DEPARTMENT OF TREASURY
FY 2008-09 JOINT BUDGET COMMITTEE HEARING AGENDA

Wednesday, November 14, 2007
3:30 - 5:00 pm

3:30-4:30 STATE TREASURER

INTRODUCTIONS AND OPENING COMMENTS

HEARING QUESTIONS COMMON TO ALL DEPARTMENTS

Departmental Goals and Objectives

1. ***What are your department's principal goals and objectives? What are the metrics by which you measure success or failure?***

Treasury's principal goal is to manage and account for the citizen's tax dollars from the time they are received until the time they are disbursed. This includes timely receipt, investment and reconciliation of all funds and a dynamic investment policy that protects principal, meets liquidity demands and optimizes earnings for taxpayers.

In measuring its performance, Treasury considers the timeliness of deposits, the efficiency of state banking services, the ability to meet the state's daily cash needs, the reliability and accuracy of local disbursements and overall investment performance including the legality, safety, liquidity and yield of the state's investment portfolio.

2. ***Given the change in the Administration, have there been any changes to your department's principal goals and objectives since last year?***

Treasurer Kennedy has adopted a new policy to provide more transparency in state finances. She published the first ever State Taxpayer Accountability Report (STAR) to give taxpayers information on how their tax dollars are being used. She will launch a new website this fall with comprehensive data on state finances including investments, disbursements and debt instruments. And, she is working toward developing an interactive website to give taxpayers direct access to how their tax dollars are used (see Change Request Priority #1).

3. ***What progress did you make during the last year in achieving your goals?***

Treasurer Kennedy published the STAR report within her first six months in office. She will unveil a new comprehensive website by the end of the year.

4. ***How is the additional money provided to your department in FY 2007-08 being used to achieve your goals? What improvements is your department making in its outputs?***

Treasury did not receive any additional funding in FY 2008.

5. ***Please identify your department's 3 most effective programs and your 3 least effective programs. Explain why you identified them as such. Explain how your most effective programs further the department's goals.***

Most Effective

1. Investments. Treasury's investment team (3 FTE) manages a $6 billion investment portfolio comprised of six large funds for less than the cost of 1 basis point. This is far below the private sector, which would expect 15 to 20 basis points (minimum) to manage a comparable portfolio. Every fund managed by Treasury's investment team outperformed its benchmarks on average between FY 2003 and FY 2007.
2. Accounting. Treasury's small accounting staff (9 FTE) receives, accounts for, disburses and reconciles between $50 million and $500 million in cash flow ***daily.*** The staff has developed a highly efficient system to update the state's bank balances throughout the day and project funds available for investment.
3. Unclaimed property. Colorado's unclaimed property program has doubled the amount of money it has returned to rightful owners over the past five years.

Least Effective

1. K-12 capital construction loan program in 22-43.7-103.5. Created by statute in 2000, this program has never been used by any school district. The program has failed because it does not address the existing constraints of local districts. The Treasurer will make it a priority to address this issue during the 2008 legislative session.
2. Elderly and Military Personnel Property Tax Deferral. Currently there are only 335 people in Colorado taking advantage of this program, most of whom are concentrated in two counties. Treasury is not provided funding to market the program and relies exclusively on county treasurers to inform eligible candidates about its benefits.

6. ***Are there programs that your department is required to perform that do not further your department's goals or have outlived their usefulness? If so, what are they and by whom are they required? Why don't they further your department's goals?***

None.

Costs and savings from complying with specific bills and orders

7. ***What are your department's anticipated costs, anticipated savings, and potential benefits from complying with Executive Order D 028 07, Authorizing Partnership Agreements with State Employees?***

Treasury does not anticipate any costs or savings associated with implementing Executive Order D 028 07. Pursuant to the order, Treasury personnel will have the opportunity to enter into employee partnership agreements to work with the Treasurer and the Department of Personnel to improve the quality and performance of their work environment.

8. ***Provide an estimate of the costs your department will incur in FY 2007-08 in carrying out the provisions of H.B. 06S-1023. Provide an estimate of your department's savings in FY 2007-08 as a result of not providing services to individuals who are in the country illegally.***

None.

QUESTIONS SPECIFIC TO THE DEPARTMENT OF TREASURY ADMINISTRATION

1. ***Are disabled veterans included in the current forecasts for the Homestead Exemption? When will those costs show up?***

Yes. The first year that the disabled veterans exemption costs will appear is in Fiscal Year 2007-08. According to LCS, the current projected cost for Fiscal Year 2007-08 is $1 million for the disabled veterans exemption, out of a total projected cost of $76.2 million.

