JOINT
BUDGET
COMMITTEE

STAFF BUDGET BRIEFING
FY 2020-21

DEPARTMENT OF THE TREASURY AND PERA AND PENSION ISSUES

JBC WORKING DOCUMENT - SUBJECT TO CHANGE
STAFF RECOMMENDATION DOES NOT REPRESENT COMMITTEE DECISION

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DEPARTMENT OF THE TREASURY

DEPARTMENT OVERVIEW

The State Treasurer is one of five independently elected constitutional officers of the state. The Department of the Treasury consists of three sections: Administration, Unclaimed Property Program, and Special Purpose unit, and is responsible for the following:

Primary Functions
- Ensures the safekeeping and management of public funds by depositing and investing all funds received by state agencies.
- Ensures sufficient funds are maintained in cash accounts to pay outstanding warrants.
- Administers the Unclaimed Property Program.

School Districts and Charter Schools
- Provides short-term financing to school districts by issuing tax and revenue anticipation notes.
- Assists charter schools with long-term financing by making direct bond payments.

Other Distributions and Loans
- Distributes Highway Users Tax Fund revenues to counties and municipalities.
- Distributes federal mineral leasing funds received for the state's share of sales, bonuses, royalties, and rentals of public lands within Colorado.
- Disburses reimbursements to local governments for the Senior Citizen and Disabled Veteran Property Tax Exemption.
- Makes loans to elderly individuals and military personnel through the Property Tax Deferral Program.
- Provides property tax reimbursements for property destroyed by a natural cause.
- Transmits money from the Unclaimed Property Trust Fund to the Adult Dental Fund.
- Beginning in FY 2019-20 and for every year in which the unfunded liability remains, provides a direct distribution of $225.0 million to the Public Employees' Retirement Association (PERA) pursuant to Section 24-51-414, C.R.S., as enacted in S.B. 18-200 (Eliminate Unfunded Liability in PERA).

ADMINISTRATION

In addition to overall management of the Department, the Administration section is responsible for accounting, cash management, and investments. The Department is responsible for ensuring the safekeeping and management of public funds by maintaining sufficient funds in cash accounts to meet the state’s daily cash needs and depositing all funds received by state agencies in statutorily authorized investments. In addition, the Department ensures that sufficient funds are maintained in cash accounts to meet the state’s daily cash needs. The income earned on these investments augments the state’s revenues from taxes and fees and decreases the tax burden on Colorado’s citizens. The Department’s three investment offices manage five investment portfolios with short, intermediate, and long-term fixed income goals.

UNCLAIMED PROPERTY DIVISION

The Unclaimed Property Division is established to take custody of dormant or abandoned property and return the property to the rightful owners or heirs. The value of intangible property, excluding securities, is held in the Unclaimed Property Trust Fund (UPTF); and the value of securities is held in the Unclaimed Property Tourism Promotion Trust Fund (UPTPTF). Funds from the UPTF support the administration of the Unclaimed Property Program and a portion of the Administration division's personal services line item.

As outlined above, the UPTPTF is managed separately from the four remaining investment accounts, and pursuant to Section 38-13-116.7, C.R.S., distribution for earned interest of this fund is allocated as follows: 25.0 percent to the Colorado State Fair Authority Cash Fund, 65.0 percent to the Agriculture Management Fund, and 10.0 percent to the Colorado Travel and Tourism Promotion Fund.

SPECIAL PURPOSE DIVISION

The Special Purpose Division disburses money to local governments and other authorized recipients of state funds for the following programs:

- The Senior Citizen and Disabled Veteran Property Tax Exemption from the General Fund;
- Disbursements of Highway Users Tax Fund proceeds to counties and municipalities in the state; and
- Reimbursement of property taxes paid for property that has been destroyed in a natural disaster or by another cause beyond the control of the property owner.
- Beginning in FY 2019-20 and for every year in which the unfunded liability remains, provides a direct distribution of $225.0 million to the Public Employees' Retirement Association (PERA) pursuant to Section 24-51-414, C.R.S., as enacted in S.B. 18-200 (Eliminate Unfunded Liability in PERA).

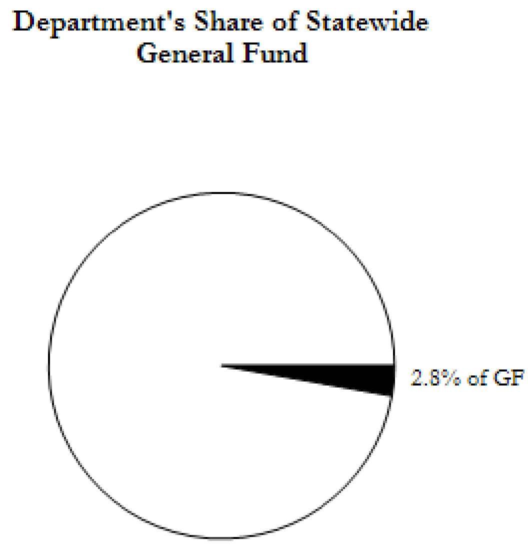
These programs, which are created in the State Constitution or statute, are appropriated in the Department of the Treasury section of the Long Bill, but are pass-through programs in which the Treasury disburses or transfers money, but does not administer the programs.

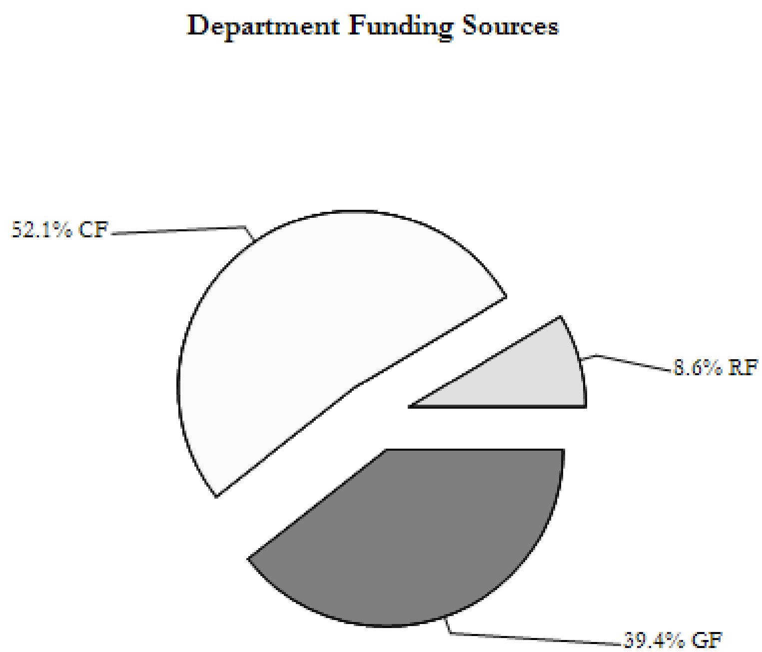
DEPARTMENT BUDGET: RECENT APPROPRIATIONS

Funding Source	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 *
General Fund	$151,447,545	$400,353,177	$339,275,495	$360,341,824
Cash Funds	354,874,465	396,384,849	448,514,039	444,758,968
Reappropriated Funds	17,773,025	17,685,263	73,905,349	73,904,343
Federal Funds	0	0	0	0
TOTAL FUNDS	**$524,095,035**	**$814,423,289**	**$861,694,883**	**$879,005,135**
Full Time Equiv. Staff	32.9	32.9	32.9	35.4

*Requested appropriation.

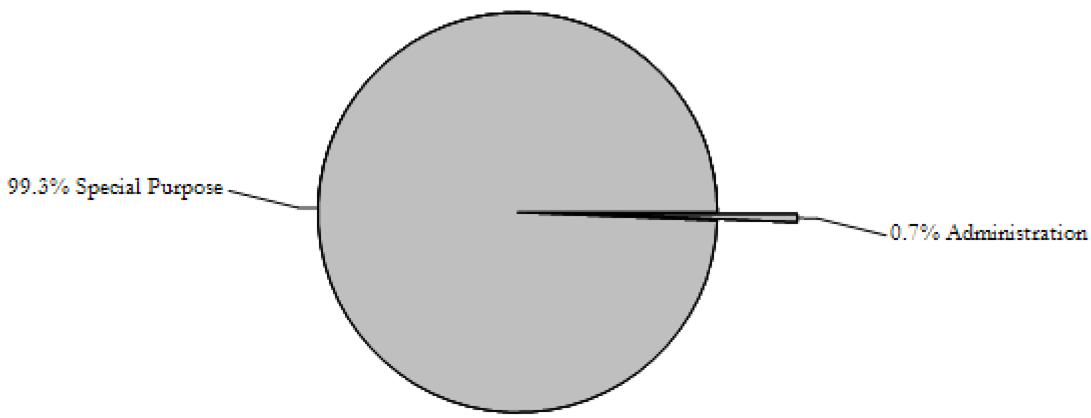
DEPARTMENT BUDGET: GRAPHIC OVERVIEW



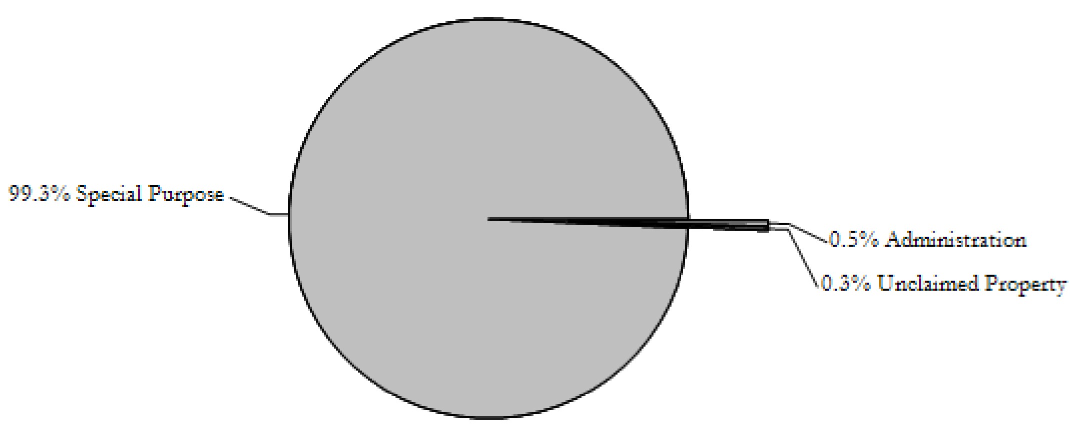


All charts are based on the FY 2019-20 appropriation.

