

Decision Item # 3 (Change in Funding Mix)

The Department has requested a decision item for the amount of projected moneys for Personal Services that can be offset with Treasury Transaction fees. The Department's request is to refinance the General Fund appropriation with \$129,999 from Treasury Transaction Fees (See the general discussion above regarding funding the Administration Division).

The normal process is for the Department to estimate the amount of transaction fees it will collect during the requested fiscal year, and then "true-up" the appropriation with a supplemental. In the last three years, the Department has requested supplementals refinancing of \$176,634 for FY 2008-09, \$144,742 for FY 2009-10, and \$152,853 for FY 2010-11. For the fiscal year following the approval of the supplemental, the amounts are built back into the budget. Approval of this decision item would make the changes permanent, decreasing General Fund by \$129,999 and increasing cash funds by the same amount.

Because the historic amounts of transaction fees that have been earned over the last three years have regularly exceeded estimates prepared at the beginning of the budget process, the Department requests to incorporate an increased level of transaction fees in the Long Bill appropriation for FY 2011-12 and subsequent years. While this will not necessarily eliminate the need for supplementals to true up the fees, it will decrease the size of those supplementals while reducing the Department's General Fund request in the Long Bill.

Staff recommends approval of the Department's decision item request. This will decrease General Fund for Personal Services by \$129,999 and increase cash funds from the Treasury Transaction fees by a like amount.

Personal Services

This line item provides funding for employees' salaries and wages, as well as the associated state contribution to the Public Employees Retirement Association and the state share of federal Medicare taxes. The number of FTE in this Division has not changed since the 1970s. This line item also provides funding for certain professional and temporary services.

Administration Division Staffing Summary					
Classification	FY 2009-10	FY 2010-11	FY 2011-12		
	Actual	Approp.	Request	Recommend.	
State Treasurer	1.0	1.0	1.0	1.0	
Deputy Treasurer	1.0	1.0	1.0	1.0	
Management	1.0	1.0	1.0	1.0	
Investment Officers	3.0	3.0	3.0	3.0	
Cash Manager	1.0	1.0	1.0	1.0	
Accountants/Accounting Techs.	7.0	7.0	7.0	7.0	
Administrative Assistants	1.0	1.0	1.0	1.0	
Director of Initiatives	<u>0.8</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	
Total	15.8	16.0	16.0	16.0	

The Department requests an appropriation of \$1,298,635, including \$345,679 General Fund and \$952,956 cash funds from Treasury Transaction fees and the Unclaimed Property Trust Fund. The following table, which uses the common policies approved by the Committee, provides detail on staff's recommendation for Personal Services in the Administration Division

Administration Division FY 2011-12 Personal Services Calculation				
	Total	FTE	General Fund	Cash Funds
FY 2010-11 Long Bill Appropriation	\$1,269,689	16.0	\$446,732	\$822,957
FY 2010-11 Supplemental	<u>(31,190)</u>	<u>0.0</u>	<u>(184,043)</u>	<u>152,853</u>
FY 2010-11 Revised Appropriation	1,238,499	16.0	262,689	975,810
Restore 1% Reduction to GF Personal Services	2,653	0.0	2,653	0
Restore Funding Mix Adjustment	0	0.0	152,853	(152,853)
Restore American Reinvestment and Recovery Act (ARRA) administrative cost spending authority	28,537	0.0	28,537	0
Annualization of S.B. 10-146 (PERA contribution shift	<u>28,946</u>	<u>0.0</u>	<u>28,946</u>	<u>0</u>
Departments Base Request	\$1,298,635	16.0	\$475,678	\$822,957
Decision Item # 3 (Fund Mix Change)	0	0.0	(129,999)	129,999
Vacancy savings base reduction /a	(19,480)	0.0	(5,185)	(14,294)
Extension of PERA contribution shift	<u>(29,150)</u>	<u>0.0</u>	<u>(29,150)</u>	<u>0</u>
Staff recommendation	\$1,250,006	16.0	\$311,344	\$938,662

Staff recommends an appropriation of \$1,250,006 and 16.0 FTE, which is comprised of \$311,344 General Fund and \$938,662 cash funds. The cash funds sources are Treasury Transaction fees and the Unclaimed Property Trust Fund.

Health, Life, and Dental

This line item provides funding for the employer's share of the cost of group benefit plans providing health, life, and dental insurance for state employees. The Department is requesting an appropriation of \$190,203, comprised of \$91,600 General Fund and \$98,603 cash funds. The request incorporates common policy changes requested by the Department of Personnel and Administration.

Pursuant to Committee common policy, staff recommends an appropriation of \$190,203, including \$91,600 General Fund and \$98,603 cash funds.

Short-term Disability

This line item provides funding for the employer's share of state employees short-term disability insurance premiums. The State is currently covering 100 percent of the premium costs. The Department requests an appropriation of \$3,311, comprised of \$1,948 General Fund and \$1,363 cash funds.

The approved Committee calculation is based upon the actual payroll for FY 2009-10, a period during which the Department experienced significant vacancies in the Unclaimed Property Division. These vacancies were the result of the Department holding off on the hiring of newly authorized FTE as a result of the budget crisis. The Department utilized temporary employees to fill in until permanent employees could be hired.

Departments are permitted to utilize vacancy savings to provide flexibility in managing the appropriations for personal services. Because this Department is, by far, the smallest department in the state, with a total of 31.5 FTE (the next smallest department has 134.6 FTE), it has very few vacancies that it can use to manage its appropriation, especially when it the appropriation is based on a fiscal a year during which it had a significant number of open positions.

Utilizing the Committee's approved formula, staff calculated an appropriation of \$2,890, including \$1,998 General Fund and \$892 cash funds. For the reasons discussed above, staff recommends deviating from Committee policy for this Department. The table below shows the Department's request, the JBC approved calculation, and the JBC staff recommendation.

