

Town of Lincoln  
Trustees of Trust Funds  
Meeting Minutes  
Wednesday, July 27, 2016, 10:00 am  
Lincoln Town Hall, 148 Main Street, Lincoln, NH

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Trustees Present: Lutz Wallem (LW), Herbert Gardner (HG), Beverly Hall (BH)  
Guest: Joann Klatskin, Senior Management Consultant, PFM

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I. Call to Order: Meeting called to order at 10:02 am

II. Meeting with Joann Klatskin

- Joann was asked where she is based. Her office of record is Harrisburg, PA, but she lives in Raymond, NH and her NH office is in Manchester.
- Request: HG asked for 5-year overview of rates. She was not sure if they had that but she would find out how far back they go and get us what she could. PFM started managing this investment pool only since August 3, 2015. Prior to that it was Cutwater, which eventually pulled out of investment pools. At that time, rate was .01%. Rates will always follow market, so rates were near .00% prior to 2015. As Cutwater started pulling out, their assets dropped thus causing their expense ratio to increase. Audit fee also increased. Cutwater took highest fee they could and their rate for investors at that time was .01%. When Cutwater resigned, PFM won contract, but Cutwater was only obligated to send over one year of rates, so PFM does not have five years' worth.
- PFM=Public Finance Management, which manages state pools; the NH pool was started in 1993. There was a statute creating the state pool with the goals being security, liquidity, and gain, RSA 383:22-24. Pool includes towns, schools, libraries—any public entity. It is a quasi-state agency, but not operated out of state treasurer's office, but bank commissioner plus his advisory committee provide oversight. Dept. of Revenue and State Treasurer's office are statutory members of the advisory committee.
- PFM is basically the "hired help," asset manager or administrator, of NH-PDIP. PFM has a five-year contract, starting August of 2015. PFM is a private company, not regulated by the state. State can tell PFM what the pool can and cannot be and do. TTF should check out the statute for more information on how pool is organized and run.
- LW: Who sets the rates? JK: They are market rates, based on investment criteria less management fee. Highest fee PFM can take is .3% which comes off gross return. PFM decides what its fee will be. At present it is taking .25%. PFM can raise or lower its fee at any time, up to .3%
- Overall rate has gone down, which is a reflection of PFM's fee going up from .1 to .25. It is now .045, down from .054 the last time we visited. PFM's rate has increased due to its increased costs.
- The town has an account with NH-PDIP, but hasn't used it for years as its rate was so low. If TTF decides to invest with them, it will be separate from the other town account.
- HG: Is it fair to say that as a pool investor we are a creditor? No, you are not a creditor. If something bad were to happen, would we have to stand in line to collect? No. If pool were to lose funds, the funds are owned by NH-PDIP, but pool cannot hold funds. If something catastrophic were to happen, what would happen? The return is always based on the market. For example, during most recent financial crisis, there was a flight to safety. Everyone moved to treasuries, so yes, funds could lose value, as when treasuries' returns were negative. So you are talking about the return on investment, not the original investment? You would only lose interest income. You put in a million, you take out a million--

*bol HNC*

you do not lose any principle. Investment is a fixed income portfolio, and has a net asset value—a dollar in, is a dollar out.

