



FY2017 Treasury Budget Presentation

Adam M. Cloud
City Treasurer

May 2, 2016

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Office of the Treasurer

Mission:

As the independently elected custodian and investor of all City funds, co-issuer of the City's debt and the administrator of the City's pension fund, it is the City Treasurer's mission to pursue prudent investment, cash-management and debt-management policies so as to protect all the City's monetary assets, relieve the burden on taxpayers and leverage the powers and authority of the office to improve the quality of life for Hartford residents, retirees and businesses while maintaining the utmost accuracy, honesty and integrity in all fiscal operations.



Office of the Treasurer

Organization Chart

TREASURER

Hon. Adam M. Cloud

ASSISTANT TREASURER

Carmen I. Sierra

CUSTODY OF FUNDS

Financial Systems Manager

Principal Admin. Analyst

Accountant

Admin. Assistant

EXECUTIVE OFFICE

Senior Admin. Assistant

Senior Admin. Assistant

INVESTMENTS

Director of Investments

Asst. Director of Investments

Principal Admin. Analyst

PENSION ADMINISTRATION

Plan Administrator

Assistant Plan Admin.

Member Services Specialist

Member Services Specialist

Pension Analyst

Pension Assistant



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Recommended Budget: \$407,650

General Fund: \$407,650

Grants: 0

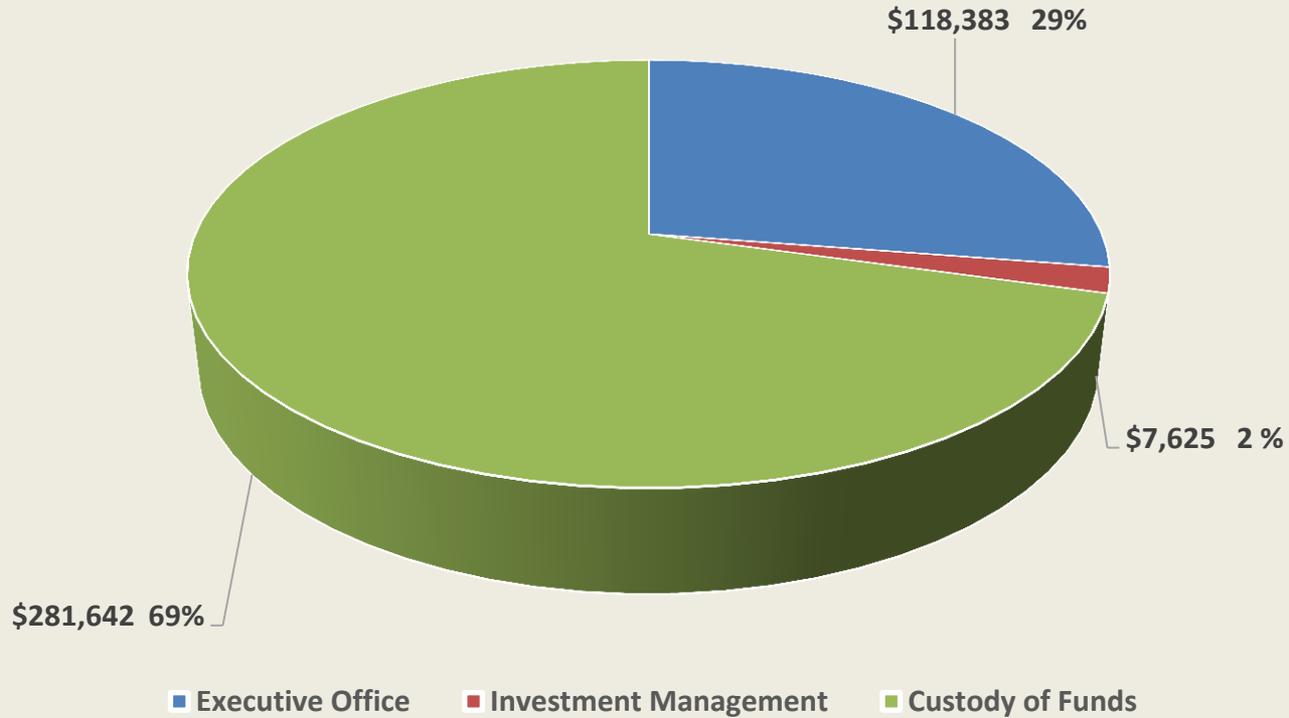
Capital Improvements Program: 0

Total: \$407,650



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General Fund Total - \$407,650





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Legal Mandates:

EXECUTIVE OFFICE

- ***Executive Management***- Provide leadership, oversight and support to Treasury employees to facilitate the achievement of goals and outcomes;
- ***Debt Management*** -Serve as co-issuer of all City revenue and general obligation bonds in order to finance City capital projects and other needs;
- ***Investor Relations and Public Information*** - Provide financial reporting and information so that Treasury operations are open and transparent to the public;
- ***Short-Term Investments*** - Provide income earned on temporarily idle General Fund cash



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Legal Mandates:

INVESTMENT MANAGEMENT

- ***Investment Policy and Asset Allocation*** - Invest pension and other trust funds entrusted to the Treasurer in order to achieve the maximum earnings possible within the constraints of the level of risk consistent with policy;

CUSTODY OF FUNDS

- ***Payment Disbursals*** - Pay City obligations to vendors, employees and retirees in an efficient and timely manner;
- ***Bank Reconciliation*** - Account for and balance the receipts and disbursals of City funds in conjunction with the City's general ledger and Finance Department accounting systems;



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Strategic Goals Achieved This FY:

- **Maintained** the *MERF's net asset value above the \$1 billion dollar level*, despite:
 - **Paying** out retiree benefits of nearly **\$100 million** dollars
 - **Liquidated** approximately **\$40 million** of principal in **order to help fund benefits payments**;
- **Maintained** MERF's funded status at a strong **77%**;
- 1 yr. investment return of **2.1% exceeded** the MERF's benchmark, **despite** volatile markets and historically low interest rates:
 - **MERF returns are positive** for all time periods ranging from 1yr. through the fund's **1986 inception**
 - The **MERF's 8.1% net of fees** annualized return since inception **exceeds** the **MERF's 7.75% assumed rate of return**;
- Fund results have been achieved while actively dampening downside risk and volatility and pursuing higher risk adjusted returns and greater downside protection;



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Strategic Goals Achieved This FY:

- Given uncertain markets, ***expanded portfolio diversification*** by investing in real assets, real estate, direct lending and unconstrained fixed income strategies;
- In light of potential opportunities, ***made tactical investments*** in ***energy and technology*** sectors;
- ***Conducted study*** of MERF liquidity risk;
- ***New Commitments*** to ***minority-owned firms*** in FY2015 = ***\$10 million***
- Existing investments in small, local, women/minority owned firms totaled ***\$162.7 million*** as of June 30, 2015:
 - Small, women/minority owned firms totaled ***\$61.6 million***
 - Hartford-based firms totaled ***\$63.7 million***
 - Hartford area firms totaled ***\$37.3 million***



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Strategic Goals Achieved This FY:

- In April 2016, The Treasurer ***selected Ramirez and Company*** to serve as the Senior Manager of the City's **\$26,905,000 in General Obligations Refunding Bonds**. The selection of Ramirez represents the ***first time in the City's history that a Latino owned firm*** has ever ***served*** as a Senior Manager in the sale of the City's Bonds;
- Under trusteeship of the City Treasurer, ***the OPEB Trust Fund was established***;
- ***Distributed Employee Pension Contribution Statements to Employees*** for the ***first time since 2003***;
- ***Transitioned Deferred Compensation Section 457 plan*** from The ***Hartford*** to the ***MassMutual*** platform ***resulting*** in online enhancements. ***Changed plan*** to allow ***part time employees*** to participate;
- Worked with Bank of America to enroll city vendors in our ***E-payables Program***. We have added ***60 new enrollees*** and as a result we will have an opportunity to receive higher rebates;



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Strategic Initiatives:

- **Continue** to *identify* small, local, women and minority firms to manage pension fund assets;
- **Perform** an *asset/liability study* to ensure that the MERF's asset allocation is properly geared toward fulfilling its long term mission;
- **Evaluate** the *MERF's liquidity* under varied funding and market scenarios to determine its sensitivity to negative circumstances;
- **Perform** an *experience study* to determine the accuracy of the actuarial assumptions used to determine the City's pension liability and funding requirements;



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Strategic Initiatives:

- Transitioning to a *new banking institution*, which will *help* us with significant *cost savings*;
- **Continue** to work with the City administration to *enhance* our *City Parks* through the investment of Hartford Parks Trust Fund assets;
- **Officially launched** our first “*Internship Program*” this summer for junior and senior high school students that live in Hartford
- **Educate** constituents on *financial literacy* and promote *increased lending* to residents and small businesses;



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Hartford Parks Summary as of March 31, 2016

	<u>Market Value</u>	<u>Cumulative Yearly Income (Int./Div)</u>	<u>70% of Income Available for Beautification, Conservation, etc. per Ordinance of 1988</u>	<u>25% of Income Available for Capital Expenditures per Ordinance as Amended in 1997</u>	<u>2011 Amendment for 5% to be transferred to the COH Tree Account</u>	<u>Withdrawals to date</u>
3/31/2016	20,193,609.42	433,550.17	303,485.12	108,387.54	21,677.51	(582,821.03)
6/30/2015	22,886,668.31	669,626.51	468,738.55	167,406.63	33,481.33	(586,194.70)
6/30/2014	23,944,784.63	708,715.41	496,100.79	177,178.85	35,435.77	(608,687.27)
6/30/2013	20,047,585.54	693,595.28	485,516.69	173,398.82	34,679.76	(1,846,130.58)
6/30/2012	18,512,650.35	678,878.79	475,215.15	169,719.70	33,943.94	(615,959.60)
6/30/2011	18,218,184.15	496,496.30	372,372.23	124,124.08		(22,234.88)
6/30/2010	16,407,911.84	370,170.38	277,627.79	92,542.60		
6/30/2009	15,715,326.78	496,474.91	372,356.18	124,118.73		
6/30/2008	17,323,143.80	651,279.07	488,459.30	162,819.77		
6/30/2007	18,508,021.44	656,155.74	492,116.81	164,038.94		
6/30/2006	17,378,658.67	605,256.31	453,942.23	151,314.08		
Totals:	<u>\$ 6,460,198.87</u>	<u>\$ 4,685,930.84</u>	<u>\$ 1,615,049.72</u>	<u>\$ 159,218.31</u>	<u>\$ (4,307,102.61)</u>	



