

Total Compensation Systems, Inc.

March 23, 2023

David Martin
Chancellor
City College of San Francisco
33 Gough St.
San Francisco, CA 94103

Dear David,

This is in response to your request for additional clarification and detail from our letter to Dianna Gonzalez dated September 25, 2020. That letter contained analysis of the potential effect of SFCCD withdrawing \$21 million from the Retiree Health Care Trust Fund (RHCTF), and it also outlined a potential strategy for future contributions to the trust. This letter focuses on the latter of those two items. It will describe our understanding of the contributions required under Charter Section A8.432 and how those contributions were to be altered for 2019-20 and 2020-21.

We are not legal experts nor do we provide legal services. Therefore, our description of how we believe Charter Section A8.432 should be interpreted should not be exclusively relied upon by the College or any other group.

Contributions Required by Charter Section A8.432

Sections (a) and (b) of A8.432 describe the contributions to the trust required from participating employers. Section (a) applies for employees hired on or after January 10, 2009 while section (b) applies for employees hired on or before January 9, 2009. Each section describes two independent sources of annual contributions to the trust which are additive with one another.

For section (a), those sources are:

- 1) Employee contributions equal to the Normal Cost (limited to 2% of compensation)
- 2) Employer contributions equal to 1% of compensation

For section (b), those sources are:

- 1) Employee contributions equal to the Normal Cost (limited to 1% of compensation)
- 2) Employer contributions equal to 1% of compensation

Sections (a) and (b) also describe required contributions once the plan has been Fully Funded, but those are not relevant here since our analysis ended upon the plan becoming Fully Funded. Additionally, the term "Normal Cost" as defined under GASB 45 has been replaced by the term "Service Cost" under GASB 75. GASB 75 replaced GASB 45 in 2017.

Alteration of Required Contributions for 2019-20 and 2020-21

Our September 25, 2020 letter examined a scenario in which the College would continue to make the Employee Contributions described above but would forego making Employer Contributions for the 2019-20 and 2020-21 fiscal years. The College would resume making employer contributions for 2021-22. The College would also withdraw \$10,500,000 from the trust in both 2019-20 and 2020-21 with no further withdrawals anticipated until the plan becomes fully funded.

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Based on discussions with the College and the City and County leading up to the issuance of our September 25, 2020 letter, our understanding was that the College would contribute the full Service Cost without regard to the 1% / 2% compensation limit. Charter Section A8.432(e) allows for additional contributions above those required in section (a) and (b) to be made.

To summarize, our analysis assumed that the College would make contributions to the Trust equal to the Service Cost in all future years (including 2019-20 and 2020-21) plus contributions equal to 1% of payroll in all future years except for 2019-20 and 2020-21. Additionally, it was assumed that annual benefit payments for retirees would be made without drawing on trust assets except for the 2019-20 and 2020-21 withdrawals.

Potential Next Steps

It may be advisable to perform an updated projection of the plan's future funded status. Measurements of OPEB liabilities will fluctuate based on interest rates, medical costs, investment performance, and demographic changes. Changes in demographics (such as a reduction in active headcount) would have a significant impact on the projected contribution amounts since they can affect both the Service Cost as well as the Covered Payroll.

The upcoming June 30, 2023 actuarial valuation can provide a good starting point for an updated projection of the plan's future funded status as it will include the most up-to-date demographic information.

Sincerely,



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