

MEETING MINUTES
EMPLOYEE PENSION & TRUST INVESTMENT COMMITTEE
CITY OF FRANKLIN, TENNESSEE
MONDAY, DECEMBER 5, 2022 @ 1:00 P.M.

Committee Members

Alderman Clyde Barnhill, Chair
 Mayor Ken Moore, Vice Chair
 David McDaniel, Citizen
 Keith McGee, Citizen
 Kris Bull, Employee
 Suzanne Carter, Employee
 Kevin Townsel, HR Director

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Other Attendees

Barry Bryant, Dahab Associates
 Kevin Sullivan, Findley, Inc.
 Eric Stuckey, City Administrator
 Kristine Brock, Assistant City Administrator/CFO
 Michael Walters Young, Strategic/Budget Mgr.
 Mike Lowe, Comptroller
 Chris Franklin, Management Fellow
 Caleb Stoner, Financial Analyst
 Shauna Billingsley, City Attorney
 Angie Johnson, City Recorder
 Lanaii Benne, City Recorder
 Cayce Anderson, Deputy City Recorder

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1. Call to Order

Chairman Clyde Barnhill called the meeting to order at 1:00 p.m.

2. Approval of the Minutes

David McDaniel moved to approve the September 12, 2022, Pension Committee minutes as presented. Seconded by Kris Bull. Motion carried unanimously.

3. Investment Report for 9/30/2022

Barry Bryant, Dahab Associates

Mr. Bryant opened with the economy is going well except for inflation. He explained that a lot of the inflation come as a side affect of the factories shutting down during the pandemic and then the increase in cost of energy due to the invasion of Ukraine.

As Mr. Bryant discussed the public markets, he went over how this is the discounted present value of future cash flows. When the discount rate changes, it changes the theoretical value of the stock market. What you're seeing right now is every time an inflation number of whatever type or a number that relates to the inflation number comes out, the market recalibrates its estimate of what the FED is going to do. Whatever the FED is going to is what changes the discount rate the market uses, this is why you will see the fluctuations up and down in the third quarter. In the fourth quarter, the numbers were up. In the first quarter, they were up as well as in the second and so far in the third. It is that changing impression of what the FED is going to do that is causing the stock market to do what it is doing.

Market summary:

In the third quarter, the City of Franklin investments saw a 4.3% return.

A 5% in the bond market is a huge decline. This is an unusually bad period. Unprecedented. We had a timber allocation that was very strong and those were not affected as much by interest rates. Housing is in relatively good shape, although that is changing.

Some negatives, referring to the TCRS numbers; our fixed income portfolio did not do very well. There are more ten-year bonds than two-year bonds. Long duration bonds are more sensitive in changes to interest rates. In this quarter, the prices went up on this portfolio and then went down causing the pull down of the average a little bit below

the long-term average.

Hamilton Lane Secondary Fund: The return on this portfolio is 10.3. The private market equivalent was 9.5. They called 78% of the money. With Landmark, the Internal Return Rate was 9.4%.

With the Three Timber Funds; BTG: Zero IRR. We did lose some money here due to inflation. This was purchased in 2007 before the major financial crisis and due to simple bad timing, the return has not been what we had hoped for. RMS: This will end sometime between now and three years. It has a 3.8% internal rate of return, which is an annual rate of return. With FIA: 3.3% internal rate of return and these should all wind down in the next five years.

No questions from the committee. Kristine did point out that at the bottom of page 6 there is an executive summary that is a snapshot of the market value. You will see \$135M in the bottom right. You can also see the 3rd quarter had a difficult ending at \$135M. Our next evaluation will be December 31st.

4. Annual Report from Human Resources

Sara Sylvis, HR Manager

Ms. Sylvis reported there have been 95 new hires since January 1, 2022. A slower number of employees retired this year; five since March and eight anticipated in December for an anticipated total of 13. This is slightly lower than average.

The TCRS matching plan (457, 401 plans) currently has 49 participants and 283 retirees on the TCRS payroll.

5. Report on the Deferred Compensation Retirement Program (Mission Square)

Kristine Brock, ACA/CO

Ms. Brock shared that ICMA RC has changed their name to Mission Square. This is the same organization and Trey Sizemore will continue as the City's local representative. Mission Square has a new website and log in procedure for participants.

The city's deferred compensation plan is not mandatory and participants may be enrolled in more than one plan. There are 1,362 enrolled in the City's deferred compensation plans.

Total balances in the deferred compensation plans as of December 31, 2020 was \$26.9 million. It grew by 17% to \$30M, but is now down 11.5 percent to \$28.3 million.

Voluntary participation for Roth or 457 plans are going well. Ms. Brock will invite the Mission Square representative to present an update to the committee sometime in 2023.

6. Consideration Of Resolution 2022-78, Third Amendment To The Amended And Restated Pension Plan Effective January 1, 2018, (Related To The Definition of Average Compensation).

**Eric Stuckey, Kristine Brock,
Kevin Sullivan, USI, Frank Carney, EvansPetree**

The Closed Pension Plan applies to full time employees hired on or before December 31, 2016. There was no employee contribution for employees before 2/16/2010. After 2/16/2010 there was a 5% contribution. There is full retirement at 25 years of services or 5 years of service and age 65.

As of 12/31/2021, there were 406 active employees, 274 retirees receiving benefits and 193 inactive, vested employees not yet receiving benefits.

The Closed Pension Plan is evaluated by the State of Tennessee each year.