2. ***Please discuss changes in the cost of the Homestead Exemption relative to previous projections. Has the exemption been less costly than originally projected?***

According to LCS, the exemption for seniors has been more costly than originally projected.

3. ***Please discuss the Transparency Initiative proposal, as requested in the FY 2008-09 budget.***

The Treasurer's transparency initiative has several components to provide taxpayers with easy access to clear information about how their tax dollars are used. Each component of the initiative brings together data from multiple departments to provide a statewide perspective. This is work that Treasury is uniquely positioned to perform.

Phase I of the transparency initiative has been completed by redirecting existing resources within the Department. Specifically, the Treasurer produced the State Taxpayer Accountability Report (STAR) and redesigned Treasury's website to provide comprehensive financial information covering investments, disbursements, assets and liabilities, and cash flow (expected November 2007).

The Department is requesting new resources for the following:

1. Ongoing annual publication of the STAR report

2. Ongoing reporting and updates to the new website to provide "one-stop shopping" with timely/current/organized information on the state's finances including revenues, disbursements, expenditures, assets and liabilities, tax burden, cash flow and investments.
3. Development of an inter-active website that will provide the following:
    a. Individual Taxpayer Profiles: taxpayers will select an income bracket and receive an estimated tax bill along will estimates of how their tax dollars were used.
    b. Google Mapping: taxpayers will click on an inter-active map of Colorado counties to see state and federal disbursements to their communities.
4. Publication of new reports on the condition of the state's finances including a debt-affordability study

4. Please discuss the proposed Information Security Officer position. Would the Department be open to sharing a centralized Information Security Officer position housed outside the Department? Has the Treasurer discussed the potential to combine this position with the information technology personnel in the Executive Branch? Does the Treasury need its own information security officer? If so, why?

The proposed Information Security Officer (ISO) position is the first step the Department needs to take to complete cyber security planning and implement the requirements of the Colorado Cyber Security Policies. The policies require a designated ISO. The Department is open to sharing a centralized ISO housed outside the Department. The Department has discussed this possibility with Mark Weatherford, the State's Chief ISO, and his office. The Treasury does not need an ISO of its own as long as a suitable sharing arrangement is available.

5. Please elaborate on the expected benefits of utilizing BondEdge for the State's investments. Why is this system needed in addition to the Bloomberg system? What services does BondEdge provide that are not available through the Treasury's current systems?

Treasury seeks to acquire necessary, meaningful, dynamic portfolio analytical tools.

BondEdge is dedicated to the fixed income markets only, and provides comprehensive **portfolio level analytics**. Bond portfolio analytics are key in distinguishing BondEdge from Bloomberg. Bloomberg focuses on real-time coverage of multiple live markets (bond, stock, mortgage, corporate, currency et al), and is the industry standard for trade execution and market news. Although Bloomberg's single security analytics are excellent, portfolio level analytics are lacking. Portfolio analytics are what Treasury requires**.** BondEdge does not offer a trading platform or market news, so there is no overlap of services.

Of keen interest to Treasury investment officers is BondEdge's computation of **total portfolio risk measures** that will allow staff to understand the current risk/return profile of the portfolios. Understanding these risks will assist investment officers in managing against the downside risks, potentially mitigating losses. Additionally, BondEdge allows investment staff to look at projected risk measures based on changing market conditions. Investment Officers will be able to do portfolio simulations ("what-if" scenarios), shocks to interest rates, and more.

BondEdge reports can be fully edited and customized so that the analysis reflects each investment officer's management style and the unique nature of each portfolio. As market conditions shift, assumptions can be continuously modified according to changing investment outlooks and objectives. This will result in producing meaningful reports and graphics for each manager. BondEdge reports are management reports, not accounting reports, which utilize dynamic interest rate assumptions and can be used to assist investment managers with their decisions. These kinds of reports are not available on Bloomberg.

4:30-5:00 COVERCOLORADO

(ANSWERS PROVIDED BY COVERCOLORADO)
INTRODUCTIONS AND OPENING COMMENTS

1. What are CoverColorado's principal goals and objectives? What are the metrics by which you measure success or failure?

The Mission of CoverColorado is to provide a health insurance program that preserves access to health care for Coloradoans whose health prohibits or substantially limits access to commercial health insurance. CoverColorado currently covers 6,647 participants.

