

**GLASTONBURY BOARD OF FINANCE
REGULAR MEETING MINUTES
WEDNESDAY, JANUARY 19, 2023**

The Glastonbury Board of Finance, along with Town Manager, Richard J. Johnson, and Keri Rowley, the Finance Director, held a regular meeting at 4:00 p.m. in the Conference Room of the Riverfront Community Center, 300 Welles Street.

Also present were Becky Sielman from Milliman and Narae McManus, Controller.

Roll Call

Members

Mr. Constantine “Gus” Constantine, Chairman

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

Ms. Susan Karp

Mr. Robert Lynn

Mr. James Zeller

1. Public Comment Session: Comments pertaining to the call. *None*
2. Communication: Becky Sielman from Milliman to discuss Pension Valuation - Material to be distributed the week of January 16th

Ms. Sielman reviewed the 2022 pension valuation. She explained that there are three groups in the pension: the first are former employees who are still owed some liability. Then, the biggest group are members in pay status, who collect a monthly pension check. The third group are active members - half of whom work for the BOE. There are two classes of police: those hired after January 2013 receive different benefits. There are also two hybrid bodies of employees. Those hired after June 2013 receive a different benefit plan. In the span of 8 years, the Town went from zero to 53 employees on the hybrid plan. The only group that does not have that old versus new type of structure is the BOE. The BOE benefit level is more generous (at 2%) than the Town legacy plan (at 1.75%).

Mr. Zeller asked if there are only 48 police officers in the pension system. Mr. Johnson stated that there are 60 or 61 authorized officers, so it could be that new officers have not yet completed their first year. Ms. Sielman noted that five years ago, there were more active members than members in pay status, and now it is the reverse. Mr. Soper asked if it is concerning that the Town has moved to the hybrid plan for new employees while the BOE has not. Ms. Sielman stated that it is not her job to be concerned about that. Milliman has conducted an analysis with the BOE about what switching to a hybrid plan would look like. She does not have insight as to what collective bargaining looks like in their group.

Mr. Zeller pointed out that, in terms of the ADC, the BOE’s cost per employee is quite high, at \$13,100 versus the Town’s hybrid plan at \$7,100. Ms. Sielman remarked that the BOE has a different profile in terms of employees. Mr. Zeller stated that the BOE was informed by Milliman that their pursuit of higher contributions is as good, if not better, than the Town’s

hybrid plan, in the long run. Ms. Sielman confirmed that yes, they did conclude that. Every dollar contributed by an active member is a dollar less by the employer. Based on their analysis, both plans pursued different paths to arrive at the same cost. Mr. Lynn asked what the motivation was for the Town to move to the hybrid plan, then. Ms. Sielman explained that the Town sought to achieve three things: the hybrid plan represents a sharing of risk with employees, as opposed to the defined plan, where all risk is borne by the member. Secondly, the Town chose to deliberately invest the hybrid plan investments more conservatively than the rest, which raises the cost of the benefits but reduces volatility. The third objective was to reduce the overall cost.

Mr. Johnson explained that he used 5% ROR for the hybrid plan because he wanted to keep the standard deviation low to minimize volatility and have a shared responsibility of benefits between employer and employee. In the long run, he sought to provide a sound pension plan for staff and to control costs. Mr. Zeller understands the 5%. His concern is that the gap between the numbers listed earlier (\$13,100 for BOE costs per employee) and \$7,100 (the Town's cost per employee) is even larger because the \$7,100 could be even lower if a 6% ROR were assumed.

Mr. Soper asked, if the hybrid plan had the same asset allocation as the pension plan, would it be viewed as less risky over the long term. Ms. Sielman stated no, the risk is driven by the asset allocation. The hybrid employees bear risk for the other half of their pension benefits that are not the defined benefit plan. Mr. Soper asked, if the ROR assumption is changed, then do the risk parameters change. Ms. Sielman stated no, it is the other way around. Changing the asset allocations changes the risk, which then changes the interest rate assumption. Mr. Soper summarized that the hybrid plan is a lower risk plan than the legacy pension plan and the BOE's plan. Ms. Sielman stated that is correct.

