

**DEPARTMENT OF TREASURY
PERFORMANCE PLAN
2016-2017**

Introduction:

The State Treasurer and his staff serve the citizens of Colorado by providing banking, investment, and accounting services for all funds and assets deposited in the Treasury. By continually optimizing cash flows and maximizing yield on the state's investments, Treasurer Stapleton plays an important role in minimizing the tax burden on Coloradans.

The Department of the Treasury is organized into a number of different operating sections: Investment Management, Accounting and Cash Management and Administration. The Treasurer is also responsible for managing the state's unclaimed property division – The Great Colorado Payback.

Also known as the S.M.A.R.T Act, House Bill 13-1299 revised the strategic and performance planning efforts of state agencies. HB 13-1299 requires the Treasurer's office to post instructions to itself as to how it will develop its own performance plan, and sets annual requirements for Performance Plan and a Regulatory Agenda. As required by HB 13-1299, these instructions as well as the office's Performance Plan and Regulatory Agenda are posted on the website.

Mission Statement:

The Colorado State Treasury is the constitutional custodian of the public's funds. It is the Treasury's duty to manage and account for the citizen's tax dollars from the time they are received until the time they are disbursed. The Treasury's staff is committed to safeguarding and managing the people's monies with the same diligence and care as they do their own.

The mission of the Unclaimed Property Section is to reunite all owners (or heirs) with their unclaimed property.

Vision Statement:

The Colorado State Treasury staff will continually strive to better serve the citizens of Colorado. Central to this goal is the continued introduction and use of new technologies to provide improved access to services for both citizens and other governmental agencies.

Statutory Authority:

General:	CRS 24-22-101
Banking, Investments:	CRS 24-36-101
State Funds and Accounts:	CRS 24-75-101
Unclaimed Property:	CRS 38-13-101

Core Objectives and Performance Measures:

The Treasurer's Office aims to achieve our vision and accomplish our mission through identifying objectives for the following four major functions within the office:

- Public Finance Management
- Investment Management
- Accounting and Cash Management
- Unclaimed Property (The Great Colorado Payback)

Each major function listed above will be described in detail below, while discussing strategies to meet identified goals to meet the Department's mission.

OpenGov Municipal Software:

The Department of Treasury contracted with the OpenGov software platform to help with our post issuance compliance relating to Certificates of Participation issued to fund major projects throughout the State. Below is the link to our public website. Currently the Department of the Treasury has uploaded all data relating to bonds issued by the State of Colorado or for its affiliates. In addition, we have uploaded other statistics relating to the State Highway Fund, PERA, Investment Fund Performance, as well as revenue collections relating to the sale of Marijuana in the State.

<https://treasurercolorado.opengov.com/transparency#/10788/query=6EF7FEEC1B1A7AF840C873BEC8AFCEBC>

Public School Fund Investment Advisory Board:

Senate Bill 16-035 created the Public School Fund Investment Advisory Board. The Board is made up of the Treasurer (Chairman of the Board), three appointees by the Treasurer and a final Board seat held by one of the Commissioners of the Colorado State Land Board. This bill enables the Public School Fund to be invested in assets other than fixed income assets. It now allows for investment in equity mutual funds, equity-indexed funds and other equity investments that do not represent an investment in an individual corporation. It is important to note that although the Fund is now eligible to invest in these securities, the Board may determine that no changes should be made to the investment strategy of the Public School Fund.

- Board of directors has been selected and on January 9, 2017 the Board will select an asset consultant to help guide the investment decisions of the Board.

