

**State of Colorado**  
**Department of Treasury**



Fiscal Stability Commission  
July 2009



# Presentation Outline

- ◆ The Big picture
- ◆ Treasury Update
- ◆ Components of Strong Credit and Long Term Financial Stability
- ◆ Constitutional Reform
- ◆ Appendix:
  - Investments
  - Colorado Economic Data



# The Big Picture



# The Economy Has Changed

- ◆ US GDP increased as follows for the US according to the BEA:

| ◆ <u>Year</u> | <u>GDP</u> | <u>Increase</u> | <u>% Increase</u> |
|---------------|------------|-----------------|-------------------|
| ◆ 1950        | 294        |                 |                   |
| ◆             |            |                 |                   |
| ◆ 1960        | 526        | 232             | 78%               |
| ◆             |            |                 |                   |
| ◆ 1970        | 1,038      | 512             | 97%               |
| ◆             |            |                 |                   |
| ◆ 1980        | 2,789      | 1,751           | 167%              |
| ◆             |            |                 |                   |
| ◆ 1990        | 5,803      | 3,114           | 112%              |
| ◆             |            |                 |                   |
| ◆ 2000        | 9,817      | 4,014           | 69%               |
| ◆             |            |                 |                   |
| ◆ 2008        | 14,264     | 4,447           | 45%(1)            |

- ◆ (1) Using a forecast for GDP for 2010 by Goldman Sachs, the increase for the first decade of this millennium would be \$4.537 trillion or 46%.



# Treasury Update



# Colorado Investment Performance

## Treasury Investment Pool: \$5.6 billion (May 2009)

- No equity investments
- No collateralized debt tied to sub-prime market or structured investment vehicles in state pool (SIVs, CDOs)
- No holdings in any of the 5 major investment banks including Bear Stearns, Merrill Lynch or Lehman Brothers
- Dec 2007 – terminated state securities lending program. \$2 billion was on loan to one bank. Program terminated and all funds returned to Treasury 7 months before banking crisis hit
- **Positive earnings** and **no losses** in the state Pool to date
- Investment holdings in state pool posted on Treasury website since 2007



## Colorado's Credit Remains Strong

- ◆ S&P and Moody's affirmed Colorado's underlying AA (Aa3 COP) credit rating (July 2009)
- ◆ Colorado obtained a lower interest rate for \$230 million COPs for higher education projects (SB08-218) than any comparable project at the time
- ◆ Under HB08-1346 Colorado is issuing \$430 million in state COPs this Summer using Build America Bonds (35% of interest costs for Justice Center and Colorado History Museum will be paid by federal gov.) and Qualified School Construction Bonds (all interest costs for B.E.S.T COPs will be paid by federal government)
- ◆ Treasury has **not issued variable rate debt** and opposed proposals to issue variable rate COPs



# **Components of Strong Credit and Long Term Financial Stability**





# Components of Strong Credit and Long Term Financial Stability

- ◆ Strong Economic Performance
- ◆ Above Average Reserve Levels
- ◆ Below Average Debt Levels
- ◆ Minimal Volatility of Revenues
- ◆ Institutional Financial Flexibility



# Colorado Economy Outperforms National Average

- Colorado ranked 4<sup>th</sup> nationally in GDP Growth from 2007-2008.
- Colorado unemployment is anticipated to remain well below the national average (7.2% versus 9.4% in 2009; 7.2% versus 10.1% in 2010).
- Colorado home prices are more stable than other major metropolitan areas in the nation (change from 2005 prices - Colorado: -9%, Composite 20: -23%) and the foreclosure rate for Colorado has slowed relative to the national average.
- ◆ Colorado is poised to rebound quicker than other states based on its diversified economy
  - 7 of the top 10 aerospace contractors have a strong presence in CO
  - Ranked 11th in bioscience venture capital investments
  - Ranked 4th in renewable energy



# Colorado's Reserve Levels Should Improve

- ◆ Colorado's 4% uncommitted statutory GF reserve was below national average of 9.6% (Fall 2007 NASBO)
- ◆ Without automatic statutory transfers (SB97-1 and HB02-1310), Colorado's reserve would have been 10.5% in FY2007
- ◆ SB08-228 creates new statutory requirement to increase state GF reserve by .5% per year for five years starting in FY2013.



