

John Sherman, Chairman
Trish Gonzales, Trustee
Sheri Mendez, Trustee

Cynthia Washburn, Comptroller
Terrance Shea, Legal Counsel

AGENDA

WASHOE COUNTY, NEVADA OPEB TRUST FUND BOARD OF TRUSTEES

January 31, 2013 at 9:00 a.m.

Public Works Office, Conference Room A
Washoe County Administrative Complex, Building A, 2nd Floor
1001 E. 9th Street - Reno, Nevada 89512

NOTE: Items on the agenda may be taken out of order; combined with other items; removed from the agenda; moved to the agenda of another later meeting; moved to or from the Consent section; or may be voted on in a block. Items with a specific time designation will not be heard prior to the stated time, but may be heard later. Items listed in the Consent section of the agenda are voted on as a block and will not be read or considered separately unless removed from the Consent section.

Facilities in which this meeting is being held are accessible to the disabled. Persons with disabilities who require special accommodation or assistance (e.g. sign language, interpreters or assisted listening devices) at the meeting should notify the Washoe County Manager's Office at 328-2000, 24 hours prior to the meeting.

Time Limits. Public comments are welcomed during the Public Comment periods for all matters, whether listed on the agenda or not, and are limited to two minutes per person. Additionally, public comment of two minutes per person will be heard during individual action items on the agenda. Persons are invited to submit comments in writing on the agenda items and/or attend and make comment on that item at the Trustee's meeting. Persons may not allocate unused time to other speakers.

Forum Restrictions and Orderly Conduct of Business. The Washoe County OPEB Trust Board of Trustees conducts the business of the OPEB Trust Fund during its meetings. The presiding officer may order the removal of any person whose statement or other conduct disrupts the orderly, efficient or safe conduct of the meeting. Warnings against disruptive comments or behavior may or may not be given prior to removal. The viewpoint of a speaker will not be restricted, but reasonable restrictions may be imposed upon the time, place and manner of speech. Irrelevant and unduly repetitious statements and personal attacks which antagonize or incite others are examples of speech that may be reasonably limited.

Responses to Public Comments. The Board of Trustees can deliberate or take action only if a matter has been listed on an agenda properly posted prior to the meeting. During the public comment period, speakers may address matters listed or not listed on the published agenda. The Open Meeting Law does not expressly prohibit responses to public comments by the Board. However, responses from Trustees to unlisted public comment topics could become deliberation on a matter without notice to the public. On the advice of legal counsel and to ensure the public has notice of all matters the Board of Trustees will consider, Trustees may choose not to respond to public comments, except to correct factual inaccuracies, ask for staff action or to ask that a matter be listed on a future agenda. The Board may do this either during the public comment item or during the following item: "*Commissioners'/Manager's Announcements, Requests for Information, Topics for Future Agendas and Statements Relating to Items Not on the Agenda".

This Agenda for the meeting has been posted at the following locations: Washoe County Administration Building (1001 E. 9th Street, Bldg. A), Washoe County Courthouse-Second Judicial District Court (75 Court Street), Washoe County Downtown Reno Library (301 S. Center Street), Sparks Justice Court (1675 Prater Way #107) and on the Washoe County Website at www.washoecounty.us/finance/OPEB.htm.

Supporting documentation for items on the Agenda provided to the Washoe County, Nevada OPEB Trust Board members is available for viewing by members of the public at the Washoe County Comptroller's Office, 1001 E. 9th Street, Room D-120 Reno, Nevada.

All items numbered or lettered below are hereby designated **for possible action** as if the words "for possible action" were written next to each item (NRS 241.020). An item listed with asterisk (*) is an item for which no action will be taken.

- * 1. Roll call.
- * 2. Public Comments. Comments heard under this item will be limited to two minutes per person and may pertain to matters both on and off the Board of Trustee's agenda. The Board will also hear public comment during individual action items, with comment limited to two minutes per person. Comments are to be made to the Board as a whole.
- 3. Approval of minutes from the December 3, 2012, meeting.
- 4. Discuss and acknowledge receipt of financial statements for fiscal year 2011/2012. Note: statements available online at <http://www.washoecounty.us/finance/opebreports.html>
- 5. Discuss and acknowledge receipt of interim financial statements for the period ending December 31, 2012.
- 6. Review and approval of claims processed, administrative expenditures and reimbursements to employers through December 31, 2012.
- 7. Report on cash flow assumptions for each plan and direction to staff regarding movement of funds between the Washoe County Investment Pool and the State RBIF.
- 8. Discussion and direction to staff on policy proposal to determine how the Board will handle a Plan shortfall.
- 9. Discussion on the legal opinion regarding the Trustees ability to use trust assets to buy out a liability to another entity and possible approval to authorize the Washoe County Finance director to approve such a buy out subject to the approval of both entities and verification of the creation of a legal OPEB Trust to receive the funds.
- 10. Report on anticipated merger activity between Truckee Meadows and Sierra Fire Protection Districts; possible direction to staff regarding legal or other steps to be taken on the anticipated merger as it affects the OPEB Trust; possible formal communication of Trustees' opinion(s) regarding anticipated merger activity or actions that one or more of the Fire Districts have with other local governments such as the City of Reno.
- 11. Discuss and select next three quarterly OPEB meeting dates.
- * 12. Trustee's/Staff Announcements, Requests for Information, Topics for Future Agendas, Statements relating to Items not on the Agenda and any ideas and suggestions for greater efficiency, cost effectiveness and innovation in providing for the benefits of Washoe County, Nevada OPEB Trust Participants in accordance with the Benefit Plans. (No discussion on this item will take place among Trustees.)
- * 13. Public Comments. Comments heard under this item will be limited to two minutes per person and may pertain to matters both on and off the Board of Trustee's agenda. The Board will also hear public comment during individual action items, with comment limited to two minutes per person. Comments are to be made to the Board as a whole.
- 14. Adjourn.

BOARD OF TRUSTEES, WASHOE COUNTY, NEVADA OPEB TRUST FUND

MONDAY, DECEMBER 3, 2012, 9:30 A.M.

Present:

John Sherman, Chairman
Sheri Mendez, Trustee
Trish Gonzales, Trustee

Staff:

Cynthia Washburn, Comptroller
Lynn Broyles, Assistant Comptroller
Mary Solorzano, Senior Accountant
Sandra McGarva, Secretary
Terrance Shea, Legal Counsel

The Board convenes in regular session at approximately 9:35 a.m. at the Washoe County Administrative Complex, 1001 East Ninth Street, Reno, Nevada, Building C, Room 110. Roll is called, all Trustees are present.

