

COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE



FY 2007-08 STAFF FIGURE SETTING:
STATE TREASURER'S OFFICE

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

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**Fiscal Year 2007-08 Joint Budget Committee Staff Figure Setting
Department of Treasury**

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08		Change
	Actual	Actual	Appropriation	Request	Staff Recomm.	Requests
DEPARTMENT OF THE TREASURY						
State Treasurer: Cary Kennedy						
<i>NOTE: For purposes of providing comparable figures, line items are reflected in the order they appear in the FY 2005-06 and FY 2006-07 Long Bills.</i>						
(1) ADMINISTRATION						
<i>Primary Functions: Provides accounting, cash management, and investment services for the State as well as administrative services for the Treasury Department.</i>						
<i>Cash Fund Sources: Unclaimed Property Trust Fund and Treasury transactions fee revenue</i>						
Personal Services	1,097,899	1,126,911	1,179,947	1,180,844	1,168,524	
FTE	<u>16.0</u>	<u>15.6</u>	<u>16.0</u>	<u>16.0</u>	<u>16.0</u>	
General Fund	440,224	409,164	462,200	457,177	444,857	
FTE	16.0	15.6	16.0	16.0	16.0	
Cash Funds (Treasury transactions fee) a/	657,675	717,747	717,747	723,667	723,667	
Health, Life, and Dental	<u>59,827</u>	<u>75,445</u>	<u>114,120</u>	<u>122,282</u>	<u>122,282</u>	
General Fund	43,075	52,243	77,904	82,212	82,212	
Cash Funds (Unclaimed Property Trust Fund)	16,752	23,202	36,216	40,070	40,070	
Short-term Disability	<u>2,155</u>	<u>2,115</u>	<u>1,732</u>	<u>2,129</u>	<u>2,043</u>	
General Fund	2,155	1,480	1,182	1,436	1,378	
Cash Funds (Unclaimed Property Trust Fund)	0	635	550	693	665	
Amortization Equalization Disbursement	<u>0</u>	<u>3,083</u>	<u>11,060</u>	<u>19,653</u>	<u>18,500</u>	
General Fund	0	2,158	7,407	13,255	12,365	
Cash Funds (Unclaimed Property Trust Fund)	0	925	3,653	6,398	6,135	
S.B. 06-235 Supplemental Amortization Equalization						
Disbursement	n/a	n/a	n/a	<u>0</u>	<u>3,486</u>	
General Fund				0	2,208	
Cash Funds (Unclaimed Property Trust Fund)				0	1,278	

**Fiscal Year 2007-08 Joint Budget Committee Staff Figure Setting
Department of Treasury**

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08		Change Requests
	Actual	Actual	Appropriation	Request	Staff Recomm.	
Salary Survey and Senior Executive Service	<u>30,709</u>	<u>45,304</u>	<u>41,641</u>	<u>55,068</u>		<u>Pending</u>
General Fund	22,712	36,265	24,737	36,065		
Cash Funds (Unclaimed Property Trust Fund)	7,997	9,039	16,904	19,003		
Performance-based Pay Awards	<u>15,591</u>	<u>0</u>	<u>0</u>	<u>13,451</u>		<u>Pending</u>
General Fund	8,843	0	0	8,592		
Cash Funds (Unclaimed Property Trust Fund)	6,748	0	0	4,859		
Operating Expenses - GF	126,134	121,593	107,765	107,765		107,765
Information Technology Asset Maintenance	<u>5,792</u>	<u>12,568</u>	<u>12,568</u>	<u>12,568</u>		<u>12,568</u>
General Fund	5,792	7,765	967	6,284		6,284
Cash Funds (Unclaimed Property Trust Fund)	0	4,803	11,601	6,284		6,284
Legal Services	<u>70,133</u>	<u>35,342</u>	<u>38,968</u>	<u>38,968</u>		<u>Pending</u>
General Fund	40,808	16,962	19,484	19,484		
Cash Funds (Unclaimed Property Trust Fund)	29,325	18,380	19,484	19,484		
Hours	1,189.5	575.5	575.0	575.0		575.0
Purchase of Services from Computer Center - GF	1,216	852	8,645 S	3,084		Pending
Workers' Compensation and Payment to Risk Management and Property Funds - GF	838	1,288	50,011 S	49,972 A		Pending
Capitol Complex Leased Space - GF	47,133	46,263	47,806	54,195 A		Pending
Charter School Facilities Financing Services b/	<u>3,325</u>	<u>790</u>	<u>5,000</u>	<u>5,000</u>		<u>5,000</u>
Cash Funds	3,325	790	5,000	5,000		5,000
Cash Funds Exempt	0	0	0	0		0
Discretionary Fund - GF	4,915	3,460	5,000	5,000		5,000

**Fiscal Year 2007-08 Joint Budget Committee Staff Figure Setting
Department of Treasury**

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08		Change
	Actual	Actual	Appropriation	Request	Staff Recomm.	Requests
Subtotal - Administration	1,465,667	1,475,014	1,624,263	1,669,979	1,445,168	
FTE	<u>16.0</u>	<u>15.6</u>	<u>16.0</u>	<u>16.0</u>	<u>16.0</u>	
General Fund	743,845	699,493	813,108	844,521	662,069	
FTE	16.0	15.6	16.0	16.0	16.0	
Cash Funds	721,822	775,521	811,155	825,458	783,099	

a/ For purposes of this document, revenues received from the Treasury Transactions fee (established in 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

Primary Functions: Locate and return unclaimed properties to their legal owners (or heirs)