Ms. Sielman explained that between last year's poor numbers and this year's great numbers, the assets mostly balance each other out. She provided statistics on 19 large municipal pension plans in Connecticut from FY 2014-2021. Glastonbury falls in the middle, in terms of return and riskiness. In terms of the ratio of returns to risk, Glastonbury ranks 4 out of 19. Ms. Sielman explained that the plan's funded status has two different numbers: the numbers in the Town's financial report are the market value, which looks bad as of June 30, 2022. However, their advice is based on the actuarial value, so the Town's contribution will not go through the roof this year. Over the next four years, though, the contribution will go up more than it would have otherwise.

Ms. Sielman explained, every year, they take Milliman's capital market assumptions and look at what the mixture of asset classes will look like over a long horizon. Because the market was low as of June 30, the numbers are likely to increase. Therefore, she is unwilling to say that the Town should raise its interest rate assumption. Interest rates consistently went down for 15 years. Now, there is much higher inflation and market interest rates. She does not know when things will normalize, and what that new normal will look like, in terms of those two factors. Until they know that, she does not recommend any changes to the Town's interest rate assumption.

Mr. Lynn is concerned that the citizens of today are underwriting this. Ms. Sielman noted that when Milliman first started conversations with the Town, its pension plan was at 8.75%. They told the Town's finance director to lower it to 8%, which was their best thinking then. Mr. Soper agreed with Mr. Lynn. Mr. Johnson and the BOF were more aggressive in pushing down the

ROR than the consultants were. Mr. Johnson pointed out that when the ROR was 8.75% for years, the employers' share of the pension cost was 5% or 6%, so it was a non-issue. Ms. Sielman added that the Town has been chasing a moving target.

Ms. Sielman stated that they expect liability to go up over time, which is normal. There have been some gains because Glastonbury had more turnover than expected. There was also a change to one of the actuarial assumptions based on new information about mortality. People are not living as long as expected, not because of COVID-19, but because of the updated mortality tables. Mr. Zeller does not think that the Town is making a lot of progress here. Ms. Sielman explained that as the Town approaches a shorter period of paying off the unfunded liability, there will be rapid improvements. Mr. Lynn asked how much the ADC would be reduced, if an additional \$1 million were put into the pension. Mr. Johnson replied, \$110,000.

Mr. Johnson remarked that there will be a discussion on fund balance at a later meeting. He thinks that the Board should increase the 12% in the General Fund Unassigned Fund Balance because it is not linked to any index. 15% is the S&P Best Practices standard and 16.7% is the GFOA number, so raising it to at least 15% would make more sense. Mr. Zeller asked how much 16.7% equates to in dollars. Mr. Johnson replied, it is somewhere in the \$28-30 million range. He noted that the same amount of money is a lower percentage every year as the budget goes up. There are also some other potential significant revenues to the General Fund which are pending.

3. Communication: Minutes of December 14, 2022 Regular Meeting

Minutes accepted as presented

4. Communication: Pension Report – November 2022

Ms. Rowley reviewed the report dated December 23, 2022.

5. Communication: Month End Investments – November 2022

Ms. McManus reviewed the report dated December 13, 2022.

6. Communication: Financial Summary (Revenues & Expenditures) for 6 months - December 2022

Ms. Rowley reviewed the report dated January 11, 2023. Ms. Karp asked if the \$730,000 grant was unanticipated. Mr. Johnson explained that Glastonbury received a \$730,000 municipal revenue sharing grant which was not budgeted or anticipated. It was unclear when it would be received, but it was deposited to the General Fund. Mr. Zeller asked what the status is on the motor vehicle mill rate. Mr. Johnson explained that the motor vehicle cap of 32.46 mills is enacted to stay in place. He has verified with OPM and CCM, and it is a year behind. In 2025, the mill rate will likely drop because of the property revaluation.