Public comment.

There is no public comment.

Approve minutes from August 10, 2012 meeting.

There are no changes to the minutes as transcribed from the August 10, 2012 meeting. Chairman Sherman asks that it be noted that all documents we needed for inclusion at that meeting have been attached to the August 10 minutes, including the actuarial evaluations. Trustee Mendez moves to approve the minutes of August 10, 2012. Trustee Gonzales seconds the motion. All are in favor. The motion carries.

Review and approval of the amended budget for fiscal year 2012/2013.

The Comptroller directs the Board to page 46 of their packets for discussion on the amended budget for fiscal year 2012/2013. She indicates that the changes are primarily due to input received from Mary Walker on behalf of the fire departments.

Chairman Sherman asks if the Board of County Commissioners (BCC) made any subsequent adjustment to the \$18.7 million contribution [in the 2013 Total column]?

Trustee Mendez states the BCC agreed to reduce the amount of that contribution if it is needed to help fund the arbitration decision for the deputies, so it is up to \$1.3 million. She adds that it will only be used to the extent of preventing the public safety function, in total, from going over budget. They also approved restoration of the funding shortfall if we do reduce it by decreasing the contributions required from the OPEB Trust to the Health Benefits Fund. In lieu of a cash contribution to the OPEB Trust Fund, they would make it up through a less than what would normally be required amount in payments from the Trust to the Health Benefits Fund – to the extent that the Health Benefits Fund has a positive experience.

There is discussion. It is clarified that we would reduce the contribution coming from the Trust to the Health Benefits Fund. Trustee Mendez clarifies further: to the extent the Trust does not pay 100% of the incurred cost, it is considered a contribution by the employer, so, if the retiree costs were \$9 million, but

the Trust only pays \$8 million, it is considered a \$1 million contribution toward the Annual Required Contribution (ARC). She adds that the worse-case scenario is that we would see a reduced OPEB contribution to the ARC of \$1.3 million.

Chairman Sherman asks why we don't budget for a split between the Washoe County Retiree Health Benefits Program and the State Public Employees Benefits Plan (PEBP), as he notices that all of the County contribution is budgeted for the Washoe County Retiree Health Benefits Program as opposed to the State of Nevada PEBP.

There is discussion, and in review of additional information in their packets (page 57, Planned Transfers) where it is, in fact, split, it is noted that the budgeted contribution should be displayed on the Budget document as divided between Washoe County and the State's Benefits Program/Plan. It is also noted, though, that when the accounting is all done, it does split between those two plans.

Chairman Sherman brings attention to the figures for Truckee Meadows Fire Protection District (TMFPD) and Sierra Fire Protection District (SFPD), indicating that TMFPD is overfunded, but SFPD isn't. He wonders if there are any plans for Sierra Fire to start funding that, or are they waiting for the merger.

Ms. Washburn states they are waiting for determination of the ultimate liability to Reno with respect to the Truckee Meadows side, as well as the timing and concept of the merger. When they do merge, a common liability will exist, but there is no intent right now to add additional costs to true up the two.

It is noted the assumption here is that they will make the payments out of the Trust, as there is more than a sufficient amount to cover current cash flow.

As there is no further discussion, and no public comment, Chairman Sherman calls for a motion to approve the amended budget with its correction.

Trustee Mendez moves to approve the amended budget with the correction that the pre-funding will be allocated proportionately between the Washoe County and State of Nevada employee benefit plans, as discussed.

Trustee Gonzales seconds the motion. All are in favor, the motion carries.

Review and approval of claims processed, administrative expenditures, and reimbursements to employers through September 30, 2012.

On page 48 of their packets, the Trustees are directed to a detailed table indicating what was incurred by Washoe County and the requested reimbursement. There is discussion with regard to the allowances for actuarial estimated incurred-but-not-reported claims from a cash basis, and that Reserved for liability tends to leave them enough cash to cover a quarter's cash flow requirements.

It is confirmed OPEB is now being charged based on COWCAP (Countywide Cost Allocations Plan).

As there are no other questions or comments, Chairman Sherman calls for a motion to approve the reimbursements proposed. Trustee Gonzales moves to approve payment of the claims and

reimbursements to Washoe County for the period through September 30, 2012, in the amount of \$1,468,590. Trustee Mendez seconds the motion. All are in favor. The motion carries.

Review of interim financial statements for the period ending September 30, 2012.

Beginning on page 50, the Trustees are provided with a summary of net assets by plan, indicating the assets have gone up. In brief, Ms. Washburn states there really weren't a lot of changes during this quarter. She explains that pre-funding has not yet come in from Washoe County, and we typically match that with the money going back. Further, staff is preparing a schedule for review by the Trustees at their next meeting, indicating cash flow trend. She adds that benefits paid of only 16% after the first quarter is more reflective of the fact that all of the information we receive from the third-party payees is typically a month to a month and a half in arrears.

There is discussion; Chairman Sherman notes that the County's total plan is in excess of \$100 million, roughly 32% funded.

Discussion and approval of the schedule of transfers from the Trust to the RBIF.

Indicating the proposed transfers schedule on page 57 of the Board's packets, Ms. Washburn reflects that when they actually tied it out by Plan, they found that SFPD is not putting in the contributions needed to keep more cash in the Washoe County side because they are paying out of the Trust and not putting money in. She states that Sierra Fire will, by the end of this year, need to put more money in and they have been alerted of that fact. It is noted the District can't wait until next fiscal year at their current rate of payments, if the proposed merger does not transpire.

It is confirmed that if SFPD fails to act, it could be the first time that the Trust would potentially pull money out of RBIF investments. Trustee Mendez states that a workaround would be, as the County puts cash in, we can allocate less of their investment money – we wouldn't necessarily have to sell – we could reduce their allocation in the Trust. Discussion follows. It is noted the impact to SFPD would be reflected in the steady decrease of their allocation of the RBIF as time goes on.

More discussion. Ms. Washburn states it will be demonstrated in a cash flow forecast at the next meeting how we will have to adjust who goes to RBIF, who doesn't, to start shifting more the money from Sierra Fire to the County. Also to be presented for possible discussion at the next meeting is a proposal for policy to determine how we will handle a Plan shortfall. Brief discussion follows. There are no more questions or comments.

Chairman Sherman calls for a motion to approve the proposed schedule of transfers from the Trust to the RBIF. Trustee Mendez so moves; Trustee Gonzales seconds the motion. All are in favor. The motion carries.

