

**GLASTONBURY BOARD OF FINANCE
REGULAR MEETING MINUTES
WEDNESDAY, APRIL 17, 2024**

The Glastonbury Board of Finance, along with Finance Director, Keri Rowley, and Town Manager, Jonathan Luiz, held a regular meeting at 4:00 p.m. in the Council Chambers of Town Hall at 2155 Main Street.

Also in attendance were Becky Sielman from Milliman and Christopher Liebel, Controller.

Roll Call

Members

Mr. Constantine “Gus” Constantine, Chairman
Mr. Jared Soper, Vice Chairman
Mr. James Zeller
Mr. Robert Lynn
Ms. Susan Karp
Mr. Kevin Graff {arrived at 4:05 p.m.}

1. Public Comment Session: Comments pertaining to the call ***None.***
2. Communication:
 - a. Minutes of March 20, 2024 – Regular BOF Meeting

In the second sentence on page 2, Chris Kachmar says that he has worked with Ms. Rowley on sourcing the Vanguard strategy to bring the capital back to \$2.8 million. Mr. Soper asked what that means. Ms. Rowley will ask Mr. Kachmar.

Mr. Soper noted that, on page 3, Mr. Zeller asked about the historical data on the assumptions versus returns. He is wondering whether that information has been received. Ms. Rowley stated that Mr. Kachmar is working on producing that information, which will take a little longer than he had anticipated.

Minutes accepted as presented.

- b. Minutes of March 22, 2024 – Special BOF Meeting (Mill Rate Setting)

Minutes accepted as presented.

3. Communication: Scott Lindberg and Becky Sielman from Milliman to discuss OPEB Valuation

Becky Sielman of Milliman stated that her colleague, Scott Lindberg, who was meant to present, is out ill today. She noted that Milliman has the July 2023 OPEB valuation and has implemented the recommendations of that experience study. Milliman collects census data from the town on all the people who work in bargaining units which entitle them to medical retiree benefits upon

retirement. This is largely the same population as the pension plan but not entirely, and benefits are more varied from one group to another, in terms of how much of the premium is paid for by the town versus the individual. The Town is pre-funding the OPEB benefits in the form of a trust. She noted that about half of all Connecticut municipalities have an OPEB trust, but a small number of them regularly set aside money, in the form of paying an ADC. In Glastonbury, that has been in place for 15 years or so. In the off-years, between valuations, Milliman does an abbreviated calculation for the Town of an ADC, reflecting the actual investment performance without refreshing their measurement of the liability.

Mr. Soper asked why they are using an interest rate assumption of 6.5% when the pension uses 6.25%. Ms. Sielman stated that different portfolios have different target asset allocations. The OPEB trust is invested differently from the non-hybrid and hybrid components of the pension trust. They look at each one independently to set an interest rate assumption. When they set 6.5% in 2021, it was appropriate, given the asset allocation of the OPEB trust. Given current market conditions, they do not recommend any changes in interest rate assumptions.

Mr. Soper asked if the OPEB is under the umbrella of the pension. Ms. Sielman clarified that the OPEB trust is a separate trust from the pension plan. Mr. Soper stated that the Town should then be getting a regular review of the OPEB. Ms. Sielman noted that is correct. Mr. Zeller remarked that, years ago, OPEB was in the BOE and the Town. Some years ago, the Council put it all on a single line. He asked to break down how much is going in each direction. Ms. Sielman explained that, in their full valuation report, they do break down a lot of these numbers, including the liability and the ADC. However, they do not separate the assets.

Mr. Zeller asked for the BOE, specifically. Ms. Sielman stated that the total liability is \$17 million. Of that, \$5.4 million is for teachers and administrators and another \$200,000 is for non-certified employees. The liability per individual is quite low because teachers generally pay 100% of the premium; however, there are a lot of them, and a handful were hired long enough ago that they are not covered by Medicare. \$12 million of liability is the Town's, of which about \$5 million is for the police department.

Ms. Sielman then reviewed the topic of assets, which covers a two-year period since their last valuation. FY22 was a down period, with a negative 12% return on the OPEB investments. At June 30, 2023, the market value of the assets stood at \$10 million but the actuarial value of assets is at \$10.7 million. This is because there are some losses from FY21 and FY22 that have not yet been fully realized in the actuarial value of assets. Additionally, she noted that the BOF decided to contribute \$246,000 more than the ADC in FY23.