# Colorado has Below Average Debt/COP Levels

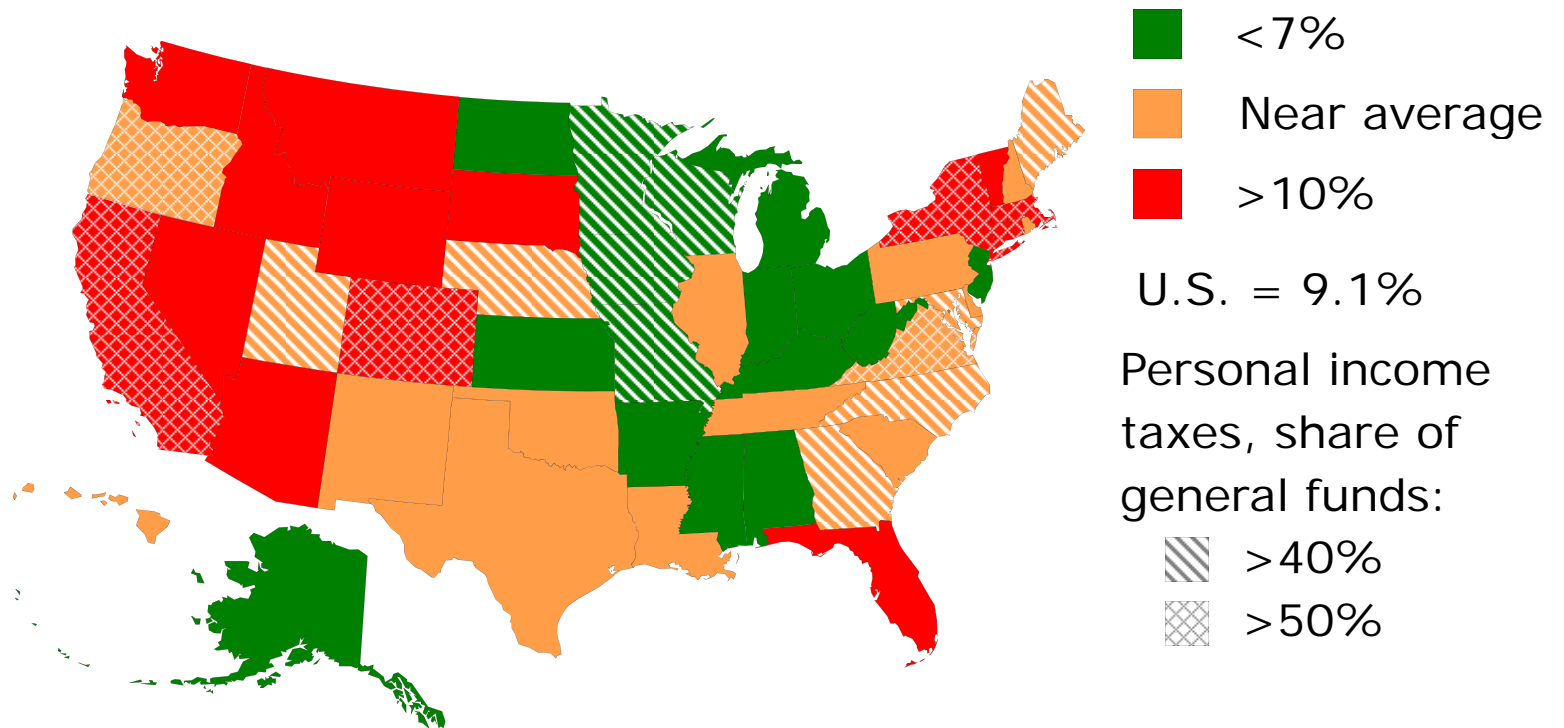
- ◆ Colorado is prohibited by its Constitution from issuing general obligation debt
- ◆ Colorado ranks 45<sup>th</sup> nationally in tax supported revenue bonds/COPs per capita (Moody's 2008)
- ◆ Colorado ranks 46<sup>th</sup> nationally in tax supported revenue bonds/COPs as a % of personal income, with total borrowing .8% of PI (Moody's 2008). The highest state is Hawaii (9.9%); CA ranks 15<sup>th</sup> (4.3%)
- ◆ PERA's pension fund ratio is 69% on an actuarial basis (2008) and 52% mark-to-market December 31, 2008



# Colorado's Tax Revenues are Volatile

Source: *Moody's Economy.com*

## Capital gains as a % of AGI, 2006



Sources: IRS, Census



# Institutional Financial Flexibility

- ◆ Taxpayers approve tax rate increases
- ◆ State Constitution does not allow revenue/spending to rise/fall with economic and demographic growth/decline
- ◆ Shifts in burden between state and local levels of government create challenges



