The Legacy Obligation Trust
A new approach to funding pension & OPEB liabilities

Connecticut Pension Sustainability Commission

September 7, 2018
Executive Summary

• The Legacy Obligation Trust ("LOT") concept is a new approach to solving the underfunded municipal pension and retiree healthcare problem in the United States.

• A government unit makes an in-kind contribution of real assets – like land, buildings, infrastructure, enterprises
  • to a professionally and independently managed trust
  • for the benefit of one or more underfunded municipal pensions and retiree health plans.

• The trust issues Certificates of Trust ("COTs") much like shares of stock, and divides them among the various pension & OPEB funds the government unit sponsors.
Executive Summary

- The government unit’s designed benefits include:
  - an immediate credit against its unfunded liability based on the fair market valuation of the assets contributed to the trust
  - the pension & OPEB funded ratios increase, which may improve the credit rating agencies’ assessment of the government unit
  - an immediate, positive cash flow impact on the unit’s budget as the “catch-up” payment for the underfunding goes down
  - the independent, professional manager is incented to create additional value to further increase the pension’s funded ratio

- The LOT concept is a new idea that has not been previously implemented in the U.S.
- In-kind contributions to pensions have, however, been utilized in the U.S. and internationally.
Legacy Obligation Trust Model

**LOT**

**PENSION FUNDS**

**OPEB FUNDS**

**LOCAL GOVERNMENT UNIT ("LGU")**

REAL ESTATE
- Vacant land
- Buildings
- Foreclosures

INFRASTRUCTURE
- Bridges, Tunnels,
- Airports, Roads

ENTERPRISE
- Hospitals,
- Nursing homes,
- Utilities

**STEP 1:** Unit transfers assets to LOT

**STEP 2:** LOT issues *marketable* Certificates of Trust ("COT") to the pension & OPEB funds evidencing beneficial ownership

**STEP 3:** Hire independent manager
The LOT Manager maximizes economic value

### STEP 4
LOT Manager negotiates sale, lease, or other economic interest with private sector enterprise where all beneficial interest accrues for the LOT.

### STEP 5
Success of deployed assets increase the value of the COT which benefits the pension & OPEB funds.

Assets are re-valued each year.
Further thoughts on Capital Asset Universe

- **Undeveloped assets** can be converted to cash generating, unlocking new value
- **Developed assets** need to be assessed for highest and best use and potential for profitable turnaround

<table>
<thead>
<tr>
<th>UNDEVELOPED</th>
<th>DEVELOPED ENTERPRISE ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>No $</td>
<td>Making $</td>
</tr>
<tr>
<td>• Raw Land</td>
<td>• Stadiums</td>
</tr>
<tr>
<td>• Government occupied buildings</td>
<td>• Golf Courses</td>
</tr>
<tr>
<td></td>
<td>• Utilities</td>
</tr>
<tr>
<td></td>
<td>• Hospitals</td>
</tr>
<tr>
<td></td>
<td>• Skilled Nursing Facilities</td>
</tr>
</tbody>
</table>