Distribution of General Fund by Division



Distribution of Total Funds by Division



All charts are based on the FY 2019-20 appropriation.

GENERAL FACTORS DRIVING THE BUDGET

The Department's funding for FY 2019-20 consists of 39.4 percent General Fund, 52.1 percent cash funds, and 8.6 percent reappropriated funds.

SENIOR CITIZEN AND DISABLED VETERAN PROPERTY TAX EXEMPTION

Section 3.5 of Article X of the Colorado Constitution grants a property tax exemption to qualifying senior citizens and disabled veterans. A senior citizen is eligible for the property tax exemption if the property owner-occupier is at least 65 years of age on the assessment date and has occupied the residence for at least ten years, or is the surviving spouse of a person who previously qualified for the exemption. An honorably discharged disabled veteran is eligible for the property tax exemption if the owner-occupier has a 100.0 percent service-connected disability on the assessment date. Property tax is exempted on 50.0 percent of the first $200,000 of actual property value for qualifying homeowners. The State Treasurer is required to reimburse local governments for the resulting loss of property tax revenues. The Constitution grants the General Assembly the power to raise or lower the amount of residence value that is exempt from taxation.

HIGHWAY USERS TAX FUND DISBURSEMENTS

The Department distributes revenues from the Highway Users Tax Fund (HUTF) to counties and municipalities for use on local transportation projects pursuant to statutory formulas. The amounts anticipated to be distributed to counties and municipalities are reflected as cash funds appropriations within the Special Purpose section of the Long Bill for informational purposes.

TRANSFERS FROM THE UNCLAIMED PROPERTY TRUST FUND

The Unclaimed Property Program in the Department of the Treasury is established to take custody of dormant or abandoned property for return to the rightful owners or heirs and is held in trust on behalf of the owners in the Unclaimed Property Trust Fund (UPTF). Aside from the payment of claims to owners and heirs, the fund balance is used to cover the costs of administering the program.

DIRECT DISTRIBUTION TO PERA FOR THE UNFUNDED LIABILITY

Section 24-51-414, C.R.S., as enacted in S.B. 18-200 (Eliminate Unfunded Liability in PERA), requires the State Treasurer to issue a warrant equal to $225.0 million to PERA as a direct distribution for the unfunded liability on July 1, 2018, and each July 1st thereafter as long as there remains an unfunded liability.

Beginning in FY 2019-20, statute requires that the direct distribution payment be included for informational purposes in the Long Bill. Statute further specifies that estimates be included for the amount of the distribution attributable to the state and attributable to public schools. This requirement is simply a reflection of the estimated amount of the direct distribution that will be provided to each of the PERA divisions. While statute excludes distributions to the Local Government Division, distributions to the State, Judicial, Public Schools, and Denver Public Schools divisions are distributed proportionate to the annual payroll of each division.

SUMMARY: FY 2019-20 APPROPRIATION & FY 2020-21 REQUEST

Department Of The Treasury	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
FY 2019-20 Appropriation:						
SB 19-207 (Long Bill)	860,894,883	338,475,495	448,514,039	73,905,349	0	32.9
Other legislation	800,000	800,000	0	0	0	0.0
TOTAL	**$861,694,883**	**$339,275,495**	**$448,514,039**	**$73,905,349**	**$0**	**32.9**
FY 2020-21 Requested Appropriation:						
FY 2019-20 Appropriation	$861,694,883	339,275,495	$448,514,039	$73,905,349	$0	32.9
R1 Unclaimed property technology upgrades	57,200	0	57,200	0	0	0.0
R2 Unclaimed property increased workload costs	92,000	0	92,000	0	0	0.0
R3 Department personnel costs	340,437	193,766	146,671	0	0	2.5
R4 Administrative office upgrades	99,725	99,725	0	0	0	0.0
Revenue forecast and pass-through adjustments	17,192,409	21,456,832	(4,263,417)	(1,006)	0	0.0
Centrally appropriated line items	314,551	107,116	207,435	0	0	0.0
Annualize prior year legislation and budget actions	(786,070)	(791,110)	5,040	0	0	0.0
TOTAL	**$879,005,135**	**$360,341,824**	**$444,758,968**	**$73,904,343**	**$0**	**35.4**
INCREASE/(DECREASE)	$17,310,252	$21,066,329	($3,755,071)	($1,006)	$0	2.5
Percentage Change	2.0%	6.2%	(0.8%)	(0.0%)	0.0%	7.6%

R1 Unclaimed property technology upgrades: The request includes an increase of $57,200 cash funds from the Unclaimed Property Trust Fund in FY 2020-21 and $53,200 ongoing. The request includes: $46,000 for an upgrade for the KAPS unclaimed property administration system to provide for the purchase of Onbase, an imaging system that will create a seamless paperless IT system and process, and Lexis/Nexis services to process small value claims to free Unclaimed Property Program (UPP) staff to focus on larger and more complex claims; $8,000 ($4,000 ongoing) for a phone monitoring system to collect customer service data and allow for greater accuracy and customer service monitoring; and $3,200 for related and ongoing staff training and education initiatives.

R2 Unclaimed property increased workload costs: The request includes an increase of $92,000 cash funds from the Unclaimed Property Trust Fund in FY 2020-21 and $80,500 ongoing for costs related to the implementation of S.B. 19-088 Revised Uniform Unclaimed Property Act (RUUPA) as well as recommendations included in the July 2019, Division of Unclaimed Property performance audit by the Office of the State Auditor. One-time costs include: $7,500 for a one-time auction to substantially reduce the existing tangible property inventory; $1,000 for the purchase and installation of vault cameras; and $3,000 for the replacement of deteriorated office furnishings. Ongoing costs include: $80,000 for additional printing and postage costs; and $500 for in-state travel related to communications with claimants and property owners as required by RUUPA.

R3 Department personnel costs: The request includes an increase of $340,437 total funds, including $193,766 General Fund and $146,671 cash funds, and 2.5 FTE. The request includes three items: $111,261 for an additional Junior Investment Officer for the Investment Division; $95,334 for an additional 1.0 FTE for UPP claims and an additional 0.5 FTE for UPP tangible assets; and $133,842 for a 5.0 percent across-the-board increase for current staff. The Department describes this as a workload true-up request related to increased responsibilities added in legislation over the last 15 years which the Department accepted within existing appropriations.

R4 ADMINISTRATIVE OFFICE UPGRADES: The request includes an increase of $99,725 General Fund for FY 2020-21 and $6,000 ongoing. The request includes: $78,700 for State Capitol office deferred maintenance upgrades; $7,300 for a large screen conference room monitor; and $13,725 for a mobile Granicus unit for public meeting audio stream and archive, that includes $6,000 (plus 7.0 percent annual increases) in annual licensing and subscription costs.

REVENUE FORECAST AND PASS-THROUGH ADJUSTMENTS: The request includes an increase of $17.2 million total funds. This includes: an increase of $21.5 million General Fund for a revenue forecast adjustment for the homestead exemption; and a decrease of $4.3 million cash funds from the Highway Users Tax Fund for revenue forecast adjustments for distribution to local governments.

REVENUE FORECAST AND PASS-THROUGH ADJUSTMENTS					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FTE
Homestead exemption forecast adjustment	$21,456,832	$21,456,832	$0	$0	0.0
HUTF forecast adjustment	(4,263,417)	0	(4,263,417)	0	0.0
Lease purchase adjustment	(1,006)	0	0	(1,006)	0.0
TOTAL	**$17,192,409**	**$21,456,832**	**($4,263,417)**	**($1,006)**	**0.0**

Centrally appropriated line items: The request includes adjustments to centrally appropriated line items including the following: health, life, and dental; short-term disability; supplemental state contributions to the Public Employees' Retirement Association (PERA) pension fund; merit pay; workers' compensation and payments to risk management; legal services; Capitol complex leased space; payments to the Governor's Office of Information Technology (OIT); and CORE operations.

CENTRALLY APPROPRIATED LINE ITEMS				
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	FTE
CORE	$184,877	$83,194	$101,683	0.0
Legal services	68,826	5,688	63,138	0.0
Salary survey	52,047	33,217	18,830	0.0
AED	10,437	7,402	3,035	0.0
SAED	10,437	7,402	3,035	0.0
Payments to OIT	4,826	2,414	2,412	0.0
Capitol Complex leased space	4,232	4,232	0	0.0
UP leased space	1,733	0	1,733	0.0
Short-term disability	155	124	31	0.0
Health, life, and dental	(20,067)	(34,809)	14,742	0.0
PERA Direct Distribution	(2,334)	(1,130)	(1,204)	0.0
Workers' compensation	(618)	(618)	0	0.0
TOTAL	**$314,551**	**$107,116**	**$207,435**	**0.0**

ANNUALIZE PRIOR YEAR LEGISLATION AND BUDGET ACTIONS: The request includes a decrease of $786,070 total funds, including a decrease of $791,110 General Fund, to annualize prior year legislation and budget actions.

