MINUTES OF THE MILLVILLE
TOWN COUNCIL WORKSHOP
September 27, 2016 @ 7:00 PM

In attendance were Mayor Bob Gordon, Treasurer Susan Brewer, Secretary Valerie Faden, Council Member Steve Small, Town Executive Assistant Matt Amerling, and Town Financial Administrator Lisa Wynn. Deputy Mayor Steve Maneri and Town Manager Debbie Botchie were absent.

1. **CALL TO ORDER:**
Mayor Gordon called the meeting to order at 7:00 p.m.

2. **PLEDGE OF ALLEGIANCE TO THE FLAG**
Mayor Gordon led the pledge of allegiance.

3. **NEW BUSINESS**
A. **Steven Z. Dunn, MBA, of WSFS Wealth Investments will present to the Town Council options for Market-Linked CDs.** *Synopsis:* The Town Manager and Financial Administrator have been researching safe financial investments for the Town's general funds. Mr. Dunn has met with them and discussed 3 options. Due to the large amount of money to be invested, they thought it best to bring to the full Council for discussion.

Mr. Steven Dunn, of WSFS Bank Wealth Investments, stated market-linked CDs are FDIC-insured and allow the investor to participate in the upside potential of the market so, while it is either a basket of stocks or an index, one can participate in those in some fashion. Mr. Dunn stated the market-linked CDs also carry federal deposit insurance administered by the FDIC and backed by the full faith and credit of the U.S. government, up to a maximum amount for all deposits held in the same legal capacity per depository institution. Mr. Dunn stated in this case, the maximum amount is up to two-hundred-fifty-thousand dollars ($250,000.00) – the same as every bank right now. Council Member Valerie Faden asked if the Town were to do this, would the Town only need one (1) $250,000 insurance or can the Town have more than one? Mr. Dunn stated the Town can have more than one with many other different well-known banks, so Mr. Dunn is able to spread it out amongst many different banks to get full FDIC insurance.

Mr. Dunn stated these CDs are able to be FDIC-insured and, at the same time, get more than a typical bank CD because of the two (2) main components: an options component, and a zero coupon component. Mr. Dunn stated the zero coupon component, which is a majority of the initial investment, is purchased at a discount and it matures at par; meaning if, for instance, you put a thousand dollars ($1000.00) into the investment, the bank will take eight-hundred dollars ($800.00) of it, put it in a zero coupon bond, knowing the $800 is going to be worth $1000 in the future, which is how the CD gets FDIC insurance, because the bank knows the money will increase and you will always get your money back. Mr. Dunn further stated the same is done here by the bank buying a zero coupon bond, but the unique thing here is rather than the bank investing in loans, the bank buys an options component, so that is tied to the S&P 500 or a basket of stocks, and that is how the bank gets the extra appreciation of that basket of stocks or the index such as the S&P 500 goes up, you can make more than with a traditional bank CD. Ms. Faden asked if the customer gets to choose the option component or does someone else get to choose it. Mr. Dunn stated the component is designed by the bank, so the bank comes out with a new offering every single month and they let the customers have them at the end of each week and the bank closes them out the last week of each month. Mr. Dunn stated he would sit down with the Town and you would know exactly what that options component is going to, but it depends on how the bank is going to hedge it. Mr. Dunn stated if the bank cannot design a specific product in that month, then the bank will not release it. Ms. Faden asked, with the options component, if it is linked to the S&P, at least there is some kind of history? Mr. Dunn stated yes. Ms. Faden asked Mr. Dunn if he could look at, for instance, the S&P and see its history and whether there is a pattern which is positive or negative. Mr. Dunn stated yes, for instance, one basket might have Apple stock, Eli Lilly, Microsoft, AT&T – companies whose history one can look back on and see how they have done – but past performance does not indicate future results. Ms. Faden stated she knows it also depends on the type of stock and how volatile based on what's going on in today's world. Mr. Dunn stated yes, and most of the ones tied to a basket of stocks have a minimum on them, so even if one of them doesn't do well then you will still get a minimum, guaranteed rate of return on the actual CD itself.

Council Member Steve Small asked what investment goal is the Town assuming here. Mr. Dunn stated we are trying to outpace typical bank rates and CD rates in a safe and secure environment. Mr. Dunn further stated the goal is also to make it so if the stock market or a basket of stocks falls apart, everyone will still go to sleep at night, knowing they will always get their money back and the money isn't going anywhere; and as long as you hold it to maturity, you will always get your principle back because it's FDIC-insured. Mr. Small asked what would be the typical maturity length. Mr. Dunn stated anywhere between three-point-seven-five (3.75) and seven (7) years, and it all depends on month by month and whether the bank can hedge it. Mr. Small asked if the Town could set it up so these were laddered. Mr. Dunn stated yes.

