GLASTONBURY BOARD OF FINANCE
SPECIAL MEETING MINUTES
WEDNESDAY, FEBRUARY 17, 2021

The Glastonbury Board of Finance, along with Finance Director, Julie Twilley, and Town Manager, Richard J. Johnson, held a special meeting at 3:00 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. Becky Sielman from Milliman to discuss July 1, 2020 Pension Valuation and other pension related topics.

Ms. Sielman explained that the actuarial value of assets is designed to smooth out the volatility of the markets. Glastonbury's assets are $162 million, as of July 1, 2020. The plan earned a 5.7% return when the markets closed last June, which is quite strong, considering the pandemic. Mr. McIntosh pointed out that, assuming that the asset performance continues to go up until June 30, the Town will be even better off than they were during the last calculation. Ms. Sielman explained that they do not set the Interest Rate (also known as the rate of return) based on past performance, but on a 75-year time horizon for long-term reliability.

Ms. Sielman stated that 6.5% is the expected long term return on the entire non-hybrid portfolio and that the actuaries think that 6.5% is a very good number. She stated that the expected long-term return on the hybrid plan is 5%. She went on to explain that corporate pension plans would use an interest rate assumption that is based on current interest rates for high quality corporate bonds. A corporate pension plan might be looking at an interest rate assumption of 3, or 4, or 5%. However, this is a public pension plan so the interest rate assumption is based on the expected long term return on the plan's investments. Ms. Sanford stated that she believes that 6.0% to 6.25% is the appropriate range.

Ms. Sanford stated that there is a massive gap in the liabilities valuation, and the actuaries are still falling short in reconciling the current interest rate markets with the actuarial assumptions. Ms. Sielman explained that from 2012 to 2018, the assumed rate of return fell from 7.5% to 6.5%, and each time that number goes down, the accrued liability increases. Also included is the adoption of the new mortality tables last year. She stated that they can look at this like a mortgage: the gap between assets and liabilities will systematically close, and the plan should become 100% funded in the next 13 years.

Mr. Lynn stated that they should have had a lower interest rate assumption a decade ago so that citizens would not have to pay for this now. Ms. Sielman responded that the vast majority of her clients did not do that because it is the function of municipal budgets that things, generally, be taken in a more gradual function. Ms. Sanford remarked that 6.5% is also not an appropriate assumed rate of return. She believes that it needs to be lower, so that they are not on a cliff with a 70% unfunded liability. This action was put on hold for three years, but Ms. Sanford wants to bring the Board back to that discussion.

Ms. Sielman stated that if you reduce the rate of return assumption, but don't change the asset allocation of the plan, you'll have the same volatility you do now. The rate of return assumption is based on the asset allocation, not the other way around. She continued to state that you might want to do both at the same time, lower the investment risk to have more stability and reduce the rate of return assumption. Ms. Sielman explained that lower volatility will lead to a higher Town contribution.

Mr. McIntosh added that West Hartford's $360 million unfunded pension liability did not trigger a reduction of their AAA credit rating. He then asked, equitably, who should pay for these past services: the taxpayers of the past or the future? Mr. McIntosh stated that it has been estimated that half the children born now will live to be 100 years old, which is a frightening statistic for those who are trying to fund the retirement of future generations.

Ms. Sielman stated that the Town may consider doing an Experience Study in the coming year, which would look at inflation rate, turnover patterns, retirement patterns of the Town and other assumptions used in the Plan.

The meeting was then adjourned, and discussion resumed in the regular meeting which followed at 4:00 p.m.

3. Chris Kachmar from DiMeo Schneider to discuss plan results and Governance calendar (including Asset Allocation). ***N/A***

4. Potential for Presentation and Discussion Concerning Review of Bonding for CIP and Pension Funding Options. ***N/A***

5. Potential for Any Unfinished Business: FY 2021/2022 Budget. ***N/A***

6. Adjournment.

Motion by: Mr. McIntosh ***Seconded by:*** Mr. Zeller

BE IT RESOLVED, that the Glastonbury Board of Finance moves to adjourn their special meeting of February 17, 2021, at 4:00 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.