Annualize Prior Year Legislation And Budget Actions				
	Total Funds	General Fund	Cash Funds	FTE
SB18-200 PERA Unfunded Liability	$13,930	$8,890	$5,040	0.0
Annualize prior year salary survey	0	0	0	0.0
SB19-173 CO Secure Savings Plan Board	(800,000)	(800,000)	0	0.0
TOTAL	**($786,070)**	**($791,110)**	**$5,040**	**0.0**

ISSUE: TREASURY ITEMS: HOMESTEAD EXEMPTION STATUTORY TRANSFERS AND PROPERTY TAX REIMBURSEMENT FOR PROPERTY DESTROYED BY NATURAL CAUSE

This informational briefing issue summarizes two minor items for the JBC's consideration. Statute specifies automatic transfers for amounts not expended but included in the Homestead Exemption informational appropriation in the Long Bill. In FY 2018-19, transfers totaled $16.9 million. The Property Tax Reimbursement for Property Destroyed by a Natural Cause includes a $2.2 million General Fund appropriation annually that has been minimally expended. A reduced annual appropriation or creation of a cash fund to hold a specified reimbursement reserve to be backfilled as used would reduce General Fund appropriations and provide a more sustainable method to fund this reimbursement policy.

SUMMARY

- The Homestead Exemption is included in the Long Bill as an informational appropriation based on the estimate included in the annual March revenue forecast.

- House Bill 12-1326 and H.B. 16-1161 established transfers of any funds not expended but included in the homestead exemption informational appropriation to the Senior Services Account within the Older Coloradans Cash Fund and the Veterans Assistance Grant Program Cash Fund.

- In the 2017 Long Bill, the JBC included a supplemental add-on for FY 2016-17 which reduced the homestead exemption informational appropriation by $6.7 million, as included in the updated March revenue forecast, to retain that amount as General Fund reversions/surplus for other budget purposes.

- Transfers of $16.9 million were made for FY 2018-19, but a transfer is not anticipated for FY 2019-20. It may be appropriate to establish a standard budget policy for consistently addressing this transfer on an ongoing basis.

- H.B. 14-1001 established a state reimbursement for property taxes owed or paid for property destroyed in a natural disaster.

- The Fiscal Note identified a cost of $2.2 million for FY 2014-15 and identified that future years could not be estimated, although $2.2 million General Fund has been annually appropriated for this purpose.

- Over five years, an average of $230,000 has been expended from this annual appropriation.

DISCUSSION

AUTOMATIC TRANSFERS FROM THE HOMESTEAD EXEMPTION

The Senior Citizen and Disabled Veteran Property Tax Exemption, Section 3.5 of Article X of the Colorado Constitution, generally referred to as the homestead exemption, grants a property tax exemption to qualifying senior citizens and disabled veterans. The Homestead Exemption is included in the Long Bill as an informational appropriation based on the estimate included in the annual March revenue forecast.

House Bill 12-1326, Concerning Assistance to the Elderly, added Section 39-3-207 (6), C.R.S., which established a transfer of any funds included in the informational appropriation but not expended as reimbursements for the homestead exemption to the Senior Services Account within the Older Coloradans Cash Fund, created in the bill. House Bill 16-1161, Allocate Senior Property Tax Exemption Money, a JBC bill, established that 95 percent of the amount be transferred to the Senior Services Account within the Older Coloradans Cash Fund and the remaining five percent be transferred to the Veterans Assistance Grant Program Cash Fund.

In 2017, the JBC included a Long Bill supplemental add-on for FY 2016-17 which reduced the homestead exemption informational appropriation by $6.7 million based on the revenue forecast provided in March 2017. This action was taken to retain that amount as General Fund reversions/surplus for other budget purposes.

For FY 2018-19, the State Controller reports transfers of $16.9 million, including $16.0 million to the Senior Services Account and $843,000 to the Veterans Assistance Grant Program Cash Fund. For FY 2019-20, the Long Bill appropriation totals $140.8 million and the September 2019 Legislative Council Staff revenue forecast identifies an estimate of $153.2 million. Therefore, based on the most recent forecast a transfer is not anticipated.

Staff defers to current statute and the legislative intent that these policy mechanisms were set in place to provide funding for the purposes of those cash funds. However, the Committee did choose to reduce the amount of the transfer in one fiscal year. Staff presents this item for Committee consideration as a reminder of this potentially substantial automatic transfer mechanism. Staff further recommends that the Committee may wish to establish a policy for addressing this item consistently in future years, particularly while in a year in which no transfer is expected.

The Committee may wish to consider:

1. Whether the current statutory transfers should be adjusted or repealed;
2. Whether an annual supplemental "true-up" should be made during the January supplemental process based on the updated December revenue forecast;
3. Whether an annual Long Bill add-on supplemental "true-up" should be made each year based on the March revenue forecast; or
4. Whether the current statutory transfer mechanism should remain in place and executed based on the original Long Bill informational appropriation.

PROPERTY TAX REIMBURSEMENT FOR PROPERTY DESTROYED BY A NATURAL CAUSE

Section 39-1-123, C.R.S., added in H.B. 14-1001, Tax Credit for Property Destroyed by a Natural Cause, established a state reimbursement for certain property taxes owed or paid for real property and business personal property that has been destroyed in a natural disaster or by other cause beyond the control of the property owner.

The Legislative Council Staff Fiscal Note identified a cost of $2.2 million for FY 2014-15 and identified that future years could not be estimated. The Department of Treasury has included this item at the same amount in each year's budget as the pass-through payment administrator. The following table outlines actual expenditures and reversions.

Property Tax Reimbursement for Property Destroyed by Natural Cause			
	Appropriation	Expenditure	Reversion
FY 2014-15	$2,221,828	$1,096,496	$1,125,332
FY 2015-16	2,221,828	24,209	2,197,619
FY 2016-17	2,221,828	2,019	2,219,809
FY 2017-18	2,221,828	0	2,221,828
FY 2018-19	2,221,828	27,736	2,194,092
Average		$230,092	$1,991,736

The Committee could address this item in one of two ways:

1. Reduce the annual appropriation through the budget process to a nominal amount; or
2. Create a reimbursement reserve cash fund to hold a specified amount which could be backfilled based on actual usage.

The reduced appropriation is a simple fix, but would require supplemental appropriations in years in which actual expenditures exceed the appropriation. If such a supplemental were to be necessary in a revenue downturn, this solution becomes slightly more challenging. The reimbursement cash fund requires legislation but would provide a permanent solution at minimum ongoing cost. Regardless, a reduced annual appropriation or creation of a cash fund to hold a specified reimbursement reserve to be backfilled as used would reduce General Fund appropriations and provide a more sustainable method to fund this reimbursement policy.

ISSUE: PERA UPDATE

This issue provides an informational PERA update based on PERA's 2018 Comprehensive Annual Financial Report (CAFR) and related documents. PERA experienced an investment return in 2018 of -3.5 percent, contributing to a decrease in the aggregate funded ratio of 59.8 percent and an increase in the aggregate unfunded liability of $31.0 billion. Related actuarial measures cause the automatic adjustment provisions to be engaged for FY 2020-21, which include 0.5 percent contribution rate increases for both employees and employers.

SUMMARY

- PERA experienced an investment return of -3.5 percent in 2018.
- The poor investment return contributed to a diminished aggregate funded ratio of 59.8 percent, down from 61.3 percent a year earlier, and an increased aggregate unfunded liability of $31.0 billion, up from $28.8 billion a year earlier.
- The poor investment return caused the automatic adjustment provisions to be engaged for FY 2020-21.
- The state employee contribution rate of 8.75 percent, scheduled to increase to 9.5 percent, will instead increase to 10.0 percent for FY 2020-21, a total 1.25 percent increase.
- The state employer contribution rate of 10.4 percent will increase to 10.9 percent for FY 2020-21, at an estimated cost of $10.0 million total funds and $5.6 million General Fund.

DISCUSSION

S.B. 18-200 UPDATE

Automatic adjustment provisions will engage for FY 2020-21. These include 0.5 percent contribution increases for employees and employers.

The state employee contribution rate of 8.75 percent was scheduled to increase to 9.5 percent and will now increase to 10.0 percent for FY 2020-21. The Governor's requested 2.0 percent across-the-board salary survey increase becomes a net or effective 0.75 percent increase for state employees, after the 1.25 percent increase in the employee contribution rate.

The state's employer contribution rate of 10.4 percent will increase to 10.9 percent for FY 2020-21. The estimated cost from this automatic adjustment totals $10.0 million, including $5.6 million General Fund.

PERA 2018 CAFR UPDATE

The aggregate funded status for all division trust funds includes:

- an unfunded liability of $31.0 billion at the end of 2018, compared to an unfunded liability of $28.8 billion at the end of 2017; and
- a funded ratio of 59.8 percent at the end of 2018, compared to a funded ratio of 61.3 percent at the end of 2017.

