

**GLASTONBURY BOARD OF FINANCE
REGULAR MEETING MINUTES
WEDNESDAY, MARCH 18, 2020**

The Glastonbury Board of Finance, along with Finance Director, Julie Twilley, and Town Manager, Richard J. Johnson, held a regular meeting at 4:00 p.m. via dial-in conferencing.

Also on the call were Chris Kachmar, CFA, from FIA and Controller Narae McManus, as well as former Board of Finance member, Jared Soper.

Roll Call

Members

Mr. Constantine “Gus” Constantine, Chairman
Ms. Jennifer Sanford, Vice Chairman
Mr. Robert Lynn
Mr. James McIntosh {dialed in at 4:07 pm}
Mr. James Zeller
Mr. Walter Cusson

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| 1. Public Comment Session Pertaining to the Call | <i>None</i> |
| 2. Communication: Minutes - February 14, 2020 | <i>Tabled</i> |

Mr. Zeller requested that the minutes be tabled for discussion at the next meeting. The Board agreed.

- 3. Communication: Memo re: FIA Material / Discussion with Chris Kachmar from FIA**

Mr. Kachmar explained that he has been in regular communication with Town staff, noting that they are operating in highly unusual and volatile times. He noted that, in all likelihood, there will be a recession of some magnitude. Their job is to try to step back and think about the bigger objectives and risk tolerances, understand its tenure, and try as best as they can to stay the course. He stated that he has shared data with Town staff over the past several weeks, and Ms. Twilley forwarded questions from the Board related to accelerating contributions.

Mr. Kachmar stated that this could be an opportune time to put money back into equity. Mr. Lynn stated that they have a long-term horizon and are sitting on a treasury that is low, so he would like to lean into that a little more. He then asked, when do they (re)balance portfolios? Mr. Kachmar stated that a subcommittee was formed to create protocols. He noted that, typically,

they take from overweight areas of portfolios and rebalance. He deferred to the Board to decide whether there is an appetite to do some rebalancing with the resources they have today, and an appetite to accelerate other forms of inflows.

Ms. Sanford stated that there are plenty of opportunities, with regard to the pension. She stated that, in terms of rebalancing, she finds it urgent to give FIA the authority to do whatever they need to make those decisions. She noted that, for equities, they have no precedent, other than the 1918 Spanish flu, in terms of how long and deep the recession could be. She views this as an exciting opportunity for their pension and the money managers who are managing it. Mr. Kachmar echoed Ms. Sanford's point that most other boards are taking the opportunity to recalibrate their portfolios.

Mr. Kachmar asked the Board for permission to work with Ms. Twilley to redeploy the 6% overweight back into equities, to make them fully in line with their target weights. Mr. Cusson asked what actions the Board should take. Ms. Twilley clarified that they are not changing the structure of the program, simply reacting to the market movements and shifting the funds to get them back in line with the ranges set forth within the Investment Policy Statement. Mr. Cusson asked what the newest asset allocation number is. Mr. Kachmar said, as of last night, about \$140 million. Mr. McIntosh asked, when does value fall off so the PE ratio would suggest it is favorable? In other words, if they anticipate losing 25% of income earnings, where does the price have to fall, in order to get a favorable PE ratio? He asked because he would like to get an idea if they are in the bottom or near the bottom. Mr. Kachmar stated that he can generate some numbers and share them with the group.

Mr. Kachmar noted that the consensus among pundits is that this recession would be a comparatively mild one. He expects that in five years' time, they would reflect back on this time as a fairly attractive time to have put money into equities. Mr. McIntosh stated that this whole situation with the markets is a terrible reminder that they should not be in a situation where they have defined contributions in the pension. The Town is taking on the entire risk, and most other enterprises would not willingly enter into this situation. Mr. Zeller inquired about global equities. Mr. Kachmar stated that global equities, in the last month, are down on average 14%. Mr. Zeller explained that this shows they have had some pretty significant declines in the past. Mr. Kachmar stated that he continues to view the Town portfolio as a good one.

