City Hall, 495 S. Main St.
Council Chambers

July 28, 2022
9:30 AM

Other Post-Employment Benefits Trust Fund (OPEB) Board of Trustees Minutes

1. **Call to Order and Roll Call**

Minutes:
CHAIR AMELING called the meeting to order at 9:32 a.m.

PRESENT: CHAIR AMELING (seated as Chair after Item 5) and MEMBERS ZAMORA (excused until 9:51 a.m.) and KUTCH (seated as Vice Chair after Item 5)

ALSO PRESENT: SUSAN HELTSLEY, Director of Finance, NECHOLE GARCIA, Deputy City Attorney, and BRIAN CARROLL, Deputy City Clerk

2. **Announcement Regarding: Compliance with Open Meeting Law**

Minutes:
ANNOUNCEMENT MADE: This meeting has been properly noticed and posted at the following locations in accordance with the noticing standards as outlined in NRS 241.020: City Hall, 495 South Main Street, 1st Floor; The City of Las Vegas website – www.lasvegasnevada.gov; and The Nevada Public Notice Website – notice.nv.gov.

3. **Public Comment:** Comment during this portion of the agenda must be limited to matters on the agenda for action. If you wish to be heard, come forward and give your name for the record. The amount of discussion, as well as the amount of time any single speaker is allowed, may be limited.

Minutes:
None.

4. Discussion regarding roles and terms of Board Members

Minutes:
SUSAN HELTSLEY, Director of Finance, reported that the trust shall be administered by three or more trustees who shall be appointed by the trust sponsor's governing body to act in a fiduciary capacity for the beneficiaries of the trust, pursuant to NRS (Nevada Revised Statutes) 287.017(2)(e). No member of the trust sponsor's governing body that creates the trust may be appointed as a trustee, and assets of the trust fund shall be invested in the Retirement Benefits Investment Fund established pursuant to NRS 355.220. The trust sponsor's governing body shall appoint at least three, but no more than five, trustees that must include: one member who has a combination of education and experience of at least five years in finance or economics; a public officer or employee of an employer who manages the fiscal affairs of the employer; and a beneficiary of the trust. A person appointed as a trustee shall not have a substantial financial interest in the ownership or negotiation of securities or other financial instruments in which monies in the trust fund are invested. Further, each trustee shall be appointed for a term of at least two years but not to exceed four years, and the trust sponsor's governing body may renew the term of any trustee.

MEMBER AMELING confirmed with MS. HELTSLEY that the three Board members were appointed by the City Council, and that MEMBER ZAMORA is the Director of Human Resources.

5. Discussion for possible action regarding the election of Chair and Vice Chair

Minutes:
SUSAN HELTSLEY, Director of Finance, advised that per the trust report, a Chair and Vice Chair must be elected.

MEMBER KUTCH nominated MEMBER AMELING for the position of Chair. DEPUTY CITY ATTORNEY NECHOLE GARCIA opined that the motions should be taken separately. MEMBER AMELING confirmed with MS. GARCIA that he was allowed to vote, and he nominated MEMBER KUTCH for the position of Vice Chair.

MEMBER AMELING clarified with MS. HELTSLEY that these were four-year terms, and that the City Council removed the term limit in March.

Motion made by LuAnn Kutch to Approve the nomination of Gary Ameling as Chair

Passed For: 2; Against: 0; Abstain: 0; Did Not Vote: 0; Excused: 1

For-Gary Ameling, LuAnn Kutch; Excused-Vincent Zamora;

Motion made by Gary Ameling to Approve the nomination of LuAnn Kutch as Vice Chair

Passed For: 2; Against: 0; Abstain: 0; Did Not Vote: 0; Excused: 1

For-Gary Ameling, LuAnn Kutch; Excused-Vincent Zamora;

6. Report by Susan Heltsley, Director of Finance, regarding plan assets, OPEB liabilities as of June 30, 2021 and new Governmental Accounting Standards Board Statement No. 84 Fiduciary Activities

Minutes:
SUSAN HELTSLEY, Director of Finance, utilized the Other Post-Employment Benefits Trust Fund (OPEB) and Liability Report, which was included in the backup, to define OPEB as primarily health care benefits offered to retired employees. She explained the explicit and implicit rate subsidies, which are a liability to the City. The explicit rate subsidy involves approximately $1.2 million paid annually to the State of Nevada for employees who signed up for the Public Employees' Benefits Program (PEBP) and retired on or before September 1, 2008. The implicit rate subsidy includes health insurance costs for employees that retired after September 2, 2008, and they are offered the same health insurance plan that is offered to current employees. MS. HELTSLEY reported that OPEB was established by the City on July 1, 2010. She noted there have been two contributions for a total of $10 million, and these funds can only be used to provide OPEB benefits to retirees and to cover administrative costs of the trust. She advised that the OPEB combined liability includes the PEBP and City plan costs and is reduced by the plan fiduciary net position. The combined liability was $35.6 million at the beginning of 2021, and it was $30.7 million as of June 30, 2021.