Despite the changes made in S.B. 18-200 that substantially increase contributions to PERA to address the unfunded liability, most of the one-year deterioration in funded status and unfunded liability is attributable to the 2018 investment return of -3.5 percent. This return compares to PERA's fund policy benchmark return of -3.6 percent and an S&P 500 equity market return of -6.2 percent.

PERIOD TO FULL FUNDING
The following table outlines the amortization period for each division.

Amortization Period - Years to Full Funding						
	2018 Segal[1]	2018 CAFR	2017 CAFR	2016 CAFR	2015 CAFR	2014 CAFR
	12/31/2018	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
State	28	35	33	58	65	45
Judicial	21	23	24	54	Infinite	Infinite
School	34	37	38	78	128	48
DPS	17	Infinite	Infinite	56	Infinite	Infinite
Local Government	29	37	22	55	42	28

[1] The 2018 Segal Actuarial report includes anticipated automatic adjustment provisions.

FUNDED RATIO
The following table outlines the funded ratio for each division.

Funded Ratio						
	2018 Segal	2018 CAFR	2017 CAFR	2016 CAFR	2015 CAFR	2014 CAFR
	12/31/2018	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
State	56.1%	56.1%	57.5%	54.6%	57.6%	57.8%
Judicial	70.6%	70.6%	72.4%	66.6%	71.4%	73.0%
School	57.9%	57.9%	59.4%	56.3%	60.7%	60.9%
DPS	76.8%	76.8%	79.7%	75.9%	82.1%	82.6%
Local Government	77.7%	77.7%	79.5%	74.4%	79.0%	78.7%

INVESTMENT RETURN
For 2018, PERA experienced an investment return of -3.5 percent. PERA's annualized rate of return over extended periods include the following:

- 6.9 percent over three years;
- 5.6 percent over five years;
- 8.8 percent over 10 years; and
- 8.5 percent over 35 years.

The following table outlines PERA's long-term rate of return and reported investment return since 2010.

PERA LTROR and Investment Return		
Calendar Year	Long-term Rate of Return	Investment Return
2018	7.25%	(3.5%)
2017	7.25%	18.1%
2016	7.5%/7.25%	7.3%
2015	7.5%	1.5%
2014	7.5%	5.7%
2013	7.5%	15.6%
2012	8.0%	12.9%
2011	8.0%	1.9%
2010	8.0%	14.0%

PERA's investment returns can be expected to move with the market generally, although in recent years PERA has earned returns slightly higher than benchmarks and peer averages.

LONG-TERM RATE OF RETURN

PERA's current long-term rate of return assumption is set at 7.25 percent. This assumption was decreased from 7.5 percent by the PERA Board in November 2016. Staff's understanding is that the next review of the long-term rate of return will occur at the end of 2019.

SIGNAL LIGHT INDICATORS

PERA's signal light indicators are green for the State and Local Government Divisions, light green for the School Division, and dark green for the Judicial and DPS Divisions.

Dark green represents 100-percent funded by 2041 (30 years from 2011), green represents 100-percent funded by 2048 (30 years from 2018), and light green represents full funding by 2058 (40 years from 2018). PERA's other indicators include: yellow, representing full funding by 2068 (50 years from 2018); orange, representing solvent but longer than 50 years for full funding; red, representing insolvent in more than 20 years; and dark red, representing insolvent within 20 years.

ISSUE: OTHER PENSION ISSUES – FPPA REQUEST

The Pension Review Commission (PRC) has approved a bill draft for introduction requested by the Fire and Police Pension Association (FPPA). The bill includes changes related to FPPA retirement plans and includes a $58.0 million payment from the State to additionally fund a state commitment considered fully paid in the late 1990s. Updated actuarial projections indicate a shortfall in funded status due to a decrease in the FPPA long-term rate of return from 7.5 to 7.0 percent.

SUMMARY

- Until 1996, the Statewide Death and Disability plan was funded entirely through an annual state contribution. On January 1, 1997, a final, lump-sum, $39.0 million payment was provided by the State, anticipated to be sufficient to fund the benefits of members hired prior to January 1, 1997.

- Current law states: "No transfer of any amounts shall be made after January 31, 1997, for state funding of death and disability benefits."

- The FPPA states: "Actuarial experience shows previous state funding was inadequate to fund the liability."

- The 2018 FPPA Consolidated Annual Financial Report (CAFR) identifies a funded ratio of 89.2 percent for the Statewide Death and Disability plan. This compares to the 2017 funded ratio of 104.6 percent. The FPPA now identifies a funded ratio of 72.7 percent based on its decrease in the long-term rate of return from 7.5 to 7.0 percent.

- A funded ratio of 104.6 at the end of 2017 does not suggest that the identified $58 million "shortfall" in state funding is a long-term actuarial trend. This appears to be a case of a year of poor investment return – 0.1 percent in 2018 – coupled with a reduction in the long-term rate of return.

DISCUSSION

In September, the Fire and Police Pension Association of Colorado (FPPA) requested legislation from the Pension Review Commission (PRC) for a variety of changes to retirement plans. The request includes a State payment of $58.0 million for the Statewide Death and Disability Plan. In October, the Pension Review Commission voted to draft and introduce the bill requested by the FPPA.

STATE FUNDING OF FPPA AND THE STATEWIDE DEATH AND DISABILITY PLAN

Prior to 1980, all fire and police pension plans in Colorado were administered individually by municipalities or fire protection districts that employed police officers or firefighters. There was no requirement that these local plans be funded on an actuarially sound basis, and, in the mid-1970s, it became apparent that many plans were significantly underfunded. A 1977 study by the General Assembly concluded that these plans had an unfunded liability in excess of $500 million.

In 1978 and 1979, the General Assembly enacted legislation to reform fire and police pension plan administration. First, legislation limited membership in existing local plans to firefighters and police officers who were hired prior to April 8, 1978. Between 1980 and 2013, the state contributed nearly $650 million in funding to stabilize these "old-hire" plans using insurance premium taxes that would have otherwise been credited to the General Fund. Nearly all participants in "old hire" plans have retired. Second, for police officers and firefighters hired on or after April 9, 1978 ("new-hire" plans), the General Assembly created the Statewide Defined Benefit Plan and established the Fire and Police Pension Association (FPPA) to administer the plan.

Elements of the administration of the plans are outlined in state law, including contribution rates for employers and employees, retirement age, return and transfer of contributions, the process for modifying benefits, and other factors affecting the plans. The FPPA annually brings requests for legislative changes related to the plans to the PRC (formerly the Police Officers' and Firefighters' Pension Reform Commission) for review and approval.

The Statewide Death and Disability plan is a plan for other post-employment benefits or an OPEB. An OPEB refers to other benefits outside of a primary pension plan. The Statewide Death and Disability plan provides death and disability benefits to police officers and firefighters. Until 1996, the Statewide Death and Disability plan was funded entirely through an annual state contribution. In 1996, the General Assembly determined that costs for the plan should be covered by local governments. On January 1, 1997, a final, lump-sum payment was provided by the State, designed to be sufficient to fund the benefits of members hired prior to January 1, 1997. Benefits for members hired after January 1,1997 are funded entirely through FPPA employer or member contributions.

Section 31-31-811 (3), C.R.S., includes the following (emphasis added):

> *On January 31, 1997, the state treasurer shall transfer thirty-nine million dollars for state funding of death and disability benefits pursuant to this subsection (3) for members hired before January 1, 1997, to the fund created by section 31-31-301 (1)(a) for allocation to the death and disability account in the fund.* ***No transfer of any amounts shall be made after January 31, 1997, for state funding of death and disability benefits.***

The FPPA includes the following statement in its presentation document to the PRC:

> *Additional $58 million from the State to fund shortfall attributable to members hired before January 1, 1997. The State had the responsibility to fund all benefits for members hired prior to January 1, 1997. Actuarial experience shows previous state funding was inadequate to fund the liability.*

The proposed legislation strikes subsection (3). The current and future General Assembly has the authority to change this provision as desired. However, the statutory provision includes a fairly strong statement of legislative intent regarding future payments for this purpose. In staff's opinion, it is not clear that the General Assembly, at the time of the final payment in 1997, intended to make additional payments based on future actuarial projections. In staff's opinion, it appears more likely that the General Assembly intended to forestall such future requests.

FUNDED STATUS

The 2018 FPPA Consolidated Annual Financial Report (CAFR) identifies a funded ratio of 89.2 percent for the Statewide Death and Disability plan. This compares to the 2017 funded ratio of 104.6 percent. However, keep in mind the CAFR is reporting actuarial results effective at the end of 2018, which includes a long-term rate of return of 7.5 percent. Effective January 1, 2019, the long-term rate of return was reduced to 7.0 percent. The FPPA now identifies a funded ratio of 72.7 percent.

The decrease in funded ratio from 104.6 percent in 2017 to 89.2 percent in 2018 is almost entirely attributable to the investment return of 0.1 percent in 2018. The additional decrease in funded ratio to 72.7 percent is attributable to the decrease in the long-term rate of return from 7.5 to 7.0 percent.

A funded ratio of 104.6 at the end of 2017 does not suggest that the identified $58 million "shortfall" in state funding is a long-term actuarial trend. This appears to be a case of a year of poor investment return coupled with a reduction in the long-term rate of return. Keep in mind, the long-term rate of return is not a change in the value of current assets; it's a change in future value for both assets and liabilities. Nevertheless, it is an assumption change and not a reflection of current economic or market returns or conditions.