Mr. Kachmar stated that, as of last night, there is a 3.6% overweight on fixed income. He asked the Board if a 5% reduction in fixed income would be palatable. Mr. Zeller said yes. Mr. Lynn stated that he is in favor of leaning into equities, with more towards domestic. He expressed that this is an opportunity for people who will enjoy this plan 30 years from now. Ms. Sanford noted

that the US is moving much quicker than Europe on their policies to address an impending recession, so she would be in favor of sheltering more US stocks. Mr. Kachmar noted that the Town's targets are structurally skewed in favor of US equities.

Ms. Sanford stated that 30% seems too much for Europe. Mr. Kachmar clarified that some of that includes investments in Asia and elsewhere, outside of Europe. Mr. Johnson raised the point of possibly over-rebalancing for equities. Ms. Sanford asked if, they rebalance then over-rebalance, what would that look like. Mr. Kachmar explained that, right now, the conversation is centered on rebalancing and reacting to market dislocations. The action is consistent with their thinking right now.

Mr. Johnson added that if the current target for domestic equity is 40% and they are currently at 37%, the thought is to get to 40% and rebalance to get closer to 45%. And, if that is the case, over what period would that rebalancing take place? Mr. Kachmar stated that he views it as 5% of the aggregate portfolio, which is equal to \$7 million out of fixed income. They would look to put that money into domestic and international equities, of which perhaps just \$1 million would go into international equities, recognizing that this Board is in favor of US equities. In short, he explained that the most direct way of looking at it is moving \$6m to domestic equities and \$1m to international equities, both from fixed income.

The Board showed unanimous consensus for this approach. Mr. McIntosh expressed concerns about what the actuaries will ask them to contribute next year. If the market stays down, then they will have to brace themselves for increased contributions.

4. Communication: Pension Report – January 2020

Ms. Twilley discussed the report dated February 18, 2020. Mr. Zeller stated that he would like to see what their ADC projection is, so that they know before going into budget season. He requested that Mr. Johnson and Ms. Twilley look into it during the next few meetings. Mr. Johnson stated that the actuaries can look at it, and he will report back.

5. Communication: Month End Investments – January 2020

6. Communication: Financial Summary for 8 months - February 2020

7. Communication: Education Reconciliation –January 2020

8. Communication: Capital Projects – February 2020

9. Communication: Self Insurance Reserve Fund – February 2020

10. Communication: Transfers Approved by Town Manager Since Last Meeting (none)

Items 5-10 were accepted as presented, with no questions.

11. Action: Transfers over \$5,000

A. Public Water Service – Uranium

Mr. Johnson explained that the plan is to have Manchester Water Company and Metropolitan District develop concrete plans to link concentrations of high uranium in private wells serving residential properties with possible new water service. This request is to have enough allocation in place for an independent engineering firm to conduct a review. The fee proposal is \$35,000, but Mr. Johnson recommended \$50,000, with the understanding that it is better to have additional money in place rather than have to return for more money, if needed.

Motion by: Mr. Cusson

Seconded by: Mr. Zeller

MOVED, that the Glastonbury Board of Finance recommends to the Town Council a transfer of \$50,000 from the Capital Reserve - Unassigned Fund Balance to Capital Projects - Public Water Service - Uranium.

Disc: None

Result: Motion passed unanimously {6-0-0}.

A. Skating Area at Riverfront Park

Mr. Johnson explained that there were some leaks in the system, so they brought in a specialist to make repairs, with the understanding that as the year went by, they would have to make a transfer.

Motion by: Mr. Cusson

Seconded by: Mr. Zeller

MOVED, that the Glastonbury Board of Finance transfers \$9,985 within the Parks and Recreation Fund, from Wages into Contractual Services, to address repairs at the skating area at the Riverfront Park.

