

**DEPARTMENT OF THE TREASURY  
FY 2012-13 JOINT BUDGET COMMITTEE HEARING AGENDA**

**Friday, November 18, 2011  
9:30 am – 11:00 am**

**9:30-10:00 INTRODUCTIONS AND OPENING COMMENTS**

**QUESTIONS COMMON TO ALL DEPARTMENTS**

**10:00-10:10 PERFORMANCE-BASED GOALS AND BUDGET REQUEST**

1. Please describe the process the department used to develop its strategic plan.

**In general, there are two components with respect to the development of Treasury's strategic plan:**

**First, the office has certain statutory duties as far as organization. These duties generally include the cash management and investment of State funds, and oversight of the Unclaimed Property program. Based on these duties, the Treasurer looks toward the ongoing mission of maximizing dollars available for State use. Most important is investment income, which is earned through prompt deposit and investment of State funds. The Treasurer continues to look to expand its abilities to do thorough research on appropriate investments through advances in technology. The Treasurer maintains his focus on reuniting owners with their unclaimed property, and continues to look for new methods to find and identify owners.**

**Second, the Treasury has identified certain additional objectives based on the Treasurer's fiduciary responsibilities and his interest in being a good steward of State finances:**

- **Debt management consolidation:** The Treasurer's Office has increased its concern for the current decentralized nature relating to management of the State's debt, certificates of participation, and other financial obligations. Especially with the current state of the economy and ratings agencies' increased concern for state-managed financial obligations, the Treasurer has engaged with the Capital Development Committee to develop and propose legislation to manage the State's finances in a more organized fashion.
- **Local state investment statutes:** This will be addressed in question #7 below as well, but the Treasurer has been working with local city, county and school district treasurers with respect to local government investment statutes, which currently require investments to be have at least two AAA ratings. The recent

**downgrade of the Federal government has left local governments exposed, and the Treasurer's Office is looking at legislation that can provide immediate relief to state and local government statutes.**

2. Please explain why the department has audit recommendations that have not been fully implemented after extended periods of time. What are the obstacles the department has faced in implementing recommendations? How does it plan to address outstanding audit findings? If applicable, please focus on those financial audit findings classified as "material weakness" or "significant deficiency".

**The Treasury had one audit recommendation that had not been fully implemented as of June 30, 2010. This recommendation involved a program jointly administered by the Treasury and the Department of Local Affairs. The agencies implemented a five-step plan to address all audit concerns as of June 30, 2010. One of the steps concerned federal disbursements received by the Treasury for the benefit of local governments and transferred to them in late December or early January of each fiscal year. Because of the timing of the payments, implementation of this portion was not audited until the fiscal year ending June 30, 2011, currently in process.**

#### **QUESTIONS FOR THE DEPARTMENT OF THE TREASURY**

##### **10:10-10:20 DEPARTMENT OVERVIEW**

3. Does the Treasurer have a statutory or constitutional responsibility to intervene in a school district's financial affairs when that district is experiencing financial difficulties?

**No, the Treasurer does not have a specific statutory or constitutional responsibility to intervene in a school district's financial affairs. However, C.R.S. 24-22-107 (6) states that "The state treasurer shall be the state's cash management officer responsible for the efficient management of all state cash and shall perform the duties necessary to carry out such function, in consultation with the governor." Therefore, if a school district or other similar non-state governmental entity is participating in a State funded program (such as the Interest-Free School Loan Program), the Treasurer believes it is his fiduciary responsibility to intercede when that entity is experiencing financial difficulties.**

4. What is the Treasurer's position on whether or not the Department should manage the Old Age Pension Plan that is currently situated in the Department of Human Services? Why or why not?

**The Treasurer does not believe that his department is best suited to manage the Old Age Pension Program. The management of such a program would be quite different from any other program currently administered by Treasury.**

**Although Treasury’s budget includes a line item for the Senior Citizen and Disabled Veteran Property Tax Exemption, the program is administered by the Department of Local Affairs. Treasury is simply the State’s paying agent, sending an annual payment to each county that has participating property holders.**

**A cash assistance program with an age-related eligibility requirement that is administered by Treasury, the Deferred Property Tax Program, is a “loan” program rather than a “benefit” program. Property holders file an application with their county treasurer; and, if the county treasurer determines them to be eligible, the applications are sent to Treasury. Treasury reviews the applications for completeness and, upon verification, sends an annual payment to each county that has participating property holders. From Treasury’s perspective, these loans are State investments; therefore, the outstanding principal balances are tracked and interest due is calculated annually.**