GLASTONBURY BOARD OF FINANCE
REGULAR MEETING MINUTES – *<u>AMENDED (see page 1)</u>*
WEDNESDAY, FEBRUARY 17, 2021

The Glastonbury Board of Finance, along with Finance Director, Julie Twilley, and Town Manager, Richard J. Johnson, held a ***<u>regular</u>*** meeting at 4:00 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. Communication: Continuation of discussion with Becky Sielman from Milliman

Ms. Sanford asked if an extra million dollars in the pension plan would impact the net cash flow. Ms. Sielman stated that an additional one million dollars does not move the needle appreciably, as it lowers the ADC contribution by about $125,000. She stated that liquidity in this plan is not a top issue. Ms. Sanford asked about retirement risk modeling. Ms. Sielman stated that they do not routinely model that out. Ms. Sielman explained that adding $2 million into the pension in a lump sum would reduce the ADC next year by about $250,000. Mr. Zeller summarized that the immediate benefit of putting in cash now would save on the future ADC.

3. Communication: Continuation of discussion with Chris Kachmar from DiMeo Schneider

Mr. Kachmar reviewed the asset allocation analysis. He explained that they continue to be cautiously optimistic going forward on the markets. They are hopeful that the vaccination efforts will even out in the next year. He then reviewed the changes in expected return of the 20-year forecasts based on different asset allocations. In two scenarios, the model incorporated a bit of private equity, which the Board had previously asked him to consider. He explained that because the asset returns do not correlate that highly to some of the traditional classes, adding private equity decreases the modeled volatility while causing forecasted returns to increase. He then explained that doing a 10-year outlook would reduce the annualized return by about 1%. The current mix, as modeled in the 20-year outlook, models 6.0% assumed rate of return, absent any incremental return of active management. Page 31 shows active management return of 0.5% (8.0% versus 7.5% Benchmark) from August 2011 to December 2020. Mr. Kachmar stated that 50 basis points is a defensible number because you have the benefit of it actually being experienced, or you could assume some portion of that.

Ms. Sanford remarked that they do not have the luxury of using the 75-year outlook of the actuaries as they amortize their pension out for another 13 years. A 10-year frontier analysis is as valuable to include in those discussions. Mr. Lynn asked if it would make sense to go fully managed on their portfolio, if management would go 50 basis points better. Mr. Kachmar stated that the proposition for active management in fixed income may find more persistency in that incremental return net of fee and the Town has the portfolio constructed accordingly. Mr. Cusson stated that, because of the appreciation of the stock market, they are now overweight in equities and underweight in bonds, so he asked whether that is the right position for the Board to maintain. Mr. Kachmar replied that the managers are always working against that, so they are not wildly out of skew with the targets. He is comfortable with the Board's portfolio makeup. However, he noted that Templeton Global Bond continues to struggle and that he might consider looking at diversified real asset strategies, so he would like to return to the Board with some thoughts these topics. The Board agreed that Mr. Kachmar will return in March to discuss these topics in depth. Mr. Kachmar concluded by noting that there were previous questions from the Board on accessing information on the non-mutual fund strategies, which he included in his packet.

4. Communication: Presentation of Grand List Report by Assessor Nicole Lintereur

Ms. Lintereur stated that the taxable value on the grand list increased by 0.93% over the previous list. The growth in sales and the average sale value on the residential side both increased. The personal property sector increased by 2.1%. As new commercial projects come online, they anticipate a return to typical growth rates in the personal property segment. The 2.56% increase in the motor vehicle list was strong considering that there were almost 1200 fewer accounts than last year. They expect the 2020 supplemental list will make up the deficit. There are fewer people buying and registering new cars, due to COVID-19-related closures. Mr. Zeller asked when the next assessment will be. Ms. Lintereur stated two grand lists from now, in 2022. Ms. Sanford asked if there are concerns about the commercial market. Ms. Lintereur stated that they have not heard any concerning reports in Glastonbury, like they have for other towns.

5. Potential for Presentation and Discussion Concerning Review of Bonding for CIP and Pension Funding Options

Mr. Johnson reviewed a series of slides. He explained that Governor Lamont's budget sustains ECS funding to Glastonbury at current year levels. His presented budget had assumed a $300,000 decrease, so that has become a gain in revenue, which could be allocated either to the mill rate or to the pension ROR. Mr. Johnson explained that a bond issue for the Capital Program is a separate and distinct matter. He noted that the Council does not plan to issue debt for the high school locker room/restroom facility. Mr. Johnson's recommendation is that the BOF sustains the Capital Transfer for $5.75 million and considers a bond issue for Capital, separate from the budget, which requires Council action and voter approval.