Discussion of status of actuarial valuations and receipt of actuarial valuations for the Sierra Fire Protection District and Truckee Meadows Fire Protection District Retiree Group Medical Plans.

Discussion follows a brief explanation of pages 58 and 59 of the packets, "Summary of Most Recent Actuarial Valuations - Unaudited," a series of tables that summarize the information included in all four actuarial valuations the OPEB Board has received.

Chairman Sherman notes that the total liability actually went up, but based on the value of assets, it made the ARC go down.

Trustee Mendez directs the Trustees to page 17, stating it was discussed at the last meeting, but it explains why it went down. She states one of the biggest things that impacted what is called the normal cost was that we have no more employees coming into the Plan, so the cost for those employees has gone down significantly.

More discussion with regard to the rate of return and the trend; Chairman Sherman states the Trustees need to revisit that rate of return issue on an annual basis to make sure that it remains close to the top among the things they must consider, and determine if we need to adjust it down or up, because it is a key variable to this analysis.

Trustee Mendez states there is a timing situation with regard to the actuarial valuations; the County gets one every two years while the fire districts get one done every three years, with a caveat that a new valuation needs to be done if material changes occur prior to the end of the actuarial valuation term.

Further discussion confirms there is still a plan to merge the two fire districts effective July 1, 2013. Chairman Sherman reiterates there needs to be a trust attorney involved with that merger to monitor whatever affect it may have on the Trust, ensuring whatever move those two entities make will not negatively impact the Trust.

It is noted that all Plans are consistent with using the same discount rate.

Acknowledge receipt of the amended Administrative Rules and Procedures of the Board of Trustees of the Washoe County, Nevada OPEB Trust Fund.

Chairman Sherman recaps the changes made to the Administrative Rules and Procedures of the Board of Trustees of the Washoe County, Nevada OPEB Trust Fund at the last meeting, noting that the one included in their packets is a merely a clean version for their records (page 96).

Discuss State Retirement Benefits Investment Fund (RBIF) fiscal year information (Audit).

Chairman Sherman announces this topic for discussion, and states he should talk to the folks at RBIF or their board of directors and see if we can get a seat on that since we seem to be the largest part of this fund. He directs the Board to the bottom of the Staff Report to the RBIF on page 99, where just this last year the return indicates 2.4% but in the prior three years it was almost 11.9%. Chairman Sherman states the last three years was the period Washoe County was involved in the Trust, while the last four and a half years took into account the major part of the downturn (showing 2.96%). He continues with a brief recap of information included in the RBIF Audit.

Acknowledge receipt of fiscal year 2011/2012 financial statements.

At this time, staff provides the Trustees with copies of the Washoe County, Nevada OPEB Trust Fund Financial Statements for the Fiscal Year Ended June 30, 2012. It is noted the Report was assembled and delivered to the Finance Director on Friday, and just now available to the Trustees.

Ms. Washburn briefly recaps the audit process, stating that nothing about the Audit itself had problems, but the Washoe County audit (CAFR) together with the fire audit made it more complex than usual this year. It is noted that Kafoury provided their required communication in lieu of presenting their opinion in person today. Discussion follows.

It is noted the County agreed to go with Kafoury on a one-year extension, and will go out to bid next year for audit services. Some discussion follows, and Trustee Mendez explains that the Audit Committee recommended we extend Kafoury's contract for one year, mainly due to the number of accounting changes (GASB), County makeup, if TMWA goes away, if fire gets consolidated, etc. Writing up the RFP would have been difficult in light of all these uncertainties, combined with some fairly significant GASB Statements that will need to be implemented this year.

Discussion follows regarding the levels of detail and complexities of disclosure changes that occurred. Ms. Washburn states the auditors raised a specific question initiated by the [internal] audit comments of the Health Benefits report, as to whether that could have affected the analysis. She explains Kafoury was able to rely upon the Audit Committee report that indicated the recommended actions were being done, resulting in no material impact found.

Because the Board of Trustees are just now in receipt of the OPEB audit, Chairman Sherman would like to have this item tabled until the next meeting in order to allow the Trustees to have a chance to give it adequate review. It is noted it should go on the Agenda as an action item.

Trustee's/Staff Announcements, Requests for Information, Topics for Future Agendas, Statements relating to Items not on the Agenda and any ideas and suggestions for greater efficiency, cost effectiveness and innovation in providing for the benefits of Washoe County, Nevada OPEB Trust Participants in accordance with the Benefit Plans. (No discussion on this item will take place among Trustees.)

Trustee Mendez states that part of the discussions between the City of Reno and TMFPD management for dealing with some of the issues around the City and automatic aid involved giving Reno \$3 million from the TMFPD OPEB Trust Fund and buying out their future long-term liability payments to Reno. Trustee Mendez states that she has advised this is not something they can arbitrarily do, and that the Trustees will want to have an opinion from the Trust attorney, whom has already been contacted. At this time, she has not received a response, but she will follow up with the Trust attorney and, due to provisions of the open meeting law, she may need to ask that a special meeting be called to discuss her findings. She explained she's still working on getting information on what they're actually proposing. It is imperative that we get an opinion back stating this is legal under the internal revenue code, and that it will not jeopardize the good status of this Trust.

She also points out that no amount of money can be directed out of the Trust without the authorization of the Board of Trustees.

Chairman Sherman states this also goes to the issue of the merger of the two fire districts. Trustee Mendez agrees, and adds that she does not have enough information on what the proposals are to engage the attorney just yet.

There is discussion. Trustee Gonzales recaps the legal outcome (asset/liability-wise) of merging two entities, per last meeting's minutes, reiterating that discussion had with Mary Walker. It is noted that the legal process for Trust activity is different than the merging activity between entities.

It is agreed to have a standing item on the Agenda for the next few meetings to discuss potential merger discussions of the fire districts and any potential impacts on the Trust.

Chairman Sherman states verbiage for the Item should be constructed as such to allow the Trustees to take action, relative to the Trust Attorney's opinion, on the merger as it affects the OPEB Trust. This would provide us with the legal ability to formally communicate the Trustees' opinions as to that potential merger or any actions that one or more of the districts would have with other local governments such as the City of Reno, should we feel it necessary.

It is requested of staff that Mary Walker be advised of what will be on the Agenda when it concerns this issue, ask her to give us an update, and that potential action by the Trustees to provide her with direction on the merger as it relates to the OPEB Trust will also be expressed.

