

**GLASTONBURY BOARD OF FINANCE
REGULAR MEETING MINUTES
WEDNESDAY, MARCH 16, 2022**

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. in the Council Chambers of Town Hall at 2155 Main Street with the option for Zoom video conferencing. The video was broadcast in real time and via a live video stream.

Also present were Narae McManus, Controller and Chris Kachmar from Fiducient Advisors.

Roll Call

Members

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

1. Public Comment Session: Comments pertaining to the call. *None*
2. Communication – Chris Kachmar to attend (Feb. Flash Report, Russia Memo, Dynamic Bonds)

Mr. Kachmar stated that there has been rough sledding in the capital markets thus far in 2022. While a bit more market challenge was anticipated, they had not contemplated military action, which has further added to market tensions. As of last night, global equities are down about 10% year to date and fixed income is down about 4.5%. However, he does not think that the situation has risen to a level yet that requires an allocation response. They have retested portfolios with the latest market outputs and still believe that the Town’s portfolio is correctly allocated. He noted that Russia is not a big part of the global economy, apart from the energy sector. They do not think that activity today rises to a level that will bring on a global recession, but they continue to monitor the data. The year-to-date portfolio balances of both the Town and the New Hires’ pension plans are down.

Mr. Lynn asked if there has been any rebalancing in the small caps markets. Mr. Kachmar replied no, there has not because the nature of the down activity has been across the market system. As of the end of February, the Town plan is a little behind the benchmark. While the Jackson Square Fund has been struggling for the past 1.5 years, they have consistently outperformed the benchmark enough to remain attractive. If the Board prefers lower volatile managers instead, they can look into that. However, the manager has countered this type of headwind before, of this magnitude. Mr. Kachmar cautioned that this would be a bad time in the life cycle of Jackson Square’s track record to exit.

Mr. Lynn asked about Causeway International Small Cap Fund, which has been outperformed by the Vanguard Value Index Fund over the last three years. He asked if that is an apples-to-apples comparison. Mr. Kachmar stated that yes, it is a fair comparison. Causeway International has received exposure to things that were affected by the pandemic. Their theme is on recovery. Like Jackson Square, they have also been able to outpace the benchmark on a three-year basis, but the last few quarters have polluted those good numbers dramatically.

Ms. Sanford asked if the shift from an outlook focused on value a couple years ago to now one focused on growth has been a problem. Mr. Kachmar explained that trying to time style rotations is difficult to do. Ms. Sanford noted that the Town is only 0.7 overallocated in the money market account. She asked if Mr. Kachmar is comfortable putting more money at work, or do they need to keep a higher cash basis because the fund right now is a net negative cash outlay. Mr. Kachmar stated that they try to keep about three months' need, so he does not think that they are overallocated.

Ms. Karp finds it important to relay this information to the public very clearly and effectively. While continuing to retest the portfolio and consider all the variables happening in the world, Mr. Kachmar still feels comfortable with the Town's current asset allocation. That is the message that needs to get out because that is what people will understand. Mr. Kachmar explained that they have updated balances of the new hires' plan, which is in good working order. Mr. Zeller finds the name, "Town plan" confusing and suggested alternative names, such as "legacy" or "traditional" plan.

Mr. Kachmar provided information related to unconstrained bond investing. He explained that the amount of yield that investors are receiving for the amount of interest rate risk is at all-time lows. The duration of the broad fixed income markets today is about 6.5 years. What that means is, if interest rates go up overnight by 1%, a portfolio with a duration of 6.5 years would go down 6.5% in value. That differential has become very dramatic. He reminded the Board that the Town plan is centered on investing in traditional, fixed income investors. They are not going to get too far from that 6.5-year number. Ms. Sanford countered that the worst levels were in 2020/2021. They are coming off the lows. Mr. Kachmar stated that is correct.

Mr. Kachmar explained that some municipalities have chosen a dynamic bond strategy to defend their portfolios amid interest rate sensitivity. Ms. Sanford asked about the standard deviation and Sharpe ratio of their funds. Mr. Kachmar explained that they take into account multiple levels to frame risk. Generally, fees are not lower than traditional markets. He noted that BlackRock is one of the better teams, with the duration of their fund running 1.1 years. At just 20% of the interest rate exposure, they received a yield almost equal to that of the broad markets. That tradeoff has been of interest to a lot of clients. Therefore, this could be a compelling way to stay centered in fixed income while minimizing interest rate exposure.

Ms. Sanford does not agree that rates are symmetric at this point, which is why she inquired about the amount of cash they are carrying. With a 1+ year duration, she asked how those funds will perform if interest rates rally. Mr. Kachmar stated that if rates struggle or stay flat, BlackRock will struggle. Ms. Sanford remarked that interest rates could fall a little bit. Mr. Kachmar stated that, of the Town's peers who have pursued this, about 25% of their fixed income has been allocated into this strategy.

Mr. Lynn asked if they would consider reducing the PGIM Global Total Return Fund. Mr. Kachmar stated that the Board could reduce that, but the bulk would come from their traditional anchor managers. He still thinks that global bonds, over the longer term, will continue to be a good tool. Ms. Sanford feels that the timing of this product is a little late, and she also does not want to pay higher fees. Mr. Kachmar thinks the portfolio remains appropriately allocated to meet the Town's actuarial target. Ms. Sanford stated that, right now, real rates are negative and will continue to be negative. Mr. Kachmar generally shares her opinion, noting that rates could grind a bit higher, but not as much as they have. He clarified that the Town does not have to pursue this strategy, but he wanted to make them aware of it. Mr. Kachmar concluded by noting that the Town plan has nine basis points of exposure to Russia, which is fairly nominal. There is also very small effect in the new hires' plan, with no material exposure there.

