

**GLASTONBURY BOARD OF FINANCE
REGULAR MEETING MINUTES
WEDNESDAY, NOVEMBER 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 Becky Sielman from Milliman; Chris Kachmar and Kyle Sherman, both from DiMeo Schneider & Associates, L.L.C.; 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 {excused}

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

2. Communication: Becky Sielman from Milliman
a. Pension Valuation Report (July 1, 2019)

Becky Sielman gave a broad overview of the pension plan, which is calculated annually using information collected by July 1. She explained that they build a picture of the benefits they expect will be paid from the pension plan over decades; then, they calculate the value, in today’s dollars, for those future benefits by using the long-term expected return on the plan’s investments. She then explained how they calculate the net normal cost and paying off the unfunded liability, which is a more volatile piece. Ms. Sielman then delineated some factors that may explain the Town’s pension plan going up this year, such as the new adopted mortality tables. Looking back many years ago, the interest rate assumption may have been too high for comfort, but she is comfortable with the current 6.5% for the legacy plan and the hybrid plan’s assumption rate of 5% is fairly conservative.

Mr. Zeller stated that the Board has received some conflicting views on the two different plans. The Superintendent told them that the BOE were told by the actuaries that they are saving the Town more money by getting a higher contribution from their employees than if they were in a hybrid plan. Mr. Zeller’s concern is that only one of those plans can be best for the Town in the long run. He asked who is correct in their approach, the Superintendent or the Town Manager? Ms. Sielman stated that there are multiple considerations. The legacy plan may or may not cost the Town more money than the hybrid plan, but they did not implement the hybrid plan solely as a cost-saving measure. One could increase the cost savings by either implementing the hybrid plan or by increasing the employee contribution levels. Those two routes might be able to achieve the same cost objective, but specific to the hybrid plan, there are two other factors: it is a

shared approach to risk, and deliberately scaled back to have a more conservative interest assumption rate.

Mr. Zeller stated that it is about reducing the Town's liability 30 years from now. He asked if they should request that the BOE pursue the hybrid plan, as opposed to trying to get smaller and smaller increases out of the union to pay for the legacy plan?

Ms. Sanford stated that her litmus test is putting on the hat of a stakeholder and a consult of the trustee to the pension. It is hard to reconcile the differences between the two plans. On the efficient frontier work, the median is closer to 6% not 6.5%. The current historical returns are nowhere near the 6.5%. The hybrid plan also has a very nice cushion that is validated by the efficient frontier work.

Ms. Sielman stated that it would be straightforward to show the long-term cost impact of moving new BOE employees to the hybrid plan. The asset allocation is based on information received by July 1, 2019, so there may be some differences between this time frame and the one calculated by Chris Kachmar at FIA. In the short term, Ms. Sielman does not expect a 6.5% return. The actuaries are looking at a long-term analysis of 75 years, whereas Chris Kachmar's time frame is 20 years.

Mr. Zeller stated that the Town's contribution drops to zero in 13 years. He asked what is allowing that to drop off so dramatically. Ms. Sielman explained that these long-term projections on the actuarial assumptions are based on a deterministic forecast. The accrued liability goes up over time as active members earn more benefits. The assets also go up over time. The unfunded accrued liability gradually goes down to zero, as the funded ratio goes to 100%. They are overshooting the mark by modestly overfunding the plan. The plan is that, 14 years from now, the plan will be fully funded.

Ms. Sanford requested analyses using a 6.25% instead of 6.5% interest rate assumption. She also expressed a concern about cash flow and liquidity. Ms. Sielman stated that they can provide all of those analyses; however, funding a pension plan is a strictly pay-now-or-pay-later proposition. The benefits are paid for either through contributions or investment income. As the plan's maturity characteristics change over time, it is prudent to keep an eye on the cash flow needs of the plan and consider the liquidity.

Mr. McIntosh stated that the Town has an unbroken record of always contributing the recommended amount by the actuaries. It seems that they are suffering from years of incorrect assumptions and assuming that the future ones are going to be correct, which is a risky business. He then stated that the BOE's average age of 55, but average service life of only 11.5 years, seems very short. He asked the Town Manager if they are better off hiring younger people who have more time left in the workforce. Ms. Sanford questioned the legality of such an approach.

Mr. Lynn asked if there were other factors that resulted in an increase in the unfunded amount from \$47 million to \$74 million in 2012-2019, beyond the new mortality table. Ms. Sielman stated that the other major factor that happened in that period is investment performance; however, 90% of the accrued liability increase is due to the change in the mortality tables in

2019. Mortality tables are typically updated every five years, but the reason for this big jump is because there was a delay in getting the new mortality tables.

Mr. Zeller asked if they could receive a model with information on new BOE employees being solely in the hybrid plan, in order to advise the BOE as they prepare for contract negotiations. Mr. Johnson stated that they can provide that information to the Board. Ms. Sanford would like to see the impacts 10 years out based on the listed metrics. Mr. McIntosh remarked that it seems prudent to increase the retirement age, as people live longer while still working the same length of time as before. Mr. Johnson cautioned that pushing out the retirement age may not be very realistic for those with physically demanding jobs, but he will talk with Ms. Sielman about a few possible scenarios.