Public Comments. Comments heard under this item will be limited to two minutes per person and may pertain to matters both on and off the Board of Trustee's agenda. The Board will also hear public comment during individual action items, with comment limited to two minutes per person. Comments are to be made to the Board as a whole.

There is no public comment.

As there is no further business, the meeting is adjourned at 10:42 a.m.

Washoe County, Nevada OPEB Trust Fund
Interim Financial Highlights for the Six Months Ended December 31, 2012 - Unaudited
All \$ in Thousands unless otherwise noted.

Net Assets by Plan

<u>Net Assets by Plan</u>				
	<u>State RBIF</u>	<u>WC-Pool</u>	<u>Other-Net</u>	<u>Net Assets</u>
WC-RHBP	\$ 99,773	\$ 6,131	\$ (2,601)	\$ 103,303
WC-PEBP	1,844	185	(71)	1,958
TMFPD	3,154	317	1	3,472
SFPD	524	33	(1)	556
	<u>\$ 105,295</u>	<u>\$ 6,666</u>	<u>\$ (2,672)</u>	<u>\$ 109,289</u>

- Net assets have increased by \$7.7 million year-to-date to \$109.3 million, primarily due to prefunding contributions of \$7.2 million to the Washoe County and PEB plans. The trust holds \$105 million or 94% of total investments in the State RBIF pool.
- Other net assets include interest receivable and balances due to Washoe County for retiree health benefits.

Change in Plan Net Assets

	<u>WC-RHBP</u>	<u>WC-PEBP</u>	<u>TMFPD</u>	<u>SFPD</u>	<u>TOTAL</u>
Additions:					
Prefunding	\$ 7,000	\$ 200	\$ -	\$ -	\$ 7,200
Investment income, net of expense	4,549	87	142	24	4,802
Plan members, other	1,526	-	-	6	1,532
	<u>13,075</u>	<u>287</u>	<u>142</u>	<u>30</u>	<u>13,534</u>
Deductions:					
Benefits Paid	5,528	159	65	7	5,759
Administrative	20	8	4	4	36
	<u>5,548</u>	<u>167</u>	<u>69</u>	<u>11</u>	<u>5,795</u>
Net change in Plan Net Assets	<u>\$ 7,527</u>	<u>\$ 120</u>	<u>\$ 73</u>	<u>\$ 19</u>	<u>\$ 7,739</u>

- Prefunding contributions of \$7.2 million have been made in the current fiscal year.
- Investment income includes \$3.4 million from the State RBIF pool from unrealized gains due to fluctuations in the fair value of investments.

Budget Comparison

	<u>Budget</u>	<u>YTD</u>	<u>Act % Bud</u>	<u>Variance</u>
Additions:				
Prefunding	\$ 18,700	\$ 7,200	39%	\$(11,500)
Investment income, net of expense	-	4,802	0%	4,802
Plan members, other	3,424	1,532	45%	(1,892)
Contrib. for incurred cost	-	-	0%	-
	<u>22,124</u>	<u>13,534</u>	61%	<u>(8,590)</u>
Deductions:				
Benefits Paid	14,031	5,759	41%	8,272
Administrative	73	36	49%	37
	<u>14,104</u>	<u>5,795</u>	41%	<u>8,309</u>
Net change in Plan Net Assets	<u>\$ 8,020</u>	<u>\$ 7,739</u>	96%	<u>\$ (281)</u>

- Investment income including unrealized gains is currently averaging 12%.

**WASHOE COUNTY, NEVADA OPEB TRUST FUND
INTERIM STATEMENTS OF PLAN NET ASSETS
AS OF DECEMBER 31, 2012 - UNAUDITED**

	<u>Washoe Co. Retiree Health Benefit Plan</u>	<u>State of Nevada Public Employee Benefit Plan</u>	<u>TMFPD Retiree Group Medical Plan</u>	<u>SFPD Retiree Group Medical Plan</u>	<u>Total</u>
Assets					
Cash and investments:					
Washoe County Investment Pool	\$ 6,131,391	\$ 185,062	\$ 316,870	\$ 33,326	\$ 6,666,649
State of NV RBIF	99,773,327	1,844,447	3,154,385	523,791	105,295,950
Interest receivable	<u>19,057</u>	<u>591</u>	<u>1,210</u>	<u>108</u>	<u>20,966</u>
Total Assets	<u>105,923,775</u>	<u>2,030,100</u>	<u>3,472,465</u>	<u>557,225</u>	<u>111,983,565</u>
Liabilities					
Accounts payable	<u>2,620,852</u>	<u>71,783</u>	<u>-</u>	<u>892</u>	<u>2,693,527</u>
Net assets held in trust for other postemployment benefits	<u>\$ 103,302,923</u>	<u>\$ 1,958,317</u>	<u>\$ 3,472,465</u>	<u>\$ 556,333</u>	<u>\$ 109,290,038</u>

WASHOE COUNTY, NEVADA OPEB TRUST FUND
INTERIM STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2012 - UNAUDITED
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	Combined Trust				2012
	Budget	Actual	Act %	Variance	
Additions					
Contributions					
Employer:					
Prefunding	\$ 18,700,000	\$ 7,200,000	38.50%	\$ (11,500,000)	\$ 20,400,000
Plan member	2,879,400	1,177,184	40.88%	(1,702,216)	3,036,190
Other	545,000	354,737	65.09%	(190,263)	728,039
Total Contributions	22,124,400	8,731,921	39.47%	(13,392,479)	24,164,229
Investment Income					
Interest and dividends	-	1,246,145		1,246,145	2,676,970
Net increase (decrease) in fair value of investments	-	3,583,536		3,583,536	742
Less investment expense	-	27,112		(27,112)	41,757
Net Investment Income	-	4,802,569		4,802,569	2,635,955
Total Additions	22,124,400	13,534,490	61.17%	(8,589,910)	26,800,184
Deductions					
Benefits	14,031,400	5,759,859	41.05%	8,271,541	13,599,952
Administrative expense	72,558	35,500	48.93%	37,058	26,119
Total Deductions	14,103,958	5,795,359	41.09%	8,308,599	13,626,071
Net Change in Plan Net Assets	8,020,442	7,739,131	96.49%	(281,311)	13,174,113
Net Assets Held in Trust for Other Postemployment Benefits					
Beginning of year	101,550,907	101,550,907		-	88,376,794
End of Period	\$ 109,571,349	\$ 109,290,038		\$ (281,311)	\$ 101,550,907

