From: Roger Stancil
Sent: Sunday, April 01, 2018 9:24 PM
To: Allen Buansi; Donna Bell; Hongbin Gu; Jeanne Brown; Jess Anderson; Karen Stegman; Town Council; Michael Parker; Nancy Oates; Pam Hemminger; Rachel Schaevitz; Roger Stancil; Ross Tompkins
Cc: Ken Pennoyer; Amy Harvey; Beth Vazquez; Carolyn Worsley; Catherine Lazorko; Christina Strauch; Dwight Bassett; Flo Miller; Mary Jane Nirdlinger; Rae Buckley; Ralph Karpinos; Ran Northam; Roger Stancil; Sabrina Oliver
Subject: Council Question: Legislative Breakfast : A local bill to expend investment options

Council Question: Would you tell me more about the Legislative Breakfast agenda item "A local bill to expend investment options for funds accumulated to pre-fund post-employment benefit contributions"? Was there a state law passed that mandates our contributions to OPEB? I'd like to find out more about it before we talk about it at the breakfast.

Staff Response: *There is no State law that "mandates" contributions to OPEB. Local governments can establish OPEB investment trusts (G.S. 151-31.1), but it Is voluntary and there is no mandate to make contributions once a trust is established. Below is a brief explanation of why we are requesting local legislation for OPEB trust investments. Let me know if we need to discuss.*

In 2016 Council adopted a resolution creating an Other Post Employment Benefits (OPEB) trust pursuant to G.S. 159-31.1. The purpose of the trust is to accumulate assets to help pay future costs for providing medical insurance coverage to retirees. By creating an irrevocable trust the Town ensured that the accumulated OPEB pre-funding assets can only be used to pay for OPEB benefits and related costs. The creation of the trust also allows these assets to "count" toward the actuarial calculation of our OPEB liability, thereby reducing the amount of the liability.

The Town has been putting aside funds on a regular basis to offset these future costs and to date the amount of funds in the trust exceeds $4 million. These funds are invested in very conservative, low risk investments allowed under G.S. 159-30 Investment of Idle Funds. While these investments are appropriate for Town operating and capital funds that require a high degree of liquidity and no risk of loss, OPEB pre-funding assets are similar to pension funds and a long-term investment strategy is more appropriate.

Funds in the trust are being held as long-term investments to help pay future costs that are expected to growth with the rate of medical inflation. In order for the trust funds to grow at a rate that, over time, can keep pace with inflation, the trust needs to invest in assets that provide a higher average rate of return than is possible under G.S. 159-30, namely equities.

In order to expand investment authority for the OPEB prefunding assets we are requesting local legislation through the Town's Legislative Delegation. A number of other North Carolina cities have previously received expanded investment authority for OPEB funds through local legislation, including Charlotte, Raleigh, Greensboro, Fayetteville and Durham.

Expanded authority would only cover OPEB Trust Funds and the Town's Finance Officer would have authority to manage the investments in the Trust.