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As of:		5/2/2016										Yearly	
ACCT #	INSTITUTION	VALUE	IRRENT	RA	MATURITY	FUND	Estimated Revenue					Estimated Revenue	
6500265410	PEOPLE'S UNITED BANK	167,340.92	0.35%		NA	General							
31080001345	UNITED BANK	50,459,527.17	0.50%		NA	General							
4240245905	TD BANK	67,692.51	0.15%		NA	General							
4250084062	TD BANK	455,090.01	0.20%		NA	General							
95570005686	SANTANDER BANK	2,173,753.01	0.40%		NA	General							
2252193211	CITIZENS BANK	82,370.40	0.06%		NA	General							
1918044438	WEBSTER BANK	25,185,311.35	0.41%		NA	General							
20554000	FARMINGTON BANK	5,620,177.51	0.40%		NA	General							
		84,211,262.88	0.31%								260,002.27		
95570008250	SANTANDER BANK	48,365.09	0.40%		NA	Cap Imp							
2202643189	CITIZENS BANK	1,468.65	0.06%		NA	Cap Imp							
850292857	FARMINGTON BANK	12,129,424.67	0.40%		open 1/22/15	Cap Imp							
4308862881	TD BANK	48,596,455.98	0.35%		open 10/26/14	Cap Imp							
		60,775,714.39	0.30%								183,846.54		
	TOTAL	\$ 144,986,977.27	0.31%								\$ 443,116.45		
Bank of America	Avg. Opening Balance	5/2/2016	28,526,750.39										

Expenditures for week of 5/2/16

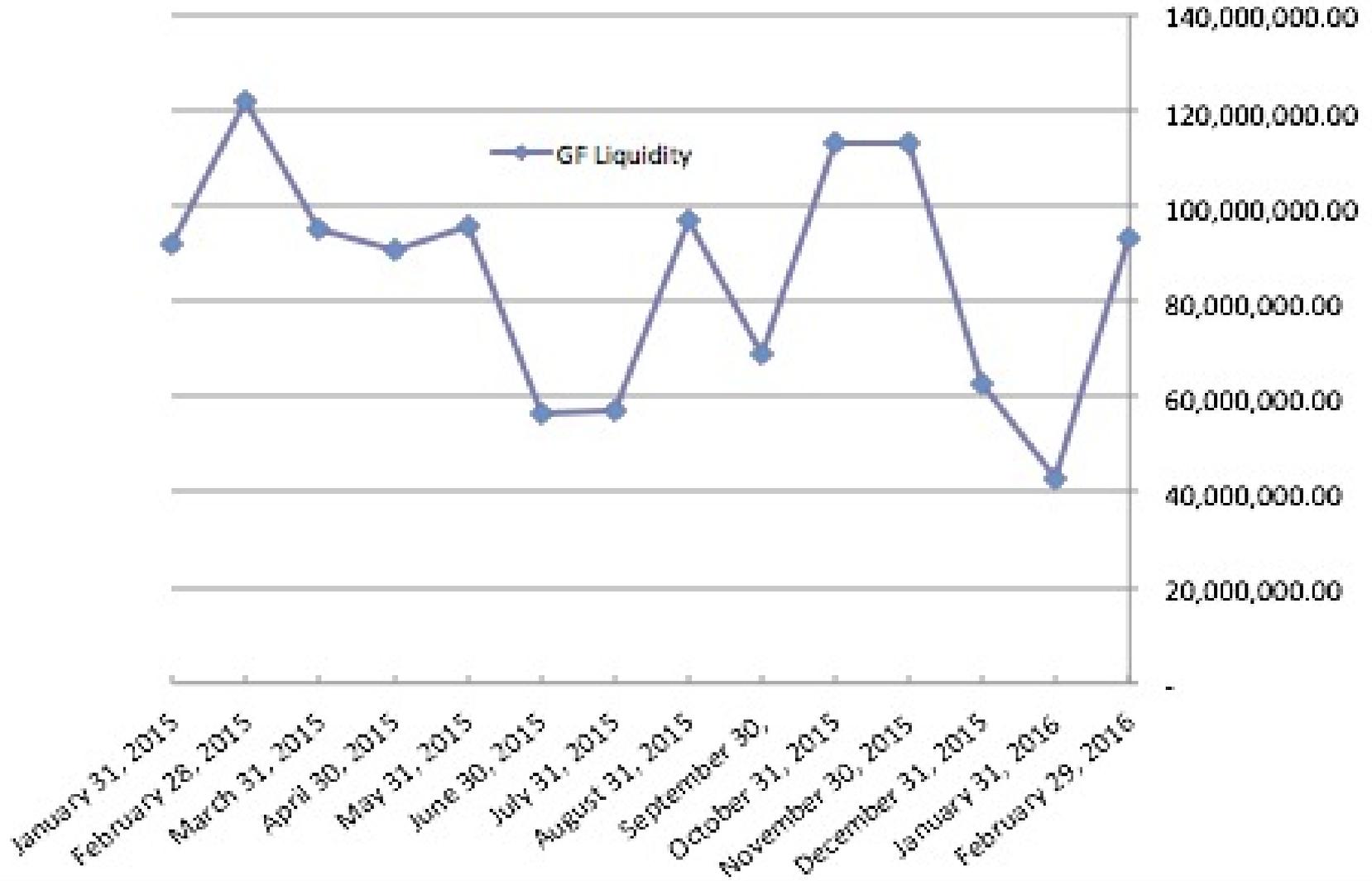
\$13,000,000.00 Payroll
 \$5,980,833.15 Vendor includes Capital Improvements
 \$2,880,833.15 Vendor includes Capital Improvements
 \$13,000,000.00 Payroll

Expenditures for week of 5/2/16



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GF Liquidity



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GENERAL OBLIGATION DEBT PROFILE



PRE AND POST 2013 RESTRUCTURING



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Traditionally, the *City executed its GO financings* in April of each fiscal year

Also, the **annual financing** has also included a **'refunding'** component to **'take out'** the prior year's **Bond Anticipation Notes**

The **2013 financing** included the following:

- ***\$64,650,000*** in Bond Anticipation Notes
- ***\$48,160,000*** in New Money Bonds

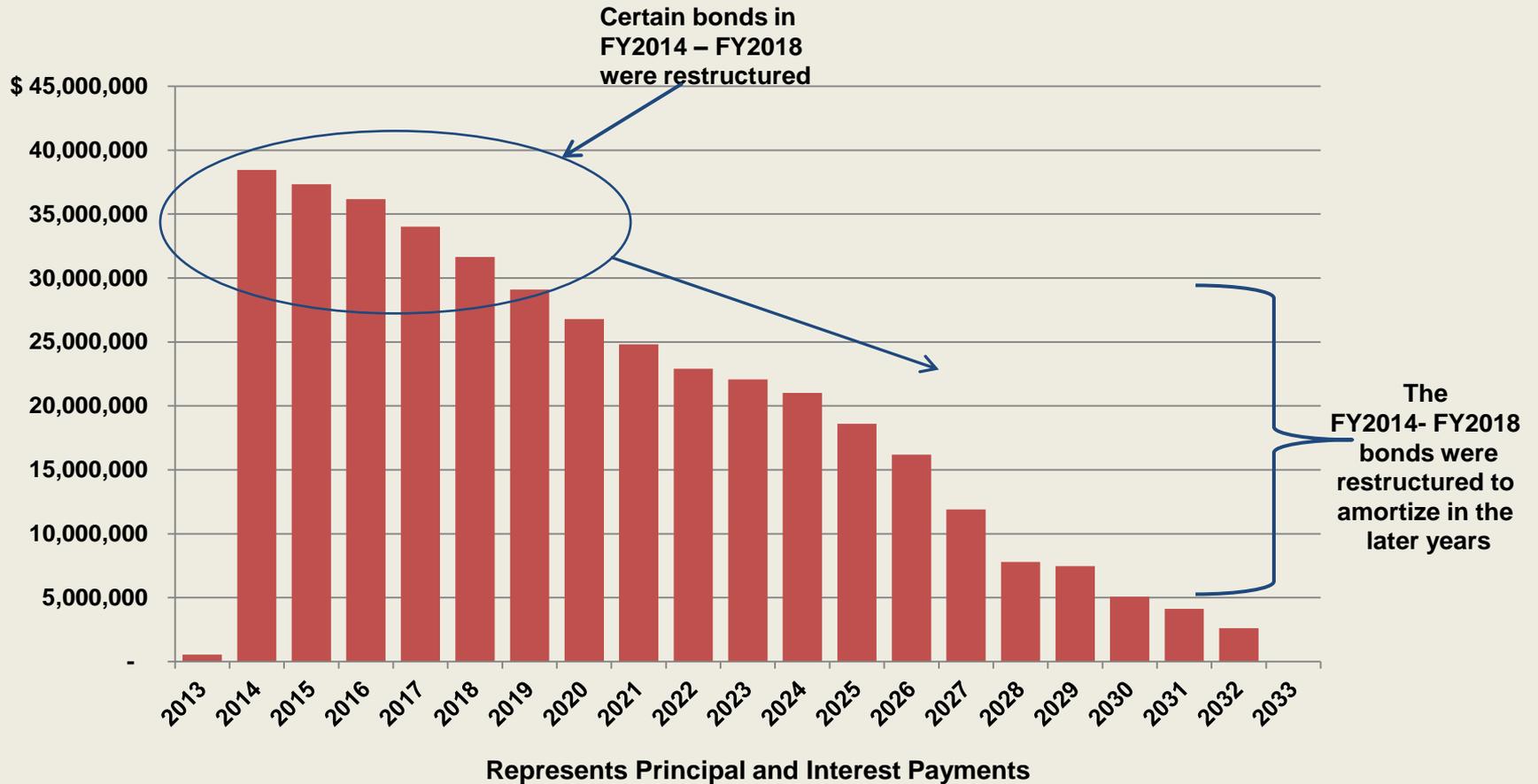
As the City was preparing the plan of finance, a significant market rally presented the City with the opportunity to *restructure certain outstanding bonds to achieve debt service savings* in future fiscal years. As a result the **City issued: *\$124,605,000* in Refunding Bonds**

