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NAPPIER URGES CAUTIOUS APPROACH IN PERMITTING MUNICIPALITIES TO ISSUE PENSION BONDS

ALSO CALLS FOR REVISIONS IN LAWS TO PERMIT TREASURER TO PAY OFF DEBT AND REDUCE PENSION LIABILITY, USE SURPLUS FUNDS RATHER THAN BONDS

TO PAY FOR AUTHORIZED ROAD AND BRIDGE IMPROVEMENTS

State Treasurer Denise L. Nappier today urged caution as the state legislature considered a bill that would permit municipalities to issue pension obligation bonds.

In supporting legislation that would allow communities to borrow to fund past unfunded liability of their pension plans by issuing bonds, Nappier stressed several key elements: municipalities issuing pension obligation bonds must keep current on their pension contributions, both the Treasurer and the Office of Policy and Management must be equal partners in the oversight process, and municipalities need to submit an asset allocation plan for the investment of municipal pension dollars.

In testimony before the Finance, Revenue and Bonding Committee, Nappier also advocated legislation that would permit the Treasurer to use unappropriated surplus funds at the end of the fiscal year to reduce the state's unfunded pension liability or reduce bonded indebtedness. Nappier said the plan would clarify state law on the use of the funds and permit the Treasurer to consider market conditions in allocating the money to maximize the return on the surplus dollars and have the best impact on the state's fiscal condition.

Nappier said the proposed municipal pension bill "will help assure that municipalities proceed cautiously and act responsibly when undertaking the issuance of pension obligation bonds. It would, of course, be preferable to avoid extreme pension underfunding, and I believe we at the State level may be able to do more to help municipalities on the prevention side."

Nappier said that her office is evaluating additional actions, such as encouraging participation in the Municipal Employee Retirement Fund, looking at a consolidation of local pension funds for investment purposes, and providing workshops for municipal officials in areas such as investment strategies, actuarial assumptions, which were recommended by a 1997 legislative Task Force which reviewed the issue.

Regarding the unappropriated surplus proposal, Nappier told the Committee that "there may be times when the State could achieve a far better return on its money by using a portion of the unappropriated surplus to reduce the unfunded pension liability. That's because monies contributed to the pension fund which are invested may generate income that would exceed the savings that would be realized by reducing the state's debt."

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"My first priority as state Treasurer is to ensure that the state's financial affairs are on sound fiscal footing," Nappier told the Committee. "That means keeping the State's books balanced, the pension fund secure, our debt levels manageable, and our investments achieving a solid return. In this way we can maximize our resources to meet the State's financial obligations, and thereby reduce the burden placed on Connecticut's taxpayers."

Under current law, any unappropriated surplus – the money left remaining at the end of the fiscal year after the legislature has made decisions about the use of previously projected surplus dollars -- must be used in a specific sequence. Funds must first be paid into the states Budget Reserve Fund or "rainy day fund" (up to 5% of the current budget), then to past unfunded pension liability (not to exceed five percent of the unfunded past liability), and finally to reducing bonded indebtedness. A conflict with a recent Constitutional provision, however, has prevented funds from being used to reduce pension liability.

The proposal, which Treasurer Nappier made in coordination with State Comptroller Nancy Wyman, would clarify the inconsistencies in the existing statutory language and the Constitutional provision. It continues the contribution to the "rainy day fund" which is currently required, as the first use for unappropriated surplus funds, but then permits the Treasurer to determine the best apportionment of the remaining funds between reducing pension liability and bonded indebtedness and removes a 5% limitation on pension contributions.

Nappier said the change is important because it would "allow the use of the unappropriated general fund surplus in a manner most fiscally beneficial to the State, and enable the Treasurer to determine, based on an analysis of current market conditions, whether it would be more cost effective to reduce bonded indebtedness and/or pension liability," Nappier said.

USING TRANSPORTATION FUND SURPLUS CASH RATHER THAN NEW BONDS

Nappier also urged legislative support of a proposal she is advocating that would permit surplus funds in the state's Special Transportation Fund to be used to pay for transportation infrastructure improvements -- roads and bridges -- instead of bonding for those expenses. Under current law, surplus dollars in the Fund in excess of $20 million may be used by the Treasurer to 1) redeem existing bonds, 2) purchase existing bonds on the open market, 3) defease existing bonds, or 4) pay debt service in fiscal year 1999 or any year thereafter. Nappier proposed adding a fifth option, using the surplus funds to pay for authorized transportation infrastructure improvement projects on a "pay as you go" basis, rather than issuing bonds for the expenditures.

"It would be appropriate to consider this new option at times when it has been determined that it would be economically beneficial to use cash for new authorized projects rather than bond for those projects and incur additional debt," Nappier said. "This could occur, for example, when the cost of borrowing money is estimated to be more expensive than the rates on existing bonds."

The projects funded under the proposal would only be those for which Special Tax Obligation bonds have been authorized by the State Bond Commission, but which have not yet been funded with bond proceeds.

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