

CONTRACT NAME: AGREEMENT BETWEEN TOTAL COMPENSATION SYSTEMS, INC. AND DAVIS JOINT UNIFIED SCHOOL DISTRICT

BRIEF DESCRIPTION OF CONTRACT: This is an agreement to provide Governmental Accounting Standards Board (GASB) 74/75 actuarial valuation services to the District. These consulting services are necessary to assist the District in complying with the new GASB 74/75 requirements for the current and future accounting of other postemployment benefits (OPEB).

CONSULTING SERVICES AGREEMENT

This Agreement is entered into effective the 5th day of April, 2018 by and between Total Compensation Systems, Inc. ("Consultant"), a California corporation with principal offices located at 5655 Lindero Canyon Road, Suite 223, Westlake Village, California, 91362 and Davis Joint Unified School District ("Customer").

The following shall govern the provision of consulting services by Consultant to Customer.

1. Consulting Services. Consultant shall provide the consulting services described on Schedule 1 attached hereto.
2. Compensation to Consultant. Customer shall pay Consultant for the consulting services described on Schedule 1 attached hereto the compensation set forth on Schedule 2 attached hereto.
3. Term and Termination. (a) Term. This Agreement shall commence on the date first written above and shall continue in effect until December 31, 2018, or until all consulting services described on Schedule 1 have been performed, whichever occurs first, unless sooner terminated in accordance with the provisions of this Agreement. (b) Termination Without Cause. This agreement may be terminated at any time by either party upon sixty (60) days prior written notice to the other party. (c) Termination With Cause. Either party shall have the right to terminate this Agreement upon the failure of either party to observe any of the covenants and agreements required to be observed by it under this Agreement, and such failure continues for a period of thirty (30) days after written notice thereof. (d) Rights and Obligations after Termination. Termination of this agreement shall not relieve either party of any rights or obligations arising out of the Agreement prior to termination, with the exception that the amount of the final payment that shall be made by Customer shall be based solely upon the percentage of work that was completed by Consultant.
4. Customer Will Provide Information. Customer shall provide Consultant with the information necessary for Consultant to provide the consulting services described on Schedule 1 attached hereto.
5. Authorization to Acquire Information. Customer hereby authorizes Consultant to acquire the necessary information reasonably required by Consultant to provide the consulting services described on Schedule 1 attached hereto from any agency, agencies, source or sources.
6. Customer's Right to Provide Information. Customer represents and warrants to Consultant that it has the right to provide the information that will be given by Customer to Consultant, or which will be acquired by Consultant pursuant to paragraphs 4 and 5 above.
7. Limitation on Services. Customer understands that Customer retains sole authority and responsibility for the operation and design of all Customer's employee benefit plans.
8. Ownership of Systems and Materials. All systems, programs, operating instructions, forms and other documentation prepared by or for Consultant shall be and remain the property of Consultant. All data source documents provided by Customer shall remain the property of Customer.
9. Indemnification. (a) By Customer. Customer hereby agrees to defend and indemnify Consultant and hold Consultant harmless against any claims, injury, costs or damages (including actual attorneys' fees incurred) resulting from Customer's gross negligence or willful misconduct. (b) By Consultant. Consultant hereby agrees to defend and indemnify Customer and hold Customer

harmless against any claims, injury, costs or damages (including actual attorneys' fees incurred) resulting from Consultant's gross negligence or willful misconduct.

10. General.

- a. Relationship of the Parties. The relationship between Consultant and Customer established by this Agreement is that of independent contractors. Consultant and Customer shall each conduct its respective business at its own initiative, responsibility, and expense, and shall have no authority to incur any obligations on behalf of the other.
- b. Force Majeure. No party shall have liability for damages or non-performance under this Agreement due to fire, explosion, strikes or labor disputes, water, acts of God, war, civil disturbances, acts of civil or military authorities or the public enemy, transportation, facilities, labor, fuel or energy shortages, or other causes beyond that party's control.
- c. Entire Agreement. This Agreement and the Schedules attached hereto contain the entire agreement between the parties and supersedes all previous agreements and proposals, oral or written, and all negotiations, conversations, or discussions between the parties related to the subject matter of this Agreement. This Agreement shall not be deemed or construed to be modified, amended, rescinded, canceled or waived in whole or in part, except by written amendment signed by both of the parties hereto.

11. Confidentiality. Consultant recognizes that its work will bring it into close contact with confidential information of Customer, including personal information about employees of Customer. Consultant agrees not to disclose anything that is the confidential information of Customer, or that is proprietary to Customer, including its software, its legacy applications, and its databases, to any third party.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as set forth below.

"CONSULTANT"
TOTAL COMPENSATION SYSTEMS, INC.

"CUSTOMER"
DAVIS JOINT UNIFIED SCHOOL DISTRICT

Signed: 

Signed: _____

By: Geoffrey L. Kischuk

By: _____

Title: President

Title: _____

Date: 04/05/2018

Date: _____

SCHEDULE 1

For the purposes of this Agreement, "consulting services" shall include the following services provided by Consultant to Customer:

Consulting reports including all actuarial information necessary for Customer to comply with the requirements of current GASB accounting standards 74/75 related to retiree health benefits for two years, including one full valuation and one "roll-forward" valuation. Study results will be separated between four employee classifications. Consultant will provide as many copies of the final reports as Customer shall reasonably request.