Mr. Dunn showed his chart comparing the J.P. Morgan Efficiente Plus CD and the S&P 500. Mr. Dunn stated the chart references back, year-by-year, to 2008 and 2009, when the market was a disaster. Mr. Dunn stated the difference between how the J.P. Morgan CD and the S&P 500 worked. Mr. Dunn stated in 2008, the S&P was down thirty-seven percent (37%), so at the end of the year, the one-hundred-thousand dollars ($100,000.00) is now worth sixty-three thousand dollars ($63,000.00). Mr. Dunn stated the J.P. Morgan CD, however, was almost up one percent (1%), so it made money rather than losing money. Mr. Dunn stated in 2009, the S&P went up a percentage but it still didn't make back the money lost in 2008, leaving you in the negative, whereas the J.P. Morgan made twelve percent (12%) so that's more money you made. Mr. Dunn stated the downside to something like the J.P. Morgan CD is when the bank created it, they capped it so you will never make 100% of what the S&P does; so when they created these CDs, they limit your upside but they always protect you on the outside and never losing money along the way. Mr. Dunn further stated another example is if you were tied to five (5) stocks and, depending on the offering, the CD will look at the basket of stocks – year by year – and if all of them are up, they may give you a cap of four percent (4%), but if one or all of them are down, they will pay you a minimum of a quarter percent (.25%). Mr. Dunn distributed hard copies of the three (3) different CD options: the J.P. Morgan Efficiente Plus DS CD, the Income Plus CD, and the Rate Builder CD.

Mr. Dunn stated, with the J.P. Morgan, starting year-to-date, it was up seven-point-eight-four percent (7.84%), and in 2015, there was a negative, taking it down to six-point-six-seven percent (6.67%). Mr. Dunn stated the reason for this was because in 2015, the market was "all over the place" so the CD captured the trend and moved some money on a monthly basis based on an algorithm. Mr. Dunn further stated every single month the CD reallocates amongst the investment options which are at the bottom of the page provided. Mr. Dunn stated there are nineteen (19) different exchange traded funds (ETFs) – which are mutual funds that trade in any portion of the day (as opposed to mutual funds which can only be traded at the end of the day). Mr. Dunn stated within this CD, there are two (2) other options: a cash option and a gold option. Mr. Dunn stated if things get really volatile, the Town can move everything to cash. Mr. Dunn further stated the gold option is interesting because nobody likes to speculate on gold because it is a commodity, but, at the same time, there is the option and if it seems like gold will do well, the CD will move your money to that and the gold is still FDIC-insured.

Mr. Dunn stated he will now move on to the other option of HSBC Income Plus CD, which is tied to five (5) different stocks: Apple, IBM, Eli Lilly, Altria Group, and Verizon. Mr. Dunn stated there are three (3) different options – A, B, and C – which allow you to pick a minimum of point-seven-five percent (.75%), meaning if the five stocks did not do well, then you are guaranteed to make .75% every year; however, if they do well, you can make up to one-point-twenty-five percent (1.25%), which is not a great cap but they will give you the high minimum at the same time. Mr. Dunn stated option B gives you a guaranteed minimum of half a percent (.50%); however, if those stocks did well, you could earn up to two-point-seventy-five percent (2.75%). Mr. Dunn further stated option C gives you a guaranteed minimum of point-twenty-five percent (.25%), but if all the stocks do well, you will get four-point-twenty-five percent (4.25%), so you get some pretty good upside potential in exchange for a lower minimum. Mr. Dunn stated these options look at the stocks on a monthly basis, and as long as they are up, you get that guaranteed cap. Ms. Faden asked if the 4.25% would added with the .25% to make 4.5% or would it be one or the other. Mr. Dunn stated it would only be one or the other, in this case 4.25%. Ms. Faden asked if this is over five (5) years and if the entire basket of stocks has to do well to get the higher rate. Mr. Dunn stated yes, over the five year period and the entire basket – all five stocks – must do well, meaning they must be in the positive, finishing flat or slightly higher from where they started, and it is looked at year by year. Ms. Faden asked when the start date begins. Mr. Dunn stated it starts at the end of each month.