The **restructuring methodology** and **results** are outlined on the following pages



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Prior to the financing, the City's debt profile was heavily front loaded based on the previous level principal solution approach previously utilized

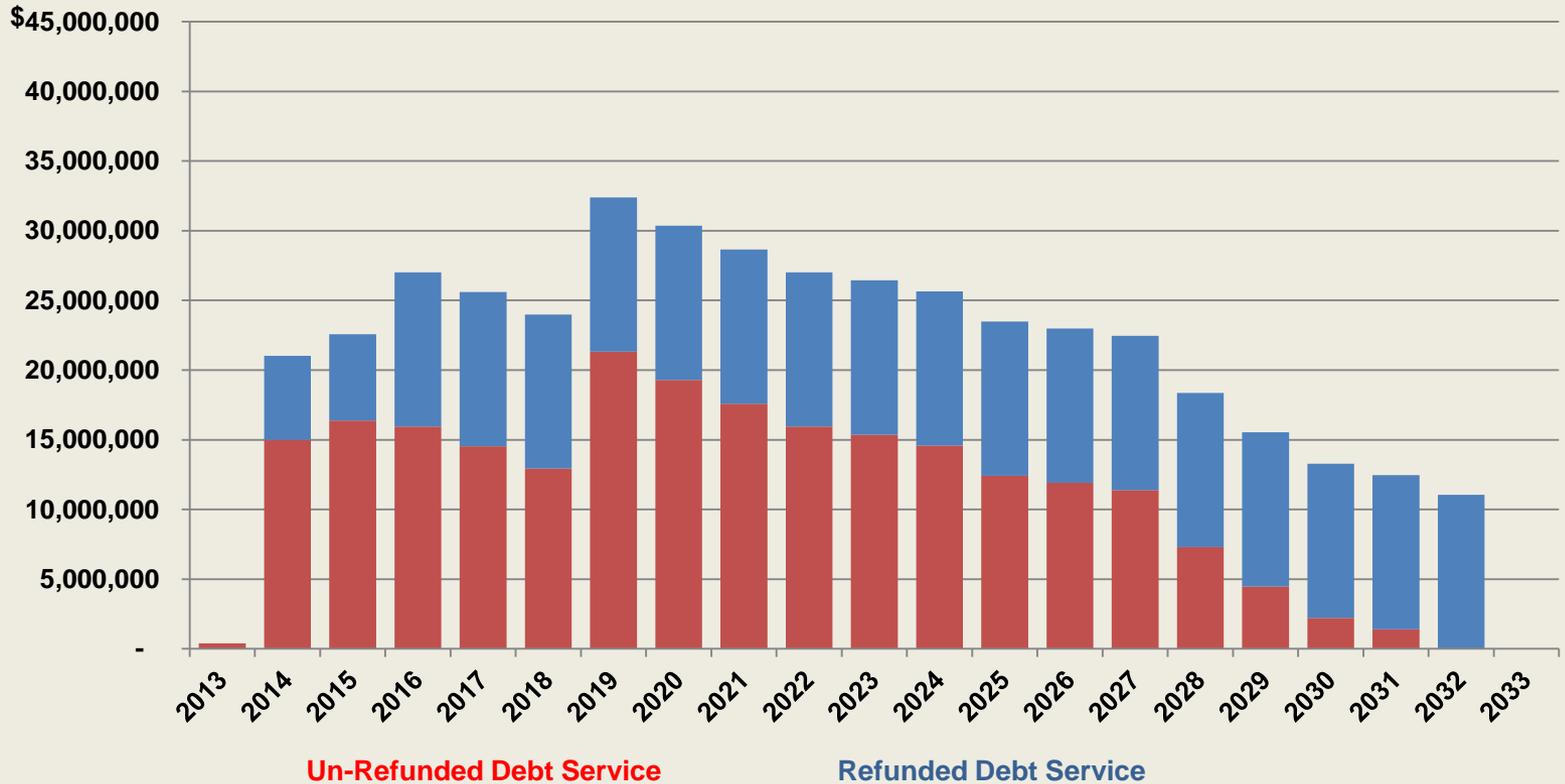




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Debt Profile after Phase I

The goal of the restructuring: achieve significant cash flow savings in FY 2014 – 2018 while achieving a more level debt service profile which is commonplace for similarly rated municipalities to the City of Hartford



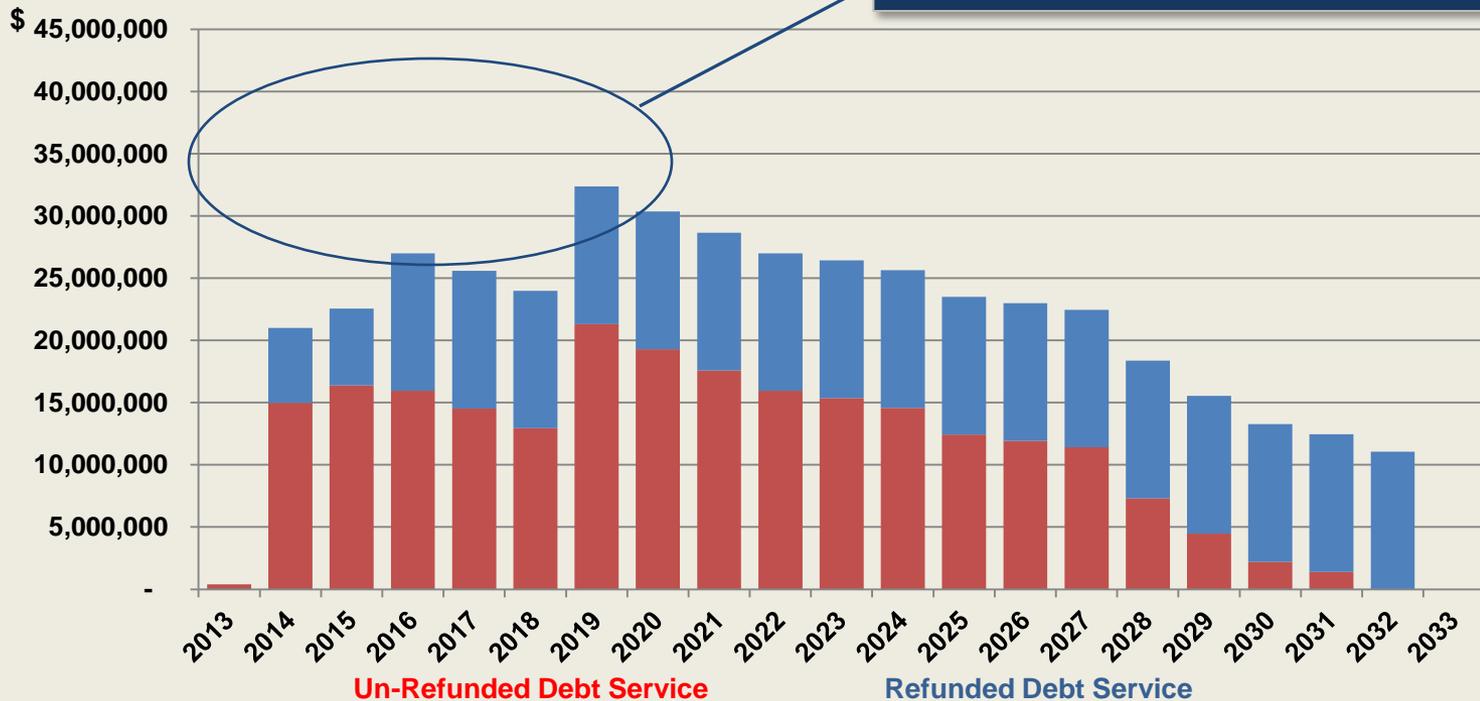


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Debt Profile and cash savings after Phase I

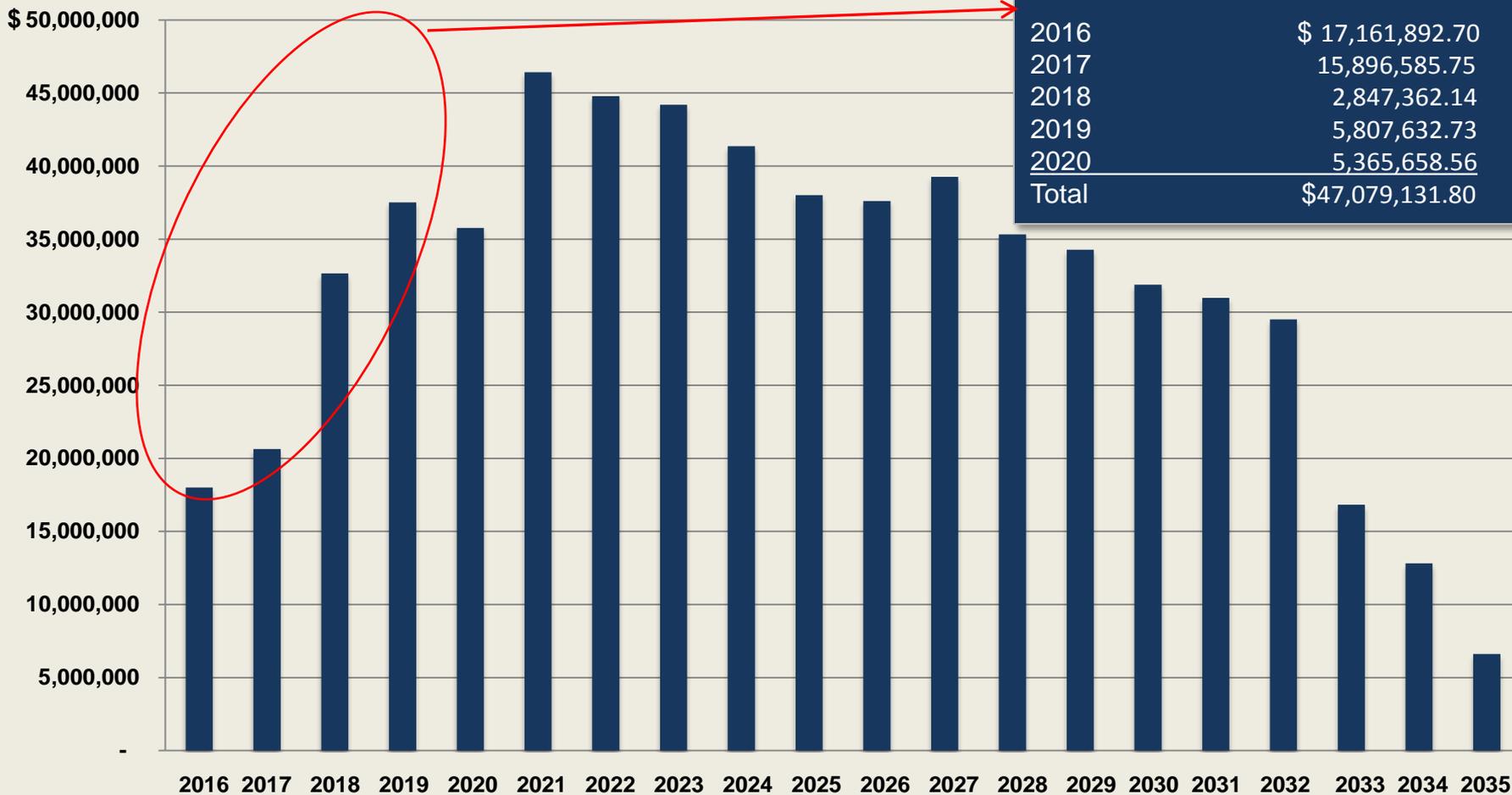
Cash Flow Savings (FY 2014-2018)

