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Swanky Austin Tower Pits Teachers Against a Texas Public Pension Fund.

(Bloomberg) — The biggest public pension fund in Texas plans to move into what is billed as Austin’s tallest office tower. It’s turning into an enormous quarrel.

The \$160 billion Teacher Retirement System of Texas is taking heat from all sides — the lieutenant governor’s office, lawmakers and retired teachers. The focus of their ire: a \$3.9 million-a-year lease to occupy three floors in the gleaming downtown building set to open next year.

“The people who are paying the bills, they’re the ones who are saying: ‘Hey I taught in the hallway and you aren’t able to make this work at a lower price?’” said Tim Lee, executive director of the Texas Retired Teachers Association.

Both houses of the state legislature have set up hearings to examine the lease. Leaders of the fund, which manages benefits for 1.6 million current and former teachers and school employees, also plan to address the issue at a public meeting.

U.S. pensions have boosted riskier investments while contending with lackluster returns, which has put pressure on their spending decisions. They are also always under the microscope because they operate within government agencies, said Ashby Monk, who consults with institutional investors as executive director of Stanford University’s Global Projects Center.

“It’s dismaying to all of us that they would commit that kind of money,” said Dan Flynn, a Republican in the Texas House of Representatives. “You’re talking about public money.” The house hearing may occur early next month.

Texas Teachers has built a world-class investment operation, with a satellite office in London and plans for a similar setup in Singapore. In its home state, though, it has occupied a building between the Texas Capitol and Interstate 35 for the last 11 years.

The agency signed up for the new 100,000-square-foot space to accommodate its expansion. It expects to have 230 employees in the next three years up from about 180 today. Those staffers will be treated to amenities including a fitness center, outdoor terraces, and restaurants and stores that will comprise what developers say will be Austin’s biggest downtown office complex.

The rent row began last year when the Texas Teachers declined to disclose the lease terms to the Austin American-Statesman newspaper, sparking a months-long standoff. Last month it finally offered some details — the base lease rate — but excluded some costs like maintenance.

That led to public fallout. Last week, Lieutenant Governor Dan Patrick directed lawmakers to examine the total rental costs, including furnishings. The Senate finance committee will take up the matter during a Feb. 25 hearing, according to spokeswoman Katie Greer. The retirement system’s board will also discuss it at a two-day meeting starting Feb. 20, spokesman Rob Maxwell said.

Fund executive director Brian Guthrie said in a statement last month that the Texas Teachers got favorable rates by committing early. The rent, which rises to \$4.6 million by the end of the 10-year contract, is “well below current rates for comparable space in Austin’s tight rental market,” he said.

“We are aware of member and legislative concerns,” Guthrie said in an emailed statement. “I and the board give our fiduciary responsibilities the highest priority.”

That assurance is little consolation to retirees who rely on the fund.

“I never believed you need a fancy downtown building to attract people to Austin,” Lee said of the Texas Retired Teachers.

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by Michael McDonald

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