

**GLASTONBURY BOARD OF FINANCE
REGULAR MEETING MINUTES
WEDNESDAY, JULY 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 Christopher Liebel, Controller; Becky Sielman from Milliman; and Chris Kachmar from Fiducient.

Roll Call

Members

Mr. Constantine “Gus” Constantine, Chairman
Mr. Jared Soper, Vice Chairman
Mr. James Zeller
Mr. Robert Lynn {participated via Zoom video conferencing}
Ms. Susan Karp
Mr. Kevin Graff

1. Public Comment Session: Comments pertaining to the call *None.*
2. Communication: Minutes of June 20, 2024 Special Meeting

Minutes accepted as presented.

3. Communication:
 - a. Pension Report - May 2024
 - b. Pension Report - June 2024 and CMAs Forecast vs. Annualized Actual Returns

Mr. Kachmar distributed the June flash report. He explained that there was an expectation from investors of a series of interest rate cuts, but that did not happen. The Fed left the rates where they were, through the first half of the year. He explained that, calendar year to date, there continue to be challenges in fixed income, but the global equity markets are generally uniformly positive, led by those large cap US equities.

Mr. Kachmar explained that the second quarter has been modestly positive, up about 1%. Nothing from an allocation standpoint stands out to him. However, he asked the Board to be mindful of the \$10 million pending contribution that will come into the trust soon. He would like to discuss the allocation strategy for that. He explained that the Town is closely allocated to their target weight and the general allocation is where it should be. Therefore, his recommendation is to set aside a couple months of liquidity for near-term pension payments and to disperse the rest across the roster, apart from Barings.

Mr. Soper noted that GQG Partners has significantly outperformed the benchmark in the last year. He asked how their composition differs from the benchmark. Mr. Kachmar explained that they have been adept at stock selection. Specifically, they have been underweight in China,

which has been the biggest tailwind for them. He cautioned the Board that they will likely not get 20% returns from GQG year over year, though it is a capable manager with a consistent track record of getting it right more often than not.

Regarding asset allocation, Mr. Soper feels that they should reduce the composition of the international market because it is an older, more financially-oriented industry than the domestic market. Looking forward, he thinks that international will continue to underperform. He asked if real assets provided any protection over the significant inflation that was experienced a couple years ago. Mr. Kachmar replied that it did.

Regarding the international, Mr. Kachmar stated that the Board could lower the percentage from 16% to 12.5%, but he would not recommend going dramatically lower. He explained that the US markets enjoy the enthusiasm of tech and AI, but there are pockets internationally that he thinks are more dynamic and should have some representation in the Town's portfolio. Mr. Soper had suggested lowering the international percentage to 12% but he is comfortable with 12.5%. If the Board chooses to lower the international percentage from 16% to 12%, Mr. Kachmar suggested that the difference be allocated in the following way: 2% to fixed income and 2% to domestic equity.

Regarding the diversified real asset, Mr. Kachmar stated that there is still a measure of diversification benefit to having those assets, which he thinks are sized accordingly, at 5%. He believes in keeping that allocation as is, for the time being. Mr. Soper is fine with that. However, he noted that, in the last three years, equities still outperformed real assets. He wonders whether real assets were inflation protectors. Mr. Kachmar reminded that, from a portfolio construction standpoint, in 2022, everything was down except real assets.

Mr. Soper asked why they would add assets to fixed income, if they seek to meet their 6.25% rate of return. Mr. Kachmar explained that when they conducted the allocation work in the beginning of the year, Milliman's numbers rhymed with those of Fiducient, who had modeled 7.5% as a median expected long-term return. He explained that there is a one in four chance that they would have a return less than 5%, so a margin of safety was projected. He still feels good about the existing allocation. Even with a potential redeployment of 4% from the international, he stated that the Town would still comfortably satisfy the 6.25%. Mr. Soper would rather leave the 4% in equities than move it to fixed income.

