Contra Costa Community College District

pathways to success

# STUDY SESSION ON 2008-09 DISTRICT BUDGET

## APRIL 29, 2009

Chancellor's Office
Contra Costa Community College District
500 Court Street
Martinez, California 94553

## STUDY SESSION ON 2008-09 DISTRICT BUDGET
### AND
## 2009-2010 BUDGET DEVELOPMENT

### AGENDA

**I.** Review of Study Session on 2008-09 District Budget materials

**II.** Direction from the Governing Board

### PURPOSE

The Budget Study Session is conducted annually in April so that the chancellor and staff can (1) share the status of the budget for the current year; (2) share what is known regarding the upcoming year; and (3) give the Governing Board the opportunity to provide direction to the chancellor on the items to be included in the budget.

# STUDY SESSION ON 2008-09 DISTRICT BUDGET

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# VALUES AND PARAMETERS FOR BUDGET DEVELOPMENT AND PREPARATION

In preparing the annual budget for the District, the goal is to develop a balanced budget that provides for programs and services that meet the needs of the community served by the Contra Costa Community College District. The budget will be developed within the context of the values and parameters below.

**Values**

The foundation of the budget development process is a belief in basic, shared values: honesty, integrity, transparency, and an overall sense of collegiality. Fiscal prudence will be exercised in the development and management of the budget. These values are by ensuring the following:

- Discussions and all actions are student-centered.
- Communication of financial information is practiced to ensure dialogue among constituencies and honest portrayal of the District's financial condition.
- Decisions on financial matters are data driven.
- District budget practices are comparable to institutions of similar size and scope.
- Items included in the budget will be based on need.

**Parameters**

To the extent possible, the budget will:

1. allow the resources sufficient for meeting the needs of the diverse student population of the District;
2. be developed based on achievable FTES goals that provide for the highest possible level of student access;
3. Maintain a minimum emergency fund balance reserve of 5% of the unrestricted general fund budgeted expenditures for the fiscal year;
4. provide sufficient funding to ensure an appropriate number of faculty, classified staff and management personnel to fulfill the mission of the District and its colleges;
5. provide for contractual obligations and fixed costs;
6. cover the current year retiree health benefit expenses and increase restricted reserves for the retiree health benefit liability;
7. include funding for new Districtwide projects based on District goals;
8. adhere to formulae stipulated in Business Procedures;
9. budget and restrict college year-end carryover balances for one-time expenditures only;
10. maintain and improve our colleges in a manner that attracts students and provides an environment that promotes education, including providing matching funds;
11. include total compensation which will be in the top one-third of the Bay 10, excluding basic aid districts, only if the District can afford it;
12. reflect improvement in productivity at all levels; and
13. be developed within a multi-year plan.

# Actuarial Valuation of Postretirement Welfare Benefits

In August of 2008, the Governing Board established a Retirement Board of Authority (RBA) in order to create a Trust to be used for the purposes of investment and disbursement of funds irrevocably designated by the employer for the payment of its obligations to eligible employees (and former employees) of Contra Costa Community College District. This action was to bring the District into compliance with Governmental Accounting Standards Board (GASB) 43 & 45. The role of the Retirement Board of Authority is to receive, manage, and maintain the retiree health benefits program at Contra Costa Community College District.

The RBA has convened twice and established investment parameters for receiving investment funds by the District. Because of the economic instability that began in the fall, District staff has not recommended to the Governing Board to fund the irrevocable trust. As the market stabilizes and the District implementation year for GASB 43 &45 comes to closure, the District needs to consider options for moving forward. The attached study was completed in January 2009 by Rael & Letson and provides the current Other Post Employment Benefits (OPEB) liability and Annual Required Contributions (ARC).

# Sound Fiscal Management Checklist

Pursuant to Education Code Section 84040, the Board of Governors for the California Community College System is required to adopt criteria and standards for the periodic assessment of the fiscal condition of California community college districts. Based on these requirements the System Office established standards for sound fiscal management and a process to monitor and evaluate the financial health of community college districts. The System Office monitors and assesses a district's financial condition through:

- Quarterly Financial Status Reports (CCFS-311Q)
- Annual Financial and Budget Reports (CCFS 311)
- Annual District Audit Reports
- Apportionment Attendance Reports (CCFS 320)
- District Responses to Inquiries
- Other available information (Accounting Advisory 05-05)

The System Office has developed the Sound Fiscal Management Checklist as a tool to assist districts in monitoring the fiscal health of the district and encourages districts regularly to complete the checklist with the Board and executive staff.

| Question | Answer | Explanation |
|---|---|---|
| **1. Deficit Spending** | | |
| Is this Area Acceptable? | Yes | |
| Is the District spending within their revenue budget in the current year? | No | While the 2008-09 budgeted revenue in the unrestricted general fund exceeds the proposed uses, the use of *on-going* funds exceeds the expected *on-going* revenue. |
| Has the District controlled deficit spending over multiple years? | Yes | The District has built up the ending fund balance since FY 03-04 through revenues exceeding expenditures. |
| Is deficit spending addressed by fund balance, on-going revenue increases, or expenditure reductions? | Yes | The District makes a budgetary distinction between "on-going" and "one-time" revenues and expenditures. For 2008-09, the District's on-going expenses are budgeted in excess of on-going revenues. |
| Are District revenue estimates based upon past history? | Yes | Non-apportionment revenues are based upon past history and adjusted for known changes. FTES-related revenues are based upon FTES projections for each college. |
| Does the District automatically build in "growth" in growth revenue estimates? | No | The District bases its apportionment revenue on projected FTES which include either growth or decline as projected utilizing trend data. |

| 2. Fund Balance | | |
|---|---|---|
| Is this Area Acceptable? | **Yes** | |
| Is the District's fund balance stable or consistently increasing? | Yes | The fund balance has steadily increased since FY 03-04 growing from 7.1% to 16.96% in FY 07-09 |
| Is the fund balance increasing due to ongoing revenue increases and/or expenditure reductions? | Yes | The increase in fund balance has occurred due to a combination of expenditure control in FY 03-04,<br>FY 04-05, & 05-06, and revenue increases in FY 07-08 due to restoration in FTES. |

| 3. Enrollment | | |
|---|---|---|
| Is this Area Acceptable? | **Yes** | |
| Has the District's enrollment been increasing or stable for multiple years? | No | The District's enrollment peaked in 2002-03 and declined until FY 06-07, The District restored FTES in 07-08 and is projected to restore 1562 FTES in FY 08-09. |
| Are the District's enrollment projections updated at least annually? | Yes | Enrollment projections are monitored throughout each semester and updated when the CCFS 320 is completed in January, April, and July. |
| Are staffing adjustments consistent with the enrollment trends? | Yes | Budget formulas are utilized to determine funding for new full-time faculty, hourly faculty, and classified positions; the formula is adjusted for enrollment growth/decline. |
| Does the District analyze enrollment and full-time equivalent student (FTES) data? | Yes | The colleges and Cabinet review current trends and develop both college and District projections. |
| Does the District track historical data to establish future trends between P-1 and annual for projection purposes? | Yes | The District produces periodic reports of enrollment trends and utilizes multi-year analyses in developing projections. |
| Has the District avoided stabilization funding? | No | The District has received stabilization funding in FY 04-05 and FY 08-09. |

| 4. Unrestricted General Fund Balance | | |
|---|---|---|
| Is this Area Acceptable? | Yes | |
| Is the District's Unrestricted General Fund Balance consistently maintained at or above the recommended minimum prudent level (5% of the total Unrestricted General Fund expenditures)? | Yes | Over the previous five years, the District has maintained at least a 5% fund balance and in the 2008-09 budget a 5% "Board Contingency Reserve" was established in addition to the on-going 5% contingency reserve. |
| Is the District's Unrestricted Fund Balance maintained throughout the year? | Yes | The District's Unrestricted Fund Balance is maintained and monitored throughout the year. |

| 5. Cash Flow & Borrowing | | |
|---|---|---|
| Is this Area Acceptable? | Yes | |
| Can the District manage its cash flow without interfund borrowing? | Yes | The District has never used Interfund borrowing due to the County Teeter plan. |
| Is the District repaying Tax Revenue Anticipation Notes (TRANS) and/or borrowed funds within the required statutory period? | N/A | |

| 6. Bargaining Agreements | | |
|---|---|---|
| Is this Area Acceptable? | Yes | |
| Has the District settled bargaining agreements within new revenue sources during the past three years? | Yes | Yes, the District after not giving salary increases (over a five year period) and reducing salaries, has restored salaries and given increases based on restored ongoing revenues. |
| Did the District conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement? | Yes | On-going salary increases are determined based on an agreed upon formula taking into consideration on-going restoration revenue, new resources and permanent expenditure reductions. |
| Did the District correctly identify the related costs? | Yes | The District performed an analysis in which both ongoing revenue-increases and expenditure-cuts were identified. |
| Did the District address budget reductions necessary to sustain the total compensation increase? | Yes | The District correctly identified all related costs to the bargaining agreement. No on-going budget reductions were necessary to fund the agreement. |

| 7. Unrestricted Fund Staffing | | |
|---|---|---|
| Is this Area Acceptable? | Yes | |
| Is the District ensuring it is not using one-time funds to pay for permanent staff or other ongoing expenses? | Yes | The District differentiates ongoing and one-time funding to ensure that one-time monies are not being used for ongoing expenditures. |
| Is the percentage of District General Fund allocated to salaries and benefits at or less than the statewide average (i.e., the statewide average for 2007-08 was 83.4%). | No | For 2007-08, the percentage of the General Fund that was expended for salaries and benefits was 85.8%. For 2008-09, the percentage of the General Fund budgeted for salaries and benefits is 84.5%. |

| 8. Internal Controls | | |
|---|---|---|
| Is this Area Acceptable? | No | |
| Does the District have adequate internal controls to insure the integrity of the general ledger?<br><br>Does the District have adequate internal controls to safeguard the District's assets? | No<br><br>No | For the majority of the District's transactions, there were adequate controls to insure the integrity of the 2007-08 general ledger and an unqualified opinion of the financial statements was issued by the District's independent auditors. There were, however, auditor's findings and recommendations related to material weaknesses in reconciliations and subsidiary ledgers that are currently being addressed. |

| 9. Management Information Systems | | |
|---|---|---|
| Is this Area Acceptable? | Yes | |
| Is District data accurate and timely? | No | Prior year practices of closing the year-end financial records well into the subsequent year have resulted in unreliable data at certain points in the fiscal year. Measures are being taken to correct this practice. |
| Are the county and state reports filed in a timely manner? | Yes | All reports are submitted to reporting agencies by their appropriate deadlines. |
| Are key fiscal reports readily available and understandable? | Yes | Many reports are available on the District's web site as part of the agenda materials provided to the governing Board. |

| 10. Position Control | | |
|---|---|---|
| Is this Area Acceptable? | Yes | |
| Is position control integrated with payroll? | Yes | Regular positions are fully integrated with position control. Hourly positions reside outside the position control process. |
| Does the District control unauthorized hiring? | Yes | Hiring is overseen by the District's Human Resources Department. Regular positions are validated by the Finance Department for budget only. |
| Does the District have controls over part-time academic staff hiring? | Yes | Part-time academic staff hiring is overseen by the colleges and monitored through budget allocations. |

| 11. Budget Monitoring | | |
|---|---|---|
| Is this Area Acceptable? | Yes | |
| Is there sufficient consideration to the budget, related to long-term bargaining agreements? | Yes | The District prepares multi-year projections of the Unrestricted General Fund, including the effects of bargaining agreements. |
| Are budget revisions completed in a timely manner? | Yes | Budget revisions are made as requested, either by Board action or campus decisions. The revised budgetary figures are taken to the Board on a monthly basis for review purposes. The Board approves budget revisions on a quarterly basis. |
| Does the District openly discuss the impact of budget revisions at the Board level? | Yes | On a quarterly basis, at its public meeting, the Board receives a report detailing the revisions that have been made during the quarter. |
| Are budget revisions made or confirmed by the Board in a timely manner after the collective bargaining agreements are ratified? | Yes | The Board formally approves all budget revisions on a quarterly basis. Any changes made to the budget due to collective bargaining agreements are included in subsequent fiscal reports. |
| Has the District's long-term debt decreased from the prior fiscal year? | No | In 2002 and 2006, voters approved the District's issuance of $120 and $286.5 million (respectively) in capital bonds. As each portion of the total bonds are issued, the overall debt increases. |
| Has the District identified the repayment sources for the long-term debt? | Yes | The voter-approved bonds are repaid through tax levies. Per GASB 16, the District funds the current portion of its accrued compensation absences (the District is not obligated to fund the long-term portion). The District just completed an updated actuarial for GASB 45 for post employment health benefits debt and has established a trust to meet GASB 45 guidelines. |
| Does the District compile annualized revenue and expenditure projections throughout the year? | Yes | The Board receives monthly reports comparing the revenues and expenditures to budgeted amounts, and the percentage received/spent (to-date) to the percentage of the year completed. |

| 12. Retiree Health Benefits | | |
|---|---|---|
| Is this Area Acceptable? | Yes | |
| Has the District completed an actuarial calculation to determine the unfunded liability? | Yes | The last actuarial calculation was performed January 2009. The District's unfunded liability is $262 million. |
| Does the District have a plan for addressing the retiree benefits liabilities? | Yes | By the end of 2008-09, the District will have set aside over $50 million towards funding this liability. The District selected a financial advisor, appointed a Retirement Board of Authority, |

| | | |
|---|---|---|
| | | prepared a substantive plan, and is poised to fund an irrevocable trust. |
| **13. Stable Leadership** | | |
| Is this Area Acceptable? | Yes | |
| Has the District experienced recent turnover in its management team (including Chief Executive Officer, Chief Business Officer, and Board of Trustees)? | Yes | The Chancellor is in her fourth year and has been with the District for over 19 years. The Governing Board has five members, one elected in November 2008; two who have served for two or more years; and two who have served for more than nine years. There was turnover in the leadership of the financial area in FY 07-08 with positions filled by experience managers in FY 08-09. |
| Does the District compile annualized revenue and expenditure projections throughout the year? | Yes | The Board receives quarterly financial statements on all funds of the District and periodic "Fiscal Trends" reports comparing the revenues and expenditures to budgeted amounts, and the percentage received/spent (to-date) to the percentage of the year completed. |

# Audit Findings Update

The annual financial audit for the District conducted by Vavrinek, Trine, Day & Co., LLP for FY 07-08 reported five findings, two of which are material findings related to internal controls. In order to keep the Board updated on the progress of implementing policies, procedures and processes to address the audit, the following matrix details the main recommendation of the audit, District action, responsible managers and target date of completion.

| 2007-2008 Audit Findings | Description of Recommendation | District Action | Responsible Managers | Target Date of Completion |
|---|---|---|---|---|
| **2008-1** | Reconciliations and adjustments done timely manner for closing and completion of CCFS 311 | Implement reconciliation procedures to include periodically reconciling account through the fiscal year | Kindred<br>Judy Breza<br>Bruce Cutler | June 2009 |
| **2008-2** | Develop management reports that allow for review of old outstanding items and assessment of write off and validity | District is working with Datatel and staff to develop appropriate accounts payable and accounts receivable management reports and reconcile the student receivable account | Kindred<br>Judy Breza<br>Bruce Cutler<br>Nick Dimitri | December 2009 |
| **2008-3** | Establish a policy requiring an annual observation of equipment inventory and reconciliation procedure | Implement a routine review of physical inventory | Kindred<br>Judy Breza<br>Judy Vroman<br>Valorie Gale<br>College leadership | June 2009 |
| **2008-4** | Develop and implement a master contract that contains all required elements for Instructional Service Agreements | The District has developed a new standard format, and policies and procedures. | Judy Breza<br>Valorie Gale<br>Judy Vroman | September 2009 |
| **2008-5** | Develop and implement a process to monitor CalWORKS student files for required documentation. | The District will develop and implement procedures to ensure all student files are complete to include eligibility documentation. | Judy Breza<br>CalWorks Leadership | June 2009 |

# BUDGET DEVELOPMENT CALENDAR

2009-2010 Budget Development

The following is a listing of the actions already taken and to be undertaken in the development of the budget for 2009-2010. The Budget Calendar adheres to the guidelines for preparation of the annual budget as set forth in the California Code of Regulations

| | |
|---|---|
| **January** | Colleges provide Full-Time Equivalent Students (FTES) targets. |
| | District files Apportionment Attendance Report (CCFS 320) for the first period attendance (summer and fall). |
| **February** | Enrollment and FTES projections updated by the District Office. |
| | First Principal Apportionment issued by the State System Office. |
| **March** | District estimates revenue projections based on January CCFS 320 submittal. |
| | District leadership shall conduct a budget workshop with DGC to discuss how the District budget is developed. |
| **April** | Budget Forums at all District locations. |
| | District files Apportionment Attendance Report (CCFS 320) for the second period (spring). |
| | Cabinet revises FTES projections and develops budget strategy for 2009-2010 growth. |
| **May** | Colleges submit expenditures to the District Office. District Office to provide colleges projected allocations. |
| **May 19** | Budget Workshop for District Governance Council (DGC). |
| **June 9** | Chancellor's Cabinet reviews Tentative Budget |
| **June 16** | DGC reviews Tentative Budget |
| **June 24** | Tentative Budget is submitted to Governing Board for approval. |
| **July 1** | Deadline to file approved Tentative Budget with the County Superintendent of Schools. |
| **July 15** | District files Apportionment Attendance Report (CCFS 320) for third period (April 15 to June 30). |
| **August** | District leadership shall prepare the Final (Official) Budget. |
| | Carryover calculations shall be completed for the prior year. |
| | Cabinet reviews proposed Adoption Budget. |
| | DGC reviews proposed Adoption Budget. |
| **August 24** | Newspaper publications notified of the availability of the Adoption Budget. |
| **August 31** | Adoption Budget available for public inspection. |
| **September 9** | Governing Board conducts a public hearing for the 2009-2010 Adoption Budget and considers approval of the budget a presented. |

The finalized Adoption Budget is filed with the County Superintendent of Schools and with the California Community Colleges Chancellor's Office.

| | |
|---|---|
| **October 10** | Annual Financial and Budget Report (CCFS 311) is filed with the State System Office for year-end 2008-2009 and the budget projections for 2009-2010. |
| **October** | District may file an Adjustment Application - FTES (CCFS 317) to adjust FTES. |
| **Throughout the year** | The Governing Board approves budget transfers and budget adjustments per Board policy. |

# PLANNING FOR DEVELOPMENT OF 2009-10 BUDGET

Our budget deliberations begin this year, with an unusual State Budget challenge as the Governor declared a fiscal emergency three times before resolution was brought through the adoption of a 17-month budget February 19, 2009. The impact to community colleges was minimal considering that Proposition 98 was reduced by $700 million.

Since the adoption of the February 19, State Budget several issues have risen:

- Statewide budget deficit projections have resurfaced between $8 billion and $13.6 billion.

- The three ballot measures that have a $5.8 billion dollar impact on the adopted State Budget are seeing increasing political hurdles.
    - Proposition 1C – the lottery securitization measure
    - Proposition 10 – early childhood education
    - Proposition 63 – mental health redirect

- Projection of loss of $3.6 billion to $5 billion in Proposition 98 guarantee could result in a reduction in community college funding between $100 and $200 million. This is projected to impact the community colleges in FY 2010-11.

## STATE BUDGET IMPACT ON THE DISTRICT BUDGET

### 2008-09 SYSTEMWIDE REDUCTIONS

- The Chancellor's Office revised first Principal Apportionment reports, issued March 2009. Due to the property tax deficit and structural shortfall based on the restoration of FTES system-wide, an apportionment deficit factor of 1.2% has been applied to all community college districts.
  Impact: Contra Costa Community College District Apportionment Revenue has been reduced by **$2,200,000** as of April 2009. The District's increased reserve provided the cushion necessary to meet this obligation without cuts to programs and services.

- A portion of January, February, March and April apportionment payments are deferred to July 2009.
  Impact: Contra Costa Community District Apportionment Revenues in the amount of $11.2 million are deferred until July 2009. The District continues to lose interest revenue on the deferrals.

- Payments deferred to from June to July 2009 will be further delayed until October 2009.
  Impact: This delay translates to a $25,000 loss in interest in 2009-10.

### 2009 -10 PROPOSED SYSTEMWIDE BUDGET PROJECTIONS

- Student fees did not increase.

- Cal Grant programs were left intact.

- Districts will not receive any 2009-10 cost-of-living-adjustment (COLA)..
  Potential impact: We depend on the state's COLA to maintain our level of service to students. We face higher costs in staffing, health care and other goods and services. Without COLA, we will be stretched to find resources for ongoing and increased costs.

- A 3% growth level representing $185.4 million, was funded in the 17-month State Budget adopted on February 19.
  Potential impact: It is anticipated the District will fully restore in FY 09-10 and the growth rate for the District will kick in at approximately .64 percent (197 FTES).