# Appendix

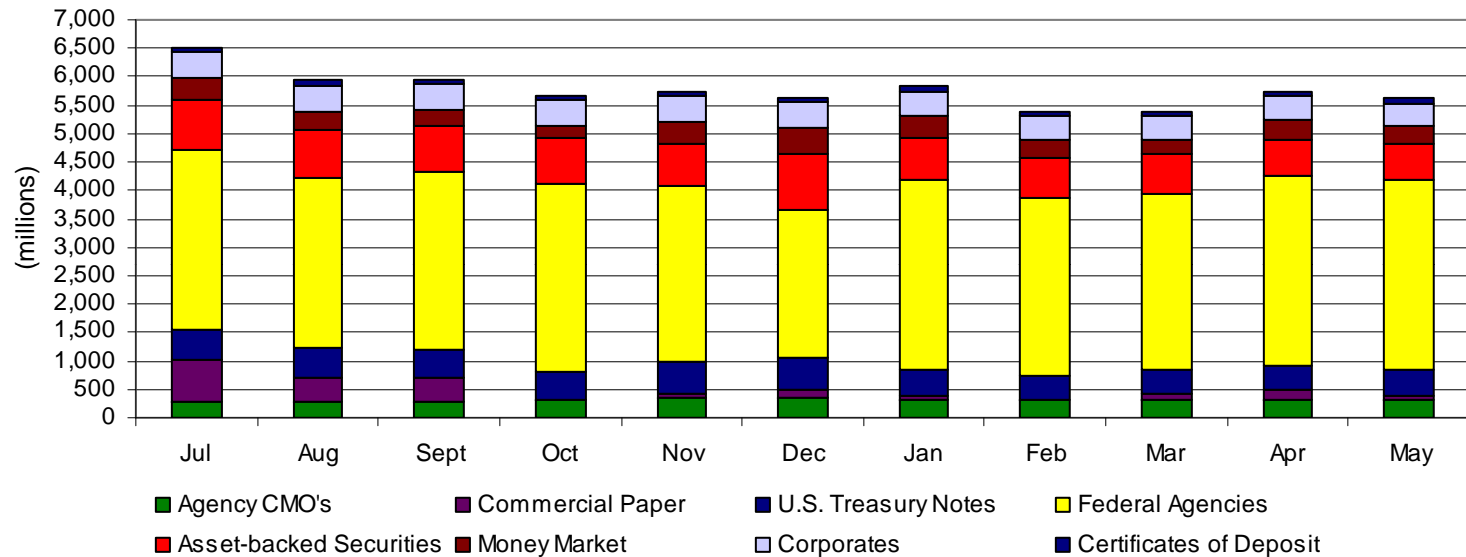


# Investments





# Portfolio Mix – July 2008 to May 2009



|                         | Jul 2008   | Aug 2008   | Sept 2008  | Oct 2008   | Nov 2008   | Dec 2008   | Jan 2009   | Feb 2009   | Mar 2009   | Apr 2009   | May 2009   | Jun 2009 |
|-------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|----------|
| Agency CMO's            | \$ 291.8   | \$ 297.3   | \$ 293.0   | \$ 314.2   | \$ 340.9   | \$ 336.0   | \$ 331.1   | \$ 324.8   | \$ 317.8   | \$ 310.7   | \$ 303.0   | --       |
| Commercial Paper        | \$ 724.0   | \$ 409.5   | \$ 403.4   | \$ -       | \$ 79.7    | \$ 149.7   | \$ 50.0    | \$ -       | \$ 99.9    | \$ 189.9   | \$ 99.9    | --       |
| U.S. Treasury Notes     | \$ 520.5   | \$ 510.6   | \$ 485.5   | \$ 490.9   | \$ 581.3   | \$ 569.0   | \$ 448.8   | \$ 423.8   | \$ 414.1   | \$ 414.1   | \$ 429.1   | --       |
| Federal Agencies        | \$ 3,183.0 | \$ 3,011.3 | \$ 3,145.5 | \$ 3,319.6 | \$ 3,061.9 | \$ 2,613.1 | \$ 3,354.5 | \$ 3,137.5 | \$ 3,118.5 | \$ 3,341.0 | \$ 3,358.7 | --       |
| Asset-backed Securities | \$ 878.6   | \$ 850.1   | \$ 819.6   | \$ 786.9   | \$ 765.6   | \$ 974.2   | \$ 734.1   | \$ 693.1   | \$ 676.7   | \$ 646.0   | \$ 631.3   | --       |
| Money Market            | \$ 370.0   | \$ 320.0   | \$ 265.0   | \$ 235.0   | \$ 365.0   | \$ 466.4   | \$ 382.0   | \$ 297.0   | \$ 256.5   | \$ 347.0   | \$ 297.0   | --       |
| Corporates              | \$ 478.5   | \$ 451.1   | \$ 449.1   | \$ 447.8   | \$ 455.8   | \$ 454.2   | \$ 449.2   | \$ 434.2   | \$ 429.2   | \$ 414.5   | \$ 416.5   | --       |
| Certificates of Deposit | \$ 76.3    | \$ 79.2    | \$ 76.2    | \$ 73.7    | \$ 72.4    | \$ 79.7    | \$ 78.3    | \$ 78.0    | \$ 78.0    | \$ 76.5    | \$ 77.2    | --       |
|                         | \$ 6,522.7 | \$ 5,929.1 | \$ 5,937.3 | \$ 5,668.1 | \$ 5,722.6 | \$ 5,642.3 | \$ 5,828.0 | \$ 5,388.4 | \$ 5,390.7 | \$ 5,739.7 | \$ 5,612.7 | --       |



# Permitted Investments

## Permitted Investments:

- ◆ Debt obligations of the U.S. Treasury, any agency of the U.S. government or U.S. sponsored corporations
- ◆ Repurchase agreements, reverse repurchase agreements & security lending agreements
- ◆ Certificates of deposit
- ◆ Bankers' acceptances
- ◆ Commercial paper
- ◆ Corporate or bank notes of corporations or banks organized and operating in the U.S.
- ◆ Asset backed securities
- ◆ Securities issued or guaranteed by the World Bank, the InterAmerican Development Bank, the Asian Development Bank or the African Development Bank
- ◆ Securities of the State
- ◆ Local government investment pools
- ◆ SEC regulated money market funds that have assets in excess of \$1 billion or have the highest credit rating from one or more nationally recognized rating organizations and are registered as investment companies under the federal Investment Company Act of 1940, as amended.



# Key Investment Policies

- ◆ The Treasurer has adopted policies further restricting the State pool money. These policies limit the amount of the portfolio that may be invested in particular types of obligations, or in obligations of particular issuers or in particular issues, by imposing rating or financial criteria for particular types of investments that are more restrictive than those required by law and by limiting the maximum term of certain types of investments.
- ◆ A minimum of 10% of the portfolio is required to be held in U.S. Treasury securities.
- ◆ Any reverse repurchase agreements may be interest rate arbitrage only, and not for liquidity of leverage purposes. Each reverse repurchase agreement and the total investment it is arbitrated against must be closely matched in both dollar amount and term.
- ◆ A security lending agreement may be executed with a reputable and financially responsible primary dealer or a financially and operationally stable FDIC-insured major regional or money center bank through the request for proposal process.
- ◆ Moneys invested are valued and “marked to market” on a monthly basis.
- ◆ HB 07-1184 requires certain state institutions to divest from companies that support the genocidal government of Sudan (public pension plans).

