

Board of Aldermen Committee Minutes

Date: 02/23/16	Chair: Siliski	Convened: 5:30	Adjourned: 6:10
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Committee	<input type="checkbox"/> Charter & Ordinance	<input type="checkbox"/>	<input type="checkbox"/> Inter-municipal
	<input type="checkbox"/> Community & Economic Development	<input type="checkbox"/>	<input type="checkbox"/> Public Safety
	<input checked="" type="checkbox"/> Finance	<input type="checkbox"/>	<input type="checkbox"/> Public Works
	<input type="checkbox"/> General	<input type="checkbox"/>	<input type="checkbox"/> Recreation
	<input type="checkbox"/> Human Resources	<input type="checkbox"/>	<input type="checkbox"/> Special Liquor

Committee Members Present	<input checked="" type="checkbox"/> Dave Allaire	<input type="checkbox"/>	<input type="checkbox"/> Ed Larson
	<input type="checkbox"/> Matt Bloomer	<input type="checkbox"/>	<input type="checkbox"/> William Notte
	<input checked="" type="checkbox"/> Sharon Davis	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Melinda Humphrey
	<input type="checkbox"/> Tom DePoy	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Christopher Siliski
	<input type="checkbox"/> Gary Donahue	<input type="checkbox"/>	<input type="checkbox"/> Jon Skates
	<input type="checkbox"/> Christopher Etori		

Others Present	<input type="checkbox"/> Dave Allaire	<input type="checkbox"/> Ed Larson	<input checked="" type="checkbox"/> Treasurer Wilton
	<input type="checkbox"/> Matt Bloomer	<input checked="" type="checkbox"/> William Notte	<input type="checkbox"/> Assessor Keefe
	<input type="checkbox"/> Sharon Davis	<input type="checkbox"/> Melinda Humphrey	<input checked="" type="checkbox"/> City Attorney Romeo
	<input type="checkbox"/> Tom DePoy	<input type="checkbox"/> Christopher Siliski	<input checked="" type="checkbox"/> Cindi Wight, Parks and Rec. Sup.
	<input checked="" type="checkbox"/> Gary Donahue	<input type="checkbox"/> Jon Skates	<input checked="" type="checkbox"/> Rutland Herald
	<input type="checkbox"/> Christopher Etori	<input type="checkbox"/> Mayor Louras	<input type="checkbox"/> Other _____

Motions/Discussion:

Giorgetti Fund Investment Policy:

1. Attached to this report:
 - Giorgetti Investment Fund Proposal - Questions and Answers
 - Draft resolution
 - Letter of support – Maureen Wilcox, Giorgetti Trust Executor
 - Current Ordinance on the Giorgetti Fund
 - City pension earnings and investment mix as of Dec. 31, 2015
2. The committee met to discuss a proposal for the Board of Aldermen to sign a resolution that allows a significant “PRINCIPAL” portion of the Giorgetti fund to be invested with a licensed securities broker in order to gain a reasonable, higher rate of return. The City would continue to have a more liquid “OPERATIONAL” account that the Recreation Department can access to fulfill Mrs. Giorgetti's wishes at the park.

The draft resolution proposes an 85% and 15% sustained ratio-mix between the Principal and Operational accounts. The Treasurer would be charged at the end of each fiscal year to rebalance the two accounts to sustain this ratio.

3.

A letter of support by Maureen Wilcox was circulated with other supporting documents. Ms. Wilcox expressed her full support for this proposal. Ms. Wilcox was a close friend of and advisor to Mrs. Giorgetti. More importantly, she was the sole executor-trustee of Mary Giorgetti's trust and the representative who originally signed over funds to the City and stipulated the terms of use.

4.

Committee members were provided a list of anticipated "Questions and Answers" deemed critical in the decision making process. This list guided much of the discussion and is attached.

5.

Other key questions-concerns of the committee involved:

(a) Who would determine which investments would be selected?

- The financial manager would select the individual investments but the Board of Aldermen would set the overall types and mix of investments.

Typically, financial managers have fund portfolios with diverse mixes of investments that represent the level of risk investors are willing to accept and the level of return investors hope to gain. Often, they allow governing bodies to select 100% equity, 80% equity and 20% fixed income, 60/40%, etc. Equity is typically riskier than fixed income but over time has much greater returns. The current City pension maintains a 60/40 mix and has performed adequately over the years. It was proposed that the Board select this type of mix for the Giorgetti principal account; however, this would be at the discretion of the Board once an investment firm is selected.