## STATUS OF 2008-2009 DISTRICT BUDGET

We are on target to reach our Resident and Non Resident FTES goal. Growth is projected to be about 5%.

| | CCC | DVC | LMC | DW |
|---|---|---|---|---|
| 2008-09 Goal | 6,041 | 16,768 | 6,950 | 29,758 |
| 2008-09 Projection | 6,264 | 17,282 | 8414 | 31,960 |
| Difference between goal and projection | +223 | +514 | +1464 | +2,202 |

The District reserve for the unrestricted general fund is projected to be $24,160,708 at the end of FY 08-09 based on the following assumptions:

- $2.2 million deficit reduction
- FY 08-09 Beginning Balance of $27,436,521
- Projected Revenues of $169,340,426 (includes $2.2 million deficit reduction)
- Projected one time and ongoing expenditures of $172,616,239

### REVENUES, EXPENDITURES, AND RESERVE PROJECTIONS FOR FY 08-09

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| | Adoption Budget | | |
|---|---|---|---|
| | Ongoing | One-time | Total |
| **Revenues** | $ 160,134,139 | $ 11,406,287 | $ 171,540,426 |

| | Projected Budget | | |
|---|---|---|---|
| **Revenues** | Ongoing | One-time | Total |
| | $ 167,357,934 | $ 4,182,492 | $ 171,540,426 |
| **Deficit Factor** | | $ 2,200,000 | $ 2,200,000 |
| **Total** | $ 167,357,934 | $ 1,982,492 | $ 169,340,426 |

| | Adoption Budget | | |
|---|---|---|---|
| | Ongoing | One-time | Total |
| **Expenditures** | $ 162,083,951 | $ 2,194,070 | $ 164,278,021 |

| | Projected Budget | | |
|---|---|---|---|
| | Ongoing | One-time | Total |
| **Expenditures** | $ 168,081,486 | $ 4,534,753 | $ 172,616,239 |

### Significant Increases to Ongoing and One-time Expenditures

Ongoing

- Salary Increases (3.57%) $3,764,586
- Fixed Payroll Increases $ 513,922
- Realign Parking $1,250,000
- C-Hourly adjustment $1,360,911

One-time

- Contingency for adjustments $ 300,000
- Audit Adjustment to Restricted $ 903,887
- Designated Encumbrances $ 695,697

Reserves

| Adoption Budget | | |
|---|---|---|
| Ending Fund Balance | $ | 32,545,901 |
| 5% General Fund Reserve | $ | 8,213,901 |
| 5% Board Contingency | $ | 8,104,198 |
| Reserve for Salary | $ | 954,298 |
| Undesignated Reserve | $ | 15,273,504 |

| Projected Budget | | |
|---|---|---|
| Ending Fund Balance | $ | 24,160,708 |
| 5% General Fund Reserve | $ | 8,630,812 |
| 21/2% Board Reserve | $ | 4,502,099 |
| 2 1/2% Board Reserve | $ | 4,502,099 |
| Designated Reserve/Colleges | $ | 4,056,408 |
| Undesignated Reserve | $ | 2,469,290 |

### Conclusion

Our District has been aware of the state's deteriorating fiscal situation which is why the Governing Board, over a year ago, directed the District to increase its reserves, in preparation for just such an occurrence. As the budget-process unfolds, we will be closely monitoring the changes. Our increased reserves will not prevent us from having to make some difficult decisions ahead. However, we have situated ourselves so that we can take the time to make prudent decisions with a long-term perspective and continue to provide our students with a quality educational experience.

### What We Do Next

We will continue to work with others on the restoration of the proposed state reductions. Everything we hear between now and the May revision is speculative. Once we receive the May revision, we will use those numbers to develop the tentative budget to be presented in June. This study session will focus on our current status and our plans, based on the information given by the Governor in the January proposal.

## Strategic Directions and Goals for 2009-10 (DRAFT)

The Strategic Directions and Goals are a result of a Strategic Planning Process that the District has been developing over the past few months. Budget goals will be developed from the strategic directions and goals once approved by the Governing Board.

**Strategic Directions**

1. **Student Learning and Success**
   Goal: Significantly improve the success of our diverse student body in pursuit of their education and career goal, with special emphasis on closing the student achievement gap.

2. **College Awareness and Access**
   Goal: Increase awareness of and equitable access to Contra Costa Community College District for a changing and diverse population.

3. **Community Development**
   Goal: Support community development through education and leadership in collaboration with government, community organizations, business and industry.

4. **Organizational Effectiveness**
   Goal: Improve the effectiveness of Districtwide planning, operations, resource allocation and decision-making.

5. **Fiscal Health and Resource Management**
   Goal: Provide sound fiscal stewardship to ensure a sustainable economic future consistent with our values, vision and mission.

## Assumptions for Development of the 2009-2010 Budget

The 2009-10 budget is based on the following assumptions:

- The District is projected to restore to base (30,877 Resident FTES) next year and possibly hit growth cap (197 FTES);
- health benefits are projected to increase 10% or $2,162,657;
- step, class, and longevity increases is estimated at $920,008;
- cost of utilities are not known at this point but expected to be lower,
- salary increases are projected on negotiations that are currently in process. Cost per 1% increase in salaries is $1.220M for all employees groups, and
- previous salary formula fronted growth will be expensed in FY 09-10.

## Projection of District Use of Resources

The following items, listed in the budget parameters, must be funded before consideration is given other items.

- Fund balance/reserve
- Full-time employee salaries and benefits
- Retiree health benefits
- Part-time faculty salaries and benefits
- Operational expenses (Includes expenditures for supplies, equipment, contracted services, leases, insurance, utilities, classified and student hourly staff)

## Other Items to be Considered for Funding in 2009-2010

<u>Governing Board Goals and Objectives</u>

- Board Goals and Objectives once finalized for 2009-2010.

<u>Strategic Directions, Goals and Objectives for 2009-2014</u>

- Once approved by the Governing Board

<u>Other</u>

- Districtwide sustainability projects developed by the District committee

## Potential Funding Sources

1. COLA would bring ongoing funds for the District, although it is unlikely this year considering the current state budget discussions.
2. It is projected the District will restore to the 30,877 FTES base established in 2003-2004 in FY 09-10, therefore ongoing funding will be more consistent than when the District was in decline. Continued restoration of FTES will increase District ongoing revenues.
3. Borrowing or shifting FTES is an option for the District in late 09-10 if the District has not met growth cap of 197 FTES. Borrowing or shifting FTES will be an option to increase the base for FY 2010-11 by approximately $900,000.

# CONSIDERATIONS FOR A NEW ALLOCATION MODEL

The District received a recommendation for all three colleges in the recent reports for the accreditation visits. The recommendation is as follows:

*In order to improve its resource allocation process, the District should expedite development of a financial allocation model including the following: (Standards IIIC1, IIID1a, IIID2a, IIID3, IV3c):*

*a. the model as a whole;*
*b. funding for adjunct faculty in a way that will support the District and college intentions to increase student enrollment; and*
*c. technology funding.*

This recommendation was self-identified by the District and was in the process of being developed and implemented at the time of the visit. The District's goal is to allocate funds to the colleges and the District Office in the same manner in which the District receives funds from the state. This change cannot be implemented at once, but in phases. In the past two years the District has redesigned the "Operating Budget Allocations" and the "College Classified Staffing" formulas to reflect the SB 361 allocation model that was adopted by the State of California in 2006 to fund the California Community College System.

The next step in the process is to move the rest of the part-time teaching and certificated management funding allocations to a SB 361 allocation model to include the full-time faculty, part-time faculty (C Hourly) and management. The goal is to develop an allocation model based on the SB 361 model this year, transition the District in FY 2009-10 and 2010-11, and implement the entire model in 2011-2012:

FY 2009-2010 the following allocations changes will be made and forwarded to the Board for approval shortly:

- an adjustment to the C hourly formula to address the funding for adjunct faculty to support college intentions and student enrollment goals;
- reallocate funding for management positions at the college based on a per FTES allocation; and
- develop a mechanism to reward student enrollment growth.

In addition, during FY 2009-2010 the colleges and District Office will assess staffing, programs, and expenditures to ensure their organizations are operating efficiently and effectively. During FY 2010-2011 Base allocation and target allocation amounts for each college will be determined based on the current allocated funding and the SB 361 model. This will allow transition time for the colleges, District Office, and any realignment of Districtwide services.

In spring 2009, the model will be developed as required by the recommendation of the Commission. The District is developing a College First allocation model with all allocations, including District Office and Districtwide Services, based on a per FTES allocation that is assessed back to the colleges.

**SB 361**

SB 361 equalized funding through creating a base allocation for colleges based on size and a per FTES allocation. The original and current base allocations for multi-college districts are based on size and are as follows:

| Size | 2006-2007 | 2008-2009 |
|---|---|---|
| Greater than 20,000 FTES | $ 4,000,000 | $4,428,727 |
| Less than 20,000 FTES and greater than 10,000 FTES | $3,500,000 | $3,875,134 |
| Less than 10,000 FTES | $3,000,000 | $3,321,545 |
| CPEC Approved Center | $1,000,000 | $1,107,182 |

On top of the base allocation for colleges is a per Full-Time Equivalent Student (FTES) allocation based on the FTES generated by each district. The rate is based on credit, noncredit, and enhanced noncredit rates as shown below:

| Rate | 2006-2007 | 2008-2009 |
|---|---|---|
| Credit FTES | $4,367.00 | $4,564.83 |
| Noncredit | $2,626.00 | $2,744.95 |
| Enhanced Noncredit (CDCP) | $3,092.00 | $3,343.06 |

The SB 361 model provides the Base allocation plus the FTES allocation which totals the apportionment allocation. Any growth or COLA received by the District is allocated on top of the Base allocation.

The following is the allocation for CCCCD in 2008-09.

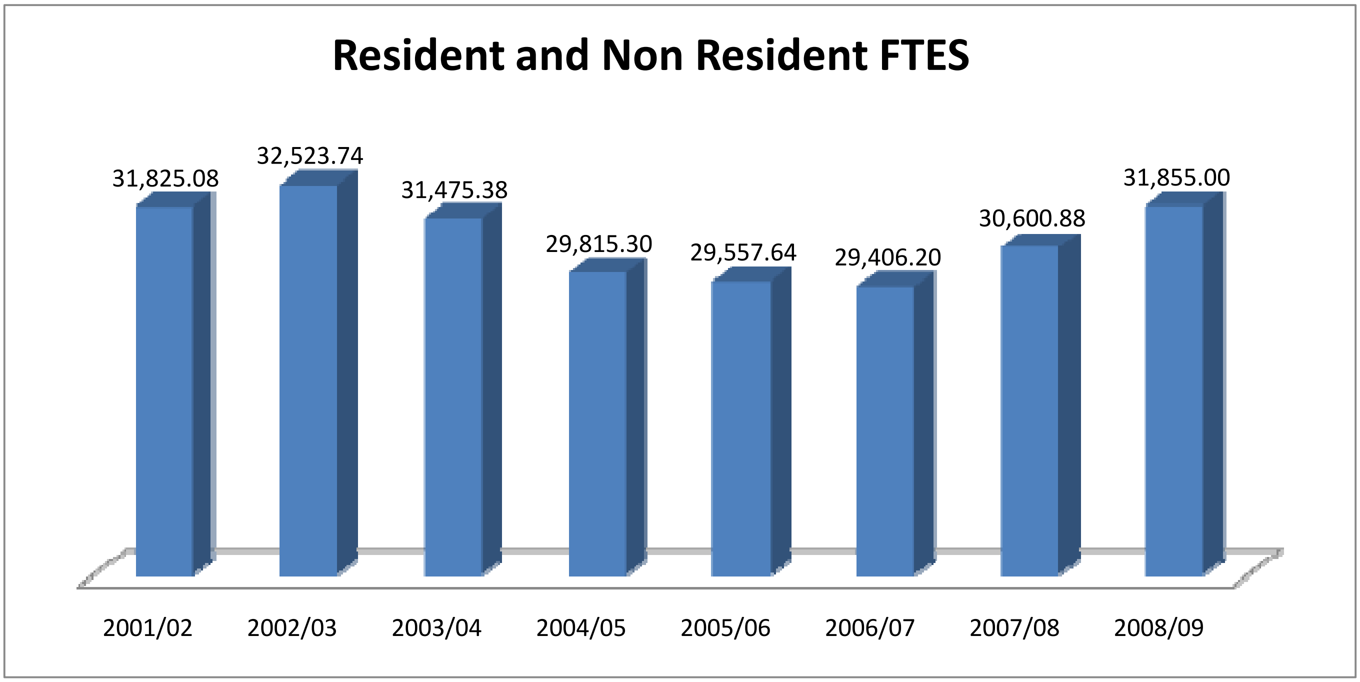
| | | |
|---|---|---|
| District Base Allocation - | $ 11,625,405 | (3 colleges and 1 center) |
| FTES Allocation | $ 140,569,087 | (30,837 FTES) |
| Total District Apportionment | $ 152,194,492 | |

**Characteristics for the new District allocation model**

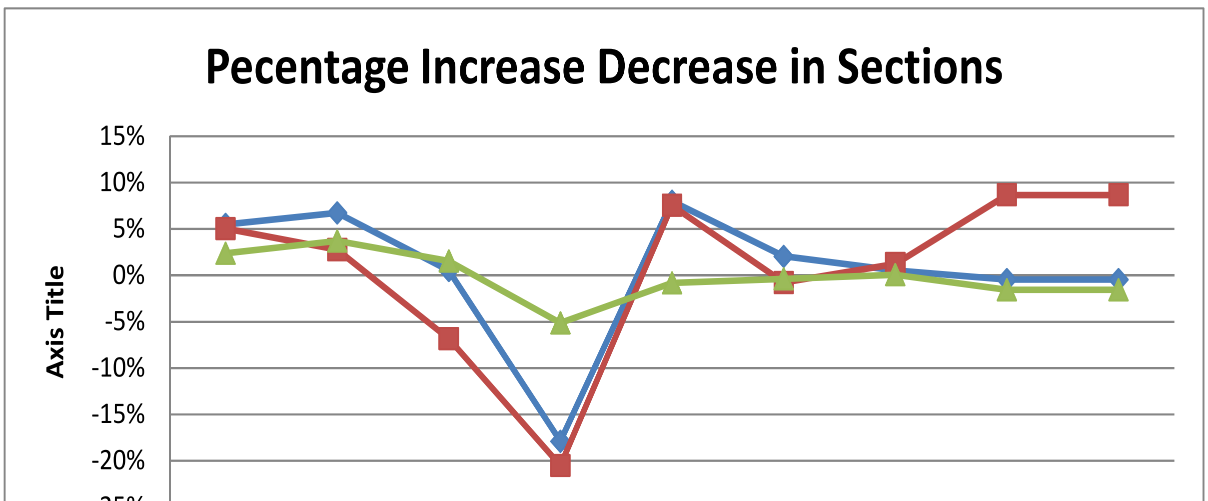
- Simple and easy to understand
- Provides for financial stability
- Provides for an appropriate level of reserves consistent with board policy and direction
- Is responsive to the District/College’s planning process and related goals and objectives
- Allows for flexible and appropriate decision making at the local level
- Allows the colleges to initiate, implement and be responsible for new program initiatives
- Is transparent for District Office and Districtwide expenditures in support of college operations
- Matches resources with services levels using objective standards to assure equity
- All available unrestricted funds are distributed to the colleges based on the FTES earned according to the State SB 361 formula
- District Office and Districtwide Services are determined and assessed to each college on a per FTES basis
- Should help maximize revenues through enrollment management
- Ending balances are retained by the respective colleges and Districtwide operations
- District will maintain required Board reserves
- Provide clear accountability and define areas of District level oversight, describe the nature of that oversight and the degree to which it is exercised, i.e. FTES targets, productivity, full-time faculty requirements, 50% law, etc.

# APPENDIX

## FULL TIME EQUIVALENT (FTES) RESIDENT AND NON-RESIDENT HISTORY AND 08-09 PROJECTION




**Percentage Increase Decrease in Sections**




| | 2000-2001 | 2001-2002 | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | 2007-2008 | 2008-2009% |
|---|---|---|---|---|---|---|---|---|---|
| CCC | 5% | 7% | 1% | -18% | 8% | 2% | 1% | 0% | 0% |
| LMC | 5% | 3% | -7% | -21% | 8% | -1% | 1% | 9% | 9% |
| DVC | 2% | 4% | 2% | -5% | -1% | 0% | 0% | -2% | -2% |

## SALARY SCHEDULE AND DISTRICT BENEFITS PREMIUM HISTORY

| | Salary Schedule Changes | | | | | Benefits Premium Changes | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | Faculty | Classified | Confidentials | Managers/ Supervisors | Chancellor's Cabinet | Medical Plans - Actuals | Dental Plans - Actuals |
| 83-84 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | | |
| 84-85<br>eff. 7-1-84<br>eff. 7-1-85 | <br><br>8.4% | <br>10.4% | 8.4%<br>4.0% | 8.4%<br>4.0% | 8.4%<br>4.0% | | |
| 85-86 | 6.2%<br>(87.1% of work year) | 5.4% | 5.4% | 5.4% | 5.4% | | |
| 86-87 | 5.0% | 5.4% | 5.0% | 5.0% | 5.0% | | |
| 87-88 | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | | |
| 88-89 | 4.7% | 4.7% | 4.7% | 4.6/7% | 4.6/7% | | |
| 89-90 | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% | | |
| 90-91 | 6.5% | 6.5% | 6.5% | 6.5% | 6.5% | | |
| 91-92 | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | | |
| 92-93 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | | |
| 93-94 | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 5.53% | 2.66% |
| 94-95 | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | -0.03% | 5.82% |
| 95-96 | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | -6.95% | 0.80% |
| 96-97 | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 0.61% | 4.17% |
| 97-98 | 2.97% | 2.97% | 2.97% | 2.97% | 2.97% | 14.18% | 8.13% |
| 98-99 | 2.26% | 2.26% | 2.26% | 2.26% | 2.26% | 11.39% | 6.50% |
| 99-00 | 1.41% | 1.41% | 1.41% | 1.41% | 1.41% | 11.90% | 5.25% |
| 00-01[4] | 6% + 1% | 6% + 1% | 6% + 1% | 6% + 1% | 6% + 1% | 14.72% | 15.45% |
| 01-02 | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 12.20% | 6.97% |
| 02-03[6] | 6.2% | 6.2% | 6.2% | 6.2% | 6.2% | 24.03% | -1.42% |
| 03-04 [1][5][7] | 0.0% | 0.0% | 0.0% | 0.0% | -2.0% | 9.46% | -8.51% |
| 04-05[2][3] | -6.9% eff 4/1/05 | 0.00% | -7.00% | -7.00% | -7.00% | 18.37% | 6.17% |
| 05-06[3] | -6.90% | -3.38% eff 8/1/05 | -5.25% | -5.25% | -5.25% | 8.34% | 9.50% |
| 06-07 | 5.54%[8] | 3.5%[8] | 5.54%[8] | 5.54%[8] | 5.54%[8] | 4.58% | 3.40% |
| 07-08 | 7.00% | 7.00% | 7.00% | 7.00% | Contract | 17.51% | 0.00% |
| 08-09 | 3.57% | 3.57% | 3.57% | 3.57% | Contract | 8.09%* | 3.84%* |