Mr. Dunn stated the last one is the HSBC Rate Builder CD, which comes in five (5) and seven (7) year formats, tied to Value Line Safety stocks such as Bristol-Myers Squibb, IBM, Intel Corp., Eli Lilly, McDonald's, Pfizer, Procter & Gamble, Verizon, Wal-Mart, and Exxon Mobile. Mr. Dunn stated this CD is designed a little bit different so if, under the five-year plan, someone has five (5) or fewer stocks that are up, you get point-two percent (.2%), which is the minimum; if six (6) are up, you get point-six percent (.6%); if seven (7) are up, you get one-point-two percent (1.2%); if eight (8) are up, you get one-point-eight percent (1.8%); if nine (9) are up, you get two-point-four percent (2.4%); and if all ten (10) are up, you get three percent (3%). Mr. Dunn further stated this CD makes it so if one stock tanks but the others are up, you're OK. Council Member Susan Brewer asked if the stocks are the same for all five years. Mr. Dunn stated yes. Ms. Faden asked if Council could look at the history of the stocks. Mr. Dunn stated yes, the bank picks these stocks because they are hoping they will continuously do well. Ms.

Faden asked what is the minimum investment. Mr. Dunn stated the minimum investment is one-thousand dollars ($1000.00). Ms. Faden asked how long have the banks had the Income Plus and Rate Builder CDs as well as the accompanying stocks. Mr. Dunn stated these particular ones he has seen since 2010, but they come out with new plans every month, having to figure out what the cap and minimum will both be, and these two just happen to be the latest offerings. Mr. Dunn further stated there are other offerings which are uncapped, such as the J.P. Morgan selection, so whatever the index does, you get the full potential of it.

Mr. Dunn stated he wanted to touch on the secondary market which is what would happen or where you would sell it at if you were to sell before maturity. Mr. Dunn stated, for instance, if something happened and the Town needed its money before it comes due, the Town would go to the bank – whether it's HSBC or J.P. Morgan – and the bank will give you a bid; if it is up in value, the Town will get a higher value than from where you started, but if it is down in value, the Town will get a lesser value. Mr. Dunn further stated the Town can sell it before maturity is up and get its money plus the profit; plus, the closer the Town gets to maturity, the closer the plan will be to the actual value you see on your statement.

Mayor Gordon asked what the normal penalties are if the Town has a five-year plan and does not take it through to full maturity. Mr. Dunn stated it is based on what the value is as of the day you break the plan, so if you put $1000 into this on the first day, and the next day you want to break it, you could take a substantial penalty; but if you wait four out of five years, with the zero coupon bond, you know your downside is going to be much more limiting, and if the options component is up, you can liquidate it. Ms. Faden stated one can take advantage of the market in a shorter term, without a penalty, but there is still a risk of the market taking off with those particular stocks and who will the burden be on to monitor the stock activity and make the decision of whether to liquidate or keep it going. Mr. Dunn stated what he does with his clients is every quarterly review a year, he will bring the bid prices to let the clients know how much they would make if they liquidate it; so if the clients wish to liquidate it, they can do so. Town Financial Administrator Lisa Wynn asked if there is a penalty on top of the value. Mr. Dunn stated no, just the underlying value, and there is no set percentage or dollar amount but just whatever it is worth is what you get. Mr. Small asked Ms. Wynn what she thinks the Town has which it might want to consider moving into this type of investment. Ms. Wynn stated the Town has a chunk – going by this year, two-point-five million dollars ($2.5 million), therefore investing one-point-five million dollars ($1.5 million) – of its general fund unrestricted. Mr. Small stated he would consider half of that amount and breaking it up so there would be three (3) two-hundred-fifty-thousand dollar ($250,000.00) components and slightly stagger them by a month, week or whatever is appropriate. Mr. Small further stated with that, with half of what the Town was doing, Council would have some time as the results go by to track what's performing well and how Council feels about the investment.

Ms. Faden asked about ETFs, specifically ones which are tax free. Mr. Dunn asked Ms. Faden if she meant an alternative minimum-tax ETF. Ms. Faden stated yes. Mr. Dunn stated since the Town is not subject to tax, it does not favor the Town to do an ETF. Ms. Faden asked if there are any investment options available through the U.S. Treasury which may be a little more stable. Mr. Dunn stated yes, the Town could do money market funds or individual U.S. government bonds. Ms. Faden asked if you could lose the principal with those options. Mr. Dunn stated no, as long as you hold them to maturity and the rate of returns depends on when you buy it. Ms.

