THE BOND BUYER
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New treasurer's vision for Connecticut

New Connecticut Treasurer Shawn Wooden generated a buzz with his proposal to shore up the state teachers' pension system.

He expects the initiative to kick-start a busy year at his seventh-floor office overlooking Bushnell Park in downtown Hartford.

"We've been conducting an overall review of our investment program, from asset allocation to risk tolerance," said Connecticut Treasurer Shawn Wooden.

According to Wooden — who oversees $63 billion in state assets including $34 billion in state pension funds — other priorities include infrastructure investment, financial literacy, better investment returns and helping improve the state's major cities.

"One issue we have to look at is how do we get more investment in infrastructure in the state," Wooden said in an interview.

Infrastructure is a pivotal component for new Gov. Ned Lamont's administration. Lamont has called for the resumption of highway tolling, long a political lightning rod in Connecticut. The governor said Wednesday the move could generate $800 million annually, starting in 2023.

Wooden, 49, a Democrat and former Hartford City Council president, took office in January after 21 years at law firm Day Pitney LLP, which is Connecticut's bond counsel. He succeeds Denise Nappier, who retired after 20 years as treasurer.

According to Wooden, proposed pension legislation, which his office crafted in conjunction with Lamont's senior staff, would establish a capital reserve fund; level pension payments to offset spikes in annualized contributions while honoring promises to bondholders; abide by a bond covenant to a $2 billion pension borrowing in 2008; and boost Connecticut's standing in the bond markets.

It would lower the TRF discount rate to 6.9% from 8%, Fitch Ratings calling the current rate "unrealistic."

Lamont's proposed $43.1 billion biennial spending plan includes other revenue initiatives, including taxes on plastic bags and sugary drinks.

"In the near-to-medium term, these actions, if enacted, should stabilize ratings and help the state to distance itself from comparisons to Illinois and New Jersey," said Municipal Market Analytics. "Longer-term, the restructuring of the [Teachers' Retirement System] has the potential to pressure the state's budget again if investment assumptions are not met, or worse, the stock market falters."

(Audio: Why Connecticut is a state to watch in 2019).

Budget deficits and high legacy costs — pension and bond debt combine for roughly one-third of Connecticut's general-fund budget — have dragged down the state's ratings.

Moody's Investors Service rates Connecticut general obligation bonds A1, while S&P Global Ratings and Fitch rate them A and A-plus, respectively. Kroll Bond Ratings Agency assigns its AA-minus rating. Kroll assigns a negative outlook, the others stable.

MMA called rising state pension contributions "a significant pressure point." They consume 13% of general fund spending. "The fixed amortization date for the TRS is particularly problematic, because the remaining duration is short, and adjusting it is constrained by bond covenants."

Fitch said the proposals "merit careful consideration in the context of the overall budget." Fitch noted that they would alleviate significant fiscal risks to the state over about 12 years tied to scheduled, escalating contributions to the Teachers' Retirement Fund.

"The fate of the proposals is not expected to affect Fitch's rating on the state, as Connecticut's pension burden is unlikely to diminish any time soon absent more extensive changes to funding practices or retirement benefits," Fitch senior director Douglas Offerman said.

Alan Schankel, a managing director at Janney Capital Markets, called the proposal a plus.

"It's a relatively small step, but it's a positive one. It won't stop all their problems, but Connecticut is going in the right direction," Schankel said. "There's an element of pushing it down the road, but they've somewhat offset that by reducing their return assumptions."

Lamont also wants local governments to share 25% of the normal costs of the required pension contribution. Distressed cities would contribute merely 5%. Fitch called the proposal "modest relative to pension cost shifts undertaken by other states in recent years."

Still, Lamont could face blowback from municipalities.

"If passed it is credit negative for local governments, not so much for the current proposal but because it opens the door for future increases in the shift that could significantly burden local governments," MMA said.

Connecticut cities and towns now make no employer contributions to TRF while teachers themselves contributed a fixed 6% of payroll to the fund from long before the recession until Jan. 1, 2018, when it rose to 7%.

By contrast, said Fitch, county school boards in Maryland since fiscal 2016 have borne all normal costs for teachers; the state retains responsibility for unfunded liabilities.

Since the recession, according to Fitch, pension systems in other states including California, Florida and Virginia have shifted larger shares of their rising contribution burdens to employees to shore up pension system funding and reduce fiscal pressure.

"It's painful for the locals, but they have to do it and a lot of states are doing that," Schankel said.

Wooden cited Connecticut's Jan. 30 revenue-sharing agreement with New London regarding the State Pier as an example of city-state cooperation on infrastructure.

Under the agreement with Lamont's administration, New London will receive 10% of the Connecticut Port Authority's share of revenue from the pier over 20 years. Additionally, according to Mayor Michael Passero, the authority will pay an annual $75,000 fee to defray the costs of police, fire and other city services.

Passero initially objected to the announced deal in early January with port operator Gateway, citing no guarantee of funding to the city.

“This agreement is an important step forward for New London and other cities that face similar situations regarding tax-exempt properties,” said Wooden, an ex-officio authority board member.

Fitch on March 4 revised its outlook for New London to positive from stable, noting the city’s strengthened budget management practices and increased reserve levels.

Wooden grew up in the North End of capital city Hartford. His father owned a television repair and record shop, while his mother was a teacher's aide in a preschool program. She later worked at the Community Renewal Team as part of its lead-poison prevention and energy-assistance programs for low-income families.

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Wooden attended public schools in Manchester, 10 miles east, under a busing program, and graduated from Hartford’s private Trinity College, where he is now a trustee.

He was president of the Hartford City Council from 2011 to 2015.

“As a former municipal official and one at a distressed city at that, I’m sensitive about how the things we do at the state level impact local communities,” he said.

Hartford was on the cusp of a Chapter 9 bankruptcy filing until the state last year agreed to pay off the principal on the capital city's roughly $540 million of general obligation debt over 20 to 30 years. Hartford and West Haven are both under state oversight.

Another goal for Wooden is to improve investment performance in the so-called emerging markets — Africa, Eastern Europe and the Pacific Rim.

“We’ve been conducting an overall review of our investment program, from asset allocation to risk tolerance, and we are restructuring our emerging markets management portfolio,” he said.

Five emerging market investment managers appeared before the Investment Advisory Council on Feb. 13. One of the firms, Stamford-based Arga Investment Management LP, is a current manager in the Connecticut Horizon Fund. The others were Driehaus Capital Management LLC; GQG Partners LLC; Schroders Investment Partners Ltd.; and Lazard Asset Management LLC.

“Expected returns have come down since the great recession and I believe our investment assumptions should be reflective of this reality,” Wooden said at the meeting. “The investment team has put together a complimentary structure that maximizes the return potential for the Emerging Markets International Stock Fund.”

Wooden’s six post-election hires include Sarah Sanders, who returned as assistant treasurer for debt management, a position she held from 2007 to 2017 before her brief stretch as director of finance at Rhode Island housing. She began her career at Connecticut Treasury in 1997.

Other hires are deputy treasurer Linda Savitsky; general counsel John Rubén Flores; deputy general counsel and chief compliance officer Barbara Housen; assistant counsel and legislative liaison Jennifer Putetti; and outreach coordinator Aundré Bumgardner.