* Projected
[1] Chancellor's Cabinet -2% FY 03-04 only
[2] Classified 7% furlough. Conf, Mgr/Sup, Cabinet -7% FY 04-05 only
[3] Faculty 3.38% for FY 04-05 and 5.25% for FY 05-06 administered as 6.9% 4/1/05 - 6/30/06
[4] Medical copay $0 to $5
[5] Medical copay $5 to $15
[6] Dental plan switch to ACSIG Insured
[7] Dental plan switch to ACSIG Self-insured
[8] Restoration of 03-04 Salary Schedule

| Five Year Projection | | FY 08-09 Projected | | Fy 09-10 Projected | | FY 10-11 Projected | | FY 11-12 Projected | | FY 12-13 Projected |
|---|---|---|---|---|---|---|---|---|---|---|
| 5% General Fund Reserve | $ | 8,213,901 | | 8,630,812 | | 8,640,759 | | 8,847,934 | | 7,535,560 |
| 2 1/2 % Board Reserve | $ | 4,052,099 | | 4,315,406 | | 4,320,379 | | 4,423,967 | | |
| One Time Board Reserve | $ | 4,052,099 | | 4,315,406 | | 4,320,379 | | 3,066,707 | | |
| Designated Reserves (College Carryovers) | $ | 4,056,408 | | 4,056,408 | | 4,056,408 | | 4,056,408 | | 4,056,408 |
| Undesignated Reserve | $ | 7,062,014 | | 2,842,676 | | 2,447,147 | | | | |
| **Adjusted Beginning Balance** | **$** | **27,436,521** | **$** | **24,160,708** | **$** | **23,785,072** | **$** | **20,395,016** | **$** | **11,591,968** |
| | | | | | | | | | | |
| **Revenues** | | | | | | | | | | |
| Federal | $ | 21,540 | $ | 21,540 | $ | 21,540 | $ | 21,540 | $ | 21,540 |
| State | $ | 77,159,845 | $ | 81,085,252 | $ | 81,085,252 | $ | 81,085,252 | $ | 81,559,578 |
| Local | $ | 91,332,742 | $ | 91,332,742 | $ | 92,461,839 | $ | 92,074,197 | $ | 92,480,922 |
| Other | $ | 826,299 | $ | - | | | | | | |
| **Total Revenues** | **$** | **169,340,426** | **$** | **172,439,534** | **$** | **173,568,631** | **$** | **173,180,989** | **$** | **174,062,040** |
| | | | | | | | | | | |
| **Expenditures** | | | | | | | | | | |
| Academic Salaries | $ | 74,222,575 | $ | 74,572,575 | $ | 74,697,575 | $ | 74,847,575 | $ | 74,997,575 |
| Classified Salaries | $ | 35,672,822 | $ | 35,772,822 | $ | 35,872,822 | $ | 35,972,822 | $ | 36,072,822 |
| Benefits | $ | 36,013,589 | $ | 38,799,313 | $ | 41,772,896 | $ | 45,618,083 | $ | 49,589,016 |
| Supplies and Material | $ | 3,973,483 | $ | 3,973,483 | $ | 4,013,218 | $ | 4,053,350 | $ | 4,093,884 |
| Other Operating Expenses | $ | 16,167,875 | $ | 16,965,836 | $ | 17,363,722 | $ | 17,446,369 | $ | 17,585,973 |
| Capital Outlay | $ | 1,996,042 | $ | 731,142 | $ | 738,453 | $ | 745,838 | $ | 753,296 |
| Other Outgo | $ | 2,670,269 | $ | 2,000,000 | $ | 2,500,000 | $ | 3,300,000 | $ | 3,300,000 |
| One time expenditures | $ | 1,899,584 | | | | | | | | |
| **Total Expenditures** | **$** | **172,616,239** | **$** | **172,815,171** | **$** | **176,958,686** | **$** | **181,984,038** | **$** | **186,392,566** |
| **Excess (Deficiency)** | **$** | **(3,275,813)** | **$** | **(375,637)** | **$** | **(3,390,055)** | **$** | **(8,803,049)** | **$** | **(12,330,526)** |
| Prior Year Adjustment | | | | | | | | | | |
| 5% Board Reserves | $ | 8,630,812 | | 8,640,759 | | 8,847,934 | | 7,535,560 | | (738,559) |
| 2 1/2 % Board Reserve | $ | 4,315,406 | | 4,320,379 | | 4,423,967 | | | | |
| 2 1/2% One-time Board Reserve | $ | 4,315,406 | | 4,320,379 | | 3,066,707 | | | | 0 |
| Designated Reserve (College Carryovers) | $ | 4,056,408 | | 4,056,408 | | 4,056,408 | $ | 4,056,408 | | |
| Undesignated Reserves | $ | 2,842,676 | $ | 2,447,147 | | | | | | |
| **Ending Balance June 30** | **$** | **24,160,708** | **$** | **23,785,072** | **$** | **20,395,016** | **$** | **11,591,968** | **$** | **(738,559)** |
| Percentage Ending Balance | | 14.00% | | 13.76% | | 11.53% | | 6.37% | | -0.40% |
| Percent Fixed Payroll | | 84.5% | | 86.3% | | 86.1% | | 86.0% | | 86.2% |

| Five Year Budget History | FY 03-04 Actual | FY 04-05 Actual | FY 05-06 Actual | FY 06-07 Actual | FY 07-08 Actual |
|---|---|---|---|---|---|
| Net Beginning Balance | | | | | $ 22,308,009 |
| **Adjusted Beginning Balance** | **$ 8,109,824** | **$ 9,873,748** | **$ 10,691,623** | **$ 14,171,994** | **$ 22,308,009** |
| **Revenues** | | | | | |
| Federal | $ 56,275 | $ 36,925 | $ 21,540 | $ 18,880 | $ 22,601 |
| State | $ 47,619,220 | $ 56,958,779 | $ 52,415,906 | $ 71,734,071 | $ 73,842,925 |
| Local | $ 90,306,970 | $ 83,851,146 | $ 88,179,845 | $ 93,575,167 | $ 94,670,227 |
| Other | $ 2,348,479 | $ 1,025,568 | $ 1,131,636 | $ 1,284,425 | $ 18,436 |
| **Total Revenues** | **$ 140,330,944** | **$ 141,872,418** | **$ 141,748,927** | **$ 166,612,543** | **$ 168,554,189** |
| **Expenditures** | | | | | |
| Academic Salaries | $ 65,604,769 | $ 63,594,788 | $ 60,310,632 | $ 67,452,668 | $ 73,493,170 |
| Classified Salaries | $ 29,291,579 | $ 26,877,989 | $ 26,691,809 | $ 28,838,462 | $ 31,901,459 |
| Benefits | $ 26,121,204 | $ 29,991,276 | $ 29,870,252 | $ 32,344,585 | $ 33,337,826 |
| Supplies and Material | $ 2,963,359 | $ 2,897,140 | $ 3,150,548 | $ 3,466,914 | $ 2,833,052 |
| Other Operating Expenses | $ 13,205,223 | $ 14,469,894 | $ 15,434,800 | $ 15,548,426 | $ 15,799,153 |
| Capital Outlay | $ 734,171 | $ 827,159 | $ 973,418 | $ 1,384,415 | $ 2,022,460 |
| Other Outgo | $ 407,621 | $ 1,165,141 | $ 1,919,219 | $ 17,460,080 | $ 2,345,379 |
| One time expenditures | | | | | |
| **Total Expenditures** | **$ 138,327,926** | **$ 139,823,387** | **$ 138,350,678** | **$ 166,495,550** | **$ 161,732,499** |
| **Excess (Deficiency)** | **$ 2,003,018** | **$ 2,049,031** | **$ 3,398,249** | **$ 116,993** | **$ 6,821,690** |
| Prior Year Adjustment | $ (239,094) | $ (1,231,156) | $ 82,122 | $ 8,019,022 | $ (1,693,178) |
| **Ending Balance June 30** | **$ 9,873,748** | **$ 10,691,623** | **$ 14,171,994** | **$ 22,308,009** | **$ 27,436,521** |
| Percentage Ending Balance | 7.1% | 7.6% | 10.2% | 13.4% | 16.96% |
| Percent Fixed Payroll | 87.5% | 86.2% | 84.5% | 77.3% | 85.8% |

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RAEL & LETSON
CONSULTANTS AND ACTUARIES

# ACTUARIAL VALUATION OF POSTRETIREMENT WELFARE BENEFITS UNDER GASB 43/45

**CONTRA COSTA COMMUNITY COLLEGE DISTRICT**

**AS OF JUNE 30, 2008**

**DECEMBER 2008**

December 2, 2008

Ms. Kindred Murillo
Vice Chancellor of Finance & Administration
Contra Costa Community College District
500 Court Street
Martinez, California 94553

Re: GASB 43/45 Actuarial Valuation of Postretirement Welfare Benefits as of June 30, 2008

Dear Ms. Murillo:

We are pleased to present the above captioned report. This report presents the disclosure items needed by the Contra Costa Community College District for compliance with GASB 45 for fiscal year 2008/2009. It is based on active participant and eligible retiree data provided by the District and on the methods and assumptions detailed in Section II.

We wish to thank you and your staff for providing us with the information necessary for us to complete this report. Please let us know if you need any further information regarding our findings.

Very truly yours,

**RAEL & LETSON**

By: Jim Whelpley, A.S.A., M.A.A.A.    Jean C. Vergara, A.S.A., M.A.A.A.

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## INTRODUCTION AND ACTUARIAL CERTIFICATION

We have been retained by the Contra Costa Community College District to conduct an actuarial valuation of the District's postretirement welfare benefit assets, liability, annual cost, and accrual status. Our report follows the requirements adopted by the Governmental Accounting Standards Board (GASB) in its Statement No. 43 "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" and Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The required disclosure items are formatted as follows:

- **Section I** discusses the calculation of GASB 43/45 disclosure items and presents such items for the 2008/2009 financial statements in *Exhibit 1A*. This exhibit provides the Actuarial Accrued Liability and Funded Status as of June 30, 2008, the Annual Required Contribution and Annual OPEB Cost for 2008/2009, and an estimated reconciliation of Net OPEB Obligation for 2008/2009.

  A graph providing a thirty-year comparison of ARC and cashflow is in *Exhibit 1B*, with further cashflow detail presented as a graph in *Exhibit 1C* and table in *Exhibit 1D*. Thirty-year projections of liability and assets are then shown as tables in *Exhibit 1E.*

- **Section II** shows the demographic, economic, per-capita cost, and other assumptions used in the calculation of the postretirement welfare benefit liability.

- **Section III** summarizes the participant data used in the valuation.

- **Section IV** presents a summary of the principal provisions of the Plan valued.

- **Section V** contains answers to questions usually asked by auditors.

## INTRODUCTION AND ACTUARIAL CERTIFICATION *(CONTINUED)*

Actuarial computations under GASB 43/45 are for purposes of fulfilling certain accounting requirements for public sector postretirement welfare benefit plans and their sponsoring employers. The calculations reported have been made on a basis consistent with our understanding of GASB 43/45. Determinations for purposes other than meeting the financial accounting requirements of GASB 43/45 may differ significantly from the results presented in this report.

The calculation of an accounting liability and annual cost does not, in and of itself, imply that there is any legal liability to provide the benefits valued. Nor is there any implication that the sponsor is required to implement a funding policy to satisfy the projected expense.

We, Jim Whelpley and Jean C. Vergara, are Consulting Actuaries for Rael & Letson. We are Associates of the Society of Actuaries and meet the Qualifications Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. To the best of our knowledge, this report is complete and accurate and in our opinion presents the information necessary to comply with GASB Statements 43 and 45.

Jim Whelpley, A.S.A., M.A.A.A.

Jean C. Vergara, A.S.A., M.A.A.A.

## SECTION I VALUATION RESULTS
## HIGHLIGHTS OF THE VALUATION

*Exhibit 1A* on pages 7-12 provides all the numbers needed for disclosure in the financial statement of the Plan (per GASB 43) and that of the sponsor (per GASB 45). Exhibit 1A(i) provides the numbers produced by employing a 4.50% discount rate. If the District were to irrevocably dedicate monies to fund retiree benefits, it would be allowed to apply a higher discount rate when valuing its liabilities. Consequently, the District has requested an alternative calculation of its liabilities if it were to adopt a policy of funding 100% of the Annual Required Contribution with an irrevocably dedicated retiree welfare trust fund, and if that fund were to earn 7.75% per year. Exhibit 1A(ii) therefore provides the alternative numbers produced by employing a 7.75% discount rate. Components of the exhibit are as follows:

- **Part A** shows the counts for census data captured as of December 31, 2007. Note that "other fully eligible" participants are those active employees who have the minimum age (55 for Certificated and 50 for Classified) and years of service (10) needed to retire with the maximum District subsidy as of the valuation date. Part-time teachers have been excluded from the counts because they are not eligible for retiree welfare benefits.

- **Part B** is the total present value of benefits, including both accrued and not-yet-accrued portions. If the District were extremely generous and wanted to ensure the benefit security of even its newest hires, it could bring the District's Retiree Health Benefits Fund balance up to $321.0 million (or deposit $193.9 million into an irrevocable trust) and all current actives and retirees (but not future new hires) would most likely be taken care of.

- The accrued portion of the above is known as the Actuarial Accrued Liability (AAL), and is shown in **Part C** as **$262.8 million** (or $169.4 million using the alternative 7.75% discount rate). As described in the footnote of page 7, we used the same "Projected Unit Credit" cost method that we employ for similar calculations in the corporate (FASB 106) and multiemployer (SOP 92-6) sectors. This generally produces the lowest liability of all the GASB-allowed methods of separating present value into accrued and not-yet-accrued portions.

**SECTION I VALUATION RESULTS**
**HIGHLIGHTS OF THE VALUATION *(CONTINUED)***

The reconciliation of 4.50% liability over the two years since the last valuation is shown below.

| | |
|---|---|
| AAL at June 30, 2006: | $ 335,136,700 |
| Interest and Net Benefits Earned: | 22,479,800 |
| Effect of new census data: | (245,500) |
| Effect of new premiums: | (32,721,000) |
| Effect of new assumptions[1]: | (61,881,600) |
| AAL at June 30, 2008: | $ 262,768,400 |

- **Part D** expresses the Plan's Funded Status as a ratio of assets to liability and as a ratio of unfunded liability to payroll. These will be used by the auditor to construct a historical "Schedule of Funding Progress" for the Plan's financial statement notes (per GASB 43).

- The "Annual Required Contribution" (ARC) in **Part E** has little practical value unless the District wishes to use it as a guide to make contributions to a dedicated trust fund (in which case the numbers in Exhibit 1A(ii) would be more appropriate). The ARC will be used by the auditor to construct a historical "Schedule of Employer Contributions" for the Plan's financial statement notes (per GASB 43).

  Part E also shows how amounts are added and subtracted from the ARC to yield the Annual OPEB Cost, which the auditor will use to reconcile the Net OPEB Obligation in the District's financial statement notes (per GASB 45).

- **Part F** provides the reconciliation of Net OPEB Obligation (NOO) over the prior year and an estimated reconciliation for the current year. That estimate cannot be finalized until the actual Plan Year 2008/2009 benefit payments and contributions are known. As mentioned above, the auditor will show the NOO reconciliation in the District's financial statement notes (per GASB 45).

[1] For further details on the new assumptions please see Item 4 of Section V.

**SECTION I VALUATION RESULTS**
**HIGHLIGHTS OF THE VALUATION *(CONTINUED)***

*Exhibit 1B* on page 13 shows a thirty-year projection of District outlays under the current funding policy, and compares them to outlays with a full ARC prefunding policy. Here we make a distinction between two types of Plan subsidy:

- **Cash Subsidies** are based on the District's premium rates and vary by retiree group (e.g., depending upon date of hire and/or whether the retiree met the Rule of 70 or Rule of 80). The current funding policy is to annually contribute the required cash subsidies plus an additional $1 million.

- **Implicit Subsidies** are due to the manner in which Kaiser and Health Net combine active and non-Medicare retiree experience when developing their premium rates. In this situation we are required by GASB 43/45 to estimate the higher premium that would be charged to retirees if they were rated alone, and to reflect the excess of such retiree-only cost over the actual premium as an "implicit subsidy of the retirees by the actives."

The solid green line in Exhibit 1B shows that contributions under the current funding policy (CFP) are expected to quickly rise from $9.0 to $21.8 million over the next 25 years, then begin decreasing as retirees die without replacement. The four comparative 7.75% discount ARC lines vary by type of amortization (level percent of pay or level dollar) and by whether or not initial GASB 43/45 assets are created by bringing the current Retiree Health Benefits Fund balance into an irrevocable trust. The red graph lines indicate that the 7.75% discount *level percent of pay* ARC starts out higher than CFP ($11.1 million with initial assets or $14.1 million without), but then increases slower until the point when CFP levels off. Finally, the blue graph lines indicate that the 7.75% discount *level dollar* ARC starts out the highest of all ($13.7 million with initial assets or $17.8 million without), then decreases until leveling off well below CFP. Note that this will only reflect activity for those currently retired or active participants, not for anyone hired after the valuation date (per GASB requirements).

The cashflow projection that underlies our liability calculations is next presented as a graph and a table in *Exhibits 1C* and *1D* on pages 14 and 15. The table shows activity in each year for the first 10 years, then every fifth year thereafter. Within the first 10 years there can be no effect from future new hires, but (as explained in the first asterisk on that page) we still strongly advise caution when attempting to use this for the District's short-term financial planning.

**SECTION I VALUATION RESULTS**
**HIGHLIGHTS OF THE VALUATION *(CONTINUED)***

*Exhibits 1E(i)* to *1E(iii)* on pages 16-18 are the tabular thirty-year projections of AAL (reflecting no new hires after the valuation date) and of the assets that would build up if the District were to adopt one of three funding policies:

(i) In this scenario the retiree welfare assets remain in a subaccount of the District general fund, so that applicable liabilities are those calculated at a 4.50% discount. We have referred to these informally allocated assets as "virtual" assets because they would not be recognized in the official calculation of ARC. However, we can calculate a "virtual ARC" using virtual assets in place of GASB 43/45 irrevocably dedicated assets, and we have used that virtual ARC here as the annual contribution amount.

This exhibit first shows the buildup of virtual assets from zero to $218 million (the thirtieth-year 4.50% discount AAL) via annual contributions equal to 100% of virtual ARC. The rightmost portion of this exhibit then shows the buildup of virtual assets from $49 million (the current Retiree Health Benefits Fund balance) to $204 million via current funding policy contributions.

(ii) Here the District allows current retiree welfare assets to remain as informal allocations, but a new irrevocable trust fund is created to receive future annual contributions equal to 100% of the GASB 43/45 ARC. Under this scenario the applicable liabilities are those calculated at a 7.75% discount, and assets are shown as building up from zero to $173 million (the thirtieth-year 7.75% discount AAL).

(iii) In this final scenario the District transfers all current retiree welfare assets to an irrevocably dedicated retiree welfare trust fund, which subsequently receives annual contributions equal to 100% of the GASB 43/45 ARC. Here the applicable liabilities are again those calculated at a 7.75% discount, and assets are shown as building up from $49 million to $173 million (the thirtieth-year 7.75% discount AAL).

Note that these are just some of the ways in which the District could set a timetable for elimination of its unfunded postretirement welfare liability.

## SECTION I VALUATION RESULTS

### EXHIBIT 1A(i): SUMMARY OF VALUATION RESULTS BASED ON 4.50% DISCOUNT RATE

| | CERTIFICATED [1] | CLASSIFIED [1] | ALL |
|---|---|---|---|
| A. **Participant Count** as of June 30, 2008 [2] | | | |
| • Current retirees, spouses and dependents | 399 | 300 | 699 |
| • Other participants fully eligible for benefits | 97 | 56 | 153 |
| • Other participants not yet fully eligible for benefits | 404 | 502 | 906 |
| Total Count | 900 | 858 | 1,758 |
| B. **Actuarial Present Value of Benefits** (APVB) at June 30, 2008 | | | |
| • Current retirees, spouses and dependents | $ 73,606,400 | $ 54,001,700 | $ 127,608,100 |
| • Other participants fully eligible for benefits | 24,501,200 | 15,109,400 | 39,610,600 |
| • Other participants not yet fully eligible for benefits | 80,780,900 | 73,023,800 | 153,804,700 |
| Total APVB | $ 178,888,500 | $ 142,134,900 | $ 321,023,400 |
| C. **Actuarial Accrued Liability** (AAL) at June 30, 2008 | | | |
| • Current retirees, spouses and dependents | $ 73,606,400 | $ 54,001,700 | $ 127,608,100 |
| • Other participants fully eligible for benefits | 24,501,200 | 15,109,400 | 39,610,600 |
| • Other participants not yet fully eligible for benefits | 52,881,500 | 42,668,200 | 95,549,700 |
| Total AAL [3] | $ 150,989,100 | $ 111,779,300 | **$ 262,768,400** |

[1] We have categorized all CalSTRS participants as being Certificated and all CalPERS participants as being Classified, although the census shows a few Classified members participating in CalSTRS and a few Certificated members in CalPERS.

[2] Results for this June 30, 2008 valuation were projected from a census data captured as of December 31, 2007.

[3] AAL is the portion of APVB that is attributed to actives' service to date by the chosen actuarial cost method. GASB 43/45 allows for seven cost methods, including Projected Unit Credit (as required for corporate and multiemployer retiree welfare calculations) and Entry Age (as commonly used for governmental pension calculations). For this valuation we have used the Projected Unit Credit method, which spreads costs from hire to the projected date of full eligibility for plan benefits. The APVB and AAL shown above have been offset by projected retiree contributions. The gross AAL before such offset is $299,131,800, which is 88% due to Plan payments and 12% due to retiree contributions. Had we increased our assumed health care trend rates by one percent, the total AAL would have increased from $262,768,400 to $305,576,300.

## SECTION I VALUATION RESULTS

### EXHIBIT 1A(i): SUMMARY OF VALUATION RESULTS BASED ON 4.50% DISCOUNT RATE *(CONTINUED)*

| | GASB 43/45 ARC Calculations (without initial assets) | | Current Funding Policy (CFP)[1] |
|---|---|---|---|
| | Level Dollar Amortization | Level % of Pay Amortization | |
| D. **Funded Status** at June 30, 2008 | | | |
| Actuarial Value of Assets | $ 0 | $ 0 | $ 49,425,300 |
| Unfunded Actuarial Accrued Liability (UAAL) | $ 262,768,400 | $ 262,768,400 | $ 213,343,100 |
| Funded Ratio | 0% | 0% | 19% |
| Covered Payroll | $ 70,661,000 | $ 70,661,000 | $ 70,661,000 |
| UAAL as a % of Covered Payroll | 372% | 372% | 302% |
| E. **Annual Required Contribution** (ARC) and **Annual OPEB Cost** (AOC) for 2008/2009 [2] | | | |
| Normal Cost for 2008/2009 | $ 7,509,600 | $ 7,509,600 | |
| Amortization of UAAL as of June 30, 2008 [3] | 15,780,600 | 10,956,200 | |
| Total ARC for 2008/2009 | $ 23,290,200 | $ 18,465,800 | $ 8,954,800 |
| Interest on June 30, 2008 NOO | 909,000 | 909,000 | |
| (Amortization of June 30, 2008 NOO) [3] | (1,213,100) | (842,200) | |
| Total AOC for 2008/2009 | $ 22,986,100 | $ 18,532,600 | |

[1] The current funding policy is to contribute the annual cash subsidy for retiree welfare benefits plus an additional $1 million to an informal allocation within the District general fund. Such "virtual assets" are not recognized as offsetting the AAL in the official calculation of GASB 43/45 ARC.

[2] Despite the name, there is no requirement to actually contribute the ARC or any other amount. Future plan financial statement notes must simply show a "Schedule of Employer Contributions" with the ARC and the percentage of it that was actually contributed (if any). The ARC calculated above is noted as being applicable to the year following the current valuation date, but if a new valuation is not performed next year then this same ARC may be considered applicable to each of the next two years. In this manner, the Schedule of Employer Contributions can show a continuous annual history of ARC and actual contribution amounts.

