

**GLASTONBURY BOARD OF FINANCE
REGULAR MEETING MINUTES
WEDNESDAY, OCTOBER 21, 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 was Chris Kachmar from FIA and controller Narae McManus.

Roll Call

Members

Mr. Constantine “Gus” Constantine, Chairman
Ms. Jennifer Sanford, Vice Chairman
Mr. Robert Lynn
Mr. James McIntosh
Mr. James Zeller
Mr. Walter Cusson

1. Public Comment Session Pertaining to the Call *None*

2. Communication: Chris Kachmar from FIA
a. Communication: September Flash Report

Chris Kachmar of FIA noted that while there has been some stability in the national health situation, they expect ongoing volatility and uncertainty in the market, due to several factors, including the pandemic, the upcoming election results, and the status of the next stimulus rollout. Mr. Kachmar noted that the portfolio at the end of September stood at about \$178 million. Last spring, the value was a little shy of \$135 million. He remarked that the Board took disciplined action to rebalance into equities, which has served the portfolio well. Mr. Kachmar stated that they purposelessly set short term liquidity aside for \$900,000 per month. It is not an asset allocation. He noted that, in terms of performance, the portfolio ran at benchmark, and the YTD is encouraging. Ms. Sanford asked about the performance net of fees. Mr. Kachmar stated that the bulk of the fees are investment management fees.

In regard to the hybrid plan, Mr. Zeller asked if the Board should, at some point, look to move into equities, in line with their legacy plan. Mr. Kachmar stated possibly, but timing is important, and they should discuss it with the actuaries. Mr. McIntosh stated that it seems that the hybrid plan should have younger demographics. Moving to an equities plan, the horizon is longer out. Mr. Johnson noted that the intent of the 5% assumption was to reduce the volatility of returns and to stay true to the actuarial model. Mr. Kachmar explained that he can provide some models with different asset allocations over the next few months.

b. Communication: Fiduciary Governance Calendar

Mr. Kachmar explained that their research team surveyed 166 municipal pension plans in Connecticut. He noted that Glastonbury’s funded status is 67%, which is lower than some other

towns, but he reminded the Board that their assumed discount rate of 6.5% is lower than the state's, which is 6.75%. Mr. Zeller asked Mr. Kachmar to sort through the data to show where the two factors, funded status and discount rate, overlap. Mr. Kachmar stated that they will work on providing some of those comparisons.

Mr. Kachmar stated that the Town's 67% equity and 33% fixed income is a representative general profile for their peers across Connecticut. Ms. Sanford asked if the other Connecticut municipal pension plans also had a valuation and roll out in their mortality tables at the same time as Glastonbury. Mr. Kachmar stated that not every town has adopted mortality tables yet. Moreover, the mortality tables are not reflected in any of this data, including Glastonbury's.

c. Communication: Alternatives Overview

Mr. Kachmar asked the Board to consider what alternatives would entail and what they would try to achieve. As a general rule, alternatives tend to be more expensive, less transparent, and less liquid than what the Board is used to investing in. Across the state, on the local level, alternative strategies are not used very much. However, he included information for the Board on two major alternatives: private equity and hedge funds, as well as some private real estate.

Mr. Lynn stated that he is not too worried about the optics about it. This is a long-term deal. Through the years, private equity has provided better than average returns. He asked if there are other municipalities that have a portion in this space as part of their diversification. He is just looking at this as a fiduciary. Mr. Kachmar suggested they carve out a model showing a certain percentage for private equity to demonstrate how that could affect the Town's portfolio.

Mr. Kachmar left the meeting at 4:46 p.m.

3. Communication: Minutes

a. September 16, 2020 – Regular Meeting *Minutes accepted as presented.*

b. October 6, 2020 – Special Meeting *Minutes accepted as presented.*

4. Communication: Pension Report – August 2020

Ms. Twilley reviewed the report dated September 14, 2020.

5. Communication: Month End Investments – August 2020

Ms. McManus reviewed the report dated September 16, 2020.

6. Communication: Financial Summary (Revenues & Expenditures) for 3 months - September 2020

Ms. Twilley reviewed the report dated October 14, 2020.

7. Communication: Education Reconciliation – August 2020

Ms. McManus reviewed the report dated September 30, 2020.

8. Communication: Capital Projects – September 2020

Ms. Twilley reviewed the report dated October 14, 2020.

9. Communication: Self Insurance Reserve Fund – September 2020

Ms. Twilley reviewed the report dated October 7, 2020. She noted that there have been two large loss claims this year, both on the BOE's side. Ms. Sanford asked when the timing smooths itself through. Ms. Twilley explained that we are only three months in, and teachers have only been in school for one month, so that number will start coming down soon.