Short Term Disability			
	General Fund	Cash Funds	Total
Department Request	\$1,948	\$1,363	\$3,311
JBC Approved Calculation	1,998	892	2,890
Staff Recommendation	\$1,998	\$1,227	\$3,225
Difference between Staff Recommendation and JBC approved calculation	\$0	\$335	\$335

Staff recommends an appropriation of \$3,225 total funds, including \$1,998 General Fund and \$1,227 cash funds.

S.B. 04-257 Amortization Equalization Disbursement

Pursuant to S.B. 04-257, this line item provides additional funding to increase the state contribution for the Public Employees' Retirement Association (PERA). The Department requests an appropriation of \$52,376, including \$30,815 General Fund and \$21,561 cash funds.

Utilizing the Committee's approved formula, staff calculated an appropriation of \$45,336, including \$31,226 General Fund and \$14,110 cash funds. For those reasons discussed in the Short-term Disability line item, staff recommends deviating from Committee policy for this Department. The table below shows the Department's request, the JBC approved calculation, and the JBC staff recommendation.

S.B. 04-257 Amortization Equalization Disbursement			
	General Fund	Cash Funds	Total
Department Request	\$30,815	\$21,561	\$52,376
JBC Approved Calculation	31,226	14,110	45,336
Staff Recommendation	\$31,226	\$19,412	\$50,638
Difference between Staff Recommendation and JBC approved calculation	\$0	\$5,302	\$5,302

Staff recommends an appropriation of \$50,638 total funds, including \$31,226 General Fund and \$19,412 cash funds.

S.B. 06-235 Supplemental Amortization Equalization Disbursement

Pursuant to S.B. 06-235, this line item provides additional funding to increase the state contribution for the Public Employees' Retirement Association (PERA). The Department requests an appropriation of \$42,088, including \$24,762 General Fund and \$17,326 cash funds.

Utilizing the Committee's approved formula, staff calculated an appropriation of \$36,263, including \$24,925 General Fund and \$11,338 cash funds. For those reasons discussed in the Short-term Disability line item, staff recommends deviating from Committee policy for this Department. The table below shows the Department's request, the JBC approved calculation, and the JBC staff recommendation.

S.B. 06-235 Supplemental Amortization Equalization Disbursement			
	General Fund	Cash Funds	Total
Department Request	\$24,762	\$17,326	\$42,088
JBC Approved Calculation	24,925	11,338	36,263
Staff Recommendation	\$24,925	\$15,599	\$40,524
Difference between Staff Recommendation and JBC approved calculation	\$0	\$4,261	\$4,261

Staff recommends an appropriation of \$40,524 total funds, including \$24,925 General Fund and \$40,524 cash funds.

Salary Survey and Senior Executive Service

This line item provides funding to pay for annual increases for salary survey and senior executive service positions. The Treasury, in line with all other state departments, has not requested funding for this line item.

Pursuant to Committee policy, staff recommends appropriation of \$0 for this line item in FY 2011-12.

Performance-based Pay Awards

This line item provides funding to pay for performance-based pay increases related to employee performance and evaluations. The Treasury, in line with all other state departments, has not requested funding for this line item.

Pursuant to Committee policy, staff recommends appropriation of \$0 for this line item in FY 2011-12.

Workers' Compensation and Payment to Risk Management and Property Funds

This line item provides funding the Department's share of the statewide costs for both risk management and property programs, as well as workers' compensation. The Department requests an appropriation \$1,452 General Fund, which includes a Department of Personnel and Administration common policy adjustment increase of \$735.

Staff's recommendation is pending Committee common policy. Staff will reflect Committee common policy in the appropriation for this line item.

Operating Expenses

This line item provides funding for supplies and materials for the Administration Division, as well as for certain services that are not covered by other line items such as capital outlay¹, utilities, custodial services, equipment rental, storage, dues and subscriptions, and printing. The most significant expenditure funded through this appropriation is for leasing Bloomberg terminals. The operating line also funds traditional operating expenses such as telephone, copying, postage, and office supplies. Also included are professional development and job enhancement activities, such as books, dues and membership to organizations and registration fees for seminars.

The Department requests an appropriation of \$198,709 General Fund, which includes a statewide printing services adjustment of \$60 and annualization of a 2009 budget amendment for an increase in dues to the National Association of State Treasurers of \$800. The printing services adjustment request of the Department of Personnel and Administration was disapproved by the Committee and is not included in the recommended appropriation.

Staff recommends an appropriation of \$198,649 General Fund.

Information Technology Asset Maintenance

This line item provides funding to replace information technology equipment consistent with standard replacement cycles (e.g., four years for desktop and laptop computers, and five years for printers). The Department requests a continuation appropriation of \$12,568 total funds, comprised of \$6,284 General Fund and \$6,284 cash funds from the Unclaimed Property Trust Fund.

Staff recommends continuation appropriation of \$12,568 total funds, comprised of \$6,284 General Fund and \$6,284 cash funds from the Unclaimed Property Trust Fund.

Legal Services for 575 Hours

This line item provides funding for the Department to purchase legal services from the Department of Law. A Long Bill head note authorizes agencies to spend up to 10 percent of this appropriation for operating expenses, contractual services, and tuition for employee training. The Department requests a continuation appropriation of 575 hours of legal services with a corresponding appropriation of \$42,262 total funds, comprised of \$21,131 General Fund and \$21,131 cash funds.

Staff recommends providing sufficient funding to allow the Treasurer to purchase a continuation level of 575 hours of legal services. The rate for these services is pending the

¹ Capital outlay includes replacement of equipment, furniture, and other items that cost less than \$50,000, as well as building repair and remodeling costing less than \$15,000.

approval of Committee common policy. Staff will ultimately reflect Committee policy in the appropriation for this line item.

Purchase of Services from Computer Center

This item provides funding for the Department's share of statewide computer services provided by the Governor's Office of Information Technology (OIT). The Department requests \$101,633 General Fund for computer services provided by the General Government Computer Center. This appropriation reflects an increase of \$97,822 in the billing from OIT.