Fund Source: Unclaimed Property Trust Fund

Personal Services - CF	608,699	635,557	649,947	665,642	660,182	
FTE	9.0	8.3	10.0	10.0	10.0	
Operating Expenses - CF	196,603	236,657	116,417	116,417	116,417	
Promotion and Correspondence - CF	Included above		150,296	150,296	150,296	
Leased Space - CF	74,693	77,942	56,791	46,791	46,791	
Contract Auditor Services - CF	697,429	800,000	800,000	800,000	800,000	
Subtotal: Unclaimed Property Program - CF	1,577,424	1,750,156	1,773,451	1,779,146	1,773,686	
FTE	9.0	8.3	10.0	10.0	10.0	

**Fiscal Year 2007-08 Joint Budget Committee Staff Figure Setting
Department of Treasury**

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation		FY 2007-08		Change Requests
					Request	Staff Recomm.	
(3) SPECIAL PURPOSE							
<i>Primary Functions: The expenditures in this section are included in the Long Bill for informational purposes only; they reflect continuous appropriations required by state statute. These items: reimburse local governments for property taxes foregone due to the Senior Citizen Property Tax Exemption; transfer money from the Unclaimed Property Trust Fund to CoverColorado; transfer General Fund to the FPPA for "old hire" fire and police pension plans; and allocate a portion of HUTF revenues to local governments. The General Fund appropriations are exempt from the six percent statutory limit on General Fund appropriations. The appropriation for the Senior Citizen Property Tax Exemption, the transfer to CoverColorado, and the appropriation for FPPA old hire plans are not subject to the TABOR limitations.</i>							
Senior Citizen Property Tax Exemption - GF	0	0	64,600,000	a/	65,300,000	b/	70,900,000
CoverColorado - CFE (Unclaimed Property Trust Fund)	n/a	7,232,579	12,300,000	c/	17,323,278		17,323,278
Fire and Police Pension Association (FPPA) - Old Hire Plans - GFE	0	25,321,079	34,774,141		34,774,141		34,777,172
Highway Users Tax Fund - County Payments - CFE	155,980,977	159,784,050	152,762,000	d/	160,890,162		158,558,400
Highway Users Tax Fund - Municipality Payments - CFE	102,184,633	104,524,983	100,174,100	e/	103,761,968		104,732,300
Subtotal - Special Purpose	<u>258,165,610</u>	<u>296,862,691</u>	<u>364,610,241</u>		<u>382,049,549</u>		<u>386,291,150</u>
General Fund	0	0	64,600,000		65,300,000		70,900,000
General Fund Exempt	n/a	25,321,079	34,774,141		34,774,141		34,777,172
Cash Funds Exempt	258,165,610	271,541,612	265,236,100		281,975,408		280,613,978

a/ Please note that more recent estimates (Legislative Council Staff's December 2006 revenue forecast) indicate that a total of \$68.9 million will be required for this purpose for FY 2006-07.

b/ The request mirrors the amount reflected in the Legislative Council Staff's September 2006 revenue forecast. However, pursuant to the passage of Referendum E, the total state funding estimated to be required for this purpose for FY 2007-08 will be \$1,040,000 higher.

**Fiscal Year 2007-08 Joint Budget Committee Staff Figure Setting
Department of Treasury**

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08		Change
	Actual	Actual	Appropriation	Request	Staff Recomm.	Requests

c/ The Department estimates that FY 2006-07 transfers to CoverColorado will total \$9,315,777.

d/ County distributions for FY 2006-07 are now estimated to total \$157,320,700 (based on Legislative Council staff's December 2006 revenue forecast).

e/ Municipal distributions for FY 2006-07 are now estimated to total \$103,775,800 (based on Legislative Council staff's December 2006 revenue forecast).

TOTAL - Department of Treasury	261,208,701	300,087,861	368,007,955	385,498,674	389,510,004	
FTE	<u>25.0</u>	<u>23.9</u>	<u>26.0</u>	<u>26.0</u>	<u>26.0</u>	
General Fund	743,845	699,493	65,413,108	66,144,521	71,562,069	
FTE	16.0	15.6	16.0	16.0	16.0	
General Fund Exempt	n/a	25,321,079	34,774,141	34,774,141	34,777,172	
Cash Funds	2,299,246	2,525,677	2,584,606	2,604,604	2,556,785	
FTE	9.0	8.3	10.0	10.0	10.0	
Cash Funds Exempt	258,165,610	271,541,612	265,236,100	281,975,408	280,613,978	

						% Change
General Fund (GF) subject to six percent appropriations limit :						
Total GF/GFE appropriations	743,845	26,020,572	100,187,249	100,918,662	106,339,241	6.1%
Less: GF/GFE not subject to six percent limit	<u>0</u>	<u>25,321,079</u>	<u>99,374,141</u>	<u>100,074,141</u>	<u>105,677,172</u>	6.3%
GF subject to six percent limit	743,845	699,493	813,108	844,521	662,069	-18.6%

Note: An "S" to the right of the FY 2006-07 Appropriation column indicates that the amount includes a mid-year adjustment; an "A" to the right of the FY 2007-08 Request column indicates that the Department submitted a budget amendment after November 1, 2006, that affected this line item.

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

**STATE TREASURER'S OFFICE
FY 2007-08**

FORMAT NOTES: Individual line items appear in bold underlined font, decision items appear in bold *italic* font (there are none for FY 2007-08), and summary descriptions of staff recommendations appear in **bold** font.

The following table provide a summary of the staff recommendations included in this packet.