Mr. Soper left the meeting at 5:15 P.M.

7. Communication: Capital Projects – December 2022

Ms. Rowley reviewed the report dated January 11, 2023. Mr. Zeller asked if the bids have come back on the Naubuc School project. Mr. Johnson stated no, not to his knowledge.

8. Communication: Self Insurance Reserve Fund – December 2022

Ms. Rowley reviewed the report dated January 6, 2023. There have been 7 large loss claims: five from the BOE (of which two have exceeded the individual stop loss), and two from the Town. Mr. Lynn asked what the aggregate stop loss is. Ms. Rowley stated that there is no aggregate stop loss. Mr. Johnson will double check if there is one and report back. Mr. Lynn asked, actuarially, how much is the Town over-reserved. Ms. Rowley replied, \$10.8 million.

9. Communication: Transfers Approved by Town Manager Since Last Meeting
- a. \$500 Refuse Disposal – Equipment Maintenance Machinery
 - b. \$5,000 Town Council – RSM Audit Additional Cost

10. Action: Transfers over \$5,000
- a. \$19,500 Information Technology – Backup System

Ms. Rowley explained that IT requests a transfer to replace the town-wide data backup system. The new system did not come out until April 2022, when the budget had already passed. There were some savings, but an additional \$19,500 is needed. Mr. Zeller asked why it is being transferred from full-time wages. Ms. Rowley explained that there were savings within that line item, so it is being offset.

Motion by: Ms. Karp

Seconded by: Mr. Zeller

BE IT RESOLVED, that the Glastonbury Board of Finance hereby approves a transfer of \$19,500 from Finance Administration - Full Time Wages to Information Technology - Data Processing, as presented without changes.

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

Motion by: Ms. Karp

Seconded by: Mr. Zeller

To add a transfer to the agenda as Item 10b.

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

- b. \$24,000 Building Inspection – Plug-In Hybrid Vehicle

Mr. Johnson explained that the proposal is to purchase a hybrid vehicle (Ford Escape) to replace the extant vehicles which are unreliable. The trade-in for the two Ford Focus vehicles is \$16,000. The purpose of the vehicle is to retrieve people who get stuck.

Motion by: Ms. Karp

Seconded by: Mr. Zeller

BE IT RESOLVED, that the Glastonbury Board of Finance hereby approves a transfer of \$24,000 from Engineering - Full Time Wages to Building Inspection - Capital Outlay, as presented without changes.

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

11. Communication: Budget Schedule FY 2023/2024

Mr. Johnson asked whether the Board would like to change their Regular Meeting date from February 15 to February 21. Mr. Zeller will check with Mr. Soper to see if that date works for him or an earlier time on February 22. Ms. Karp noted that the new BOF member will be appointed by then, so he might attend. Mr. Johnson will contact the Board if anything changes.

12. Communication: Audit Review Meeting (identify BOF representatives)

Ms. Rowley explained that every year, the committee meets in February around noon. Mr. Constantine and Mr. Lynn volunteered to attend. Mr. Lynn stated that he will be away after February 18 but is flexible any time before then.

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

Mr. Constantine stated that the PBC has not yet met. Mr. Johnson will reach out to the commission to see when they will meet next. Mr. Zeller asked about the final number for the Nye Road land acquisition. Mr. Johnson explained that the seller has agreed to a reduction of about \$250,000. Mr. Constantine asked about the timetable for purchasing. Mr. Johnson stated that the matter will be discussed at the Council's meeting next Tuesday.

14. Adjournment

Motion by: Mr. Zeller

Seconded by: Ms. Karp

BE IT RESOLVED, that the Glastonbury Board of Finance moves to adjourn their meeting of January 19, 2023, at 5:35 p.m.

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

Respectfully submitted,

Lilly Torosyan

Lilly Torosyan

Recording Clerk

For anyone seeking more information about this meeting, an audio recording is available in the Finance and Administrative Services Office.