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April 26, 2016

The Honorable Denise L. Nappier
Treasurer, State of Connecticut
Hartford, Connecticut

Madam Treasurer:

We have served as legal counsel to the State of Connecticut (the "State") in connection with \$2,100,265,000 Taxable General Obligation Bonds (Teachers' Retirement Fund 2008 Series A - Current Interest Bonds) and \$176,313,270.75 Taxable General Obligation Bonds (Teachers' Retirement Fund 2008 Series B - Capital Appreciation Bonds) of the State of Connecticut (collectively, the "Bonds"). We have examined a record of proceedings relative to, and the provisions of the general statutes authorizing the issuance of, the Bonds.

The Bonds were issued pursuant to Public Act No. 07-186 (the "Act"). Section 8 of the Act authorized the Treasurer to include the undertakings and pledge included in Section 8 of the Act in the Bonds. The pledge by the State in the Act and in the Bonds (the "Bond Covenant") (attached hereto as Appendix A) runs to the benefit of the holders of the bonds. The State pledged to the holders of the Bonds that there shall be deemed appropriated from the General Fund of the State an amount equal to the annual required contribution (the "ARC") to the fund for the State teachers' retirement system (the "TRF"), with such amount to be deposited by the Treasurer in the TRF in quarterly allotments.

In addition, the State pledged that as long as the actuarial valuation for each biennium and the certification of the ARC was completed in the manner and by the dates required by the provisions of Section 10-183*l*(b) and 10-183z of the general statutes, no public or special act of the General Assembly shall diminish such required contribution until the Bonds, together with the interest thereon, are fully met and discharged, provided alterations may be made if and when:

1. adequate provision shall be made by law for the protection of the holders of the Bonds ("Adequate Provision") <u>or</u>
2. the Governor declares an emergency or the existence of extraordinary circumstances, in which the provisions of Section 4-85 of the general statutes are invoked <u>and</u> at least 3/5 of the members of each the House and the Senate vote to diminish the contribution during the biennium for which the emergency exists <u>and</u> the funded ratio of the TRF is at least equal to the funded ratio immediately after the sale of the Bonds in accordance with the actuarial method used at the time ("Emergency Determination").[1]

The pledge further required that in no event shall a diminution pursuant to an Emergency Determination result in a reduction of the funded ratio of the TRF by more than 5% from the funded ratio which would otherwise have resulted had the State funded the full ARC, or the funded ratio immediately after the sale of the Bonds, whichever is greater ("Maximum Diminution Limitation").

The Act and the Bond Covenant state that the amount of the ARC shall be determined in accordance with the provisions of subsection (b) of section 10-183*l* and section 10-183z of the general statutes as amended

[1] At the time the Bonds were issued, the funded ratio of the TRF was approximately 70%. As of the last actuarial valuation, the funded ratio of the TRF was approximately 59%.

by the Act. Section 10-183*l* provides in part that the Teachers' Retirement Board shall arrange for an actuary to prepare an actuarial valuation of the assets and liabilities of the TRF as of June 30, 1980, and at least once every two years thereafter. The statute further provides that on the basis of reasonable actuarial assumptions approved by the Teachers' Retirement Board, such actuary shall determine the normal cost required to meet the actuarial cost of current service and the unfunded accrued liability.

Section 10-183z(b) requires that the Teachers' Retirement Board determine on an actuarial basis (1) a normal rate of contribution which the State shall be required to make into the TRF in order to meet the actuarial cost of current service and (2) the unfunded past service liability. In making such determinations the board shall assume that the annual rate of interest earned by TRF invested by the Treasurer equals the total assumed rate of return adopted by the board under other provisions of the statutes. From fiscal years 1985 to 1992, the funding program for the actuarial reserve basis consisted of a percent (set forth within the statute) of the sum of the normal cost and the amount required for a 40 year *"amortization of unfunded liabilities"* and then beginning in fiscal year 1993, that the unfunded liability shall be amortized over a period of 40 years. Section 10-183b(2) of the statutes defines *"amortization of unfunded liabilities"* to mean the systemic program of annual payments determined as a level percent of expected member annual salaries in lieu of a lump sum payment. Section 10-183b(27) of the statutes defines *"unfunded liabilities"* to mean the actuarially determined value of the liability for service before the date of the actuarial valuation less the accumulated assets in the retirement fund.