Disc: Mr. McIntosh asked, didn't the Town have an excess of funds for snow removal this year? Mr. Johnson replied yes, they are in good shape with their overtime account and winter storm account. This is a transfer within the department, which could yield a savings.

Result: Motion passed unanimously {6-0-0}.

B. Cyber Liability and Pollution Legal Liability

Ms. Twilley explained that the Insurance Advisory Committee had made a recommendation that the Town increase their liability coverage, which was done previously, so this is simply an administrative decision to move money within their Insurance/Pension accounts.

Motion by: Mr. Cusson

Seconded by: Mr. Zeller

MOVED, that the Glastonbury Board of Finance transfers \$12,000 within the Insurance/Pensions Fund, from Employee Related Insurance into Casualty Insurance, as recommended by the Insurance Advisory Committee.

Disc: None

Result: Motion passed unanimously {6-0-0}.

C. Plant and Pump Station Equipment

Mr. Johnson explained that the pump stations are very well maintained but need repairs and noted that this is all within the Sewer Operating Fund.

Motion by: Mr. Cusson

Seconded by: Mr. Lynn

MOVED, that the Glastonbury Board of Finance transfers \$28,000 from within the Sewer Operating Fund, from Sanitation/Water Pollution Control, Full-Time Wages, Utilities/Communications, and Contractual Services into Sanitation/Water Pollution Control and Repair and Maintenance Supplies.

Disc: None

Result: Motion passed unanimously {6-0-0}.

12. Communication: Bank Collateralization Reports

13. Board of Finance Committee Reports, comments and remarks (no action to be taken)

Mr. Constantine noted that PBC has not met, and there is no report.

Mr. Johnson stated that they have accepted the bids for the renovation at the high school. He noted that, for a lot of the equipment, time is of the essence, in order to award the contract and stay on track for project completion. However, they are about \$55,000 short for the split-system air conditioning and hope to reallocate money from other capital projects to the high school kitchen. He explained that the BOF could either do that tonight and establish a contingency or put it on their April agenda to formally conduct the reallocation then.

Mr. McIntosh questioned whether time is of the essence. He explained that it seems that they are in a situation where they will enter into a recession and when schools may not reopen, so he does not know how prudent it is to go into a contract, at this point, with the idea to do it quickly. Mr. Johnson explained that if they do not issue the contracts, then they will not be able to complete the project this summer as contemplated. Mr. McIntosh stated that, assuming that school is in session in the fall, he acknowledged that that makes it better timing. However, he noted that in a few weeks or months, they would likely get a better bid. Mr. Johnson stated that they could reject the bids and wait until the end of April/early May, but that could preclude the project from being

completed this summer, which would mean that the work would conclude in 2021, and the BOE would likely not support that approach. Mr. McIntosh stated that they should keep in mind that the contract may be prevented from going forward, if the government does not allow it, should the pandemic that is underway worsen.

The Board agreed to move forward with the proposal and place it on their April agenda for formal approval then.

Ms. Sanford noted that, at their previous meeting, Mr. McIntosh raised the point that the Town Charter states that whenever the Town Council finalizes a budget that differs from that of the BOF, they need to identify what they are doing differently. She noted that she listened to the Council meeting and is confused about their approach (especially with regard to the pension), so a letter would help clear confusion. Mr. Johnson agreed to draft a memo, outlining the Council's decision(s), and present it at the next BOF meeting.

14. Adjournment

Motion by: Mr. Cusson

Seconded by: Mr. Zeller

BE IT RESOLVED, that the Glastonbury Board of Finance moves to adjourn their meeting of March 18, 2020, at 5:19 p.m.

Result: Motion passes unanimously {6-0-0}.

Respectfully submitted,

Lilly Torosyan

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Recording Clerk

For anyone seeking more information about this meeting, a video on demand is available at www.glastonbury-ct.gov/video; click on Public Broadcast Video On Demand, and an audio recording is available in the Finance and Administrative Services Office.