September 25, 2020

Dianna Gonzales
Deputy Vice Chancellor, Human Resources
City College of San Francisco
33 Gough St.
San Francisco, CA 94103

Dear Dianna,

This is in response to your request for an analysis of the potential effect of 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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