[3] GASB 43/45 allows for an amortization method of either level dollar (as for a mortgage) or level percent of pay, period of up to 30 years (but no less than 10 years if the AAL decreases due to a new cost or asset value method), and basis of either rolling (no annual reduction in period) or static. The amortizations shown above are level dollar and level percent of pay over a rolling 30 years.

## SECTION I VALUATION RESULTS

### EXHIBIT 1A(i): SUMMARY OF VALUATION RESULTS BASED ON 4.50% DISCOUNT RATE *(CONTINUED)*

| | GASB 43/45 ARC Calculations (without initial assets) | |
|---|---|---|
| | Level Dollar Amortization | Level % of Pay Amortization |
| F. **Net OPEB Obligation** (NOO) Actual Reconciliation over 2007/2008 [1] and Estimated Reconciliation over 2007/2008 | | |
| NOO at June 30, 2007 | $ 0 | $ 0 |
| (Benefit Payments paid outside of a trust in 2007/2008) | (7,628,100) | (7,628,100) |
| (Contributions to a trust in 2007/2008) | 0 | 0 |
| Annual OPEB Cost (AOC) for 2007/2008 | 27,827,100 | 27,827,100 |
| NOO at June 30, 2008 | $ 20,199,000 | $ 20,199,000 |
| (*Estimated* Benefit Payments paid outside of a trust in 2008/2009) | (7,919,600) | (7,919,600) |
| (*Estimated* Contributions to a trust in 2008/2009) | 0 | 0 |
| Annual OPEB Cost (AOC) for 2008/2009 | 22,986,100 | 18,532,600 |
| *Estimated* NOO at June 30, 2009 | $ 35,265,500 | $ 30,812,000 |

[1] NOO is generally the cumulative excess of prior ARC over benefit payments (if unfunded) or trust contributions (if funded). In practice, before the ARC is added to the NOO each year it is adjusted to become the Annual OPEB Cost (AOC) by adding NOO interest and subtracting an NOO amortization.

## SECTION I VALUATION RESULTS

### EXHIBIT 1A(ii): SUMMARY OF VALUATION RESULTS BASED ON 7.75% DISCOUNT RATE

| | CERTIFICATED [1] | CLASSIFIED [1] | ALL |
|---|---|---|---|
| A. **Participant Count** as of June 30, 2008 [2] | | | |
| • Current retirees, spouses and dependents | 399 | 300 | 699 |
| • Other participants fully eligible for benefits | 97 | 56 | 153 |
| • Other participants not yet fully eligible for bens | 404 | 502 | 906 |
| Total Count | 900 | 858 | 1,758 |
| B. **Actuarial Present Value of Benefits** (APVB) at June 30, 2008 | | | |
| • Current retirees, spouses and dependents | $ 55,071,700 | $ 39,179,000 | $ 94,250,700 |
| • Other participants fully eligible for benefits | 15,937,600 | 9,634,200 | 25,571,800 |
| • Other participants not yet fully eligible for bens | 39,220,400 | 34,904,000 | 74,124,400 |
| Total APVB | $ 110,229,700 | $ 83,717,200 | $ 193,946,900 |
| C. **Actuarial Accrued Liability** (AAL) at June 30, 2008 | | | |
| • Current retirees, spouses and dependents | $ 55,071,700 | $ 39,179,000 | $ 94,250,700 |
| • Other participants fully eligible for benefits | 15,937,600 | 9,634,200 | 25,571,800 |
| • Other participants not yet fully eligible for benefits | 27,554,300 | 22,041,800 | 49,596,100 |
| Total AAL [3] | $ 98,563,600 | $ 70,855,000 | **$ 169,418,600** |

[1] We have categorized all CalSTRS participants as being Certificated and all CalPERS participants as being Classified, although the census shows a few Classified members participating in CalSTRS and a few Certificated members in CalPERS.

[2] Results for this June 30, 2008 valuation were projected from a census data captured as of December 31, 2007.

[3] AAL is the portion of APVB that is attributed to actives' service to date by the chosen actuarial cost method. GASB 43/45 allows for seven cost methods, including Projected Unit Credit (as required for corporate and multiemployer retiree welfare calculations) and Entry Age (as commonly used for governmental pension calculations). For this valuation we have used the Projected Unit Credit method, which spreads costs from hire to the projected date of full eligibility for plan benefits. The APVB and AAL shown above have been offset by projected retiree contributions. The gross AAL before such offset is $191,324,400, which is 89% due to Plan payments and 11% due to retiree contributions. Had we increased our assumed health care trend rates by one percent, the total AAL would have increased from $169,418,600 to $190,933,500.

## SECTION I VALUATION RESULTS

### EXHIBIT 1A(ii): SUMMARY OF VALUATION RESULTS BASED ON 7.75% DISCOUNT RATE *(CONTINUED)*

| | **GASB 43/45 ARC Calculations** (***without*** initial assets) | | **GASB 43/45 ARC Calculations** (***with*** initial assets) [1] | |
|---|---|---|---|---|
| | Level Dollar Amortization | Level % of Pay Amortization | Level Dollar Amortization | Level % of Pay Amortization |
| D. **Funded Status** at June 30, 2008 | | | | |
| Actuarial Value of Assets | $ 0 | $ 0 | $ 49,425,300 | $ 49,425,300 |
| Unfunded Actuarial Accrued Liability (UAAL) | $ 169,418,600 | $ 169,418,600 | $ 119,993,300 | $ 119,993,300 |
| Funded Ratio | 0% | 0% | 29% | 29% |
| Covered Payroll | $ 70,661,000 | $ 70,661,000 | $ 70,661,000 | $ 70,661,000 |
| UAAL as a Percentage of Covered Payroll | 240% | 240% | 170% | 170% |
| E. **Annual Required Contribution** (ARC) and **Annual OPEB Cost** (AOC) for 2008/2009 [2] | | | | |
| Normal Cost for 2008/2009 | $ 3,689,300 | $ 3,689,300 | $ 3,689,300 | $ 3,689,300 |
| Amortization of UAAL as of June 30, 2008 [3] | 14,157,100 | 10,456,400 | 10,027,000 | 7,405,900 |
| Total ARC for 2008/2009 | $ 17,846,400 | $ 14,145,700 | $ 13,716,300 | $ 11,095,200 |
| Interest on June 30, 2008 NOO | 1,565,400 | 1,565,400 | 1,565,400 | 1,565,400 |
| (Amortization of June 30, 2008 NOO) [3] | (1,687,900) | (1,267,700) | (1,687,900) | (1,267,700) |
| Total AOC for 2008/2009 | $ 17,723,900 | $ 14,464,400 | $ 13,593,800 | $ 11,413,900 |

1 As of June 30, 2008, there was $49,425,300 in the general fund subaccount designated for retiree welfare benefits. As an informal asset allocation, these "virtual assets" would not be recognized in the official calculation of GASB 43/45 ARC. For the above "*ARC with initial assets*" we have assumed that all informally allocated assets are irrevocably dedicated as of June 30, 2008.

2 Despite the name, there is no requirement to actually contribute the ARC or any other amount. Future plan financial statement notes must simply show a "Schedule of Employer Contributions" with the ARC and the percentage of it that was actually contributed (if any). The ARC calculated above is noted as being applicable to the year following the current valuation date, but if a new valuation is not performed next year then this same ARC may be considered applicable to each of the next two years. In this manner, the Schedule of Employer Contributions can show a continuous annual history of ARC and actual contribution amounts.

3 GASB 43/45 allows for an amortization method of either level dollar (as for a mortgage) or level percent of pay, period of up to 30 years (but no less than 10 years if the AAL decreases due to a new cost or asset value method), and basis of either rolling (no annual reduction in period) or static. The amortizations shown above are level dollar and level percent of pay over a rolling 30 years.

**SECTION I VALUATION RESULTS**

**EXHIBIT 1A(ii): SUMMARY OF VALUATION RESULTS BASED ON 7.75% DISCOUNT RATE *(CONTINUED)***

| | **GASB 43/45 ARC Calculations** (***without*** initial assets) | | **GASB 43/45 ARC Calculations** (***with*** initial assets) [1] | |
|---|---|---|---|---|
| | Level Dollar Amortization | Level % of Pay Amortization | Level Dollar Amortization | Level % of Pay Amortization |
| F. **Net OPEB Obligation** (NOO) Actual Reconciliation over 2007/2008 [2] and Estimated Reconciliation over 2008/2009 | | | | |
| NOO at June 30, 2007 | $ 0 | $ 0 | $ 0 | $ 0 |
| (Benefit Payments paid outside of a trust in 2007/2008) | (7,628,100) | (7,628,100) | (7,628,100) | (7,628,100) |
| (Contributions to a trust in 2007/2008) | 0 | 0 | 0 | 0 |
| Annual OPEB Cost (AOC) for 2007/2008 | 27,827,100 | 27,827,100 | 27,827,100 | 27,827,100 |
| NOO at June 30, 2008 | $ 20,199,000 | $ 20,199,000 | $ 20,199,000 | $ 20,199,000 |
| (*Estimated* Benefit Payments paid outside of a trust in 2008/2009) | 0 | 0 | 0 | 0 |
| (*Estimated* Contributions to a trust in 2008/2009) | (17,846,400) | (14,145,700) | (13,716,300) | (11,095,200) |
| Annual OPEB Cost (AOC) for 2008/2009 | 17,723,900 | 14,464,400 | 13,593,800 | 11,413,900 |
| *Estimated* NOO at June 30, 2009 | $ 20,076,500 | $ 20,517,700 | $ 20,076,500 | $ 20,517,700 |

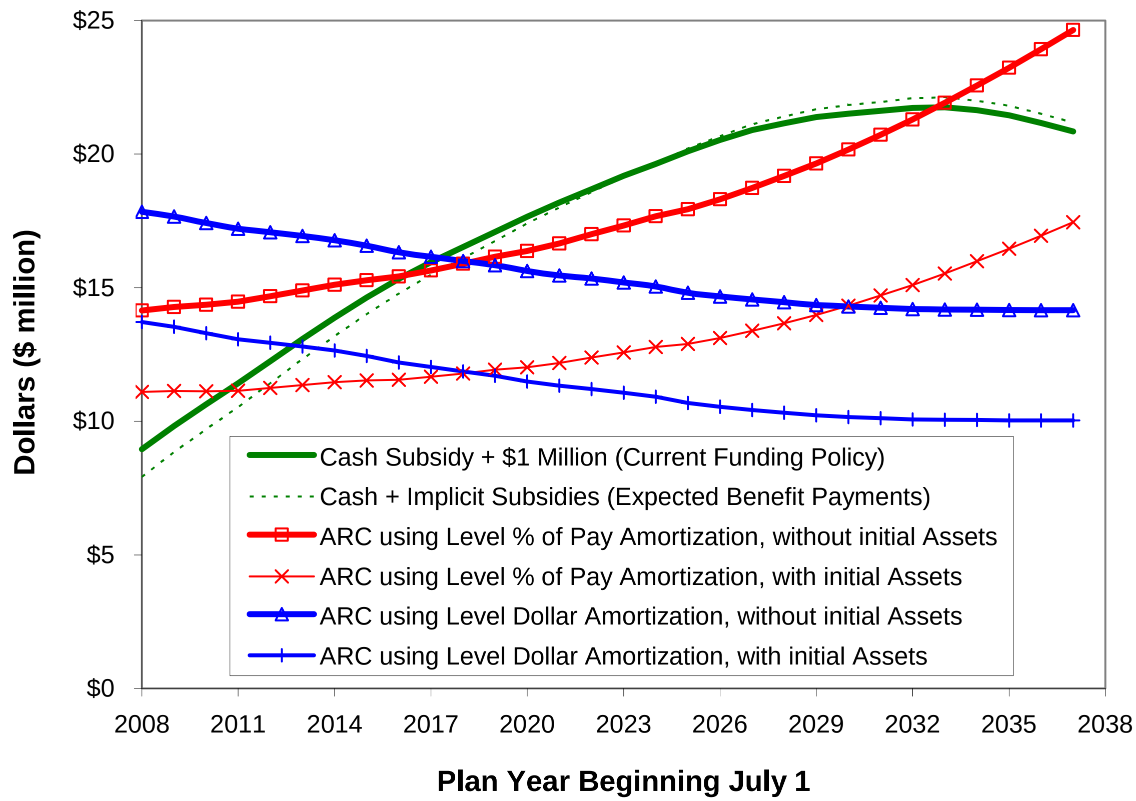
[1] As of June 30, 2008, there was $49,425,300 in the general fund subaccount designated for retiree welfare benefits. As an informal asset allocation, these "virtual assets" would not be recognized in the official calculation of GASB 43/45 ARC. For the above "*ARC with initial assets*" we have assumed that all informally allocated assets are irrevocably dedicated as of June 30, 2008.

[2] NOO is generally the cumulative excess of prior ARC over benefit payments (if unfunded) or trust contributions (if funded). In practice, before the ARC is added to the NOO each year it is adjusted to become the Annual OPEB Cost (AOC) by adding NOO interest and subtracting an NOO amortization.

**SECTION I VALUATION RESULTS**

**EXHIBIT 1B: PREFUNDING COMPARISON GRAPH**

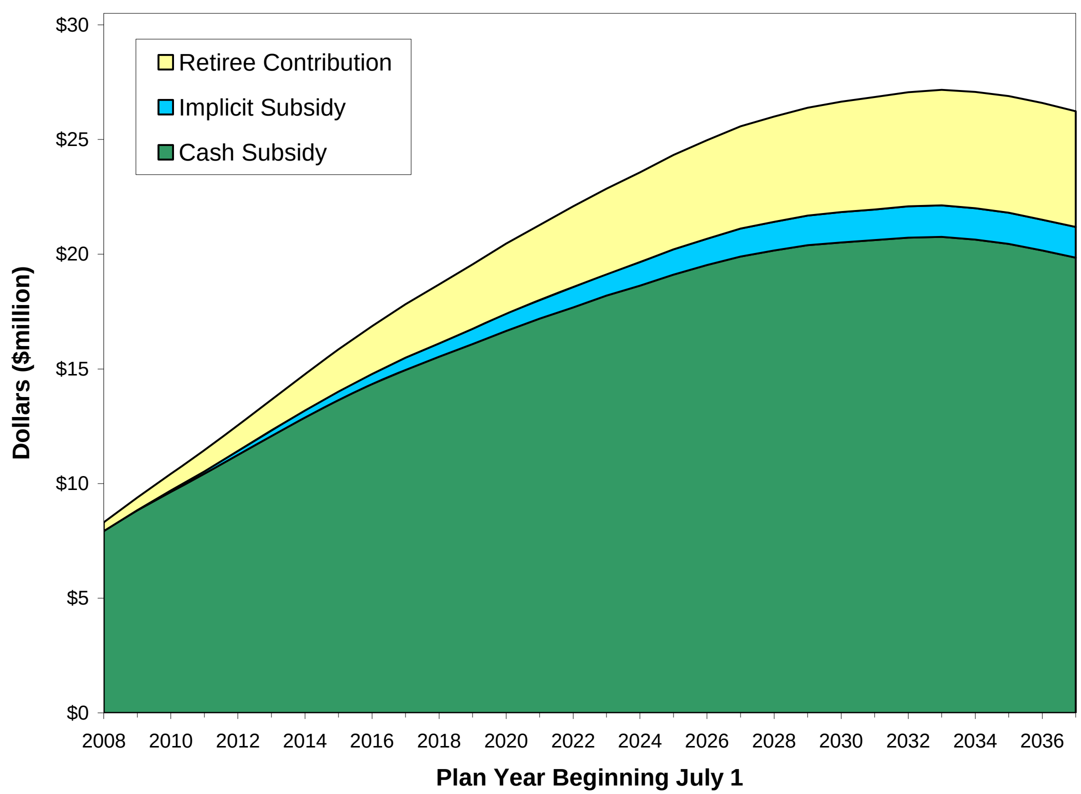
**Current Funding Policy Contributions versus Prefunding with GASB 43/45 ARC at 7.75%**



**SECTION I VALUATION RESULTS**

**EXHIBIT 1C: PROJECTED CASHFLOW GRAPH**

**Projected Retiree Health Benefit Costs**



## SECTION I VALUATION RESULTS

## EXHIBIT 1D: PROJECTED CASHFLOW TABLE[1]

| Plan Year beg. July 1, | Retiree Family Counts [2] | | | Plan Cash Subsidy [3] | | | Retiree Contribution[3] | Total Premium | Plan Implicit Subsidy [4] | Gross Benefit | Retiree Contribution Ratio |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Certificated[5] | Classified[5] | Both | Certificated[5] | Classified[5] | Both | | | | | |
| 2008 | 399 | 300 | 699 | $ 4,743,400 | $ 3,211,400 | $ 7,954,800 | $ 394,600 | $ 8,349,400 | $ (35,200) | $ 8,314,200 | 5% |
| 2009 | 409 | 307 | 716 | 5,258,800 | 3,566,500 | 8,825,300 | 549,100 | 9,374,400 | 18,200 | 9,392,600 | 6% |
| 2010 | 418 | 313 | 731 | 5,735,300 | 3,899,800 | 9,635,100 | 723,900 | 10,359,000 | 63,700 | 10,422,700 | 7% |
| 2011 | 426 | 320 | 746 | 6,180,900 | 4,241,100 | 10,422,000 | 913,100 | 11,335,100 | 107,300 | 11,442,400 | 8% |
| 2012 | 433 | 327 | 760 | 6,660,000 | 4,590,800 | 11,250,800 | 1,120,100 | 12,370,900 | 172,300 | 12,543,200 | 9% |
| 2013 | 439 | 335 | 774 | 7,141,800 | 4,937,900 | 12,079,700 | 1,339,100 | 13,418,800 | 240,200 | 13,659,000 | 10% |
| 2014 | 446 | 342 | 788 | 7,580,900 | 5,299,000 | 12,879,900 | 1,576,400 | 14,456,300 | 300,800 | 14,757,100 | 11% |
| 2015 | 451 | 350 | 801 | 7,990,500 | 5,639,300 | 13,629,800 | 1,839,000 | 15,468,800 | 378,000 | 15,846,800 | 12% |
| 2016 | 457 | 358 | 815 | 8,369,600 | 5,968,600 | 14,338,200 | 2,090,100 | 16,428,300 | 433,700 | 16,862,000 | 12% |
| 2017 | 461 | 365 | 826 | 8,679,300 | 6,273,500 | 14,952,800 | 2,332,600 | 17,285,400 | 531,100 | 17,816,500 | 13% |
| 2022 | 452 | 395 | 847 | 9,803,400 | 7,876,700 | 17,680,100 | 3,511,300 | 21,191,400 | 890,200 | 22,081,600 | 16% |
| 2027 | 418 | 392 | 810 | 10,678,700 | 9,223,000 | 19,901,700 | 4,464,300 | 24,366,000 | 1,211,000 | 25,577,000 | 17% |
| 2032 | 363 | 355 | 718 | 10,906,800 | 9,815,000 | 20,721,800 | 4,982,500 | 25,704,300 | 1,364,000 | 27,068,300 | 18% |
| 2037 | 296 | 293 | 589 | 10,299,100 | 9,547,200 | 19,846,300 | 5,049,100 | 24,895,400 | 1,339,300 | 26,234,700 | 19% |

1 Because projected benefit payments are dependent upon many different assumptions about future claims, there can be a broad range of reasonable results. This illustration is based on a single “best estimate” set of assumptions used for our liability calculations and should be used with care when applied to financial planning. Small deviations between our best-estimate assumptions and actual experience (especially in regard to health care cost trend rates, retirement rates, and participation rates) could produce significantly different projected cash flows.

2 Counts include surviving spouses but not spouses of living retirees (though spouse benefit amounts are in the other portions of this exhibit).

3 Plan Cash Subsidies and Retiree Contributions depend upon the participant's date of hire and whether s/he retired under the Rule of 70 or Rule of 80.

4 Implicit Subsidies are due to the manner in which some providers combine active and retiree experience when developing premiums. In this situation, we are required by GASB 43/45 to estimate the higher premium that would be charged to retirees if they were rated alone, and reflect the excess of such retiree-only cost over the actual premium as an "implicit subsidy of the retirees by the actives.”

5 We have categorized all CalSTRS participants as being Certificated and all CalPERS participants as being Classified, although the census shows a few Classified members participating in CalSTRS and a few Certificated members in CalPERS.