Not considering whether the State should make a payment contrary to current law, it is staff's opinion that a request for $58 million for this purpose is premature. It appears that the Statewide Death and Disability plan was showing as more than fully funded only two years ago. The funded status for this plan must have effectively weathered the 2008 economic downturn in order to be showing full funding 10 years after. It is likely the current funded ratio will change just as substantially following a good year of investment returns.

A Statement on Pension Plan Long-term Rate of Return

It may be appropriate and even responsible for public pensions to reduce their long-term rate of return. The Committee may wish to consider whether all public pensions guided by state statute should have a standard long-term rate of return set at 6 percent to prevent the recent experience of pensions dribbling out bad news regarding funded status and a need for state action every time a decrease in the long-term rate is made. To staff it appears that pension boards are perhaps "pulling off the band-aid slowly" regarding long-term rates of return, and perhaps it should just be done and we can all stop playing out a drama for when we will finally reach bottom with this issue.

A Statement on Unfunded Liability and FPPA "Old-hire" Plans

Regarding normal cost and standard employee and employer contributions, staff has repeated a mantra that standard contributions should more closely reflect normal cost. With normal cost currently running at about 10-12 percent for state employees in PERA, staff has consistently stated that were a new PERA division started for all current state employees, that PERA division would immediately be substantially over-funded. This example illustrates the point that current employees are subsidizing past generations of PERA members and paying a tax for past PERA policy mismanagement by the State.

The construct of the FPPA "new-hire" and "old-hire" plans is exactly this concept. The General Assembly determined to require local government fire and police pension plans to begin fully funding actuarially sound pension plans for employees going forward, and chose to lump all prior plans into the "old-hire" status in order to isolate the unfunded liability problem.

It is intriguing that state policy makers, so clear-headed about local government pension policy, and so beneficent in the historical provision of state funding assistance, have chosen to manage actual state obligations by shifting state cost to current employees and cash and federal fund sources through the payroll process.

	FY 2017-18 Actual	FY 2018-19 Actual	FY 2019-20 Appropriation	FY 2020-21 Request	Request vs. Appropriation

DEPARTMENT OF THE TREASURY
Dave Young, State Treasurer

(1) ADMINISTRATION

Provides accounting, cash management, and investment services for the State as well as administrative services for the Treasury Department. Cash funds are the Unclaimed Property Trust Fund, Treasury Transactions Fee revenue, and the Charter School Financing Administrative Cash Fund.

	FY 2017-18 Actual	FY 2018-19 Actual	FY 2019-20 Appropriation	FY 2020-21 Request	Request vs. Appropriation
Personal Services	1,330,733	1,443,924	1,497,227	1,713,705 *	
FTE	15.0	16.5	17.4	18.4	
General Fund	377,777	490,968	544,271	760,749	
Cash Funds	952,956	952,956	952,956	952,956	
Federal Funds	0	0	0	0	
Health, Life, and Dental	255,011	266,230	329,198	329,215 *	
General Fund	158,832	157,800	197,510	172,743	
Cash Funds	96,179	108,430	131,688	156,472	
Reappropriated Funds	0	0	0	0	
Federal Funds	0	0	0	0	
Short-term Disability	3,432	2,996	3,662	4,246 *	
General Fund	2,146	1,904	2,312	2,683	
Cash Funds	1,286	1,092	1,350	1,563	
S.B. 04-257 Amortization Equalization Disbursement	89,845	97,772	107,692	130,741 *	
General Fund	54,627	62,183	67,988	82,657	
Cash Funds	35,218	35,589	39,704	48,084	

	FY 2017-18 Actual	FY 2018-19 Actual	FY 2019-20 Appropriation	FY 2020-21 Request	Request vs. Appropriation
S.B. 06-235 Supplemental Amortization Equalization Disbursement	89,839	97,772	107,692	130,741	*
General Fund	54,621	62,183	67,988	82,657	
Cash Funds	35,218	35,589	39,704	48,084	
PERA Direct Distribution	0	0	52,281	49,947	
General Fund	0	0	33,006	31,876	
Cash Funds	0	0	19,275	18,071	
Salary Survey	38,555	65,893	70,166	52,047	
General Fund	23,797	38,503	44,298	33,217	
Cash Funds	14,758	27,390	25,868	18,830	
Reappropriated Funds	0	0	0	0	
Federal Funds	0	0	0	0	
Workers' Compensation and Payment to Risk Management and Property Funds	4,221	5,890	10,373	9,755	
General Fund	4,221	5,890	10,373	9,755	
Operating Expenses	138,683	135,334	980,481	285,859	*
General Fund	138,683	135,334	980,481	285,859	
Information Technology Asset Maintenance	10,173	11,201	12,568	12,568	
General Fund	4,006	6,261	6,284	6,284	
Cash Funds	6,167	4,940	6,284	6,284	
Legal Services	38,541	41,210	335,039	403,865	
General Fund	19,271	20,605	67,008	72,696	
Cash Funds	19,270	20,605	268,031	331,169	

Appendix A: Numbers Pages

	FY 2017-18 Actual	FY 2018-19 Actual	FY 2019-20 Appropriation	FY 2020-21 Request	Request vs. Appropriation
Capitol Complex Leased Space	66,982	61,657	53,992	58,224	
General Fund	66,982	61,657	53,992	58,224	
Payments to OIT	65,283	58,582	77,592	82,418 *	
General Fund	62,754	56,284	38,796	41,210	
Cash Funds	2,529	2,298	38,796	41,208	
CORE Operations	172,690	188,575	257,646	442,523	
General Fund	77,710	84,859	115,941	199,135	
Cash Funds	94,980	103,716	141,705	243,388	
Charter School Facilities Financing Services	6,577	6,980	7,500	7,500 0.0	
Cash Funds	6,577	6,980	7,500	7,500	
Discretionary Fund	2,388	1,874	5,000	5,000	
General Fund	2,388	1,874	5,000	5,000	
Merit Pay	16,124	0	0	0	
General Fund	9,083	0	0	0	
Cash Funds	7,041	0	0	0	
Paid Family Leave	0	0	0	0	
General Fund	0	0	0	0	
Cash Funds	0	0	0	0	

Appendix A: Numbers Pages

	FY 2017-18 Actual	FY 2018-19 Actual	FY 2019-20 Appropriation	FY 2020-21 Request	Request vs. Appropriation
TOTAL - (1) Administration	2,329,077	2,485,890	3,908,109	3,718,354	(4.9%)
FTE	15.0	16.5	17.4	18.4	5.7%
General Fund	1,056,898	1,186,305	2,235,248	1,844,745	(17.5%)
Cash Funds	1,272,179	1,299,585	1,672,861	1,873,609	12.0%
Reappropriated Funds	0	0	0	0	0.0%
Federal Funds	0	0	0	0	0.0%

	FY 2017-18 Actual	FY 2018-19 Actual	FY 2019-20 Appropriation	FY 2020-21 Request		Request vs. Appropriation

(2) UNCLAIMED PROPERTY PROGRAM

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

	FY 2017-18 Actual	FY 2018-19 Actual	FY 2019-20 Appropriation	FY 2020-21 Request		Request vs. Appropriation
Personal Services	868,993	823,597	918,794	1,069,806	*	
FTE	13.7	13.8	15.5	17.0		
General Fund	0	0	0	0		
Cash Funds	868,993	823,597	918,794	1,069,806		
Reappropriated Funds	0	0	0	0		
Federal Funds	0	0	0	0		
Operating Expenses	318,391	367,208	336,619	491,472	*	
Cash Funds	318,391	367,208	336,619	491,472		
Promotion and Correspondence	192,487	4,227	200,000	200,000		
Cash Funds	192,487	4,227	200,000	200,000		
Leased Space	53,293	56,524	60,413	62,146		
Cash Funds	53,293	56,524	60,413	62,146		
Contract Auditor Services	1,716,373	744,352	800,000	800,000		
Cash Funds	1,716,373	744,352	800,000	800,000		
TOTAL - (2) Unclaimed Property Program	3,149,537	1,995,908	2,315,826	2,623,424		13.3%
FTE	13.7	13.8	15.5	17.0		9.7%
General Fund	0	0	0	0		0.0%
Cash Funds	3,149,537	1,995,908	2,315,826	2,623,424		13.3%
Reappropriated Funds	0	0	0	0		0.0%
Federal Funds	0	0	0	0		0.0%

	FY 2017-18 Actual	FY 2018-19 Actual	FY 2019-20 Appropriation	FY 2020-21 Request	Request vs. Appropriation

(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; allocate a portion of the Highway Users Tax Fund (HUTF) to local governments; and reimburse certain property taxes owed or paid for real and business personal property destroyed in a natural disaster. The General Fund appropriation for the Senior Citizen and Disabled Veteran Property Tax Exemption is exempt from the statutory limits on General Fund appropriations.