The objectives of CoverColorado include carefully and thoughtfully balancing out the program's goals to:

- Provide coverage to as many Colorado residents that are currently uninsurable as possible
- Offer a choice of plans and comprehensive coverage similar to that available in the commercial individual health insurance market
- Have monthly premium rates that are as affordable as possible within the constraints of the Colorado statute
- Be fiscally responsible for the long-term viability of the program

The measures by which we manage the Plan to success include:

- All administrative services are put out for competitive bid on a national basis to assure that the program gets the best possible pricing on medical and pharmacy administration and health care services.
- The plan of benefits available to participants is reviewed on an annual basis and adjusted to reflect current thinking and changes in health care delivery that improve quality and reduce cost.
- A strict prescription drug formulary is constantly monitored to reflect the addition of new generic drugs and the pharmacy benefits are structured to encourage generic, formulary and mail order use.

- Each applicant is required to complete a health history and participation in care management is mandatory. Each new participant is assigned an individual nurse care manager who contacts and evaluates the participant's medical needs. This nurse care manager will provide all case and disease management services as identified.
- The care management company, CSM2, is required to meet 24 performance measures that impact cost to the program and quality of care to the participants.

CoverColorado utilizes the most current technologies for risk profiling of participants to determine gaps in care and care opportunities that would allow nurse care managers to intervene with participants.

2. Given the change in the Administration, have there been any changes to CoverColorado's principal goals and objectives since last year?

No, it is our understanding that the Governor supports the current goals and objectives of CoverColorado.

3. What progress did you make during the last year in achieving your goals?

- Membership has increased 25% over a year ago.
- The CoverColorado Board created two premium discount plans for lower income applicants. This became effective in July 2006. As of September 2007, 27% of CoverColorado participants are receiving premium discounts. The discounts for 2008 are approximately 22% (for those with income between $40k-$50k) and 31% (for those under $40k).
- Through passage of Senate Bill 180, the Board was given the discretion to reduce CoverColorado premiums from 150% of standard risk rate, to a range of 100% to a maximum of 150%. CoverColorado's Board reduced the calculation percentage to 140% effective January 2007, making premiums more affordable.
- Through passage of Senate Bill 49, (July 1, 2007) a new product was created, called "Coordination of Benefits." This coverage is for persons under the age of 65 who are disabled and on Medicare and unable to purchase supplemental gap coverage in the commercial market. Membership began in August 2007.
- The Care Management initiative is underway with Federal grant funds provided in the amount of $1.4 million; a Rose Community Foundation Grant to study the economic effectiveness of care management initiatives; and the care management partner, CSM2, is making substantial progress to achieve most of the performance measures set out by CoverColorado. Some examples: 84% of all new participants have been contacted within the first 30 days of enrollment; 93% of inpatient participants for three or more days were evaluated for appropriate level of care.
- We have been able to keep our administrative costs down by utilizing technology for items such as online enrollment and program information. Some of the online enrollment stats year to date include: 35,904 people have checked rates, 3,566 people have started an application, and 1,636 have completed an online application.

Administrative overhead as a percent of total income as of September 2007 is 9.6% (typical in the individual insurance industry is 15% or higher).

4. How is the additional money provided to CoverColorado in FY 2007-08 being used to achieve your goals? What improvements is your department making in its outputs?

Because the program has grown over the past year by 25%, the additional funds were requested to meet the statutory requirements of reserve levels. All funds received by CoverColorado go to either the payment of claims or the administration of the program.

5. Is CoverColorado subject to the provisions of Executive Order D 028 07, Authorizing Partnership Agreements with State Employees? If so, please provide the following: anticipated costs, anticipated savings, and potential benefits from complying with the executive order.

No. CoverColorado employees are not state employees.

6. Last year's projections showed the next assessment coming in 2012. What has changed since then to: 1) raise the level of assessment required and 2) move up the first assessment date to 2011?

The need for an assessment is directly related to the premiums collected, the amount of money received from the Unclaimed Property Fund and the number of people covered by the program. Any increase in the number of people covered by the program results in a corresponding increase for the need for additional funds to pay their health and pharmacy claims. All projections assume growth in the number of participants. The Board reviews updated projections six times per year.

The projected, expected and virtually guaranteed increase in the cost of health care services needed by the Participants in the CoverColorado program in the coming years and the projected increase in the number of people covered by the program has resulted in the assessment date being moved up to 2011.

Specific changes to last year's projections include:

- Higher growth in membership
- Higher increase in administrative costs
- Higher increase in cost of claims

7. What progress have you made since last year in developing either a way to smooth out the assessment process or provide an alternative funding source for the program?

The timing of the 2007 Sunset Review and final report allowed CoverColorado staff to work in conjunction with the Department of Regulatory Agencies, the insurance industry and others to

address this specific question. As expected, there are no obvious easy answers. CoverColorado concurs with the recent findings of the Sunset Review and we look forward to the creation of a task force of stakeholders to find a resolution.