Staff's recommendation is pending Committee common policy. Staff will reflect Committee common policy in the appropriation for this line item.

Capitol Complex Leased Space

This line item is used to pay the Department of Personnel and Administration (DPA) for the costs of maintaining state buildings that are part of the capitol complex. The Department requests a \$57,740 General Fund appropriation for the space it occupies in the State Capitol Building. This request includes an increase of \$3,791 due to a base adjustment common policy from DPA.

Staff recommends approving funding for the square footage currently occupied by the Treasurer's Office, pending Committee approval of the common policy rate for Capitol Complex Leased Space. Staff will reflect Committee common policy in the appropriation for this line item.

Charter School Facilities Financing Services

The Treasurer has several duties associated with charter school facility financing:

- A charter school may request that the Treasurer make direct payments of principal and interest on bonds issued on behalf of the school for the purpose of enhancing the ability of the school to obtain favorable financing terms [Section 22-30.5-406, C.R.S.]. The Treasurer is authorized to withhold, from the amount paid to the chartering district² for the state share of the district's total program funding, the amount of any direct payments made on behalf of the charter school plus any administrative costs associated with making such payments. Any administrative costs withheld are deposited into the Charter School Financing Administrative Cash Fund. Moneys in this fund are continuously appropriated.
- Under the provisions of H.B. 03-1021, the Colorado Educational and Cultural Facilities Authority may issue bonds on behalf of qualified charter schools. Participating charter schools are required to annually pay \$1 per \$1,000 of the principal amount of the bonds

² Or, in the case of an institute charter school, the amount is withheld from the amount paid to the State Charter School Institute.

outstanding to the State Treasurer for deposit in the State Charter School Interest Savings Account (within the State Charter School Debt Reserve). The Treasurer is authorized to charge participating schools a fee to defray related direct and indirect costs. Such moneys are also to be deposited in the State Charter School Interest Savings Account within the State Charter School Debt Reserve Fund [Section 22-30.5-407 (3), C.R.S.]. Moneys in the State Charter School Debt Reserve Fund, including fees collected from schools, are continuously appropriated to the State Treasurer pursuant to Sections 22-30.5-407 (4) (a) and (a.5), C.R.S.

The Treasury's Administration Division performs several tasks to carry out the above duties. The Department requests a informational appropriation of \$5,000 cash funds from the Charter School Financing Administrative Cash Fund. **Staff recommends approval of the \$5,000 cash funds informational appropriation.**

Discretionary Fund

Pursuant to Section 24-9-105, C.R.S., five elected state officials receive annual appropriation for "expenditure in pursuance of official business as each elected official sees fit". Subject to annual appropriation by the General Assembly, the Treasurer is to receive \$5,000 from the General Fund annually for this purpose. **Staff recommends an appropriation of \$5,000 General Fund.**

(2) UNCLAIMED PROPERTY PROGRAM

Background Information: The Department administers the State's unclaimed property program, as set forth in Article 13 of Title 38, C.R.S. (The "Unclaimed Property Act"). Under this program, the state takes possession of dormant or abandoned properties from a wide range of business and public institutions and tries to return the properties to their rightful owners. Generally, property is subject to the custody of the State as unclaimed property if the last-known address of the property owner (or the person entitled to the property) is in Colorado.

While the program originally targeted properties held by banks, savings and loans, and credit unions, it has been expanded to include properties held by insurance companies, public institutions, government agencies, public corporations or authorities, non-profit entities, hospitals, utilities, estates, trusts, or any other legal or commercial entity. Recovered items include uncashed checks and money orders, unclaimed stocks and securities, abandoned safety deposit box contents, dormant bank accounts, unclaimed utility deposits, unclaimed insurance benefits, unclaimed gift certificates, uncashed tax refunds, and intangible properties held by the courts, government agencies, and businesses.

Pursuant to Section 38-13-116.5, C.R.S., moneys collected pursuant to the Unclaimed Property Program and any associated interest earnings are deposited in the Unclaimed Property Trust Fund. Moneys in the Trust Fund that are not used or held in reserve to pay claims are used (subject to appropriation) to pay the direct and indirect costs of administering the program [see Section 38-13-116.5 (2), C.R.S.].

The following table provides an overview of the Unclaimed Property Trust Fund.

Unclaimed Property Trust Fund Revenues, Claims and Transfers			
Description	FY 2008-09 Actual	FY 2009-10 Actual	Cumulative since FY 1987-88
Total Revenues /a	\$57,027,888	\$56,233,687	\$503,749,921
Total claims paid	24,724,118	24,320,845	170,787,176
<i>Claims paid as a percentage of total revenues</i>	43.4%	43.3%	33.9%
Funds used for administration of the Unclaimed Property program /b	1,903,004	1,711,274	13,890,632
<i>Administrative costs as a percentage of total revenues</i>	3.3%	3.0%	2.8%

Unclaimed Property Trust Fund Revenues, Claims and Transfers			
Description	FY 2008-09 Actual	FY 2009-10 Actual	Cumulative since FY 1987-88
<i>Transfers /c</i>			
General Fund	118,275,348	38,275,348	164,651,532
CoverColorado	31,174,631	26,658,431	95,543,626
Escheats	0	0	520,968
Industrial Banks	0	0	7,612,881
Other Transfers	<u>0</u>	<u>0</u>	<u>65,758,280</u>
Total Transfers	\$149,449,979	\$64,933,779	\$334,087,287
<i>Transfers as a percentage of total revenues</i>	262.1%	115.5%	66.3%

- /a Excludes interest earnings as well as proceeds from the sale of securities that occurred in May 2005 pursuant to S.B. 04-256.
- /b Prior to FY 2002-03, the administration of the Unclaimed Property program was support with General Fund appropriations.
- /c Excludes the transfer of \$51,651,019 to the Unclaimed Property Tourism Promotion Trust Fund, that occurred in FY 2004-05 pursuant to S.B. 04-256 as well as sales of securities that have occurred since FY 2004-05.