	FY 2017-18 Actual	FY 2018-19 Actual	FY 2019-20 Appropriation	FY 2020-21 Request	Request vs. Appropriation
Senior Citizen and Disabled Veteran Property Tax Exemption	148,000,000	123,298,376	140,789,518	162,246,350	
General Fund	148,000,000	123,298,376	140,789,518	162,246,350	
Federal Funds	0	0	0	0	
Highway Users Tax Fund - County Payments	216,547,660	252,418,099	233,269,254	230,392,465	
Cash Funds	216,547,660	252,418,099	233,269,254	230,392,465	
Highway Users Tax Fund - Municipality Payments	148,062,834	184,872,357	159,496,098	158,109,470	
Cash Funds	148,062,834	184,872,357	159,496,098	158,109,470	
Property Tax Reimbursement for Property Destroyed by Natural Cause	0	27,736	2,221,828	2,221,828	
General Fund	0	27,736	2,221,828	2,221,828	
Lease Purchase of Academic Facilities Pursuant to Section 23-19.9-102, C.R.S	17,773,025	17,685,263	17,434,250	17,433,244	
Reappropriated Funds	17,773,025	17,685,263	17,434,250	17,433,244	
Public School Fund Investment Board Pursuant to Section 22-41-102.5 C.R.S.	199,166	428,146	1,760,000	1,760,000	
Cash Funds	199,166	428,146	1,760,000	1,760,000	

	FY 2017-18 Actual	FY 2018-19 Actual	FY 2019-20 Appropriation	FY 2020-21 Request	Request vs. Appropriation
S.B. 17-267 Collateralization Lease Purchase Payments	0	37,495,170	75,500,000	75,500,000	
General Fund	0	8,998,802	25,500,000	25,500,000	
Cash Funds	0	28,496,368	50,000,000	50,000,000	
Direct Distribution for Unfunded Actuarial Accrued PERA Liability	0	225,000,000	225,000,000	225,000,000	
General Fund	0	225,000,000	168,528,901	168,528,901	
Reappropriated Funds	0	0	56,471,099	56,471,099	
TOTAL - (3) Special Purpose	530,582,685	841,225,147	855,470,948	872,663,357	2.0%
FTE	0.0	0.0	0.0	0.0	0.0%
General Fund	148,000,000	357,324,914	337,040,247	358,497,079	6.4%
Cash Funds	364,809,660	466,214,970	444,525,352	440,261,935	(1.0%)
Reappropriated Funds	17,773,025	17,685,263	73,905,349	73,904,343	0.0%
Federal Funds	0	0	0	0	0.0%
TOTAL - Department of the Treasury	536,061,299	845,706,945	861,694,883	879,005,135	2.0%
FTE	28.7	30.3	32.9	35.4	7.6%
General Fund	149,056,898	358,511,219	339,275,495	360,341,824	6.2%
Cash Funds	369,231,376	469,510,463	448,514,039	444,758,968	(0.8%)
Reappropriated Funds	17,773,025	17,685,263	73,905,349	73,904,343	0.0%
Federal Funds	0	0	0	0	0.0%

APPENDIX B
RECENT LEGISLATION AFFECTING DEPARTMENT BUDGET

2018 SESSION BILLS

S.B. 18-200 (ELIMINATE UNFUNDED LIABILITY IN PERA): Modifies the hybrid defined benefit plan administered by the Colorado Public Employees' Retirement Association (PERA) with the goal of eliminating the unfunded actuarial accrued liability of each of PERA's divisions within 30 years. The bill creates ongoing state revenue reductions; ongoing state and local expenditure increases; and ongoing PERA revenue increases. Changes to the defined benefit plan include the following:

- *DIRECT DISTRIBUTION:* On July 1, 2018, and on July 1 each year thereafter until each PERA division that receives a direct distribution is fully funded, the State Treasurer is required to issue a warrant to PERA in an amount equal to $225.0 million to be paid from the General Fund or any other fund; the Governor's Office of State Planning and Budgeting may include funding sources other than the General Fund in the Governor's annual budget request. PERA is required to allocate the direct distribution to the trust funds of each division of PERA, except for the Local Government Division, as it would an employer contribution, in a manner that is proportionate to the annual payroll of each division.
- *INCREASE IN MEMBER CONTRIBUTIONS:* On July 1, 2019, and on July 1, 2020, the monthly member contribution to PERA will increase by 0.75 percent of salary. On July 1, 2021, the monthly member contribution to PERA will increase by 0.5 percent of salary. When all increases are fully implemented, the total contribution will be 10.0 percent of salary each month for PERA members who are not state troopers and 12.0 percent each month for PERA members who are state troopers.
- *INCREASE IN EMPLOYER CONTRIBUTIONS:* On July 1, 2019, the monthly employer contribution to PERA on behalf of members will increase by 0.25 percent of salary; except that the increase does not apply to employers in the Local Government Division. The total increased contribution will be equal to 10.4 percent of salary each month for most PERA employers, 13.1 percent each month for PERA employers who employ state troopers, and 13.91 percent for PERA employers in the Judicial Division.
- *COST OF LIVING ADJUSTMENT (COLA) FOR ALL RETIREES, MEMBERS, AND INACTIVE MEMBERS:* For the years 2018 and 2019, the COLA is reduced from 2.0 percent to 0.0 percent. For each year thereafter, the COLA is 1.5 percent, unless it is adjusted pursuant to the automatic adjustment provision. In addition, benefit recipients whose effective date of retirement is on or after January 1, 2011, and who have not received a COLA on or before May 1, 2018, receive benefits for at least a 36-month period following retirement before receiving a COLA adjustment.
- *AUTOMATIC CONTRIBUTION, ANNUAL INCREASE, AND DIRECT DISTRIBUTION AMOUNT CHANGES:* When the blended total contribution (BTC) amount is less than 98.0 percent of the blended total actuarially required contribution (BRTARC), provides automatic yearly adjustments to the following components so the fund remains on a path to pay off the unfunded liability within 30 years:
    - Up to 0.5 percent per year and up to 2.0 percent total on the employer contribution rate;
    - Up to 0.5 percent per year and up to 2.0 percent total on the member contribution rate;

    - Up to 0.25 percent per year and 0.5 percent total on the annual increase percentage (also known as the cost-of-living adjustment or COLA) for retirement benefits; and
    - Up to $20.0 million per year, but not to exceed $225.0 million, for the direct distribution to PERA.

  The automatic adjustment provision similarly requires decrease adjustments when the BTC amount is greater than or equal to 110.0 percent of the BTARC. The BTC represents the total contribution or its equivalent provided by the automatic adjustment components. The BTARC represents the total actuarial required contribution or ARC, which represents a full annual payment to enable the unfunded liability to be paid within 30 years, as provided by the automatic adjustment components.

- *HIGHEST AVERAGE SALARY (HAS):* For PERA members not in the Judicial Division hired on or after January 1, 2020, or who do not have 5 years of service credit as of January 1, 2020, the HAS calculation is modified to be based on an average of the highest annual salaries associated with 5 periods of 12 consecutive months of service with a base year, rather than 3 periods of 12 consecutive months of services with a base year. For Judicial Division members the HAS calculation is modified to be based on an average of the highest annual salaries associated with 3 periods of 12 consecutive months of service with a base year, rather than 12 consecutive months of service.
- *SERVICE RETIREMENT ELIGIBILITY FOR NEW MEMBERS:* For PERA members hired on or after January 1, 2020, the age and service requirements for full-service retirement benefits for most divisions is increased to age 64 with a minimum of 30 years of service credit, or for state troopers age 55 with a minimum of 25 years of service credit or any age with a minimum of 35 years of service credit. For PERA members who begin employment on or after January 1, 2020, a reduced service retirement benefit increase to 55 years with a minimum of 25 years of service credit; except that, for state troopers, the requirements are increased to 55 years with a minimum of 20 years of service credit.
- *DEFINITION OF SALARY:* For PERA members hired on or afer July 1, 2019, amounts deducted from pay pursuant to a cafeteria plan or a qualified transportation plan are included in the definition of salary. For all PERA members, unused sick leave converted to cash payments is included in the definition of salary and insurance premiums paid by employers are not included in the definition of salary.
- *DEFINITION OF STATE TROOPER:* The definition of state trooper is expanded to include a county sheriff, undersheriff, deputy sheriff, noncertified deputy sheriff, or detention officer hired by a local government division employer, and a corrections officer classified as I through IV hired by a state division employer, on or after January 1, 2020.
- *SENSITIVITY ANALYSIS:* The PERA Board is required to perform an annual sensitivity analysis to determine when model assumptions are meeting targets and achieving sustainability. The Board is required to deliver an annual report detailing the findings of the analysis to the Office of the Governor, the Joint Budget Committee, the Legislative Audit Committee, and the Finance Committees of the Senate and the House of Representatives.
- *TERMINATION OF AFFILIATION:* An employer in the Local Government Division that ceases operations or ceases to participate in PERA for any reason is deemed to have terminated its affiliation with PERA. Any such employer is required to fully fund its share of the unfunded liability of the defined benefit plan and its share of the unfunded liability of the Health Care Trust Fund. Such members may elect to have their member contributions credited to an alternative pension plan or refunded. In the absence of such election, the member contributions will remain with PERA.

Changes to the defined contribution plan include the following:

- *ELIGIBILITY TO PARTICIPATE IN DEFINED CONTRIBUTION PLAN:* Beginning January 1, 2019, the defined contribution plan is expanded to include members of the Local Government Division and State Division members in the state personnel system employed by a state college or university. A new member's participant account will receive the same employer contribution as received by current members of the defined contribution plan.
- *DEFINED CONTRIBUTION SUPPLEMENT:* Beginning January 1, 2021, employer contribution rates will be adjusted to include a defined contribution supplement. The defined contribution supplement for each division will be the employer contribution amount paid to defined contribution plan participant accounts that would have otherwise gone to the defined benefit trusts to pay down the unfunded liability, plus any defined benefit investment earnings thereon, expressed as a percentage of salary on which employer contributions have been made. The employer contribution amounts only include contributions made on behalf of eligible employees who commence employment on or after January 1, 2019.