WASHOE COUNTY, NEVADA OPEB TRUST FUND
INTERIM STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2012 - UNAUDITED
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	Washoe County - Retiree Health Benefit Plan				
	<u>Budget</u>	<u>Actual</u>	<u>Act %</u>	<u>Variance</u>	<u>2012</u>
Additions					
Contributions					
Employer:					
Prefunding	\$ 18,282,610	\$ 7,000,000	38.29%	\$ (11,282,610)	\$ 19,776,106
Plan member	2,871,000	1,171,086	40.79%	(1,699,914)	3,028,163
Other	545,000	354,737	65.09%	(190,263)	728,039
Total Contributions	<u>21,698,610</u>	<u>8,525,823</u>	39.29%	<u>(13,172,787)</u>	<u>23,532,308</u>
Investment Income					
Interest and dividends	-	1,177,701		1,177,701	2,521,550
Net increase (decrease) in fair value of investments	-	3,397,113		3,397,113	(4,034)
	-	4,574,814		4,574,814	2,517,516
Less investment expense	-	25,540		(25,540)	38,965
Net Investment Income	-	4,549,274		4,549,274	2,478,551
Total Additions	<u>21,698,610</u>	<u>13,075,097</u>	60.26%	<u>(8,623,513)</u>	<u>26,010,859</u>
Deductions					
Benefits	13,370,600	5,528,269	41.35%	7,842,331	13,050,667
Administrative expense	24,140	19,750	81.81%	4,390	3,736
Total Deductions	<u>13,394,740</u>	<u>5,548,019</u>	41.42%	<u>7,846,721</u>	<u>13,054,403</u>
Net Change in Plan Net Assets	<u>8,303,870</u>	<u>7,527,078</u>	90.65%	<u>(776,792)</u>	<u>12,956,456</u>
Net Assets Held in Trust for Other Postemployment Benefits					
Beginning of year	95,775,845	95,775,845		-	82,819,389
End of Period	<u>\$ 104,079,715</u>	<u>\$ 103,302,923</u>		<u>\$ (776,792)</u>	<u>\$ 95,775,845</u>

WASHOE COUNTY, NEVADA OPEB TRUST FUND
INTERIM STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2012 - UNAUDITED
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	Washoe County - NV PEBS Plan				2012
	Budget	Actual	Act %	Variance	
Additions					
Contributions					
Employer:					
Prefunding	\$ 417,390	\$ 200,000	47.92%	\$ (217,390)	\$ 623,894
Total Contributions	417,390	200,000	47.92%	(217,390)	623,894
Investment Income					
Interest and dividends	-	23,073		23,073	47,165
Net increase (decrease) in fair value of investments	-	64,508		64,508	3,742
Less investment expense	-	518		(518)	726
Net Investment Income	-	87,063		87,063	50,181
Total Additions	417,390	287,063	68.78%	(130,327)	674,075
Deductions					
Benefits	400,000	158,779	39.69%	241,221	325,503
Administrative expense	12,140	8,250	67.96%	3,890	3,736
Total Deductions	412,140	167,029	40.53%	245,111	329,239
Net Change in Plan Net Assets	5,250	120,034		114,784	344,836
Net Assets Held in Trust for Other Postemployment Benefits					
Beginning of year	1,838,283	1,838,283		-	1,493,447
End of Period	\$ 1,843,533	\$ 1,958,317		\$ 114,784	\$ 1,838,283

WASHOE COUNTY, NEVADA OPEB TRUST FUND
INTERIM STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2012 - UNAUDITED
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	Truckee Meadows FPD - Retiree Group Med Plan				
	<u>Budget</u>	<u>Actual</u>	<u>Act %</u>	<u>Variance</u>	<u>2012</u>
Additions					
Contributions					
Employer:					
Prefunding	\$ -	\$ -		\$ -	\$ -
Total Contributions	-	-		-	-
Investment Income					
Interest and dividends	-	39,122		39,122	93,736
Net increase (decrease) in fair value of investments	-	104,016		104,016	241
Less investment expense	-	917		(917)	1,812
Net Investment Income	-	142,221		142,221	92,165
Total Additions	-	142,221		142,221	92,165
Deductions					
Benefits	250,000	65,338	26.14%	184,662	211,297
Administrative expense	18,139	3,750	20.67%	14,389	14,599
Total Deductions	268,139	69,088	25.77%	199,051	225,896
Net Change in Plan Net Assets	(268,139)	73,133	(27.27%)	341,272	(133,731)
Net Assets Held in Trust for Other Postemployment Benefits					
Beginning of year	3,399,332	3,399,332		-	3,533,063
End of Period	\$ 3,131,193	\$ 3,472,465		\$ 341,272	3,399,332

WASHOE COUNTY, NEVADA OPEB TRUST FUND
INTERIM STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2012 - UNAUDITED
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012)

	Sierra FPD - Retiree Group Med Plan				
	<u>Budget</u>	<u>Actual</u>	<u>Act %</u>	<u>Variance</u>	<u>2012</u>
Additions					
Contributions					
Plan member	\$ 8,400	\$ 6,098	72.60%	\$ (2,302)	\$ 8,027
Total Contributions	8,400	6,098	72.60%	(2,302)	8,027
Investment Income					
Interest and dividends	-	6,249		6,249	14,519
Net increase (decrease) in fair value of investments	-	17,899		17,899	793
	-	24,148		24,148	15,312
Less investment expense	-	137		(137)	254
Net Investment Income	-	24,011		24,011	15,058
Total Additions	8,400	30,109	358.44%	21,709	23,085
Deductions					
Benefits	10,800	7,473	69.19%	3,327	12,485
Administrative expense	18,139	3,750	20.67%	14,389	4,048
Total Deductions	28,939	11,223	38.78%	17,716	16,533
Net Change in Plan Net Assets	(20,539)	18,886	(91.95%)	39,425	6,552
Net Assets Held in Trust for Other Postemployment Benefits					
Beginning of year	537,447	537,447		-	530,895
End of Period	\$ 516,908	\$ 556,333		\$ 39,425	\$ 537,447

WASHOE COUNTY, NEVADA OPEB TRUST
Administrative Expense Detail - YTD Actual vs. Annual Budget
For the Six Months Ended December 31, 2012 - unaudited