5. Has the Treasury looked at using local banks rather than large international banks?

**A full Request For Proposal (RFP) for banking services, in compliance with State Procurement rules, is issued every five years. The last competitively bid RFP was issued in June 2007 and was open to all banks. At that time, seven banks responded; none of which could be considered a community bank.**

**Each of the banks awarded a contract has a large local presence and multiple branches across the State. Chase Bank has the largest State contract. Chase has 123 branches in Colorado, employs 2,038 Colorado citizens and contributed nearly \$1.3 million to Colorado charities in 2010. Wells Fargo has 171 branches in the Colorado, employs 8,817 Colorado citizens and contributed nearly \$4.1 million to Colorado nonprofits and schools in 2010.**

**Banking services today frequently require large dollar investments in products and technology. Typically, the larger banks choose to make such investments and then market the resulting products to other banks (frequently smaller community banks), as well as government and corporate clients. Since smaller banks must buy such services from larger banks, it is difficult for them to price their services competitively to end users.**

**10:20-10:30 STATE AUDITOR’S OFFICE PERFORMANCE EVALUATION OF THE TREASURY INVESTMENT PROGRAM**

6. Please discuss the general process of selecting investment benchmarks for each of the funds that the Department manages.

**Benchmarks are selected on the basis of the public purpose of each fund, the anticipated duration, and a corresponding asset allocation that can produce the highest yield within the constraints of legality, safety, liquidity, and yield.**

**For example, the Public School Permanent Fund (PSPF) is created in Constitution, and is a fund inviolate, meaning that it must preserve and grow principal. Losses in the fund must be recovered within 3 years or an appropriation must be made to restore the lost principal. To construct a yield benchmark, we first establish a suitable average life within the fund's constraints. A five-year average maturity is deemed appropriate and is matched against the 12 month moving average of the constant maturity yield on the 5-year Treasury note set by the Federal Reserve. Next we determine an asset allocation that satisfies the liquidity requirements of the PSPF. Because of the inability to take non-recoverable losses, we structured a more conservative model, but have a broader diversity of securities to invest in (treasuries, agencies, corporate bonds, asset-backed securities & mortgage-backed securities).**

**The Treasury Pool's mission is to provide liquidity to the State and pay all of the State's bills. It is split into 2 portfolios: money markets, and intermediate term investments. History suggests that the combination of the short-term & the intermediate-term portfolios ideally should target about a 1 year average life. As such, it is benchmarked against the 12 month moving average of the constant maturity yield on the 1-year Treasury note set by the Federal Reserve. Since the Treasury Pool is all about providing liquidity to the State, the asset allocation is highly conservative. There is a 5-year maximum maturity on all securities, with an emphasis on treasuries & agencies.**

7. Please discuss how the downgrade of US Government debt affects the Treasury Investment Program. Does the State have the same problem as the counties in that they can only invest in AAA bonds, but cannot invest in foreign bonds, and this may be impossible because US bonds have been downgraded?

**State and local investment statutes do differ: Local investment statutes are much more stringent and conservative. As mentioned in question #2 above, local government investment statutes require at least two AAA ratings for most of their investment portfolio. This has created some immediate concern after Standard and Poor's downgrade of the Federal Government, not to mention the drastic decrease of other AAA-rated alternatives in current investment markets.**

**In general, the State's permissible investments are broader: There are no statutory rating requirements, but the Treasurer's office is governed by an investment policy that is narrower, requiring any investment to be at investment grade. Policies differ by portfolio; but, in general, no portfolio has a AAA rating requirement.**

**Additionally, the State is currently not allowed to invest in foreign securities. A recent audit by the Legislative Audit Committee recommended the allowance of investments in foreign securities, provided that the investments are in US dollar denominations to avoid foreign currency risk. The Treasurer's Office is exploring how such recommended legislation would be structured.**

8. How much assumed risk can the Treasurer take on statutorily when investing?

**C.R.S. 24-36-113 and C.R.S. 24-75-601 et seq control the overall investing decisions of the Treasurer. The statutes limit investments to United States domestic fixed income securities and directs the Treasurer to use prudence and care to preserve the principal and to secure the maximum rate of interest consistent with safety and liquidity. The Treasurer is further directed to formulate investment policies regarding liquidity, maturity, and diversification appropriate to each fund or pool of funds in his custody and available for investment. He has delegated the administration of policy and investment authority to the investment officers of the Treasury. The standard of prudence applied to the investment officers is the Uniform Prudent Investor Act (C.R.S. 15-1.1-102).**

**10:30-10:40 TRANSFERS FROM THE UNCLAIMED PROPERTY TRUST FUND TO COVERCOLORADO**

9. What are the statutory restrictions on what funds in the Unclaimed Property Trust Fund can be used for when the transfers to CoverColorado end in 2014?