Summary of Staff Recommendations in this Packet					
Description	Total Funds	General Fund	Cash Funds	Cash Fund Exempt	FTE
FY 2006-07 Appropriation	\$368,007,955	\$100,187,249	\$2,584,606	\$265,236,100	26.0
<i>Recommended Changes from FY 2006-07 Appropriation:</i>					
Increase HUTF distributions (compared to FY 06-07 appropriation)	10,354,600	0	0	10,354,600	0.0
Change in Estimated Senior Citizen Property Tax Exemption* (compared to FY 06-07 appropriation)	6,300,000	6,300,000	0	0	0.0
Anticipated increase in transfer to CoverColorado (compared to FY 06-07 appropriation)	5,023,278	0	0	5,023,278	0.0
Increase for PERA amortization equalization disbursement	10,926	7,166	3,760	0	0.0
Increase state contributions for group benefit plans	8,162	4,308	3,854	0	0.0
Adjustment to FPPA contribution*	3,031	3,031	0	0	0.0
Personal services base reduction (1.0 percent)	(17,780)	(3,934)	(13,846)	0	0.0
Eliminate one-time funding related to Controller retirement	(25,049)	(25,049)	0	0	0.0
Other	(155,119)	(133,530)	(21,589)	0	0.0
Total FY 2007-08					
Staff Recommendation**	\$389,510,004	\$106,339,241	\$2,556,785	\$280,613,978	26.0
\$ Change from prior year	\$21,502,049	\$6,151,992	(\$27,821)	\$15,377,878	0.0
% Change from prior year	5.8%	6.1%	(1.1)%	5.8%	0.0%

* These amounts are not subject to the six percent limit on General Fund appropriations.

** Excludes funding for several pending line items.

(1) ADMINISTRATION

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

Accounting. The accounting section primarily performs daily reconciliation of all cash that flows in and out of the State's bank accounts. This section also is responsible for allocating monthly interest earnings to various funds managed by the Department. This section manages a number of disbursements and transfers, including: distributing Highway Users Tax Fund (HUTF) moneys, tobacco settlement moneys, tobacco tax moneys, and federal mineral leasing funds; disbursing Senior Citizen 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. This section manages large portfolios collectively worth over \$4 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 This Section: 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. The resulting revenue covers about half of the Administration Division's expenses, which would otherwise be paid by the General Fund. The fee per transaction, currently about \$1.00, will be established at the start of FY 2007-08; it will equal the FY 2007-08 appropriation for the Administration Division divided by the total number of cash transactions conducted by the Treasury during the prior year (FY 2006-07), including transactions conducted on behalf of funds that don't pay the fee. The amount paid by an "eligible" fund during FY 2007-08 will then equal the per transaction fee multiplied by the number of transactions conducted by the Treasury on behalf of that fund during the prior year (FY 2006-07).

This means that the General Fund pays approximately half of *any* increased Administration Division appropriation with the rest 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 covers the remainder. However, 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.

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. This line item also provides funding for certain professional and temporary services. Positions funded through this line item include the Treasurer, the Deputy Treasurer, one manager, eleven professionals, and two administrative positions. Typically the line item also funds \$5,000 to \$10,000 in hourly, non-classified services.

Staffing Summary	FY 2005-06	FY 2006-07	FY 2007-08	
	Actual	Approp.	Request	Recomm.
State Treasurer	1.0	1.0	1.0	1.0
Deputy Treasurer	1.0	1.0	1.0	1.0
Controller / 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
Controller / Accountants	6.8	6.9	7.0	7.0
Administrative Assistants	<u>1.8</u>	<u>1.9</u>	<u>2.0</u>	<u>2.0</u>
TOTAL	15.6	15.8	16.0	16.0

The Department requests a continuation level of funding (\$1,180,844 and 16.0 FTE). The Department's request includes projected transaction fee revenue totaling \$723,667 cash funds. The following table, which employs the common policy approved by the Committee, summarizes staff's calculation of the FY 2007-08 personal services recommendation for the Administration Division. However, the 1.0 percent base reduction in this table was computed after removing the \$68,500 salary of the Treasurer, which is set in statute.

Personal Services - Option 8 Calculation for the Administration Division		
	Total	FTE
FY 2006-07 Long Bill Appropriation for Personal Services	\$1,179,947	16.0
+ Special Bills and Supplemental Appropriations for Personal Services	<u>0</u>	<u>0.0</u>
= FY 2006-07 Total Personal Services Appropriation	1,179,947	16.0
+ Performance-based Pay Awards	0	
+ Salary Survey	24,737	
- One-time funding provided for FY 2006-07 related to CFO retirement	(25,049)	
- 1.0 Percent Base Reduction (excludes Treasurer's statutory salary)	(11,111)	
= Recommendation for FY 2007-08	<u>1,168,524</u>	16.0
- CF (from transactions fee)	723,667	
= GF (remainder)	444,857	

Staff recommends a total appropriation of \$1,168,524 (including \$444,857 General Fund and \$723,667 cash funds), and 16.0 FTE. Staff believes that a continued appropriation of 16.0 FTE is justified. There were 16.0 FTE in the Administration Division in 1974, the exact number employed there today. During the intervening years, state government has grown substantially and the Division has been assigned a wide array of new tasks without an increase in FTE.

Staff's recommendation is lower than the amount requested because staff allocated a slightly lower portion of the FY 2006-07 appropriation for salary survey to this line item (consistent with the fund splits presented to the Committee during figure setting last year). Staff's recommendation also reflects a \$11,111 base reduction pursuant to Committee policy, a reduction which was not reflected in the Treasurer's budget request. The cash funds source is the Treasury transactions fee.

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 \$122,282 (including \$82,212 General Fund and \$40,070 cash funds) for FY 2007-08. As with all other central appropriations in the Administration Division, the cash funds portion of this appropriation reflects the share of the Health, Life, and Dental expenditure that will be paid from the Unclaimed Property Trust Fund to support the operation of the Unclaimed Property Division. The Committee approved the contribution rates proposed by the Governor. **Consistent with Committee policy, staff recommends approval of the request.**

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 premium costs. The Department requests \$2,129 (including \$1,436 General Fund and \$693 cash funds) for short-term disability insurance for FY 2007-08. **Staff recommends a total appropriation of**

\$2,043 (including \$1,378 General Fund and \$665 cash funds from the Unclaimed Property Trust Fund), which corresponds to Committee common policy (0.13 percent of base salaries).