In addition, pursuant to S.B. 04-256, the Treasury sells securities that have been held as unclaimed property for more than one year and deposits the proceeds in the Unclaimed Property Tourism Promotion Trust Fund. The principal is this fund may only be used to pay claims, but the interest earnings are to be credited to the Colorado Travel and Tourism Promotion Fund, which is administered in the Department of Agriculture.

Prior to FY 2001-02, the administration of the program was supported through General Fund appropriations. Pursuant to H.B. 02-1392, program expenses are now supported by the principal in the Unclaimed Property Trust Fund. Section 38-13-116.5 (2) (d), C.R.S., provides that any moneys appropriated to the Department of the Treasury for the expenses of administering the program shall count as fiscal year spending under Section 6 or Article X (TABOR) of the State Constitution. Prior to FY 2004-05, net cash generated by the Unclaimed Property program was counted as state revenue under the Taxpayer's Bill of Rights (TABOR). Pursuant to S.B. 04-211, beginning in FY 2004-05, net cash generated by the program is no longer counted as state revenue under TABOR rules unless it is appropriated to cover the direct and indirect costs of administering the Unclaimed Property Program or expended from the Colorado Travel and Tourism Promotion Fund.

Personal Services

This line item provides funding for employees' salaries and wages, as well as the associated state contribution to the Public Employees Retirement Association and the state share of federal Medicare contributions. This line item also provides funding for certain professional and temporary services. The following table shows the distribution of FTE's within the Division.

Unclaimed Property Division Staffing Summary				
Classification	FY 2009-10	FY 2010-11	FY 2011-12	
	Actual	Approp.	Request	Recommend.
Program Director	1.0	1.0	1.0	1.0
Compliance Manager/LAN Administrator	1.0	1.0	1.0	1.0
Program Administration/Compliance	1.0	3.0	3.0	3.0
Program Administration/Claims processing	1.3	4.5	4.5	4.5
Program Administration/Safe deposit banks	0.8	1.0	1.0	1.0
Auditors	3.0	4.0	4.0	4.0
Clerical	<u>0.8</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>
Total	8.9	15.5	15.5	15.5

The Department requests an appropriation of \$764,966 cash funds from the Unclaimed Property Trust Fund and 15.5 FTE.

The following table, which uses the common policies approved by the Committee, summarizes staff's calculation of the FY 2011-12 personal services recommendation for the Unclaimed Property program.

Unclaimed Property Program FY 2011-12 Personal Services Calculation		
	FTE	Cash Funds
FY 2010-11 Long Bill appropriation	15.5	\$764,966
Annualization of S.B. 10-146 (PERA contribution shift)		<u>16,824</u>
Department Base Request	15.5	781,790
Vacancy savings base reduction /a		
Extension of PERA contribution shift		<u>(16,824)</u>
Staff recommendation	15.5	764,966

Staff recommends an appropriation of \$753,239 cash funds and 15.5 FTE from the Unclaimed Property Trust Fund.

Operating Expenses

This line item provides funding for supplies and materials, as well as capital outlay³, utilities, custodial services, equipment rental, storage, dues and subscriptions, and printing. The Department requests an appropriation of \$121,927 cash funds, including a statewide decision item for an adjustment in printing services, which is an increase of \$58 for this Division. The Committee disapproved this statewide request and that appropriation is not included in the Staff recommendation.

Staff recommends an appropriation of \$121,869 cash funds.

Promotion and Correspondence

This line item was first included as a separate line item in the FY 2006-07 Long Bill. The Department's promotional efforts are designed to notify owners of lost and forgotten assets held in trust by the State. Pursuant to Section 38-13-111 (7), C.R.S., the Administrator of the Unclaimed Property program may spend up to 2.0 percent of the previous year's paid claims for the publication and necessary correspondence (e.g., sending a notice to the last known address of each person who appears to be entitled to property valued at \$50 or more). Based on claims paid in FY 2009-10 of \$24,320,845, the appropriation could be set as high as \$486,417. The Department is requesting a continuation appropriation of \$200,000 cash funds.

Staff recommends a continuation appropriation of \$200,000 cash funds from the Unclaimed Property Trust Fund.

Leased Space (Decision Item #2)

This line item provides funding for the lease of 3,466 square feet of space at 1580 Logan Street for the Unclaimed Property program. The current lease expires June 30, 2011. The terms of the lease include two options to extend the lease for an additional three year period, with an annual increase of in the rent of \$1,733 (an increase of 3.3 percent per year). The Department requests an appropriation of \$53,723 cash funds.

Decision Item #2 (Funding for Unclaimed Property Program Leased Office Space

The Department is requesting a three-year extension of its lease for its existing office space for the Unclaimed Property Program (UP). The original five-year lease included two options for three-year extensions of the lease, with the continued increase of \$1,733 (an increase of \$0.50 per square foot per year) annually during the original term and the subsequent extensions.

Staff asked if the Department, considering the weak real estate market, had asked the landlord to forego the escalator clause in the lease terms. The Department, through the State's leasing agents

³ Capital outlay includes replacement of equipment, furniture, and other items that cost less than \$50,000, as well as building repair and remodeling costing less than \$15,000.

had originally requested that the landlord waive the increased rent in return for renewal of the lease. The landlord would not agree to those terms, however the landlord has agreed to consider repainting the premises, replacing carpeting, and making security enhancements to the building. While the lease extension has not yet been signed to include those elements, the Department is confident that they will be included when the lease is signed.