Services do not include Consultant's attendance at any meetings, unless requested by Customer at the fee shown in Schedule 2. Services also do not include a funding valuation unless requested by Customer at the fee shown in Schedule 2

SCHEDULE 2

Customer shall pay Consultant for the retiree health valuation report based on the full valuation a total of \$8,200. One-half, or \$4,100 shall be due within 30 days of the commencement of work by Consultant. One-half, or \$4,100 shall be due within 30 days of the delivery by Consultant to Customer of the draft consulting report for the full valuation (or within 30 days of contract termination, if earlier). Customer shall also pay Consultant for the retiree valuation report based on the "roll-forward" valuation a total of \$4,100 within 30 days of the delivery by Consultant to Customer of the draft consulting report for the "roll-forward" valuation (or within 30 days of contract termination, if earlier)

If Consultant receives a non-refundable deposit from Customer of \$3,690 by June 1, 2018, all amounts shown above shall be reduced by 10%.

In addition to the above fees, Customer agrees to pay Consultant an all-inclusive fee of \$1,900 per meeting to attend meetings related to the consulting services. Customer shall pay such meeting fees within 30 days of the meeting. Also in addition, to all of the above fees, Customer will pay Consultant \$2,000 for each "funding valuation" requested by Customer. Neither the meeting fee nor the fee for a "funding valuation" shall be subject to the above discount or to any other discounts.

TCS Total Compensation Systems, Inc.

April 5, 2018

Bruce Colby
Associate Superintendent of Business
Davis Joint Unified School District
526 B St
Davis, CA 95616-3811

Dear Bruce,

This letter is our proposal for GASB 74/75 actuarial valuation services. GASB 74/75 dramatically change the way services are provided, resulting in changes to our contracting practices. This letter includes a lot of information, but is crucial to understand compliance implications of GASB 74/75 for Davis Joint Unified School District.

Additional Required Work

First, while valuations are required no less frequently than every two years under GASB 74/75, a “roll-forward” calculation is also required for every valuation cycle to determine second year accounting entries. The roll-forward calculation depends on the full valuation, so the calculation is an integral part of the actuarial services for each valuation cycle. Under GASB 74/75, we not only need to make a roll-forward calculation, but generate all the information needed to create the Note Disclosures and Required Supplementary Information (RSI) schedules (see below) for the “off-year”. The roll-forward calculation will be billed separately, but is included in the same contract.

Second, greatly expanded Note Disclosure requirements require rerunning the valuation 4 additional times to quantify the net OPEB liability if interest rates are one percent higher or lower than assumed; as well as if health care trend is one percent higher or lower. The need for 4 additional complete valuation runs increases our work significantly.

Third, there will be deferred inflows and outflows that need to be calculated and tracked – some for longer than ten years. Calculating, tracking and reporting deferred items require additional work, in and of itself. Also, up to two additional valuation runs may be required to determine the amount of liability changes subject to immediate or deferred recognition.

Fourth, there is a new concept in GASB 75 known as “Actuarially Determined Contributions” or “ADC”. If an agency funds its obligation and the funding is set or recommended based on an actuarial valuation, there are ADC’s, which trigger additional Note Disclosures. Therefore, we are including a funding valuation in the contract as an, optional service.

Separate Billing for Roll-Forward Valuation

For the above reasons, the amount of work associated with performing OPEB valuations is dramatically increased. In the past, we would have had to increase fees by anywhere from \$6,000 to \$14,000 to accommodate the additional work. However, we have been working for several years to modify our systems and procedures in order to streamline the valuation process under GASB 74/75 to the greatest extent possible. We have reduced the additional required fees to a fraction of what they would have been, but our fees still unavoidably include more than an inflation increase. For Davis Joint Unified School District, our total fee for the full accounting valuation is \$8,200 and, for the roll-forward the fee is \$4,100 (i.e. excluding any meetings and excluding an ADC funding valuation). Partially offsetting the fee increase is the fact that we are offering a 10% discount as will be explained below.

Since GASB 74/75 now require actuarial calculations for the “off year”, and to make costs more manageable for our clients, we will bill the roll-forward valuation separately. As before, the first and second installments for the full valuation will be at the beginning and end of the full valuation. A third installment will be due within 30 days of completion of the roll-forward valuation. This arrangement keeps the fee for the full valuation only modestly higher than under GASB 43/45, with most of the cost increase resulting from the “off-year” valuation. (Triennial clients will also have cost increases related to moving from a three-year to a two-year cycle.)

While this fee does NOT include any on-site meetings, it *does* include unlimited phone support. The additional fee

for a meeting would be \$1,900. Our fee also does not include a valuation explicitly for funding purposes. If Davis Joint Unified School District would like an ADC funding valuation, the additional fee would be \$2,000.