	Washoe Co Retiree Health Benefit Program	State of Nevada Public Employee Benefit Plan	Truckee Meadows FPD Retiree Group Medical Plan	Sierra FPD Retiree Group Medical Plan	2013 Total
<u>BUDGET</u>					
Administrative Expenses					
Actuarial valuations	\$ 15,000	\$ 3,000	\$ 9,000	\$ 9,000	\$ 36,000
Accounting and administrative services	7,340	7,340	7,339	7,339	29,358
Audit fees	1,500	1,500	1,500	1,500	6,000
Trustee fees	100	100	100	100	400
Operating Expenses	200	200	200	200	800
	<u>\$ 24,140</u>	<u>\$ 12,140</u>	<u>\$ 18,139</u>	<u>\$ 18,139</u>	<u>\$ 72,558</u>
<u>ACTUAL</u>					
Administrative Expenses					
Actuarial valuations	\$ 16,000	\$ 4,500	\$ -	\$ -	\$ 20,500
Accounting and administrative services	3,670	3,670	3,670	3,670	14,680
Audit fees	-	-	-	-	-
Trustee fees	80	80	80	80	320
Operating Expenses	-	-	-	-	-
	<u>\$ 19,750</u>	<u>\$ 8,250</u>	<u>\$ 3,750</u>	<u>\$ 3,750</u>	<u>\$ 35,500</u>
<u>VARIANCE</u>					
Administrative Expenses					
Actuarial valuations	\$ (1,000)	\$ (1,500)	\$ 9,000	\$ 9,000	\$ 15,500
Accounting and administrative services	3,670	3,670	3,669	3,669	14,678
Audit fees	1,500	1,500	1,500	1,500	6,000
Trustee fees	20	20	20	20	80
Operating Expenses	200	200	200	200	800
	<u>\$ 4,390</u>	<u>\$ 3,890</u>	<u>\$ 14,389</u>	<u>\$ 14,389</u>	<u>\$ 37,058</u>

WASHOE COUNTY, NEVADA OPEB TRUST
Review of Washoe County Request for Reimbursement of Plan Expenses
For the Quarter Ended December 31, 2012

	Washoe Co. Retiree Health Benefit Plan	State of Nevada Public Employee Benefit Plan	Total
Retiree health benefits costs	\$ 5,528,269	\$ 158,779	\$ 5,687,048
Contributions:			
Plan members	(1,171,086)	-	(1,171,086)
Other	(354,737)	-	(354,737)
Net retiree health benefits costs	4,002,446	158,779	4,161,225
YTD Reimbursements to County	(1,381,594)	(86,996)	(1,468,590)
Requested reimbursement	\$ 2,620,852	\$ 71,783	\$ 2,692,635

Washoe County, Nevada OPEB Trust Fund
Planned Transfers to the State Investment Fund (RBIF) for FY 2012/2013
Approved 12/3/12
(Direct Exps & Reimbursements to Employers updated through 12/31/12)

	Prefunding Contributions	Direct Expenses	Reimburse Employers	Cash Change	Trsfers to RBIF	Cash in WC Pool	Cash in RBIF	Total Cash & Investmts*
Beginning balance						\$ 8,199,636	\$ 93,548,373	\$ 101,748,009
Jul Trustee Meeting	-	(19,350)	(2,935,672)	(2,955,022)	-	5,244,614	93,548,373	98,792,987
Aug	-	(18,108)	-	(18,108)	855,900	4,370,606	94,404,273	98,774,879
Sep	-	(29,675)	-	(29,675)	855,900	3,527,683	100,763,728	104,291,411
Oct Trustee Meeting	3,600,000	(30,098)	(1,468,590)	2,101,312	855,900	4,773,095	101,619,628	106,392,723
Nov	-	(1,183)	-	(1,183)	855,900	3,916,012	102,475,528	106,391,540
Dec	3,600,000	(8,977)	-	3,591,023	855,900	6,666,649	105,295,950	111,962,599
Jan Trustee Meeting	-	(37,661)	(2,692,635)	(2,730,296)	855,900	3,080,453	106,151,850	109,232,303
Feb	-	(37,661)	-	(37,661)	855,900	2,186,892	107,007,750	109,194,642
Mar	3,600,000	(37,661)	-	3,562,339	855,900	4,893,331	107,863,650	112,756,981
Apr Trustee Meeting	-	(37,661)	(3,058,673)	(3,096,334)	855,900	941,097	108,719,550	109,660,647
May	-	(37,661)	-	(37,661)	-	903,436	108,719,550	109,622,986
Jun	7,900,000	(37,662)	-	7,862,338	-	8,765,774	108,719,550	117,485,324
Jul Trustee Meeting	-	(297,078)	(3,134,702)	(3,431,780)	-	5,333,994	108,719,550	114,053,544
Cash flow total	18,700,000	(630,436)	(13,290,272)	4,779,292	7,703,100			
Less: FY12 exp reimbursed in FY13			2,935,672					
Total Reimbursement for FY13 Exps			(10,354,600)					

* Adjusted quarterly for net investment earnings.

Key Assumptions:

Minimum cash target in WC pool for each plan approximately equal to current year's direct expenses.

	WCRHBP	PEBP	WC Total
WC contribution	18,282,610	417,390	18,700,000
WC reimbursements - FY13 expenses	9,954,600	400,000	10,354,600
			Allocated based on UAAL

Proposed Policy:

We recommend that pooled cash shortfalls in the PEBP, TMFPD or SFPD plans be managed by transferring pooled cash from the WCRHBP, with reimbursement via a reallocation of RBIF funds.

Washoe County, Nevada OPEB Trust Fund
Planned Transfers to the State Investment Fund (RBIF) for FY 2012/2013
Approved 12/3/12
(Direct Exps & Reimbursements to Employers updated through 12/31/12)

WCRHBP	Prefunding Contributions	Direct Expenses	Reimburse Employers	Cash Change	Trfers to RBIF	Cash in WC Pool	Cash in RBIF	Total Cash & Invest.
Beginning balance						\$ 7,332,496	\$ 88,706,521	\$ 96,039,017
Jul Trustee Meeting	-	-	(2,859,642)	(2,859,642)	-	4,472,854	88,706,521	93,179,375
Aug	-	-	-	-	787,000	3,685,854	89,493,521	93,179,375
Sep	-	(17,875)	-	(17,875)	787,000	2,918,110	95,497,891	98,416,001
Oct Trustee Meeting	3,500,000	-	(1,381,594)	2,118,406	787,000	4,249,516	96,284,891	100,534,407
Nov	-	-	-	-	784,300	3,465,216	97,069,191	100,534,407
Dec	3,500,000	(1,875)	-	3,498,125	841,900	6,131,391	99,773,327	105,904,718
Jan Trustee Meeting	-	(732)	(2,620,852)	(2,621,584)	841,900	2,667,907	100,615,227	103,283,134
Feb	-	(732)	-	(732)	841,900	1,825,275	101,457,127	103,282,402
Mar	3,500,000	(732)	-	3,499,268	841,900	4,482,643	102,299,027	106,781,670
Apr Trustee Meeting	-	(732)	(2,976,077)	(2,976,809)	841,900	663,934	103,140,927	103,804,861
May	-	(732)	-	(732)	-	663,202	103,140,927	103,804,129
Jun	7,782,610	(730)	-	7,781,880	-	8,445,082	103,140,927	111,586,009
July Trustee Meeting	-	-	(2,976,077)	(2,976,077)	-	5,469,005	103,140,927	108,609,932
Cash flow total	18,282,610	(24,140)	(12,814,242)	5,444,228	7,354,800			
Less: FY12 exp reimbursed in FY13			2,859,642					
Total Reimbursement for FY13 Exps			(9,954,600)					