The Department has advised that there are several advantages to the building, such as:

- The building is located two blocks from the Capitol. The UP Program utilizes a vault in the Treasurer's office in the Capitol and the proximity makes use of that vault easier. In addition, a number of potential claimants come into the Treasurer's Office in the Capitol and referring them to a building two block away makes it easier for the claimant to access the UP offices.
- The building is wired for advanced telephone services compatible with the State's telephone systems. When the building was wired for this service several years ago, the Department saved \$25,000 per year on phone services for the program.
- The building has a number of other state tenants, and the landlord is attuned to the needs of state offices.
- The lease has an escape clause that allows the Department to terminate the lease if space becomes available in another state building.
- If the Department moves the offices, it will incur moving costs, which cost between \$6,000 and \$7,000 five years ago.

Staff recommends approval of the funding for the renewal of the lease, with an associated increase of \$1,733 cash funds per year for three years. The recommended appropriation for this line item is \$53,723 cash funds from the Unclaimed Property Trust Fund.

Contract Auditor Services

The Treasury Department contracts with auditing firms that examine the records of businesses located in other states in an effort to find unclaimed property belonging to Colorado citizens. The costs associated with these services are essentially paid on a contingency fee basis, with the State paying 12 percent of the value of any Colorado property identified. Pursuant to Section 38-13-116.5 (2) (b), C.R.S. provides that moneys in the Unclaimed Trust Fund are continuously appropriated to the State Treasurer for the payment of services to contract auditors. The Department has requested funding for this line of \$800,000. **Staff recommends an appropriation of \$800,000 cash funds from the Unclaimed Property Trust Fund.**

(3) SPECIAL PURPOSE

Senior Citizen and Disabled Veterans Property Tax Exemption

This line item provides funding to reimburse local governments for property taxes foregone as a result of the Senior Citizen and Disabled Veteran Property Tax Exemption. The original exemption, authorized in Section 3.5 of Article X of the State Constitution, approved by the voters in 2000, and implemented in Sections 39-3-201 through 208, C.R.S., grants a property tax exemption to qualifying senior citizens⁴ equal to 50 percent of the first \$200,000 of residential property value. The State Treasurer is required to reimburse local governments for the resulting lost property tax revenues. Such payments are made from the General Fund, but are not subject to the statutory limit on General Fund appropriations pursuant to Article X, Section 3.5 (3) of the State Constitution:

"...Payments made from the state general fund to compensate local government entities for property tax revenues lost as a result of the property tax exemption provided for in this section shall not be subject to any statutory limitation on general fund appropriations because the enactment of this section by the people of Colorado constitutes voter approval of a weakening of any such limitation."

Please note that similar to the state contribution for local fire and police pension plans, the costs associated with the exemption are treated outside the statutory limits on state spending and are not built into the funding base used to calculate the limit for subsequent fiscal years.

The original constitutional provision also 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.

In the 2006 session, the General Assembly adopted S.C.R. 06-001 and referred a measure to the voters to extend the homestead exemption to veterans who are 100 percent permanently disabled due to a service-connected disability. The General Assembly adopted H.B. 07-1251 during the 2007 session to implement this constitutional change. The expansion of the homestead exemption took effect for property tax years commencing on or after January 1, 2007.

The Constitution authorizes the General Assembly to raise or lower the maximum amount of actual 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

⁴ Qualifications include: (a) the residential property must be owner-occupied and used as the primary residence; (b) the owner-occupier must be sixty-five years of age or older as of the assessment date; and (c) the owner-occupier must have owned and occupied the property as his or her primary residence for the ten years immediately preceding the assessment date (or be the spouse or surviving spouse of an owner-occupier who previously qualified for a property tax exemption for the same residential real property).

Assembly lowered this amount from \$200,000 to \$0 for property tax years 2003, 2004, and 2005, thus eliminating the associated state expenditures for fiscal years 2003-04, 2004-05, and 2005-06. State payments resumed in FY 2006-07.

In the 2009 session, the General Assembly again reduced the exemption for senior citizens to \$0, thus reducing state payments for FY 2009-10 to \$1.3 million for the disabled veterans exemption from a total of \$85.6 million in FY 2008-09. In the 2010 session, the General Assembly extended the suspension of the senior citizen exemption for two additional years, reducing state payments in FY 2010-11 and FY 2011-12.

Estimated expenditures are included in the Department of the Treasury's budget for informational purposes and are based on the estimates contained in the Legislative Council's Staff Economic Forecasts. Based on the December 2010 forecast, staff recommends reflecting an appropriation of \$1.7 million for this line item. Staff also requests permission to update this amount, if necessary, based on the March 2011 forecast. The following table provides historical data related to expenditures for this line item.

Senior Citizen and Disabled Veteran Property Tax Exemption Expenditure History			
Fiscal Year	Number of Exemptions	Expenditures	Average Exemption
2002-03	123,326	\$61,491,764	\$499
2003-04	0	0	N/A
2004-05	0	0	N/A
2005-06	0	0	N/A
2006-07	146,836	74,231,509	506
2007-08	157,099	79,828,168	508
2008-09	165,596	85,586,694	517
2009-10 /a	3,122	1,333,604	427
2010-11 (appropriated) /a	3,500	1,670,802	477
2011-12 (projected) /a	n/a	1,700,000	n/a

/a Appropriations and expenditures for FYs 2009-10 through 2011-12 include only the exemption for disabled veterans

Based on Legislative Council Staff's December Economic Forecast, **Staff recommends an appropriation of \$1.7 million General Fund.** This informational appropriation is not subject to statutory limits on General Fund appropriations.

CoverColorado

Background information: 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 137 percent of the industry average⁵, premium revenues cover less than 50 percent of the program's costs. Thus, the program requires a subsidy from one or more other sources of revenue. These other sources of revenue include contributions from insurance companies provided in exchange for a 100 percent premium tax credit (a maximum of \$5.0 million 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 for the current year and for three additional years. Under provisions of the Federal Patient Protection and Affordable Care Act, the need for CoverColorado will be eliminated as the Insurance Exchanges and subsidies provided for in the Act will eliminate the need for the program.