Current Plan Document: The Board of Mayor and Aldermen may provide a cost-of-living increase for retirees and beneficiaries by Resolution. Broad authorization that does not require BOMA to act, say when to implement or how to calculate.

Upon approval from the Board of Mayor and aldermen, a cost-of-living increase for retired participants and beneficiaries of the plan shall be awarded annually based upon the year over year change in the Consumer Price Index in accordance with the following maximum and minimum limits:

- Equal to/Great than 80%: Maximum of 3.5% or minimum of 1%
- Equal or greater than 60% and equal/less than 79%: Maximum 2.5% or minimum 1%
- Equal to or less than 59%: 0% maximum and minimum

Eric Stuckey confirmed that they are preparing a resolution to reflect change in average compensation. Moving from annual to a comparable 36 months before the 2010 calendar year. After February 2010 fiver year basis to a 60-month timeline. This may change incentives for December retirees. It does provide flexibility and was reviewed internally by Human Resources, the City Administrator and actuary.

They are asking to get consideration to the Board.

Kristine Brock asked for actuary cost for pension plan for change. Kevin Sullivan responded with November 21st Letter of Assumptions. The impact on how people changed their behavior. The chart on page 2 shows bias towards the end of the year. When you compare this to rolling plans from another local plan, you also see a bias towards the end of the year. Expecting 1/3 of retirees to retire now. 2/3's are seen/expected to retire earlier. When you retire at the end of the year, there is no cost change. This can generate higher than average earnings; expect 6% increase in their cost. When you move the retirement to an earlier date in the year, cost decrease since less cost of service. The average increase is 1.33% with total impact at \$134,000 average cost.

David McDaniel's asked if there was a catalyst for doing this? Mr. Stuckey informed him that City employees had requested not having to wait until the end of the year and this would also relieve staff problems. Mr. Kris Bull also mentioned that you do have the ability to cash in your vacation and sick time when you retire. If you are retiring in June and you cash in that time, that's going to affect that years' salary, but it won't push you above. The 36 months allows it to be included into the calculation.

Mr. Sullivan added that with the current method, you may be flat for several months without the additional compensation. Kevin Townsel is hoping that this will be moving forward as soon as possible, and Mr. Stuckey confirmed that this will be presented at the December 13th Work Session making this effective February 2023

Mr. McDaniel asked for clarification that the Pension Committee needs to recommend this? Alderman Clyde Barnhill confirmed and that it would need to be presented to the January BOMA meeting.

The motion to approve to full Board was made by Kevin Townsel.
Second by David McDaniel.
Passed unanimously.

7. Consideration of Resolution 2022-79, A Cost of Living Policy for The Closed Plan
Kristine Brock, Frank Carney, Kevin Sullivan

Eric Stuckey presented that this would provide a more specific policy for adjustments to the cost of living. Surveyed other pension practices; very common to have a cap on inflationary adjustment. This is paired with funding level based on funding within the plan.

This also provides a minimum floor as well with at least two of these categories. You can see a chart on the 2nd page of the resolution, suggesting BOMA policy rather than an amendment to the plan. Proposed that the changes be made through resolution, that way it is done outside of any yearly situation. This was the same as shared with the Pension Committee a few months ago.

Kristine Brock noted that the cost of living averaged a little over 2% from 1992-2023. The funded ration is from 1995-2022. We have always been above 60% except for one year within modern history.

Mr. McDaniel's asked if this was a normal rate in this industry with employees? Ms. Brock informed him that most of them have policies. Most are in the 3% range with few in the 1% range. That practice here has been a practice for some time and the years where employees did not receive a cost-of-living increase, retirees still received an increase. Mr. Stuckey also added that keeping the fund in sustainable position is important. Mr. Clyde Barnhill added that he cannot recall a time where the retirees did not receive a cost-of-living increase. BOMA thought this was appropriate.

The summary of the resolution shows that at 80% funded is at 1-3.5%. The last time we were at under 80% was in 2019 and that was at 73%. We have been between 70% and 80% a total of six times. Mr. Stuckey added that we have committed additional funds to the Closed Pension Plan which is impacted by markets and other factors. There is appreciation for BOMA's funding.

Mr. Sullivan does acknowledge that we are closing out a year where investments have not been kind to us.

Kris Bull asked for clarification on if we have information on how often the 1% would have come into effect. They could only find one example where they were at the 1% level which was in 2011. Plans with caps in it never hit it. TCRS provisions never hit the cap. Mr. Stuckey confirms that the board would have the ability to change the plan and can revisit every 5-10 years.

Kevin Townsel made the motion to approve. Second by David McDaniel. The decision was unanimously.

8. Other Business

The next Pension meeting is scheduled for Monday March 27, 2023.

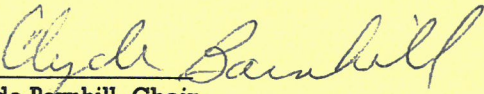
Kris Bull presented a question that was brought to him that Police officers working off duty and how they were paid for that time (example: private security). Are they paid for by entity or by the city and does the city pay for the pension?

Eric Stuckey confirmed that yes, it's running through the city to capture that income. It is eligible for calculation in their pension plan. The rates are modified and administered through the city now.

9. Adjourn

A motion was made by Kevin Townsel, seconded by David McDaniel to adjourn.
The motion passed unanimously.

Meeting adjourned at 2:20 p.m.


Clyde Barnhill, Chair