Reserving Valuation Slot and Ten Percent Discount

The increased work associated with GASB 74/75 is stretching actuarial resources system wide, so there is an increased demand for services. Again, we have been preparing for GASB 74/75 for years and we have enhanced our resources to meet the greatly expanded requirements. We are aware, however, that several OPEB actuaries have recently retired, which will squeeze actuarial resources even further. As if this wasn't enough, GASB 74/75 requires all public agencies to have valuations every two years rather than allowing those agencies with fewer than 200 participants to have triennial valuations. There are a very large number of public agencies in California (perhaps 2,000) qualifying for triennial valuations under GASB 43/45 that will now be compressed into a two year cycle.

The extreme increase in the amount of work plus the scarcity of actuarial resources requires us to schedule valuations more tightly than ever before. We are giving first priority to existing clients. We will accept new clients only if we have room in our schedule after accommodating our existing clients.

In order to confidently schedule existing clients, we are asking for commitments in advance of the valuation date. To reserve a place in our schedule, we are requiring a signed contract and non-refundable deposit of one-half of the full valuation fee by June 1, 2018. The deposit is non-refundable because of the preliminary work we do to streamline valuations, as well as to compensate for downtime of resources that could result from cancelled contracts. By reserving a spot, Davis Joint Unified School District not only guarantees a valuation slot, but is given priority over every client that didn't reserve one. As an additional incentive to reserving early, we are giving a 10% discount of the full valuation fee (i.e. excluding the meeting fee and ADC funding valuation fee) – as well as of the roll-forward valuation fee – to those who reserve a spot by June 1, 2018. That means that, to reserve a spot, we must receive the signed contract and a check for \$3,690 – i.e. one-half of 90% of \$8,200 – by June 1, 2018. The following table shows the new fees under GASB 74/75:

	<u>Full GASB 74/75</u>	<u>GASB 74/75 w/ 10% Discount</u>
Fee for Full Valuation	\$8,200	\$7,380
Roll-forward Valuation for 2nd	\$4,100	\$3,690
ADC Funding Valuation Fee* (optional)	\$2,000	\$2,000
Meeting Fee* (optional)	\$1,900	\$1,900

*Not subject to 10% discount

Moving Forward

If you choose *NOT* to reserve a spot, we still hope to work with you on the GASB 74/75 valuation, though it will be at the full fee quoted above. Please understand that, although we will make every effort to accommodate our existing clients, we cannot guarantee a slot for those who don't reserve one. Should you choose to proceed, attached is a one pager describing our information needs. Depending on your plan, we may need to request additional information.

Please let me know if you have any questions about the above or about retiree health benefits, in general. We would very much appreciate once again having the opportunity to work with Davis Joint Unified School District.

Sincerely,



Geoffrey L. Kischuk, FSA, FCA, MAAA
Consultant
gkischuk@totcomp.com

encl.

DATA NEEDED TO COMPLETE RETIREE HEALTH VALUATION:

BENEFIT DESCRIPTION DOCUMENTS

To conduct a valuation, we need a full description of retiree health eligibility rules, extent of employer contributions, duration of coverage, etc. These are most commonly included in relevant sections of collective bargaining agreements, Board policies, etc. If you provide us with language from collective bargaining agreements, please also include a description of benefits provided to *non-bargained* employees (e.g. management, confidential, etc.)

DEMOGRAPHIC INFORMATION

In addition, we need demographic information. Following are the data elements we need to perform the retiree health valuation. It is OK to send data for active employees and retirees separately *as long as the data is "as of" the same date*. If possible, the data should be sent via E-mail to gkischuk@totcomp.com, in a standard file format (e.g. ASCII text, Excel, DBF, Access, etc). We can arrange a secured transfer upon request. Please note that we recognize that all data is sensitive and confidential and we take steps to safeguard the privacy of that data.

Active Employees:

NOTE: Please include a record for all benefit eligible employees, whether they receive benefits or not; and whether they are eligible for retiree benefits or not. There is no need to include records for employees who are not eligible for health benefits as an active employee.

- SSN, Identification Number or other unique identifying information
- Date of Birth
- Sex
- Hire Date
- % FTE Indicator
- Employee Classification/Bargaining Unit
- Current rate of regular pay used to generate pension credits
- Frequency of above pay rate (e.g. hourly, monthly, annual, etc.)
- An indication of the medical plan and coverage level (i.e. employee only, employee + one, etc.)

Retired Employees:

NOTE: Please only include records for retirees who receive medical and/or dental benefits or indicate in the record whether and which benefits a retiree has. Retirees should be included even if they are intended to pay the entire cost of their benefits.

- SSN, Identification Number or other unique identifying information
- Date of Birth
- Sex
- Retirement Date (if available)
- Employee Classification/Bargaining Unit
- District Contributions for retiree health benefits or enrolled plan (if available)

MEDICAL COST INFORMATION

If medical benefits are NOT provided through the CalPERS medical plan, please provide medical premium rates (including both employee and employer share) for active employees and also for retirees. If claim information is available, please provide the most recent 12 months of month by month claim data and month by month enrollment (by coverage type) for the most recent available 12 months. If there is an annual rate renewal calculation, please provide the most recent documentation.

MISCELLANEOUS

If OPEB benefits are being funded through a trust, please provide the most recent trust asset statement.