CoverColorado Projected Claims, Administrative Expenses and Revenue						
Year	Claims and Administrative Costs	Special Fees	Transfers /a	Enrollee Premiums	Other /b	Net Change in Fund Balance
2010	\$113,701,970	\$28,794,604	\$29,142,431	\$53,830,295	\$8,707,439	\$6,772,799
2011	140,039,611	34,694,251	34,694,251	63,396,795	6,091,056	(1,163,258)
2012	186,234,836	46,558,709	46,558,709	87,032,532	6,084,886	0
2013	242,866,952	60,716,738	60,716,738	115,340,566	6,092,910	0

/a Transfers are from the Unclaimed Property Trust Fund.

/b Other includes interest, credits and grants, including premium tax credits granted to insurance providers.

CoverColorado projects that it will need a transfer of \$41,000,000 from the Unclaimed Property Trust Fund to cover its expenses for FY 2011-12. **Staff recommends an appropriation of \$41,000,000 cash funds** from the Unclaimed Property Trust Fund

Fire and Police Pension Association - Old Hire Plans (Decision Item #1)

Background Information: Section 31-30.5-307, C.R.S., requires the State to pay part of the unfunded liability of retirement plans that cover police officers and fire fighters who were hired before April 1978. This was part of a plan approved by the General Assembly to address unfunded local pension plans for police officers and fire fighters. Senate Bill 79-79 included the following language in the legislative declaration:

⁵ 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.

"...The general assembly further declares that state moneys provided to municipalities and fire protections districts *do not constitute a continuing obligation of the state* to participate in the ongoing normal costs of pension plan benefits, except for state funding of death and disability benefits [as specified in this bill], but are provided in recognition that said local governments are currently burdened with financial 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 \$515 million to 110 local police and fire agencies. 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 the 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 has been 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 statutory 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.⁶

Three times since 1980, the General Assembly has suspended the state contribution to the old-hire pension 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, 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 2010-11, whichever ever came first. Prior to the passage of S.B. 95-228, it was anticipated that state funding would continue through 2024. The earlier end-date was intended to coincide with the date at which all "old-hire" participants were expected to have retired.

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 was to have been made by April 30, 2012.

Due to the General Fund revenue shortfall that became apparent by the 2009 session, the General Assembly passed S.B. 09-227, which again suspended state contributions for FY 2008-09 through FY 2010-11. In addition, the legislation extended the repayment deadline until April 2015.

⁶ 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.

Based on current law, **staff recommends an appropriation of 25,3231,079 General Fund Exempt.**

Decision Item #1 - Suspend FPPA Payments for FY 2011-12 and FY 2012-13

The Governor has proposed, as part of the balanced budget proposal, a decision item to extend the suspension of payments to the FPPA for an additional two years. This request cannot be dealt with as a decision item because it requires statutory change in order to effect the suspension. However, the Committee could consider sponsoring legislation that would suspend payments for an additional two fiscal years.

The proposal was brought up at the Department of the Treasury JBC Staff Briefing. Committee member have expressed concern regarding the increased costs of extending the suspension of payments to the FPPA. As the following table shows, suspending the payments for one or two years can increase the state's payments by as much as \$47.4 million, depending on the years taken to complete the state's obligation. The information in the table was prepared by FPPA's actuary and shows the effect on state payments of the proposed suspension. There are several scenarios about the length of any additional payment suspension along with different extensions of the payment schedules.

Fire and Police Pension Association Payments for "Old Hire" Pension Plans					
Payment	Current S.B. 09-227 Schedule	Suspend Payments for One Year		Suspend Payments for Two Years	
		Extend Payment One Year	Extend Payments Four Years	Extend Payments Two Years	Extend Payments Six Years
April 2012	\$25,321,079	\$0	\$0	\$0	\$0
April 2013	25,321,079	25,321,079	25,321,079	0	0
April 2014	25,321,079	25,321,079	25,321,079	25,321,079	25,321,079
April 2015	83,853,854	25,321,079	25,321,079	25,321,079	25,321,079
April 2016	0	97,664,445	25,321,079	25,321,079	25,321,079
April 2017	0	0	25,321,079	112,579,884	25,321,079
April 2018	0	0	25,321,079	0	25,321,079
April 2019	0	0	34,250,534	0	25,321,079
April 2020	0	0	0	0	25,321,079
April 2021	0	0	0	0	29,936,102
Total Payments	\$159,817,091	\$173,627,682	\$186,177,008	\$188,543,121	\$207,183,655
Difference from Current Law	N/A	\$13,810,591	\$26,359,917	\$28,726,030	\$47,366,564

Staff recommends that the Committee consider several options with regard to this proposal.

1. Sponsor legislation as requested by the Governor to suspend the payments for two years, and extend payments for an additional six years, until 2021. If state revenues improve enough in FY 2011-12, the Committee could reverse its decision in the 2012 session and fund the payment scheduled for April 30, 2012.
2. Sponsor legislation that would suspend for one year and extend repayments for payments for four years until 2019. If state revenues improve enough in FY 2011-12, the Committee could reverse its decision in the 2012 session and fund the payment scheduled for April 30, 2012.
3. Do nothing at this time. Payments are made on April 30 of the fiscal year, meaning that if the Committee chose, it could wait until the 2012 session, assess the revenue situation, and make a decision based on that information. This option, however, requires the Committee to find the additional savings or revenues during this session in order to present a balanced budget for FY 2011-12, and the Committee may ultimately decide to suspend the payments in any event.

Staff recommends the second option, to suspend the payments for one year instead of the proposed two years. The latest revenue projections for FY 2012-13 from Legislative Council Staff show General Fund revenues growing by 0.2 percent from FY 2010-11 to FY 2011-12, or an increase of about \$16.3 million. In order to balance the budget, the Committee would have to make \$25.3 million in other cuts in order to balance the budget this year.