Amortization Equalization Disbursement. Pursuant to S.B. 04-257, this line item provides additional funding to increase the state contribution for Public Employees' Retirement Association (PERA). The Department requests a total of \$19,653 (including \$13,255 General Fund and \$6,398 cash funds). **Pursuant to Committee policy** (1.0 percent of employees' base salaries for CY 2007 and 1.4 percent of employees' base salaries for CY 2008), **staff recommends a total appropriation of \$18,500 (including \$12,365 General Fund and \$6,135 cash funds from the Unclaimed Property Trust Fund).**

Supplemental Amortization Equalization Disbursement. Pursuant to S.B. 06-235, this line item provides additional funding to increase the state contribution for Public Employees' Retirement Association (PERA). The Department requests a total of \$0 (the Department included this as a part of its request for overall salary increases). **Pursuant to Committee policy** (0.5 percent of employees' base salaries for CY 2008), **staff recommends a total appropriation of \$3,486 (including \$2,208 General Fund and \$1,278 cash funds from the Unclaimed Property Trust Fund).**

Salary Survey and Senior Executive Service. The Department uses this line item to pay for annual increases for salary survey and senior executive service positions. The Department requests \$55,068 (including \$36,065 General Fund and \$19,003 cash funds) for salary survey increases. **Staff's recommendation for this line item is pending Committee policy.** Staff will ultimately reflect Committee policy in the appropriation for this line item.

Performance-Based Pay Awards. This line item funds awards relating to employee performance and evaluations. The Department requests a total of \$13,451 for FY 2007-08 (including \$8,592 General Fund and \$4,859 cash funds from the Unclaimed Property Trust Fund). **Staff's recommendation for this line item is pending Committee policy.** Staff will ultimately reflect Committee 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 (currently \$50,435 per year). 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 memberships to organizations and registration fees for seminars.

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.

The Department requests \$107,765 General Fund for operating expenses, which represents a continuation level of funding. **Staff recommends approving the request**, which is consistent with Committee policy.

Information Technology Asset Maintenance

The Department requests a continuation level of \$12,568 to replace information technology equipment consistent with standard replacement cycles (e.g., four years for desktop and laptop computers, and five years for printers). For FY 2006-07, the Department has utilized this funding to purchase five dual monitors for the Unclaimed Property Program (so that they can see both their desktop and the claims database at the same time), and one desktop computer for the new Treasurer. The Department also plans to replace up to 12 desktop computers used by temporary employees in the Unclaimed Property Program. For FY 2007-08, the Department plans to use this funding to replace three desktop computers and one printer used by the Administration Division, and three laptop computers, three desktop computers, and one printer for the Unclaimed Property program.

Staff recommends approving the request to allow the Department to replace equipment periodically and reduce the potential for hardware failure.

Legal Services. 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 funding for 575 hours of legal services with a corresponding appropriation of \$38,968 (including \$19,484 General Fund and \$19,484 cash funds from the Unclaimed Property Trust Fund). This represents a continuation level of funding.

The following table details appropriations provided by the General Assembly since FY 2000-01, as well as actual expenditures.

Recent History: Legal Services Appropriations and Expenditures						
	Appropriations					Actual Expenditures
	Long Bill	Supplemental	Final	Hours	Percent Change Mid-year	
FY 2000-01	\$18,864	\$7,677	\$26,541	500	40.7%	\$26,541
FY 2001-02	19,282	19,281	38,563	632	100.0%	52,644
FY 2002-03	19,734	15,918	35,652	597	80.7%	33,948
FY 2003-04	20,061	79,186	99,247	1,632	394.7%	58,249
FY 2004-05	20,318	49,815	70,133	1,139	245.2%	70,133
FY 2005-06	21,268	15,324	36,592	576	72.1%	35,342
FY 2006-07	38,968	0	38,968	575	0.0%	n/a

Although the Treasurer's staff is relatively small, the Treasurer's responsibilities involve a number of programs and funding mechanisms. It is important that the State Treasurer have access to quality, timely legal services. **Staff recommends providing funding sufficient to allow the State Treasurer to purchase 575 hours of legal services in FY 2006-07. The rate for these legal services is pending the approval of a Committee common policy.** Consistent with the request, half the funding for this line will come from the Unclaimed Property Trust Fund and the remainder will come from the General Fund.

Purchase of Services from Computer Center. This item provides funding for the Department's share of statewide computer services provided by the Department of Personnel and Administration, Division of Information Technology. The Department requests \$3,084 General Fund for computer services provided by the General Government Computer Center. **Staff's recommendation for the purchase of services from the computer center is pending Committee policy.** Staff will ultimately reflect Committee policy in the appropriation for this line item.

Workers' Compensation and Payment to Risk Management and Property Funds. This line item provides funding for the Department's share of the statewide costs for both risk management and property programs, as well as workers' compensation. The Department requests \$49,972 General Fund. **Staff's recommendation is pending Committee common policy for these items.** Staff will ultimately reflect Committee 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 for the costs of maintaining state buildings that are part of the capitol complex. The Department requests a \$54,195 General Fund appropriation for the space that it occupies in the State Capitol Building. **Staff recommends approving funding for the square footage currently occupied by the Treasurer's Office. The corresponding General Fund appropriation for this line is pending approval of a common policy rate per square foot for Capital Complex Leased Space.**

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 to be deposited into the Charter School Financing

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

Administrative Cash Fund. Moneys in this fund are continuously appropriated. The FY 2006-07 Long Bill includes an informational \$5,000 appropriation from this fund.

- ✓ Under the provisions of House Bill 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 .001 of the principal amount of the bonds outstanding (\$1 for every \$1,000 of principal) 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 FY 2006-07 Long Bill does not include an informational appropriation related to this fund.

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

Discretionary Fund. Pursuant to Section 24-9-105, C.R.S., five elected state officials receive annual appropriations for "expenditure in pursuance of official business as each elected official sees fit". Thus, 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 the requested \$5,000 General Fund appropriation.**

Staff recommends continuing the following footnote:

119 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.