PEBP	Prefunding Contributions	Direct Expenses	Reimburse Employers	Cash Change	Trfers to RBIF	Cash in WC Pool	Cash in RBIF	Total Cash & Invest.
Beginning balance						\$ 216,833	\$ 1,648,122	\$ 1,864,955
Jul Trustee Meeting	-	-	(76,030)	(76,030)	-	140,803	1,648,122	1,788,925
Aug	-	-	-	-	11,300	129,503	1,659,422	1,788,925
Sep	-	(6,375)	-	(6,375)	11,300	112,858	1,769,786	1,882,644
Oct Trustee Meeting	100,000	-	(86,996)	13,004	11,300	114,562	1,781,086	1,895,648
Nov	-	-	-	-	14,000	100,562	1,795,086	1,895,648
Dec	100,000	(1,875)	-	98,125	14,000	185,062	1,844,447	2,029,509
Jan Trustee Meeting	-	(648)	(71,783)	(72,431)	14,000	98,631	1,858,447	1,957,078
Feb	-	(648)	-	(648)	14,000	83,983	1,872,447	1,956,430
Mar	100,000	(648)	-	99,352	14,000	169,335	1,886,447	2,055,782
Apr Trustee Meeting	-	(648)	(82,596)	(83,244)	14,000	72,091	1,900,447	1,972,538
May	-	(648)	-	(648)	-	71,443	1,900,447	1,971,890
Jun	117,390	(650)	-	116,740	-	188,183	1,900,447	2,088,630
July Trustee Meeting	-	-	(158,625)	(158,625)	-	29,558	1,900,447	1,930,005
Cash flow total	417,390	(12,140)	(476,030)	(70,780)	117,900			
Less: FY12 exp reimbursed in FY13			76,030					
Total Reimbursement for FY13 Exps			(400,000)					

Washoe County, Nevada OPEB Trust Fund
Planned Transfers to the State Investment Fund (RBIF) for FY 2012/2013
Approved 12/3/12
(Direct Exps & Reimbursements to Employers updated through 12/31/12)

TMFPD	Prefunding Contributions	Direct Expenses	Reimburse Employers	Cash Change	Trfrs to RBIF	Cash in WC Pool	Cash in RBIF	Total Cash & Invest.
Beginning balance						\$ 612,584	\$ 2,707,279	\$ 3,319,863
Jul Trustee Meeting	-	(18,026)	-	(18,026)	-	594,558	2,707,279	3,301,837
Aug	-	(18,026)	-	(18,026)	57,600	518,932	2,764,879	3,283,811
Sep	-	(1,875)	-	(1,875)	57,600	461,384	2,982,083	3,443,467
Oct Trustee Meeting	-	(29,285)	-	(29,285)	57,600	374,499	3,039,683	3,414,182
Nov	-	-	-	-	57,600	316,899	3,097,283	3,414,182
Dec	-	(1,875)	-	(1,875)	-	316,870	3,154,385	3,471,255
Jan Trustee Meeting	-	(33,175)	-	(33,175)	-	283,695	3,154,385	3,438,080
Feb	-	(33,175)	-	(33,175)	-	250,520	3,154,385	3,404,905
Mar	-	(33,175)	-	(33,175)	-	217,345	3,154,385	3,371,730
Apr Trustee Meeting	-	(33,175)	-	(33,175)	-	184,170	3,154,385	3,338,555
May	-	(33,175)	-	(33,175)	-	150,995	3,154,385	3,305,380
Jun	-	(33,177)	-	(33,177)	-	117,818	3,154,385	3,272,203
Total	-	(268,139)	-	(268,139)	230,400			

SFPD	Prefunding Contributions	Direct Expenses	Reimburse Employers	Cash Change	Trfrs to RBIF	Cash in WC Pool	Cash in RBIF	Total Cash & Invest.
Beginning balance						\$ 37,723	\$ 486,451	\$ 524,174
Jul Trustee Meeting	-	(1,324)	-	(1,324)	-	36,399	486,451	522,850
Aug	-	(82)	-	(82)	-	36,317	486,451	522,768
Sep	-	(3,550)	-	(3,550)	-	35,331	513,968	549,299
Oct Trustee Meeting	-	(813)	-	(813)	-	34,518	513,968	548,486
Nov	-	(1,183)	-	(1,183)	-	33,335	513,968	547,303
Dec	-	(3,352)	-	(3,352)	-	33,326	523,791	557,117
Jan Trustee Meeting	-	(3,106)	-	(3,106)	-	30,220	523,791	554,011
Feb	-	(3,106)	-	(3,106)	-	27,114	523,791	550,905
Mar	-	(3,106)	-	(3,106)	-	24,008	523,791	547,799
Apr Trustee Meeting	-	(3,106)	-	(3,106)	-	20,902	523,791	544,693
May	-	(3,106)	-	(3,106)	-	17,796	523,791	541,587
Jun	-	(3,105)	-	(3,105)	-	14,691	523,791	538,482
Total	-	(28,939)	-	(28,939)	-			

January 24, 2013

TO: Washoe County, Nevada OPEB Trust Board of Trustees – via e-mail
FROM: Kathy Odle, Sherman and Howard LLC
RE: Washoe County OPEB Trust – Ability to Use Trust Assets to Buy Out TMFPD Liability

FACTS AND ISSUE

As you know, the Washoe County, Nevada OPEB Trust Fund (the “OPEB Trust”) covers retired employees of Truckee Meadows Fire Protection District (“TMFPD”). TMFPD is listed as a “participating employer” on Exhibit B to the Trust Agreement for the OPEB Trust. I assume that the TMFPD Board of Fire Commissioners approved the OPEB Trust, as stated in that Exhibit B to the Trust Agreement.