On the liabilities side, they expected \$23.7 million, but it came in at \$23.6 million. The single biggest impact was one individual who was not eligible for Medicare; Milliman was expecting the Town to be on the hook for their benefits, but that individual is not collecting benefits. Looking at the liability over time, there is also modest improvement, with a slight uptick in the number of active employees covered. However, part of that is because Milliman's analysis includes all the employees who might have coverage but have waived that coverage. So, they count them as if they are in the plan and could elect benefits, but at the moment, have no liability.

Ms. Sielman summarized that the liability was measured at \$23.6 million, but then a series of changes were made. The baseline numbers were what they expected the premiums to be versus what they actually are. Accordingly, the liabilities dropped to \$21.4 million. There was also a

trend assumption, which is medical inflation, bumping up the liability a bit. Then, the updated mortality assumption reduced it, ending up at \$21.9 million. For OPEB, they modified what percentage of future retirees they expect will elect medical coverage. She noted that this is a key difference between a pension and medical benefits: no one refuses a pension but people can pass on a medical benefit program, for a variety of reasons.

Mr. Lynn asked how many years they looked back for the change of assumptions. Ms. Sielman replied, five years. She noted that they likely set the OPEB election rates in 2007 and may not have looked at them since then. Mr. Lynn stated that it is a conservative assumption on their end. He asked if there is no way to put a margin of error on this assumption. Ms. Sielman explained that studying OPEB trends is harder than pension, but they are comfortable with the new assumptions.

Ms. Sielman stated the experience study measured what the impact would have been of these proposed changes if they had implemented them in 2021. Now, they are implementing them in 2023, and the numbers ended up being what they were expecting. More or less, the liability went down from \$21 million to \$17 million and the ADC went down as much as they were expecting. The ADC is \$1,164,000, which the Town is paying directly in benefits to retirees. This means that the net amount they could be budgeting is now just \$119,000, which is a significant decline.

Mr. Lynn asked how they could ever get to 100% funded. Ms. Sielman asked to think of it as \$1.164 million a year not \$119,000. She explained that this is the same math as what they use to determine the ADC, but they are paying all their medical benefits out of their internal service fund. Mr. Zeller asked if that internal services fund has a portion for retirees. Ms. Rowley believes that they have two separate accounts: one for actives and one for retirees, but she will double check.

Mr. Luiz explained that when they pay out those benefits from those internal service funds, that is a credit to the Town for a contribution to the OPEB trust fund. When they look at how much they are supposed to contribute on an annual basis, per the actuaries, they take into account what they anticipate contributing from that fund and what they are not contributing. What they are not contributing gets put into the OPEB trust fund. Hopefully, in 14 years, he thinks that they would pay directly from the OPEB trust fund. Ms. Sielman clarified that the actual payments are the sum of what they paid directly in benefits plus what they contributed to the OPEB trust. Both count as contributions towards the ADC. 14 years from now, the plan will be fully funded. At that point, the biggest portion of the ADC will go away, and they could choose to pay benefits from the OPEB trust or not.

Mr. Soper asked who the trustee is. Ms. Sielman thinks it is the same trust company that has custody over the pension principal. Mr. Lynn asked what the BOF's fiduciary responsibility is and why do they not see the returns. Mr. Soper noted that the Town Manager is the trustee of the pension trust, so he assumes that the trustee of this plan would also be the Town Manager; in which case, this matter should come back to the BOF for viewing. The 6.5% interest rate assumption would depend upon the asset allocation. He asked if the assets are being allocated in a different fashion than the pension, and if so, who is making that determination. He would assume that the 6.25% interest rate assumption, in line with the pension, would be more appropriate than the 6.5%. Ms. Sielman stated that there are definite distinct asset allocations.

Mr. Soper remarked that they have some asset allocation differences, but it is basically the same. Mr. Luiz can look into that. He could also provide the same level of review that the BOF has

with the pension and the selection of investments. Mr. Lynn would like the BOF to take a look at what the trustee fees are and what the rate of return is. Ms. Rowley stated that Fiducient is managing it for a small fee. Mr. Soper asked, if the interest rate assumption were brought in line with the pension, then would the net budget impact be slightly higher. Ms. Sielman clarified that it would be higher, but not slight. She can run the numbers.