Mr. Lynn agreed. He supports reducing the international market to 12% and continuing to invest in the domestic market. He is also more equity skewed. Mr. Kachmar remarked that 2% in the grand scheme of things is not going to change the dynamic all that much. He is fine with pro rating that 4% difference from the international across all the domestic equities. Ms. Karp asked if Mr. Kachmar would not recommend going below 12% for the international allocation. Mr. Kachmar stated that is correct, with the absolute minimum being 10%.

Mr. Zeller worries about the Town's great portfolio exposure to the Magnificent Seven stocks. Mr. Kachmar explained that the Town has market representation in the Magnificent Seven. However, if there is a ramp up in the grid to build up power needs to support AI, the Town is

getting that exposure through the DWS strategy. Therefore, he thinks that the Town's portfolio has representative coverage on both angles. Mr. Soper asked if it is prudent that 10% of their portfolio is in seven stocks. Mr. Kachmar explained that there is a capitalization weighted index in Vanguard, and there has been discussion of an equally weighted index, which takes the 500 names and breaks it down proportionally. While not a lot of capital has moved to that, he stated that the Town can explore the possibility. He would not recommend doing that today, but if there is a desire in the longer-term, they can discuss it. Mr. Soper would like to explore the option.

Mr. Soper suggested action on moving from 16% to 12% on the international equities, with the 4% difference moving into the domestic space. Mr. Kachmar stated that that reduction is within the acceptable range. By consensus, the Board agreed to this change.

4. Discussion on OPEB Trust - Fiducient and Milliman to attend meeting

- a. OPEB Flash Report – June 2024
- b. OPEB Trust Report – May 2024
- c. OPEB Components Attachment

Mr. Kachmar reviewed the OPEB Trust, noting that there is a lot of overlap with the Town trust, which is a much larger plan. However, one major difference is that the OPEB Trust does not own Barings real estate. Otherwise, about 88% of the portfolio overlaps in names and intentions with the Town trust. He explained that the OPEB Trust has about \$180,000 coming into the plan, and the asset pool is newer to the Board. He assumes that the Board will like to mimic the action they just took with the Town trust in this program, as well. He asked if the international weighting should become 12% in this program, too. Mr. Soper would like to hear from Ms. Sielman before doing so, in order to get an idea of what their liability and responsibility is for OPEB.

Ms. Sielman explained that they are balancing good returns relative to volatility. Of all the CT municipal pension plans they manage, Glastonbury falls right in the middle, without a tremendous amount of risk or return. Right now, the pension plan has a bifurcated asset allocation and, therefore, a bifurcated interest rate assumption. She explained that the hybrid plan's 5% assumption is too low, based on how the Town is allocating the hybrid assets. At this point, she suggests using 6.25% as a pension asset allocation across the board, for both plans. This is because the hybrid plan is a small part of the equation, so it will not move the needle a lot, but it will simplify things significantly. She also suggests moving the OPEB interest rate to 6.25% because she does not think that there are sufficient differences in the plans to warrant different asset allocation targets.

Mr. Soper asked how the liabilities of OPEB differ from that of the pension plan. Ms. Sielman stated that the liabilities are very comparable. The key for her is that both plans are largely open, and both share that younger, less mature characteristic. She believes that there are not significant differences in the liability profiles that would point towards having different asset allocations as a result. Mr. Soper noted that the pension has a negative cash flow currently. He asked about OPEB. Ms. Sielman stated that OPEB has positive cash flow, but the Town pays OPEB funds directly from the self insurance fund.

Mr. Soper asked, then, will there come a time when OPEB will start shrinking? Ms. Sielman stated yes; eventually, they will shift over and pay benefits directly out of the OPEB Trust, but the numbers are all much smaller than the pension numbers. Mr. Zeller thinks that it would be cleaner if all the money were put into and out of OPEB. Ms. Sielman agreed that the optics of doing things that way are cleaner; the way that it is done now leads to the same result, but requires more explanation.