Faden asked for a range of the current rates. Mr. Dunn stated it could be anywhere between one-and-a-half (1.5%) to three percent (3%), and the 30-year Treasury is at two-point-two percent (2.2%) right now. Ms. Faden asked if one would have to hold out for thirty (30) years. Mr. Dunn stated yes, you have the safety, but they will not give you much for it. Mayor Gordon asked Mr. Dunn what he would recommend regarding "not throwing the whole basket in at one time," such as maybe staggering like Mr. Small suggested; what would be best for the Town? Mr. Dunn stated he is with CDs and is laddering on the short end of the curb right now just because the five (5) years have dropped so much; so he is buying up a lot of two (2), three (3), four (4) year CDs, and for money, you could take something like seven-hundred-fifty-thousand dollars ($750,000.00) and put it on the longer end, knowing where everything is. Mr. Dunn stated the market has been pretty resilient in that it has held its value – despite the drops in August 2015 and January 2016. Mr. Dunn further stated with interest rates going down, all of this money is going to continue to pile into the stock market because the dividend is there.

Ms. Faden asked if the Town does invest, what is the best time to do so? Mr. Dunn stated the next time the Fed does anything with interest rates will be in December 2016, but Mr. Dunn stated he just sees rates continuing the way they are. Ms. Wynn asked if the Town wants to stagger the maturity dates, will the Town have that opportunity? Mr. Dunn stated yes, the banks come out with these every single month, so if the Town does not like any of these offerings, the Town can wait and come back to review the offerings of the following month. Mr. Small stated he would like to see the Town move forward with staggering the offerings so maybe $250,000.00 was put into an offering each month.

Mr. Small asked Mr. Dunn if he had a grasp of where Mr. Dunn thinks Council would like to head toward. Mr. Dunn stated yes. Mr. Small asked Mr. Dunn if he could put together a proposal for Council within a week so it can be up for review by Council at its next Council Meeting on October 11, 2016. Mr. Dunn stated yes. Mr. Dunn stated he would recommend buying a couple of two-year CDs because they are at one-point-one percent (1.1%), which is pretty good for a short-term CD, so you could buy a couple of short-term CDs, keeping the duration short, in the event the Fed raises rates. Mr. Dunn further stated to maybe buy a couple of three-year CDs and to start with the J.P. Morgan because it's actively managed, moving money every single month; and in the event the stock market sells off, these other two (2) (Rate Builder and/or Income Plus) would be a good option. Ms. Faden requested Mr. Dunn put that in a written recommendation to Council for the next meeting. Mr. Small asked Mr. Dunn what Council should be watching on the other two (2) as they are waiting to get a first-month's experience with the first investment. Mr. Dunn stated to look at interest rates, whether the Fed is raising rates, and price-to-range ratio. Mr. Dunn stated if Council has any questions, they can type them up to Ms. Wynn, who can get in contact with Mr. Dunn. Council thanked Mr. Dunn for his attendance and assistance.

B. Discuss and possible vote on investment of the Town's funds.

Mayor Gordon stated because it was agreed upon by Council to delay voting on this item, Council will forego this option and wait until the item is brought up again at a future Council meeting. Mr. Small stated he feels comfortable with the direction the Town is going with this investment option process.

4. PROPERTY OWNERS/AUDIENCE COMMENTS AND QUESTIONS

Mr. Glen Faden, of Beach Plum Drive, stated as the Council looks at where and how they would like to invest the money for a higher rate of return, there are banks like the Discover Bank that will pay one percent (1%), which the Town can pull out at any time and has no maturity. Mr. Faden stated while Council is trying to figure out where to put money, Council can still lock up its money that way. Ms. Wynn stated Town Manager Debbie Botchie looked into something like what Mr. Faden was discussing, and Ms. Botchie stated the only savings account she could get that would take the Town as a municipality is Capital One, which is something the Town can look further into.

Mr. Small stated his thanks to Ms. Wynn for her time and collection of information on all of this. Council stated their thanks as well.

5. ANNOUNCEMENT OF NEXT MEETING – TOWN COUNCIL MTG., OCT. 11, 2016

6. ADJOURNMENT

Ms. Faden motioned to adjourn at 8:04 p.m. Ms. Brewer seconded the motion. Motion carried 4-0.

Respectfully submitted,
Matt Amerling, Town Executive Assistant