Mr. Zeller says that while he understands that the Council has made it clear that they do not wish to bond, the BOF has an obligation to the residents to say what they think should happen. Ms. Sanford reviewed four moving targets that the BOF has been surfing around the past couple months: borrowing, reducing the BOE budget by $500,000, moving money out of the General

Fund and applying it to the pension, and lowering the assumed rate of return to 6.25%. Mr. Johnson clarified that the reason why he recommended leaving the Capital Transfer at $5.75 million is that if a decision is made to borrow and a referendum is successful, there will be no need to put the money in Debt Service and then transfer it back to the Capital Reserve Fund. Mr. Zeller crunched numbers and proposed the following: take $1 million out of CIP and put $375,000 of it into Debt and Transfer to borrow $5.7 million. The $625,000 left could be put to Town Operations to pay for a reduction of the ROR to 6.25%. The Capital Transfer would be reduced by $1 million, but many projects would instead be funded through borrowing.

Mr. Johnson stated that if the Board would like to reach the 6.25% ROR, then there would need to be an additional $670,000. There is $300,000 from additional state aid, which leaves another $370,000. If they were to transfer $1 million from the General Fund, that is $125,000. He stated that the Board can figure out how to go about that. After some back-and-forth discussion, Mr. McIntosh asked if the Board were to reduce the BOE budget line by $370,000, they could accomplish two things: keeping the mill rate at what the Town Manager proposed while dropping the ROR to 6.25%. Mr. Zeller added that the BOE would essentially have to find $616,000 from the proposed budget because of the $250,000 in unbudgeted expenses, in addition to the proposed $370,000 reduction. Mr. Johnson explained how a one-time transfer of $1 million from the General Fund Balance could reduce the BOE's reduction of $370,000 by about $125,000, which would mean that the cut to the BOE would be reduced by about $500,000.

Mr. Cusson is in favor of bonding for future projects because they could take advantage of low interests and it would reduce their spending in this budget and future budgets. He would like to find a way to convey to the Council that this is what they really should do. He is in favor of reducing the ROR to 6.25%. However, Mr. Cusson is very concerned about using money from the savings account, which currently contains $31 million, because that account has been funded by sources that will probably not be able to be as funded in the future. He noted that the Board is accounting for two pieces of land sales, but given the current market, especially for commercial properties and rentals, he anticipates pressure on the market. He cautioned his fellow board members to consider what would happen if that money is removed, and the land sales do not end up going over in a timely fashion.

Mr. McIntosh stated that there are four issues the Board is now discussing. He believes that they should leave the ROR at 6.5%, but he will vote for 6.25%, if the rest of the package goes forward. He responded to Mr. Cusson's concern about the $1 million transfer by explaining that, if needed, the Board can add the money back to the General Fund from the pension. Therefore, he supports that action. While Mr. McIntosh believes that the BOE budget should be cut by more than $500,000, he will agree with the cut of around $370,000, in order to reach the 6.25% ROR figure. He agrees that bonding is a road they should go down in the future but persuading the Council will require more thought and a better presentation than what they currently have. He suggested that Mr. Johnson put that together to present to them at a later date. He concluded by stating that he will vote yes on the first three items and no on the fourth item.

Mr. Johnson clarified that he did not speak to the Council about borrowing for the Capital Program. Instead, there was an isolated discussion on one specific project that has already been funded, so they were not inclined to borrow for that. Mr. Zeller stated that the BOE needs to come up with a timely per pupil expenditure measure because the year-over-year that they present is inadequate.

Mr. Cusson recommended tabling the rest of the agenda to a different meeting date. The Board agreed to meet again Friday at 11:00 a.m. Mr. Johnson will provide the Board with an outline of the numbers and how they come together, and the Board will then act on the resolution. Mr. Johnson agreed to Mr. Zeller's request to send out the slides from tonight's presentation, as well.

Motion by: Mr. McIntosh ***Seconded by:*** Mr. Cusson

BE IT RESOLVED, that the Board of Finance hereby tables Agenda Items 6 and 7 to a special meeting to be held on Friday, February 19, 2021 at 11:00 a.m.

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

6. Communication: Potential for Any Unfinished Business – FY21/22 Budget
   Postponed

7. 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

8. Adjournment

Motion by: Mr. Cusson ***Seconded by:*** Mr. Zeller

BE IT RESOLVED, that the Glastonbury Board of Finance moves to adjourn their regular meeting of February 17, 2021, at 6:48 p.m.

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

Respectfully submitted,

Lilly Torosyan

Lilly Torosyan
Recording Clerk

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