

Finance, Revenue and Bonding Committee

March 28, 2016

Testimony Submitted By

The Honorable Adam M. Cloud

Treasurer City of Hartford

S.B. 464, An Act Establishing a Financial Oversight Board in the
City of Hartford

Co-Chairs, Ranking Members, and Members of the Finance, Revenue and Bonding Committee, thank you for allowing me to testify regarding S.B. 464.

As Treasurer of the City of Hartford, I have twice sworn a fiduciary duty of care, loyalty and prudence regarding the assets and administration of the City's Municipal Employees' Retirement Fund (the "MERF"). The MERF exists for the benefit of more than five thousand participants. The current assets in the fund total \$965 million dollars and the funded status of the fund is 77%. This is a healthy fund. But, I caution you – the future health of the City's pension fund is dependent on specific language in the City Charter which mandates that the City must make an annual payment to the fund that is based on sound actuarial principles and as determined by the City's Pension Commission. Unfortunately, S.B. 464, as presently drafted, represents a direct threat to the soundness of the MERF and causes great concern to me on behalf of the thousands of fund participants who are entitled to rely on the promises that have been made to them in exchange for their years of loyal service

to the City of Hartford. I am here to speak for them and I am also here to object to what appears to be an attempt to take away home rule relative to the power of a municipality to govern itself. The MERF is an irrevocable trust established for the benefit of its members and its funding is an **obligation**, not part of the operating budget of the City. The funding requirement cannot be ignored, altered or reduced by the City Council and the Mayor in an attempt to close a financial gap. Let me illustrate.

The MERF now pays out more than \$100 million dollars per year in retirement benefits. The fund is sustained in 3 ways: by contributions from active employees, by actuarially determined contributions from the City of Hartford and from harvesting gains and liquidating principal from the City's portfolio of investments. This system only works when everyone does their part - the members have always done their part, our investments play an important role and the City must continue doing its part. Otherwise, there is little separating the City of Hartford from the situation facing Detroit, Chicago or other municipalities. We should be thankful for

the fiscal discipline that was wisely built into the City Charter – this is no time to abandon this discipline.

S.B. 464, as drafted, attempts to make an end run around the City Charter by seeking cover from the legislature to avoid fulfilling its annual obligation to the pension fund.

Based on analysis conducted by my office, in conjunction with the City's independent actuary and the pension fund's investment consultant, S.B. 464 could damage the MERF irreparably, making today's healthy MERF completely unrecognizable in less than five years.

As I mentioned, the fund currently has assets of approximately \$965 million dollars. The Mayor has requested that my office analyze the impact of a 50% underfunding of the City's contribution for the next five years. On a preliminary basis, I can testify that this would at minimum cost the fund approximately \$196 million dollars. Worse, if we encounter another economic crisis similar to the last one where our investments suffer, the MERF's value could fall by more

than half a billion dollars, resulting in a funded status of no more than 28%, rather than the current 77%. This would gut the fund's liquidity and the City would never be able to catch up the payments. This approach is just another way of kicking the can down the road. The failure to properly fund the annual MERF contribution results in a cost akin to borrowing at 7.75%. As the Co-Issuer of the City's debt, I believe there are better solutions and I urge the Mayor and Council to explore these alternatives with me.

There are many other impacts that cannot be discussed and reviewed in the time that I have. I will leave behind documents in support of my testimony and I will also be posting to the City Treasurer's website (Treasurer.Hartford.gov) additional information that has been developed by our actuary and by our pension consultant, as well as, the final report of the Healthcare and Pension Task Force that explored options for improvement and cost savings. I urge everyone to go to the website and review these important documents. The governing sections of the City Charter are here for your review.

CHARTER OF THE CITY OF HARTFORD CONNECTICUT

Text from

Sec. 2A-6. - Contributions.

City contributions. The city shall pay annually into the fund such proportion of the pay of all members employed by the city, library or board as may be determined from time to time by the pension commission on sound actuarial principles to be necessary in addition to the contributions by members to provide future pensions based on service rendered by members. The pension commission shall make a complete actuarial study of the experience of the retirement system established by this chapter at intervals of no more than five (5) years and shall thereupon readjust the contributions to be made by the city.

Chapter X

Sec. 5. - Budget deliberations of the council.

Modifications. After the conclusion of such public hearing, but not later than a date specified by ordinance, the council may insert new items of expenditures or may increase, decrease or strike out items of expenditure, except that no item of appropriation for debt service and no item of appropriation necessary to fulfill the obligations of the city as determined by the pension commission shall be reduced.