Staff recommends continuing the following footnotes, as amended:

120 Department of the Treasury, Administration -- The State Treasurer is requested to provide to the Joint Budget Committee, by November 1, ~~2006~~ 2007, information concerning expenditures related to the Department's bank services contract(s) which are paid through deductions from interest earned on bank account balances. The State Treasurer is requested to include actual expenditures for FY ~~2005-06~~ 2006-07 as well as projected expenditures for

FY ~~2006-07~~ 2007-08. The requested report should be submitted as part of the State Treasurer's annual budget request.

121 Department of the Treasury, Administration -- The State Treasurer is requested to provide to the Joint Budget Committee, by November 1, ~~2006~~ 2007, information concerning state revenues and expenditures related to the issuance of tax and revenue anticipation notes for school districts pursuant to Section 29-15-112, C.R.S. The State Treasurer is requested to include actual data for ~~fiscal years 2003-04 through 2005-06~~ FY 2006-07, as well as projected data for FY ~~2006-07~~ 2007-08. The requested information should be submitted as part of the State Treasurer's annual budget request.

(2) UNCLAIMED PROPERTY PROGRAM

Background Information: The Department administers the state 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 businesses 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. Since the program's inception, 26.8 percent of the property that the State has recovered has been returned to the rightful owner.

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.]. Since the inception of the program, a total of \$171 million (45 percent) of Trust Fund revenues has been statutorily transferred to the General Fund, to the CoverColorado Program, and to support an industrial bank program in the mid-1990s. The following table provides an overview of the Unclaimed Property Trust Fund.

Unclaimed Property Trust Fund		
Description	FY 2005-06	Cumulative Since FY 1987-88
Total Revenues <1>	\$42,699,789	\$384,047,258
Total Claims Paid	12,702,924	103,000,319
<i>Claims Paid as Percent of Total Revenues</i>	<i>29.7%</i>	<i>26.8%</i>
Reserve Amount Held for Future Claims	3,681,910	38,521,426
<i>Reserve as Percent of Total Revenues</i>	<i>8.6%</i>	<i>10.0%</i>
<u>Transfers</u> <2>:		
General Fund	0	115,455,204
CoverColorado	7,232,579	48,233,995
Industrial Banks	<u>0</u>	<u>7,612,881</u>
Total Transfers	7,232,579	171,302,080
<i>Transfers as Percent of Total Revenues</i>	<i>16.9%</i>	<i>44.6%</i>
Funds Used for Administration of Unclaimed Property Program<3>	1,816,179	6,726,312
<i>Administrative Costs as Percent of Total Revenues</i>	<i>4.3%</i>	<i>n/a</i>

<1> Excludes interest earnings as well as proceeds from the sale of securities that occurred in May 2005 pursuant to S.B. 04-256.

<2> 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.

<3> Prior to FY 2002-03, the Unclaimed Property Program was supported with General Fund appropriations.

In addition, pursuant to S.B. 04-256, the Department sold securities that have been held as unclaimed property for more than one year and deposited proceeds in a newly created Unclaimed Property Tourism Promotion Trust Fund. The principal in this new fund may only be used to pay claims, but the interest earnings are to be credited to the Colorado Travel and Tourism Promotion Fund. The Department transferred \$51.6 million to this new fund in FY 2004-05.

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 principal in the Unclaimed Property Trust Fund. 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 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 taxes. This line item also provides funding for certain professional and temporary services. The program has one managerial position, five professional positions, and four

administrative positions. A significant portion of the appropriation also pays for non-classified contract employees who enter data, assist customers, and initiate the processing of claims. The use of temporary employees allows full-time employees to focus on property receipt, claims payment, and research. The following table shows the distribution of FTE's within the division.

Staffing Summary	FY 2005-06	FY 2006-07	FY 2007-08	
	Actual	Approp.	Request	Recomm.
Program Director	1.0	1.0	1.0	1.0
Program Administration/ Claims Processing	1.7	2.0	2.0	2.0
Auditors	2.2	2.8	3.0	3.0
Clerical	<u>3.4</u>	<u>3.6</u>	<u>4.0</u>	<u>4.0</u>
TOTAL	8.3	9.4	10.0	10.0

The Department requests a continuation level appropriation of \$665,642 cash funds (which includes \$95,062 for hourly, non-classified services) and 10.0 FTE. The fund source is the Unclaimed Property Trust Fund. The following table, which employs the common policy approved by the Committee, summarizes staff's calculation of the FY 2007-08 personal services recommendation for the Unclaimed Property section.

Personal Services - Unclaimed Property Division		
	Cash Funds	FTE
FY 2006-07 Long Bill	\$649,947	10.0
+ Special Bills and Supplemental Appropriations for Personal Services	<u>0</u>	<u>0.0</u>
FY 2006-07 Total	649,947	10.0
+ Performance-based Pay Awards	0	
+ Salary Survey	16,904	
-1.0 Percent Base Reduction	(6,669)	
Recommendation: FY 2007-08	660,182	10.0

Staff recommends a continuation appropriation of \$660,182 cash funds and 10.0 FTE. Staff's recommendation is lower than the amount requested because staff allocated a slightly lower portion of the FY 2006-07 appropriation for salary survey to this line item (consistent with the fund splits presented to the Committee during figure setting last year). Staff's recommendation also reflects a \$6,669 base reduction pursuant to Committee policy, a reduction which was not reflected in the Treasurer's budget request. The fund source is the Unclaimed Property Trust Fund.