The revenue forecast improves in FY 2012-13, where the projections from Legislative Council Staff show General Fund revenues growing by 7.0 percent, or \$494.9 million. If revenue projections for FY 2012-13 fail to increase as projected by the forecast, then the General Assembly would still have the option of suspending the payments for another year during the 2012 session.

Going with Option 2 would ultimately save the State \$21.0 million over the Governor's proposal, while ultimately preserving flexibility for the General Assembly to extend the suspension of payments for another year. The down side of any suspension of payments is that the longer it takes for the State to complete its payment obligation, the more risk there is of another economic downturn that forces the State to suspend payments and increases the costs for the State if that situation arises.

General Information regarding Highway User Tax Fund Distributions

The Highway Users Tax Fund (HUTF) primarily consists of revenue from motor fuel excise taxes, motor vehicle license and registration fees, and driver's license fees. The HUTF also receives court fines and fees related to highway traffic infractions, passenger-mile taxes on vehicles, revenue from the sale of abandoned vehicles, and interest income. HUTF revenues are included in fiscal year spending for purposes of TABOR. Pursuant to Section 43-4-205, C.R.S., HUTF revenues are apportioned monthly by the State Treasurer among the Department of Transportation (the State Highway Fund), counties, and municipalities. The distributions occur after the "off-the-top"

appropriations to the Department of Public Safety and the Department of Revenue for the purposes of highway supervision.

Highway Users Tax Fund - County Payments

This line item provides an estimate of the amount that will be distributed to counties from the HUTF. Counties are required to use such funds for the construction, engineering, reconstruction, maintenance, repair, equipment, improvement, and administration⁷ of the county highway systems and any other public highways. The Treasurer's budget request included estimated distributions to counties totaling \$186,797,920 cash funds for FY 2011-12. **Staff recommends reflecting an appropriation \$186,797,920 cash funds** in the Long Bill for informational purposes.

Highway Users Tax Fund - Municipality Payments

This line item provides an estimate of the amount that will be distributed to municipalities (including the City and County of Denver and the City and County of Broomfield) from the HUTF. Cities and incorporated towns are required to use such funds for the construction, engineering, reconstruction, maintenance, repair, equipment, improvement, and administration⁸ of the system of city/town streets or any other public highways located in the city/town. The Treasurer's budget request included estimated distributions to counties totaling \$127,662,293 cash funds for FY 2011-12. **Staff recommends reflecting an appropriation \$127,662,293 cash funds** in the Long Bill for informational purposes.

⁷ Pursuant to Section 43-4-207 (1), C.R.S., this amount is limited to 5.0 percent of each county's share of the available funds.

⁸ Pursuant to Section 43-4-207 (1), C.R.S., this amount is limited to 5.0 percent of each county's share of the available funds.

LONG BILL FOOTNOTES AND REQUESTS FOR INFORMATION FOR THE DEPARTMENT OF THE TREASURY

Staff recommends not including any footnotes for the Department of the Treasury. Staff recommends the following written requests for information be continued in the priority order shown and with the alterations shown below in struck type and small capitals.

- 1. Department of the Treasury, Administration** -- The State Treasurer is requested to submit an annual report to the Joint Budget Committee concerning the performance of the state's investments. The report should include comparisons to relevant benchmarks and a detailed discussion of the benchmarks. This report should be submitted as a part of the State Treasurer's annual budget request.
- 2. Department of the Treasury, Special Purpose, CoverColorado** -- Pursuant to Section 10-8-530 (4) (c) (I), C.R.S., the Executive Director of CoverColorado is required to report annually to the Joint Budget Committee concerning actual program receipts and expenditures. In addition, the Department is requested to work with the Executive Director to provide reports to the Joint Budget Committee by October 1, ~~2010~~ 2011, and by February 1, ~~2011~~ 2012, that contain enrollment, revenue, expenditure, and assessment projections for the CoverColorado program for FY ~~2010-11~~ 2011-12 and FY ~~2011-12~~ 2012-13.
- 3. Department of the Treasury, Special Purpose, Fire and Police Pension Association - Old Hire Plans** -- The Fire and Police Pension Association is requested to submit an annual report of operations and investments for state-supported programs to the Joint Budget Committee by October 1, ~~2010~~ 2011. This report shall include the following: (1) the amount of additional funding the State is required to transfer to the Association pursuant to Section 31-30.5-307 (5) (b), C.R.S., assuming such payment is made on April 30, ~~2012~~ 2015, along with a description of the actuarial assumptions used to calculate this amount; (2) the current estimated unfunded liability for each local plan still eligible to receive state assistance; and (3) the projected remaining funded period for each local plan still eligible to receive state assistance.
- 4. Department of the Treasury, Administration** -- The State Treasurer is requested to provide to the Joint Budget Committee, by November 1, ~~2010~~ 2011, information concerning state revenues and expenditures related to the issuance of tax and revenue anticipation notes for school districts pursuant to Section 29-15-112, C.R.S. The State Treasurer is requested to include actual data for FY ~~2009-10~~ 2010-11 as well as projected data for FY ~~2010-11~~ 2011-12. This report should be submitted as a part of the State Treasurer's annual budget request.
- 5. Department of the Treasury, Administration** -- The State Treasurer is requested to provide to the Joint Budget Committee, by November 1, ~~2010~~ 2011, 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 ~~2009-10~~ 2010-11 as well as projected expenditures for FY ~~2010-11~~ 2011-12. This report should be submitted as a part of the State Treasurer's annual budget request.

MEMORANDUM

TO: Joint Budget Committee

FROM: David Meng, JBC Staff
303-866-3147

SUBJECT: Charging Interest Payments for School Loan Program

DATE: March 11, 2011

The Governor has proposed, as part of the budget balancing package for FY 2011-12, charging interest on loans the Treasurer makes to school districts who use the moneys to address cash flow issues. If the request, which requires statutory changes, is granted, the State would save approximately \$1.6 million in interest payments in FY 2011-12.