- HG: Isn't comparing investing in a pool to investing in a bank like comparing apples to oranges? Not really.
- JK: Any money you have in a bank account is yours and yours alone. Having funds in a pool is similar to a mutual fund, where you benefit not just by town of Lincoln's investment, but by the total amount in the pool. And pools can respond more quickly to rising interest rates.
- There is no FDIC or collateralization of funds, but investments must be rated A1, as the fund is rated by S&P and it has to keep its AAA rating by S&P. Only banks can offer FDIC and collateralization, but the securities themselves may be FDIC-insured or collateralized, such as CDs.
- The fund is audited once a year. PFM recommends the audit firm, but the bank commissioner of NH has to approve it.
- In NH, the pool has a shorter weighted-average maturity than some others, only 60 days, due to NH rules. In NH, it must be short and liquid.
- So a bank can go bankrupt, but the pool cannot? It would be very difficult for pool to go bankrupt. There was one down in Florida during most recent financial crisis. The firm that was handling that pool was acting as both a broker and a dealer, meaning they were not only buying investments on behalf of that fund, but they were also off-loading some investments they had in their own portfolio into that fund that were not performing very well and that ultimately failed.
- Suppose TTF invests in the NH-PDIP, is there something we can explain to the town that shows benefits of the pool? It would be helpful to give town Selectboard the statute so they can understand the statutory regulations, that we are enabled by statute to invest town's funds in the pool.
- LW: Of the 234 cities and towns, how many use the pool? JK: About 75% (176) have accounts with the pool but approximately 60% (105) of them do not use it. Most mid-size and large towns use the pool only in part because they need access to a bank. This is unlike trust funds that do not need access to a bank. Smaller towns are more likely to use the pool entirely and transfer funds into a bank when needed.
- From PFM's website: "While the pool seeks to maintain a staple net asset of \$1.00 per share, it is possible to lose money investing in it. An investment in the pool is not insured or guaranteed..." JK was asked how an investor could lose funds. First, that is a standard disclosure required by FDIC. Any investment has to contain this standard language. The only way that the pool could theoretically lose any money is if securities/investments did not mature at full value. So if the pool has a piece of commercial paper in its portfolio, if the commercial paper is no longer worth what it was worth when it was purchased—say due to bankruptcy or going out of business—that would be how pool could lose. That security would then be sold at a loss and the difference would be reduced. However, because it is required to maintain that dollar net asset value, this would be highly unlikely, as they are constantly being monitored and investments have to be A1, which is the highest rating possible. Can it happen? It is highly unlikely, but theoretically possible. Since the pool has been established in 1993, it has not ever had a loss.
- There was a question about categorizing our funds into capital reserve vs expendable trust. JK advised that that is just something we would do for ourselves—it would have nothing to do with the NH-PDIP. It would just help TTF decide which funds to put where.
- Joann was thanked for coming and answering the Committee's questions.

### III. Review and approve minutes from April 22, 2016 and June 22, 2016

#### **MOTION: TO APPROVE MINUTES OF APRIL 22, 2016**

**Motion by: BH**

**Second by HG**

**Approved unanimously**

#### **MOTION: TO APPROVE MINUTES OF JUNE 22, 2016**

Motion by: HG

Second by BH

Approved unanimously

- IV. IV. Report from HG re his conversation with Keith Pike of TD Bank. Keith Pike saw our minutes on line and expressed his concern that we be aware that there is no FDIC or collateralization with NH-PDIP. He also said we were wise to have more meetings. Some towns in NH meet yearly, some every week. We are now an active board and we are getting better rates as we are now watching rates, and we need to continue doing so. He also said that we need to be careful as we would be creditors with NH-PDIP and we are responsible to the town. And that it is good to ensure that each bank has a chance to at least submit proposals.
- Bank of NH: HG called BNH also. They had asked for Lincoln's yearly report which they now have. HG asked them what is going on and this is the response he received: "We are busy doing our year-end reports and we have had a lot of trouble with our roof." So TTF has decided to cross BNH off its list of possible partners unless they approach TTF.
- This leaves us with three options: TD Bank, Citizens, and NH-PDIP. In previous years, there was only one. There was discussion about previous boards and wondering what, if anything, they been doing in previous years. TTF would like to make some kind of presentation at next Town Meeting about the yields TTF is getting now.
- HG would like to contact Keith Pike and invite him to come and talk with TTF again. TTF agreed to do that.
- V. V. BH reported on last checks she wrote. She had message from Bev Tilley at Citizens that funds had not been transferred into sub accounts as of that date. She talked with Helen Jones who assured BH that would be done ASAP. In the future, BH will make sure that Helen has funded the sub accounts. BH stated how redundant procedure seems to be, with funds coming from general fund into trust fund and then, when bills are paid out of general fund, moneys are transferred from the trust funds back into the general fund to reimburse for the bills that are paid. There are probably good reasons for this procedure, if nothing else, so that more than one set of eyes is watching over the moneys.
- VI. BH business cards: Due to problems with home printer, cards will be printed at the Town Hall.
- VII. Next meeting scheduled for September 7 at 10:00 am. (This was later changed to September 14<sup>th</sup>.)
- VIII. BH notified everyone that each trustee now has a folder in the TTF drawer with their name on it. There will be a folder in the front of the file for any incoming mail.

IX. Meeting adjournment

**MOTION: TO ADJOURN**

BY: HG

SECOND: BH

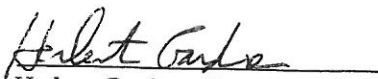
Approved unanimously

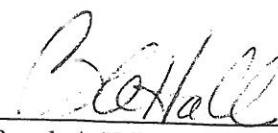
The meeting was adjourned at 12:05 pm.

Respectfully submitted,  
Bev Hall

Approval Date 10/19/16

  
Lutz Wallem, Chairman

  
Herbert Gardner, Vice-Chairman

  
Beverly A. Hall

