

**GLASTONBURY BOARD OF FINANCE
REGULAR MEETING MINUTES
WEDNESDAY, MAY 18, 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 Chris Kachmar and Matt Kaminski from Fiducient Advisors, and Narae McManus, Controller.

Roll Call

Members

Mr. Constantine “Gus” Constantine, Chairman

Mr. Jared Soper, Vice Chairman {participated via Zoom videoconferencing}

Mr. James McIntosh

Ms. Susan Karp

Mr. Robert Lynn {participated via Zoom videoconferencing}

Mr. James Zeller

1. Public Comment Session: Comments pertaining to the call *None*
2. Communication: Fiducient Advisors (Chris Kachmar and Matt Kaminski) – Material to be distributed the week of May 16th

Mr. Kachmar explained that capital market volatility has been an issue and is expected to increase for the foreseeable future, due to rising inflation and interest rate increases, ongoing supply chain disruptions, and the war in Ukraine. He provided an update on the portfolios, which were down 5.5% and 5.6% for the legacy plan and new hire plan respectively, in the first quarter of 2022. While this is an unprecedented meaningful downdraft, the markets have historically always found a way back.

Mr. Lynn asked what is meant by the statement that the portfolio has performed 40 basis points above the benchmark since inception of managers. Mr. Kachmar clarified that the “since inception” column predates FA’s involvement with the plan. As of March 2022, that number is now just 20 basis points above benchmark, but the track record is typically anywhere from 30-50 basis points above benchmark. Mr. Lynn asked how the Town’s portfolios measure on risk compared with the benchmark. Mr. Kachmar explained that they have been running over the long-haul with market-like risk. Mr. Lynn would like to see that comparison periodically.

Mr. Soper noticed that the benchmark for April 2021 changed. He asked to put the previous benchmark on the page also. Mr. Kachmar agreed to do so. Mr. Kachmar provided background on Fiducient Advisors, calling them thought leaders in the municipal space. He noted that Mr. Kaminski will discuss how managers are sourced, evaluated, and maintained.

Mr. Kaminski reiterated that it has been a very challenging year with a market reality not seen in 40 years. He explained that most of the research team at FA are either analysts or portfolio

managers. FA's process to pick managers hinges on their expertise and experience, not on any type of qualitative or screening method. Senior consultants are responsible for voting on any changes to managers, and the investment committee is comprised of the senior-most professionals at the firm. He explained that FA's philosophy and research process involves connecting the dots, not just collecting data. Their analysts communicate with managers frequently, and these meetings are documented.

Mr. Kaminski explained that their team is divided by asset class. He reviewed one example of a manager which has troubled the Board for several meetings now. Jackson Square is a concentrated, high conviction manager which has underperformed over the last year. However, this is not out of character for this manager. Additionally, managing a portfolio in a concentrated manner will act and feel differently from benchmark. There will be tracking error, but over the long term, that is a positive. He noted that rising interest rates have hit small growth managers a lot. However, FA still believes that Jackson Square's thesis is sound because their underperformance is not out of context and their approach remains the same.

Mr. Soper has evaluated the Town plan based on the investment objectives. While their primary objective is meeting or exceeding the actuarial targets, their secondary objective is having individual managers add value to the overall return. For several years, Vanguard exceeded the national benchmark but was heavily concentrated in domestic stocks, so it was not an appropriate index. Jackson Square had exceeded the benchmark significantly, but they took on additional risk. He questions whether Jackson Square could be in a pension account where money cannot be moved back and forth on a short-term basis. He also finds that the manager miscalculated how dramatic of an effect that interest rates were going to have on their holdings. He would like to see a more detailed analysis of the funds and how they are justified.

Mr. Kachmar stated that the incremental return source over time has been fairly balanced. The portfolio does not typically get far off-target because they are always reassessing and rebalancing. Deviations tend to be small, but there are outliers. He will collect attribution information and share it with the Board. Mr. Soper asked if the Town would be better served focusing on asset allocation and using fewer outside managers. Mr. Kachmar stated that every board is different. Some have more indexing, while others have less. However, FA does spend a lot of time on asset allocation for the Town and they constantly reevaluate that data.

Mr. Kaminski agreed that Jackson Square missed the interest rate move and the impact it would have on the portfolio, and they have approached the manager with that concern in their meetings. FA thinks that the process over time can yield positive results, but it involves staying the course. Mr. Soper asked if the Town could invest in the S&P MidCap 400 Index through iShares. Mr. Kachmar replied yes, they could. Mr. Soper asked if the Town could own individual treasury securities. Mr. Kachmar replied yes, they could own treasuries in a direct fashion or a diversified treasury fund.

Mr. McIntosh asked, if the Town's return objective were 6.5%, would FA advise any changes to the allocation. Mr. Kachmar stated that the Town's return is currently 6.3%, absent any managers. They would have to tweak the allocation to get that higher return. Mr. McIntosh inquired whether the objective may be lower than what they should be aiming for, with the amount of risk they should be willing to take. He wonders whether they should be concerned at all about fluctuations for a possible 100-year horizon, as long as the Town makes the payments necessary for the beneficiaries of the plan.