(b) What would be the costs to the City, and how would the City pay?

- Any costs or associated fees would come out of the principal account and thus be born by the restricted Giorgetti fund and not the non-restricted General fund. Thus, the tax payer would not incur any burden. The committee decided to add this to the draft resolution to make it absolutely clear.

Final costs and/or fees would be proposed to the Board by an investment firm. Typically, they are around 1%; however, returns are generally reported out as net of costs. Thus, the 5.69% return the City pension has made over the last ten years is what the City has earned after all fees were taken by Prudential.

(c) Who would determine if monies were to be taken out of the principal account?

- Again, the Board of Alderman would have full control. Any Rec. Department requests for spending from either the Principal or Operational account would go through the Board of Aldermen committee process as the Board deems fit.

As outlined in the attached "Questions and Answers" document, it was emphasized that the Board and Recreation Department should not plan on

spending the entire 15% in the Operational account each year. Given the yearly rebalancing of the two accounts, this would simply drain the Principal account, negate the positive nature of taking this proposed action, and increase the associated risks of depleting the principal in a down market. Rather, the Board and Recreation Department should simply plan on spending a percentage of the returns earned over time after inflation is accounted for.

Lastly, the Superintendent of Recreation brought a proposed list of Giorgetti expenditures. The committee thought it best, so as not to mix apples and oranges, to address this request after the proposed resolution is accepted or not.

Given the discussion above, the committee voted unanimously 4:0 for the following motions. Therefore, I move to:

- 1. Adopt the proposed resolution as written and submitted in this Board packet.**
- 2. Authorize the Treasurer's office to solicit bids from qualified local and/or national investment firms using the guidelines highlighted in #10 of the attached "Giorgetti Investment Fund Proposal – Questions and Answers" document.**

Note – Once a firm is selected by the Board, the Board will need to authorize the transfer of 85% of the Giorgetti funds to the new account and instruct the Treasurer to report this amount as "restricted" on the City's balance sheet.

Giorgetti Investment Fund Proposal Questions and Answers

1. What's being proposed?

A resolution that allows a significant "PRINCIPAL" portion of the Giorgetti fund to be invested with a licensed securities broker in order to gain a reasonable, higher rate of return. The City would continue to have a more liquid "OPERATIONAL" account that the Recreation Department can access to fulfill Mrs. Giorgetti's wishes at the park.

The drafted resolution proposes an 85% and 15% sustained ratio-mix between the Principal and Operational accounts. The Treasurer would be charged at the end of each fiscal year to rebalance the two accounts to sustain this ratio.

2. What would change?

Legally, nothing would change.

There is no anticipated change other than the Board's investment policy. The Board would retain full control and oversight of the fund.

Right now the City has one general revenue fund in two related accounts: one more long-term account invested in CD's and a second held in money market-cash. They are both held (and managed) by an external entity, i.e. a bank. This proposal simply asks the Board to move the longer-term account to a different management entity, i.e. a licensed securities broker.

There currently is a City ordinance in place that stipulates the use of any Giorgetti fund money. This would not change.

Maureen Wilcox has expressed her full support for this proposal. Ms. Wilcox was a close friend of and advisor to Mrs. Giorgetti. More importantly, she was the sole executor-trustee of Mary Giorgetti's trust and the representative who originally signed over funds to the City and stipulated the terms of use.

3. How much is currently in the Giorgetti fund; how much has been used?

The initial investment in 2009 was \$1,086,000. Currently, after \$55,000 in expenses over the past 6 years, there is approximately \$1,082,000 between the two accounts.

4. If nothing changes other than investment policy, why take this action?

Over the years, the tax payer will benefit significantly by receiving a higher rate of return in line with a level of risk the Board feels appropriate. The taxpayers will not only avoid *opportunity costs* but realize a real return that protects the capital and its purchasing power from inflation. The fund will also sustain itself for many more years than it otherwise could have.

5. What is an “opportunity cost”, and how does it relate to my decision?

An opportunity cost is a common micro-economic concept defined as: the benefits you could have received by taking an alternative action; or the difference in return between a chosen investment and one that is necessarily passed up.

Say you make an investment that returns a paltry 1% over the year. In placing your money in this investment, you gave up the opportunity of another investment, say an investment yielding 5%. In this situation, your opportunity cost is 4%.

