HB08-1002

Colorado Legislative Council Staff Fiscal Note

STATE
REVISED FISCAL IMPACT

(replaces fiscal note dated January 19, 2008)

Drafting Number:	LLS 08-0502	**Date:**	March 5, 2008
Prime Sponsor(s):	Rep. King Sen. Bacon	**Bill Status:**	Senate Education
		Fiscal Analyst:	Josh Abram (303-866-3561)

TITLE: CONCERNING THE AUTHORITY OF CERTAIN INSTITUTIONS OF HIGHER EDUCATION TO INVEST MONEYS.

Fiscal Impact Summary	FY 2008-2009	FY 2009-2010
State Revenue Cash Funds	Cannot be Quantified	
State Expenditures	$0	$0
FTE Position Change	0.0 FTE	0.0 FTE
Effective Date: The bill is effective 90 days following final adjournment of the General Assembly unless a referendum petition is filed (August 6, 2008, if final adjournment is May 7, 2008).		
Appropriation Summary for FY 2008-2009: None required		
Local Government Impact: None		

* *Revenue changes will depend upon a number of factors, including the portfolio share chosen for equity investment and the performance of the equities chosen.*

Summary of Legislation

This bill, **including amendments adopted in the House of Representatives**, grants investment authority and fiduciary responsibility to the board of trustees at Mesa State College and to the board of governors of the Colorado State University. The bill changes current law to allow the secretary and treasurer of each board to be elected from among the board membership, and requires that if the boards choose to exercise investment authority, they must create an investment advisory committee and a written investment policy.

Each year, the boards will be required to present financial statements detailing investment earnings to the State Treasurer, the State Auditor, and the Joint Budget Committee. The bill permits the boards to invest in consolidated investment funds[1] and to hold stock in the name of a third-party nominee. The bill precludes the boards from requesting any General Fund appropriation to replace any loss incurred from investment activities.

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1 A consolidated investment fund is a way of investing money with other investors to participate in a wider range of investments than would be feasible for an individual investor. These are sometimes referred to as managed funds.

Background

Under current law, funds collected by Mesa State College and Colorado State University are held and invested by the State Treasurer. Accounts held in the name of the institutions are credited for income earned from the institutions's share of the treasury's investment activities. All state institutions of higher education have similar arrangements with the exception of the University of Colorado, which has authority to invest a portion of its cash in equities.

State Revenue

Investment Return for Mesa State College and Colorado State University. Predicting the net change in revenue to these schools by allowing the investment of a portion of their portfolio in equities is difficult to do, and will depend upon a number of factors, including the portfolio share chosen for equity investment and the performance of the equities chosen.

One way to gain perspective is to look at historical performance measures. Typically, the return on fixed-income securities[2] are measured based on yield. The cash yield from the state treasury pool (TPOOL) over the last four years has ranged from 3.2 percent in FY 2004-05 to 4.7 percent in FY 2007-08. Yield for FY 2008-09 is anticipated to be 4.5 percent

The bill allows the boards to choose investment options not typically afforded the State Treasurer's office. Thus, the revenue impact for the two institutions cannot be quantified. It should be noted that the higher rates of return available through equities are typically accompanied by higher levels of risk. Mesa State College and Colorado State University anticipate an indeterminate amount of additional investment income as a result of the legislation.

State Expenditures

State Treasury. The General Fund regularly experiences short-term cash flow deficits, and the Treasury issues debt to meet those deficits. The Treasury is also statutorily authorized to borrow from other cash funds on deposit with the Treasury as necessary to lessen the amount borrowed, and all higher education funds are borrowable. If the schools remove a portion of their funds from the Treasury, those funds would no longer be available, and the Treasury may be forced to borrow more money from other sources to meet cash flow deficits.

State Appropriations

No new appropriations will be required in FY 2008-09.

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[2] Fixed-income securities are investments that provide a return in the form of fixed periodic payments and the eventual return of principal at maturity. For example, a 5% fixed-rate government bond invested with $1000 results in an annual $50 payment until maturity when the investor would receive the $1,000 back. Generally, these types of assets offer a lower return on investment because they guarantee income.

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Departments Contacted

Higher Education Treasury