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★ *for* Connecticut ★

A VISION AND A PLAN  
FOR FINANCIAL STABILITY AND PROSPERITY

Prepared for: Delegates to the 2018 Democratic State Convention

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## Introduction

Connecticut's financial problems pose a threat to every resident of our State. A financial burden has built up over decades and causes concern to our friends, neighbors and communities because our home values, our schools and essential public services are all being jeopardized to pay the debts of our parents and grandparents.

Connecticut's future depends on overcoming **unfunded pension liabilities**. These are problems that lie at the door of the State Treasurer. Connecticut needs a Treasurer with the leadership and business skills necessary to manage State debt and pension obligations at a time when those obligations are causing a budgetary crisis affecting every citizen and taxpayer in Connecticut.

I am running for the office of State Treasurer because I have the in-depth financial expertise, experience and ability needed at this critical time. No-one else seeking this office has been the Chief Financial Officer of several large corporations or has the accounting background that I offer. At these critical times for Connecticut's financial future, experience matters. My proposals include restructuring our unfunded pension obligations to reconfigure asset ownership and thereby offsetting some of those obligations, replacing high cost obligations with lower cost debt and improving the rate of return on the pension funds' assets without compromising their safety.

These are specific proposals with the objective of stabilizing the State's finances, helping to eliminate future budget deficits and providing a new climate of fiscal calm that will encourage new business creation and set our State on a path to recovery.

The welfare and future of all our State's residents will rest on the shoulders of new officials elected this November but it will be especially important to elect a State Treasurer who has successfully managed finances on a scale larger even than our State's and who has done so through financial crises and bubbles. Connecticut needs a Treasurer who has the vision and will to lead us to a future of renewed prosperity.

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## The Best Choice for the Job

My qualifications and experience to implement this plan as State Treasurer are as follows:

- Qualified as a Chartered Accountant with Pricewaterhouse in the City of London.
- Joined BP and filled the following positions that are directly relevant to the State Treasurer's office:
  - Senior member of the private equity team that considered every kind of alternative investment to oil, gas and chemicals.
  - Projects included the formation of a solar business that became the largest in Europe, investment in a deep-sea saturation diving company, investment in a coal project in Australia, investment in the world's largest chemical tanker company and consideration of hundreds of other projects such as a Danish insulation material producer, geothermal energy, wave energy, wind energy and the world's first deep-sea DP drill ship built by Sedco.
  - Head of strategic planning for the BP group, reporting to the Planning director who reported directly to the Chairman (who was also the CEO at that time)
  - Named CFO of BP North America, responsible for issue of \$100's millions of tax-benefit transfer leases on the Trans Alaska pipeline.
  - Restructured the BP group's world-wide asset ownership structure.
  - **Oversight of US asset investments for the group pension plan** including investigation of an investment in a major mall development in Washington DC.
  - Management of investments in a W. Coast chip manufacturer and a salmon ranching venture, part of BP Nutrition.
  - Responsible as deputy chief internal auditor for the drafting and implementation of the group's compliance procedures with the FCPA (Foreign Corrupt Practices Act)
- After the decision to stay in the USA, I joined Stolt Tankers and Terminals, the world's largest chemical tanker company as its CFO.
  - Took the company public in 1988.
  - Member of team that built and financed the company's terminal at Perth Amboy NJ.
  - Financed major ship building projects in S Korea and Croatia.
  - **Oversaw management of the company's pension plans.**
- I left Stolt to start my own ship finance consulting company – advised bondholders in a large international workout – and joined a chemical buyout company as its CFO – Harris Chemicals

- I conceived and negotiated the largest high-yield bond deal ever done at that time.
- **Oversaw the management of the company's pension plans.**
- I am a member of the finance board of the 2<sup>nd</sup> oldest charity in the state of New York at the St. Andrew's Society, **managing the society's endowment fund.**
- I started my own company in Connecticut with two partners, Flagship Networks Inc., a systems integration business now employing 36 employees with major verticals in health care, financial service, shipping and engineering companies nearly 20 years ago.
- I have completed two terms on the finance board in Greenwich – the Board of Estimate and Taxation (BET) – as member of the Investment Advisory Committee with supervision of the town's retirement funds. Moved to adopt an O-CIO (outsourced investment) model for management of the funds, now under Neuberger Berman.

