Senator Osten, Representative Walker, and members of the Appropriations Committee, good afternoon and thank you for the opportunity to submit testimony concerning Governor Lamont’s proposed budget for the Office of the Treasurer and debt service for fiscal years 2020 and 2021.

I am excited to bring new ideas and a fresh perspective to the Treasury. Moreover, I very much look forward to working with the legislature to advance public policy initiatives that strengthen the State’s financial outlook as well as growing our economy and supporting local communities. In particular, since I was sworn in as State Treasurer 51 days ago, I have been focused on improving the state’s credit ratings and overall fiscal stability, reviewing how the pension funds can get a better return on its investments while managing risks, promoting financial empowerment for our residents and responsible corporate governance, to name a few.

Before addressing the Treasury’s agency budget, I offer comments on two important provisions of the proposed biennial budget that more broadly impact the state: the funding of pensions and debt service.

**Teachers’ Retirement Fund Special Capital Reserve Fund**

With respect to the funding of pensions, I pledge my strong support for *An Act Stabilizing the Teachers’ Retirement Fund*. This proposal rests on two fundamental objectives: first, we can restructure payments to the pension fund in a way that is more sustainable for taxpayers now and into the future and we can keep our commitment to teachers and bondholders.

Under the current framework, required payments are projected to increase to an unsustainable level, peaking in 2032 at nearly $3.4 billion. As you know, a covenant in the pension obligation bonds issued in 2008 requires the full annual funding of an actuarially determined employer contribution formula from 2008 (“ADEC”) based on a closed amortization period ending in 2032. The bond covenant prohibits changes to this requirement unless the Governor declares an emergency or adequate provision is made for the protection of bondholders. Working with the Governor and OPM Secretary McCaw, we propose creating a ‘Teachers’ Retirement Fund Special Capital Reserve Fund (“TRF SCRF”) that will provide adequate provision for the protection of bondholders and, thereby, allowing the state to reamortize the unfunded liabilities and reduce ADEC payments to a sustainable level.

The TRF SCRF is modeled after the state’s special capital reserve fund that is utilized when quasi-public agencies issue debt, and we have proposed that it be initially funded from the state’s current fiscal year 2019 surplus. In the very unlikely scenario that the TRF SCRF is drawn upon, lottery revenues are pledged to replenish the fund.

As outlined in the Governor’s budget, this approach will allow for several key changes to the Teachers’ Retirement Fund that I believe will put the state on a sustainable path towards fully funding of the TRF, while maintaining fiscal responsibility:
• Lower the rate of return assumption from 8.0% to 6.9%;
• Reamortize the unfunded actuarial accrued liability (UAAL) schedule over 30 years;
• Change from a 3.25% payroll growth assumption to a level-dollar amortization methodology, phased in over 5 years; and
• Require continued pension funding discipline through new statutory language.

This proposal has been stress tested by my office’s independent financial advisors and we have also reviewed our proposal with the credit rating agencies. In fact, Fitch Ratings found that it will alleviate significant fiscal risks to the state over roughly the next twelve years. Importantly, this approach, as confirmed by legal advice from the Office of the Attorney General, does not violate our bond covenant. Moreover, no changes are being made to scheduled principal and interest payments on the bonds – the pension obligation bond debt will be paid off on the same schedule. This approach is similar to changes made in 2017 to the funding of the State Employees’ Retirement System, and OPM estimates it will result in estimated budgetary savings totaling $183.4 million in FY 2020 and $189.4 million in FY 2021.

**Debt Service Budget**

With regard to the Governor’s proposed General Fund debt service budget, we have concerns. The Treasury has analyzed the proposal and adjusted our projections of taxable and tax exempt issuance to reflect the impact of the Governor’s proposed “Debt Diet.” Unfortunately, even with these adjustments, we fall short of what is necessary for debt service in both years of the biennium. We are working with OPM to consider a delay in statutory provisions requiring the application of bond premium for project costs instead of debt service payments. If this statutory provision is not delayed, the deficiency could be greater. We will continue to work diligently with OPM to reduce the shortfalls and will keep the Committee informed of our progress over the coming months. Of course, the timing and amounts of future interest rate increases will have an important effect on our efforts. I look forward to working with the Committee to find a resolution to avoid any shortfalls in the debt service budget.

And lastly, with regard to the Governor’s Special Tax Obligation, Infrastructure Purposes, debt service appropriation for the biennium, we agree that those amounts support proposed issuances of $750 million in FY 2020 and $800 million in FY 2021.

**Treasury Agency Budget**

In terms of the Treasury’s operating budget, I am committed to carrying out my responsibilities in a prudent and cost-effective manner. And while approximately 97% of the Treasurer’s Office is funded through sources outside of the General Fund (roughly 3 percent of our operations are supported through the General Fund), the Treasury has, for more than a decade, done more with less: over the past 15 years, the Office has cut its staff by 68 positions or 31 percent. Moreover, we currently have 31 vacant positions. When I assumed my duties as State Treasurer, I found that the Office left positions unfilled and had personnel performing more than one job – for example, the Deputy Treasurer was also Assistant Treasurer for Cash Management; one person serves as Assistant Treasurer for the Second Injury Fund and the Unclaimed Property Division; and the Chief Compliance Officer also served as Assistant Treasurer for Policy. In addition, the Treasury was
assigned responsibilities on new boards and commissions, such as the Municipal Accountability Review Board (of which I am co-chair), the Pension Sustainability Commission and the Retirement Security Authority -- without additional staff.

The doubling-up on positions needs to end. There is only so much that can be cut, and we reached the limits of how far we can tap into non-General Fund sources. I need additional resources to build, an Office that performs such essential functions. Consequently, I ask for your support of a modest budget increase of approximately $250,000. I would be happy to discuss this request – which was submitted by the previous Treasurer but not included in the Governor’s budget proposal – during the subcommittee work group process.

In addition, on the subject of ABLE, the Treasury’s efforts to date in implementing a Connecticut program to offer tax-advantaged savings accounts for individuals with disabilities has been hampered by the lack of dedicated funding. Connecticut’s enabling legislation was enacted in 2015, and assigned administration of this program to the Treasury without an appropriation. The office requested $160,000 per year to get a Connecticut program launched and available to our residents. I would like to reiterate that request, and would be pleased to provide additional information to the subcommittee.

Thank you for the opportunity to offer input on the Governor’s proposed budget. I would be happy to take any questions that you may have.