

**Office of the Vermont Secretary of State  
Vermont State Archives**

**Veto Message: Governor Douglas  
2005 (S.74)**

**An act relating to the allocation of the assets of the state teachers' retirement system of Vermont, the Vermont state employees retirement system, and the Vermont municipal employees' retirement system.**

STATE OF VERMONT  
Executive Department.  
Montpelier, Vt., March 17, 2005

**Message from the Governor**

A message was received from His Excellency, the Governor, by Mr. Neale Lunderville, Secretary of Civil and Military Affairs, as follows:

Mr. President:

I am directed by the Governor to inform the Senate that on the seventeenth day of March, 2005, he returned without signature and *vetoed* a bill originating in the Senate of the following title:

**S. 74.** An act relating to the allocation of the assets of the state teachers' retirement system of Vermont, the Vermont state employees retirement system, and the Vermont municipal employees' retirement system.

**Text of Communication from Governor**

The text of the communication from His Excellency, the Governor, thereby he voted and returned unsigned **Senate Bill No. 74** to the Senate is as follows:

March 17, 2005

The Honorable David A. Gibson  
Secretary of the Senate  
State House  
115 State St., Drawer 33

Montpelier, VT 05633

Dear Mr. Secretary:

I am returning S.74, *An Act Relating to the Allocation of the Assets of the State Teachers' Retirement System of Vermont, the Vermont State Employees' Retirement System, and the Vermont Municipal Employees' Retirement System*, without my signature pursuant to Section 11 of Chapter II of the Vermont Constitution.

S.74 proposes to create the Vermont pension investment committee (VPIC), to oversee the investment of the assets of the three public retirement systems. The VPIC would be a nine member committee that includes representatives from each of the current retirement Boards. Under S.74, all of the trustees serving on the Board for the municipal system are authorized to vote for the trustee who will represent that system on the VPIC. But S.74 only allows one-half of the trustees serving on the Boards for the State employees' and Teachers' systems to select their respective representatives to the VPIC. I find this prospect to be counter to the fundamental democratic principle of one person, one vote.

At present, the State Employees' Board has eight trustees—four trustees who are either active or retired state employees, two Commissioners from the Administration, one Governor appointee, and the State Treasurer *ex officio*. Similarly, the Teachers' Board has six trustees--three who are either active or retired teachers, one Commissioner from the Administration, the independent Commissioner of Education, and the State Treasurer, *ex officio*. During my eight years as State Treasurer, I served on all three Boards as an *ex officio* trustee. I found that my fellow trustees understood the importance of their fiduciary duty to manage the pension assets and were able to work together in a non-political fashion as they discharged those responsibilities.

S. 74, however, proposes to create two distinct and unequal classes of trustees on two of these Boards--those who are eligible to select the VPIC members and those who are not. The bill provides that two members and one alternate are to be "appointed by the Vermont state employees' association and the Vermont retired state employees' association trustees of the board of the Vermont state employees' retirement system." This means that four of the eight trustees on the

State Employees' Board will have no say in the selection of the VPIC members.

Similarly, the bill provides that two members and one alternate are to be "appointed by the teacher and retired teacher trustees of the board of the state teachers' retirement system of Vermont," meaning three of the six trustees on the Teachers' Board will be denied the opportunity to select the VPIC members. Restricting the right to select the VPIC members to only those trustees who are either retired state employees, teachers or retired teachers reinforces a labor-management split on a committee where an individual trustee's fiduciary duty to the retirement system and to taxpayers should supercede his or her affiliation.

Service on any of the Boards requires a tremendous commitment of time and pre-meeting preparation. In my experience, not every trustee is willing to commit the necessary time to the task nor is every trustee equally interested in the investment management, as opposed to the benefits management, function of the Boards.

The selection of the VPIC members, however, is of paramount importance to the State of Vermont. This committee will oversee the investment of the assets of all three retirement systems, which comprise an investment portfolio in excess of \$2.6 billion. Our objective should not be to force a particular politically motivated outcome for the Board representatives, which is exactly what S.74 does. Our objective should be for the full membership of the existing Boards to make this important appointment decision together and to choose the most qualified individual trustees to serve on the committee.

Some have argued that giving the full Boards a say in selecting the trustees to represent their respective Boards on VPIC will deny employees and teachers a seat on the committee. If one looks at the current composition of the Boards, however, it is clear that the employees and teachers hold 50% of the seats and that not all of the remaining seats are controlled by the Administration. For example, the State Treasurer, an independently elected state officer, serves on each Board, and I have no doubt his vote will reflect the independent nature of his position. Further, it was my experience that the Boards can work together well and are capable of ultimately reaching a decision that is in the best interest of the systems.

I wholeheartedly support the concept of unitization of the systems' assets for investment purposes. Over the years, the systems have "unitized" several of their common functions and generated substantial savings. Before I left the Treasurer's office, the systems had combined to contract with one actuarial firm, one custodian bank and one pension consultant firm. I understand that the Boards are currently working together to hire common money managers for certain sectors of investments. Simply put, legislation is not necessary for achievement of our common goal to reap savings through unitization. It is happening now without this bill.

Although S. 74 may result in a less cumbersome unitization process by placing it in a single committee, that efficiency does not outweigh the democratic principle of one person, one vote. I look forward to working with the General Assembly to continue to achieve savings for the retirement systems in a manner that does not deprive the current trustees of a voice in selecting their own representatives. This goal could be achieved with a simple amendment to the bill so that it does not restrict a trustee's ability to cast a vote for the VPIC members.

Sincerely,

/s/ James H. Douglas

James H. Douglas

Governor

# Governor's Veto Sustained

**S.74 2005**

The Governor's veto was overridden in The Senate:

**Yeas: 24      Nays: 3**  
*(a two-thirds vote attained)*

The Governor's veto was sustained in The House:

**Yeas: 87      Nays: 57**  
*(a two-thirds vote of 96 required)*

*Sources: Journal of the Senate, March 23, 2005 and  
Journal of the House, April 1, 2005.*