## SECTION I VALUATION RESULTS

### EXHIBIT 1E(i): PROJECTED LIABILITY TABLE BASED ON 4.50% DISCOUNT RATE

| Plan Year Beg. July 1, | Actuarial Accrued Liability (AAL) | | | | Assets with GASB 43/45 ARC (without initial assets, ***level dollar*** amortization) | | Assets with GASB 43/45 ARC (without initial assets, ***level percent*** amortization) | | Assets with Current Funding Policy Contributions | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Benefit Payments** | **Normal Cost [1]** | **Interest Cost [2]** | **AAL [3] at Beginning of Year** | **Annual Contribution = Virtual ARC [4]** | **Virtual Assets [5] at Beginning of Year** | **Annual Contribution = Virtual ARC [4]** | **Virtual Assets [5] at Beginning of Year** | **Ann. Contrib. = Cash Subsidy + $1 Million** | **Virtual Assets [5] at Beginning of Year** |
| 2008 | $ 7,919,600 | $ 7,509,600 | $ 11,716,200 | $ 262,768,400 | $ 23,290,200 | $ 0 | $ 18,465,800 | $ 0 | $ 8,954,800 | $ 49,425,300 |
| 2009 | 8,843,500 | 7,101,000 | 12,204,600 | 274,074,600 | 22,881,600 | 15,613,500 | 18,385,900 | 10,681,800 | 9,825,300 | 52,608,700 |
| 2010 | 9,698,800 | 6,599,100 | 12,662,700 | 284,536,700 | 22,379,700 | 30,576,600 | 18,222,500 | 20,827,200 | 10,635,100 | 55,889,700 |
| 2011 | 10,529,300 | 6,147,100 | 13,064,000 | 294,099,700 | 21,927,600 | 44,843,100 | 18,119,200 | 30,405,400 | 11,422,000 | 59,289,400 |
| 2012 | 11,423,100 | 5,836,100 | 13,424,100 | 302,781,500 | 21,616,700 | 58,440,200 | 18,167,400 | 39,459,600 | 12,250,800 | 62,797,100 |
| 2013 | 12,319,900 | 5,507,700 | 13,760,900 | 310,618,600 | 21,288,300 | 71,413,700 | 18,209,000 | 48,052,900 | 13,079,700 | 66,392,400 |
| 2014 | 13,180,600 | 5,168,400 | 14,018,500 | 317,567,300 | 20,949,000 | 83,729,900 | 18,250,700 | 56,170,100 | 13,879,800 | 70,091,400 |
| 2015 | 14,007,800 | 4,743,800 | 14,270,300 | 323,573,600 | 20,524,400 | 95,345,300 | 18,218,600 | 63,786,900 | 14,629,800 | 73,866,500 |
| 2016 | 14,771,900 | 4,261,800 | 14,499,500 | 328,579,900 | 20,042,400 | 106,213,000 | 18,140,900 | 70,877,400 | 15,338,200 | 77,742,000 |
| 2017 | 15,483,900 | 3,902,600 | 14,638,000 | 332,569,300 | 19,683,200 | 116,327,600 | 18,198,000 | 77,458,000 | 15,952,900 | 81,766,500 |
| 2022 | 18,570,300 | 2,247,200 | 14,843,500 | 338,889,100 | 18,027,800 | 157,664,800 | 18,819,400 | 105,642,600 | 18,680,100 | 103,485,300 |
| 2027 | 21,112,700 | 738,600 | 14,008,800 | 321,646,600 | 16,519,200 | 184,060,200 | 19,950,400 | 129,133,000 | 20,901,700 | 128,642,000 |
| 2032 | 22,085,800 | 79,300 | 12,214,400 | 282,449,200 | 15,859,900 | 199,243,700 | 18,444,100 | 156,329,700 | 21,721,800 | 158,668,500 |
| 2037 | 21,185,500 | 0 | 9,860,400 | 229,597,500 | 15,780,600 | 214,160,400 | 25,819,100 | 204,340,500 | 20,846,200 | 195,715,000 |
| 2038 | | | | 218,272,400 | | 218,272,400 | | 218,272,400 | | 204,175,300 |

1 Normal Cost is the annual increase in AAL due to the additional year of service earned by active participants.

2 Interest Cost is approximately a full year of 4.50% on AAL, plus a half-year of 4.50% on the excess of Normal Cost over Benefit Payments.

3 AAL plus Interest Cost plus Normal Cost minus Benefit Payments equals the next year's AAL.

4 Here we have assumed a contribution that is calculated using the same methodology as the GASB 43/45 Annual Required Contribution (ARC) except that it references "virtual" assets that have been informally set aside (but not irrevocably dedicated) for retiree welfare benefits: Normal Cost plus an amortization of "AAL less virtual assets". For the amortizations we used "static 30-year" level dollar and level percent of pay (i.e., the initial $15,780,600 was used in every year for level dollar, and the initial $10,956,200 was increased at 3% per year for level percent of pay), whereas actual future valuations will use "rolling 30-year" (recalculating the amortization amount based on that year's new UAAL).

5 Next year's Assets are equal to current year Assets plus Contribution less Benefit Payments, with a year's interest adjustment on Assets and a half-year's interest on the other two items. For this projection we have assumed that all retiree welfare assets remain as informal allocations within the District general fund. Such "virtual assets" are not recognized as offsetting AAL in the official calculation of GASB 43/45 ARC.

## SECTION I VALUATION RESULTS

### EXHIBIT 1E(ii): PROJECTED LIABILITY TABLE BASED ON 7.75% DISCOUNT RATE *WITHOUT* INITIAL ASSETS

| Plan Year Beginning July 1, | Actuarial Accrued Liability (AAL) | | | | Assets with GASB 43/45 ARC (*without* initial assets, *level dollar* amortization) | | Assets with GASB 43/45 ARC (*without* initial assets, *level percent* amortization) | |
|---|---|---|---|---|---|---|---|---|
| | Benefit Payments | Normal Cost [1] | Interest Cost [2] | AAL [3] at Beginning of Year | Annual Contribution = ARC [4] | Assets [5] at Beginning of Year | Annual Contribution = ARC [4] | Assets [5] at Beginning of Year |
| 2008 | $ 7,919,600 | $ 3,689,300 | $ 12,907,500 | $ 169,418,600 | $ 17,846,400 | $ 0 | $ 14,145,700 | $ 0 |
| 2009 | 8,843,500 | 3,506,900 | 22,221,600 | 178,095,800 | 17,664,000 | 10,242,800 | 14,277,000 | 6,401,400 |
| 2010 | 9,698,800 | 3,266,500 | 22,356,400 | 186,303,500 | 17,423,600 | 20,137,300 | 14,359,700 | 12,482,400 |
| 2011 | 10,529,300 | 3,048,400 | 22,423,700 | 194,019,900 | 17,205,500 | 29,671,300 | 14,474,400 | 18,242,700 |
| 2012 | 11,423,100 | 2,915,200 | 22,453,300 | 201,246,300 | 17,072,300 | 38,856,300 | 14,684,000 | 23,706,900 |
| 2013 | 12,319,900 | 2,775,400 | 22,433,500 | 207,965,300 | 16,932,600 | 47,685,500 | 14,897,300 | 28,882,900 |
| 2014 | 13,180,600 | 2,621,900 | 22,307,200 | 214,135,300 | 16,779,000 | 56,129,300 | 15,107,400 | 33,756,900 |
| 2015 | 14,007,800 | 2,414,800 | 22,114,700 | 219,713,800 | 16,572,000 | 64,157,800 | 15,274,900 | 38,316,300 |
| 2016 | 14,771,900 | 2,172,400 | 21,843,700 | 224,657,000 | 16,329,500 | 71,740,900 | 15,418,300 | 42,550,300 |
| 2017 | 15,483,900 | 2,003,600 | 21,490,900 | 228,958,000 | 16,160,800 | 78,886,400 | 15,646,900 | 46,487,600 |
| 2022 | 18,570,300 | 1,184,300 | 18,041,800 | 241,647,300 | 15,341,500 | 109,467,000 | 17,000,600 | 64,022,400 |
| 2027 | 21,112,700 | 397,900 | 17,619,700 | 237,606,300 | 14,555,000 | 131,411,400 | 18,733,300 | 80,938,900 |
| 2032 | 22,085,800 | 43,800 | 15,883,000 | 215,802,800 | 14,200,900 | 147,349,100 | 21,299,600 | 105,711,000 |
| 2037 | 21,185,500 | 0 | 13,197,600 | 180,687,300 | 14,157,100 | 167,048,800 | 24,641,200 | 156,948,800 |
| 2038 | | | | 172,699,400 | | 172,699,400 | | 172,699,400 |

1 Normal Cost is the annual increase in AAL due to the additional year of service earned by active participants.

2 Interest Cost is approximately a full year of 7.75% on AAL, plus a half-year of 7.75% on the excess of Normal Cost over Benefit Payments.

3 AAL plus Interest Cost plus Normal Cost minus Benefit Payments equals the next year's AAL.

4 Here we have assumed a contribution equal to the GASB 43/45 Annual Required Contribution (ARC), which equals Normal Cost plus an amortization of the UAAL. For the amortizations we used "static 30-year" level dollar and level percent of pay (i.e., the initial $14,157,100 was used in every year for level dollar, and the initial $10,456,400 was increased at 3% per year for level percent of pay), whereas actual future valuations will use "rolling 30-year" (recalculating the amortization amount based on that year's new UAAL).

5 Next year's Assets are equal to current year Assets plus Contribution less Benefit Payments, with a year's interest adjustment on Assets and a half-year's interest on the other two items. For this projection we have assumed that retiree welfare assets as of June 30, 2008 remain as informal allocations within the District general fund, while subsequent contributions are irrevocably dedicated.

## SECTION I VALUATION RESULTS

### EXHIBIT 1E(iii): PROJECTED LIABILITY TABLE BASED ON 7.75% DISCOUNT RATE *WITH* INITIAL ASSETS

| | **Actuarial Accrued Liability (AAL)** | | | | **Assets with GASB 43/45 ARC** (***with*** initial assets, ***level dollar*** amortization) | | **Assets with GASB 43/45 ARC** (***with*** initial assets, ***level percent*** amortization) | |
|---|---|---|---|---|---|---|---|---|
| **Plan Year Beginning July 1,** | **Benefit Payments** | **Normal Cost [1]** | **Interest Cost [2]** | **AAL [3] at Beginning of Year** | **Annual Contribution = ARC [4]** | **Assets [5] at Beginning of Year** | **Annual Contribution = ARC [4]** | **Assets [5] at Beginning of Year** |
| 2008 | $ 7,919,600 | $ 3,689,300 | $ 12,907,500 | $ 169,418,600 | $ 13,716,300 | $ 49,425,300 | $ 11,095,200 | $ 49,425,300 |
| 2009 | 8,843,500 | 3,506,900 | 22,221,600 | 178,095,800 | 13,533,900 | 59,211,400 | 11,135,000 | 56,490,700 |
| 2010 | 9,698,800 | 3,266,500 | 22,356,400 | 186,303,500 | 13,293,500 | 68,613,800 | 11,123,400 | 63,192,100 |
| 2011 | 10,529,300 | 3,048,400 | 22,423,700 | 194,019,900 | 13,075,400 | 77,617,600 | 11,141,000 | 69,523,000 |
| 2010 | 11,423,100 | 2,915,200 | 22,453,300 | 201,246,300 | 12,942,200 | 86,231,100 | 11,250,600 | 75,501,400 |
| 2011 | 12,319,900 | 2,775,400 | 22,433,500 | 207,965,300 | 12,802,400 | 94,444,700 | 11,360,900 | 81,127,500 |
| 2012 | 13,180,600 | 2,621,900 | 22,307,200 | 214,135,300 | 12,648,900 | 102,225,200 | 11,464,900 | 86,379,600 |
| 2013 | 14,007,800 | 2,414,800 | 22,114,700 | 219,713,800 | 12,441,800 | 109,538,900 | 11,523,200 | 91,236,300 |
| 2014 | 14,771,900 | 2,172,400 | 21,843,700 | 224,657,000 | 12,199,400 | 116,351,900 | 11,554,000 | 95,677,200 |
| 2015 | 15,483,900 | 2,003,600 | 21,490,900 | 228,958,000 | 12,030,600 | 122,667,500 | 11,666,700 | 99,720,600 |
| 2020 | 18,570,300 | 1,184,300 | 18,041,800 | 241,647,300 | 11,211,300 | 148,028,600 | 12,386,400 | 115,841,800 |
| 2025 | 21,112,700 | 397,900 | 17,619,700 | 237,606,300 | 10,424,900 | 162,392,200 | 13,384,200 | 126,644,300 |
| 2030 | 22,085,800 | 43,800 | 15,883,000 | 215,802,800 | 10,070,800 | 167,319,400 | 15,098,500 | 137,828,600 |
| 2035 | 21,185,500 | 0 | 13,197,600 | 180,687,300 | 10,027,000 | 171,027,600 | 17,452,500 | 163,874,100 |
| 2036 | | | | 172,699,400 | | 172,699,400 | | 172,699,400 |

1. Normal Cost is the annual increase in AAL due to the additional year of service earned by active participants.
2. Interest Cost is approximately a full year of 7.75% on AAL, plus a half-year of 7.75% on the excess of Normal Cost over Benefit Payments.
3. AAL plus Interest Cost plus Normal Cost minus Benefit Payments equals the next year's AAL.
4. Here we have assumed a contribution equal to the GASB 43/45 Annual Required Contribution (ARC), which equals Normal Cost plus an amortization of the UAAL. For the amortizations we used “static 30-year” level dollar and level percent of pay (i.e., the initial $10,027,000 was used in every year for level dollar, and the initial $7,405,900 was increased at 3% per year for level percent of pay), whereas actual future valuations will use “rolling 30-year” (recalculating the amortization amount based on that year's new UAAL).
5. Next year's Assets are equal to current year Assets plus Contribution less Benefit Payments, with a year's interest adjustment on Assets and a half-year's interest on the other two items. For this projection we have assumed that all informally allocated retiree welfare assets as of June 30, 2008 are irrevocably dedicated, as are all subsequent contributions.

## SECTION II ACTUARIAL ASSUMPTIONS AND METHODS GENERAL INFORMATION

The Actuarial Accrued Liability (AAL) is equal to that portion of the Actuarial Present Value of Benefits deemed to have been earned to date, calculated using the Projected Unit Credit actuarial cost method. For active employees who have not yet attained full eligibility for postretirement benefits, this method assigns a proration based on service to date compared with service at the earliest date of full eligibility for benefits. For the amortizations of Unfunded AAL and Net OPEB Obligation we show the “level dollar” and “level percent of pay” methods over a rolling 30 years.

The AAL resulting from our calculations and shown in this report are contingent upon a variety of assumptions about future events. We have grouped our valuation assumptions into the three exhibits described below. Note that actual experience is likely to vary from these assumptions.

- Exhibit 2A: Demographic Assumptions – Mortality, turnover, disability, retirement, and other items that affect the number of people eligible to receive future retiree benefits and the type of coverage elected.

- Exhibit 2B: Economic Assumptions – Rates of discount, compensation increase (if applicable), self-pay increase (if applicable), and health care trend.

- Exhibit 2C: Per-Capita Cost Assumptions – Current benefit costs and expenses as determined by historical experience and by future expectations for the Plan.

The mortality, turnover, disability, and retirement rate tables employed for this valuation are provided in *Exhibit 2A*. Rates used for the June 30, 2007 CalSTRS pension valuation were applied to CalSTRS participants[1], and are based on a study of experience for the four years ending June 30, 2007. Rates used for the June 30, 2005 CalPERS pension valuation were applied to CalPERS participants[1], and are based on a study of “non-industrial school employee” experience for the four years ending June 30, 2005. For every 10,000 active male CalSTRS participants of age 40 with five years of service, we expect that in the next year 6 will die, 500 will terminate employment with no benefits, and 8 will become disabled. Likewise, for every 10,000 active male CalPERS participants of age 40 with five years of service, we expect that in the next year 8 will die, 766 will terminate employment with no benefits, and 14 will become disabled.

[1] Almost all Certificated members are in CalSTRS and almost all Classified members are in CalPERS, although the census shows a few Classified members participating in CalSTRS and a few Certificated members in CalPERS.

## SECTION II ACTUARIAL ASSUMPTIONS AND METHODS GENERAL INFORMATION *(CONTINUED)*

Upon attainment of the minimum age and service for pension benefits, turnover rates cut out and retirement rates begin. A sample of retirement rates is shown in Exhibit 2A, as split by service years for CalSTRS and by entry age for CalPERS.

The participation and dependent assumptions at the end of Exhibit 2A are based on our study of the choices made by current actives and retirees.

The discount rates at the beginning of *Exhibit 2B* are the expected long-term rates of return on District assets (as either informal allocations within the general fund or as irrevocably dedicated amounts). The compensation increase rate is used only for amortizations of Unfunded AAL and Net OPEB Obligation under the "level percent of pay" method. The remainder of the exhibit describes the anticipated future annual increases in per-capita benefit costs. The trend rates begin at various levels depending on anticipated renewal increases, then are graded down to an ultimate rate of 4.5% (reflecting the expected long-term trend for the medical Consumer Price Index) by year 2018/2019.

In *Exhibit 2C* we have set the "net claims relative value factor" for most benefits[1] at ages 55 to 59 at a value of 1.000. The factors at all other ages are expressed relative to that base value factor. For example, the HMO factor at ages 60 to 64 is 1.150, which means that expected claims at those ages are 15.0% higher than expected claims for ages 55 to 59. The "net claim multiplier" is then the annual per-capita cost in Plan Year 2008/2009 (*i.e.*, prior to the application of the trend rates detailed in Exhibit 2B) at the base age range of 55 to 59. In calculating this, we have considered the per-capita premium history and the demographics of the active and retiree groups. Dependent children costs were included with the adult figures. Note that we did not assume any administrative expenses.

[1] All participants enrolled in the closed Blue Cross and Kaiser Cost plans are now over age 65, so that the "net claims relative value factor" for those benefits begins at 1.000 in the 65-69 age bracket.

## SECTION II ACTUARIAL ASSUMPTIONS AND METHODS
## EXHIBIT 2A: DEMOGRAPHIC ASSUMPTIONS

**MORTALITY:** Rates are from the June 30, 2007 pension valuation for CalSTRS and the June 30, 2005 valuation for non-industrial school employees in CalPERS. Note that the CalSTRS rates for actives are equal to retired rates with a two-year setback.[1] Sample rates are as shown below.

| | CalSTRS | | | | | | CalPERS | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | ACTIVE | | RETIRED | | DISABLED [2] | | ACTIVE | | RETIRED | | DISABLED | |
| AGE | MALE RATE | FEMALE RATE | MALE RATE | FEMALE RATE | MALE RATE | FEMALE RATE | MALE RATE | FEMALE RATE | MALE RATE | FEMALE RATE | MALE RATE | FEMALE RATE |
| 20 | 0.03% | 0.02% | 0.03% | 0.02% | 2.50% | 2.00% | 0.02% | 0.01% | 0.05% | 0.03% | 0.73% | 0.52% |
| 30 | 0.04 | 0.02 | 0.04 | 0.02 | 2.50 | 2.00 | 0.04 | 0.02 | 0.08 | 0.03 | 0.77 | 0.58 |
| 40 | 0.06 | 0.04 | 0.08 | 0.05 | 2.50 | 2.00 | 0.08 | 0.05 | 0.10 | 0.07 | 0.87 | 0.64 |
| 50 | 0.13 | 0.09 | 0.15 | 0.11 | 2.50 | 2.00 | 0.16 | 0.10 | 0.25 | 0.14 | 1.46 | 1.13 |
| 60 | 0.29 | 0.22 | 0.36 | 0.27 | 2.50 | 2.00 | 0.31 | 0.23 | 0.72 | 0.44 | 2.87 | 1.88 |
| 70 | 1.00 | 0.76 | 1.27 | 0.97 | 2.73 | 2.07 | 0.63 | 0.50 | 2.14 | 1.28 | 4.67 | 3.02 |
| 80 | 3.42 | 2.52 | 4.36 | 3.26 | 8.05 | 5.63 | 1.28 | 1.11 | 6.26 | 3.88 | 9.48 | 6.51 |

[1] Once an active is projected to retire or become disabled we apply the same mortality rates as for those currently retired or disabled. The CalSTRS pension valuation instead maintains a two-year mortality offset for actives as they become future retirees or disableds.

[2] The actual CalSTRS pension disability mortality rates are higher for the first three years after disablement, but we have not reflected that in our valuation.

