HB15-1388

Colorado Legislative Council Staff Fiscal Note

STATE and STATUTORY PUBLIC ENTITY FISCAL IMPACT

Drafting Number:	LLS 15-0178	**Date:**	April 29, 2015
Prime Sponsor(s):	Rep. Pabon; Rankin Sen. Holbert; Kerr	**Bill Status:**	House Finance
		Fiscal Analyst:	Lauren Schreier (303-866-3523)

BILL TOPIC: SCORE ACT FOR PERA PENSION OBLIGATION BONDS

Fiscal Impact Summary*	FY 2015-2016	FY 2016-2017
State Revenue	Potential increase.	
State Expenditures	Workload increase. See State Expenditures section.	
FTE Position Change		
TABOR Set Aside	Potential increase.	
Appropriation Required: None.		

** This summary shows changes from current law under the bill for each fiscal year.*

Summary of Legislation

The bill creates the Securitizing Contributions for Retirement Earnings Act (act). The act permits the Colorado Housing and Finance Authority (CHFA) to issue bonds for the Colorado Public Employees' Retirement System (PERA) School and State retirement plan divisions. Prior to the issuance of any bonds, the Governor and the State Treasurer must validate the bonds, by filing for a judicial examination and receiving a non-appealable determination that the issuance of bonds will not violate the Colorado Constitution. The act sets forth the specific terms for judicial review. The Governor and the State Treasurer must also conclude that issuing the bonds will permit the State and School retirement plan divisions to reduce the unfunded actuarially accrued liability sooner than if the bonds were not issued. The Attorney General (AG) and Office of the State Controller (OSC) are also required to make certain certifications prior to the issuance of bonds.

For the purposes of bonding, the act creates two special funds in the PERA: the School Division Special Fund and the State Division Special Fund. These funds receive all Amortization Equalization Disbursements (AED) and Supplemental Amortization Equalization Disbursements (SAED) paid by employers of these divisions. These funds will be used by the PERA to make bond payments, as necessary and the funds are independent and not interchangeable. Bond holders or owners may not receive funds from any other PERA source. The transfer of AED and SAED payments to the CHFA will be on a monthly basis.

Bond obligations are limited to a prescribed coverage ratio of AED and SAED payments compared to principal, interest, and other bonds costs. The amount must be sufficient to pay the full required amount plus one-fifth of the next interest payment on the bonds occurring within the next six months and one-eleventh of the next principal or mandatory redemption payment on the bonds occurring within the next twelve months. The act allows the PERA to transfer the remaining balance each month from the special fund accounts to the respective retirement trust funds.

The act permits the CHFA to issue bonds on behalf of the PERA until December 31, 2018. Bonds must mature no later than 40 years after the bonds were issued. If the AED and SAED contribution rates are not sufficient to pay bond holders, the PERA has a five-year cure period in order to make their full required contributions. If the PERA cannot repay the missed bond payments within the five-year cure period, the PERA will default on the bonds.

The act specifies reporting requirements of the CHFA to the General Assembly. By July 15, 2016, and each July 15 thereafter as long as bonds are outstanding the CHFA must submit:

- a report to the General Assembly including information about the investment performance of outstanding bonds; and
- a report to the General Assembly and the Office of State Planning and Budgeting including the total amount of the proceeds derived from the issuance of the bonds, the total amount applied in each fiscal year to the payment of the bonds, and the cost of issuing and administering the bonds.

State Revenue

The act may increase state revenue. If taxable CHFA bonds are issued, the act may increase state tax revenue. However, at the writing of this fiscal note, the tax status of potential bond series and on interest is unknown.

State Expenditures

If the AED and SAED employer contributions to the State and School divisions are insufficient for the PERA to make required payments on bonds, employer contributions may increase. However, at the writing of this fiscal note, the potential increase in employer contributions is unknown.

TABOR Impact

This bill may increase state revenue to the Department of Revenue, which will increase the amount required to be refunded under TABOR. TABOR refunds are paid from the General Fund.

Statutory Public Entity Impact

Under the act, the PERA may enter into bond agreements with the CHFA. There are two potential scenarios in which the PERA will enter into bond agreements. Within the constraints of the act, a bonding scenario will be selected to either reduce the unfunded actuarially accrued liability in one bond series or in multiple stages. The first scenario is $6 billion in anticipated proceeds with $2.3 billion allocated to the State Division and $3.7 billion allocated to the School Division. The second scenario represents the current maximum issuance size of $9.954 billion in anticipated proceeds, with $4.030 billion allocated to the State Division and $5.924 allocated to the School Division. These scenarios are based on a bond issuance date of January 1, 2016. In 2015 and future fiscal years, the PERA anticipates a 7.5 percent investment rate of return and a 4.39 percent bond interest cost.

Colorado Housing and Finance Authority Impact

Under the act, the Colorado Housing and Finance Authority (CHFA) may issue bonds on behalf of the PERA. The act will increase the number of bonds administered by the CHFA and may increase workload.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State and Local Government Contacts

PERA	State Treasurer
Personnel	Governor's Office
Office of State Planning and Budgeting	Colorado Housing and Finance Authority