September 25, 2020

Dianna Gonzales
Deputy Vice Chancellor, Human Resources
City College of San Francisco
33 Gough St.
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Dear Dianna,

This is in response to your request for an analysis of the potential effect of SFCCD withdrawing $21 million from the Retiree Health Care Trust Fund (RHCTF). A Participating Employer must comply with Charter Section A8.432(d)(4) in order to withdraw funds. Under this section, SFCCD's governing board must approve disbursement limitations that "effectively balance the Participating Employer's goal of attaining and maintaining a Fully-Funded trust against the Participating Employer's financial obligations."

I have been further advised that the ballot materials related to the Charter amendment anticipate that the governing board adopt a "funding strategy" by two-thirds vote. As far as I know, the term "funding strategy" is not defined in the statute or in related materials. Based on the context of the statute, the disbursement limitations are separately referenced, so it seems reasonable to construe that a funding strategy means a combination of the disbursement limitations and planned future contributions. Both these components of the funding strategy are described below.

In the case of SFCCD, I was informed that the $21 million withdrawal is crucial to meeting City College's financial obligations, so I was asked how such a distribution would affect City College's goal of attaining and maintaining full funding. While not directly relevant to the issue of full funding, I note that SFCCD has contributed $16.9 million more to the RHCTF than allowed by statute. I have been told that the RHCTF should not have allowed these additional contributions. I estimate that investment income on these excess contributions through June 30, 2020 amounts to $5.3 million. The excess contributions combined with investment income thereon therefore exceed the $21 million requested withdrawal by more than $1 million. Hopefully, the RHCTF trustees will consider this in reviewing SFCCD's withdrawal request.

Section A8.432(f) defines "Fully-Funded" as occurring when "the market value of assets in a sub-trust equals or exceeds the Employer's Actuarial Accrued Liability." Section A8.432(f) further provides that the Actuarial Accrued Liability should be construed under GASB 45 "as amended from time to time." GASB 45 has subsequently been replaced by GASB 75.

This opinion letter is intended to provide information to satisfy the Section A8.432(d)(4) requirement for the Board to consult with the "Participating Employer's GASB Actuary." Total Compensation Systems, Inc. (TCS) has been performing retiree health valuations for CCSF since 2005. I have personally performed all these CCSF valuations.

In order to provide advice to the Board, we used the most recently completed GASB 75 valuation report dated August 22, 2019. (A new valuation is in progress, but the valuation results are not yet available.) Because the valuation's measurement date is June 30, 2018, we updated the projected retiree claim information as well as the plan assets to June 30, 2020. Our updated numbers reflected recent information as well as addressing questions posed by Janet Brazelton's Email of September 14. Following are the material updates:

1) Based on information provided by Ms. Brazelton, we adjusted valuation results to reflect terminated vested employees. We conservatively estimated that reflecting terminated vested employees would add 6.4% to the liability for active employees hired prior to January 10, 2009.
2) We updated demographic assumption tables to the most recently available tables;
3) I confirmed that the valuation assumptions reflected the provisions of Section A8.428. The plan description in the most recent valuation report was not clear in that regard.

In addition, we updated assumptions used in our projection of the full funding horizon:

4) We updated asset values to SFCCD's actual balance at 7/31/20
5) We synced our payroll projection to SFCCD's multi year budget
6) We used the 7.4% investment return assumption used by the City and County
7) We modified the funding strategy to strictly reflect statutory employer contributions rather than including supplemental employer contributions.

My evaluation must be based on implementing "disbursement limitations "as part of a "funding strategy". The disbursement limitations I was asked to consider are as follows:

1) SFCCD would withdraw $21 million representing the actual SFCCD share of the 2019-20 retiree medical costs and an estimate of the 2020-21 SFCCD share;
2) Should actual 2020-21 retiree medical costs borne by SFCCD be less than expected, SFCCD would return any excess to the RHCTF to assure that GASB 75 requirements continue to be met; and
3) No further withdrawals would be made until the SFCCD sub-trust meets the Charter definition of "Fully-Funded."

To assess how the above disbursement limitations would affect SFCCD's ability to attain and maintain Full Funding, we used provisions of GASB 75 commonly referred to as the "crossover test." In applying the crossover test, we were asked to apply the following planned future contributions as part of SFCCD's funding strategy:

1) SFCCD will continue to deposit Section A8.432 employee contributions;
2) SFCCD is unable to make employer contributions for the 2019-20 and 2020-21 fiscal years;
3) SFCCD will resume making employer contributions in the amount of 1% of payroll in 2021-22 each year thereafter until the CCSF sub-trust is fully funded; and
4) Once the City College sub-trust is fully funded, CCSF would make contributions as provided under A8.432(a) and A8.432(b).

As mentioned before, SFCCD employer contributions prior to 2019-20 were higher than allowed under A8.432.

Under the above assumptions regarding future contributions and withdrawals, I concluded that the above disbursement limitations and funding strategy would result in the SFCCD sub-trust being fully funded in 26 years – i.e. by 2046. Of course, this time frame can vary considerably due to factors such as actual versus expected investment returns, future increases in medical care cost increases, and other factors. The Charter doesn't state or imply any particular time frame for the analysis but, in the context of lifetime benefits, 26 years is well within what would be considered reasonable for funding retiree health benefits. It is also similar to the expected full funding horizon for the City and County.

In conducting the crossover test, we modified it appropriately to reflect the purpose for meeting the requirements of Section A8.432 and to reflect the facts and circumstances of SFCCD's situation. Following is a summary of the steps we took:

1) We estimated the accrued liability for employees hired from 7/1/17 through 6/30/20.
2) We determined plan assets that will be available to pay benefits for those hired prior to 7/1/20 as follows:

7/31/20 Balance:	$30,583,764
Less: Accrued Liability for 7/17 to 6/20 Hires:	$1,109,983
Plus: Employee Contributions Receivable:	$1,462,580
Equals: Available for Pre 7/17 Hires:	$30,936,361
Less: Requested Withdrawal:	$21,000,000
Equals: Remaining for Pre 7/17 Hires:	$9,936,361

3) We determined payroll-based employer and employee contributions for every year based on SFCCD's multi-year budget and an assumed 2.75% annual increases thereafter.
4) We determined the amount of each year's contributions needed to cover the service cost for employees hired after June, 2017.
5) We determined the amount available to cover those hired prior to July, 2017 as the difference between #3 and #4.
6) We accumulated the resulting asset balance for pre-July, 2017 hires reflecting contributions (including negative contributions) and investment income.
7) We projected future liabilities by calculating the present value of remaining benefit payments for those hired prior to July, 2017.

By approaching the projection in the above manner, the liability for employees hired after June, 2017 will always be fully funded. The projected asset values in #6 will, therefore, be available exclusively to cover benefits for those hired prior to July, 2017 and, as stated previously, is projected to exceed the liability for those hired prior to July, 2017 after 26 years.

I believe that other issues raised in Ms. Brazelton's September 14 Email have been otherwise addressed. If not, I would be happy to discuss them further.

Sincerely,

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