**SECTION II ACTUARIAL ASSUMPTIONS AND METHODS**

**EXHIBIT 2A: DEMOGRAPHIC ASSUMPTIONS *(CONTINUED)***

**TURNOVER – CalSTRS:** 25-year select and ultimate rates are from the June 30, 2007 pension valuation for CalSTRS. Sample rates are as shown below.

| AGE | MALE RATE | | | | | | FEMALE RATE | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 26+ (ULTIMATE) | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 26+ (ULTIMATE) |
| 20 | 15.30% | 13.00% | 9.00% | 6.00% | 4.40% | 0.38% | 15.30% | 10.00% | 7.20% | 6.30% | 5.80% | 0.34% |
| 30 | 15.30 | 12.50 | 7.70 | 6.00 | 4.80 | 0.38 | 15.30 | 11.00 | 8.50 | 7.00 | 6.00 | 0.34 |
| 40 | 15.30 | 13.00 | 9.00 | 6.50 | 5.00 | 0.38 | 15.30 | 11.00 | 7.50 | 6.00 | 4.50 | 0.34 |
| 50 | 18.00 | 14.00 | 10.00 | 7.00 | 4.00 | 0.50 | 15.30 | 10.50 | 7.00 | 5.50 | 3.00 | 0.40 |
| 60 | 18.00 | 14.00 | 10.00 | 7.00 | 4.00 | 0.50 | 15.30 | 10.50 | 7.00 | 5.50 | 3.00 | 0.40 |

## SECTION II ACTUARIAL ASSUMPTIONS AND METHODS

### EXHIBIT 2A: DEMOGRAPHIC ASSUMPTIONS *(CONTINUED)*

**TURNOVER – CalPERS:** 25-year select and ultimate rates are from the June 30, 2005 pension valuation for non-industrial school employees in CalPERS. Sample rates are as shown below.

| AGE | MALE AND FEMALE RATE | | | | | |
|---|---|---|---|---|---|---|
| | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 26+ (ULTIMATE) |
| 20 | 16.17% | 15.01% | 13.84% | 12.67% | 11.51% | 0.00% |
| 30 | 14.25 | 13.09 | 11.92 | 10.75 | 9.59 | 0.00 |
| 40 | 12.33 | 11.16 | 10.00 | 8.83 | 7.66 | 3.53 |
| 50 | 10.41 | 9.24 | 8.08 | 6.91 | 5.74 | 0.29 |
| 60 | 8.49 | 7.32 | 6.16 | 4.99 | 3.82 | 0.02 |

**DISABILITY:** Rates are from the June 30, 2007 pension valuation for CalSTRS and the June 30, 2005 valuation for non-industrial school employees in CalPERS, except that for CalSTRS participants we used only the "Coverage A" rates. Sample rates are as shown below.

| AGE | CalSTRS | | CalPERS | |
|---|---|---|---|---|
| | MALE RATE | FEMALE RATE | MALE RATE | FEMALE RATE |
| 20 | 0.02% | 0.02% | 0.00% | 0.00% |
| 30 | 0.03 | 0.03 | 0.04 | 0.03 |
| 40 | 0.08 | 0.09 | 0.14 | 0.10 |
| 50 | 0.16 | 0.22 | 0.50 | 0.30 |
| 60 | 0.25 | 0.28 | 0.71 | 0.37 |

## SECTION II ACTUARIAL ASSUMPTIONS AND METHODS

### EXHIBIT 2A: DEMOGRAPHIC ASSUMPTIONS *(CONTINUED)*

**RETIREMENT:** CalSTRS rates are from the June 30, 2007 pension valuation for CalSTRS, including the application of a 45% load for 25 to 27 completed years of service. CalPERS rates are from the June 30, 2005 valuation for non-industrial school employees in CalPERS, except that we averaged the rates within ten-year brackets of entry age. Sample rates *prior to the CalSTRS load* are as shown below.

| | CalSTRS | | | | CalPERS | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | LESS THAN 30 YEARS OF SERVICE | | 30 OR MORE YEARS OF SERVICE | | | | | | |
| AGE | MALE RATE | FEMALE RATE | MALE RATE | FEMALE RATE | ENTRY AGE 20 – 29 | ENTRY AGE 30 – 39 | ENTRY AGE 40 – 49 | ENTRY AGE 50 – 59 | ENTRY AGE 60+ |
| 55 | 2.7% | 4.5% | 8.0% | 9.0% | 8.0% | 6.5% | 4.0% | 2.0% | 0.0% |
| 56 | 1.8 | 3.2 | 8.0 | 9.0 | 7.0 | 5.5 | 3.5 | 1.5 | 0.0 |
| 57 | 1.8 | 3.2 | 10.0 | 11.0 | 7.5 | 6.0 | 4.0 | 2.0 | 0.0 |
| 58 | 2.7 | 4.1 | 14.0 | 16.0 | 9.5 | 7.0 | 5.0 | 2.5 | 0.0 |
| 59 | 4.5 | 5.4 | 18.0 | 19.0 | 11.0 | 8.5 | 6.0 | 3.0 | 0.0 |
| 60 | 6.3 | 9.0 | 27.0 | 31.0 | 17.5 | 13.5 | 10.5 | 5.5 | 0.0 |
| 61 | 6.3 | 9.0 | 43.0 | 40.0 | 18.0 | 14.0 | 10.5 | 6.0 | 0.0 |
| 62 | 10.8 | 10.8 | 38.0 | 37.0 | 38.5 | 29.5 | 23.0 | 13.0 | 0.0 |
| 63 | 11.7 | 16.2 | 30.0 | 35.0 | 35.0 | 27.0 | 21.5 | 12.5 | 0.0 |
| 64 | 10.8 | 13.5 | 30.0 | 32.0 | 27.5 | 21.5 | 17.0 | 10.0 | 0.0 |
| 65 | 13.5 | 14.4 | 30.0 | 32.0 | 47.0 | 38.0 | 30.0 | 18.5 | 9.0 |
| 70 | 100.0 | 100.0 | 100.0 | 100.0 | 41.0 | 32.0 | 24.5 | 18.5 | 10.0 |
| 75 | 100.0 | 100.0 | 100.0 | 100.0 | 71.5 | 28.5 | 23.0 | 18.0 | 10.5 |
| 80+ | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

## SECTION II ACTUARIAL ASSUMPTIONS AND METHODS

### EXHIBIT 2A: DEMOGRAPHIC ASSUMPTIONS *(CONTINUED)*

| Hire Date | Retirement Conditions (in addition to receipt of CalSTRS/PERS pension) | Age and Disability Status [1] | District Subsidy of Medical/Dental Premiums | | Assumed Future Retiree Participation Rates | | | Assumed Future Retiree Covered Spouse Rates [2] | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Retiree | Spouse | Medical[3] | Cash | Dental | Male | Female |
| Prior to July 1, 1984 | Service of at least 10 years (or disabled with at least 5 years) | any | 100% | 100% | 94% | 6% | 100% | 75% | 45% |
| Within July 1, 1984 to June 30, 2005 | Age/service points of at least 80 (or disabled with at least 15 years) | any | 100% | 50% | 88% | 12% | 100% | 70% | 40% |
| | Age/service points of 70 to 79 (or disabled with 10 to 14 years) | any | 50% | 25% | 88% | 12% | 100% | 60% | 30% |
| On or after July 1, 2005 | Age/service points of at least 80 (or disabled with at least 15 years) | Under age 65 | 100% | 50% | 85% | 15% | 100% | 50% | 25% |
| | | Age 65+ or disabled | 50% | 0% | 85% | 15% | 100% | 50% | 25% |
| | Age/service points of 70 to 79 (or disabled with 10 to 14 years) | Under age 65 | 50% | 25% | 85% | 15% | 100% | 45% | 25% |
| | | Age 65+ or disabled | 25% | 0% | 85% | 15% | 100% | 45% | 25% |

1 We assumed that all current retirees under age 65 and all future retirees will be eligible for and enroll in Medicare Parts A and B upon attainment of age 65. For current retirees age 65 and over, Medicare status was based upon description codes provided on the census.

2 For future retirees, male members were assumed to be three years older than their wives and female members were assumed to be two years younger than their husbands. Demographic data was available for spouses of current retirees.

3 Among future retirees electing medical coverage (versus cash-in-lieu), 70% were assumed to choose Kaiser, 25% Health Net, and 5% Health Net Elect. (These percentages closely reflect the current mix of retiree coverage in non-grandfathered medical plans.) It was assumed that Medicare Part B premiums were reimbursed only when medical coverage was elected.

## SECTION II ACTUARIAL ASSUMPTIONS AND METHODS

### EXHIBIT 2B: ECONOMIC ASSUMPTIONS

**DISCOUNT RATE:** 4.50% per annum, if monies are not irrevocably dedicated for retiree benefits
7.75% per annum, if monies are irrevocably dedicated for retiree benefits

**COMPENSATION INCREASE RATE:** 3.00% per annum

**TREND RATES:** [1]

| PLAN YEAR BEG. JULY 1 | KAISER NON-MEDICARE | KAISER MEDICARE | HEALTH NET | HEALTH NET ELECT | BLUE CROSS & KAISER COST | MEDICARE PART B REIMBURSEMENT | DENTAL | CASH-IN-LIEU |
|---|---|---|---|---|---|---|---|---|
| 2008 | 7.5% | 9.0% | 10.0% | 10.0% | 14.0% | 12.0% | 6.5% | 9.0% |
| 2009 | 7.5 | 9.0 | 9.5 | 9.0 | 11.5 | 11.0 | 6.5 | 8.5 |
| 2010 | 7.0 | 8.5 | 9.0 | 8.5 | 10.0 | 10.0 | 6.0 | 8.0 |
| 2011 | 7.0 | 8.0 | 8.5 | 8.0 | 9.0 | 9.0 | 6.0 | 7.5 |
| 2012 | 6.5 | 7.5 | 8.0 | 7.5 | 8.0 | 8.0 | 5.5 | 7.0 |
| 2013 | 6.5 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 5.5 | 6.5 |
| 2014 | 6.0 | 6.0 | 6.0 | 6.5 | 6.0 | 6.0 | 5.0 | 6.0 |
| 2015 | 5.5 | 5.5 | 5.5 | 6.0 | 5.5 | 5.0 | 5.0 | 5.5 |
| 2016 | 5.0 | 5.0 | 5.0 | 5.5 | 5.0 | 4.5 | 4.5 | 5.0 |
| 2017 | 4.5 | 4.5 | 4.5 | 5.0 | 4.5 | 4.5 | 4.5 | 4.5 |
| 2018+ | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 |

[1] The trend shown for a particular year is the rate that must be applied to that year's cost to yield the next year's projected cost.

## SECTION II ACTUARIAL ASSUMPTIONS AND METHODS

## EXHIBIT 2C: PER-CAPITA COST ASSUMPTIONS

### NET CLAIMS MULTIPLIERS (*i.e.*, Plan Year 2008/2009 annual cost for relative value factor = 1.00)

| | KAISER | HEALTH NET | HEALTH NET ELECT | BLUE CROSS & KAISER COST | MEDICARE PART B REIMBURSEMENT | DENTAL | CASH-IN-LIEU FOR RETIREE [1] | CASH-IN-LIEU FOR SPOUSE [1] |
|---|---|---|---|---|---|---|---|---|
| | $ 7,521 | $ 9,245 | $ 10,154 | $ 7,899 | $ 1,041 | $ 742 | $ 5,085 | $ 2,543 |

### NET CLAIMS RELATIVE VALUE FACTORS

| AGE | KAISER | HEALTH NET | HEALTH NET ELECT | BLUE CROSS & KAISER COST | MEDICARE PART B REIMBURSEMENT | DENTAL | CASH-IN-LIEU FOR RETIREE | CASH-IN-LIEU FOR SPOUSE |
|---|---|---|---|---|---|---|---|---|
| Under 50 | 0.655 | 0.655 | 0.655 | 0.000 | 0.000 | 1.000 | 1.000 | 1.000 |
| 50 – 54 | 0.795 | 0.795 | 0.795 | 0.000 | 0.000 | 1.000 | 1.000 | 1.000 |
| 55 - 59 | 1.000 | 1.000 | 1.000 | 0.000 | 0.000 | 1.000 | 1.000 | 1.000 |
| 60 - 64 | 1.150 | 1.150 | 1.150 | 0.000 | 0.000 | 1.000 | 1.000 | 1.000 |
| 65 - 69 [2] | 0.710 [3] | 0.585 | 1.295 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 70 - 74 | 0.710 [3] | 0.585 | 1.435 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 75 - 79 | 0.710 [3] | 0.585 | 1.590 | 0.855 | 1.000 | 1.000 | 1.000 | 1.000 |
| 80 and Over | 0.710 [3] | 0.585 | 1.865 | 0.990 | 1.000 | 1.000 | 1.000 | 1.000 |

1 The cash-in-lieu multipliers shown above are only for those hired on or after July 1, 1984: the Kaiser single rate for retirees, and the excess of 75% of the Kaiser two-party rate over the Kaiser single rate for spouses. Retirees who were hired prior to July 1, 1984 have a multiplier of $6,509 (the average single rate for Kaiser, Health Net, and Health Net Elect) and their spouses have a multiplier of $6,788 (excess of the average two-party rate over the average single rate).

2 The age 65 relative value factor is applied to all disabled participants under age 65.

3 For current retirees and spouses who were age 65 and over on the valuation date, we used a Kaiser relativity factor of 0.720.

## SECTION III SUMMARY OF PARTICIPANT DATA

### DISTRIBUTION OF ACTIVE PARTICIPANTS BY AGE AT JUNE 30, 2008

| AGE GROUP | Certificated [1] | Classified [1] | All Actives |
|---|---|---|---|
| Under 20 | 0 | 0 | 0 |
| 20 – 24 | 0 | 6 | 6 |
| 25 – 29 | 3 | 22 | 25 |
| 30 – 34 | 18 | 41 | 59 |
| 35 – 39 | 40 | 57 | 97 |
| 40 – 44 | 44 | 76 | 120 |
| 45 – 49 | 64 | 82 | 146 |
| 50 – 54 | 92 | 91 | 183 |
| 55 – 59 | 103 | 108 | 211 |
| 60 – 64 | 98 | 51 | 149 |
| 65 – 69 | 32 | 19 | 51 |
| 70 and Over | 7 | 5 | 12 |
| **Total** | 501 | 558 | 1,059 |
| Average Age | 53 | 49 | 51 |
| Average Service Years | 14 | 11 | 12 |

### DISTRIBUTION OF CURRENT RECIPIENTS BY AGE AT JUNE 30, 2008

| AGE GROUP | RETIREES [2] | SPOUSES | TOTAL |
|---|---|---|---|
| Under 50 | 7 | 10 | 17 |
| 50 - 54 | 8 | 15 | 23 |
| 55 - 59 | 38 | 28 | 66 |
| 60 - 64 | 91 | 66 | 157 |
| 65 - 69 | 125 | 67 | 192 |
| 70 - 74 | 127 | 68 | 195 |
| 75 - 79 | 128 | 79 | 206 |
| 80 & Over | 175 | 61 | 237 |
| Unknown | 0 | 0 | 0 |
| **Total** | 699 | 394 | 1,093 |

1 We have categorized all CalSTRS participants as being Certificated and all CalPERS participants as being Classified for the Section I exhibits, although the census shows a few Classified members participating in CalSTRS and a few Certificated members in CalPERS.

2 Includes surviving spouses of deceased retirees.

## SECTION IV SUMMARY OF PRINCIPAL PLAN PROVISIONS

### ELIGIBILITY AND COST-SHARING

Eligibility for retiree health benefits is based on age, service and eligibility for pension benefits under either the California State Teachers' Retirement System (CalSTRS) or California Public Employees' Retirement System (CalPERS). The eligibility provisions adopted for our calculations are as follows:

**a.** **Normal/Early Retirement***:* To be eligible for retiree health benefits, participants must retire from active full-time or *"percent of time"*[1] status and be eligible for pension benefits from CalSTRS (which requires at least age 55 with 5 years of service, or at least age 50 with 30 years of service) or CalPERS (which requires at least age 50 with 5 years of service). The District and retirees share in the cost of health benefits in the following manner:

- For participants hired prior to July 1, 1984: The District pays 100% of the medical and dental premiums for the retiree and his/her dependents, so long as s/he was employed by the District for ten consecutive years prior to retirement.

- For participants hired on or after July 1, 1984 but prior to July 1, 2005:[2] If the participant retired under the Rule of 80, the District pays 100% of the retiree's medical/dental premiums and 50% for the dependents. Otherwise, if the participant retired under the Rule of 70, the District pays 50% of the retiree's medical/dental premiums and 25% for the dependents.

- For participants hired on or after July 1, 2005:[2] Retirees and dependents under age 65 have the same cost sharing as those hired July 1, 1984 through June 30, 2005. For retirees age 65 and over, the District pays 50% of medical/dental premiums if retired under the Rule of 80 or 25% if the Rule of 70. For dependents age 65 and over, the District pays no portion of premiums.

---

1 *"Percent of time"* participants receive a corresponding percent of benefit for medical, dental and cash-in-lieu. For this valuation we assumed that all *percent of time* employees will convert to full-time status prior to retirement.

2 Note that the medical subsidy percentages do not apply to Medicare Part B premiums, which are always reimbursed in full.

## SECTION IV SUMMARY OF PRINCIPAL PLAN PROVISIONS *(CONTINUED)*

**b.** **Disability Retirement:** To be eligible for disabled retiree health benefits, participants must retire from active full-time or "percent of time" status and be eligible for disabled pension benefits from CalSTRS or CalPERS (both of which require only 5 years of service). The District and retirees then share in the cost of health benefits in the following manner:

- For participants hired prior to July 1, 1984: The District pays 100% of the medical/dental premiums for the retiree and his/her dependents.
- For participants hired on or after July 1, 1984 but prior to July 1, 2005:[1] If the participant retired with at least 15 years of service, the District pays 100% of the retiree's medical/dental premiums and 50% for the dependents. Otherwise, if the participant retired with 10 to 14 years of service, the District pays 50% of the retiree's medical/dental premiums and 25% for the dependents. Participants with less than 10 years of service are not eligible for retiree health benefits.
- For participants hired on or after July 1, 2005:[1] Retirees and dependents under age 65 have the same cost sharing as those hired July 1, 1984 through June 30, 2005. For retirees age 65 and over, the District pays 50% of medical/dental premiums if retired with at least 15 years of service or 25% with 10 to 14 years of service. Participants with less than 10 years of service are not eligible for retiree health benefits. For dependents age 65 and over, the District pays no portion of premiums.

**c.** **Surviving Spouse/Dependent:** All survivors (of actives or retirees) continue to receive six months coverage, without self-pay, after the participant's death. After six months, the surviving spouse and/or dependents may remain in the retiree health program by paying the full premium for medical (available for lifetime) and COBRA rates for dental (for COBRA period only).

**d.** **Dependents:** To be eligible, a dependent must be a legal spouse or domestic partner as defined in the District's contracts with Local 1 and the United Faculty, or an unmarried child as defined in the contract with Kaiser (allowing up to age 24) or Health Net (allowing up to age 19, or up to age 25 if a full-time student or otherwise incapable of self-support due to mental or physical incapacity).

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[1] *"Percent of time"* participants receive a corresponding percent of benefit for medical, dental and cash-in-lieu. For this valuation we assumed that all *percent of time* employees will convert to full-time status prior to retirement.

## SECTION IV SUMMARY OF PRINCIPAL PLAN PROVISIONS *(CONTINUED)*

**MEDICAL Benefits for Non-Medicare Retired Participants**[1]

| | KAISER | HEALTH NET | HEALTH NET ELECT | |
|---|---|---|---|---|
| | | | TIER I | TIER II |
| **Annual Out-of-Pocket Maximum (excl. deductible)** | $1,500 per individual, or $3,000 per family. | $1,500 per individual, or $4,500 per family. | $3,000 per individual, or $6,000 per family. | $3,000 per individual, or $6,000 per family. |
| **Hospital Room Services** | $100 copay per admission. | $100 copay per admission. | $100 copay per admission. | 20% copay. |
| **X-Ray and Lab** | No charge. | No charge. | No charge | 20% copay. |
| **Office Visits** | $15 copay. | $15 copay. | $15 copay. | $25 copay. |
| **Skilled Nursing Facility** | No charge for up to 100 days per calendar year. | $100 copay for up to 100 days per calendar year. | $100 copay for up to 60 days per calendar year. | 20% copay for up to 60 days per calendar year. |
| **Home Health Care** | No charge. | No charge for first 30 days, then $15 copay per day thereafter. | $15 copay for up to 100 days per calendar year. | $25 copay for up to 100 days per calendar year. |
| **Mental Health Care** | Inpatient: $100 copay per admission for up to 30 days per year. Outpatient: $15 copay per visit for up to 20 visits / year. | Inpatient: No charge for up to 30 days per year. Outpatient: $20 copay per visit for up to 20 visits per year, $15 copay per group session with no limit on number of sessions. Provided through Managed Health Network (MHN). | | |
| **Alcohol or Drug Dependency** | Inpatient Detox: $100 copay/ admission. Outpatient: $15 copay with no visit limit. Transitional Residence Recovery: $100 copay/admission for up to 60 days/ year. | Inpatient Detox: No charge for up to 30 days per year. Outpatient: $20 (or $10 for group session) copay per visit for up to 20 visits per year. | | |
| **Prescription Drug (Outpatient)** | Copays per 100-day supply: $5 generic, $15 brand, 50% for infertility and other. | $5 copay - 30 day supply. $15 copay - 90 day supply (mail order). | $5 copay - 30 day supply. $15 copay - 90 day supply (mail order). | $5 copay - 30 day supply. $15 copay - 90 day supply (mail order). |
| **Emergency Room Benefits** | $50 copay per emergency room visit, waived if admitted. | $50 copay per emergency room visit. | $50 copay for facility. | $75 copay for facility, 20% copay for professional per emergency room visit. |

[1] The District also offers a Health Net retiree out-of-area plan (which replaced the Flex Net plan on July 1, 2008) and several Kaiser out-of-area plans. Because enrollment in these plans is very low, we did not calculate separate per-capita benefit costs for them. Participants enrolled in the Kaiser out-of-area plans were valued as being in the local Kaiser plan. There were no participants in the Flex Net plan as of December 31, 2007.