Higher Education Intercept:

Senate Bill 16-204 amended the Higher Education Revenue Bond Intercept Program, which was first authorized in 2008 and last modified in 2013, enables the governing boards of higher education institutions to issue debt under the state's credit rating rather than their own. This reduces the cost of

debt for governing boards but also makes the State responsible for making timely payments on the debt if the governing board is not able to do so. If this occurs, the State is authorized to recoup funds from the governing board from certain state appropriations to the governing board and tuition revenues. The bill includes the following provisions:

- Changes the legislative review and approval process for intercept debt. Under current law, the Capital Development Committee (CDC) and Joint Budget Committee (JBC) review requests for cash-funded projects costing more than \$2.0 million that are requested to be supported by the higher education revenue bond intercept program. They then refer their recommendations to the Colorado Commission on Higher Education (CCHHE). Under the provisions of this bill, the CDC and JBC must explicitly approve expansion of all intercept debt for all participating governing boards. This includes funding for new projects of any size (including those under \$2.0 million) and refinancing of debt that was previously issued outside of the intercept program. The bill establishes exceptions so that the Treasurer may approve refinancing of existing intercept debt on an expedited basis (15-day turnaround), so long as the refinancing provides savings to the governing board and does not extend the number of years of repayment.
- Caps the program based on General Fund appropriations to each governing board. Adds a new restriction to the program to require that when new debt is issued, the governing board's total debt payments from previous debt issued under the intercept program plus the new debt may not exceed 75 percent of the board's annual College Opportunity Fund Program fee-for-service and stipend payment appropriations.
- Changes how the debt coverage ratio test that a governing board must pass to qualify for the program is calculated. Under current law, a governing board must have a coverage ratio (moneys available for debt payment divided by annual debt service (payment) of no less than 1.5, but this calculation applies only to the debt it has issued under the intercept program. The bill changes this calculation so that the governing board must show that it will have a coverage ratio of 1.5 for all of its debt (including non-intercept debt) before it may issue new debt under the intercept program.
- Requires an annual report on the program from the State Treasurer. Requires that the Treasurer submit a report on September 1 of each year to the CDC, JBC, the CCHHE, and the Governor's Office of State Planning and Budgeting (OSP) with information on each governing board's credit rating, debt service coverage ratio, total bonds issued and total bonds issued under the intercept program, and the payment schedules for the outstanding debt.
- Establishes a Treasurer pre-approval process for new intercept debt. Requires that as part of the September 1 report, the Treasurer provide an annual pre-approval certificate indicating whether the governing board qualifies for the program and identifying the maximum additional debt the board may issue while complying with the provisions of the program. This certificate may be amended by the Treasurer at the CDC's request, based on information subsequently submitted related to a particular project.
- Broadens the sources of funds from which the Treasurer may collect repayments from governing boards if the intercept is invoked. Under current law, the Treasurer may recover the amounts the State has forwarded to bond holders from an institution's state support and unpledged tuition moneys, with certain restrictions. The bill eliminates restrictions on how funds

may be recovered from the institution's state-support and specifies that moneys may also be recovered from other moneys collected by an institution.

- Requires reporting to Executive and Legislative Branch Agencies on new intercept debt issuances. Expands reporting requirements so that the CDC, JBC, OSPB, and CCHS all receive final "official statements" indicating the amounts and the terms of debt when new intercept debt is issued. Also requires these parties and the Treasurer to receive electronic notification when a "preliminary official statement" is issued prior to pricing on new debt. Establishes timeframes of 30 days for filing 11/01/2016 Department of Treasury Page 20 intercept-related information with the Treasurer and other parties. Clarifies that failure to file these reports does not affect the Treasurer's obligations under the intercept program.

Public Finance Management:

In 2012, the Treasurer's Office helped pass Senate Bill (SB) 12-150, which consolidates the management of the State's financial obligations within the Treasurer's Office. This includes Certificates of Participation (COPs), capital leases, short term notes, and any other form of financial obligation issued by the State.

SB 12-150 transforms the way Colorado issues financial obligations, streamlines the State's financial structure and allows the state to use one voice to interact with credit rating agencies and financial markets as a whole. It also serves as an opportunity to provide efficiency and savings to Colorado taxpayers by providing greater expertise with respect to the issuance and maintenance of the State's outstanding and future financial obligations.