Operating Expenses

This line item provides funding for supplies and materials, as well as for certain services that are not covered by other line items such as capital outlay³, utilities, custodial services, equipment rental, storage, dues and subscriptions, and printing. This line item funds the Unclaimed Property Division's operations. Prior to FY 2006-07, this line item also included funding for advertising and publicizing the annual list of unclaimed property owners. This funding is now included in a separate line item. The Department requests a continuation level of funding (\$116,417 cash funds from the Unclaimed Property Trust Fund). **Staff recommends approving the request.**

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 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 2005-06, the Department is statutorily allowed to spend up to \$254,058 for this purpose in the current fiscal year.

Last year, the Department requested an increase of \$103,895 cash funds from the Unclaimed Property Trust Fund to allow it to spend the full amount statutorily allowed to promote the Unclaimed Property Program (based on an estimated ceiling of \$200,395 for FY 2006-07). The General Assembly appropriated \$150,296 for this purpose. For FY 2007-08, the Department requests a continuation level of funding.

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

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

If it is the General Assembly's intent that the State Treasurer make a good faith effort to locate and reunite owners (and heirs) with their dormant/abandoned property, staff believes it is important to provide the tools necessary to do so.

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.

Leased Space. The Division's previous lease at the Chancery building expired June 30, 2006. Based on more favorable lease terms, the Division elected to move in August 2006. The General Assembly provided one-time funding for FY 2006-07 to cover the costs of the move. The Department requests \$46,791 for FY 2007-08 for the 3,466 square feet it now occupies at 1580 Logan Street (\$13.50 per square foot). The fund source is the Unclaimed Property Trust Fund. **Staff recommends approving the request.** Please note that the current lease contract requires a rate increase in July 2008 (to \$48,524 annually).

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. Section 38-13-116.5 (2), C.R.S., specifies that amounts spent directly and indirectly to administer the unclaimed property program shall be appropriated by the General Assembly and shall count toward the state's TABOR limit. This line item thus reflects the payments for contract auditor services.

The Department requests a continuation level of funding (\$800,000) for Third Party Auditor Contract Services. This is equivalent to 12 percent of \$6.7 million. Based on actual expenditures for this line item, it appears that this is a reasonable request and **staff recommends approving the request.** The funding source is the Unclaimed Property Trust Fund.

Staff recommends eliminating the following new footnote:

122 ~~**Department of the Treasury, Unclaimed Property Program, Promotion and Correspondence**~~ -- The State Treasurer is requested to provide to the Joint Budget Committee, by November 1, 2006, data concerning the cost and the effectiveness of various activities designed to promote awareness of the Unclaimed Property Program. The State Treasurer is further requested to describe the measurements used to evaluate the effectiveness of such activities.

The Committee voted to include this footnote last year when it chose to approve one-half of an increase requested by the Department. The Department has not requested any further increase in funding for this purpose.

(3) SPECIAL PURPOSE

Senior Citizen Property Tax Exemption. This line item provides funding to reimburse local governments for property taxes foregone as a result of the Senior Citizen Property Tax Exemption. The original exemption, authorized in Section 3.5 of Article X of the State Constitution, approved by voters in 2000, and implemented in Sections 39-3-201 to 208, C.R.S., grants a property tax exemption to qualifying⁴ senior citizens 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 six percent 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 governmental 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 of the six percent limit 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 \$44,123,604 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.

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

⁴Qualifications 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).

Last 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 will need to adopt legislation to implement this constitutional change in the 2007 Session.] This expansion is effective for property tax years commencing on or after January 1, 2007. The Legislative Council Staff Fiscal Note for this resolution estimated that extending the exemption to disabled veterans would result in an additional 2,237 program participants, requiring an additional \$1,040,000 to reimburse counties for the exemption in FY 2007-08.

Estimated expenditures are included in the Department of Treasury's budget for informational purposes. The Treasury budget request reflects \$65.3 million for this purpose. **Based on the Legislative Council staff December 2006 revenue forecast, staff recommends reflecting \$70.9 million in the FY 2007-08 Long Bill. Staff also requests permission to update this figure, if necessary, based on the March 2007 Legislative Council Staff revenue forecast when the Long Bill is finalized.** The following table provides historical data related to the number of exemptions granted and the valuation exempted.

Senior Citizen Property Tax Exemption					
	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
	Actual	Actual	Actual	Approp.	Estim. /a
County Reimbursement for Tax Exemption	\$61,491,764	\$0	\$0	\$0	\$68,900,000
Number of Exemptions Granted /b	123,326	134,066	137,398	138,707	not projected
Average Property Tax Exempted	\$499	\$0	\$0	\$0	not projected
Percent of Residences Granted Exemption	8.0%	8.5%	8.4%	8.4%	not projected
Actual Value Exempted	\$8,865,984,923	\$0	\$0	\$0	not projected
Assessed Value Exempted	\$811,237,620	\$0	\$0	\$0	not projected

/a This figure is based on the Legislative Council staff December 2006 revenue forecast. The appropriation of \$64.6 million was based on estimates included in the Legislative Council staff March 2006 revenue forecast.

/b Although the statutory limit on the value that may be exempted was lowered from \$200,000 to \$0 for the last three fiscal years, county assessors have continued to receive and approve applications annually.

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 150 percent of the industry average⁵, premium revenues cover only 65 percent of program costs. Thus, the program requires a subsidy

⁵ Please note that the CoverColorado Board recently voted to revise premium rates. Effective January 1, 2007, premiums will be set at 140 percent of the industry average.

from one or more other sources of revenue. These other sources of revenue currently include: contributions from insurance companies provided in exchange for a 100 percent premium tax credit (a maximum of \$5.0 million total per year); interest and principal from the Unclaimed Property Trust Fund; and insurance carrier assessments.