Mr. Soper replied, it is a chicken and an egg position: the objective determines the rate of return, and the rate of return determines the objective. The Board's job is to determine what they are comfortable with. Ms. Karp would like to have that conversation, but because it is not under the sole purview of the BOF, the Council would have to be involved in those discussions, as well. Mr. Zeller pointed out that the Council has the final say on the investment return assumption, so they would integrate that with the yearly budget. Mr. Johnson explained that the investment return assumption drives the ADC, and there is a balancing act of what the final budget authority is willing to budget, so they work hand in hand. Mr. Soper asked if the Town Manager is the trustee of the plan. Mr. Johnson replied yes, under the Town Code of Ordinances, he is.

Mr. Kachmar thanked the Board for their input. Mr. Soper would like to see more analysis on the outside funds where information is not as easily attainable. Mr. Kachmar agreed to provide that.

3. Communication: Minutes of April 20, 2022 Regular Meeting

Minutes accepted as presented.

4. Communication: Pension Report - March 2022

Ms. Twilley reviewed the report dated April 29, 2022.

5. Communication: Month End Investments – March 2022

Ms. McManus reviewed the report dated April 18, 2022. Mr. Lynn asked that, at a future meeting, they discuss identifying what to keep in short-term money and purchasing treasuries to generate more from idle money. Mr. Soper asked what is budgeted for income from pooled investments in FY 2023. Ms. Twilley replied, \$195,000 or 0.3%. Mr. Johnson added that this report is a little dated as to some changes that were made over the past week. The budget was established in March, and it will be adjusted upwards by \$425,000. They have looked at a three-month CD which is yielding a similar treasury bill. They have also looked at another investment, going out to fall 2023, which would yield 2.39%. The STIF fund is 88 basis funds, but it is fluid, so one is not locked into a term.

6. Communication: Financial Summary - Expenditures for 10 months - April 2022

Ms. Twilley reviewed the report dated May 5, 2022.

7. Communication: Capital Projects – April 2022

Ms. Twilley reviewed the report dated May 5, 2022. Ms. Karp asked about the status of the field house. Mr. Johnson stated that it is nearing completion, but a couple of items need to be resolved. Unanticipated findings delayed the project by about 50 days, so additional change orders are pending. He met with the contractor's representatives yesterday. The goal is to resolve those change orders and the additional general conditions. It is likely that there will be a transfer presented to the Board from education projects completed below budget to fund this project, which will likely run above budget.

8. Communication: FY Established and Status of Capital Projects – March 2022

Ms. Twilley reviewed the status of the capital projects fund as of March 31, 2022. Ms. Karp thanked Ms. Twilley for adding an additional chart detailing when projects were initiated and whether they are completed or pending.

9. Communication: Self Insurance Reserve Fund – April 2022

Ms. Twilley reviewed the report dated May 4, 2022. There have been 15 large loss claims: 11 from the BOE and 4 from the Town. 3 from the BOE and 1 from the Town have exceeded the individual stop loss limit. Ms. Karp asked if they have received an explanation from the BOE as to what action they took on their reserve. Mr. Johnson stated that the BOE reduced their budget by about 9.4% for health insurance. This means that the money that would be going into the fund would be 9.4% less, and if there were a charge, their reserve would be able to handle it. He explained that the Town considered a similar action, but because they were in the red for so long, he sought to ensure sustainability before taking 5% or 10% out of their budget.

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

- a. Physical Services Laptop & Computer (\$4,000)
- b. Highway Computer (\$1,350)
- c. Physical Services – Highway Yard Access Point (\$1,200)
- d. Fire Department – Uniforms (\$100)

11. **Action:** Transfers over \$5,000

- a. Fire Department – Rain Jackets (\$10,000)

Mr. Johnson explained that they are looking to recognize firefighters for their activities during the pandemic. High on their list of desired items is high visibility rain jackets.

Motion by: Mr. Zeller

Seconded by: Mr. McIntosh

BE IT RESOLVED, that the Glastonbury Board of Finance hereby approves a transfer of \$10,000 from the General Fund - Wage Units to the General Fund - Operating Supplies to purchase up to 100 Class 3 high visibility rain jackets for fire department personnel, as presented without changes.

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

- b. Capital Projects – Town Hall, Academy Reno & Security Improvements (\$30,000)

Mr. Johnson explained that Items 11b and 11c concern updates to the sound equipment in Council Chambers. This will likely be followed up by a similar action at the RCC. He explained that the Town will soon receive a \$44,000 grant, which will go towards this project. Additionally, a transfer of \$30,000 is requested from the excess funds in part-time custodial staff. Mr. Zeller stated that it has always been difficult for the Chair to know who would like to speak. He asked if something could be done with this technology to help with that. Mr. Johnson explained that this is just for the microphones. Ms. Karp supports this funding because technology-driven meetings are the future.

Motion by: Mr. Zeller

Seconded by: Mr. McIntosh

BE IT RESOLVED, that the Glastonbury Board of Finance hereby approves a transfer of \$30,000 from Facilities - Part-Time Wages to Capital Projects - Town Hall, Academy Reno, and Security Improvements, as presented without changes.