2014	\$ 17,041,619.94
2015	13,915,047.26
2016	8,316,770.82
2017	7,373,620.32
2018	6,481,378.66
Total	\$53,128,437.00



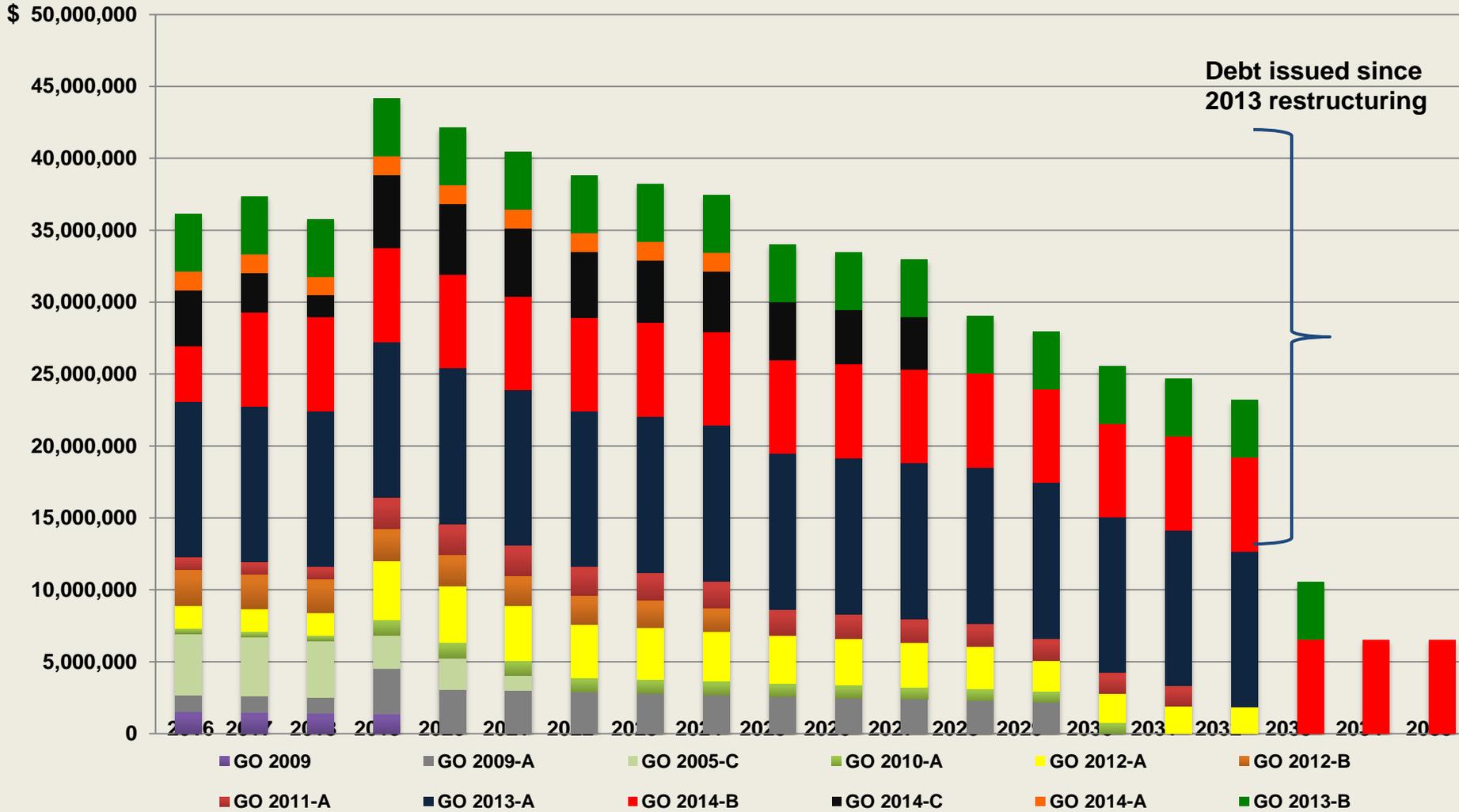


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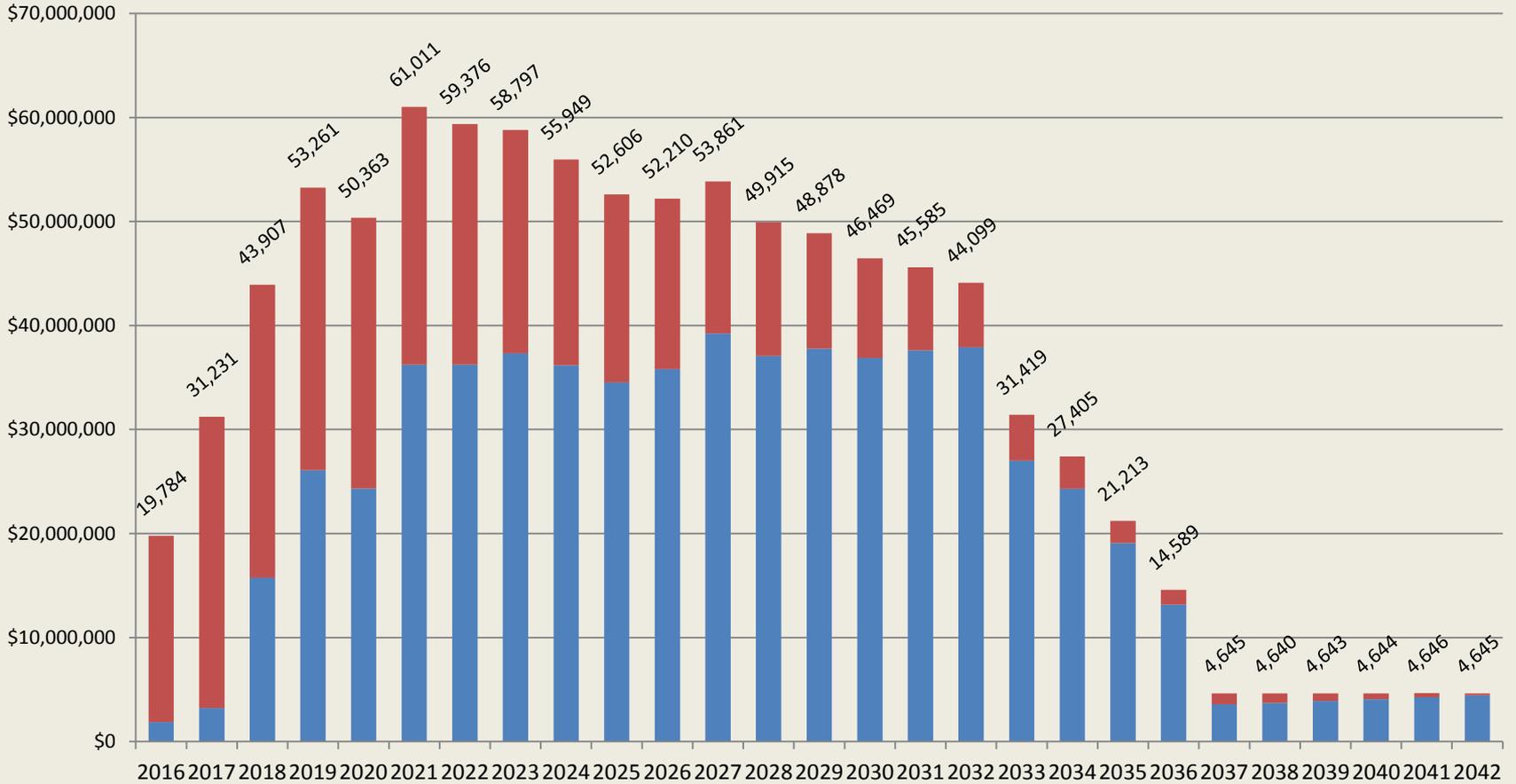




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Total Debt Service Profile (including Hartford Stadium Authority)