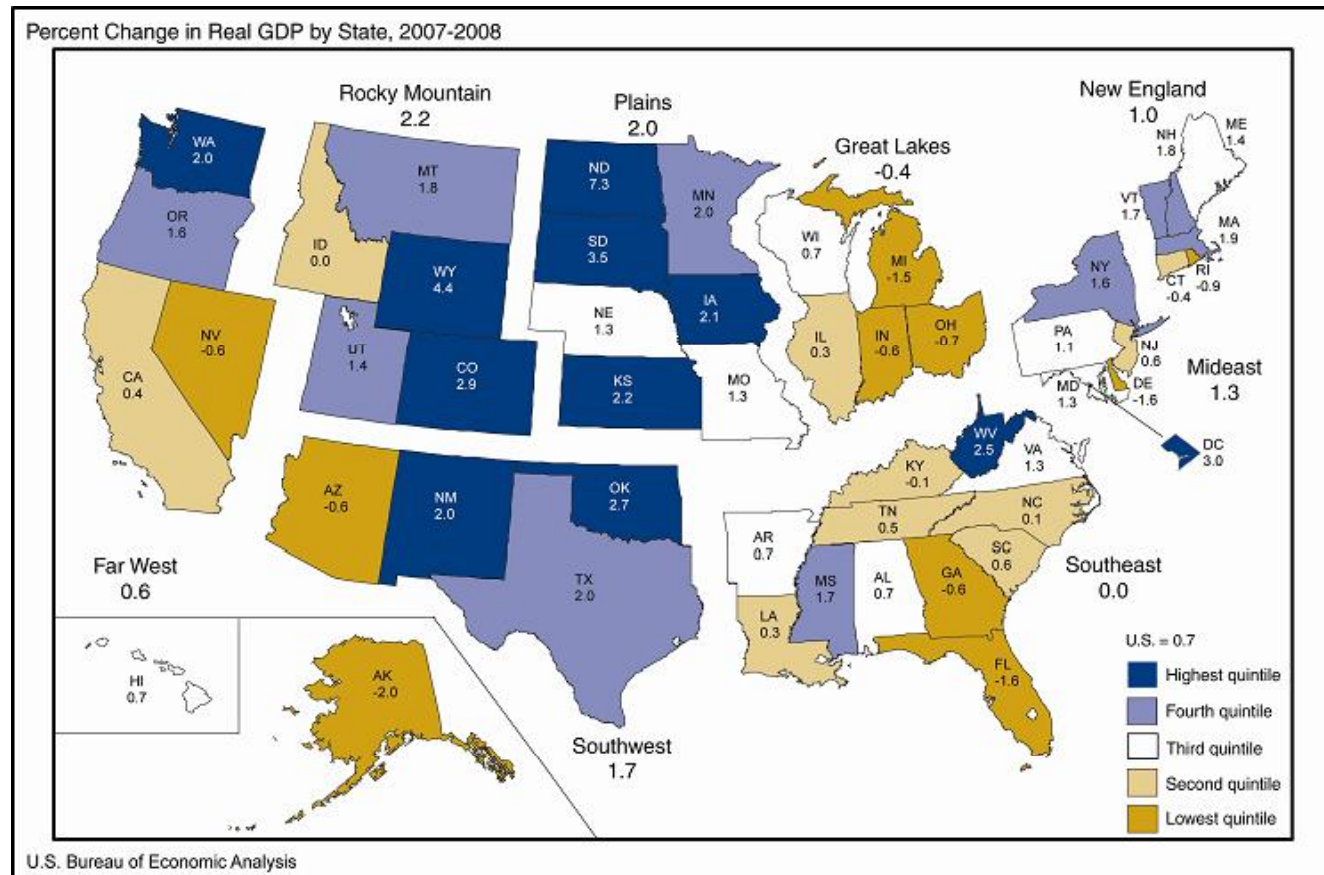


# Colorado Economic Data



# Gross Domestic Product

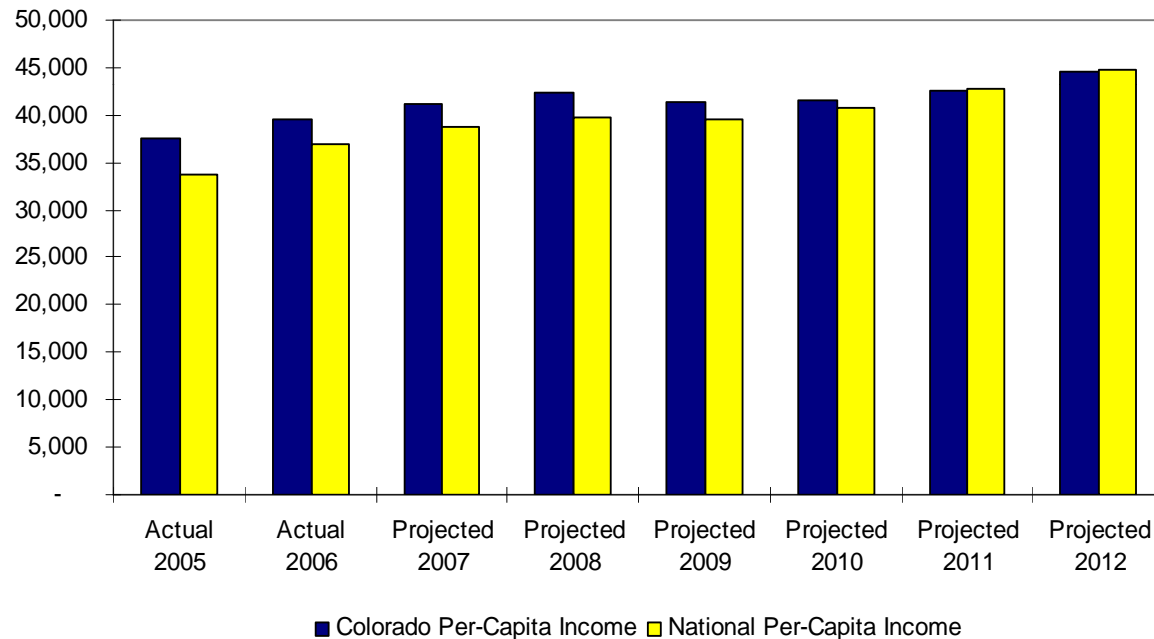
- ◆ Colorado ranked 4<sup>th</sup> in GDP Growth from 2007-2008.
- ◆ Real GDP growth slowed in 38 states. Growth in real U.S. GDP by state slowed from 2.0 percent in 2007 to 0.7 percent in 2008.





## Income – Per Capita (\$/Person)

- ◆ Colorado per capita income exceeds the national average.
- ◆ Per capita income is expected to decrease by 0.8% in calendar year 2009 and increase by 3.2%, 5.2% and 4.6% in the 2010, 2011 and 2012.