Since the adoption of SB 12-150, the Treasurer's Office has realized several successes with respect to its new management duties of the State's finances:

- *Developing a State Public Financing Policy:* The Treasurer's office has promulgated the State's first State Public Financing Policy. Colorado was an outlier compared to other states without a formal debt or financial management policy. The newly promulgated State Public Financial Policy outlines procedures with respect to the State's management of issuance or incurrence of financial obligations. This initiative has been viewed favorably by financial markets as well as credit ratings agencies who have been focusing more attention on public issuer's procedures and debt management policies.
- *Post-Issuance Compliance:* Any public financial obligation has certain annual post-issuance activities required by the IRS and SEC. Based on analysis by the Treasurer's office, the State was severely deficient in its annual disclosure requirements, and has managed an organizational overhaul of these compliance procedures. The Department has hired DAC Bond, a company that helps facilitate transparency of financial issuance and post-compliance activities – and under the Treasurer's office's leadership, the State is now in 100% compliance of these IRS and SEC requirements.
- *Identifying Savings opportunities:* It was difficult for the State to take advantage of certain refinancing opportunities under a decentralized financial management system. SB 12-150

allowed the Treasurer's office to analyze the State's entire portfolio, helping identify a refinancing for present value and cash flow savings for the Colorado Bureau of Investigation, savings the taxpayer's of the State over \$1.1 million.

As the Treasurer's Office continues the process of managing the State's financial obligations, the objective is to create a process in which financial obligations are conducted with more efficiency and financial expertise. This will include the following strategies:

Develop a State Public Financing Policy: While the Treasurer's office has already accomplished the adoption of Colorado's first State Public Financing Policy, it should be viewed as a document that can always be honed and improved. The Department will continue working with the Governor's Office of State Planning and Budget, Attorney General's office, office of the State Controller, and outside professionals to identify opportunities for improvement of this document.

Identify opportunities for efficiency: Prior to the adoption of SB 12-150, transactions such as COPs and capital leases were conducted on a case-by-case basis, with little structure to provide efficiency or standardization. The Treasurer's Office has identified the following opportunities to make the financial management process more efficient:

- **Standardized financial documents:** The Treasurer's Office looks to develop a working group with the Attorney General's office and the Office of the Controller to develop more standardized documents where appropriate.
- **Qualified pools for financial institutions and other vendors:** Transactions such as capital leases could be streamlined with the establishment of qualified pools of financial institutions who already agree to the State's contract requirements. This will help streamline the contract process for agencies with authorization for such transactions.

Investment Management:

The objective of investment management within the Treasurer's Office is to set an investment policy stressing, in order of importance, safety, liquidity, and yield as the key goals for all of the taxpayers' funds entrusted to him. The mission of the Investment Section is to provide investment programs that are safe, prudent, and appropriate for the public purpose of each fund.

Strategy: The department has developed fund-specific benchmarks for specific funds and looks to continue outperforming these performance measures. The benchmarks are measured against Treasury notes and securities with a similar term, dated back over two decades. The Treasurer's Office has historically outperformed its benchmarks. The following chart shows the historical performance of these benchmarks:

Performance Measure	Outcome	FY 11-12 Actual	FY 12-13 Actual	FY 13-14 Actual	FY 14-15 Actual
Income earned on all funds *	Benchmark	Meet Benchmark	Meet Benchmark	Meet Benchmark	Meet Benchmark
	Actual	Exceeded Benchmark by 147 basis Points	Exceeded Benchmark by 114 basis Points	Exceeded Benchmark by 120 basis Points	Exceeded Benchmark by 93 basis Points

* This is a weighted average calculation for the five Treasury-managed funds: Treasury Pool, Major Medical Insurance Fund, Public School Permanent Fund, State Education Fund, and Unclaimed Property Tourism Fund.

Investment performance charts are also posted on the Treasurer’s website on a quarterly basis. In an effort to continue accountability and transparency, we will continue to post these quarterly results.

Accounting and Cash Management:

The objective of the Accounting and Cash Management staff is to provide efficient management of state receipts and disbursements, ensure effective banking services to state departments, and offer cash management assistance to state departments and local governments.

Strategy: The Accounting and Cash Management staff will attain 100% accuracy and maintain full statutory compliance with the disbursement of Special Purpose and programmatic funds on an annual basis. These Special Purpose funds include the following:

- Highway Users Tax Fund
- Colorado Property Tax Deferral Program
- Senior Citizen and Disabled Veteran Property Tax Exemption
- Tobacco Master Settlement Agreement Funds
- Amendment 35 Tobacco Tax Funds
- Payment In Lieu of Taxes (PILT)

Many of these funds are audited on a regular basis. The Department of Treasury expects to continue to maintain 100% accuracy with these fund disbursements.