In regard to the Giorgetti fund, see how this scenario has actually played out over the past six years:

	Values given different investment policies after 6 years.		
	CURRENT	INFLATION	PROPOSED
Begin - 2010	\$1,000,000 @ 1%. Giorgetti funds have earned less than this yearly average for the past 6 years.	\$1,000,000 @ 2%. Note - average inflation rates are typically higher.	\$1,000,000 @ 5%. The City pension has averaged 5.67% per year over 10 years including the 2008 crash.
End -2015	\$1,061,520	\$1,126,162	\$1,340,096
Avg Yrly Rtrn	\$10,253	(\$21,027)	\$56,680

Given the numbers above:

1. The real purchasing power of the fund is currently shrinking at least \$10,000 dollars per year (\$21,027 - \$10,253).
2. The taxpayers are missing out on a potential opportunity cost (savings) of \$46,000 per year (\$56,680 - \$10,253).

6. Would the Board be able to access the principal for a large project?

Yes.

There may be personal biases - similar to Zamias - whether the principal should be spent down or not or how quickly. But, overall, the Board would have easier access than if the Principal account was legally restricted (see #7 below).

With that said, there should be a greater interest and need to keep as much of the principal as possible invested to mitigate risk related to fluctuations in the market and reach rate-of-return and sustainability goals. Having a formal resolution adopted by the Board and identifying the principal as “restricted” on the City’s balance sheet is meant to ensure prudence in making significant and untimely withdraws.

In this regard, the Board or Recreation Department should not plan on spending the 15% each year. This would, in fact, systematically reduce the overall principal amount and defeat the purpose of taking the more long-term approach. Rather, the Recreation Department should plan on a certain yearly percentage of the anticipated-average rate of return. Such a scenario is presented in #9 below.

7. Alternatively, could the fund be set up where the principal is legally protected to absolutely insure – pending market catastrophe – that the fund will sustain itself for life?

Yes.

As with the City’s current Stoolfire account, the advantage of legally restricting a principal investment – even from the City itself – would be to ensure that the fund generates revenue for Giorgetti Park, users, and tax payers indefinitely.

Advantages would include:

- ensure sustainability
- risk of selling during down markets would be negated.
- if the principal cannot be touched, the overall value of the fund and, hence, the returns it produces, pending Board policy, would grow relatively higher.

Disadvantages would include:

- lack of “upfront” access for sizable capital projects – although potential bond payments could be made by sustained revenue streams
- the cost of obtaining legal advice to set up a City “Trust”
- increased accounting burdens
- the bureaucratic need to establish a group of trustees, e.g. 2 or 3 people

8. What are the potential risks?

In the long term, if the principal amount is kept in tact, there are limited risks. Over time, the three leading benchmarks measuring the health of the market (and U.S. economy) have increased between 8 and 10%. See below:

Annualized Growth Rates				
From	To	DJIA	S&P500	NASDAQ
January 1, 1980	December 31, 2015	8.70%	8.47%	10.15%

Case in point, even though the market experienced its second worst crash in U.S. history in 2008, these same markets have grown between 6 and 8% a year for the last 10 years. In fact, as of December 31, 2015, the City’s more risk adverse pension fund (attached) has earned 5.69% per year over the last 10 years. In 2015, the market was flat, and in 2016

it's currently down about 10%. It may go down more, but over time it will go back up. With this in mind, a common rule of thumb is to buy when the market is down (not up).

In the short term, there is a risk of loss due to fluctuations and downturns in the market if the Recreation Department makes significant capital expenditures in periods of market decline. The proposed 85/15% yearly balancing between the principal and operation accounts would significantly mitigate this concern since the money withdrawn one year "at a loss" in a down market will potentially be made up in a subsequent "up" market, i.e. assuming principal is left to grow. Additionally, by choosing an investment vehicle with a healthy balance of equity and fixed income that targets a rate of 5 or 6% (rather than 8 or 9%), risk will be mitigated. However, increased risk still remains.

9. Are there any other strategic considerations required?

Yet again, in addition to the risk outlined above, the real risk to the principal investment does not relate so much to long-term market fluctuation as much as short term budgeted expense/use.

As stated above, the Board and Recreation Department should not plan on spending the 15% each year. This would, in fact, systematically reduce the overall principal amount and defeat the purpose of the proposed action. Rather, the Recreation Department should plan on a certain yearly percentage of the anticipated average rate of return or simply let its operational account build to make more significant purchases.