There is approximately \$3.4 million held in the OPEB Trust for the benefit of TMFPD retirees. However, I understand that, prior to July 1, 2012, TMFPD did not employ any employees. Instead, this amount reflects a TMFPD liability that resulted from a shared services interlocal agreement between the City of Reno and TMFPD, under which TMFPD “employees” became City of Reno employees. Under that agreement, TMFPD agreed to pay a portion of the retiree health benefits for ex-TMFPD employees based on their proportional years of service between the two governments.

That interlocal agreement was dissolved on July 1, 2012. Previous TMFPD employees were given the option of remaining with the City of Reno or returning to employment with TMFPD. Employees who decided to return to employment with TMFPD would be guaranteed the same level of benefits they had prior to becoming City of Reno employees. Only 10 employees chose to return to TMFPD and 45 employees remained with the City of Reno.

The agreement for TMFPD to pay the proportional benefits for the 45 employees that remain employees of the City of Reno remains in effect. However, a proposal has been made whereby TMFPD would “buy out” the TMFPD liability for the 45 employees of the City of Reno with the TMFPD funds held in the OPEB Trust. There would still exist an OPEB liability for the 10 employees of TMFPD, but that liability would be far less than the \$3.4 million that is held in the OPEB Trust for the TMFPD retirees.

CAN THE OPEB TRUST ASSETS BE USED FOR THIS “BUY OUT”?

Yes, but the City of Reno would have to establish its own trust for retiree benefits in order to allow the transfer of OPEB Trust funds out of the OPEB Trust.

TERMS OF OPEB TRUST

The terms of the OPEB Trust provide as follows:

1. Section 4.1(a) of the OPEB Trust document states that all contributions and earnings on such contributions shall be irrevocable and become the property of the Trust.
2. Section 4.3 of the OPEB Trust document states that all contributions and earnings shall be used only to provide for benefits for participants and pay reasonable administrative expenses.

3. Section 5.2 of the OPEB Trust document prohibits the reversion of Trust funds to the benefit of any employer, except upon Trust termination.
4. Section 5.3 of the OPEB Trust document permits the transfer of trust assets where an employer's benefit plan is amended to reserve the classification of participants eligible for benefits under the Trust, and terminate such participants' participation in the Trust or transfer their coverage to another trust complying with NRS 287.017. Section 5.3 further provides that in the event a classification of participants is transferred to another trust, then the corresponding portion of the Trust assets may be transferred to the new trust.
5. Section 8.1 of the OPEB Trust document reserves the right to each employer's local governing body to terminate the employer's participation in the Trust in whole or in part at any time, and additionally reserves to the Washoe County, Nevada's governing body the right to terminate the Trust in whole or in part at any time, including the termination of any employer's participation in the Trust.
6. Section 8.2 of the OPEB Trust document provides that upon the termination of the Trust, to the extent that Trust assets are not transferred to a successor trust pursuant to Section 5.3, the Trustee shall hold the Trust Fund until it is completely exhausted paying benefits and reasonable expenses.

Thus, the terms of the OPEB Trust allow for the transfer of a participating employer's portion of the OPEB Trust to a successor trust to be used for the benefit of employees of the employer maintaining the successor trust. The OPEB Trust does not permit the transfer or distribution of OPEB Trust assets directly to an employer entity unless and until all obligations to all retirees under all of the retiree plans covered by the OPEB Trust are satisfied. As long as there are OPEB Trust obligations to other participating employers in the OPEB Trust, the OPEB Trust does not permit the transfer of any assets directly to a participating employer.

TERMS OF NEVADA REVISED STATUTES

As you may recall, the Nevada Revised Statutes include requirements for the establishment of OPEB trusts by local governments in Nevada, and include the following requirements:

1. Section 2(b)(1) of NRS 287.017 restricts the use of contributions held in the trust fund to the provision of benefits to retired employees (and their spouses and dependents), and the payment of reasonable administrative expenses.
2. Section 2(c) of NRS 287.017 states, "All contributions to the trust fund are irrevocable and become the property of the beneficiaries of the trust."
3. Section 2(h)(2) of NRS 287.017 provides that where the assets of the trust fund are pooled for purposes of investment with the assets of trust funds established by other local governments, each participating local government's proportionate share of the pool of assets must be used to provide benefits solely to the retired employees (and their spouses and dependents) of that participating local government.

Thus, the Nevada Revised Statutes prohibit the use of OPEB Trust assets for any purpose other than providing benefits to retired employees (and paying administrative expenses). While the City of Reno generally would not be required to establish its own OPEB trust to provide medical benefits to its retirees, once the contributions were made to the Washoe County OPEB Trust, those trust assets may not

thereafter be used for any other purpose and must remain in a trust, either in the OPEB Trust or in successor trust.

OTHER CONCERNS

In addition to the roadblocks resulting from the terms of the OPEB Trust and the Nevada Revised Statutes, I believe that there is a small risk that the transfer of assets from the OPEB Trust directly to the City of Reno could result in a 100% excise tax under Section 4976(b)(1)(C) of the U.S. Internal Revenue Code of 1986, as amended (the "Code"). Code Section 4976(b)(1)(C) provides for a 100% excise tax on the reversion of any portion of a welfare benefit fund to the benefit of an employer. While it is not expressly clear that the Code Section 4976 100% reversion tax would apply to the OPEB Trust that is exempt from taxation under Code Section 115, and there is very little published authority on this matter, a small risk exists that the U.S. Internal Revenue Service could take the position that the excise tax applies.

COULD OPEB TRUST BE AMENDED TO ALLOW A TRANSFER TO CITY OF RENO?

While the Trust Agreement for the OPEB Trust could be unilaterally amended by the Washoe County Board of Trustees to allow a transfer of OPEB Trust assets directly to an employer (rather than to a successor trust), I believe that the Trustees of the OPEB Trust could be charged with violating their current fiduciary duties to the OPEB Trust and its participants by accepting and acting on such an amendment. In addition, I believe that, prior to a complete termination and liquidation of the OPEB Trust, the transfer of OPEB Trust assets directly to the City of Reno, and not to a successor trust, would be a violation of the Nevada Revised Statutes.

Once you have had a chance to consider the above, please let me know if you have any questions or if you would like additional information. Thank you.

Kathleen A. Odle

SHERMAN & HOWARD L.L.C.

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