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

- c. Grant for Capital Projects – Town Hall, Academy Reno & Security Improvements (\$44,000)

Motion by: Mr. Zeller

Seconded by: Mr. McIntosh

BE IT RESOLVED, that the Glastonbury Board of Finance hereby recommends to the Town Council the transfer of \$44,000 from the General Fund - Unassigned Fund Balance to Capital Projects - Town Hall, Academy Reno, and Security Improvements, as presented without changes.

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

- d. Water Pollution Control Sludge Processing and Roofs (\$290,000)

Mr. Johnson stated that this is a project that was funded through the Sewer Sinking Fund of the Capital Program. It was originally approved for \$230,000 but there was no formal process to transfer the funds. Because of cost increases, the transfer is now being requested for \$290,000. He noted that if the Board approves this action, they should condition it subject to a favorable report by the Water Pollution and Control Authority.

Motion by: Mr. Zeller

Seconded by: Mr. McIntosh

BE IT RESOLVED, that the Glastonbury Board of Finance hereby approves a transfer of \$290,000 from the Sewer Sinking fund Undesignated Fund Balance to the Sewer Sinking Projects Fund - WPC roofs, conditional upon a favorable recommendation by the Water Pollution and Control Authority.

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

- e. Grant for Agriscience & Technology in Excess of Prior Year (\$102,879)

Motion by: Ms. Karp

Seconded by: Mr. McIntosh

BE IT RESOLVED, that the Glastonbury Board of Finance hereby recommends to the Town Council the transfer of \$102,879 from the General Fund - Unassigned Fund Balance to the General Fund - Education Services, as presented without changes.

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

12. **Action:** Reserve for Land Acquisition and Preservation (95± acres located off Dayton Road)

Mr. Johnson explained that the proposal is for Town purchase of four parcels totaling approximately 95 acres located off Dayton Road through the Reserve for Land Acquisition and Preservation. The purchase price of \$350,000 is established per a fully executed Purchase and Sale Agreement. They are in the process of an environmental analysis. The Council is expected

to move forward on the matter. The available bond authorization per the Reserve is \$1.064 million.

Mr. Zeller is concerned that there is no Town access to the site except off Dayton Road. While it is a great price, the parcel is very isolated. He is most concerned that the beginning of the parcel is not marked and appears to be off-limits to trespassers. He asked if the Council intends to create a small parking area or to make Dayton Road conspicuous enough for people to walk on. Mr. McIntosh agreed that it not only looks like a driveway, but it is marked as a driveway. Mr. Johnson stated that it is not dissimilar to a ±30-acre site purchase off Hill Street. Down the road, the Town could put a sign by the entrance and install a small, natural dirt gravel parking area.

Motion by: Mr. McIntosh

Seconded by: Mr. Zeller

BE IT RESOLVED, that the Glastonbury Board of Finance hereby recommends to the Town Council the purchase of four parcels totaling 95± acres located off Dayton Road, to be funded through the Reserve for Land Acquisition and Preservation, as presented without changes.

Disc: Mr. Soper will support the motion, but he is concerned that they are buying the property for the Town at under \$4000 per acre, while taxing individual citizens who own undevelopable land at \$8000 per acre.

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

13. **Action:** Recommend the transfer of certain uncollected taxes to the Suspense Tax Book

Motion by: Mr. Soper

Seconded by: Mr. McIntosh

BE IT RESOLVED, that the Glastonbury Board of Finance hereby recommends to the Town Council the transfer of \$191,309.73 in uncollected taxes to the Suspense Tax Book.

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

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

Mr. Constantine stated that PBC has not yet met. Mr. McIntosh stated that he and Ms. Karp toured the library, and it is very nicely done. However, it will not be fully completed for several more weeks. Mr. Constantine asked about the tree by the library, which stands in front of a building set for demolition. Mr. Johnson explained that the goal of the arborist is to develop a protection plan for the tree.

Mr. Soper stated that Moody's updated their credit analysis for the Town of Glastonbury on October 29, 2021. He offered to share a copy of the report with the Board. Ms. Twilley stated that, at the time, she had sent out the report to the Board, but she can send it again. Mr. Zeller pointed out that the report listed that the BOF's suggested transfer of \$1 million into the pension fund would not have hurt the Town's AAA rating but could have helped it. He requested that the Council to be given a copy of the report. Mr. Johnson stated that the question on fund balance is not if one could use it, but rather, how one could use it. He has provided the Council with a copy of the report.

Mr. Johnson remarked that this could be Ms. Twilley's last meeting with the Board after almost five years with the Town. She has done tremendous work and will be missed. The Board thanked Ms. Twilley and wished her good luck on her future endeavors.

15. Adjournment

Motion by: Ms. Karp

Seconded by: Mr. Lynn

BE IT RESOLVED, that the Glastonbury Board of Finance moves to adjourn their meeting of May 18, 2022, at 5:52 p.m.

Result: Motion passed 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.