Ms. Sielman indicated that 6.5% is fine but 6.25% is also acceptable. She agreed to rerun the numbers at 6.25% and send an updated version of this valuation report back to Ms. Rowley.

4. Communication:

a. Pension Report - February 2024

Ms. Rowley reviewed the report dated March 15, 2024. She noted that Mr. Kachmar will be attending the BOF's June meeting.

Mr. Soper noted that the unfunded accrued liability as of July 1, 2023 is listed as two different numbers, which might be a typo. Ms. Rowley clarified that it is \$63.8 million. Mr. Soper commented that, in the hybrid plan, the international equity is at 23.5% whereas the regular pension is at 16%. At a minimum, the hybrid should be in line with the traditional pension. He advocates for moving the international portion of the pension from 16% down to 12%. Mr. Zeller thought that the BOF had already indicated a desire for the numbers to line up. Ms. Rowley will ask Mr. Kachmar to move the international in the hybrid plan to 16% at the next BOF meeting. Mr. Lynn hopes that the 16% in the hybrid plan is a typo.

b. Flash Report – March 2024

Ms. Rowley reviewed the flash report.

5. Communication: Month End Investments – February 2024

Mr. Liebel reviewed the report dated April 17, 2024.

6. Communication: Financial Summary (Revenues & Expenditures) for 9 months – March 2024

Ms. Rowley reviewed the report dated April 11, 2024. Ms. Karp thanked Ms. Rowley for sending an update on the collection rate. In the times throughout the year when tax revenue is collected, she would find it helpful to see how revenues are trending in comparison to other years. This would help them be better informed during the budget season. She also noted that this is the second or third year that they will not be using opening cash from the General Fund. If they did not use opening cash to fill that hole in the budget, then it would have probably come from taxes. It is important to consider this as a tool to combat unknowns during budget time.

Mr. Soper believes that the opening cash has been only used twice in his years on the BOF. From a budget standpoint, they put in \$775,000 this year, which, if it does not get spent, the savings is all coming from either the Town side or from the extra revenue collection that they get from the 99.4% actual collection rate versus the 99.2% assumption rate. So, there are moving parts. Ms. Karp agreed, but she was looking at this simply from a taxpayer's perspective. If they do not use opening cash, then that would be money that they would be taxing for.

Mr. Constantine stated that Ms. Rowley indicated that the Town received money from a tax settlement. He asked if they will now be able to do something with that property. Mr. Luiz explained that the bankruptcy court put it up for auction. Appeals are being filed to the federal court, but for the most part, they received everything owed to them plus interest. It might be a commercial development there, on the north side of town. Mr. Zeller asked if they would work with the property owner to make it more accessible. Mr. Luiz stated that, so far, nothing formal has been submitted to the town.

7. Communication: Capital Projects – March 2024

Ms. Rowley reviewed the report dated April 11, 2024.

8. Communication: Self Insurance Reserve Fund – March 2024

Ms. Rowley reviewed the report dated April 5, 2024. The total reserve is \$13.46 million. There have been 16 large loss claims: 9 for the Town and 7 for the BOE. Three of each entity have triggered the stop loss limit.

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

- a. \$100 Revenue Collection – Balance due on new currency counter/discriminator
- b. \$3,500 Probate– Microfilming invoice for 2020 to current
- c. \$4,600 Police – Transfer from Full Time to Part Time wages for PT EMS Coordinator

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

- a. \$22,950 Town Manager – 10 Coltsfoot Demo Transfer Reversal

Motion by: Ms. Karp

Seconded by: Mr. Zeller

BE IT RESOLVED that the Glastonbury Board of Finance approves a transfer of \$22,950 from Town Manager - Professional Services to Town Manager - Operating Supplies, as presented without changes.

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

11. Discussion and possible action on recommendation of future bonding projects

Ms. Rowley stated that the Council asked to look into bonding. She and Mr. Luiz conducted an extensive review of what was proposed in the FY26-29 budget. They looked at the different ways to cash fund those capital projects and determined that bonding should be considered. They recommend bonding for five projects: the two engine tankers, both at \$1.425 million; the ladder truck, at \$2.9 million; the school roof, which is \$6 million, but bonding for \$4.05 million; and the Naubuc school roof, at \$1.2 million, with net cost to bond at \$810,000.