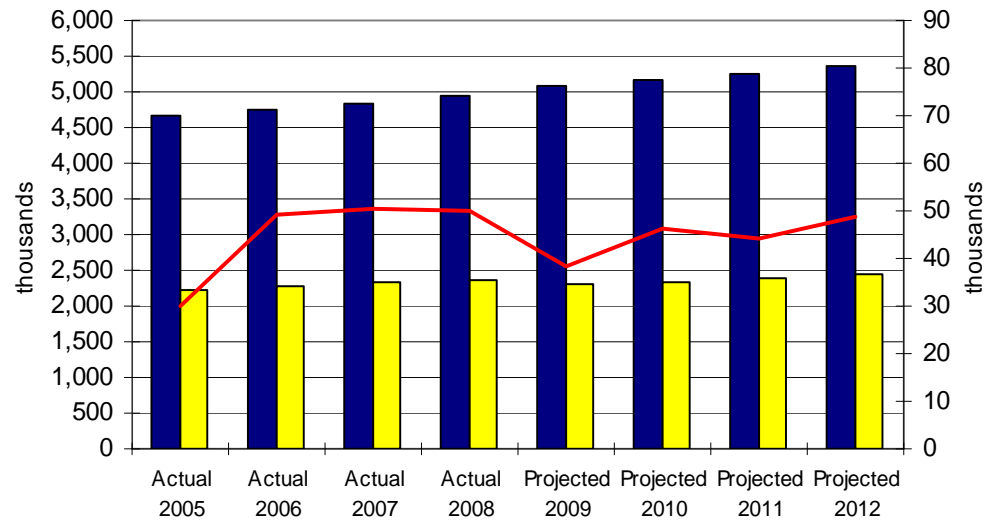


|                             | Actual 2005 | Actual 2006 | Projected 2007 | Projected 2008 | Projected 2009 | Projected 2010 | Projected 2011 | Projected 2012 |
|-----------------------------|-------------|-------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Colorado Per-Capita Income  | 37,611      | 39,612      | 41,192         | 42,377         | 41,313         | 41,626         | 42,562         | 44,639         |
| National Per-Capita Income  | 33,747      | 36,847      | 38,711         | 39,797         | 39,465         | 40,734         | 42,848         | 44,837         |
| Colorado as a % of National | 111%        | 108%        | 106%           | 106%           | 105%           | 102%           | 99%            | 100%           |



# Population, Employment & Net Migration

- ◆ Colorado is expected to see less net migration than it has in previous years for calendar year 2009.
  - Real Estate Market: Diminished opportunities for individuals to relocate if they must sell or buy a house
  - Jobs: Employment slowdown
- ◆ OSPB forecasts the state's total population growth to be 2.8% and 1.8% in 2009 and 2010, respectively.



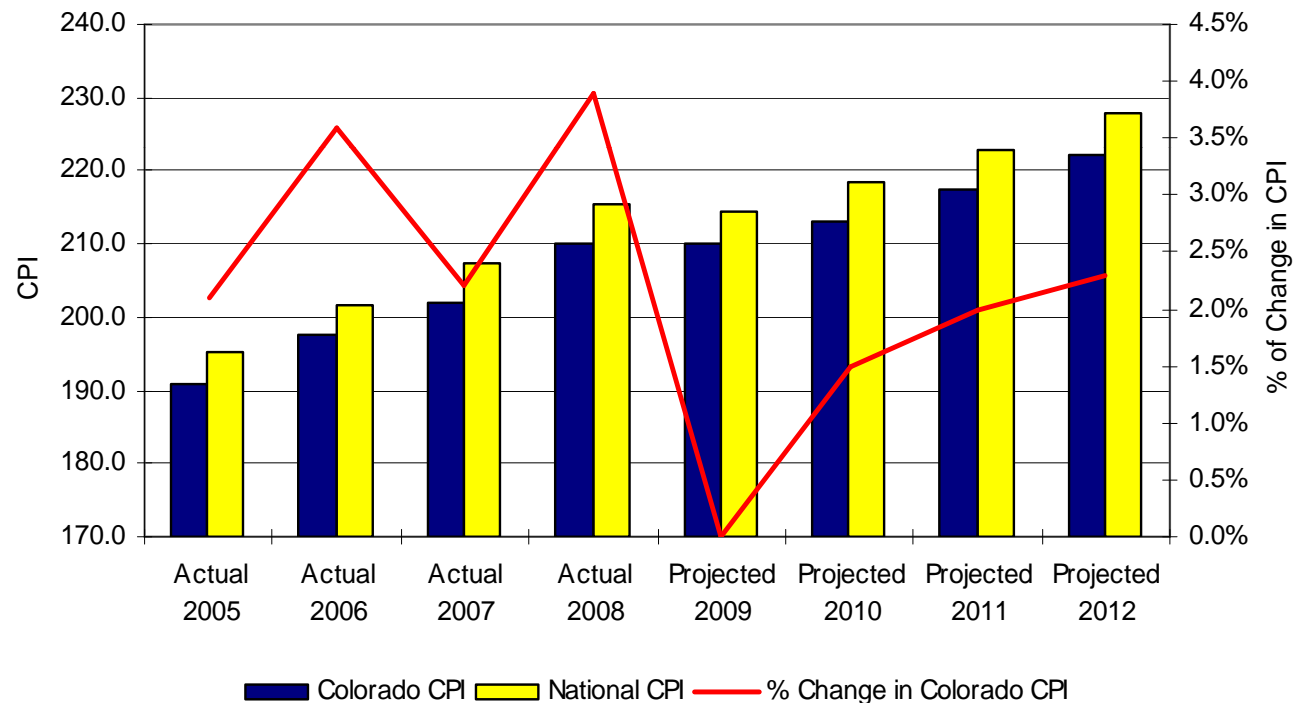
■ Population (thousands) ■ Total Nonagricultural Employment — Net Migration

|                                  | Actual 2005 | Actual 2006 | Actual 2007 | Actual 2008 | Projected 2009 | Projected 2010 | Projected 2011 | Projected 2012 |
|----------------------------------|-------------|-------------|-------------|-------------|----------------|----------------|----------------|----------------|
| Population (thousands)           | 4662.7      | 4751.5      | 4842.8      | 4939.5      | 5078.3         | 5167.4         | 5255.9         | 5349.6         |
| Total Nonagricultural Employment | 2226        | 2279.1      | 2331.4      | 2350        | 2297.6         | 2320.6         | 2377           | 2444.7         |
| Net Migration                    | 30.1        | 49.1        | 50.5        | 50          | 38.5           | 46.1           | 44.1           | 48.8           |



# Consumer Price Index

- ◆ OSPB is forecasting Colorado CPI at 0% in 2009 and increasing each year of the forecast period with 2012 projected to be 2.3%.



