

**GLASTONBURY BOARD OF FINANCE
SPECIAL MEETING MINUTES
MONDAY, FEBRUARY 8, 2021**

The Glastonbury Board of Finance, along with Finance Director, Julie Twilley, and Town Manager, Richard J. Johnson, held a special meeting at 3:30 p.m. via dial-in conferencing.

Roll Call

Members

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

1. Public Comment Session - Comments pertaining to the call. *None*
2. Presentation and Discussion Concerning Review of Bonding for CIP and Pension Funding Options

Mr. Johnson presented a series of slides detailing two possible scenarios for pursuing borrowing, which was discussed at the last Board meeting. Mr. Johnson noted that Ms. Sanford had asked a question on supplemental appropriation. He detailed a list of supplemental transfers and appropriations that were made to the General Fund and the Capital Reserve Fund between March 2020 and February 2021, totaling just over \$1 million, accounting for grants. Mr. Johnson then reviewed the pension history, noting that the only year the ADC was not funded 100% was in 2009-10, when it was phased in over two years.

Mr. Johnson explained that each one-eighth percent ROR reduction equals \$440,000. The budget is presented at 6.5%. Each 1% increase on the funded ratio totals about \$2.37 million. About every \$1 million in lump sum equals just \$100,000 in ADC. Projected interest rate on a pension obligation bond is 2.5%-2.75%. Mr. Johnson stated that if the Board would like to fully fund the plan through a pension obligation bond with a snapshot of today, voters would be asked to approve a \$74.4 million bond authorization.

Mr. Johnson reviewed two scenarios on borrowing for capital projects, which included two different lists of items (with some overlap) that could be bonded. The first scenario totaled about \$10 million; the second about \$12.5 million. He then reviewed two funding / borrowing options: reallocating savings and making a lump sum payment to the pension. Funding or borrowing via reallocated savings would entail a \$2 million shortfall for capital projects in years 6-20, with \$600,000 to \$800,000 a year for debt service. Funding or borrowing via a lump sum to the pension fund would assume that a 2% borrowing rate is available for five years. The borrowing would generate a \$250,000 annual shortfall for capital projects in years 6-20. The debt service would also run at \$600,000 to \$800,000 per year.

Mr. Lynn stated that it makes sense to issue a one-time \$11 million bond and not change what they want to put away for future years. Mr. McIntosh remarked that they cannot ignore the capital projects that are required. Mr. Zeller shared his thought that the capital transfer could decrease to \$5 million, and there would be no impact to the mill rate, while the pension ROR assumption would be reduced.

Mr. McIntosh stated that there is merit to some of the thoughts discussed tonight, but more work needs to be done before implementing any action. He suggested the Board forward a note to the Council stating that the Board is taking a detailed consideration of borrowing for future projects, but not for this budget cycle. Mr. Zeller countered that they have been recommending bonding as an alternative for two or three years now, so he feels obligated to send the Council a budget with the pension problem at the forefront. Ms. Sanford asked her colleagues whether they feel that there is sufficient cash in the cash account and what they should do with such a high cash account. She understands that they have limited land sales in the future, but it still feels high to her. Mr. Johnson cautioned that reducing the capital transfer and then incurring additional debt is a cost that should net against the savings that will be achieved. He is looking at the true savings of a particular action, so they have to be wary of the cost of money. Whether the Board chooses to borrow \$12.5 million and reduce the capital transfer or borrow \$2.5 million a year over five years, once year six rolls around, there will be a need to reestablish the capital transfer to fund capital projects; at which point, he asked, what will the Board do?

Mr. McIntosh asked, if they deposit funds in the pension account, are they legally prevented from removing them. Mr. Johnson stated they do not remove them, but he will check on the legality. Mr. McIntosh stated that Ms. Sanford's concern is that they have too much unallocated money in the general fund. He suggested the Board move the money into the pension fund, where it will receive a higher rate of interest, and then move it back. Mr. McIntosh also stated that he believes that Mr. Johnson's analysis is flawed because he considers the payment of principal and interest on the bond as an additional obligation, which it is not. What they really have is a form of debt and bonding will be turning it into another form of debt. He concluded by stating that the Board lacks a consensus, so they should do a lot more work before making a recommendation to the Council for bonding on this year's budget.