## SECTION IV SUMMARY OF PRINCIPAL PLAN PROVISIONS *(CONTINUED)*

### MEDICAL Benefits for Medicare Retired Participants[1]

| | KAISER SENIOR ADVANTAGE | HEALTH NET | KAISER COST[2] | BLUE CROSS[2] |
|---|---|---|---|---|
| **Annual Out-of-Pocket Maximum** | $1,500 per individual, or $3,000 per family. | $1,500 per individual, or $4,500 per family. | $1,500 per individual, or $3,000 per family. | None. |
| **Hospital Room Services** | $100 copay per admission. | $100 copay per admission. | $5 copay. | Pays Medicare coinsurance up to 90 days lifetime maximum. |
| **X-Ray and Lab** | No charge. | No charge. | No charge | Pays Medicare coinsurance. |
| **Office Visits** | $15 copay. | $5 copay. | $5 copay | Pays Medicare coinsurance. |
| **Skilled Nursing Facility** | No charge for up to 100 days per calendar year. | No charge for up to 100 days per calendar year. | No charge for up to 100 days per calendar year. | Pays Medicare coinsurance. |
| **Home Health Care** | No charge. | No charge first 30 days, $15 copay per day thereafter. | No charge. | Pays Medicare coinsurance. |
| **Mental Health Care** | Inpatient: $100 copay per admission for up to 190 lifetime maximum days. Outpatient: $15 copay with unlimited visits. | Inpatient: No charge for up to 30 days per year. Outpatient: $20 copay per visit for up to 20 visits per year, $5 copay per group session with no limit on number of sessions. Provided through Managed Health Network (MHN). | Inpatient: $5 copay per admission for up to 30 days per year. Outpatient: $5 copay per visit for up to 20 visits per year. | Pays Medicare coinsurance up to 190 days lifetime maximum. |

1 The District also offers a Health Net retiree out-of-area plan (which replaced the Flex Net plan on July 1, 2008) and several Kaiser out-of-area plans. Because enrollment in these plans is very low, we did not calculate separate per-capita benefit costs for them. Participants enrolled in the Kaiser out-of-area plans were valued as being in the local Kaiser plan. There were no participants in the Flex Net plan as of December 31, 2007.

2 Kaiser Cost and Blue Cross plans are closed to new enrollees.

## SECTION IV SUMMARY OF PRINCIPAL PLAN PROVISIONS *(CONTINUED)*

### MEDICAL Benefits for Medicare Retired Participants[1] *(Continued)*

| | KAISER SENIOR ADVANTAGE | HEALTH NET | KAISER COST[2] | BLUE CROSS[2] |
|---|---|---|---|---|
| **Alcohol or Drug Dependency** | Inpatient Detox: $100 copay per admission. Outpatient: No charge. Transitional Residence Recovery: $100 copay per admission for up to 60 days per year. | Inpatient Detox: No charge for up to 30 days per year. Outpatient: $20 (or $10 for group session) copay per visit for up to 20 visits per year. | Inpatient Detox: No charge. Outpatient: $5 copay per visit for up to 20 visits per year. Transitional Residence Recovery: $100 copay per admission for up to 60 days per year. | Pays Medicare coinsurance. |
| **Prescription Drug (Outpatient)** | Copays per 100-day supply: $5 generic, $15 brand, 50% for infertility and other. | $5 copay - 30 day supply.<br>$15 copay - 90 day supply (mail order). | $5 copay per 100-day supply. | $8 copay (mail order),<br>50% negotiated fee. |
| **Emergency Room Benefits** | $50 copay per emergency room visit. | $50 copay per emergency room visit. | $35 copay per emergency room visit. | No charge. |

### OTHER Benefits for Retired Participants

| | |
|---|---|
| **Medicare Part B Reimbursement** | So long as a medical plan is elected (versus cash-in-lieu), any Medicare Part B premiums will be reimbursed. |
| **Cash-in-Lieu** | For participants hired prior to July 1, 1984, the retiree cash-in-lieu amount is the average single rate (for Kaiser, Health Net, and Health Net Elect), and the spouse amount is the excess of the average two-party rate over the average single rate. For participants hired on or after July 1, 1984, the retiree amount is the Kaiser single rate and the spouse amount is the excess of 75% of the Kaiser two-party rate over the Kaiser single rate. |
| **Dental** | For Preventive and Basic services, Delta Dental covers 100% after three years of employment (or 70% to 90% within years one to three) up to $2,000 per person per calendar year. Major and Orthodontic services are covered at 50% up to $2,000 per lifetime (where separate maximums are applied for each service type). |

1 The District also offers a Health Net retiree out-of-area plan (which replaced the Flex Net plan on July 1, 2008) and several Kaiser out-of-area plans. Because enrollment in these plans is very low, we did not calculate separate per-capita benefit costs for them. Participants enrolled in the Kaiser out-of-area plans were valued as being in the local Kaiser plan. There were no participants in the Flex Net plan as of December 31, 2007.

2 Kaiser Cost and Blue Cross plans are closed to new enrollees.

## SECTION V NOTES TO AUDITOR

1. Included in the calculation are the following participant groups:

   - Retirees and eligible spouses covered under the Contra Costa Community College District health plans; and
   - Full-time and "percent of time" active participants in the Contra Costa Community College District health plans.

2. We excluded part-time actives from our calculations because they have a very low incidence of becoming full-time (or percent of time) employees and therefore are unlikely to be eligible for retiree benefits in the future. In the event a part-time participant becomes a full-time (or percent of time) employee, a new liability will be calculated for him/her at such time.

3. In general, our calculations were based on our understanding of the Plan as provided in the collective bargaining agreements between the District and the United Faculty of Contra Costa Community College District, and between the District and Public Employees Union, Local 1. In areas where there were inconsistencies between the two agreements and/or between the agreement(s) and administrative practices, we relied on the District to provide the definitive plan provisions.

4. Assumption changes adopted for this valuation are as follows:

   - The CalSTRS demographic rates of mortality, turnover, and retirement were updated to those used in the June 30, 2007 CalSTRS pension valuation, plus we updated the future spouse age difference for CalSTRS participants.
   - Participation rates for future retirees hired after July 1, 1984 were generally lowered.
   - The discount rate was raised from 3.50% to 4.50% for the baseline results (without irrevocable prefunding), and from 6.00% to 7.75% for the alternative results (*with* irrevocable prefunding).
   - Ultimate trend rates were lowered from 5.5% to 4.5%.

## SECTION V NOTES TO AUDITOR *(CONTINUED)*

5. We used premium rate information provided by the District's consultant for our analysis of per-capita claims costs. Per-capita medical, Medicare Part B, and dental costs were based on the actual premiums for 2008/2009. For non-Medicare medical, actuarial factors were applied to the blended active/retiree premiums to estimate retiree-only costs within five-year age groups and to account for the implicit subsidy of the retirees by the actives. Cash-in-lieu benefits were based on formulae provided by the District (as described on page 27). There are no administrative expenses associated with this plan.

6. The District also offers a Health Net retiree out-of-area plan (which replaced the Flex Net plan on July 1, 2008) and several Kaiser out-of-area plans. Because enrollment in these plans is very low, we did not calculate separate per-capita benefit costs for them. Participants enrolled in the Kaiser out-of-area plans were valued as being in the local Kaiser plan. There were no participants in the Flex Net plan as of December 31, 2007.

7. Because the census did not indicate which actives are making payroll deductions for Medicare Part A, we assumed that all future retirees will be eligible for and enrolled in Medicare upon attainment of age 65. If in fact a future retiree were not eligible for Medicare, then our assumption would understate the medical liability and overstate the Medicare Part B premium reimbursement liability.

8. We used participant and claims data furnished by the District. Data items were reviewed for reasonableness and consistency, but no audit was performed. Assumptions or estimates were made when data was not available. We are not aware of any errors or omissions in the data that would have a significant effect on the results presented. In particular, there were no members reported with missing age or service information. For the few cases in which the census showed spouse coverage for a current retiree but not the spouses' dates of birth, we used the spouse age difference assumption employed for future retirees.

## SECTION V NOTES TO AUDITOR *(CONTINUED)*

9. We have categorized all CalSTRS participants as being Certificated and all CalPERS participants as being Classified, although the census shows a few Classified members participating in CalSTRS and a few Certificated members in CalPERS.

10. Section IV and page 25 of this report show certain plan provisions for those hired before July 1, 1984. In practice, those provisions are applied to participants in a certain class-action lawsuit, which excludes a few hired prior to the named cutoff and includes a few hired after. For retirees, we were provided several years ago with a list of those in the lawsuit group. For actives, we based inclusion on their given hire date.

11. Per the District office, $49.4 million of the District's general assets are currently designated as reserved for the payment of future retiree welfare benefits, but there are no legally irrevocably dedicated retiree welfare assets.

12. We calculated a liability for the six months of coverage extended to future survivors of deceased retirees, but not for that of deceased actives as it was deemed to be de minimus.

13. The Plan's OPEB liability for other than postretirement welfare benefits (e.g., the COBRA liability) was determined to be de minimis.

14. The Plan has been approved under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 to receive a Retiree Drug Subsidy (RDS) beginning January 1, 2006. The annual RDS equals 28% of each Medicare-eligible participant's drug expenses between a lower and upper cost threshold. According to the GASB 43/45 guidelines, such subsidy is to be reported as income rather than be used to directly offset claims expense in the development of prescription drug per-capita cost. Our calculations have followed those guidelines.

15. We are not aware of any significant events subsequent to the valuation date that could materially affect the results presented.

# CONTRA COSTA COMMUNITY COLLEGE DISTRICT
## GASB 43/45
### April 2009

RAEL & LETSON
*Actuaries & Benefit Consultants*

# GASB 43/45: WHAT'S ALL THE TALK ABOUT?

- Then: GASB 12 and 26
  - "Yeah, we offer retiree health benefits"
  - No liability calculations required
  - Benefits accounted for on a "pay-as-you-go" (cash) basis

- Now: GASB 43 and 45
  - Two Statements
    - Statement 43: issued in April 2004, applies to Other Post-Employment Benefits (OPEB) Plans with irrevocable funding
    - Statement 45: issued in August 2004, applies to employers offering OPEB benefits
  - Pension-like valuation of retiree health benefits
  - Required calculations similar to guidelines for FAS 106 (corporate employers) and SOP 92-6 (multiemployer plans) issued more than a decade ago
  - Actuarial certification

# GASB 43/45 COMPLIANCE

- Calculations required whenever retiree benefits are offered.
- Cost must be calculated using accrual accounting.  Cash basis (pay-as-you-go) accounting is no longer permitted.
- A portion of the cost of future retiree welfare benefit payments must be expensed each year and disclosed on the balance sheet.
- Compliance dates for GASB 43 (Employers under GASB 45 will need to comply one year after these dates):

| Sponsor's Annual Revenue | First Fiscal Year Beginning on/after |
|---|---|
| Phase 1:  $100+ million | December 15, 2005 |
| Phase 2:  $10 - $99 million | December 15, 2006 |
| Phase 3:  less than $10 million | December 15, 2007 |

# MISCONCEPTIONS

- **The Disclosed OPEB Liability Must Be Funded:** GASB does not require funding. It only requires that the liability is recognized within the financial report (the "Annual Required Contribution" (ARC) is a misnomer). However, there are potential consequences for not funding.

- **If Retirees Pay 100% of the Premium, There is No Employer Liability:** There are possible employer liabilities even when retirees pays 100% of the cost (i.e., pre-age-65 plans).

- **GASB Increases the Cost of Retiree Benefits:** GASB does not change the cost of benefits but rather the timing of when costs are recognized.

# HOW ARE GASB 43/45 CALCULATIONS DIFFERENT FROM "REGULAR" PROJECTIONS?

- Long-term: use pension-like demographic and economic assumptions
- Additional welfare only assumptions
- Current and Future Retirees (but no new entrants)
- Implicit Subsidies (i.e., excess of "true" cost over premium)
- Accrual Accounting and Funding Component
  - Measure assets and liabilities
  - Actuarial Accrued Liability (AAL)
  - Annual Required Contribution (ARC) – theoretical annual funding
- Actuarial certification

# DEMOGRAPHIC ASSUMPTIONS

Assumptions may be industry specific or based on employer's specific experience

- Mortality
- Turnover
- Disability
- Retirement
- Participation (retiree and spouses)
- Plan selection

# ECONOMIC ASSUMPTIONS

- Discount rate
- Salary increases
- Claims cost
- Claims trend rates
- Retiree cost sharing

# CONTRA COSTA COMMUNITY COLLEGE DISTRICT: GASB 45 VALUATION AS OF JUNE 30, 2008

- Eligibility Provisions and District Subsidy

| Hire Date | Retirement Conditions (in addition to receipt of CalSTRS/PERS pension) | Age and Disability Status | District Subsidy of Medical/Dental Premiums | |
|---|---|---|---|---|
| | | | Retiree | Spouse |
| Prior to July 1, 1984 | Service of at least 10 years (or disabled with at least 5 years) | Any | 100% | 100% |
| Within July 1, 1984 to June 30, 2005 | Age/service points of at least 80 (or disabled with at least 15 years) | Any | 100% | 50% |
| | Age/service points of 70 to 79 (or disabled with 10 to 14 years) | Any | 50% | 25% |
| On or after July 1, 2005 | Age/service points of at least 80 (or disabled with at least 15 years) | Under age 65 | 100% | 50% |
| | | Age 65+ or disabled | 50% | 0% |
| | Age/service points of 70 to 79 (or disabled with 10 to 14 years | Under age 65 | 50% | 25% |
| | | Age 65+ or disabled | 25% | 0% |

- Retirees may choose from a menu of medical, dental and cash-in-lieu benefit options
- Plan is currently funding cash subsidy plus $1 million

# CONTRA COSTA COMMUNITY COLLEGE DISTRICT: GASB 45 VALUATION AS OF JUNE 30, 2008 (Continued)

- 1,059 Actives and 699 Retirees
- Results in millions of dollars

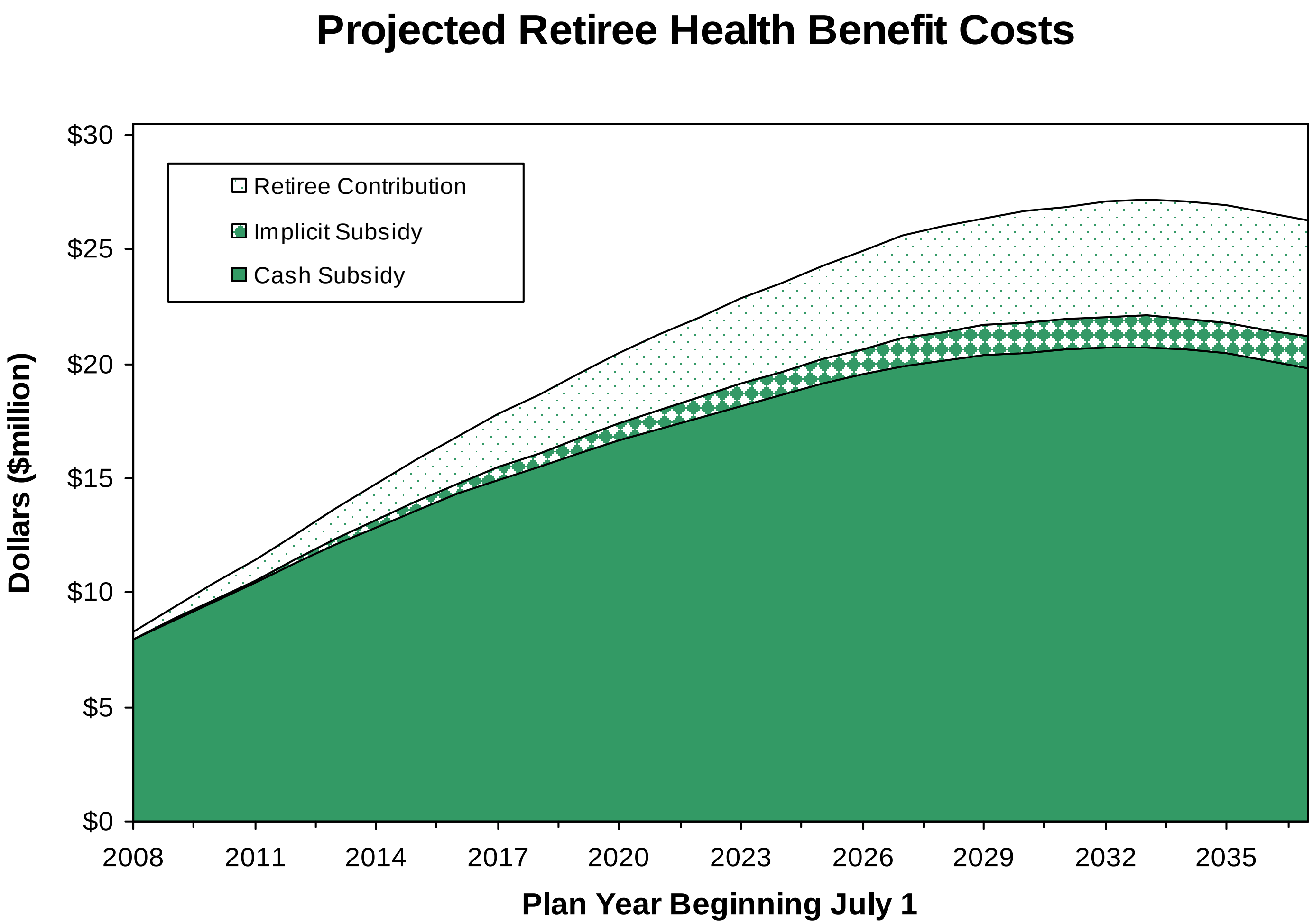
| 2008/2009 Liabilities/Cost | 4.50% Discount Rate | 7.75% Discount Rate |
|---|---|---|
| Liabilities: | | |
| AAL[1] | $262.8 | $169.4 |
| APVB[1] | 321.0 | 193.9 |
| Initial Year Cost: | | |
| Normal Cost | 7.5 | 3.7 |
| ARC[1,2] | 18.5 | 14.1 |
| Cash Subsidy | 8.0 | 8.0 |
| Implicit Subsidy[3] | 0.0 | 0.0 |
| Expected Benefit Payment (EBP) | 8.0 | 8.0 |
| Retiree Contribution | .4 | .4 |

1 AAL = Actuarial Accrued Liability; APBV = Actuarial Present Value of Benefits; ARC = Annual Required Contribution based on 30-year amortization at level percent-of pay.

2 Assumes gradual transfer (i.e., annual ARC withdrawals) of current District assets of $49.4 million into an irrevocable trust. If the entire $49.4 million is deposited into a trust immediately, the initial year ARC would decrease to $11.1 million.

3 $0 for initial year only.

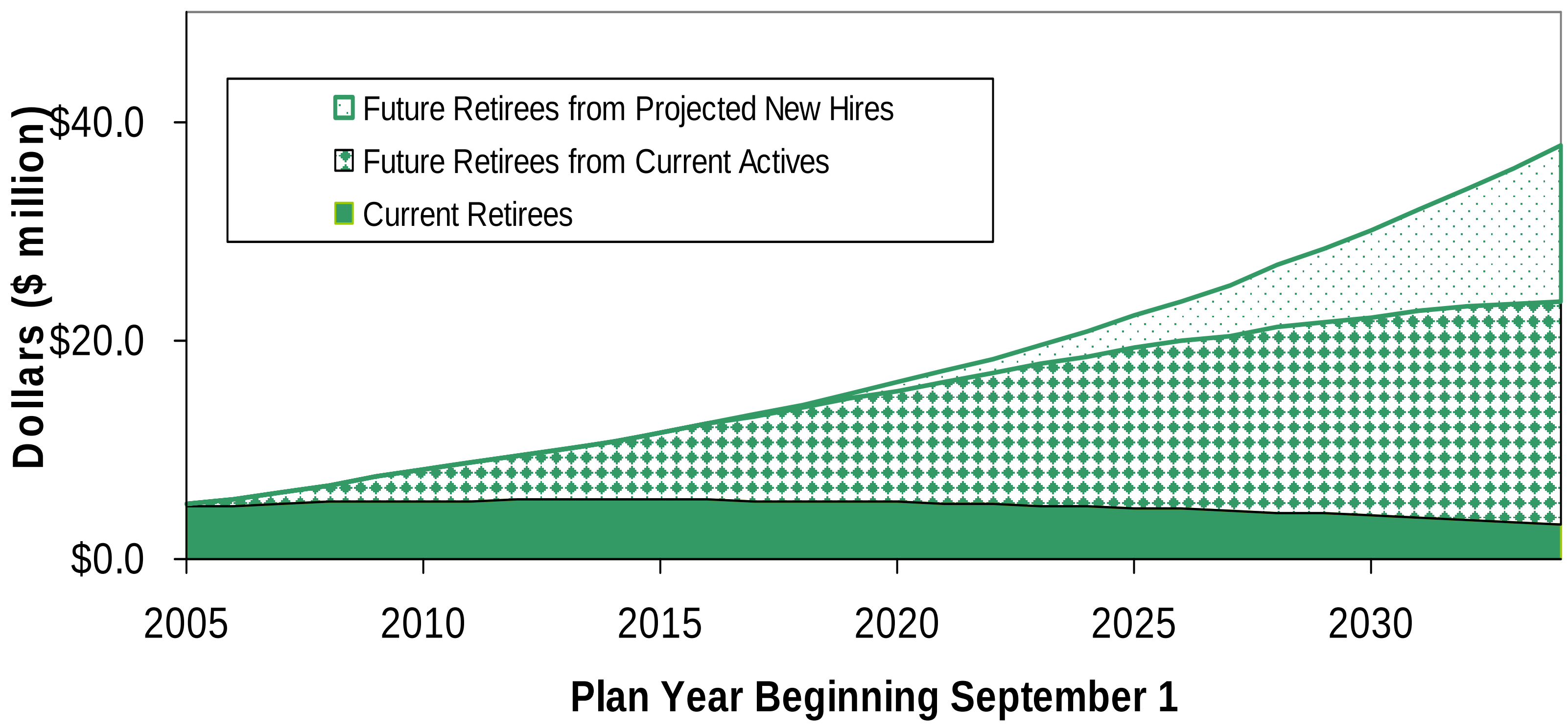
# PROJECTED RETIREE HEALTH BENEFIT COST



**ILLUSTRATIVE**

**Open-Group Projected Retiree Benefit Costs**

***Split by Participant Type***



# IMPACT OF GASB 43/45

- Shocking reality of liability – employers become more knowledgeable
  - Total long-term liability for “promised” benefits
  - True annual cost of providing postemployment benefits
  - Information for assessing potential demands on future budgets
- Explore different plan designs
  - Benefit structure
  - Self-pay structure
  - Eligibility provisions
  - Defined benefit vs. defined dollar vs. defined contribution
- Study impact of different funding options and set policy
  - “Pay-as-you-go”
  - GASB disclosure options
  - Other alternatives
- Potential bond market issues, if there is no pre-funding
- Research pre-funding vehicles