In addition to the changes to the defined benefit and defined contribution plans administered by PERA, the Police Officers' and Firefighters' Pension Reform Commission is changed to the Pension Review Commission. The number of legislators on the Commission and the manner in which they are appointed is modified beginning in January 2019, and the Commission has oversight over both the Fire and Police Pension Association and PERA. A subcommittee of the Pension Review Commission consisting of legislative and non-legislative members is also created to study specified issues and to make recommendations to the commission.

H.B. 18-1322 (LONG BILL): General appropriations act for FY 2018-19.

2019 SESSION BILLS

S.B. 19-126 (SUPPLEMENTAL BILL): Modifies FY 2018-19 appropriations to the Department.

S.B. 19-173 (COLORADO SECURE SAVINGS PLAN BOARD): Creates the Colorado Secure Savings Board in the Office of the State Treasurer to study the feasibility of creating a retirement savings plan for private sector employees. The board consists of the State Treasurer and eight additional members appointed by the Governor. The board is required to conduct the following four analyses and prepare a final report to the Governor and the General Assembly on its findings by February 28, 2020:

- a detailed market and financial analysis to determine the financial feasibility and effectiveness of creating the Colorado Secure Savings Plan in the form of an automatic enrollment payroll deduction to an individual retirement account;
- a detailed market and financial analysis to determine the financial feasibility and effectiveness of a small business marketplace plan to increase the number of businesses in the state that offer retirement savings plans for their employees, to be administered by the Department of Labor and Employment;
- an analysis of the effects that greater financial education among Colorado residents would have on increasing their retirement savings; and

- an analysis of the effects that not increasing Coloradans' retirement savings would have on current and future state and local government expenditures.

Appropriates $800,000 General Fund to the Department for FY 2019-20.

S.B. 19-207 (LONG BILL): General appropriations act for FY 2019-20.

S.B. 19-261 (UNCLAIMED PROPERTY TRUST FUND TRANSFER): On July 1, 2019, transfers $30.0 million from the Unclaimed Property Trust Fund to the General Fund.

H.B. 19-1217 (PERA LOCAL GOVERNMENT DIVISION MEMBER CONTRIBUTION RATES): Eliminates increases in the employee contribution for members of the Public Employees' Retirement Association's (PERA's) local government division that were scheduled to occur on July 1 of 2019, 2020, and 2021. The act will decrease PERA revenue and increase State income tax revenue beginning in FY 2019-20.

APPENDIX C
FOOTNOTES AND INFORMATION REQUESTS

UPDATE ON LONG BILL FOOTNOTES

There were no Department footnotes from FY 2019-20.

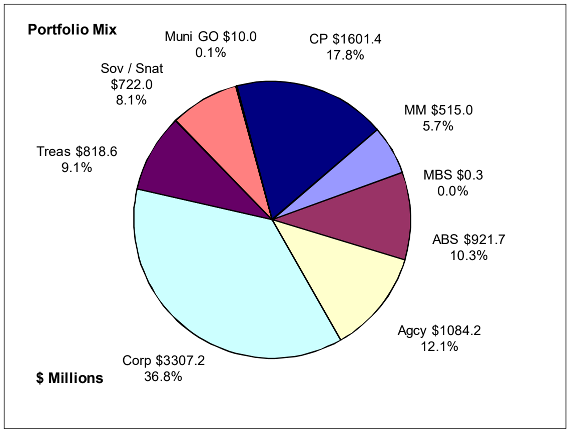
UPDATE ON REQUESTS FOR INFORMATION

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.

   COMMENT: The State Treasurer included the requested report as part of the State Treasurer's annual budget request. A copy of the report follows.

Colorado Treasury Pool

June 30, 2019



Portfolio Value

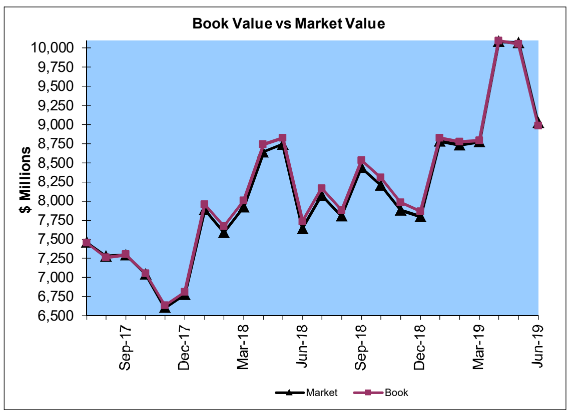
Market Value	$9,022.9	Million
Book Value	$8,980.4	Million

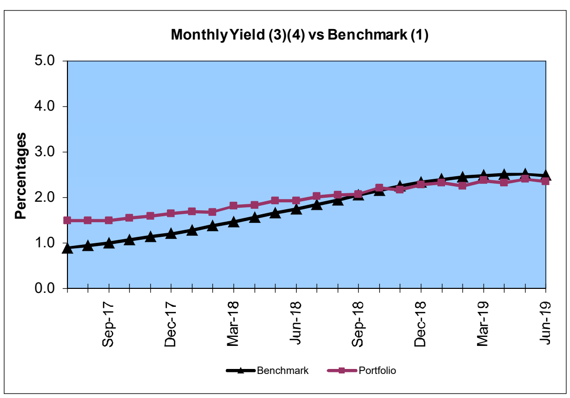
Yield and Average Maturity

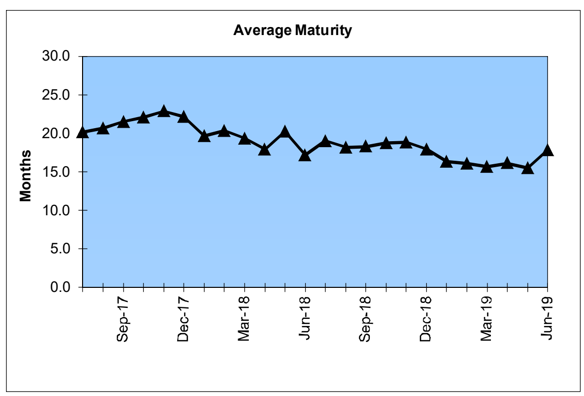
Portfolio Book Yield	2.24%	
Portfolio Average Maturity	18	Months

Portfolio Quality

	A1 / P1	AAA	AA	A	BBB	BB	B	Other	Portfolio Percent
Asset Backed		100.0%							10.3%
Corporates		1.7%	15.8%	72.2%	10.3%				36.8%
Mortgage Securities			100.0%						0.0%
Commercial Paper	100.0%								17.8%
Treasuries			100.0%						9.1%
Federal Agencies			100.0%						12.1%
Sov / Snat		38.8%	61.2%						8.1%
Muni GOs			100.0%						0.1%
Certificates of Deposit									
Money Market Funds								100.0%	5.7%
Total Portfolio	17.8%	14.0%	32.1%	26.5%	3.8%			5.8%	100.0%



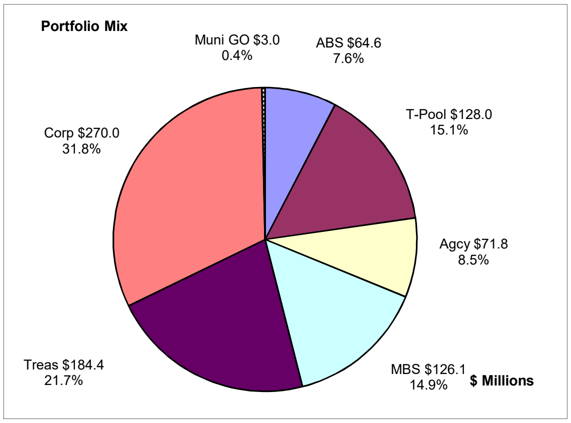




	$ Millions Average Portfolio	Realized Income	Book Yield	Performance Benchmarks (2)
FY '19 YTD	8,804.2	197.4 [5]	2.2%	2.5%
Last 12 months	8,804.2	197.4	2.2%	2.5%
FY '18	7,744.9	130.5 [4]	1.7%	1.8%
FY '17	7,635.0	87.8 [3]	1.2%	0.8%
FY '16	7,972.4	77.0	1.0%	0.5%
FY '15	7,661.9	79.2	1.0%	0.2%
FY '14	7,842.0	77.4	1.0%	0.1%
Avg FY '14-'18	7,771.3	90.4	1.2%	0.7%

(1) 12 month moving average of the constant maturity yield on the 1 year Treasury note
(2) 12 month moving average of the constant maturity yield on the 1 year Treasury note at end of period
(3) Excludes $80K in net gains for FYTD 2017
(4) Excludes $14K in net losses for FYTD 2018
(5) Excludes $7K in net gains for FYTD 2019