MS. HELTSLEY defined GASB (Governmental Accounting Standards Board) Statements 74, 75, and 84, and she advised that GASB Statement 84 did not impact City financials much since the trust fund was reflected as a fiduciary fund starting from Fiscal Year 2018. She explained that OPEB reporting is governed by these standards and is reported similar to pensions. She noted GASB Statement 43 required the City to report the net OPEB obligation as a liability, and this was measured as how much would need to be gathered to pay out as opposed to the actuary liability. In fiscal year 2017, the PEBP had a negative OPEB obligation of $1.4 million compared to a liability of $20.5 million as of June 30, 2021. The OPEB trust fiduciary position was $24.3 million as of 2021, and this can be netted against the liability, which causes City expenses to be reduced. MS. HELTSLEY stated that the financial statement for June 30, 2017 showed OPEB liability was $57.7 million, and the financial statement for June 30, 2018 showed OPEB liability was $35.8 million. Further, the OPEB liability statement is now reported in the City's annual financial statements, and it was previously only included as notes.

CHAIR AMELING noted MEMBER ZAMORA was in the audience, and BRIAN CARROLL, Deputy City Clerk, clarified that he would need to take his Oath of Office before he could sit at the dais. MEMBER ZAMORA said he would sit in the audience, and CHAIR AMELING opined that would be fine since they had quorum.

CHAIR AMELING did not believe it made sense to put additional monies into the trust for payments towards the City plan, since they were practicing pay-as-you-go. He noticed that the current available cash position exceeded the PEBP liability, and he asked if it made sense to make the PEBP pay-as-you-go payments out of the trust instead of the City's General Fund. MS. HELTSLEY agreed with the Chair and advised that they could start next year, or update the budget since that was not reflected in this year's budget.

7. Presentation by Rick Phillips, President and Chief Investment Officer of FHN Financial, regarding Retirement Benefits Investment Fund results

Minutes:
RICK PHILLIPS, President and Chief Investment Officer of FHN Financial, utilized the OPEB (Other Post-Employment Benefits Trust Fund) Trust Economic and Market Update and OPEB Trust Quarterly Investment Report, a copy of which was submitted for the record, to display GDP (gross domestic product) and CPI (consumer price index) inflation data. He believed that peak growth was hit in December of last year and peak inflation of an average 8.7 percent was hit last quarter. He explained that Bloomberg's forecast projected inflation going down to about 2.6 percent, and growth would be lower than that by the end of next year. He noted January's forecast from six months ago projected end-of-year CPI to be 2.8 percent, and the actual CPI was up to seven percent. MR. PHILLIPS conceded that forecasting is a challenge, citing the conflict between Russia and Ukraine for the increase. Further, the growth projection lowered substantially due to higher inflation and rate increases by the Fed (Federal Reserve System). The Atlanta Fed GDPNow forecasted minus 1.6 percent GDP for the second quarter, and the economists they surveyed projected around two percent. The actual GDP was minus .9 percent, and that is back-to-back quarters of negative GDP. MR. PHILLIPS opined that this was not necessarily a recession, and he quoted a statement from the National Bureau of Economic Research. He advised that GDP is reduced by inflation, and higher inflation challenges growth.