From an asset allocation standpoint, Mr. Soper would have the OPEB Trust mirror the pension. However, he would like more discussion with the rest of the Board on whether they wish to move the new hires' plan to the higher interest rate assumption. Ms. Sielman explained that when the Town bargained the hybrid plan, part of the package was that they would gradually reduce investment risk by having those assets invested more conservatively. When the hybrid assets were carved out and separated, she explained that it was a significantly more conservative asset allocation, but over time, the allocations have converged while the interest rates have not.

Mr. Zeller recollects that the previous town manager wanted to err on the conservative side. Now that the plan has matured, he would like to take another look at this. Mr. Soper knows what volatility means for the pension plan, but would like to know how much of an effect volatility has on the OPEB assets. Ms. Sielman stated that the budget numbers are much smaller for OPEB. The ADC for FY25 is \$1.2 million. The Town will pay out \$1 million in benefits, so they have budgeted \$181,000 of additional contribution amount into the OPEB Trust. Mr. Soper summarized that, theoretically, they could be more aggressive in the OPEB, and it would not affect the risk parameter. Ms. Sielman stated that is correct.

Ms. Karp does not have insight into why they took the decision of a 5% interest rate assumption in the first place. Ms. Sielman recollects that it was purely a desire to be more conservative in investing these assets, to protect the town long-term. Mr. Soper thinks that it was part of labor negotiations, so he would like to investigate the historical background. Ms. Sielman finds it highly unlikely that the 5% was embedded in the collective bargaining agreement. In any case, Ms. Rowley agreed to look into the matter.

Mr. Zeller asked if the OPEB Trust will be fully funded in 2037. Ms. Sielman stated yes, there is another 14 years left in its 30-year amortization period. Mr. Kachmar asked if the Board would like to make that same switch in the OPEB, to bring the international share down to 12%. By consensus, the Board said yes.

Mr. Kachmar and Ms. Sielman exited the meeting.

Regarding the OPEB Components Attachment, Ms. Karp asked how many retirees under 65 follow this path. Ms. Rowley replied, between 10-20, but she will report back on the exact number. Ms. Karp asked to clarify where the employee contributions come from, going forward.

Mr. Zeller asked if the Board should consider changing the interest rate assumption, to make it a simpler process. Ms. Rowley agreed that it is a good discussion. Right now, all medical claims

for OPEB come through the self insurance reserve fund. She thinks that there is room for improvement, to either run the claims through the trust directly or through a separate bank account.

Mr. Luiz shared a possible concern about that. Right now, their operating budgets reflect expenses going into the health insurance funds, and therefore, they are not contributing as much on a single line item, outside of those two operating budgets. He asked whether this action would lead to a reduction in the operating budgets and a swelling of that contribution to the fund, resulting in an inequitable reflection in the operating budget of expenses. Mr. Zeller thinks that is a good point. Mr. Soper is confident that Ms. Rowley can figure this out and make it simpler than it is now. Mr. Zeller would like to at least explore this in October.

5. Communication and Possible Action: OPEB Investment Policy
 - a. Updated Policy review and input on Asset Allocation and Benchmarks

Ms. Rowley reviewed the updated policy. Action on the asset allocation changes is postponed until the Board's next meeting.

6. Communication: Month End Investments – May 2024

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

7. Communication: Financial Summary (Revenue and Expenditures) for 12 months – June 2024

Ms. Rowley reviewed the report dated July 12, 2024.

8. Communication: Capital Projects – June 2024

Ms. Rowley reviewed the report dated July 12, 2024.

9. Communication: Self Insurance Reserve Fund – June 2024

Ms. Rowley reviewed the report dated July 8, 2024. There have been 27 large loss claims: 16 for the BOE and 11 for the Town. Of these, 11 have hit the stop loss limit: 7 from the BOE and 4 from the Town. Ms. Karp stated that the BOE planned for a decrease in their reserve. She asked to find out what their goal was. Ms. Rowley will do so.

10. Communication: Elderly Homeowners Tax Credit Update

Ms. Rowley reviewed the memorandum dated June 28, 2024.