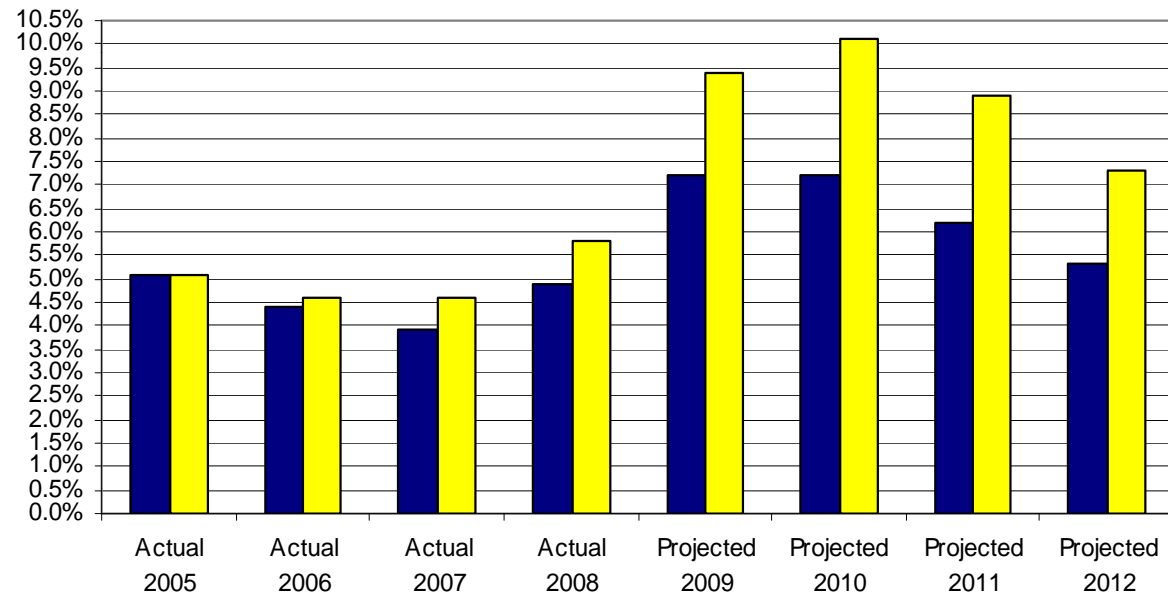
|                      | Actual 2005 | Actual 2006 | Actual 2007 | Actual 2008 | Projected 2009 | Projected 2010 | Projected 2011 | Projected 2012 |
|----------------------|-------------|-------------|-------------|-------------|----------------|----------------|----------------|----------------|
| Colorado CPI         | 190.9       | 197.7       | 202.0       | 209.9       | 209.9          | 213.0          | 217.3          | 222.3          |
| National CPI         | 195.3       | 201.6       | 207.3       | 215.3       | 214.4          | 218.3          | 222.8          | 228.0          |
| % Change in Colorado | 2.1%        | 3.6%        | 2.2%        | 3.9%        | 0.0%           | 1.5%           | 2.0%           | 2.3%           |





# Unemployment

- ◆ Colorado unemployment is projected to be 7.2% for 2009 and 2010, the unemployment level is expected to improve over the forecast period.
- ◆ Colorado's unemployment has historically been less than the national unemployment rate. The state projects this trend to continue.



■ Colorado Civilian Unemployment Rate ■ National Civilian Unemployment Rate

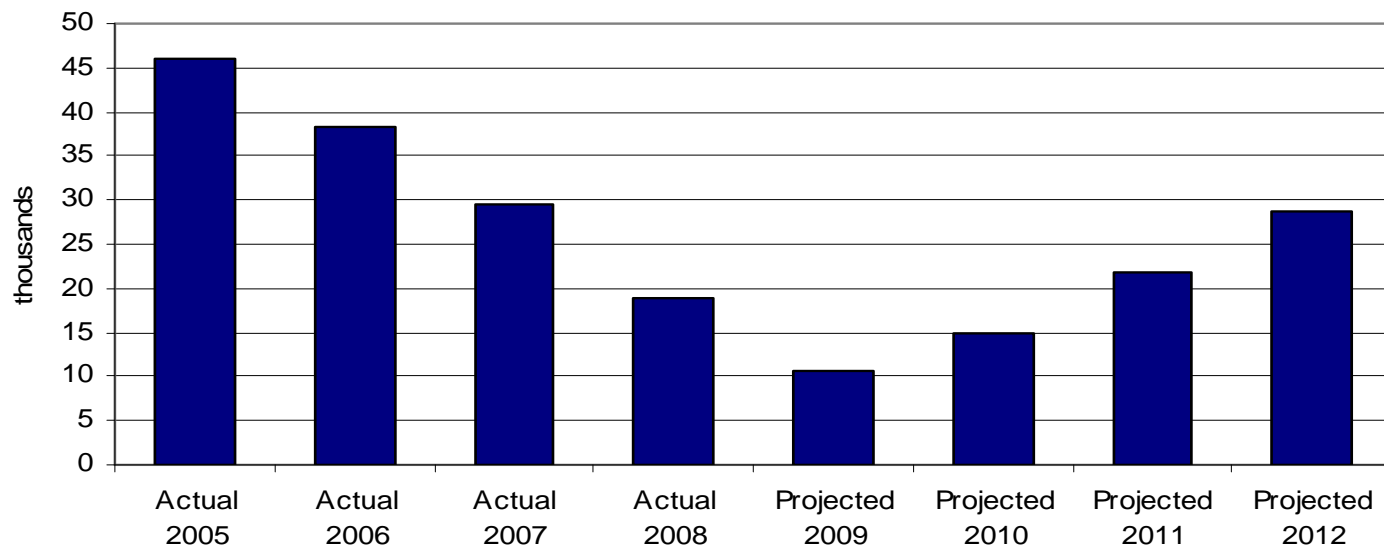
|                                     | Actual 2005 | Actual 2006 | Actual 2007 | Actual 2008 | Projected 2009 | Projected 2010 | Projected 2011 | Projected 2012 |
|-------------------------------------|-------------|-------------|-------------|-------------|----------------|----------------|----------------|----------------|
| Colorado Civilian Unemployment Rate | 5.1%        | 4.4%        | 3.9%        | 4.9%        | 7.2%           | 7.2%           | 6.2%           | 5.3%           |
| National Civilian Unemployment Rate | 5.1%        | 4.6%        | 4.6%        | 5.8%        | 9.4%           | 10.1%          | 8.9%           | 7.3%           |



