

Key Findings and Conclusion

The State of Connecticut continues to face the consequences of decades of failure by prior administrations to adequately and responsibly fund the state's pension obligations. These failures have threatened not only the financial and economic stability of the state, but have jeopardized the future of retirement security for hundreds of thousands of working people and their families, including teachers, law enforcement officers and caregivers to our state's most vulnerable citizens.

State leaders, particularly those from both labor and management, have taken essential steps over the last eight years to begin the hard work of righting Connecticut's history of pension underfunding. These collaborations have resulted in sacrifices by workers and have created new innovative payment reform plans to set Connecticut on a more disciplined path to financial recovery. New labor-management agreements have created new retirement tiers that increase employee contributions, prevent overtime spiking and provide other sacrifices. New annual "stress tests" of the state's retirement systems will also serve as an important monitoring tool for policymakers, better assuring that no future generation repeats the mistakes of the past.

These steps have already improved the financial health of the state's retirement systems, but more is necessary to adequately strengthen the state's financial outlook, and reaffirm Connecticut's obligations to those who have spent their lives working and sacrificing under the belief and promise of financial security and stability for their families.

Policy makers across government are continuing to explore new and innovative solutions to manage Connecticut's unfunded liabilities. A new state administration, as well as a new term of constitutional officers and lawmakers, is beginning the process of declaring its proposals for consideration.

As explained earlier in this report, the Connecticut General Assembly, through Public Act 17-2 June Special Session, Sec. 180, established the Connecticut Pension Sustainability Commission to continue this work. The Commission was mandated to study the feasibility of placing state capital assets in a trust and maximizing those assets for the sole benefit of the state pension system. More specifically, this legislation mandated that the Commission fulfill the following:

1. Perform a preliminary inventory of state capital assets for the purpose of determining the extent and suitability of those assets for including in such a trust;
2. Study the potential impact that the inclusion and maximization of such state capital assets in such a trust may have on the unfunded liability of the state pension system;
3. Make recommendations on the appropriateness of placing state assets in a trust and maximizing those assets for the sole benefit of the state pension system;
4. Examine the state facility plan prepared pursuant to section 4b-67g of the general statutes; and
5. If found to be appropriate by the members of the commission, make recommendations for any legislation or administrative action necessary for establishing a process to
 - a. Create and manage such a trust, and
 - b. Identify specific state capital assets for inclusion in such a trust.

In order to fulfill its mandate, the Commission spent approximately six months researching and receiving presentations of verbal and written testimony from project managers, actuaries, academics and various experts from across sectors and across the country in order to better understand the costs, benefits and opportunities in reinvesting public assets in order to optimize those assets, while strengthening the state's financial position.

On a parallel track, the Commission worked to identify legal and policy considerations and criteria (See Attachment __) that must or should be factored into any decision to transfer any state asset for the purposes of reinvesting it into the state's pension funds. As explained earlier in this report, the Commission has been working closely with the state Office of Policy and Management (OPM) in an effort to apply these proposed criteria to the state's inventory of capital assets so that the state can determine what assets may be appropriate for a state entity to consider reinvesting for the benefit of the state's pension funds. That effort by OPM remains ongoing as of the publication of this report.

Following the efforts outlined above, the Commission has reached consensus on certain findings regarding the feasibility of a concept that can be generally characterized and defined as "the contribution of state assets (real 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."

The Commission's key feasibility findings and conclusions with regard to this concept are outlined below.

Trust Concept. The Commission believes it is feasible for the state to establish a mechanism to identify and transfer state assets into a trust for the sole benefit of the state's pension funds, but that the concept will require further analysis and action by this Commission or another state entity or agency for reasons explained below.

Identification of Real Estate Assets. There is insufficient information at this time for the Commission to conclusively identify any specific state real estate assets that may be appropriate for contribution into a trust for the purpose of reinvesting those assets for the sole benefit of the state pension funds. The Commission *has* developed a list of criteria that should be considered in a state evaluative process – involving OPM, the Office of the State Treasurer and any other state authority that the legislature should designate – for the purposes of determining what real assets are appropriate for transfer into a trust for the benefit of the state's pension funds. The Commission developed the criteria to ensure that any transfer process factor a minimum of all legal, policy and practical considerations before making such transfer. In the event that the legislature decides to continue exploring the concept of reinvesting state real estate for the benefit of the state pension funds, it is imperative that the legislature provide explicit policy guidance as to whether properties classified as state parks or as forest land or state farm land, or properties designated as "Historic", or any other type(s) of properties should or should not be considered in addition to those simply designated as surplus. The policy implications for such an asset reinvestment and transfer, while potentially worthwhile, are too significant for the scope of this Commission's existing charge.

Trust governance. In the event that OPM's ongoing effort to apply the Commission's criteria to the state's real property inventory should successfully identify real assets that may be appropriate for transfer to a trust to be reinvested for the sole benefit of the state pension funds, the Commission reviewed potential governance structures. Governance concepts reviewed included governance by an independent trust or by the Office of the State Treasurer. The Commission has found that it is only feasible for any such trust, as outlined in this report, to be managed under the sole authority of the state Treasurer who has sole fiduciary authority over the pension funds. The Commission does not believe it is legally feasible or advisable for any trust to be managed by an independent non-state authority over pension fund investments outside of the authority of the state Treasurer. Attempting to do so has the potential to interfere with the state Treasurer's fiduciary responsibility, as well as the essential tax-exempt status of the pension funds.

Transfer of Lottery Proceeds vs. Transfer of Lottery Asset. The Commission explored various concepts involving the use of Connecticut Lottery revenue for the benefit of the state pension funds, including the State of New Jersey's revenue-allocation model, the securitization of all or some of the anticipated value of the Connecticut Lottery or an entire asset transfer. Based on research and analysis presented to the Commission and attached to this report, including analysis by the Office of the State Treasurer, the Commission believes that the concept of transferring proceeds of the Connecticut Lottery to the pension funds is feasible. The Commission also believes that wholesale transfer of the Connecticut Lottery, as an asset to the funds, is also technically feasible, although the Commission notes that the Office of the State Treasurer raised important concerns about how that approach would affect the liquidity of the pension funds. A wholesale asset transfer would increase the value of the pension funds' assets and reduce the unfunded liability, however, it would also reduce the ADEC and result in negative cash flows to the funds. In the event that the Connecticut Lottery proceeds are directed to the state's pension funds, the determination as to how those proceeds are allocated after transfer is under the authority of the Office of the State Treasurer. Donation of the lottery as an asset may be feasible subject to certain concerns related to liquidity and the need to create or modify the governance structure.

Further analysis. The Commission recommends that, should the legislature wish to explore the specific concepts identified in this report further, that such work be conducted by either the Office of the State Treasurer and/or through the continuation of the existing Connecticut Pension Sustainability Commission in order to avoid duplicative work by another newly established state entity. The Commission also recommends that the legislature, in pursuing additional analysis, designate sufficient resources to allow for professional legal, accounting, actuarial and/or other necessary consulting services to verify the feasibility of these concepts.

In conclusion, the Commission thanks all of those from within and outside state government who presented research and analysis that will assist our state in identifying additional mechanisms to further strengthen Connecticut's financial stability, and assure retirement security for teachers and state workers.