Mr. Cusson stated that this budget does not show the dollar amounts but percentages in the fund balance projections. He countered Ms. Sanford's point that there is an ample amount of cash in the cash account, noting that it is kind of tight because if operating budgets continue to increase at the rate that they are, they will need more and more cash as a percentage against that. Ms. Sanford acknowledged that, but countered that, at some point, the spending has to stop. The town pension liability needs to be front and center. Mr. Cusson finds it important that they maintain the fund balance as well as they can because of the future impact it will have on their budgets. He noted that the Town Manager's scenarios do not really impact this undesignated fund balance.

Ms. Sanford commented that the action to lower the ROR from 6.5% to 6.25% has been on hold for three years. From a philosophical perspective, she does not understand why they cannot lower it. In the next 10-15 years, they need to be more realistic with their assumed rate of return. Mr. Johnson clarified that the \$975,000 of opening cash does not apply to the Town operating

budget. It is a revenue that is applied to offset the entire budget. It is not assigned to any particular line item. Use of opening cash is a way to use the unassigned fund balance to help moderate the tax increase.

Mr. Lynn supports GFOA best practices, so if two months for a rainy-day fund is best practices, so be it; however, he agrees with Ms. Sanford that they should lower the rate of return expectation, too. He stated that the Board's biggest responsibility as fiduciaries is to make sure that it is realistic for the long term. Mr. Zeller asked Mr. Johnson to adjust his presented scenarios to reflect a 6.25% or 6.375% return and see how much more it will cost, as well as to provide his best estimate on the sweet spot. Mr. Johnson explained that it is in the neighborhood of \$400,000-\$440,000 for every 1/8 of a percentage point reduction in the rate of return. Town operations would need to go up \$300,000 to incorporate the 6.375% and there is \$150,000 toward that right now. He agreed to recalculate the rate of return at 6.375% instead of 6.5%. Mr. Johnson noted that by borrowing for the capital program, it would be very difficult to meaningfully influence the funded ratio because of the size of the numbers.

The Board reached a consensus to hold off on recommending a budget until their next meeting on February 17, 2021. Chris Kachmar and Becky Sielman will join the Board at 3:00 P.M. that day. Mr. Johnson agreed to look at a couple of other concepts to present at that meeting. Ms. Sanford asked if Town staff are worried about inflation. Mr. Johnson stated that they do consider the influence on buying power and that, creep is a factor, but for the purposes of leaving it straight, they left it flat in this analysis.

3. Potential for Any Unfinished Business – FY21/22 Budget *None*
4. Possible Action: The Board of Finance pursuant to Section 605 of the Town Charter submits to the Glastonbury Town Council the following proposals: *Postponed.*
 - A. Action: Propose to Town Council FY21/22 Town Operating Budget
 - B. Action: Propose to Town Council FY21/22 Education Budget
 - C. Action: Propose to Town Council FY21/22 Debt & Transfers Budget
 - D. Action: Propose to Town Council FY21/22 General Fund Revenues & Transfers Budget
 - E. Action: Propose to Town Council FY21/22 Capital Improvement Program Budget, including Capital Reserve Fund, Town Aid Road and Sewer Sinking Fund
 - F. Action: Propose to Town Council FY21/22 Special Revenue Funds, including:
 - i. Sewer Operating Fund Budget
 - ii. Recreation Activities Fund Budget
 - iii. Police Private Duty Fund Budget
 - iv. Riverfront Park Fund Budget
 - v. Bulky Waste Closure Fund Budget
5. Possible Action: Confirmation of next Special Board of Finance meeting date/time, if Actions above deferred. *Postponed.*

6. Adjournment.

Motion by: Mr. Zeller

Seconded by: Mr. McIntosh

BE IT RESOLVED, that the Glastonbury Board of Finance moves to adjourn their meeting of February 8, 2021, at 5:30 p.m.

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

Respectfully submitted,

Lilly Torosyan

Lilly Torosyan
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.