Background

In 1993, the General Assembly required school districts to change their fiscal years to coincide with state fiscal years (July to June). This created, especially for districts that are more (relatively) heavily financed with local property taxes, a cash flow problem. The Treasurer pays each school district the State's share of the district's total program costs monthly in equal installments.

A district's share of total program funding consists primarily of property taxes, which are generally not available until late in the fiscal year. If the one-half tax payment option is selected, one-half of the property taxes are due by the last day of February, and one-half are due by June 15. If the full payment option is selected, property taxes are due by April 30. This means that property tax revenues are not generally available to the districts until the eighth month of the fiscal year.

For districts that receive a greater proportion of their funding from local property taxes, changing the fiscal year creates a situation where a large portion of their funding is unavailable until late in the fiscal year. To address this issue, in 1993, the General Assembly authorized the Treasurer to make interest free loans from the General Fund to those school districts that needed funding. The loans reduced State General Fund revenue because of the lost interest on the outstanding loans.

In 2003, the General Assembly reformed the school loan program to alleviate the impact of the loan program on the State's cash flow and to better insure that school districts do not default on their loans. The reforms 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 note. Requires that the notes 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 financial and budget statements required by the Treasurer to determine that the district will have a cash flow deficit and be able to repay the loan by June 25 of the State fiscal year in which the loan shall be made. Requires a participating school district to obtain approval from the district board of education and to include specified need-related information in the district's request. Specifies that interest shall accrue on the loans if they are not repaid on or before the repayment date.
- Permits the State Treasurer to make low-interest, emergency loans 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.

Since 2003, the State Treasurer has issued Education Tax and Revenue Anticipation Notes (ETTRANS) each year. The history of these notes is detailed in the following table:

Education Tax and Revenue Anticipation Notes (ETTRANS)								
(\$ millions)								
	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Participating School Districts	22	19	17	16	19	22	27	N/A
Series A Principal	\$195.0	\$225.0	\$225.0	\$145.0	\$150.0	\$215.0	\$255.0	\$325.0
Net Interest Cost	1.06%	1.72%	2.75%	3.84%	3.76%	1.55%	0.58%	1.11%
Series B Principal	\$200.0	\$295.0	\$190.0	\$200.0	\$310.0	\$300.0	\$260.0	*
Net Interest Cost	1.22%	2.12%	3.68%	3.50%	2.92%	0.97%	0.28%	*
Total Principal Issued	\$395.0	\$520.0	\$415.0	\$345.0	\$460.0	\$515.0	\$515.0	\$325.0
Percent of Principal Loaned	92.3%	85.9%	101.2%	93.5%	83.3%	95.9%	83.5%	N/A

Education Tax and Revenue Anticipation Notes (ETRANS)								
(\$ millions)								
	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
<u>Revenues</u>								
Premium	2.42	6.02	6.60	1.25	1.42	0.52	5.24	2.49
Interest Earned	2.86	9.18	13.21	12.26	9.72	3.04	0.65	0.32
<u>Expenditures</u>								
Issuance Costs	(0.40)	(0.23)	(0.22)	(0.25)	(0.27)	(0.24)	(0.26)	*
Interest Due	<u>(6.25)</u>	<u>(14.28)</u>	<u>(17.75)</u>	<u>(11.59)</u>	<u>(13.04)</u>	<u>(5.82)</u>	<u>(7.21)</u>	<u>(3.61)</u>
General Fund Net Gain/(Loss)	(\$1.4)	\$0.7	\$1.8	\$1.7	(\$2.2)	(\$2.5)	(\$1.6)	(\$0.8)

* Issuance costs for FY 2010-11 are included in the Premium, which is a net of premium and issuance costs. FY 2010-11 only has one series of principal. The Treasurer could not issue notes until the fate of Amendment 61 during the 2010 general election was known.

As can be seen, in some years the State has actually profited from the program, by as much as \$1.8 million, while the net costs have been as high as \$2.5 million in other years. Over the years the program has been in existence, a total of 37 (out of 178 in the State) districts have participated in the school loan, and on average, 20 participate in any one year.

Governor's Proposal

The Governor's proposal would be to shift the interest cost to the local school districts that utilize the program. It would require statutory changes to Sections 29-15-112 and 22-54-110, C.R.S.

This change has the effect of increasing costs to the school districts that participate in the program. It is estimated to be \$1.6 million, but it could be much higher. For example, the Legislative Council Staff Economic Forecast for FY 2011-12 estimates a net loss to the State of \$2.5 million, which increases to \$3.5 million in FY 2012-13. The OSPB estimate is for \$5.6 million in FY 2011-12 and \$8.6 million for FY 2012-13. These estimates do not agree with the OSPB estimate of the interest costs to the school districts in this proposal (\$1.6 million in each of the stated fiscal years).

Staff Recommendation

After discussing this proposal with Carolyn Kampman, the JBC Staff analyst for the Department of Education, **Staff recommends against the JBC carrying a bill to implement this proposal.** Staff believes that this proposal should be addressed through the annual school finance bill. This will allow legislators and various stakeholders to weigh the merits of this proposal along with other statutory changes and budget reductions in a coherent and comprehensive manner. This proposal

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would only affect the 20 to 25 school districts that participate in the program in an average year, and because of the volatility of interest it would be difficult for a school district (especially a smaller district) to predict its ultimate costs for participation.

In addition, it affects primarily the school districts that already receive proportionally smaller shares of state aid. It is also, in Staff's estimation, important to remember that the reason for this program was the State changing the school districts' fiscal years, which created their cash flow issues in the first place. A final issue that would need to be addressed is those years in which the State actually makes a profit on the program. While that has not occurred since FY 2006-07, the State has made a profit in three of the seven years that the program has been in effect. It is unclear whether or how these moneys would be distributed to participating districts.