# Housing

- ◆ Colorado's median price of single-family homes dropped 10.1 percent in the first quarter compared to a year earlier, which is less of a decline than other states have experienced.
- ◆ Sales of existing homes in Colorado declined at an annual rate of 2.9 percent in the first quarter of 2009. Colorado posted the 11<sup>th</sup> smallest drop in sales of existing homes since 2005 among all states.
- ◆ Residential housing permits dropped 35.5% from 2007 to 2008 and have seen declining rates of growth since 2005. The forecast projects the number of Housing Permits issued to be down an additional 44.4% in 2009 from the 2008 level. However, the forecast assumes the bottom of the declining trend to be reached in 2009 and projects increases for the remainder of the forecast period.

Total Number of Housing Permits Issued

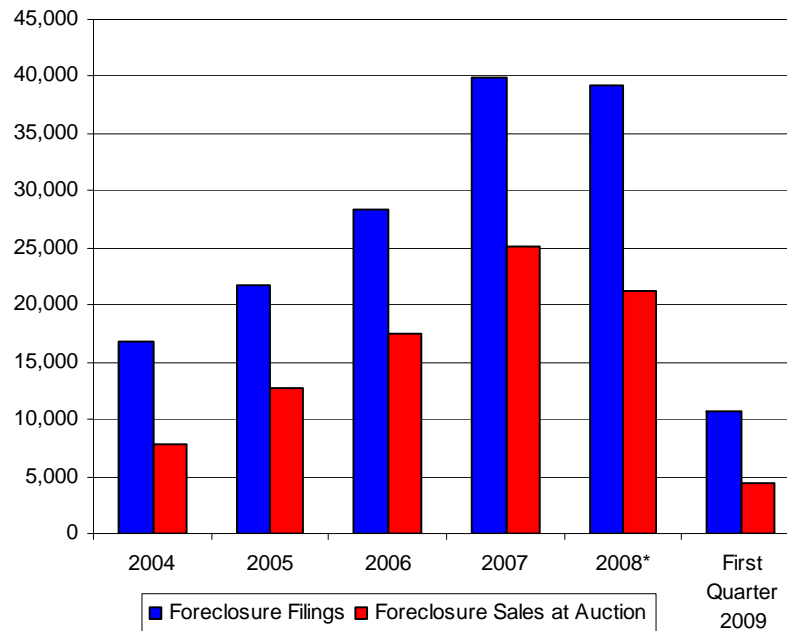


|  | Actual 2005 | Actual 2006 | Actual 2007 | Actual 2008 | Projected 2009 | Projected 2010 | Projected 2011 | Projected 2012 |
|--|-------------|-------------|-------------|-------------|----------------|----------------|----------------|----------------|
| Total Housing Permits Issued (thousands) | 45.9        | 38.3        | 29.5        | 19.0        | 10.6           | 15.0           | 21.7           | 28.6           |



# Foreclosures

- ◆ Colorado foreclosures are growing at a rate slower than the national average.
- ◆ Public trustees report foreclosures at each stage of the foreclosure process, which may cause an overstatement of actual foreclosures.



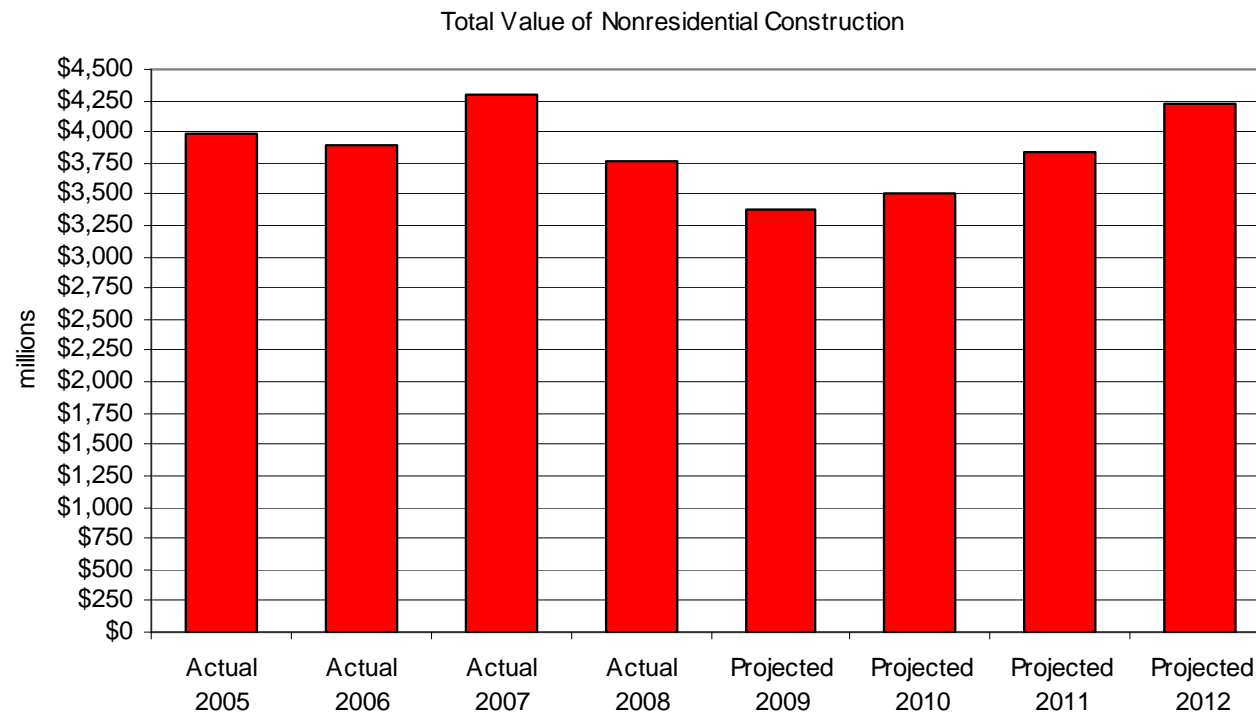
| Filings 2004 | Auction Sales 2004 | Filings 2005 | Auction Sales 2005 | Filings 2006 | Auction Sales 2006 | Filings 2007 | Auction Sales 2007 | Filings 2008* | Auction Sales 2008* | Filings First Quarter 2009 | Auction Sales First Quarter 2009 |
|--------------|--------------------|--------------|--------------------|--------------|--------------------|--------------|--------------------|---------------|---------------------|----------------------------|----------------------------------|
| 16,801       | 7,782              | 21,782       | 12,699             | 28,435       | 17,451             | 39,915       | 25,054             | 39,307        | 21,301              | 10,745                     | 4,354                            |