We are of the opinion that, without Adequate Provision or an Emergency Determination (and, in the case of an Emergency Determination, subject to the Maximum Diminution Limitation), a modification of Section 10-183b or 10-183z of the general statutes, directly or indirectly through another statutory provision, that would have the effect of diminishing the ARC as determined in accordance with those sections prior to the amendment, would violate the Bond Covenant. Further, we are of the opinion that for purposes of determining compliance with the Bond Covenant, the ARC must be calculated based on (i) amortizing the unfunded liabilities as a level percent of member annual salaries pursuant to Section 10-183b(2) and (ii) a 40 year amortization period ending June 30, 2032 pursuant to Section 10-183z(b).

The above advice is limited solely to the matters expressly set forth above. No other opinions are intended nor should they be inferred from this letter.

Very truly yours,

Day Pitney LLP

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NTS/DWG

APPENDIX A

(Excerpt from text of the Bonds)

The Bonds were authorized by Sections 1 through 8 of Public Act No. 07-186 of the General Assembly of the State of Connecticut, January 2007 Session, as amended. Section 8 of Public Act No. 07-186 provides as follows:

Each fiscal year that any bonds authorized by sections 1 to 8, inclusive, of this act or any refunding bonds are outstanding, there shall be deemed appropriated from the General Fund of the state the amount equal to the annual required contribution to the fund for the Connecticut teachers' retirement system and such amount shall be deposited by the Treasurer in the fund for the Connecticut teachers retirement system in quarterly allotments on July fifteenth, October first, January first and April first of such fiscal year. The amount of the annual required contribution shall be determined in accordance with the provisions of subsection (b) of section 10-183*l* and section 10-183z of the general statutes, as amended by this act, and for each biennial budget shall be the amounts for the fiscal years of said biennium determined in the actuarial evaluation required to be submitted by the December first prior to the beginning of the first fiscal year of the biennium, as provided in said subsection (b) of section 10-183*l*, beginning with the actuarial evaluation submitted prior to December 1, 2006, for the biennial budget for the fiscal years commencing July 1, 2007, and July 1, 2008. Said amount shall be certified by the Teachers' Retirement Board and the Comptroller. The state of Connecticut does hereby pledge to and agree with the holders of any bonds issued under sections 1 to 8, inclusive, of this act and any refunding bonds that, as long as the actuarial evaluation for each biennium, as required by this section, and the certification of the annual contribution amounts, as required by this section, are completed in the manner and by the dates required by this section, subsection (b) of section 10-183*l* of the general statutes and subsection (a) of section 10-183z of the general statutes, as amended by this act, no public or special act of the General Assembly shall diminish such required contribution until such bonds, together with the interest thereon, are fully met and discharged, provided nothing herein contained shall preclude such limitation or alteration if and when adequate provision shall be made by law for the protection of the holders of such bonds, or if and when the Governor declares an emergency or the existence of extraordinary circumstances, in which the provisions of section 4-85 of the general statutes are invoked, and at least three-fifths of the members of each chamber of the General Assembly vote to diminish such required contribution during the biennium for which the emergency or existence of extraordinary circumstances are determined, and the funded ratio of the Connecticut teachers' retirement system is at least equal to the funded ratio immediately after the sale of bonds pursuant to sections 1 to 8, inclusive, of this act in accordance with the actuarial method used at the time. If all of such conditions are met, the funding of the annual required contribution may be diminished, but in no event shall such diminution result in a reduction of the funded ratio of the Connecticut teachers' retirement system by more than five per cent from the funded ratio which would otherwise have resulted had the state funded the full annual required contribution, or the funded ratio immediately after the sale of the bonds, whichever is greater. For purposes of this section, the "funded ratio" shall be measured as the actuarial value of assets over the actuarial value of liabilities. The actuarial value of assets and the actuarial value of liabilities will be projected from the most recent actuarial valuation to the end of the fiscal year in which said annual required contribution is due. For purposes of this section, the "existence of extraordinary circumstances" may mean a change in the actuarial methods or accounting standards used to value the fund that would result in a significant increase in the state's annual required contribution. The State Treasurer is authorized to include this pledge and undertaking for the state in such bonds.

Pursuant to the foregoing authorization, the State Treasurer hereby includes the foregoing pledge and undertaking for the State in the Bonds.