Principal Interest Total

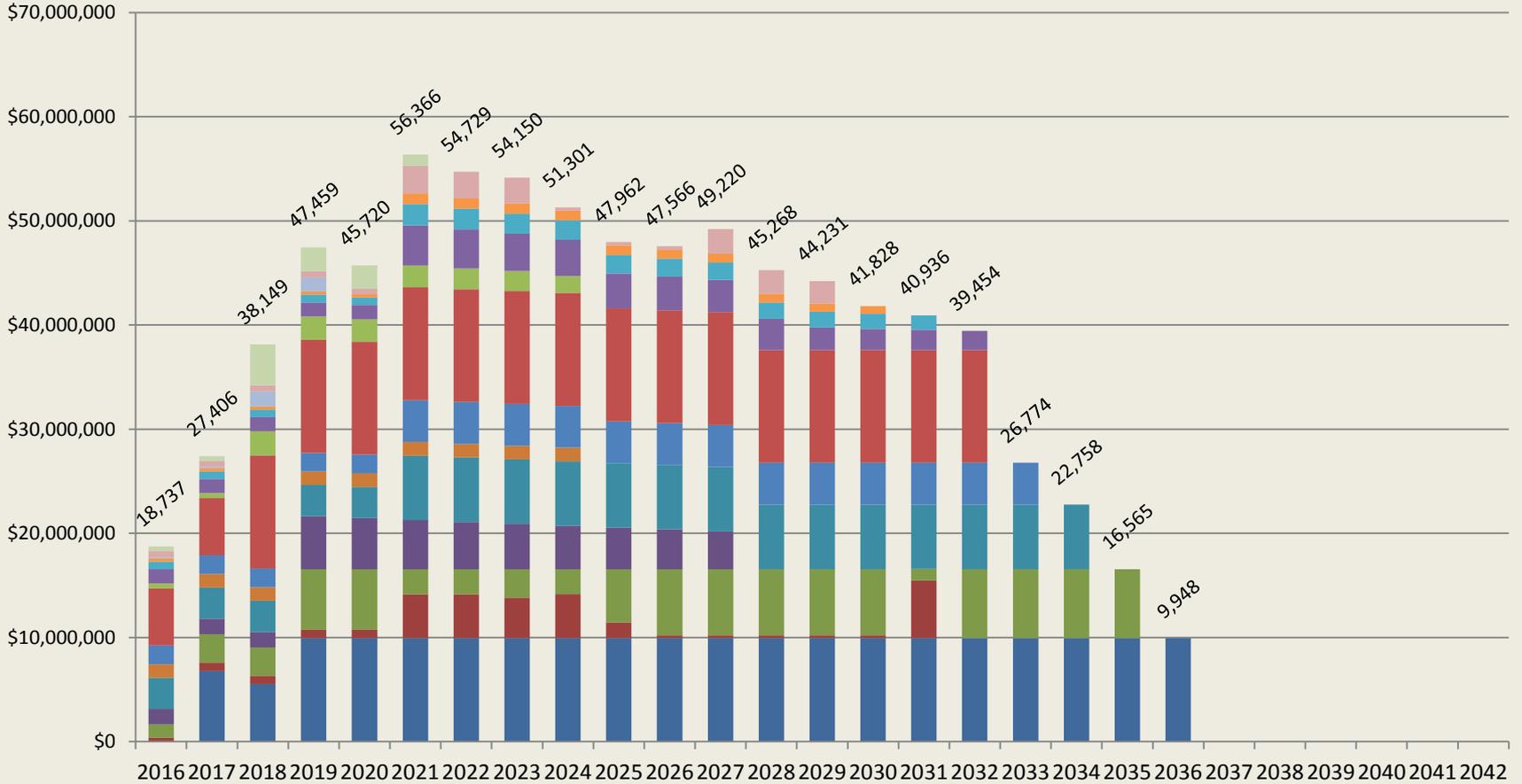




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General Obligation Debt Service Profile

- 2015-C
- 2015-B
- 2015-A
- 2014-C
- 2014-B
- 2014-A
- 2013-B
- 2013-A
- 2012-B
- 2012-A
- 2011-A
- 2010-A
- 2009
- 2009-A
- 2005-C
- Total



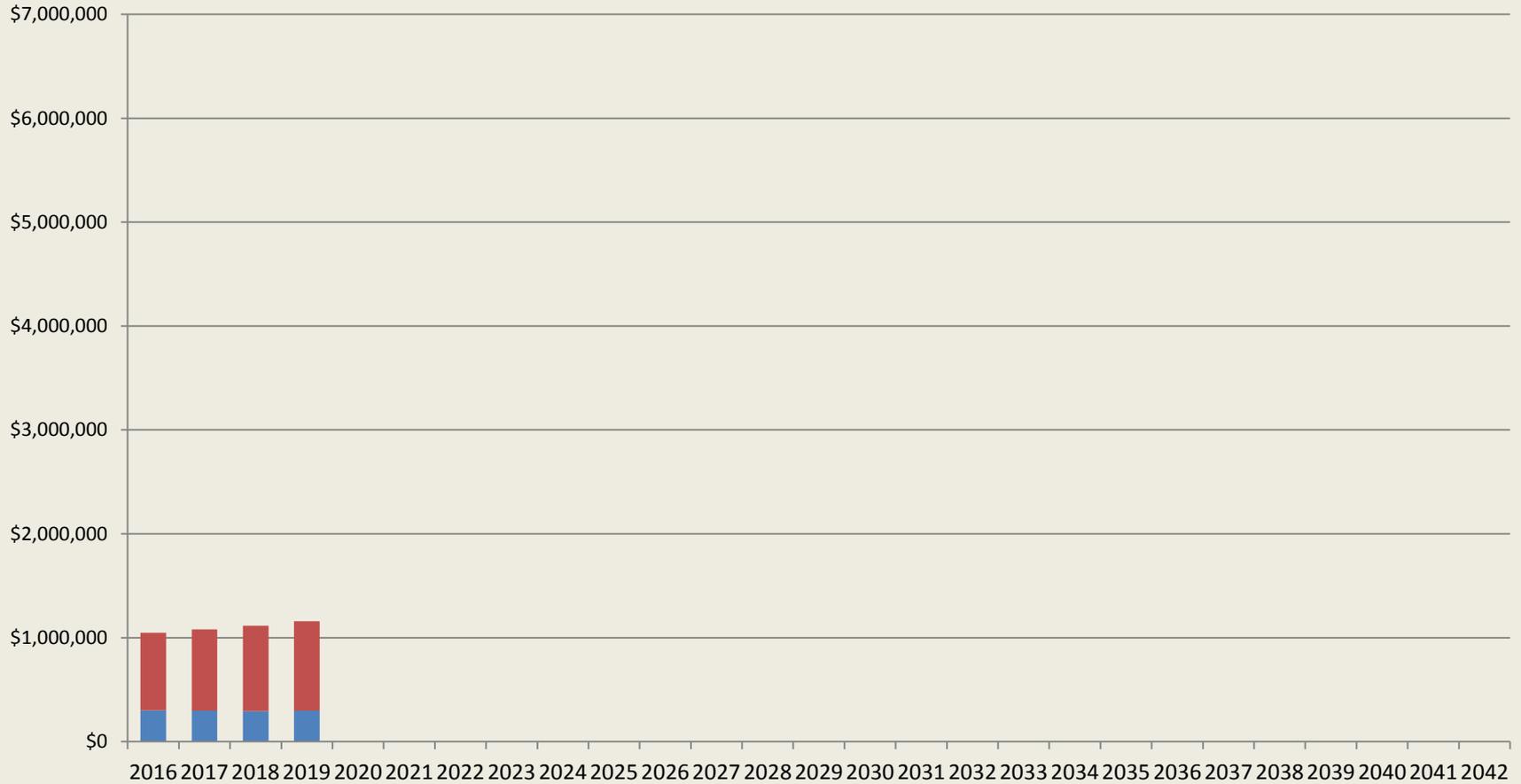


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Revenue-backed Debt Service Profile

■ 2005-B

■ 2005-A





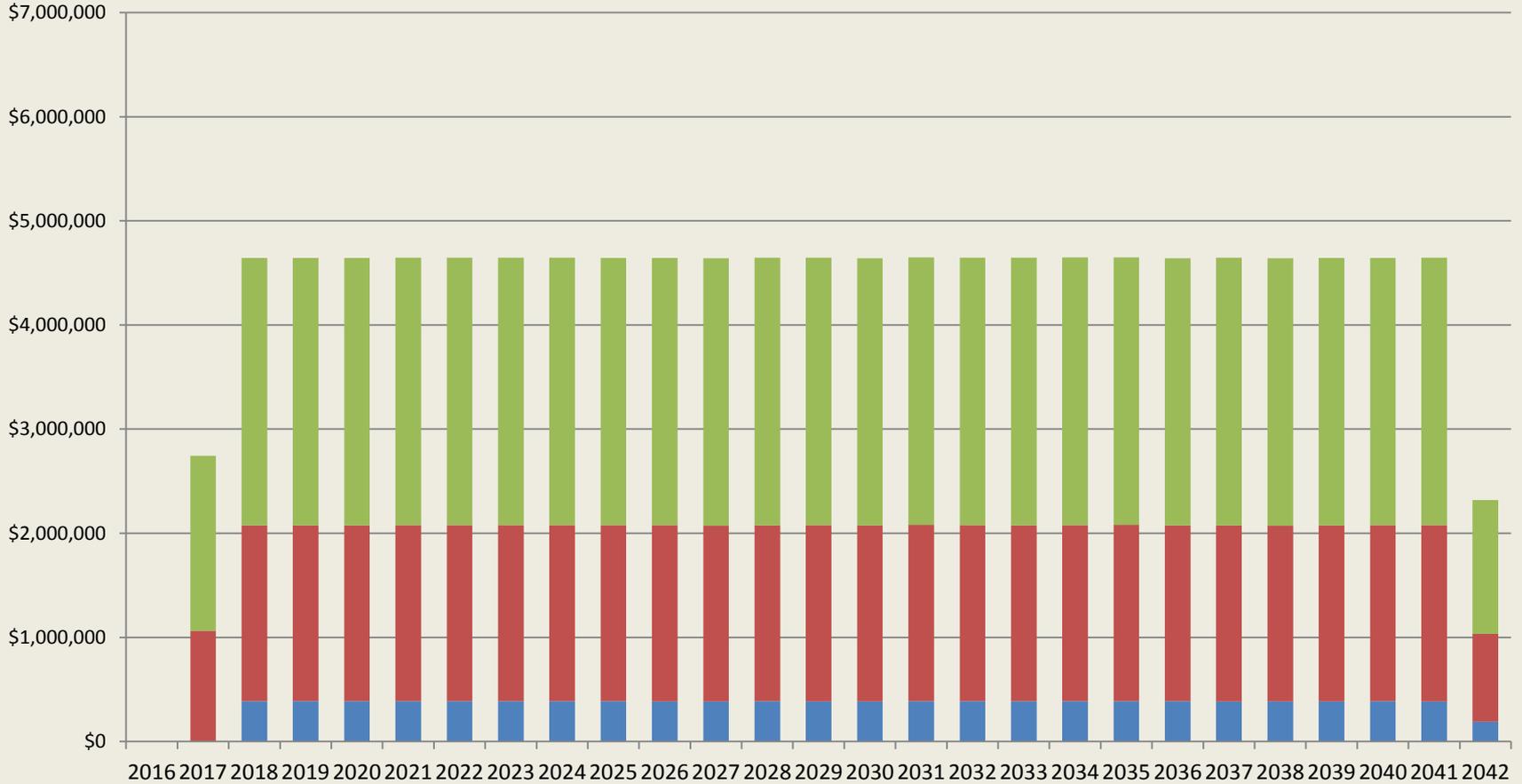
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Hartford Stadium Authority Debt Service Profile