Ms. Sanford asked about contributing \$1 million extra on top of their normal contribution. Ms. Sielman explained that paying \$1 million now would lower the amortization from \$75 million to \$74 million; an extra \$1 million by July 1, 2019 would have reduced the Town's annual contribution by \$91,000. Mr. Johnson and Ms. Sielman will return to the Board with more information on different models and options for moving forward.

3. Communication: Chris Kachmar from DiMeo Schneider & Associates, L.L.C.

Mr. Kachmar explained that they will do additional work in January to provide the Board with context around allocation and the earnings profile for the portfolios. Glastonbury is well ahead of others in their cohort, in terms of conservatism around discount rate. While the funded status number is nominally lower than that of the cohort, from a broader health standpoint, Mr. Kachmar stated that Glastonbury is doing a great job. He explained that the markets deteriorated because of the pandemic and friction during the election cycle. However, in November, things have reverted back to ramping up aggressively. The Town plan is in good working order, in terms of an allocation perspective. Performance for the Town plan added 90 basis points. The comeback in the past six months or so has been amazing. Mr. Lynn requested the available symbols for the funds in the pension plan. Mr. Kachmar stated that he can get that to the Board.

4. Communication: Minutes - October 21, 2020

Mr. McIntosh noted that, on the sixth line of page 4, the following change should be made: after the word "provide," add the words "one family unit to." Ms. Twilley agreed to make the change.

Accepted as amended.

5. Communication: Pension Report – September 2020

Ms. Twilley reviewed the report dated October 27, 2020.

6. Communication: Month End Investments – September 2020

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

7. Communication: Financial Summary for 4 months - October 2020

Ms. Twilley reviewed the report dated November 5, 2020.

8. Communication: Education Reconciliation – September 2020

Ms. McManus reviewed the report dated October 21, 2020.

9. Communication: Capital Projects – October 2020

Ms. Twilley reviewed the report dated November 4, 2020. Mr. Constantine asked about the sidewalk piece in the middle, going to South Glastonbury. Mr. Johnson explained that that was pushed to phase three, which will be addressed in 2021.

10. Communication: Self Insurance Reserve Fund – October 2020

Ms. Twilley reviewed the report dated November 5, 2020.

11. Communication: Transfers Approved by Town Manager Since Last Meeting (None)

12. Action: Transfers over \$5,000

a. \$26,500 for 2020 Series B Bonds Interest Payment

Motion by: Mr. Zeller

Seconded by: Mr. Lynn

BE IT RESOLVED, that the Glastonbury Board of Finance hereby transfers \$26,500 within the Debt Services department, from Debt Temporary Notes to Debt General Town.

Disc: Mr. McIntosh asked why the interest on the new debt is higher than estimated. Ms. Twilley explained that they put together the budget in March, but this bond was issued in July; therefore, the assumption on what the interest rate would be was a tad off.

Result: Motion passed unanimously {5-0-0}.

b. \$400,000 for Fire Department Self-Contained Breathing Apparatus

Motion by: Mr. Zeller

Seconded by: Mr. Lynn

BE IT RESOLVED, that the Glastonbury Board of Finance hereby transfers \$400,000 from the General Fund - Unassigned Fund Balance to the Capital Projects - Self Containing Breathing Apparatus fund.

Disc: Mr. Zeller asked if the Town could reapply for the grant in separate, smaller pieces, and if so, would they be reimbursed for the grant once they spend the money? Mr. Johnson explained that the bottles do not meet the applicable standards, as of next year. Generally, these grants are not retroactive. He explained that the Town narrowly missed the grant being approved in 2018, and they did not do as well in 2019. However, there is the potential to achieve an \$80,000 savings from the vendor, if they push this in by the end of the calendar year. Mr. Zeller expressed a concern about all of the equipment wearing out again at the same time. He asked if there is a way to phase them in over the years to avoid that problem. Mr. Johnson stated that, in the future, they can develop a model to begin replacing them slowly.

Result: Motion passed unanimously {4-0-0}. Ms. Sanford exited the meeting before the vote.

13. Action: Review of CIP Criteria

Motion by: Mr. McIntosh

Seconded by: Mr. Zeller

BE IT RESOLVED, that the Glastonbury Board of Finance hereby recommends to the Town Council the CIP Criteria.

Result: Motion passed unanimously {4-0-0}.

14. Action: Establish 2021 and January 2022 Regular Meeting Schedule

Motion by: Mr. Zeller

Seconded by: Mr. McIntosh

BE IT RESOLVED, that the Glastonbury Board of Finance hereby establishes a regular meeting schedule from January 2021 through January 2022.

Result: Motion passed unanimously {4-0-0}.

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

Mr. Constantine stated that the PBC has not met yet, so he does not have a report.

16. Adjournment

Motion by: Mr. Zeller

Seconded by: Mr. Lynn

BE IT RESOLVED, that the Glastonbury Board of Finance moves to adjourn their meeting of November 18, 2020 at 5:49 p.m.

Result: Motion passes unanimously {4-0-0}.

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.