8. Given that the insurance carrier assessment is currently set to expire on July 1, 2008, does CoverColorado have a plan going forward? Do you want to extend the current assessment authority, as recommended in the "sunset review" or will you be ready to propose changes that would smooth out the process?

As previously stated, CoverColorado supports the recommendations in the Sunset Report because it includes all stakeholders. We hope the legislature will agree and that the ability to assess will remain in place, that the task force will recommend new ways to assess, to broaden the scope of the assessment, and smooth out the process.

9. How do you expect the work and recommendations of the "208 Commission" to affect CoverColorado?

According to the latest information from the 208 Commission, Recommendation #3 from the drafted Fifth Proposal includes the following reform proposals:

- "Guarantee issue all individual products to "healthy" people who do not meet new criteria for CoverColorado;
- New CoverColorado criteria will be developed to identify people with chronic conditions (CoverColorado will be guarantee issue for people with the identified chronic conditions that qualify them for this program);
- All individual policies will be rated on age and geography, similar to the small group market;
- Develop strong rules to discourage people from switching insurance markets when their circumstances change (i.e., buying more insurance when they get sick)."

CoverColorado looks forward to working with the 208 Commission; however, the needs of CoverColorado participants require immediate action to preserve the viability of the program and cannot wait on eventual recommendations and outcomes of the 208 Commission.

10. Do you know whether the Governor intends to appoint the task force recommended in the insurance carrier assessment "sunset review?"

At this point in time, we don't know if the Governor will appoint a task force because the Sunset Review was just recently released. If the recommendations in the report become law through the legislative process this session, we would expect the Governor to appoint the task force.

11. If the General Assembly required a "guaranteed issue" policy for Colorado, what would be the fallout of such a change?

a. Assuming a traditional "guaranteed issue" mandate, the 'fallout' for existing high-risk CoverColorado participants:
If all individual insurance carriers were required to accept all applicants without benefit of medical underwriting, rating up the policies or excluding pre-existing conditions at any time during the year, aka "guarantee issue," there would be no need for CoverColorado as it currently operates. All of the people in CoverColorado would be able to purchase individual health insurance just like anyone else who had the financial resources to pay the premiums.

b. The potential 'fallout' for the individual insurance companies would be:
Historically individual insurance companies have either withdrawn from doing business or stopped selling new policies in states where "guarantee issue" has been imposed (Washington, New York, etc.) because having to take all applicants increases their risk and makes them unprofitable.

c. The historic 'fallout' for the non-high-risk people buying individual insurance products after the imposition of "guarantee issue:"
In those states where guarantee issue becomes the rule, typically the cost of individual health insurance policies has gone up significantly over the previous rates. While requiring the insurance companies to take all applicants makes health insurance policies *available* to everyone who can pay, it also raises the rates for all individuals to cover the costs of insuring those applicants that the carrier would have declined through medical underwriting. It will make health insurance *unaffordable* for all but the wealthiest and the sickest which will create a new group of uninsured people.

12. Does CoverColorado have projections for caseload in future years? How does CoverColorado expect the caseload to change over the course of the current projections? How does the change in caseload relate to the projected increase in costs?

a. Yes, the current projections for increasing the number of CoverColorado participants are based on an actuarial assumption of continued growth in membership to an eventual total of 11,300 participants in May 2011 when the next assessment would be needed.

b. Changes in the membership of CoverColorado in the coming years would be affected by the Colorado economy and the possibility of an economic recession. Another significant factor is the cost of technology for complicated health care services needed by high-risk, medically complicated individuals.

During 2000-2003 CoverColorado's membership almost tripled as a result of the economic slowdown in Colorado and CoverColorado became the HIPAA state alternative mechanism. Many of the working individuals who lost their jobs and health insurance coverage came to CoverColorado.

Further, the cost of catastrophic cases, emerging new medical treatments, new durable medical equipment and emerging pharmaceutical treatments for individuals with high-risk conditions has a direct impact on the costs of the program. Many of the current and future participants will utilize these new types of treatment to manage their chronic illnesses and the program will provide coverage for them.

Currently CoverColorado participants' medical costs average $8,760 per participant per year. According to the Kaiser Foundation 2007 Health Care Survey, the average for a person with group insurance is $4,480 per participant per year. Further, there are 40 participants during the first 9 months of 2007 whose paid medical claims have ranged from $100,000 to $530,000 totaling over $7.7 million.

c. As indicated earlier, the costs of the program are in direct relationship to the number of people in the program receiving medical and pharmaceutical benefits. As the membership increases and the cost of health care services increases, the cost to provide health coverage for CoverColorado participants will also increase.