■ S-2016-A

■ S-2015-B

■ S-2015-A





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Projected Debt Service – Next 5 years

City of Hartford – General Obligation and Revenue-backed

Fiscal Year	2016	2017	2018	2019	2020	2021
Principal	\$1,885,000	\$1,995,000	\$14,290,000	\$24,560,000	\$22,720,000	\$34,545,000
Interest	<u>17,899,273</u>	<u>26,490,844</u>	<u>24,973,287</u>	<u>24,058,174</u>	<u>22,999,675</u>	<u>21,820,738</u>
Debt Service	19,784,273	\$28,485,844	\$39,263,287	\$48,618,174	\$45,719,675	\$56,365,738

Hartford Stadium Authority

Fiscal Year	2016	2017	2018	2019	2020	2021
Principal	\$ 0	\$1,230,000	\$1,455,000	\$1,525,000	\$1,600,000	\$1,680,000
Interest	<u>0</u>	<u>1,515,116</u>	<u>3,189,150</u>	<u>3,117,994</u>	<u>3,043,344</u>	<u>2,964,950</u>
Debt Service	\$ 0	\$2,745,116	\$4,644,150	\$4,642,994	\$4,643,344	\$4,644,950



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Debt restructuring was the ***only tool*** available at the time. ***Without the restructuring***, we would ***have faced insolvency sooner***. The savings were real but were diminished by the amount of new ***bonds*** that were sold. The ***increase*** to the ***debt service*** is ***due*** to the ***continued Capital improvement project (CIP) expenditures***.



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MERF

City of Hartford Municipal Employees' Retirement Fund Overview



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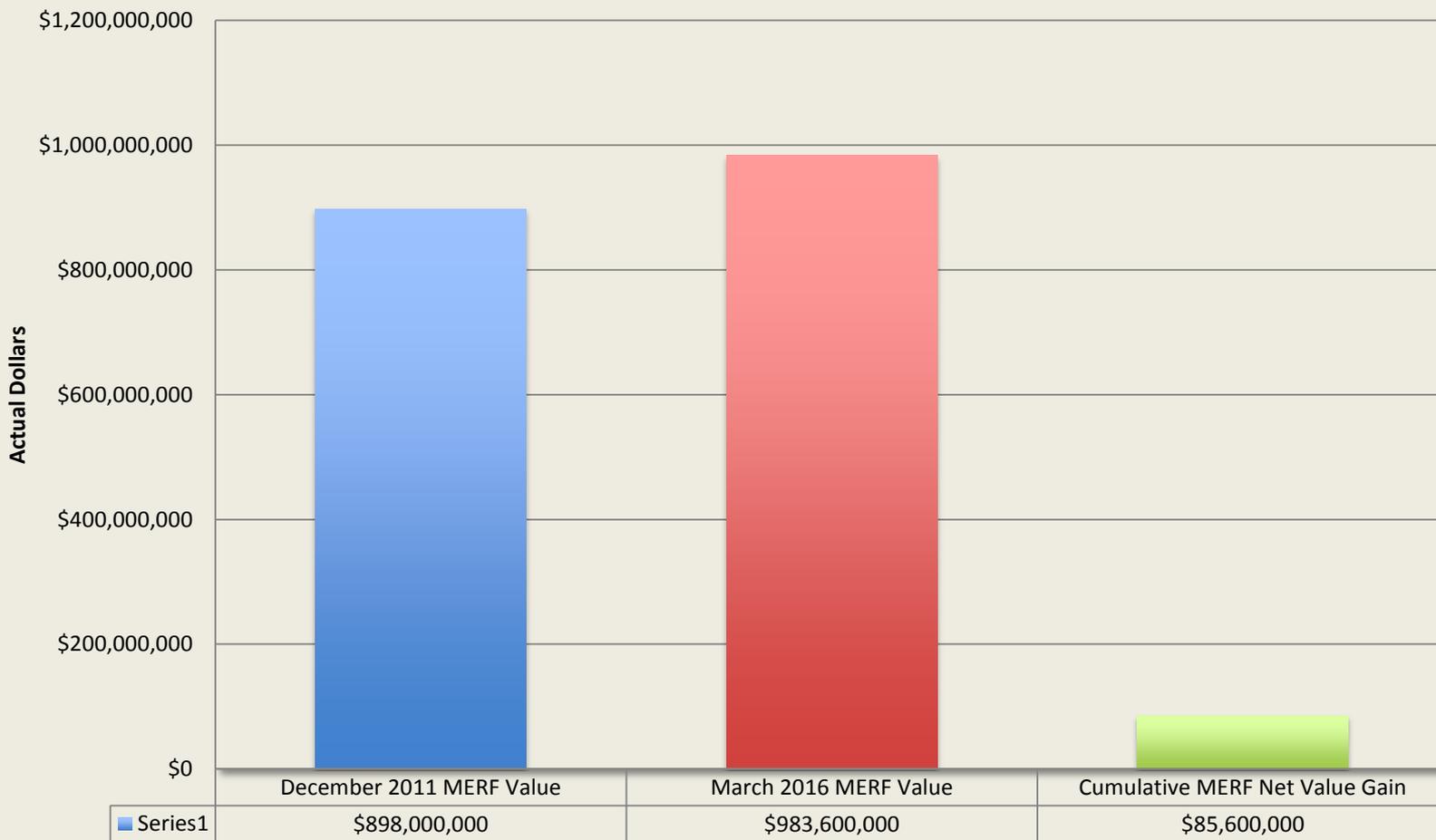
Municipal Employee Retirement Fund “MERF”

- Defined benefit pension plan, **funded by City** contributions, **employee** contributions and the **returns from investments**
- ***Trust fund separate from the City*** – assets are held for the benefit of plan participants
- **City Treasurer** and **Pension Commission** have **fiduciary duties** of care, loyalty and prudence re: MERF assets
- Approximately **5,500 participants** (**2,370 active and 3,139 pensioners**)
- **Assumed** annual rate of return on investments: **7.75%**
- **Actual** net return on investments since inception: **8.1%**



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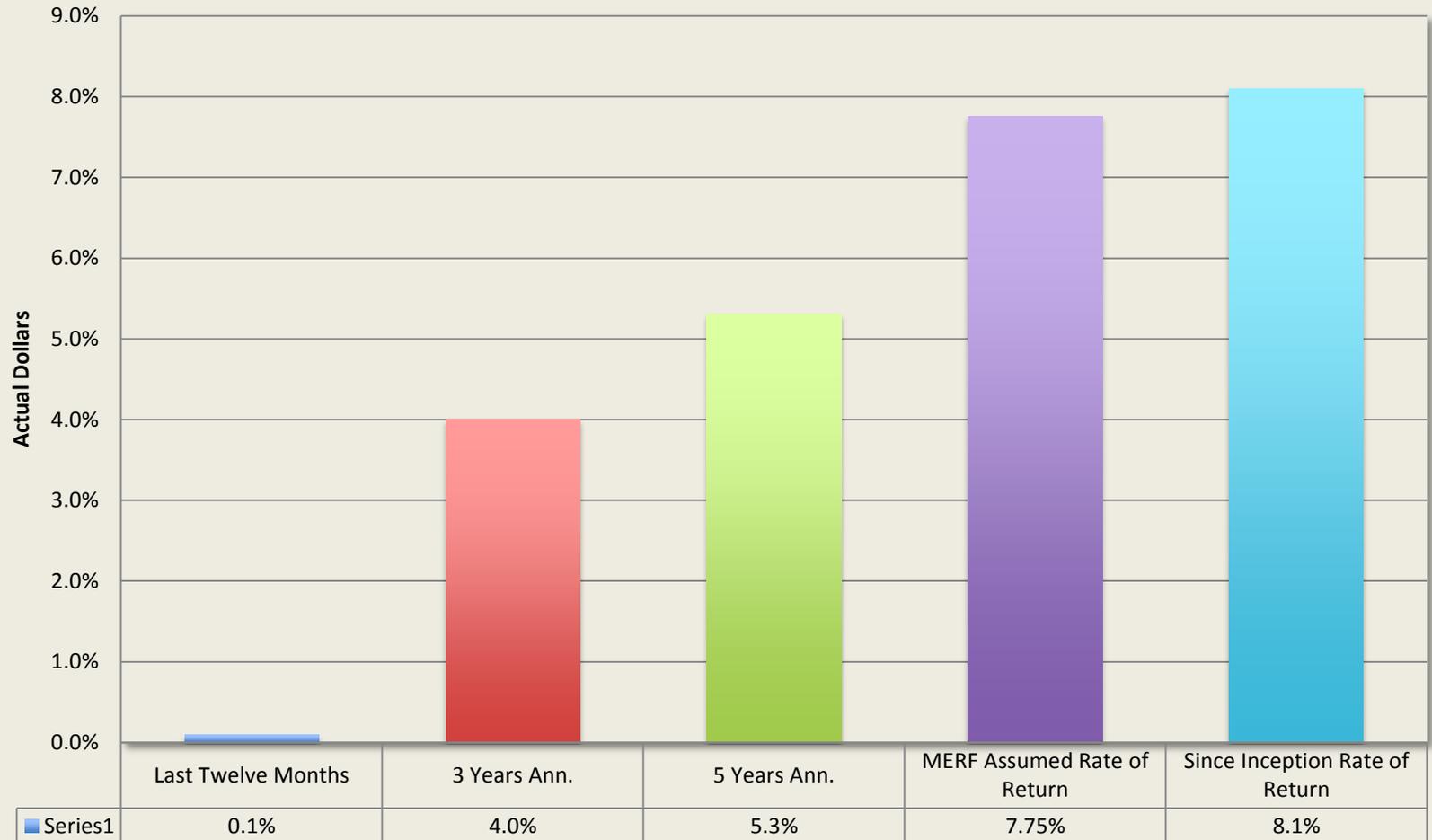
City of Hartford - MERF - 11.3% Value Increase Since December 2011