MR. PHILLIPS noted many job openings at the City and nationwide, and he explained that a rising employment rate is typically a lagging indicator of a recession. He reported the unemployment rate was historically very low at 3.6 percent. He said job openings were declining from their record highs, and that weekly unemployment claims were beginning to rise. He opined that it was healthy to see and would help bring down inflation. He explained that the Purchasing Managers Index is a diffusion index that measures hiring and purchases of goods and services. MR. PHILLIPS reported that the index was above 50, stating the decelerating rate of change was pretty material. He expected the index to go below 50 later in the year, and that typically occurs during recessionary periods or very slow growth. He listed several housing statistics, explaining that the Mortgage Purchase Index, housing starts, existing home sales, and new home sales were all decreasing. Further, the Mortgage Refinance Index is at a 20-year low. D.R. Horton, Toll Brothers, and Pulte Homes reported that home purchase cancellations have increased by 25 percent due to increasing interest rates. MR. PHILLIPS stated that existing home sales in Las Vegas were down about 26 percent year over year, and he listed other housing markets in decline. Further, he opined that the decrease was healthy. He said that the 10-Year U.S. Treasury Note is a big driver in the mortgage market and was at 2.7 percent, while the CPI was at 9.1 percent. He noted that the CPI was at the same level in 1980, stating that the 10-Year U.S. Treasury Note was at 14 percent at that time. He said that Baby Boomers spent more per-capita compared to Millennials, listing debt, globalization, and technology as additional factors that affect the CPI. Further, he believed that supply shock and a lot of stimulus increased the CPI.

Retail goods sales declined at the beginning of the pandemic and increased due to the stimulus. MR. PHILLIPS said that retail service spending had a similar decline since people did not travel as much, but he advised that the Las Vegas airport (Harry Reid International Airport) reported June was their busiest month in history. There was an increase of at least one percent on food prices each month from January to June of 2022, and increases between 60 and 98 percent on energy prices on a year over year basis. Six months ago, used car prices were up 50 percent year over year due to chip shortages on new cars, and they were down nine percent year over year in June. Shelter costs were up 5.6 percent year over year, and that included increased rent prices and static fixed mortgage costs. Market participants expected the Fed to increase interest rates up to 3.5 percent, and MR. PHILLIPS advised that the Fed recently increased the rate by 75 basis points, or about 2.5 percent, to around 3.25 percent. He compared the 2-Year and 10-Year U.S. Treasury Notes, explaining that a recession historically occurs a little over a year after they invert for longer than five days. Further, interest rates typically peak when those notes invert. He opined that the long-term rates were going down due to expectations of slower growth or a recession.

MR. PHILLIPS reported that the City invested $10 million into the OPEB Trust, which is a passive investment, and he explained that management of the trust is done by PERS (Public Employees' Retirement System of Nevada). Further, he handles reporting for the trust. He advised that the trust was invested around 50 percent in domestic stocks, 22 percent in international stocks, and between 25 and 30 percent in bonds. He reported that there had been a gain of $14.8 million since inception, stating that domestic stocks have done better over the last few years. He noted the trust lost around $1 million for the quarter ending in March, listing the percentages lost in domestic stocks, international stocks, and bonds. Stocks were the largest portion of OPEB Trust investments, with the S&P (Standard and Poor's) 500 having the largest allocation. MR. PHILLIPS listed stock market crashes starting from the year 2000, noting the market was down 22 percent from the all-time high. He opined that stocks are volatile assets that grow over the long-term and they were a good investment. He advised that the RBIF (Retirement Benefits Investment Fund) has increased by 7.7 percent since inception, believing that was much more than the City's Investment Pool would have earned. CHAIR AMELING confirmed with MR. PHILLIPS that the second quarter for RBIF was challenging, and that would change the inception rate about 20 basis points. Further, they both believed they should continue to invest in long-term liabilities such as stocks.

CHAIR AMELING clarified with MR. PHILLIPS that their stance was to buy and hold bond investments, and not sell them when they were down. MR. PHILLIPS explained that they had about a five-year duration, and they lose about five percent when interest rates change by one percent. The Chair asked if they invest maturing bond proceeds into lower yielding bonds instead of taking a loss of six percent. MR. PHILLIPS confirmed that the report was on a total-return basis and not a book-return basis. CHAIR AMELING asked if they would have to sell investments in order to make PEBP (Public Employees' Benefits Program) payments from the trust's proceeds. MR. PHILLIPS noted that the stock and bond investments generated income, and he suggested looking at that income instead of exclusively paying from the principal component.

8. Discussion for possible action regarding the approval of the Fiscal Year 2023 City of Las Vegas OPEB Tentative Budget

Minutes:
SUSAN HELTSLEY, Director of Finance, utilized the Other Post-Employment Benefits Trust Fund Tentative Budget for Fiscal Year 2023, which was included in the backup, to note they were not advocating for any contributions from the City to the trust. She estimated $500,000 in investment income interest based on really good returns since inception, though she noted a volatile fiscal year. She expected an investment expense of $30,000, and she listed administrative expenses totaling $8,468. There would be a net change in plan assets of $461,532, and MS. HELTSLEY opined that they would be a little bit ahead of the $23.3 million in net assets as of April 30, 2022.