Below is a scenario that demonstrates this consideration:

- At year 0, a total fund of \$1,000,000 = \$850,000 (85%) in the principal account and \$150,000 (15%) in the operational account.
- To not only maintain principal but match inflation at 2%, one would want \$867,000¹ in the principal account at the end of the year.
- To have \$867,000 in the principal account, one would need a total fund balance of \$1,020,000².
- If you had a 5% gain on \$850,000, it would equal \$42,500. Therefore, in the first year, in order to maintain principal at a rate equal to inflation, **Recreation would not want to spend more than \$22,500³.**

Increases and decreases in the principal account, rate of return, and rate of inflation would be important variables when considering this bottom-line number and any draws from the fund.

¹ \$850,000 + (\$850,000 * 2%)

² \$867,000 divided by 85%

³ \$42,500 gain - \$20,000 required increase in total fund balance to match inflation

With this in mind, as opposed to drawing down funds for significant projects all at once, the board could finance certain expenditures and make debt payments utilizing the anticipated returns as outlined above.

10. Next steps

The following are needed to enact this proposal:

1. Motion to adopt the proposed resolution.
2. Motion to have the Treasurer's office solicit different bids from qualified local and/or national investment firms. As a general guideline, the bids should highlight:
 - A specific investment portfolio-fund targeting a minimum of 5% growth should be proposed with a mix of approximately 60% equity and 40% fixed income. Alternative portfolio-fund mixes that target a 5-6% annualized gain can be considered.
 - Ability and experience in maintaining such a portfolio-fund.
 - YTD, 1 year, 3 year, 5 year and 10 year rates of return (after all expenses) in the portfolio-fund being proposed.
 - All associated costs and/or fees of managing such a portfolio-fund
 - Qualifications of the firm.
 - Qualifications of the person managing the portfolio-fund.
 - Current make-up of the portfolio-fund.
 - Total \$ currently invested in the portfolio-fund.
 - Any other key considerations.
3. Once a firm is selected, there will need to be a motion to transfer 85% of the current Giorgetti fund to the new investment account and instruct the Treasurer to show the Principal account as "restricted" on the City's balance sheet.

Resolution to Invest Giorgetti Fund (Draft for full Board, 3/7)

Whereas, John & Mary Giorgetti Trust bequeathed significant funds to the City of Rutland for improvements and maintenance of Giorgetti Park; and

Whereas, the City created the Giorgetti Fund with this donation and adopted an ordinance to ensure that the Giorgetti Fund would be restricted to use for Giorgetti Park, and Pine Hill Park by extension; and

Whereas, the City has not developed a major project which would use a significant portion of the funds given; and

Whereas, the City desires to ensure the Giorgetti Fund will be available for many years to come for improvements and maintenance of Giorgetti Park and Pine Hill Park; and

Whereas, the City recognizes that earning higher investment yields will be important for the longevity and purpose of the Fund;

Now therefore be it resolved that the City, through its Board of Aldermen, direct the Treasurer to invest 85% of the Giorgetti Fund assets in a blend of equity and fixed return investment instruments, through a licensed securities broker.

And be it further resolved that the City will maintain 15% of the Fund assets in a money market account from which annual expenditures can be drawn to maintain improvements or maintain the park that will be FDIC insured or collateralized along with other City monies to insure against loss.

And be it further resolved that the cost of management be born by the fund.

In adopting this resolution, it is expressly understood that the portion of the Giorgetti Fund invested in market investments may have an exposure to loss, unlike collateralized or FDIC insured investments previously used.

From: Maureen Wilcox <maureen@stevenswilcox.com>
Subject: Giorgetti Fund - City of Rutland
Date: February 22, 2016 10:27:35 AM EST
To: 'Chris Siliski' <siliski4rutland@me.com>

Hi Chris,

Mary Giorgetti hoped her bequest would provide sufficient annual earnings to assist in maintaining and improving Giorgetti Park in perpetuity.

In 1970 John Giorgetti helped the city to acquire 44 acres to be used for public recreation. This area became known as Giorgetti Park. After John's death in 1987, Mary Giorgetti, his widow, continued to generously support Giorgetti Park by helping to fund significant improvements over the years. In addition to her lifetime gifting, Mary made a bequest of almost 1.1 million in 2009, hoping this would provide earnings to enable AND encourage the city to continue with the maintenance and ongoing improvements at Giorgetti. The city could yield an average of 60,000 per year if investing her bequest and earning an average return of 5.5% annually. As Mary did, these earnings could be accumulated for future improvements (i.e. 3 years accumulation would fund additional improvements in the same manner as her gift of 184,000 did in 1996). Mary's wish, as I understood it, was that this bequest would be the seed money to assist the city with keeping Giorgetti Park as a respected recreational facility, one to be enjoyed by all. Mary and John recognized the importance of recreational facilities and desired to significantly enhance the quality of life for the residents of the Rutland Community. They had 2 passions which they generously supported in Rutland, education and recreation. I remain hopeful the city of Rutland can continue to honor the Giorgetti's lifelong investment in recreation, namely Giorgetti Park, for many years to come.