10. Communication: Transfers Approved by Town Manager Since Last Meeting

- a. Laptop for Contact Tracing (Health Dept.) \$1,200**
- b. Temporary Staff to Process Absentee Ballot Applications (Town Clerk) \$4,000**
- c. NeoGov Onboarding Software (HR) \$450**

11. Action: Transfers over \$5,000

- a. 2157 Main Street - \$150,000**

Motion by: Mr. Zeller

Seconded by: Mr. Lynn

Disc: Mr. Zeller stated that while he will support this, it may be the last time he supports something of this nature. He stated that the BOF's role is affordability, and the question becomes how to develop affordability. He questions putting \$150,000 into a house that is valued only at \$350,000, to provide a low rent option. If they really want affordable housing in town, it is the taxes that keep families down, not necessarily the mortgages or rents. Mr. Zeller suggested that perhaps the town think about that, instead of providing one family a long-term subsidy.

Mr. Constantine asked if the Council has considered selling the property. Mr. Johnson stated no, they would prefer to provide a general long-term affordable housing opportunity with the Housing Authority. Ms. Sanford brought up the concern of the integrity of the budget process. She noted that this item was not in the budget, but suddenly, it is a priority for the Council. She asked, if there is no urgency, why not put it through the budget process? Mr. McIntosh agreed with the notion that there has been no showing of any urgency here. He, too, asked why this is being done now, outside of the budget season, rather than next year? Mr. Johnson explained that there has been a great deal of interest in providing affordable housing in town and one of those options is providing affordable rental units. The property in question is owned by the town, and it is vacant but needs restoration before being rented out. The Council felt that this was a unique, time sensitive opportunity to provide affordable housing.

Ms. Sanford remarked that this is a two-step process. The second step that is being neglected is the priorities of the items/capital projects decided upon, negotiated, and discussed at length during the budget process. Mr. Johnson replied that the budget is often put together at least 18 months before the end of the fiscal year. Therefore, they cannot always predict projects and priorities 18 months in advance. He also noted that the Council has not deprioritized any of the capital projects discussed and voted on during the budget process.

Mr. Zeller asked what they anticipate this property would rent for. Mr. Johnson stated that it depends on how many people are in the home, but assuming a family of four, in broad strokes, about \$1,600 a month. Mr. Zeller stated that if they are to start providing affordable housing in town, he would like to see this become a part of the budget process. Mr. McIntosh stated that the \$350,000 value of the home plus the \$150,000 renovations makes this a \$500,000 investment. That is a very serious costly investment to provide affordable housing. He also agreed with Mr. Zeller's point, that with enough of these types of investments, the Town would be pushing up the taxes of the other homes in the area.

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

12. Communication: Pension Valuation Report (July 1, 2019)

Ms. Twilley noted this is an annual report. Ms. Sanford stated that the BOF would really benefit from a dialogue with the actuaries because she is trying to understand the charts and investments. Mr. Lynn agreed, stating that it would be great to have those who put together this report speak to the Board about it. Mr. Johnson stated that it may be a good idea for Becky, the actuary, to walk the Board through her assumptions. He explained that the valuation is generally a snapshot of data that is available from the previous June 30/July 1. It is an actuarial assumption looking out over the next 20-30 years, with an aggregate assumption of a 3% change. It is not literally to say that people are receiving these levels of increase.

Mr. Zeller asked to clarify if the BOE does not want to sit with the Board and the actuaries. Mr. Johnson explained that he reached out with the suggestion of the Board and staff meeting to discuss this topic. The feedback he received was that if the BOF has specific questions, suggestions, or items to look at, they should forward them to the BOE, and they will look at them accordingly.

Ms. Sanford stated that her takeaway from this pension report is that the more active members in the hybrid plan, versus the defined benefit plan, the more the funded status rises. This validates her position that the defined benefit plan is an outlier as a successful prudent program. As the town pension plan becomes more and more hybrid, it flattens out in the growth rate of liabilities and unfunded status. She asked, if her takeaway is correct, it is worth having a meaningful discussion with other stakeholders.

Mr. Zeller stated that they should set up a meeting with Milliman. Mr. Johnson explained that the actuary will tell the Board that at year 10 of 14, they will look at a different way to have laddered amortizations. However, he acknowledged that the Board will be more at ease if the actuary explains it to the Board. He suggested Becky attend the BOF's next meeting. Mr. McIntosh agreed and requested that next month's meeting packet include a copy of this report. Ms. Twilley stated that she will include it.

Mr. Zeller asked Mr. Johnson to contact Milliman and to express the BOF's concern about what the BOE's approach is versus what Mr. Johnson has done with the hybrid plan. He cannot figure out how that all interplays. Mr. Johnson stated that the actuaries may disagree, but he likes the 5% investment assumption because the biggest challenge to the payment is the past service cost. The 5% investment assumption is not incorporated when one simply increases the employee's contribution under the legacy 6.5% investment assumption. Ms. Sanford would love to hear that as the Town plan moves into the hybrid as a component of the overall plan, how and what does

that impact. There is a driver there, and the actuary may be able to see it and provide some quantitative data.

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

Mr. Constantine noted that the PBC has not met yet. Mr. Cusson stated that he was considering retiring from the BOF to spend more time on the road, but he has been encouraged to remain on the Board. Therefore, he is reconsidering his decision to retire.

14. Adjournment

Motion by: Mr. McIntosh

Seconded by: Mr. Zeller

BE IT RESOLVED, that the Glastonbury Board of Finance moves to adjourn their meeting of October 21, 2020, at 4:50 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.