CHAIR AMELING reiterated his suggestion to make future PEBP (Public Employees' Benefits Program) payments out of the trust. He stated the timing of the budget was off-kilter with the City's fiscal year budgeting, noting the Board just began to meet. He asked for the Fiscal Year 2024 budget to be brought to the Board prior to adopting the City's budget, and MS. HELTSLEY said that made sense.

Motion made by LuAnn Kutch to Approve

Passed For: 3; Against: 0; Abstain: 0; Did Not Vote: 0; Excused: 0

For-Gary Ameling, Vincent Zamora, LuAnn Kutch;

9. Discussion regarding the frequency of OPEB Board of Trustees meetings

Minutes:
This item was heard subsequent to Item 10.

SUSAN HELTSLEY, Director of Finance, noted internal discussions with staff and suggested the next meeting be held in February. This would be after the audit has concluded, and it would fall in line with the following fiscal year's budget discussions. Further, she proposed having the meeting yearly unless issues required calling an emergency meeting.

CHAIR AMELING clarified with MS. HELTSLEY that they were expected to meet quarterly unless the Board decides to call a meeting. She believed they could call a meeting once per year and be in compliance. DEPUTY CITY ATTORNEY NECHOLE GARCIA advised that she reviewed the Trust Agreement, which says the Board shall meet quarterly or at the call of the Chairman whenever business is presented. She opined that they could reduce the frequency if business is only presented on an annual basis. CHAIR AMELING said an annual meeting made sense in terms of budgeting, but he thought they may need to meet more frequently to review the investments. He opined that they could schedule the meetings and cancel them if there was no business. MEMBER KUTCH wanted to review the fall numbers prior to the February meeting, and MEMBER ZAMORA agreed and felt it was important to see what the market was doing.

CHAIR AMELING asked RICK PHILLIPS, President and Chief Investment Officer of FHN Financial, how long after quarter end would he need to present on the prior quarter. MR. PHILLIPS advised that it takes about a week to prepare the report after receiving the data, and he requested about a month and a quarter to get the data into the report. The Chair confirmed with MR. PHILLIPS that the third quarter data would be available in mid-November, and that they would have the December quarter by the suggested February meeting. CHAIR AMELING suggested they meet in November to hear the third quarter information due to the volatility of the markets, and then meet in February and six months hence. MS. HELTSLEY said that sounded reasonable. The Chair confirmed with MS. GARCIA that there could be no vote since the item was not agendized as an action item. She opined that the direction provided to staff was sufficient.

10. **Discussion regarding topics for future agenda items.** Comments made during this portion of the agenda by individual members shall refer solely to proposals for future agenda items and any discussion shall be limited to whether or not such proposed items are within the purview of the Board and/or whether such proposed items shall be placed on a future agenda. No discussion regarding the substance of any such proposed topic shall occur and no action shall be taken.

Minutes:
This item was heard subsequent to Item 8.

CHAIR AMELING asked if any Members wished to introduce a topic for a future agenda item, and MEMBER ZAMORA said no.

DEPUTY CITY ATTORNEY NECHOLE GARCIA advised that Item 9 was skipped. CHAIR AMELING asked to finish this item, and dispensed with the item since no Members asked for any future agenda items.

11. **Citizens Participation:** Public comment during this portion of the agenda must be limited to matters within the jurisdiction of the Board. No subject may be acted upon by the Board unless that subject is on the agenda and is scheduled for action. If you wish to be heard, come forward and give your name for the record. The amount of discussion on any single subject, as well as the amount of time any single speaker is allowed, may be limited.

Minutes:
None.

12. **Adjournment**

Minutes:
The meeting was adjourned at 10:24 a.m.

Respectfully submitted:

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Brian Carroll, Deputy City Clerk

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Gary Ameling, Chief Financial Officer

THIS MEETING WAS PROPERLY NOTICED AND POSTED AT THE FOLLOWING LOCATIONS IN ACCORDANCE WITH THE NOTICING STANDARDS AS OUTLINED IN NRS 241.020:

The City of Las Vegas website – www.lasvegasnevada.gov

The Nevada Public Notice website – notice.nv.gov

City Hall, 495 South Main Street, 1st Floor