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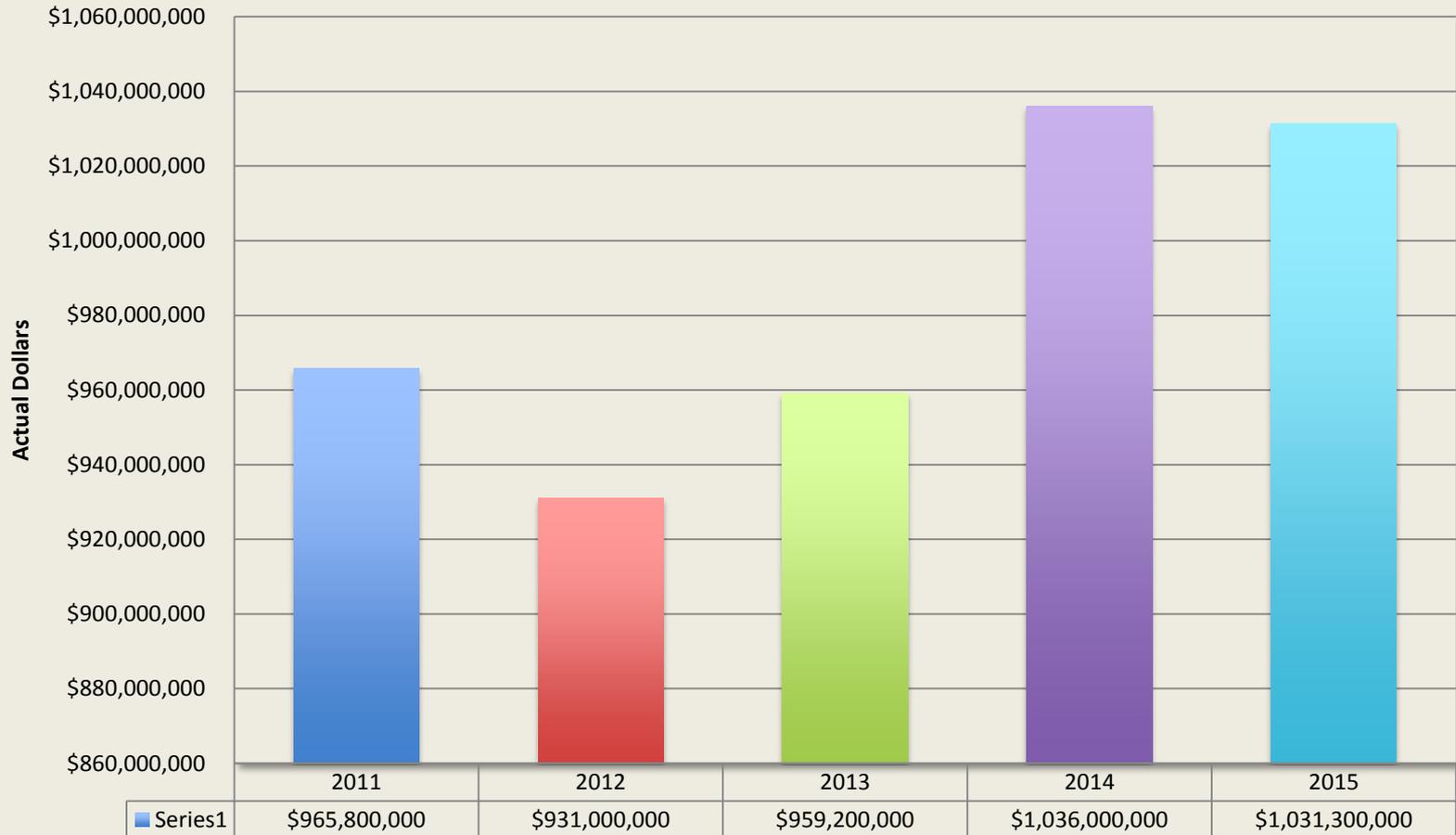
City of Hartford - MERF - Net Performance as of March 31, 2016





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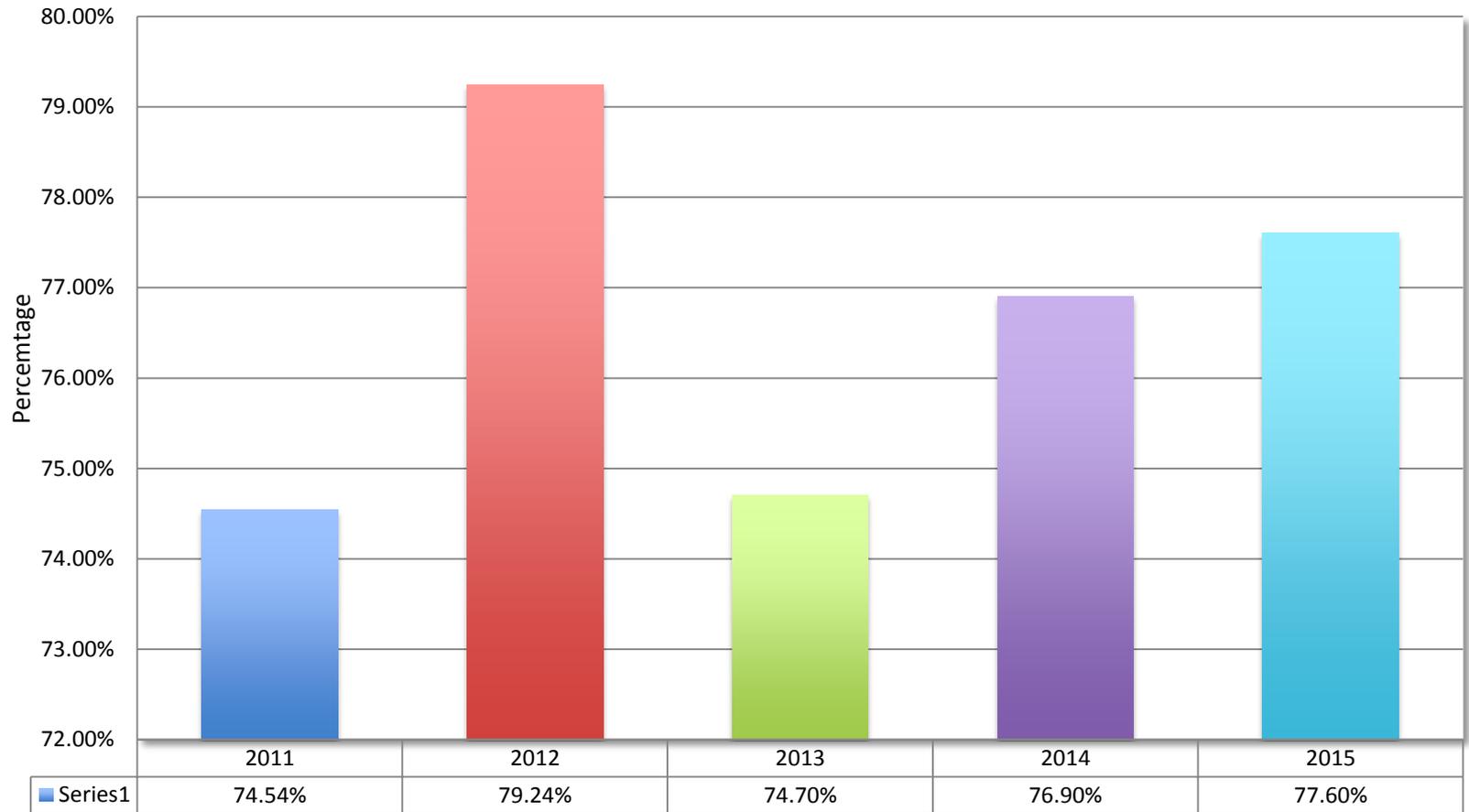
City of Hartford MERF - Portfolio Year-end Values