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

CoverColorado: Recent Funding History						
Fiscal Year	Claims and Administrative Costs	Premiums Paid by Enrollees	Ratio: Premiums/ Total Costs	Total Subsidy Required	Other Sources of Revenue <a>	Annual Surplus/ (Deficit)
98-99	\$5,300,177	\$3,043,656	57.4%	(\$2,256,521)	\$3,685,669	\$1,429,148
99-00	6,600,410	3,388,467	51.3%	(3,211,943)	6,191,425	2,979,482
00-01	10,163,795	5,149,955	50.7%	(5,013,840)	6,054,890	1,041,050
01-02	17,715,896	9,380,110	52.9%	(8,335,786)	8,144,133	(191,653)
02-03	28,163,622	17,064,208	60.6%	(11,099,414)	3,527,552	(7,571,862)
03-04	34,505,598	21,361,177	61.9%	(13,144,421)	40,843,100	27,698,679
04-05	34,294,676	21,312,572	62.1%	(12,982,104)	6,268,704	(6,713,400)
05-06	36,732,677	23,878,912	65.0%	(12,853,765)	8,757,987	(4,095,778)
Projections:						
06-07 	45,753,505	23,331,029	51.0%	(22,422,476)	17,276,719	(5,145,757)
07-08 	57,953,247	24,758,997	42.7%	(33,194,250)	25,005,850	(8,188,400)
08-09 	71,950,207	29,780,158	41.4%	(42,170,049)	39,040,225	(3,129,824)

<a> Other sources of funding include: interest earned on the CoverColorado Cash Fund, moneys made available from the Unclaimed Property Program, insurance carrier assessments, federal funds, and (beginning in 2005) annual contributions from insurance carriers in exchange for a premium tax credit.

 Projections prepared by Leif Associates, dated October 17, 2006. Reflects "most likely" actuarial scenario.

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

While CoverColorado has received moneys transferred from the Unclaimed Property Trust Fund since FY 1993-94, S.B. 04-211 changed state funding for CoverColorado, requiring the Treasury Department to transmit both interest and principal from the Unclaimed Property Trust Fund to CoverColorado in order to cover expenses of the program that are not met by premiums paid by those insured. Specifically, if necessary, the Treasury is required to transmit an amount equal to the principal and interest of the Unclaimed Property Trust Fund, less: (1) claims paid and the amount

estimated to be necessary to pay anticipated future claims; and (2) the costs of publishing names of unclaimed property owners and mailing notices to certain individuals whose names appear on the list. [Section 38-13-116.5, C.R.S.]. Any such transmittals are not counted as state revenue under TABOR as CoverColorado is a special purpose authority [as defined in Section 24-77-102, C.R.S.].

The Department 's budget request includes an informational appropriation of \$17,323,278 to reflect anticipated transfers to CoverColorado in FY 2007-08. Staff recommends reflecting the amount requested. CoverColorado is projecting revenues totaling \$49.8 million in FY 2007-08, including \$24.8 million in premiums paid by enrollees, \$17.3 million from the Unclaimed Property Trust Fund, \$5.0 million from insurance premium tax credits, \$1.6 million in federal funds, and \$1.1 million in interest earnings.

Fire and Police Pension Association - Old Hire Plans.

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 and firefighters who were hired before 1978 ("old hire" pension plans). The legislation that originally established a program to provide partial state funding for old hire pension plans clearly stated that the state's financial assistance was temporary. Specifically, S.B. 79-79 included the following language in the legislative declaration:

"...The general assembly further declares that state moneys provided to municipalities and fire protection districts *do not constitute a continuing obligation of the state* to participate in the ongoing normal costs of pension plan benefits, except for state funding of death and disability benefits [as specified in this bill], but are provided in 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 \$468 million to 110 local police and fire departments. The state contribution for old hire pension plans is determined by statute and consists of General Fund revenues related to insurance company premium taxes. The amount of the annual state contribution to FPPA is reflected as a General Fund appropriation in the Treasury section of the annual Long Bill for informational purposes as required by Section 31-30.5-307 (3), C.R.S. For FY 2005-06 and FY 2006-07, this amount is reflected as coming from the General Fund Exempt Account. Such moneys are transferred pursuant to Section 31-30.5-307 (2), C.R.S., and are not deemed to be an appropriation subject to the six percent limit on General Fund appropriations. The Treasury Department annually transfers the required amount from the General Fund to the FPPA, which distributes the moneys to eligible old hire pension plans⁶.

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.

Twice since 1980, the General Assembly has temporarily suspended the state contribution to old hire plans. The first year that the annual state contribution was eliminated was in 1987. In 1995, the state contribution was increased to cover the 1987 payment plus accrued interest. In addition, the General Assembly (through S.B. 95-228) increased the annual state contribution from \$18.7 million to \$25.3 million. The legislation provided that state support would end when the local old hire pension plans became fully funded or in FY 2009-10, whichever came first. Prior to S.B. 95-228, it was anticipated that state funding would continue through 2024. The earlier end-date was intended to coincide with the point at which all "old hire" employees would be retired.

The General Assembly again suspended the state contribution for old hire pension plans (through S.B. 03-263) for FY 2003-04 and FY 2004-05 and extended state payments by two years to FY 2011-12. The legislation required the State to pay the amount of unfunded liability that accrued as a result of the suspension of the state contribution. This additional payment may be made at any time prior to April 30, 2012. Finally, S.B. 03-263 changed the date of the annual payment from September to April, which is more consistent with the State's General Fund cash flow. The annual required \$25.3 million state contribution resumed in April 2006.

Department Request

Under current law, the State is required to contribute \$25.3 million per year through FY 2011-12, plus an additional make-up payment related to recent suspended contributions. Last Spring, the Joint Budget Committee voted to increase the appropriation for FY 2006-07 by \$9.5 million (to \$34,774,141). The Committee's plan was based on a scenario which avoids the balloon payment otherwise required in April 2012; the amount is based on increasing the appropriation for four years, consistent with the Referendum C "time-out" period, and then appropriating \$25.3 million in each of the final two years.