After speaking with project managers, they would not start procurement of these projects until January 2026, which can leave a lot of time for the costs to fluctuate. Therefore, the recommendation is to put this on the November 2025 ballot. That would close the gap a bit and ensure that they ask the voters for the right amount of money needed. Mr. Luiz added that, after the Council adopted the budget, they asked department directors to review the next five outyears;

he also spoke with the head of the school district regarding the time frames associated with these projects.

Mr. Zeller asked why they would not put the boiler for Naubuc at \$1 million on that list. That way, Naubuc school would be all set. Mr. Luiz stated that they could, but the intent was to restrict how much they put out to bond. As of now, they have an assumption that it is a 2.5% year-over-year increase and that there would be some relief in the debt service going down. Mr. Zeller asked what the projects total out to. Ms. Karp stated that they gross at \$10.95 million and net at \$6.1 million because of reimbursements. Ms. Rowley does not know if boilers are reimbursable like roofs are. Mr. Zeller's suggestion is to consider moving that, if they are to keep Naubuc school in service. He asked if the Council is okay with a 2025 referendum, since that is not a presidential election year. Mr. Luiz stated that it is the recommendation he will be proposing to them.

Mr. Graff asked if there are other projects that Town staff were considering which would meet the criteria but did not make it onto the list. Mr. Luiz stated that his considerations consisted of chillers and boilers. In terms of timing, Mr. Graff likes the idea of doing it in a presidential year because more people will come out to vote, but that should not be the determining factor. Things should be done when they need to be done, not before.

Mr. Soper concern is that the 2.5% additional to the CIP on an annual basis may not cover simple inflation costs. He is also concerned that they are increasing operations at a greater degree to what they could afford. It seems like they may have to rein in spending in other areas to take care of infrastructure. Mr. Zeller asked if a plan has been considered to close the \$4 million gap. Mr. Luiz stated that it remains to be seen. The main drivers to the operating budget are wages and health insurance.

If they choose not to bond, Ms. Karp asked what the impact will be on the operating budget. To her, it seems like they are trying to strike a balance at bonding at the most opportune time and having a plan to keep the operating budget as reasonable as possible. Mr. Soper agrees with looking at this for November 2025, and at that point in time, they may have a better feel for exactly what needs to be done so that the bonding may be a little smaller. He does not feel that they can continue to defer infrastructure expenditures or just burden taxpayers, so there is a balancing act. There was consensus from the BOF to recommend bonding these items in a November 2025 referendum.

12. Communication: Budget Process Feedback

Ms. Rowley seeks input from the BOF on the likes and dislikes of the budget process, before starting the FY26 process. Mr. Zeller stated that this was a very good budget year, but he requested some changes. This year, there was no summary on the first page, like the previous budget had. He also noted that this budget had fewer pages but bigger paragraphs, which he had a harder time following. He asked to go back to previous years and see if more information could be highlighted.

13. **Action:** Recommend to Town Council Auditor for Fiscal Year Ending June 30, 2024

Ms. Rowley stated that the Town is in the last year of their five-year contract for the FY23 auditors, so they went out to RFP twice. The second time, they received two qualified candidates. The selection committee interviewed both, using their qualifications and pricing to rate them, and recommended King, King & Associates as the new Town auditor.

Motion by: Ms. Karp

Seconded by: Mr. Zeller

BE IT RESOLVED that the Board of Finance recommends to the Town Council the appointment of King, King & Associates as the Town auditors for the fiscal year ending June 30, 2024.

Disc: Mr. Lynn asked if they have used King, King & Associates before. Ms. Rowley replied no. Mr. Constantine stated that the Town has used the other candidate, CLA (previously known as Blum Shapiro) before. Mr. Soper asked what the reason was for choosing King, King & Associates. Mr. Liebel stated that both candidates were qualified, but one of the biggest drivers was the cost difference between the two. King, King & Associates is cheaper, and has a lot of experience with rave references. Mr. Lynn asked if the hours were similar between King, King & Associates and CLA. Mr. Liebel replied no, there was a major hours difference, with CLA perhaps overestimating their hours and King, King & Associates perhaps underestimating theirs.

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 the PBC has not yet met.

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 April 17, 2024, at 5:35 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 link to access the 'Town's Video OnDemand platform.'