

Pension Sustainability Commission

MEETING MINUTES

Friday, January 18, 2019

3:00 PM IN ROOM 1E OF THE LOB

I. CONVENE MEETING:

The meeting was called to order at 3:00 PM by Chairman Rep. Steinberg.

The following commission members were present:

Representative Jonathan Steinberg, Robyn Kaplan-Cho, Salvatore Luciano, Justice C. Ian McLachlan, Joseph Rubin, Michael Imber, Ted Murphy, Erin Choquette (for Shane Mallory), Greg Messner, Tara Downes, Laurie Martin (for Treasurer's office)

Absent were:

None

Two vacancies at time of meeting: Minority Leader of the House of Representatives, Governor's appointment

II. OPENING REMARKS:

Chairman Rep. Steinberg opened the meeting by sharing his goals for today's meeting- resolving any outstanding issues members may have with proposals that will be presented today within the final report outline in hopes of preparing members to begin to write the final report. He also pointed out that there have been several news reports recently published discussing securitizing tolls which leads him to believe that the issues (specifically monetizing/securitizing assets) being discussed by this group are not going away.

III. FINAL REPORT OUTLINE:

Chairman Rep. Steinberg proceeded to review the proposed draft outline (below) of the final report with thanks to commission member Tara Downes for putting the document together.

Pension Sustainability Commission Report Draft Outline

I. Executive Summary/Overview

- Commission's charge
- Unfunded Pension history & implications for future
- Actions taken to date to address these problems (pension funding reform/research by other commissions)

- Briefly summarize CPSC's efforts to fulfill its task (#presenters/#concepts reviewed) and provide synopsis of recommendations that will be further explained in the following report (maybe: some form of lottery transfer coupled with further exploration of capital asset investment by a state-run entity, dependent on further analysis by CPSC).

II. Legacy Obligation Trust

- Concept summary (management, oversight, certificates of trust, examples of what other government entities have done)
- Potential benefits (innovation/optimizing state assets for potential benefit of the pension fund/getting fair market value for assets)
- Potential concerns (preserving retirement systems' tax-exempt status/costs/untested & unknowns/no assets identified/irrevocably ceding state authority over its assets to a private third-party)
- Steps necessary to determine feasibility (IRS letter ruling/identifying assets for transfer/consultation with real estate investment experts, bond counsel and accountants)

III. Treasurer-Managed Capital Asset Investment

- Concept summary (similar to LOT summary, but managed by State Treasurer through contract rather than by independent third party)
- Potential benefits (innovation/optimizing state assets for potential benefit of the pension fund/preserves state authority over its assets/avoids concerns related to tax-exempt status)
- Potential concerns (identifying state assets)
- Steps necessary to determine feasibility (consultation with new Treasurer/consultation with real estate investment experts, bond counsel and accountants)

IV. Capital Asset Inventory

- Summary of asset inventory value/process
- Explain proposed criteria that legislature/future body will have to consider before any transfer (DOT property off limits due to federal rules/legal hurdles/new state law and policies regarding transfer of property)
- Value/summary of inventory post-criteria

V. Lottery Transfer (in whole or in part/revenue stream vs. securitizing)

- Concepts explored & summary (transferring revenue stream vs. securitizing/whole transfer vs. partial transfer)
- Potential benefits compared
- Potential concerns compared

- Steps necessary to determine best course for each lottery concept

VI. Recommendations

- Lottery transfer (in what form TBD) and further analysis of state-run capital asset transfer to pension fund.
- Continue the CPSC, with modest funding for consultants, to complete the following necessary additional analysis:
 - Accounting and financial implications of wholesale vs. partial transfer of lottery
 - Accounting and financial implications of securitizing lottery vs. revenue stream transfer
 - Accounting implications of asset transfer to pension fund
 - Real estate expert assessment of potential investment opportunities for properties identified in the capital asset inventory with criteria applied

After reviewing the different sections of the proposed outline Chairman Rep. Steinberg asked commission members if they think things are missing from the outline or perhaps members feel there is a different direction that the group should be considering as they prepare their final recommendations.

Joseph Rubin asked if the group should include or consider the negative effects of transactional costs when forming recommendations. He pointed out that creating new entities will cost money- legal fees, financial fees, accounting fees etc. He stressed that it is possible that the administrative/management costs of this new entity may outweigh the benefits.

IV. DISCUSSION OF CORE INTERROGATORIES:

Chairman Rep. Steinberg then proceeded to lead a discussion regarding whether or not the proposed questions (below) as provided by Erin Choquette cover the many different decisions the commission members must consider when drafting the final report recommendations.

Please note that the questions below were modified later in the meeting as votes were taken by the full commission.

Definition of the concept: Do we agree that the Legacy Obligation Trust (LOT) concept can be generally defined as the contribution of State assets (real estate or other) that have the potential to generate income into a trust, the proceeds of which are dedicated to one or more of the state pension plans?

Governance: Based upon the information the Commission has received, particularly from the Office of the State Treasurer, do we agree that, in CT, the State Treasurer should have authority over the governance of the LOT?