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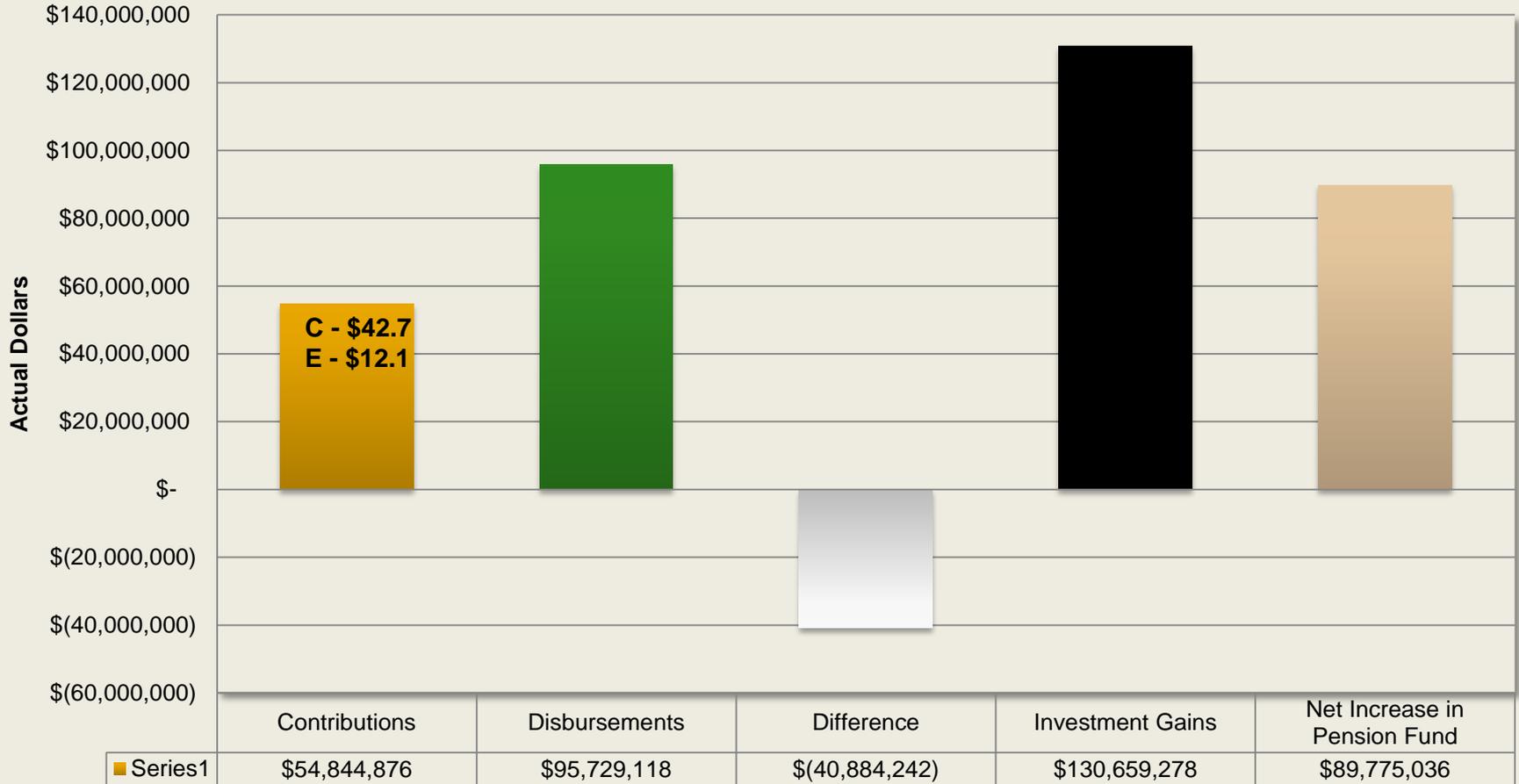
City of Hartford MERF - Funded Status as of July 1, 2015





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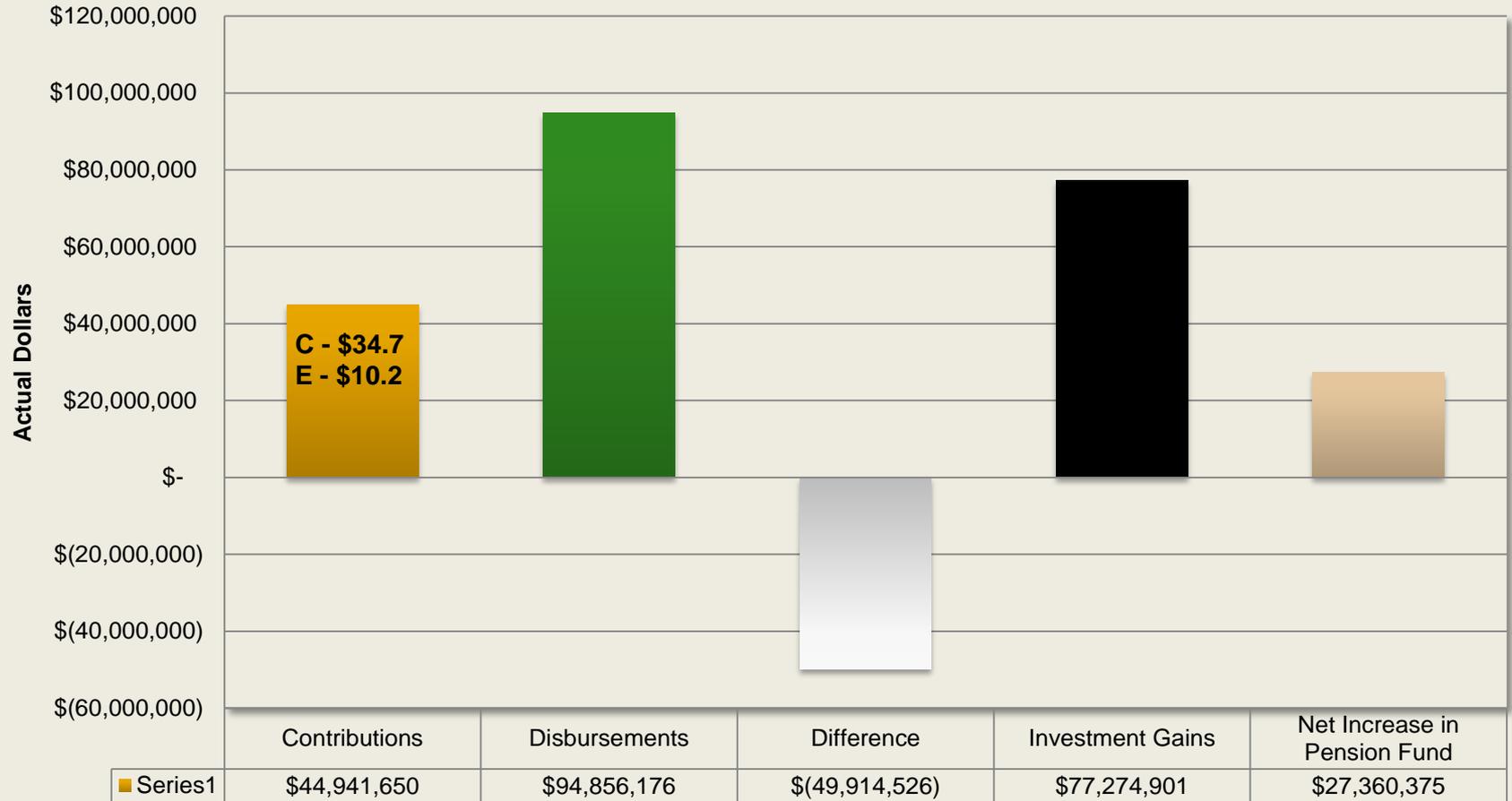
City of Hartford MERF – FY 2015 Cash Flows





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City of Hartford - MERF – FY 2014 Cash Flows





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Estimated Annual Contribution from the City (includes BOE & Library)

	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Prior Estimate as of April 23, 2015	\$40,282,000	\$39,872,500	\$40,925,000	\$41,053,500	\$41,333,000
Estimate as of April 28, 2016		\$40,850,000	\$44,920,000	\$47,500,000	\$49,475,000

- **Results are based on assets and liabilities** as of *July 1, 2015* projected to each future valuation date. Plan provisions and assumptions used are those outlined in the *2015 MERF Actuarial Survey*. Estimates reflect *Phase-in mortality approach*;
- **Contributions** shown above *represent the Net City Contribution after offsets for payments made by the City* directly for Local 566, Local 1716 and Old Plan COLA payments;
- **Annual Contribution** estimates as of April 28, 2016 *increased due to amortization of shortfall vs. actuarial return assumption over 5 years*;
- *Contributions may vary depending on the total amount of payroll*

Current MERF Asset Allocation

	Current Allocation ¹	2016 Target	2015 Target	2016 5-7 Yr. Expected Return	2015 5-7 Yr. Expected Return	Difference
Cash	3.1%	1.5%	1.5%	1.50%	1.75%	-0.25%
Large Cap Equities	12%	10%	9%	6.00%	6.00%	0.00%
Small/Mid Cap Equities	7%	5%	4%	6.25%	6.00%	0.25%
Int'l Equities (Unhedged)	11%	11%	10%	7.25%	7.00%	0.25%
Emerging Int'l Equities	5%	6%	9%	9.75%	9.00%	0.75%
Total Equity	36%	32%	32%			
Core Bonds	6%	5%	5%	2.46%	2.30%	0.16%
High-Yield Bonds	4%	4%	4%	5.25%	4.00%	1.25%
Global Bonds (Unhedged)	0%	0%	3%	1.00%	1.00%	0.00%
EMD (Local Currency)	7%	6%	6%	6.50%	5.50%	1.00%
TIPS	4%	4%	4%	2.50%	2.25%	0.25%
Long Govt/Credit	6.3%	6.5%	8.5%	4.31%	4.32%	-0.01%
Absolute Return Fixed Income	5%	5%	0%	3.23%	3.16%	0.07%
Total Fixed Income	32%	31%	31%			
Private Equity	8%	5%	5%	8.50%	8.50%	0.00%
Private Debt	3%	3%	3%	7.50%	7.50%	0.00%
Private Real Assets	0%	3%	0%	8.25%	8.00%	0.25%
Commodities	0%	0%	3%	4.50%	5.25%	-0.75%
Real Estate (Core)	6%	8%	8%	6.50%	6.50%	0.00%
Hedge Funds	5%	10%	10%	5.75%	5.75%	0.00%
Total Alternatives	22%	29%	29%			
Global Asset Allocation	7%	7%	7%	5.84%	5.70%	0.14%
Total Other	7%	7%	7%			

	Current Allocation ¹	2016 Target	2015 Target	2016 Expected Return	2015 Expected Return	Difference
<i>Expected Return (5-7 years)</i>	6.4%	6.5%	6.3%	6.5%	6.3%	0.18%
<i>Expected Return (30 years)</i>	7.4%	7.3%	7.4%	7.3%	7.4%	-0.07%
<i>Standard Dev.</i>	11.5%	11.1%	11.2%	11.1%	11.2%	-0.12%
<i>Sharpe Ratio</i>	0.43	0.45	0.41	0.45	0.41	0.04



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Questions ?

