DEPARTMENT OF TREASURY

FY 2011-12 Balancing Proposal
February 15, 2011

Walker Stapleton
Treasurer

Change to Interest Payments on School Loans

Proposal:

In order to address timing differences between revenue collections and expenditures, which cause many Colorado school districts to incur annual cash flow deficits, the Colorado Department of the Treasury administers the State of Colorado Education Loan Program. In order to finance loans to school districts over the course of the fiscal year, the Treasury issues tax and revenue anticipation notes, and note obligations are paid by the end of each fiscal year. Currently, interest for issued tax and revenue anticipation notes is paid from the state General Fund, and local districts are exempt from interest payment obligations.

Due to the current General Fund shortfall, this proposal would eliminate the General Fund obligation for interest payments and would instead require that participating school districts bear responsibility for interest payments on intra-year loans obtained from the Treasury, per the Education Loan Program. This proposal would reduce General Fund expenditures by $1,604,246 in FY 2011-12 and $1,620,288 in FY 2012-13.

Summary of Request:

Pursuant to section 29-15-112 and section 22-54-110, C.R.S., the state treasurer is authorized to issue short term, non-multiyear debt in order to make loans to Colorado school districts. Per the loan program statutes, upon the treasurer's approval of an application submitted by a school district, interest-free or low-interest loans are made to participating school districts in any month of the budget year in which a cash flow deficit occurs. Each district must adopt a resolution pledging repayment of its loan from ad valorem property-tax revenues received by the participating district during the period of March through June of the fiscal year and must execute a promissory note to the Treasurer to evidence its repayment obligation. In accordance with the express purpose of the Education Loan Program, loans are only made in order to alleviate temporary cash flow deficits.

In order to finance the Education Loan Program, The Treasury typically issues two series of Education Tax and Revenue Anticipation Notes (ETRAN) each fiscal year. Most recently, on December 10, 2010, the Treasury issued $325.0 million in notes (Series 2010B), and the interest due is $3.6 million. These notes mature on June 30, 2011, and per statute the interest is payable from the General Fund.

Once sold, moneys from an issuance are held in a specific account in the Treasury and, for investment purposes, may be commingled with other moneys in the General Fund. For example, income from the issuance of Series 2010B notes is held in the Series 2010B Note Proceeds Account and this income can be invested by the Treasury along with other General Fund income. The interest earnings from such investments serve to offset the interest payment for notes, which is due upon maturity.

This request would not substantially modify current Education Loan Program processes, but it would eliminate the State's interest payment obligation. Instead, participating districts would bear responsibility for the interest payment obligation for necessary loans.

Assumptions and Tables to Show Calculations:

Estimated Net Cost to State for Interest Payments for School Loans

Interest Payment Calculation for School Debt Issuances	Actual FY 2009-10	Estimate FY 2010-11	Estimate FY 2011-12	Estimate FY 2012-13
A. Premium (Less Issuance Costs)	$4,977,899	$2,488,949	$5,027,678	$5,077,955
B. Interest Earned by Treasury	648,183	324,092	654,665	661,211
C. Total Available for Interest Payments (A+B)	5,626,082	2,813,041	5,682,343	5,739,166
D. Total Amount Due	7,214,444	3,607,222	7,286,588	7,359,454
E. Difference (C-D)	(1,588,363)	(794,181)	(1,604,246)	(1,620,288)
Net Cost to State for Interest Payments for School Loans	**1,588,363**	**794,181**	**1,604,246**	**1,620,288**

- FY 2009-10 data is from the Colorado Department of the Treasury and calculations include ETRAN Series 2009A and 2010A, which were the two issuances to occur in FY 2009-10.
- The estimated net cost to the state for interest payments in FY 2010-11 is lower in comparison to other projected fiscal year net costs because the State Treasury issued only one ETRAN series in FY 2010-11. In a typical year the State Treasury issues two ETRAN series.
- The premium is amount the purchaser pays in excess of the call value of the bond and is repaid by the end of the fiscal year. The premium is invested by the Treasury over the course of the fiscal year and earnings from these investments serve to offset the net cost to the state for interest payments on school loans.
- Interest earned by Treasury represents investment income earned by the department through statutorily sanctioned investments over the course of the fiscal year. Interest earnings serve to reduce the net cost to the state for total interest payments for school loans.
- Estimates for this proposal are based on FY 2009-10 data. Projections for all variables associated with this proposal can be quite volatile because of interest rate changes and other bond market circumstances.

Current Statutory Authority or Needed Statutory Change

Statutory changes to the following sections would be necessary in order to implement this proposal.

Section 29-15-112, C.R.S. (2010)

State treasurer may issue tax and revenue anticipation notes for school districts. (1) The state treasurer is hereby authorized to issue tax and revenue anticipation notes for school districts in accordance with the provisions of this section for the purpose of alleviating temporary cash flow deficits of such school districts by making interest-free loans pursuant to section 22-54-110, C.R.S.

Section 22-54-110, C.R.S. (2010)

Loans to alleviate cash flow deficits - lease-purchase agreements. (1) (a) (I) Upon approval by the state treasurer of an application to participate in an interest-free or low-interest loan program submitted by a district pursuant to paragraph (a.5) of this subsection (1), the state treasurer shall make available to such district in any month of the budget year an interest-free or low-interest loan from the state general fund or the proceeds of the tax and revenue anticipation notes issued pursuant to section 29-15-112, C.R.S., in an amount for the month as certified by the chief financial officer and the superintendent of the district.