# PRE-FUNDING RETIREE MEDICAL

# PAY-AS-YOU-GO

- Simple -> Status Quo
- Defers Cost
- Flexible
- Possible Strain on Future Cash Flow
- Unfunded Liability Grows
- Liabilities Calculated Based on Lower Discount Rate

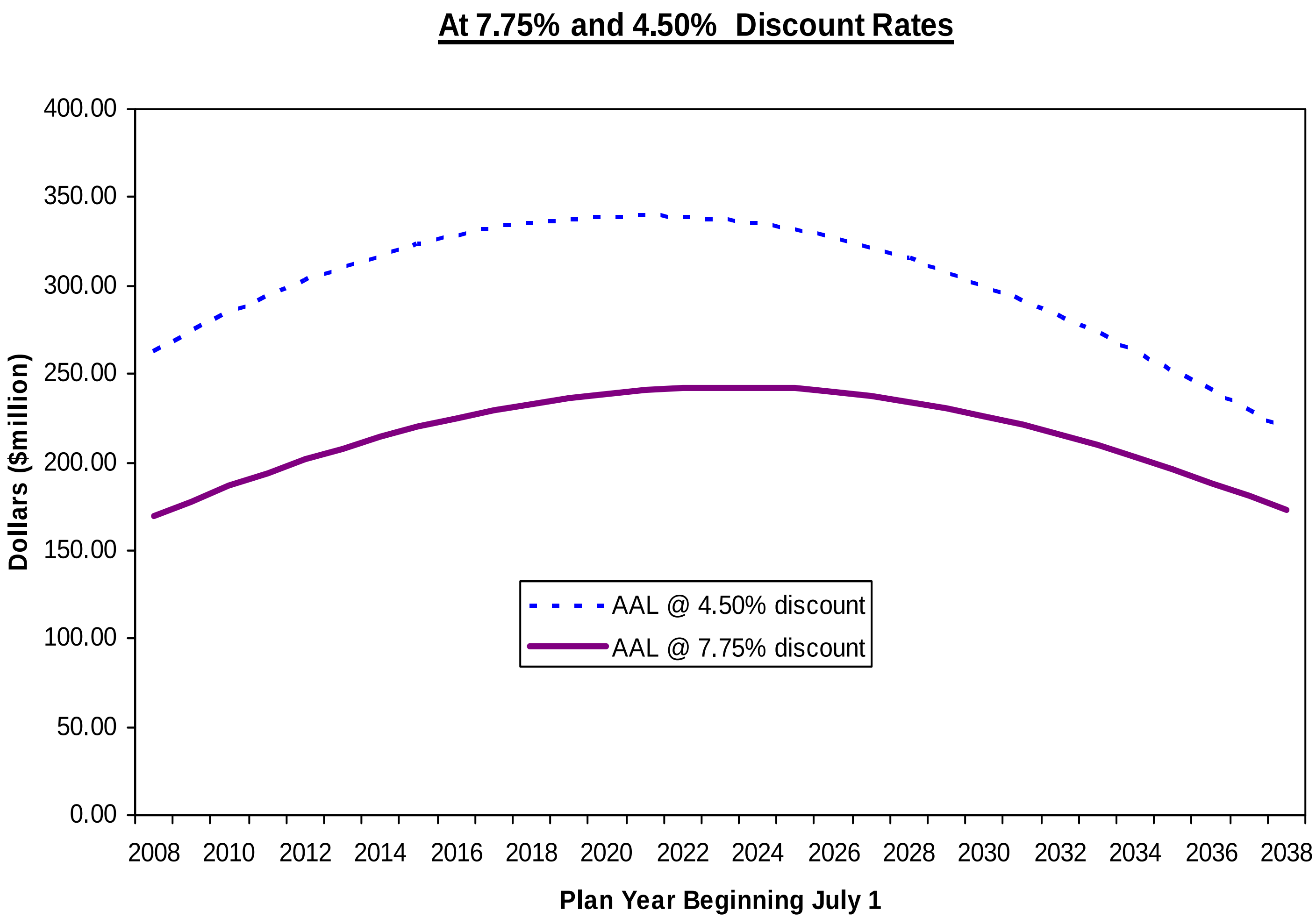
# ADVANTAGES OF PRE-FUNDING

- Stabilize Costs
  - Smooth cash flow
  - Investment income
- Funding Equity (less burden on future generations)
- More Security for Employees
- Lower Unfunded Liability (if monies are irrevocably dedicated)
  - Bond rating
  - Higher discount rate

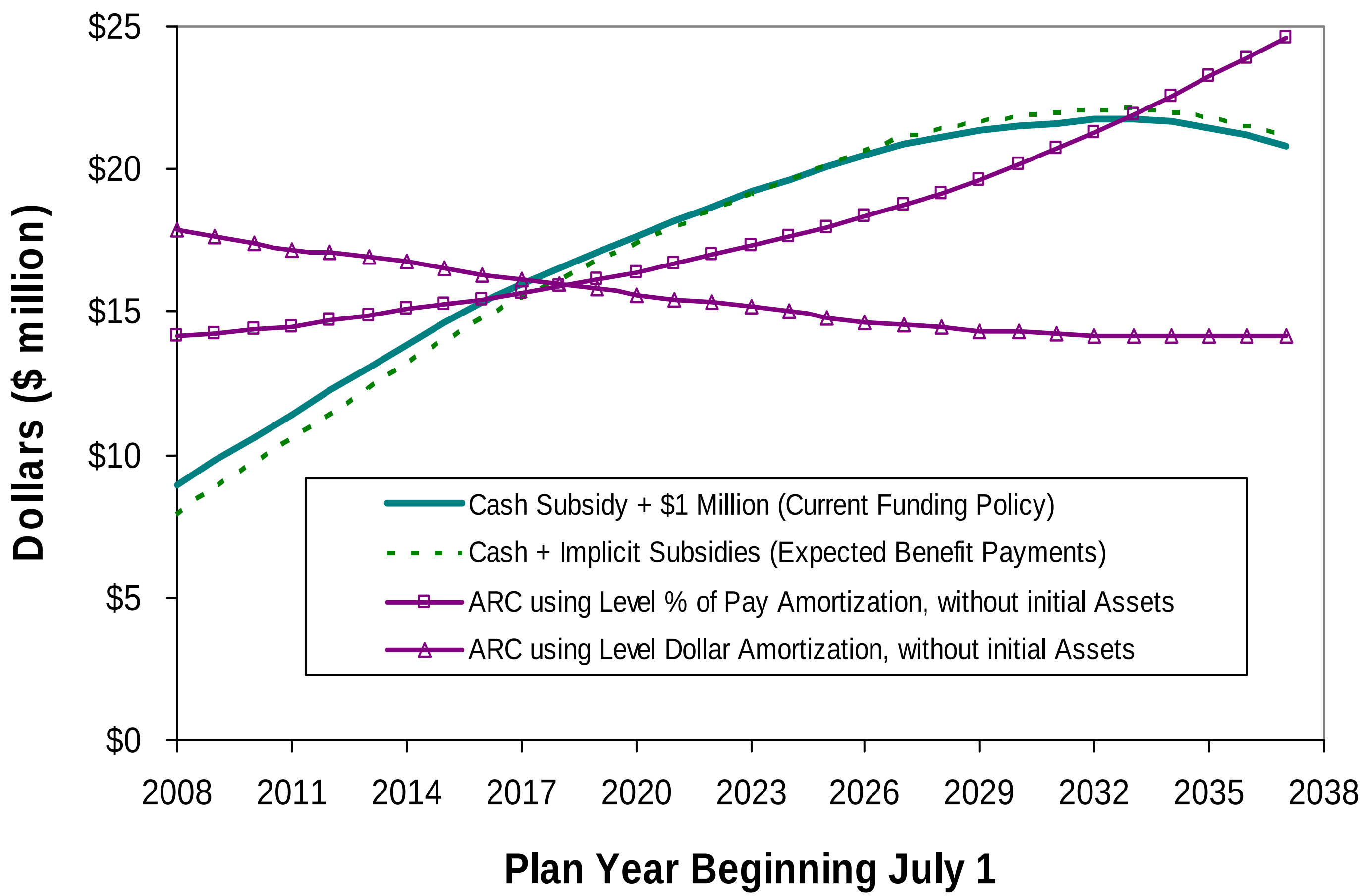
# DISADVANTAGES OF PRE-FUNDING

- First Years' Costs Higher than Pay-as-you-go
- Appearance of Vested Benefits
- Higher Operating Expenses

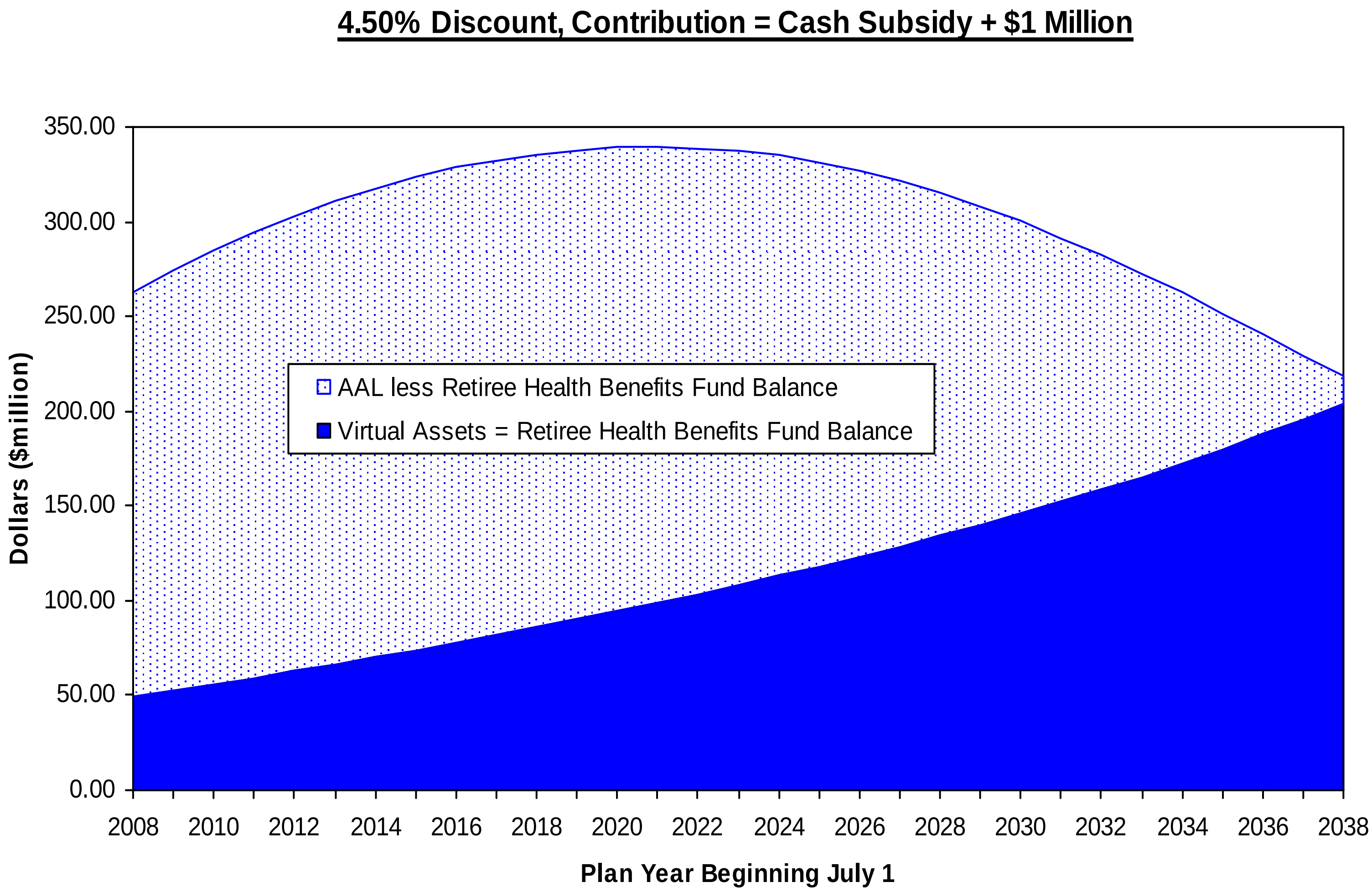
# PROJECTED ACTUARIAL ACCRUED LIABILITY (AAL)



# DISTRICT CONTRIBUTIONS: CURRENT VS. PREFUNDING WITH GASB 43/45 ARC AT 7.75%

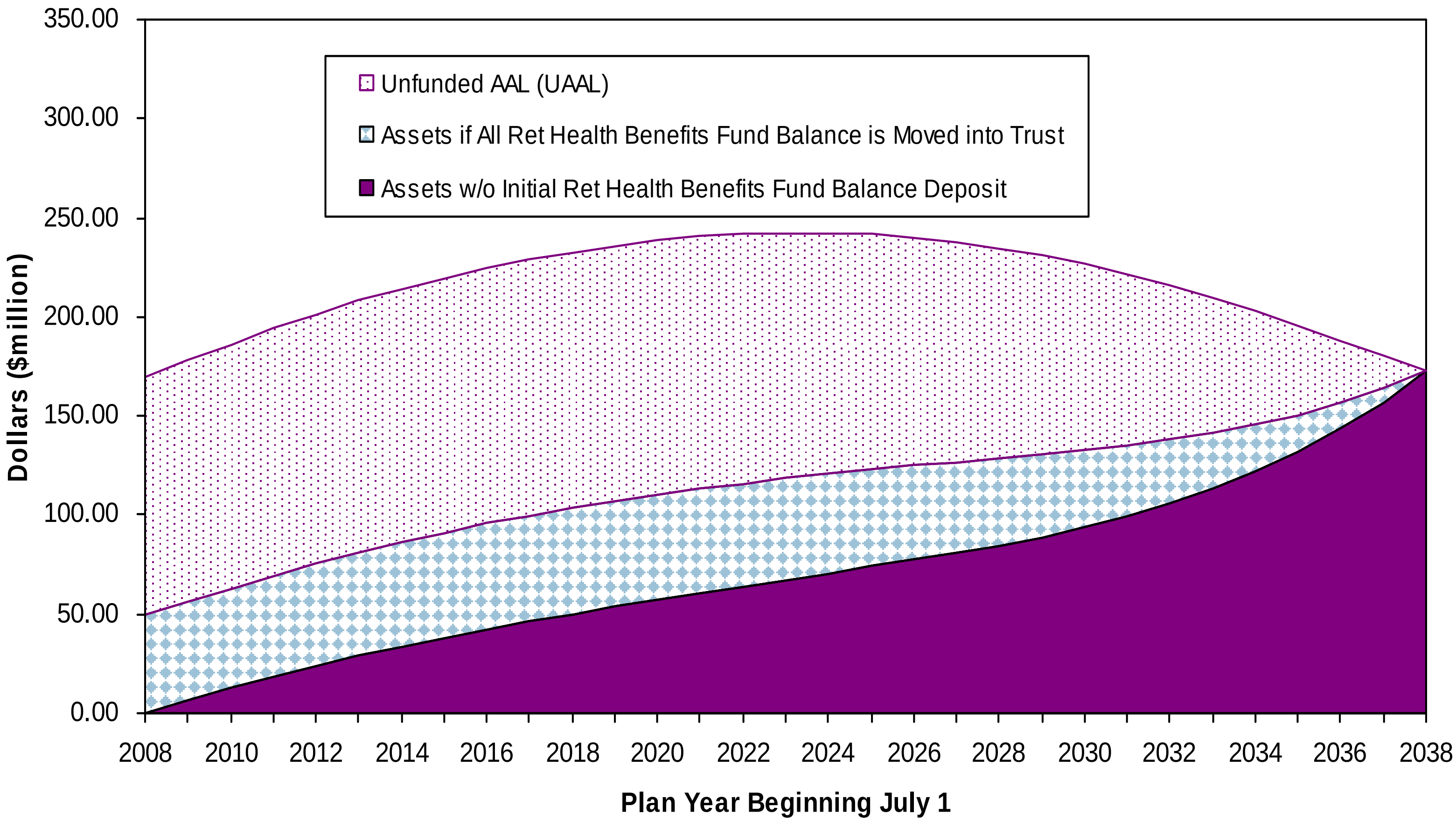


# PROJECTED ACTUARIAL ACCRUED LIABILITY (AAL), ASSETS, AND UNFUNDED AAL (UAAL) UNDER STATIC 30-YEAR FUNDING

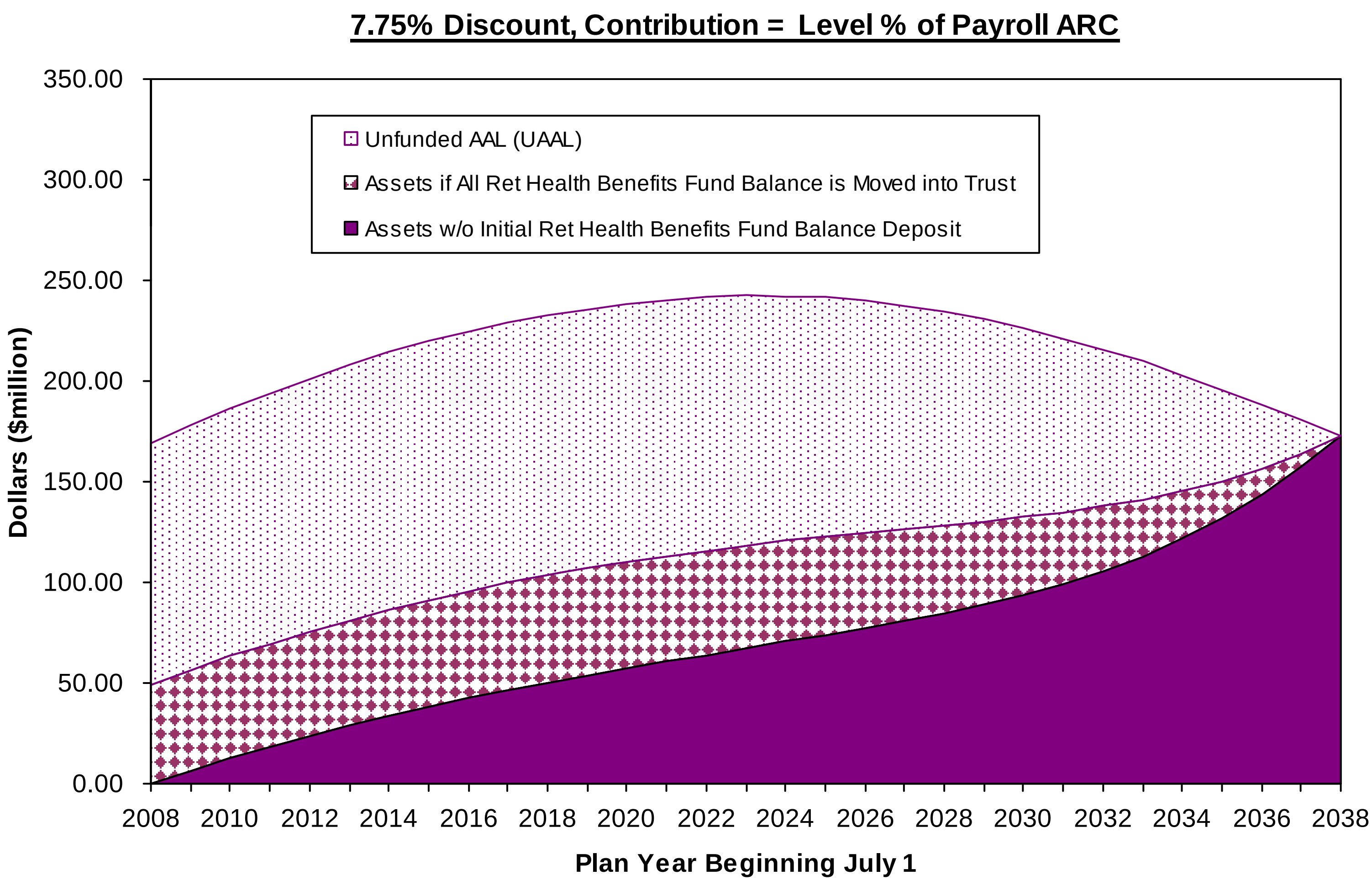


# PROJECTED ACTUARIAL ACCRUED LIABILITY (AAL), ASSETS, AND UNFUNDED AAL (UAAL) UNDER STATIC 30-YEAR FUNDING

**7.75% Discount, Contribution = Level % of Payroll ARC**



# PROJECTED ACTUARIAL ACCRUED LIABILITY (AAL), ASSETS, AND UNFUNDED AAL (UAAL) UNDER STATIC 30-YEAR FUNDING



# WHAT HAVE OTHER EMPLOYERS/PLANS DONE?

- Corporate Employers
- Multiemployer Plans
- Government Entities