### **Action Plan for the Connecticut State Treasury**

The State's fiscal situation is dire and requires the services of an experienced CFO as its Treasurer. Connecticut needs someone with a unique blend of skills and experience who can manage people, assets and projects and be accountable for the results. Hard choices and clear financial thinking is needed and politicians hoping to make the Treasurer's office a stepping stone for further office in Connecticut are not what is needed at this perilous time.

An overall plan has just been presented by "The Commission of Fiscal Stability and Economic Growth" which details our future fiscal problems and makes significant tax policy and economic development proposals. The Treasurer is not responsible for tax policy but many of the Commission's other proposals can be promoted from the Treasurer's "Bully Pulpit." My restructuring plan when I ran for State Senate in 2016 contained many of these proposals.

## **Current situation**

- Budget deficit of \$2B looms in FY 2019-2020
- Current ARC (Actuarially Required Contribution) is \$1.2B
- The major part of the State's budget problems (one that the State Treasurer can directly influence) is the result of the:
  1. Legacy problem of unfunded pension liabilities:
  2. Current assets = \$34B
  3. Current liabilities (future pension obligations) =>\$60B
- The ARC will expand to \$6B by 2032 – this is completely unsustainable.

## **Blankley's plans of attack – “go big or go home”**

1. Obligations will have to be re-amortized past 2032 – the currently negotiated end date. This is not a new plan but the idea needs to be pushed. Union buy-in would almost certainly be needed. But combined with other initiatives below, a “grand pact” could be achieved.
2. Partial debt defeasance. The unfunded pension liability is a debt like any other. Attempts to renege, as suggested by some republican Governor candidates, will result in years of litigation, hundreds of millions of dollars of expense/losses, extremely poor headlines, increased budget deficits and further HNW exodus). Therefore replace some portion of the liability with proceeds of a bond issuance at lower interest rates – this is debt defeasance.
3. Transfer in certain State assets. This is one of the recommendations of The Commission of Fiscal Stability and Economic Growth, their proposal was the transfer in of the State Lottery, a \$5B value, to help fund the teacher's retirement program. That alone will significantly reduce the ARC.
4. Improve the ROR on the pension funds. Funds currently meet benchmarks but these are meaningless. BIC (best-in-class) returns are 4-5% points higher. FYI, a 1% improvement on \$34B is \$340 million while 3% (ie, over \$1B) would get close to the current ARC (though the actuaries would pare that).

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## **Plan to improve the ROR on pension fund assets**

Fully funded pension plans can adopt a “liability matching” investment plan. Underfunded plans do not have that luxury and must adopt “return seeking” policies, inevitably incurring investment risk. This alone demands that a seasoned and experienced hand should be at the helm.

1. Allocation. This is the most significant determinant of fund performance and needs constant review. The treasurer recently replaced AON with the Jim Meketa group. Consequently, I have to believe that better allocation decisions are already being made but even a consultant of this caliber needs to be challenged to produce the best possible mix.
2. Manager selection. The outside consultant aids in this process but again, an experienced CFO who has not only made these decisions but has seen the investing methods and prowess (or otherwise) of these institutions, from the perspective of the operating CFO promoting stock and bond offerings for his company, has a unique view of manager performance and ability.
3. An innovative approach designed and implemented to address the unique issues our State is facing is essential. Index-linked investing has potential risks that should be mitigated. An approach that identifies potential outperformance in market segments and guided by the best portfolio managers provides a viable plan.
4. In-State investment opportunities need to be considered. For example the NY State pension plan has a fund dedicated to technology investment just within NY State. Another idea would be participation in a regional infrastructure investment bank. Projects could include terminal facility development for so-called Ro-Ro (roll-on, roll-off) vessels that would potentially remove a lot of truck traffic from our major highways.

## **Conclusion**

My experience has four major components:

- Professional qualification as a Chartered Accountant with Price Waterhouse
- Major world-wide corporate management, restructurings, financing and investing
- Entrepreneurial and small business activity
- Local government and elective office, including runs for the Assembly and Senate

These experiences relate directly to the main functions of the Treasurer's office:

1. Treasury operations and bond issuance
2. **Pension and endowment fund management, on a scale larger (in BP) than the State of Connecticut.**
3. I can claim battle and stress-tested experience: managing through Black Monday in 1987, the S & L crisis, the dot.com bubble and the financial crisis of 2008-9.

Finally, and worth underlining, is that such success as I have achieved in my life has always been through working with others, as a team member or leader. The State Treasurer must have the skills needed to work with the treasury staff, the Governor and his or her staff, other constitutional officers, legislators and outside professionals. I am confident that I am equipped by experience and temperament to fill this role at this critical time.