It pleases me Chris, that you are making an effort to have this money invested in a prudent manner.

Most sincerely,

Maureen

§ 8009 Giorgetti Fund

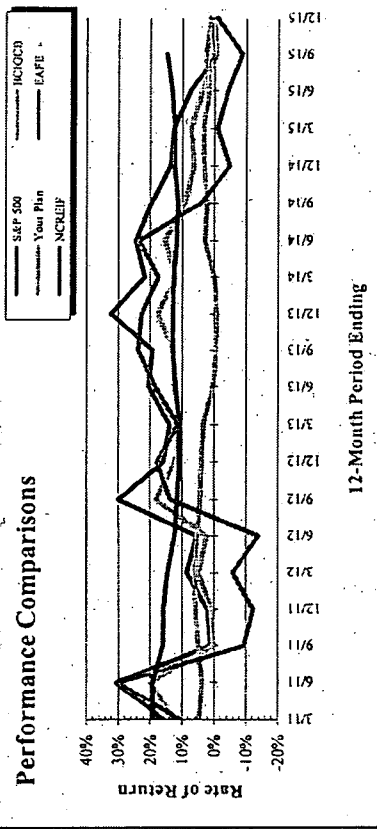
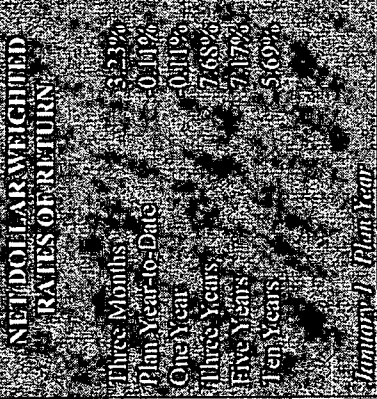
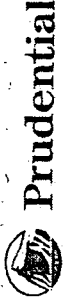
1. The Giorgetti Fund shall be maintained by the City Treasurer as an independent interest bearing account.
2. Expenditures from the Giorgetti Fund shall only be used for maintenance, upkeep or improvements to Giorgetti Park and/or Pine Hill Park, except as noted below.
3. Any expenditure that deviates from #2 above shall only be by vote of three quarters of the Rutland City Board of Aldermen at a duly warned meeting. Any such deviations shall only be for maintenance, upkeep or improvements to recreational facilities owned by the City of Rutland and within the City of Rutland. (Added 2007, No. 249, eff. July 4, 2007)

§ 8010 Giorgetti Park Revenues

1. Between May 1st and June 30th of each year the Superintendent of the Recreation Department shall provide the Mayor a record of revenues and expenses associated with the operation of Giorgetti Park for the previous fiscal year.
2. In the event there is a balance of net revenues associated with the operation of Giorgetti Park for the previous fiscal year, said balance of funds shall be deposited into the Giorgetti Fund.
2. Any indebtedness incurred as a result of improvements or construction at the Giorgetti Park Ice Rink shall be paid back as follows: first, to the "Zamias Fund" of the City of Rutland. (Added 2007, No. 249, eff. July 4, 2007)