Staff has provided a table [see Appendix A] to detail the remaining state contributions to old hire pension plans using different assumptions about the payment schedule. Each of the options detailed in the table is described below:

- A: *Current Law 2008+*. Appropriate the minimum amount required statutorily (\$25.3 million), for the next four fiscal years. This option is estimated to require a balloon payment of \$61.1 million in April 2012.
- B: *JBC Plan*. Consistent with the Committee's action last Spring, continue to appropriate a higher amount for the next three fiscal years (\$34.8 million), and appropriate \$25.3 million in each of the final two fiscal years.
- C: *Six Equal Payments*. Appropriate the same amount (\$31.4 million) for each of the next six fiscal years.

Pursuant to S.B. 04-198, payments associated with volunteer firefighters are now administered by the Department of Local Affairs.

- D: *Three Equal Payments.* Appropriate the same amount (\$48.7 million) for each of the next three fiscal years (consistent with the Referendum C "time-out" period), paying off the State's obligations in April 2010.
- E: *April 08 Payoff.* Pay off the State's obligations in April 2008 (\$135.5 million).

The Department's request includes \$34,774,141 for FY 2007-08 -- the same appropriation as for FY 2006-07. **Consistent with the General Assembly's FY 2006-07 actions, staff recommends appropriating \$34,777,172 for FY 2007-08** (option B). This option spreads the cost of the make-up payment over four fiscal years, and would allow the General Assembly to reduce the funding level to \$25.3 million for FY 2010-11 and FY 2011-12.

Volunteer Firefighter Retirement Plans and Volunteer Death and Disability

These informational appropriations now appear in the Department of Local Affairs section of the Long Bill. This corresponds with S.B. 04-198, which moved the related functions from the Treasury to the Department of Local Affairs.

Highway Users Tax Fund - County Payments. The Highway Users Tax Fund (HUTF) primarily consists of revenue from motor fuel excise taxes, motor vehicle license and registration fees, and drivers' 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. These distributions occur *after* "off-the-top" appropriations to the Department of Public Safety and the Department of Revenue.

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 \$160,890,162 in FY 2007-08. **Based on Legislative Council staff's December 2006 revenue forecast, staff recommends including a cash funds exempt appropriation of \$158,558,400** in the Long Bill for informational purposes (the appropriation is shown as cash funds exempt because it is being spent out of a reserve). **Staff also requests permission to update this figure with the latest Legislative Council Staff projections of HUTF distributions to counties when the Long Bill is finalized.**

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

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 funds available.

City and County of Broomfield). 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 public highways located in the city/town. The Treasurer's budget request included estimated distributions to counties totaling \$103,761,968 in FY 2007-08. **Based on Legislative Council staff's December 2006 revenue forecast, staff recommends including a cash funds exempt appropriation of \$104,732,300** in the Long Bill for informational purposes (the appropriation is shown as cash funds exempt because it is being spent out of a reserve). **Staff also requests permission to update this figure with the latest Legislative Council Staff projections of HUTF distributions to counties when the Long Bill is finalized.**

LONG BILL FOOTNOTES

Staff recommends continuing the following footnotes, as amended:

- 123 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, ~~2006~~ 2007, and by February 1, ~~2007~~ 2008, that contain enrollment, revenue, expenditure, and assessment projections for the CoverColorado program for ~~FY 2006-07 and FY 2007-08~~ FY 2007-08 and FY 2008-09.
- 124 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, ~~2006~~ 2007. This report shall include the following: (1) the amount of additional funding the State is required to transfer to the Association pursuant to Section 31-30.5-307 (5) (b), C.R.S., assuming such payment is made on April 30, 2012, along with a description of the actuarial assumptions used to calculate this amount; (2) the current estimated unfunded liability for each local plan still eligible to receive state assistance; and (3) the projected remaining funded period for each local plan still eligible to receive state assistance.

⁸ Pursuant to Section 43-4-208 (1), C.R.S., this amount is limited to 5.0 percent of each city's share of the funds available.

Summary of Payment Options for Old Hire State Assistance

All Payments Assumed to be Made on April 30

OPTIONS FOR 2008 - 2012					
Year of April Payment	A: Current Law 2008+	B: JBC Plan	C: Six Equal Payments	D: Three Equal Payments	E: April 08 Payoff
2007 (approp.)	\$34,774,141	\$34,774,141	\$34,774,141	\$34,774,141	\$34,774,141
2008	25,321,079	34,777,172	31,424,520	48,686,175	135,506,516
2009	25,321,079	34,777,172	31,424,520	48,686,175	0
2010	25,321,079	34,777,172	31,424,520	48,686,175	0
2011	25,321,079	25,321,079	31,424,520	0	0
2012	61,127,531	25,321,079	31,424,520	0	0
Total	162,411,847	154,973,674	157,122,600	146,058,525	135,506,516

Comparison of each option to "Current" option:

2008		9,456,093	6,103,441	23,365,096	110,185,437
2009		9,456,093	6,103,441	23,365,096	(25,321,079)
2010		9,456,093	6,103,441	23,365,096	(25,321,079)
2011		0	6,103,441	(25,321,079)	(25,321,079)
2012		(35,806,452)	(29,703,011)	(61,127,531)	(61,127,531)
Total		(7,438,173)	(5,289,247)	(16,353,322)	(26,905,331)

NOTES:

Above figures provided by the FPPA. All options assume no change to FY 2006-07 appropriation.

"Current law" option assumes balance of make-up payment for recent deferred state contributions is made in April 2012

Option B is based on Joint Budget Committee action last Spring, which provides for an enhanced payment level from FY 2006-07 through FY 2009-10 (coinciding with the Referendum C five-year "timeout" period), with the statutorily required payments of \$25.3 million for the final two fiscal years.

Options C - D show equal payments over different time periods

All options are actuarially equivalent, based on 8% investment returns for all years, to the current statutory provision for payments of \$25.3 million in each year, including FY 2006-07, with a final make-up payment in April 2012.