

Colorado *Legislative Council Staff Fiscal Note*

**STATE
FISCAL IMPACT**
Drafting Number: LLS 13-0979**Date:** April 12, 2013**Prime Sponsor(s):** Rep. McLachlan; Schafer
Sen. Roberts**Bill Status:** House Finance**Fiscal Analyst:** Josh Abram (303-866-3561)**TITLE:** CONCERNING THE AUTHORITY OF CERTAIN INSTITUTIONS OF HIGHER EDUCATION TO INVEST MONEYS.

Fiscal Impact Summary	FY 2013-2014	FY 2014-2015
State Revenue Institution of Higher Education Revenue	Potential increase cannot be quantified. See State Revenue section.	
State Expenditures		
FTE Position Change		
Effective Date: August 7, 2013, if the General Assembly adjourns on May 8, 2013, as scheduled, and no referendum petition is filed.		
Appropriation Summary for FY 2013-2014: 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 grants investment authority and fiduciary responsibility for all funds and appropriations to the board of trustees at the Colorado School of Mines (CSM) and the board of trustees at Fort Lewis College. If the boards choose to exercise investment authority, the bill requires that they create an investment advisory committee and a written investment policy.

Each year, the boards will be required to present financial statements detailing investment earnings and losses to the State Treasurer, the State Auditor, and the Joint Budget Committee. The bill permits the boards to invest in consolidated investment funds¹ 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.

¹A 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 CSM and Fort Lewis College are held and invested by the State Treasurer. Accounts held in the name of the institutions are credited for income earned from the institutions' 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, and Colorado Mesa University and Colorado State University, both of which were given investment authority by House Bill 08-1002.

State Revenue

Investment return for Colorado School of Mines and Fort Lewis College. Predicting the net change in revenue to these schools by allowing the investment of a portion of their portfolio in equities is difficult, 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 securities² is measured based on yield. The cash yield from the state treasury pool (TPOOL) over the last four years has ranged from 4.3 percent in FY 2007-08 to 1.2 percent in FY 2012-13.

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. CSM and Fort Lewis 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.

Departments Contacted

²Fixed-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 receives the \$1,000 back. Generally, these types of assets offer a lower return on investment because they guarantee income.

Higher Education

Treasury