**C.R.S. 38-13-116.5 and C.R.S. 10-8-530 currently state that an amount of the principal and interest in the Unclaimed Property Trust Fund equal to 25% of the total funding for their program shall be transmitted to CoverColorado, minus:**

- a) The claims paid pursuant to the Unclaimed Property Act for each fiscal year;**
- b) The reserve amount necessary to pay anticipated claims; and**
- c) Publications and correspondence expenses.**

**Beyond that, C.R.S. 38-13-116.5 only states that the principal of the trust fund shall be appropriated for the costs of administering the Unclaimed Property Act, including the payment of contract auditor services.**

**However, at June 30, 2010 and in cooperation with the State Controller's Office, Treasury changed the methodology for calculating "the reserve amount necessary to pay anticipated claims" as listed above. At June 30, 2010, that reserve amount was calculated to be \$81 million; but, due to the trust fund's responsibility to CoverColorado and the fund's reduced cash balance, Treasury only recorded a portion of the reserve (\$66 million). All parties agreed then that, over a five year period, Treasury would ladder the reserve amount up to the full estimated reserve at June 30, 2015 of approximately \$100 million.**

10. Is there a limit to how much money can be accumulated in the fund?

**No, there is no limit on the money accumulated in the Unclaimed Property Trust Fund. All moneys collected through the Unclaimed Property Act are payable to the**

**owners/heirs in perpetuity; and at June 30, 2011, that full liability was more than \$450 million.**

**10:40-10:55 COVERCOLORADO (SUZANNE BRAGG-GAMBLE, EXECUTIVE DIRECTOR, COVERCOLORADO)**

11. Please explain how health care reform is taking care of people enrolled in or eligible to enroll in CoverColorado?
12. Please explain how CoverColorado participants can transition to Getting US Covered and how they will transition to the insurance exchanges in 2014.
13. What happens to any funds left over at CoverColorado when the program winds down in 2014?

**ADDENDUM: OTHER QUESTIONS FOR WHICH SOLELY WRITTEN RESPONSES ARE REQUESTED**

1. What is the Department's entire Information Technology (IT) budget for FY 2011-12 and FY 2012-13? Does the Office of Information Technology (OIT) manage the Department's entire IT budget? If not, what IT activities is the Department managing separate from OIT and what percentage is that of the entire IT budget for the Department for FY 2011-12 and FY 2012-13? Of the IT activities the Department still manages outside of OIT, what could be moved to OIT?

**Treasury has two budgeted line items relating to information technology: Information Technology (IT) Asset Maintenance and Purchase of Services from Computer Center (GGCC).**

**For both FY 2011-12 and FY 2012-13, the IT Asset Maintenance allocation/request is \$12,568; and that amount is split evenly between Administration and Unclaimed Property. Treasury utilizes this allocation to replace broken or outdated office equipment. Although not strictly managed by OIT, Treasury does seek approval from OIT prior to making large purchases.**

**The GGCC allocation is a common policy line item and, therefore, managed by OIT. The FY 2011-12 allocation is \$132,062; and the FY 2012-13 request is for \$11,968.**

2. What hardware/software systems, if any, is the Department purchasing independently of the Office of Information Technology (OIT)? If the Department is making such purchases, explain why these purchases are being made outside of OIT?

**Treasury's Unclaimed Property Division utilizes database software provided by Wagers & Associates that is purchased independently of OIT (see decision item #1). Within the State, this software that is budgeted as part of Unclaimed Property's Operating Expense line item is unique to Treasury.**

**Treasury's Investment Division utilizes three online tools that are purchased independently of OIT: Bloomberg, BondEdge, and Standard & Poor's CreditWire (see decision item #2). Within the State, these tools that are budgeted as part of Administration's Operating Expense line item are unique to Treasury.**

3. Why did the Treasurer exceed the Treasurer's Investment Policy Statement for the investment of the Unclaimed Property Tourism Promotion Trust Fund as identified in the June 2011 Performance Audit of the Treasury Investment Program?

**In the June 2011 Performance Audit of the Treasury Investment Program, Buck Global Investment Advisors noted that from the end of calendar year 2009 through calendar year 2010, the allocation of the Unclaimed Property Tourism Promotion Trust Fund (UPTF) to the Treasury Pool exceeded the 30% limit defined in Treasury's Investment Policy.**

**Due to suspending the sale of securities for two years because of poor market conditions, the revenue from the sale of securities in the fall of 2009 was unusually high and raised the balance in the UPTF from \$60 million at September 30, 2009 to \$97 million at December 31, 2009. At the time, the Treasury Officers perceived inadequate buying opportunities for non-Treasury Pool investments and, instead, invested the inflows of cash into the Treasury Pool.**