THE BOND BUYER

Connecticut panel grasps pension crisis after years of underfunding

By Paul Burton
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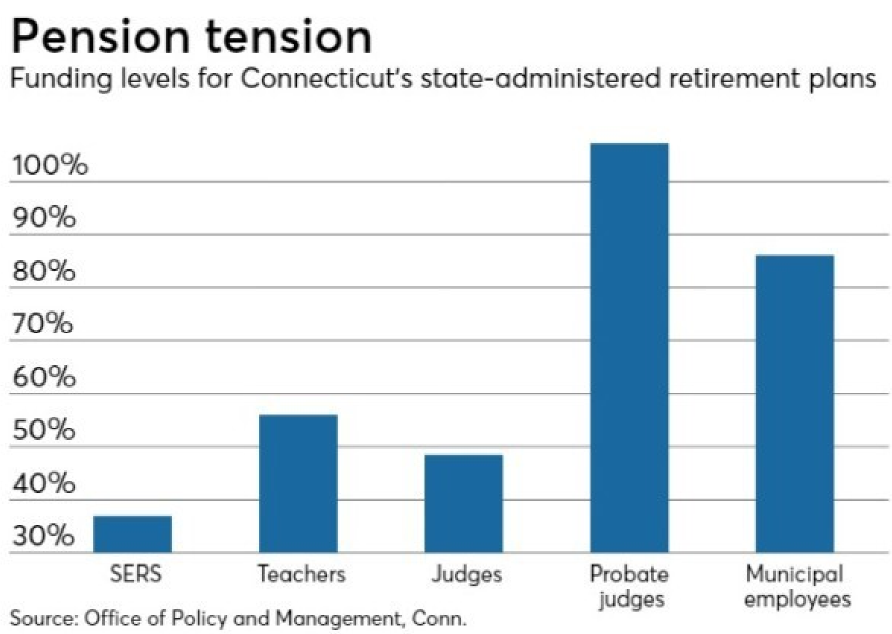
Connecticut's pension funding crisis reflects several decades of underpayments by previous state leaders, said the chairman of a commission formed to tackle the problem.

"We should have no illusion of the magnitude of the problem," state Rep. Jonathan Steinberg, D-Westport, said at an organizational meeting of the Connecticut Commission on Pension Sustainability at the Legislative Office Building in Hartford.

Pension liability, other legacy costs and budget imbalance — which contrast with Connecticut's high per-capita metrics — triggered downgrades from all four bond rating agencies last year.



Connecticut has an estimated $33.8 billion pension liability, while its five largest cities — New Haven, Bridgeport, Hartford, Waterbury and Stamford — owe $2.1 billion.

"The state's long-term liability burden is elevated and among the highest for a U.S. state but still considered moderate," Fitch Ratings said of Connecticut in advance of an $889 million general obligation sale planned for mid-August.

"Unfunded pension liabilities are more significant, with recent reforms providing budgetary savings but raising the unfunded liability."

Fitch rates Connecticut GOs A-plus. Moody's Investors Service assigns an A1 rating, while S&P Global Ratings and Kroll Bond Rating Agency assign A and AA-minus, respectively.

The bipartisan panel, which now has 11 members and plans to add two more, will explore alternative means of whittling down the state's pension liability. It must submit its findings to the state legislature by January.

It may hold its next meeting as soon as mid-August.

"We're looking for new ideas," said Steinberg, who cited budget cuts during his eight years at the capitol. "Continuing to cut is very difficult. We've been cutting programs that work and are essential to the state of Connecticut."

Raising taxes, especially in a politically divided state, is also difficult, Steinberg added.

"There is no quick fix to a pension system that is underfunded," said Benjamin Barnes, the state budget Director. "Pension problems took generations to develop in the state of Connecticut, and ultimately their resolution will take decades."

Too quick a solution, Barnes added, would involve austerity and heavy taxation, both of which would be counterproductive.

One option, attached as a rider to the fiscal 2018 budget that passed in January, is to place state capital assets into a trust and maximizing them solely to benefit the state pension fund.

Transfers of state-held assets to an independent trust may involve legal complexities.

"It's not something we can address in the abstract because it's going to be different for every different asset," Associate Attorney General Joseph Rubin said.

"I'll tell you today, we can't sell or give away the parks. We can't sell or give away the seashore. Those things are held in public trust. But for lots of other things, everything else came to the state in a different way, and everything has different laws that control it."

Michael Imber, a managing director at EisnerAmper LLP, said the panel would have to construct "a pretty definitive database" before sifting through legal constraints to see what assets are off the table.

"I think that we're all going to end up in junior high school algebra, where we try and solve for multiple unknown variables simultaneously," said Imber, a restructuring expert who has worked on three municipal bankruptcies, including Detroit's.

"And one of them's going to be, what are the legal restrictions, what's the inventory of assets, what government agency owns that asset, is there a different agency that controls the disposition of that asset?"

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