Identification of Assets: Does this Commission have sufficient information at this time to make recommendations about the particular assets that should be contributed to the LOT?

In framing these questions Erin Choquette explained that she felt that it was important to separate the idea of the LOT in both concept and governance. She explained that in forming these questions it is important to consider if we can put these assets in a “special place” that is governed by “someone special” to try to increase money for the benefit of the pensions. Also for consideration is who would be that somebody that would manage this process and make those decisions? And finally for consideration- what assets are we talking about- real estate, proceeds from the lottery or some other intangible asset?

Chairman Rep. Steinberg stressed that commission members should not forget to consider intangible assets that need to be considered when talking about the feasibility of the concept at hand. While they may be harder to measure these intangible assets are very important to consider. Such intangibles include increasing confidence in the state of CT from residents, businesses, and rating agencies.

Greg Messner and Erin Choquette discussed the governance section of the proposed questions. Ms. Choquette explained that she framed that question so that the LOT itself is something where the governance is not determined- so who will take on that responsibility is a separate question. Laurie Martin opined that she does not think it could be anyone but the Treasurer’s office as they are the sole fiduciary of the existing plans. Rep. Steinberg explained that while he and other members may end up agreeing with Ms. Martin members should still engage in a conversation regarding governance.

Michael Imber and Robyn Kaplan-Cho discussed the origination and background of the LOT concept while Ms. Martin explained the current investment protocol and strategy that is utilized by the Treasurer’s office.

Justice McLachlan explained that while he is intrigued with the LOT concept it may be that it doesn’t work for the State of Connecticut because we have failed to identify any real assets that would be able to work within the concept. He also stressed that this body needs to be candid about the fiduciary problems that we have- there are legal restrictions involving creating a LOT for the lottery.

Ted Murphy and Greg Messner discussed the prospect that if this group continues its work there could be a new charge that spells out what kind of properties are on the table i.e. state parks, open space, etc. Joseph Rubin explained that there are some absolutes when it comes to the law and the dealings of certain state properties and these need to be considered.

Chairman Rep. Steinberg explained that it may be helpful to create a value system that may reflect the viability of utilizing certain assets. This group may be able to offer suggestions on how someone would go about processing properties thus providing guidance to a new entity that may continue this work.

V. COMMISSION VOTES:

Prior to taking a vote Chairman Rep. Steinberg explained that if we approach consensus through a vote it may help the putting together of the final report and may also help avoid people not expressing how they feel until there is a final vote on recommendations.

The votes that were taken at the time of the meeting are below:

- 1.) Does the commission support the concept of transferring state assets into a trust the governance of which shall be voted on after this for the purposes of state pension funds?**

The motion **passed unanimously by a voice vote**

- 2.) Does the commission support the concept of transferring the proceeds of the lottery to the pension funds pending further analysis?**

Prior to the vote Mr. Imber explained that when New Jersey did this it was not looked upon as favorably as one may think among the various rating agencies as it was a marginal at best credit positive move as revenue was just being shifted from the general fund to the pension funds. He also believes that this is outside of this group's scope as we have determined that the lottery cannot go into a trust.

The motion **passed unanimously by a voice vote (Michael Imber voted No)**

- 3.) Does this Commission have sufficient information at this time to make recommendations about assets other than the lottery that should be contributed to a trust?**

The motion **failed by a voice vote**

- 4.) Based upon the information the commission has received, particularly from the Office of the State Treasurer, do we agree that, in Connecticut, the State Treasurer should have authority over the governance of the trust?**

The motion **passed unanimously by a voice vote**

- 5.) This commission recommends further exploration of the concept of donating to a trust be taken on by this commission or by a new entity perhaps with different areas of expertise and or be handed over to the treasurer's office for further exploration in any event with adequate funding for resources?**

The motion **passed unanimously by a voice vote**

VI. REPORT WRITING NEXT STEPS:

Chairman Rep. Steinberg explained that in an effort to encourage members to take ownership of the drafting of the report it is his suggestion that the outline be divided amongst different members who will then contribute to the drafting of their assigned section.

The different sections of the outline were assigned to members as follows:

I. Executive Summary/Overview: Rep. Steinberg, Greg Messner, Laurie Martin

II. Legacy Obligation Trust: Mike Imber

III. Treasurer-Managed Capital Asset Investment: Laurie Martin

IV. Capital Asset Inventory: Erin Choquette, Joseph Rubin, Ted Murphy

V. Lottery Transfer (in whole or in part/revenue stream vs. securitizing): Robyn Kaplan-Cho, Greg Messner, Laurie Martin

VI. Recommendations: Tara Downes

VII. SCHEDULE OF REMAINING MEETINGS:

- **February 26, 2019 at 10:00 AM**
- **March 5, 2019 at 10:00 AM**

VIII. CLOSING REMARKS:

Rep. Steinberg closed the meeting by discussing the great work that all commission members have put forth thus far and he does not know what the legislature will do with this group's final report he is hopeful the general assembly will take a close look at their recommendations.

The meeting was adjourned at 5:08 P.M. by Chairman Rep. Steinberg.

Tom Spinella

Administrator