3. Communication:

- a. Minutes of February 7, 2022 – Public Hearing & Unfinished Budget Related Items

Ms. Sanford stated that on page 2, the “20 years” for the unfunded liability should read “**12** years.”

Minutes accepted as amended.

- b. Minutes of February 16, 2022 – BOF Regular Meeting

Mr. McIntosh stated that on page 7, which reads “the BOF can provide a minor amount as an incentive,” “amount” should be “**reduction.**”

Minutes accepted as amended.

4. Communication: Pension Report (January 2022)

Ms. Twilley presented the report dated February 16, 2022. The balance is as of the end of January 2022.

5. Communication: Month End Investments – January 2022

Ms. McManus presented the report dated February 22, 2022.

6. Communication: Financial Summary (Expenditures) for 8 months - February 2022

Ms. Twilley presented the report dated March 3, 2022.

7. Communication: Capital Projects – February 2022

Ms. Twilley presented the report dated March 3, 2022. Ms. Karp requested a column showing the inception date and status of each capital project. Ms. Twilley stated that the formatting would be hard to adjust in this report. Instead, she offered to present the information in a different format. Ms. Karp was amenable to that.

8. Communication: Self Insurance Reserve Fund – February 2022

Ms. Twilley presented the report dated March 7, 2022. The fund is experiencing a \$1.4 million gain. There have been 6 large loss claims: five from the BOE and one from the Town. None have exceeded the individual stop loss limit.

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

- a. \$4,000 Legal Services – Labor Account Reallocation
- b. \$4,200 Town Manager – MAI Appraisal

10. **Action:** Transfers over \$5,000 (none)

11. Communication: Bank Collateralization Reports

Ms. Twilley presented the report as of December 31, 2021. Each institution is maintaining the collateral that is required.

12. Communication: Issuance of Bond

Ms. Twilley reviewed the report dated March 4, 2022. Ms. Sanford asked how the size of the \$2.375 million general obligation bond was determined and was there a new updated Moody's or S&P investment credit report on Glastonbury. Ms. Twilley stated that the credit report was conducted months ago. Mr. Johnson explained that the reason for the size is due to three or four land acquisitions which were approved and funded via the new bond as well as savings achieved from the favorable pricing for the library project.

13. **Action:** Waiver of Competitive Bid Process for Road Resurfacing Program

Mr. Johnson explained that this is a bid waiver for road reclamation, which is different from road milling. They have been following the market in bid results in other communities. The Town's vendor last year and this year has agreed to hold their 2019 prices. A preliminary estimate totals \$25,000 in expected savings. Based on this, it is in the best interest of the community to have a bid waiver.

Mr. McIntosh stated that Section 6.14 and 6.16 of the Town Charter are very inartfully drawn, and it is unclear to him what the purpose of the waiver is under either section. The sections refer to the best interest of the Town and, whenever practicable regarding adherence to the bidding process and waivers of the bidding process. However, the actual wording of the waivers is that the Council will waive upon the recommendation of this Board. It is unclear if the BOF does not recommend it, whether the Council could proceed with waiving or not. In the past, the Board has waived bidding when there was either a sole source or an emergency timing problem that would have precluded the bidding process. This is neither of those situations. They are making a judgment regarding interests of the Town and based on a situation where they do not know what the bidding process will produce. Under sections 6.14 and 6.16, they do not waive the bidding process. What they waive is the requirement that the Town Manager submit evidence that the process has been followed or waiver of the requirement for sealed bids.

Mr. McIntosh also pointed out a typo on the letter from Tilcon, which refers to the upcoming 2021 season. Mr. Johnson stated that the language in the Town Charter has been interpreted to mean that the Board must give a positive recommendation. To his knowledge, it does not have to be from an emergency or a sole source, but just when it is determined to be in the Town's best

interest. In his opinion, based on the bids they have seen, the Town's best interests will be served by saving approximately \$25,000. If they proceed with the bid process, they will receive a different bid. He noted that the Town has very rarely conducted a bid waiver, and this is an action that the Board voted for last year.

Motion by: Mr. Zeller

Seconded by: Mr. Lynn

BE IT RESOLVED, that the Glastonbury Board of Finance hereby approves the waiver of the competitive bid process for the Road Resurfacing Program.

Disc: Ms. Karp stated that saving \$25,000 appears to be in the best interest of the community, so she will support the motion. Mr. McIntosh stated that what they are waiving is the requirement that the Town Manager submit evidence that the process has been followed or waiver of the requirement of sealed bids, not bids. Under that reading, he will vote in favor of the resolution.

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

14. Communication: Reminder – Must establish mill rate within 3 business days after Council adopts budget

Mr. Johnson stated that if the Council votes on this tonight, the Board should meet on Monday to establish the mill rate. Mr. Zeller asked if there could be participation via Zoom. Mr. Johnson stated yes, it would be a hybrid meeting.

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

Ms. Sanford submitted her resignation from the Board. She remarked that much progress has been made over the past three years but there is more to do. The Board thanked her for her service and expertise. Mr. Constantine stated that PBC has not yet met. Mr. Johnson noted that the library project is in the final stages, with costs running below budget. He would be happy to arrange a tour of the facility for BOF members.

16. Adjournment

Motion by: Mr. McIntosh

Seconded by: Ms. Sanford

BE IT RESOLVED, that the Glastonbury Board of Finance moves to adjourn their meeting of March 16, 2022, at 5:12 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.