Attachment G

COLORADO PERA

COLORADO Gov. John Hickenlooper

SECURE|PERA COLORADO COALITION FOR RETIREMENT SECURITY

Securitizing Contributions for Retirement Earnings (SCORE) Act

OVERVIEW

Bonds are a very common financial instrument for all levels of government in Colorado and across the country. They are used for a variety of purposes and there are many types of bond financing structures that are intended to serve different financial goals.

In Colorado, representatives from the Governor's Office, the Treasurer's Office, the Attorney General's Office, the Colorado Coalition for Retirement Security, and Colorado PERA have spent almost a year in a collaborative effort studying potential bond proposals that could be used to take advantage of the spread between the low interest rates required to pay for the bonds and the potential for higher long-term returns received from investing the proceeds. Under the newly introduced SCORE Act, current employer and employee contributions into PERA would be used to pay for the bonds issued at a lower fixed interest rate. All income and the contributions above the amount needed to repay the bonds would flow to the PERA trust funds to be applied to continue shrinking the unfunded portion of the pension liabilities at no new cost to taxpayers, the state, employers, employees, or retirees.

GOALS OF SCORE ACT

» Strengthen Senate Bill 10-001 (SB 1)

- Issuance of the bonds would improve PERA's funded status and could reduce the amortization period on unfunded liabilities resulting in potential long-term future savings for employers and employees.
- Bonds will provide for contribution security by ensuring the necessary contributions are maintained to reach full funding.
- Issuing the bonds would not incur any new cost to taxpayers, the state, employers, employees, or retirees.

» Ensure fiscal discipline

- As proposed, the bonds could reduce the amortization period by as much as five years, saving employers $4.5 billion in today's inflation-adjusted dollars.
- Without bonds, employers would have to pay approximately an additional 2–3 percent in contribution rate increases today in order to similarly reduce the amortization period.

» Provide transparency

- Bonds will only be issued upon successful completion of a legal validation proceeding, providing for a final, non-appealable court order.
- The debt service to pay for the bonds will be known at the time of issuance because only fixed-rate bonds are permitted.
- Proceeds will be managed by PERA investment professionals with the oversight of the PERA Board of Trustees only for the benefit of its members.

HOW THIS PROPOSAL DIFFERS FROM BOND ISSUANCES IN OTHER STATES

» Unlike in many other states, these bonds would not cost anyone any new money, nor would they free up money to pay for other short-term state budget priorities.

» These bonds do not provide for a contribution "holiday." Under the proposal, an issuance of bonds secures the bond payments through an explicit bond covenant designed to maintain the existing employer and employee contribution rates into PERA.

ADDITIONAL INFORMATION

» PERA is sustainable today and into the future as a result of the reforms passed in SB 1. As proposed, the issuance of bonds could improve the funded ratio and shorten the time frame for PERA to become fully funded by taking advantage of low interest rates and PERA's investment program.

» As proposed, the issuance of bonds is intended to result in a funded status of approximately 70-80 percent in the State and School Divisions, and ensures PERA will remain one of Colorado's best investments.

» The bonds would be issued by the Colorado Housing and Finance Authority (CHFA), under the direction of the Governor and State Treasurer.

» PERA would invest the funds as it does today—in a globally diversified portfolio with an investment time horizon that matches the fiscal discipline of the bond issuance.