\*Due to the legal change in the foreclosure process, foreclosure sales of new foreclosures filed during 2008 were not permitted during March and April, 2008, and legislation took effect in August effectively preventing the issuance of a large number of notices of election and demand. The effect of these changes was to lessen the amount of foreclosure activity that could legally take place during the first, second, and third quarters of 2008.



# Construction: Nonresidential

- ◆ The largest decrease in nonresidential construction occurred between 2007 & 2008. The forecast anticipates increased growth in the non-residential construction market beginning in 2010.

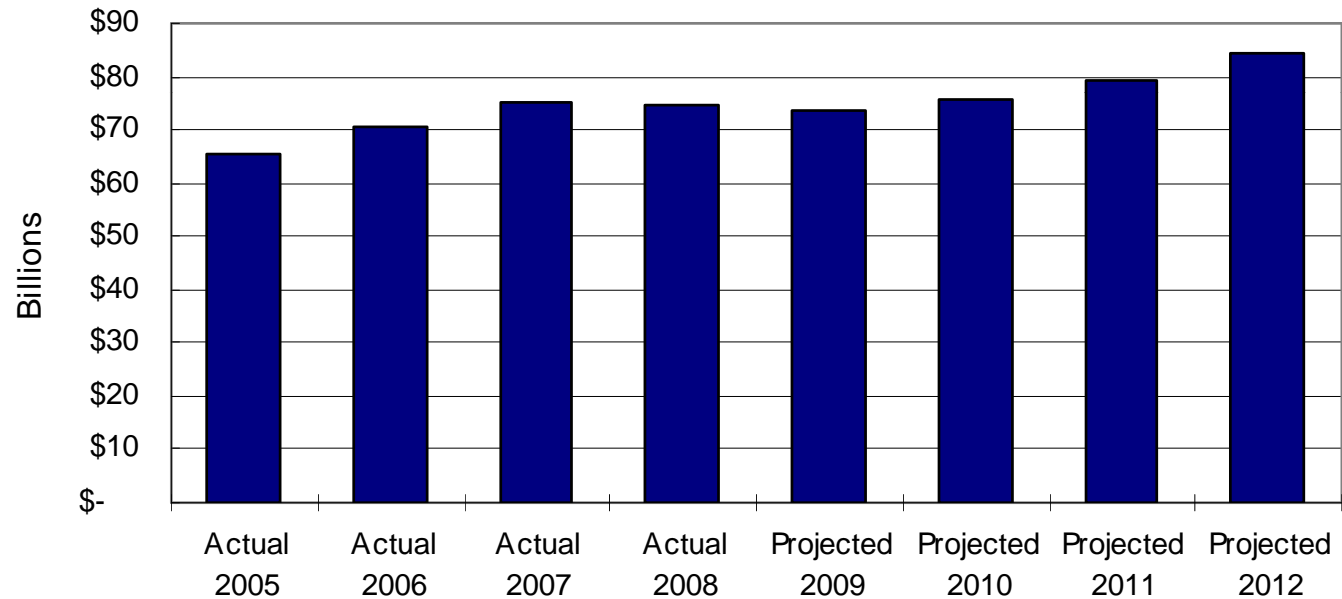


|                                   | Actual 2005 | Actual 2006 | Actual 2007 | Actual 2008 | Projected 2009 | Projected 2010 | Projected 2011 | Projected 2012 |
|-----------------------------------|-------------|-------------|-------------|-------------|----------------|----------------|----------------|----------------|
| Nonresidential Construction Value | \$ 3,979.5  | \$ 3,890.4  | \$ 4,294.5  | \$ 3,756.9  | \$ 3,381.2     | \$ 3,502.9     | \$ 3,839.2     | \$ 4,223.1     |



# Retail Trade

- ◆ Retail Trade was down 0.8% in 2008 and projected to be down an additional 1.7% in 2009 before beginning to show growth for the remainder of the forecast period.



|                          | Actual 2005 | Actual 2006 | Actual 2007 | Actual 2008 | Projected 2009 | Projected 2010 | Projected 2011 | Projected 2012 |
|--------------------------|-------------|-------------|-------------|-------------|----------------|----------------|----------------|----------------|
| Retail Trade             | \$ 65.5     | \$ 70.4     | \$ 75.4     | \$ 74.8     | \$ 73.5        | \$ 75.7        | \$ 79.5        | \$ 84.5        |
| % Change in Retail Trade | 5.1%        | 7.6%        | 7.0%        | -0.8%       | -1.7%          | 3.0%           | 5.0%           | 6.3%           |