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

- a. \$803 Assessor – Training and Dues
- b. \$500 Welles Turner – Notary Certification renewal fees
- c. \$2,088 Welles Turner – Two additional RFID desktop pads

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

- a. \$6,960 Parks & Rec – Additional funding for Athletic Field Renovator

Motion by: Ms. Karp

Seconded by: Mr. Zeller

BE IT RESOLVED that the Board of Finance hereby approves a transfer of \$2,927 from the General Fund – Parks & Recreation – Building Improvements and \$4,033 from the General Fund – Parks & Recreation – Wages Over Time to the General Fund – Parks & Recreation – Machinery and Equipment, as presented, without changes.

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

b. \$19,029 Parks & Rec to CIP – Additional funding for Mower

Motion by: Ms. Karp

Seconded by: Mr. Zeller

BE IT RESOLVED that the Board of Finance hereby approves a transfer of \$16,911 from the General Fund – Parks & Recreation – Vehicles and Trucks and \$2,118 from the General Fund – Parks & Recreation – Building Improvements to the General Fund – Capital Projects – Parks & Recreation – Heavy Equipment, as presented, without changes.

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

13. **Action:** Insurance Reserve Fund appropriation request

Ms. Rowley stated that, in October, HD Segur estimated an 8% budget increase, which the FY25 budget reflects. When the renewal came in at the end of June, the increase was \$152,000 higher than what was budgeted, driven mainly by workers' compensation. Ms. Rowley explained that they had savings in that premium of about \$151,000. They also received an \$82,000 credit from Travelers, for good experience in the past three years, which was applied to this budget shortfall. However, they are still \$69,000 over their FY25 budgeted amount. She stated that this action would pay that difference out of the Insurance Reserve Fund.

Ms. Karp asked if \$768,000 is a reasonable balance to have in this fund. Mr. Luiz explained that there is nothing in the record that indicates a goal, but the intent is to cover these types of situations. Considering their claims, he finds it reasonable. Mr. Zeller asked whether they had put money into this fund in the FY24 budget. Mr. Luiz replied, no.

Mr. Zeller asked if this is part of a trend or did they just have a bad year. Mr. Luiz explained that the BOE has had some high workers' compensation claims lately, which is one of the drivers. Mr. Zeller asked if the money in this fund sits in a higher interest bearing sweep or in a low interest environment. Ms. Rowley stated that the funds are part of their bigger bucket of cash, so every month, they get allocated based on fund balance.

Motion by: Ms. Karp

Seconded by: Mr. Soper

BE IT RESOLVED that the Board of Finance hereby approves and recommends to the Town Council an appropriation of \$69,000 from the Insurance Reserve Fund for payment of the Fiscal Year 2025 Workers Compensation and Property & Casualty Insurance Premiums, as presented, without changes.

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

14. Communication: Nye Road Update (requested by Jim Zeller)

Mr. Zeller stated that about \$3.9 million has been spent on Nye Road to date, and the Housing Authority is attempting to get more funding. His concern is that this was presented as a \$3.2 million expenditure for the Town, but it has grown from there. He also inquired about the land swap, which was a part of this deal. Mr. Luiz explained that land was added from a parcel on Western Boulevard over to one of these two Nye Road parcels, but he does not think that it was usable, so it did not have much value as developable land.

Mr. Soper asked if there is any estimate of how much more money needs to be spent on the project. Mr. Luiz stated that two things need to happen: the parking lot needs to be reconstructed and the building needs a new roof. He noted that there is unbudgeted state grant money coming their way; he will check whether it can be used for the roof. His target would be to do this next summer. If there is no state money, then he would put his Town Manager's proposed money to do that roof.

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

Mr. Constantine stated that the PBC has not yet met.

16. Adjournment

Motion by: Ms. Karp

Seconded by: Mr. Zeller

BE IT RESOLVED that the Glastonbury Board of Finance moves to adjourn their meeting of July 17, 2024, at 5:48 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.'