DECEMBER 31, 2015 NET PERFORMANCE RESULTS

Lazaro E. Guzman, CFA, Vice President, (860) 534-4193



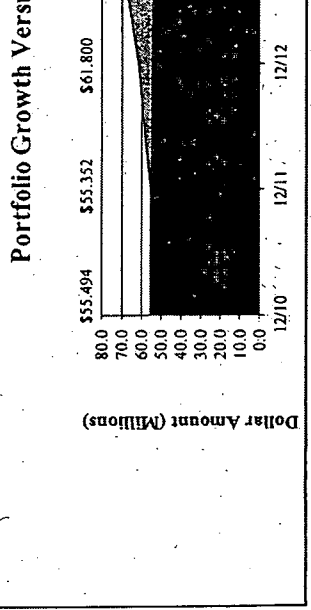
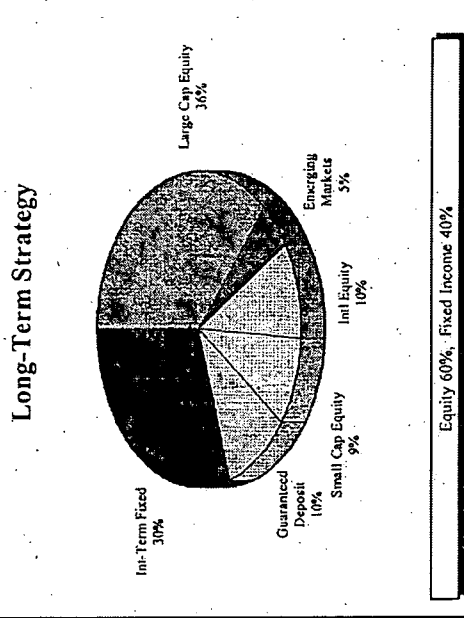
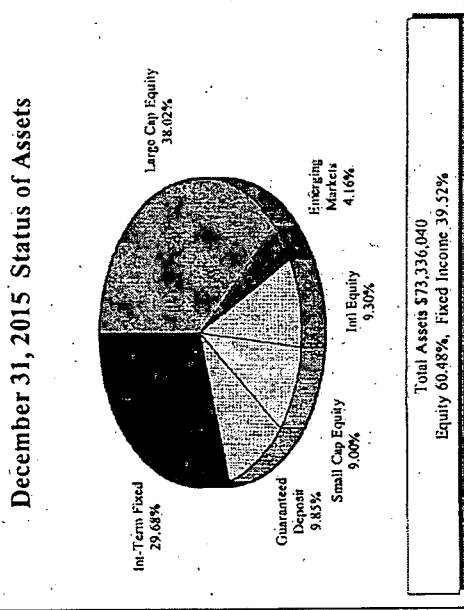
QUARTERLY UPDATE

The central theme of 2015 was progressive weakness in world economic conditions. Massive instability in energy and commodity markets, continued debt deleveraging, and ongoing fiscal drag in most major countries have been the primary contributors to chronic economic weakness.

Quarterly data on GDP reflected chronic weakness in export trade, inventory investment, and the government sector. Real Final Sales to Private Domestic Purchasers - which includes the consumer, capital goods, and construction sectors - expanded at a 3.3% annual rate in 2015, a pace roughly 50% faster than that of overall headline GDP.

Following an unprecedented seven years of near-zero interest rates, the Federal Reserve finally voted to hike policy rates around yearend, one of the most anticipated rate hikes in monetary history

World financial markets were characterized by extreme caution and risk aversion, manifested in a strong preference among investors for safe-haven assets. Returns on the full spectrum of risk assets were extremely disappointing in the year, led by commodities, emerging market equities, and high-yield debt.



NEXT STEPS

As you can see in the accompanying charts, your plan's current asset mix is in line with its long-term investment strategy. Therefore, no adjustments are needed at this time to rebalance your plan.

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City of Rutland Vermont

Board of Aldermen Resolution to Invest Giorgetti Fund

Whereas, John & Mary Giorgetti Trust bequeathed significant funds to the City of Rutland for improvements and maintenance of Giorgetti Park; and

Whereas, the City created the Giorgetti Fund with this donation and adopted an ordinance to ensure that the Giorgetti Fund would be restricted to use for Giorgetti Park, and Pine Hill Park by extension; and

Whereas, the City has not developed a major project which would use a significant portion of the funds given; and

Whereas, the City desires to ensure the Giorgetti Fund will be available for many years to come for improvements and maintenance of Giorgetti Park and Pine Hill Park; and

Whereas, the City recognizes that earning higher investment yields will be important for the longevity and purpose of the Fund;

Now therefore be it resolved that the City, through its Board of Aldermen, direct the Treasurer to invest 85% of the Giorgetti Fund assets in a blend of equity and fixed return investment instruments, through a licensed securities broker.

And be it further resolved that the City will maintain 15% of the Fund assets in a money market account from which annual expenditures can be drawn to maintain improvements or maintain the park that will be FDIC insured or collateralized along with other City monies to insure against loss.

And be it further resolved that the cost of management be borne by the fund.

In adopting this resolution, it is expressly understood that the portion of the Giorgetti Fund invested in market investments may have an exposure to loss, unlike collateralized or FDIC insured investments previously used.

Adopted at the regular meeting of the Board of Aldermen, March 7, 2016.

William Notte, President

Sharon Davis

Christopher Siliski

Thomas DePoy

Christopher Ettori

Matthew Bloomer

Melinda Humphrey

Edward Larson

David Allaire

Gary Donahue