Unclaimed Property (The Great Colorado Payback)

The Great Colorado Payback is responsible for reuniting Coloradans with their lost or forgotten assets. Every U.S. state, District of Columbia, Puerto Rico, the U.S. Virgin Islands - and Quebec, British Columbia and Alberta in Canada have unclaimed property programs that actively find owners of lost and forgotten assets. The Unclaimed Property Act/Law was passed into law by the Colorado Legislature to protect the

property of owners whose whereabouts are unknown and return it to its rightful owner(s) or their heirs. The Treasurer acts only as a custodian of the property for which there is no time limit for claiming.

The Treasurer is responsible for collecting property that was identified by companies, banks and financial institutions, insurance companies, etc. that has become inactive or abandoned and holding it in safekeeping at the Colorado Department of the Treasury for the rightful owners or their heirs.

Objective: Through the acquisition of new software programs, the Great Colorado Payback will provide greater security, scalability and efficiency of processing claims through the acquisition of resources or programs that can help streamline the current process without the addition of new FTE's.

- *Increase in Workload:* The Great Colorado Payback has seen a dramatic increase in inquiries over the last five years. Inquiries have doubled from about 77,000 prior to 2008, increasing to over 135,000 inquiries per year in 2009-2012. As a consequence, the average time required to process each claim has doubled – from about 10 weeks to about 20 weeks per claim. It has almost doubled the cost of postage associated with the claims process as well, increasing from about \$26,000 in 2007 to an average of over \$45,000 over the last five fiscal years.
- *Labor-Intensive Claims Processes:* Currently, the Division's claims process is a paper-based, labor intensive process. Staff members spend much of their time contacting claimants multiple times via letters, telephone calls, or emails in order to obtain all the necessary information to determine that the claimant is the "rightful owner" of the property in question. Often these exchanges between the Division and the claimant can take several weeks to complete.

Strategy: Unclaimed property is in the process of negotiating a contract with an outside vendor to implement new unclaimed property software. An appropriation has already been secured to fund this project.

Future Additional Budgetary Needs to Reach Objectives and Strategies

In order to meet the objectives listed above, there is one key area where additional resources would be welcomed in order to accomplish our mission:

Succession Planning for Unclaimed Property :

The Unclaimed Property Division of Treasury is in need of additional support at a level equivalent to a "Deputy Director" position to better assess the needs and inner workings of the claim process. The current claim process is not as efficient as it could be and as such the Department of Treasury is dealing with more and more complaints about the time it takes to complete a claim. Currently the Unclaimed Property Division processes more than 14,000 claims per year and handles over 135,000 claim requests per year. This does not include the additional labor needed to process holder reports (over 10,000 handled per year) and items collected and stored from the collection of safe deposit boxes (over 2,700 items reported).

The claim process is inefficient and labor intensive and requires a revamping of the way we process claims. With the addition of a Deputy Director, the goal would be to quickly and efficiently change the way the State of Colorado processes claims.

Debt Manager:

Many Treasury departments throughout the country have a position titled "Debt Manager". These positions are responsible for issuing and tracking all debt related to a particular state. While Colorado is not a high debt state, new regulations have created considerable additional workload on our existing team. In order to better manage this process, the Department of Treasury would like the legislature to consider adding a position in the Department of Treasury for "Debt Manager". While not an immediate need, the Department of Treasury feels it prudent to alert the legislature that as more debt is issued and potentially more regulations are added to the tracking of the State's debt, the need for this position will only increase with time.

- Other States with dedicated Debt Management
 - New Jersey
 - New York
 - Massachusetts
 - Oklahoma
 - Utah
 - California
 - Washington
 - Oregon
 - Kentucky
 - Ohio
 - Florida
 - Texas
 - New Mexico
 - Maryland
 - District of Columbia
 - Maine
 - New Hampshire