Colorado Public School Permanent Fund *
June 30, 2019

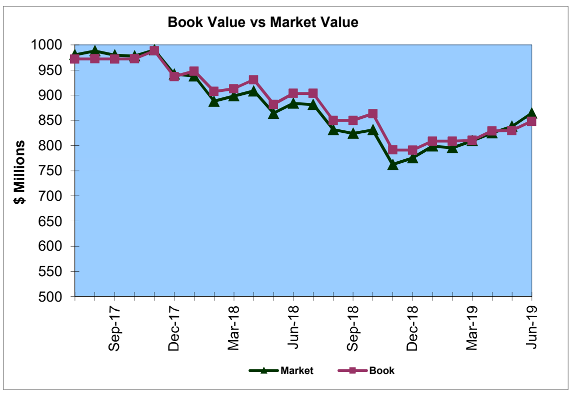


Portfolio Value

Market Value	$864.5	Million
Book Value *	$847.9	Million

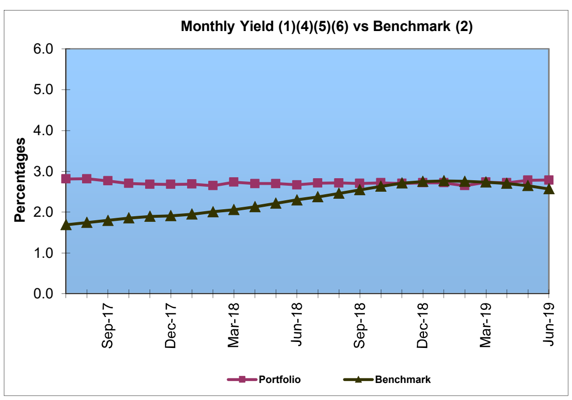
Yield and Average Maturity

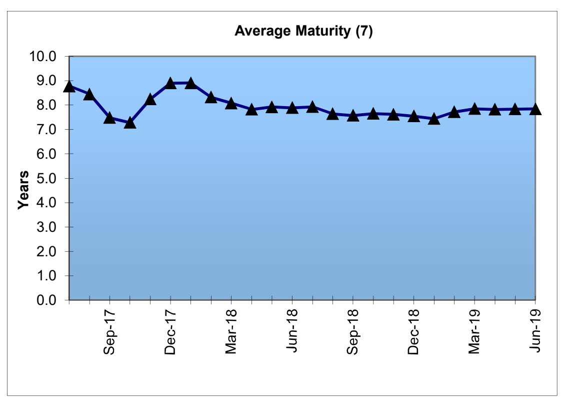
Portfolio Book Yield	2.65%	
Portfolio Average Maturity	7.8	Yrs



Portfolio Quality

	A1 / P1	AAA	AA	A	BBB	BB	B	Other	Portfolio Percent
Asset Backed		100.0%							7.6%
Corporates		6.7%	32.9%	31.4%	29.0%				31.8%
Mortgage Securities			99.8%					0.2%	14.9%
Treasuries			100.0%						21.7%
Federal Agencies			100.0%						8.5%
Muni GOs			100.0%						0.4%
T-Pool Combined	17.8%	14.0%	32.1%	26.5%	3.8%	0.0%	0.0%	5.8%	15.1%
Total Portfolio	2.7%	11.9%	60.7%	14.0%	9.8%			0.9%	100.0%

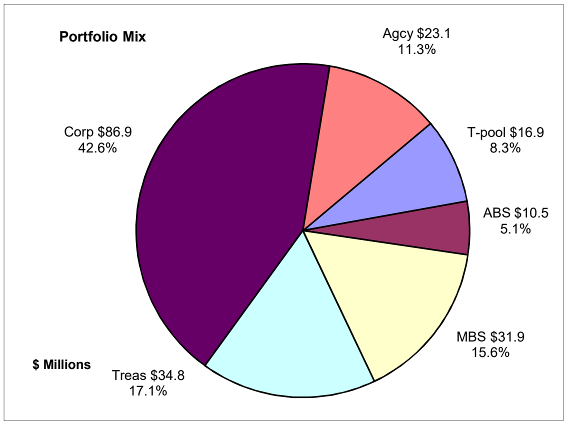




	$ Millions Average Portfolio	Realized Income	Book Yield	Performance Benchmarks (3)
FY '19 YTD	829.8	22.0	2.6%	2.6%
Last 12 months	845.5	22.1	2.6%	2.6%
FY '18	938.0	23.4 [5]	2.5%	2.3%
FY '17	902.4	21.6 [4]	2.4%	1.6%
FY '16	835.1	21.7	2.6%	1.4%
FY '15	739.8	22.1	3.0%	1.6%
FY '14	668.8	21.6	3.2%	1.6%
Avg FY '14-'18	816.8	22.1	2.7%	1.7%

* Represents bond portion only; $276.8 million in investments managed externally are excluded
(1) Does not include State Treasury Pool cash balances in calculation.
(2) Latest 12 month moving average of the constant maturity yield on the 5 year Treasury note
(3) Latest 12 month moving average of the constant maturity yield on the 5 year Treasury note at end of period
(4) Excludes $4.15 million in net gains for FYTD 2017
(5) Excludes $1K in net gains for FYTD 2018
(6) Excludes $47K in net gains for FYTD 2019
(7) Does not include State Treasury Pool cash balances in calculation as of April 2017

Unclaimed Property Tourism Fund
June 30, 2019



Portfolio Value

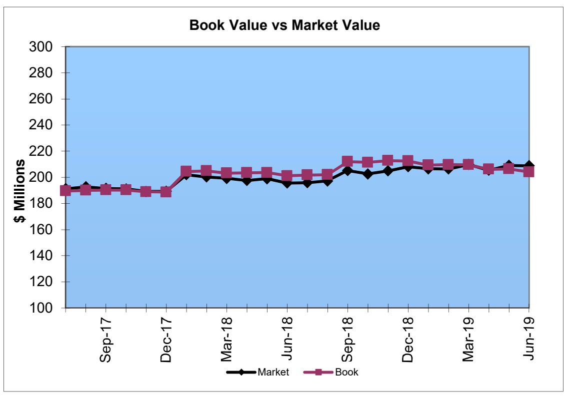
Market Value	$208.8	Million
Book Value	$204.1	Million

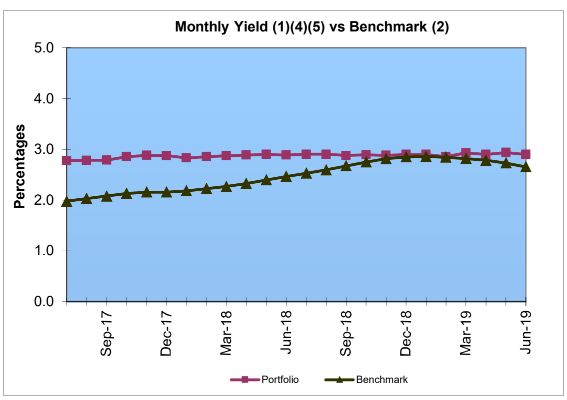
Yield and Average Maturity

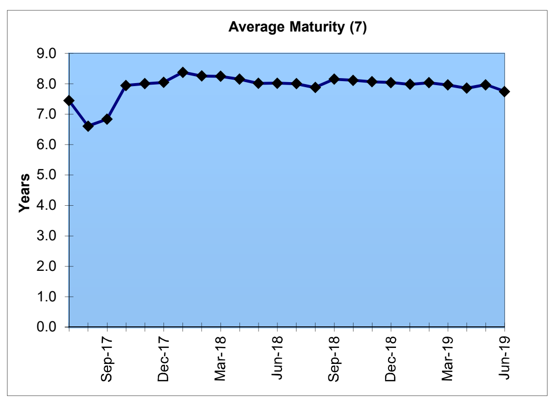
Portfolio Book Yield	2.84%	
Portfolio Average Maturity	7.7	Yrs

Portfolio Quality

	A1 / P1	AAA	AA	A	BBB	BB	B	Other	Portfolio Percent
Asset Backed		100.0%							5.1%
Corporates		3.5%	18.6%	67.5%	10.4%				42.6%
Federal Agencies			100.0%						11.3%
Mortgage Securities			100.0%						15.6%
Treasuries			100.0%						17.1%
T-Pool Combined	17.8%	14.0%	32.1%	26.5%	3.8%	0.0%	0.0%	5.8%	8.3%
Total Portfolio	1.5%	7.8%	54.6%	30.9%	4.7%			0.5%	100.0%







	$ Millions Average Portfolio	Realized Income	Book Yield	Performance Benchmarks (3)
FY '19 YTD	208.3	5.9 [6]	2.8%	2.7%
Last 12 months	208.3	5.9	2.8%	2.7%
FY '18	197.9	5.4 [5]	2.7%	2.5%
FY '17	192.1	4.9 [4]	2.6%	1.9%
FY '16	169.5	4.6	2.7%	1.8%
FY '15	153.7	4.6	3.0%	2.0%
FY '14	136.9	4.3	3.1%	2.2%
Avg FY '14-'18	170.0	4.7	2.8%	2.1%

(1) Does not include State Treasury Pool cash balances in calculation.
(2) 12 month moving average of the constant maturity yield on the 7 year Treasury note
(3) 12 month moving average of the constant maturity yield on the 7 year Treasury note at end of period
(4) Excludes $353K in net gains for FYTD 2017
(5) Excludes $39K in net gains for FYTD 2018
(6) Excludes $107K in net gains for FYTD 2019
(7) Does not include State Treasury Pool cash balances in calculation as of April 2017

APPENDIX D
DEPARTMENT ANNUAL PERFORMANCE REPORT

Pursuant to Section 2-7-205 (1)(a)(I), C.R.S., by November 1 of each year, the Department of the Treasury is required to publish an **Annual Performance Report** for the *previous fiscal year* by November 1 of each year. This report is to include a summary of the Department's performance plan and most recent performance evaluation for the designated fiscal year. In addition, pursuant to Section 2-7-204 (3)(a)(I), C.R.S., the Department is required to develop a **Performance Plan** and submit the plan for the *current fiscal year* to the Joint Budget Committee and appropriate Joint Committee of Reference by July 1 of each year.

The FY 2018-19 Annual Performance Report and FY 2019-20 Performance Plan for the Department of the Treasury are unavailable as of the date of this briefing. The Committee may wish to request an explanation as to why these documents were not available.