Sacramento County Office of Education

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August 3, 2010

The Honorable Steve White
Presiding Judge
Sacramento County Superior Court
720 9th Street, Dept. 47
Sacramento, CA 95814

Dear Judge White:

This letter is in response to the 2009-2010 Grand Jury Report on "Unfunded Liabilities for Retiree Health Benefits."

As you may know, thirteen school districts and the Sacramento County Office of Education (SCOE) educate students and employ staff in Sacramento County.[1] The Superintendents of each of the school districts in the county asked SCOE to compile and submit a comprehensive response on their behalf. Some districts may also provide supplemental responses, as does SCOE below.

Attachment A is a matrix setting forth the responses from thirteen school districts and SCOE to each of the Grand Jury's findings and recommendations regarding "Unfunded Liabilities for Retiree Health Benefits." In addition to the attached responses, we would also like to note the following suggested corrections to the Grand Jury's Report:

1) The summary to the report states the following:

 "Districts and employees negotiated the benefits when times were good, but no funds were ever set aside to pay for them. Apparently districts thought they could pay from each year's budget."

 Some districts have funds set aside as detailed in Attachment A. We believe a more accurate statement would say that ***some*** districts did not set funds aside.

[1] Arcohe Union, Center Joint Unified, Elk Grove Unified, Elverta Joint, Folsom Cordova Unified, Galt Joint Union, Galt Joint Union High, Natomas Unified, River Delta Unified, Robla, Sacramento City Unified, San Juan Unified, Twin Rivers Unified

2) The Chart entitled *School District Responses for Information on Unfunded Liabilities for Retired Employee Health Benefits* shows that some districts did not bring up the issue of unfunded liability for retired employee health benefits with their board of education within the last three years. This is incorrect as all districts with these liabilities report this information to their boards of education a minimum of four times per year in their budget and audit documents. Our review of these reports shows all districts required to disclose this information did so. Therefore, the Report should leave this column off the chart.

3) In the first paragraph of the discussion section, the Report states:

   "While these costs have increased exponentially, school districts, boards and superintendents have either been unaware of or ignored their growing liability for retiree health care benefits."

   As detailed in Attachment A, some school districts do have funding plans that consider the increasing health costs as part of the funding plan. Therefore, we believe a more accurate statement would state that ***some*** school districts, boards and superintendents have either been unaware of or ignored their growing liability for retiree health care benefits.

4) In the second paragraph of the discussion section, the report states that four school districts have not discussed the topic of unfunded health care liabilities for retirees in the last three years. This statement is inconsistent with the Grand Jury's chart which states that three districts haven't discussed the topic. With regard to the fourth district, Galt Joint Union High School District (grades 9-12), the topic would not apply as they don't offer retiree health benefits. Furthermore, as noted above in response No. 2, all districts with this liability have brought this information to their boards. Therefore, we believe it would be more accurate to leave this sentence out of the Report.

5) In the sixth and seventh paragraphs of the discussion section, the report makes generalized comments about boards and unions that appear to be opinions and are certainly not fact about all unions and boards. We believe that these paragraphs do not help to make the point of the report.

6) The conclusion section of the report states:

   "Unless union contracts are renegotiated so that benefits are reduced or employees contribute to the payment to healthcare costs, the consequences will be devastating."

We believe a more accurate statement would be to say that unless union contracts are renegotiated so that benefits are reduced or ***funding sources (such as employee contributions) are identified to contribute to a funding plan,*** the consequences ***could be*** devastating.

SCOE's Supplemental Response

On behalf of SCOE, I would like to emphasize that in 2006 SCOE implemented a trust agreement with the Public Employee Retirement System (PERS) to provide for the long-term costs of its retiree health benefits. Before the trust was established in 2006, SCOE negotiated and reached agreement with its employee unions for increased vesting requirements, decreased benefits, and increased employee and employer contributions. These changes and the resulting trust will fund the costs of SCOE retiree health benefits. Nevertheless, we continue to review and re-evaluate these issues on an annual basis.

Thank you for your time and consideration. If you need any further information, or if I can provide any additional assistance, please feel free to call me at (916) 228-2410.

Sincerely,

David W. Gordon

David W. Gordon
Sacramento County Superintendent of Schools

DWG/TS/jm

Attachments

cc: Becky Castaneda, Grand Jury Coordinator
castanb@saccourt.com

Attachment A: Sacramento County School Districts' and SCOE's Responses to Grand Jury Report on "Unfunded Liabilities for Retiree Health Benefits"

	Finding 1 – Sacramento County school district boards are not knowledgeable about the ultimate long-term fiscal impacts the unfunded liability for retiree health benefits will have on their districts.	**Finding 2** – Sacramento County school districts have a variety of approaches in addressing the unfunded liabilities for contracted retiree health benefits. Some of those approaches include: • Creating trust funds or other funding plans but stopping all contributions to them due to current economic conditions • Creating trust funds and contributing to them • Ignoring the problem • Regarding the GASB standards as a "plan" when in fact it is only an accounting statement • Utilizing an annual pay-as-you-go approach to these obligations, relying on their general funds for retiree health benefits.		
	Recommendation 1.1 – Sacramento County school district boards and superintendents, with advice from actuaries and accountants, should immediately assess and quantify their long-term OPEB obligations and ramifications.	**Recommendation 2.1** - All school districts should have a funding plan and a schedule of contributions in their 2011-2012 budgets.	**Recommendation 2.2** – School district boards must find means other than pay-as-you-go for funding these on-going and increasing expenses.	**Recommendation 2.3** – All school boards should begin serious negotiations with their employee unions to reduce benefits or increase contributions.
District	**Response 1.1**	**Response 2.1**	**Response 2.2**	**Response 2.3**
Arcohe (K-8)	Arcohe has an updated actuarial study in place and accountants continue to monitor.	Arcohe, working with SCOE, has a funding plan in place for the current and future budgets. The funding plan has set aside an amount above the pay-as-you-go amount. Arcohe continues to explore all options for funding.	Arcohe has a funding plan that has set aside an amount above the pay-as-you-go amount. Arcohe continues to explore all options for funding.	Arcohe already has negotiated a plan to eliminate post employment benefits.
Center (K-12)	The District has quantified its long term OBEP obligation with an actuary and will continue to assess and reevaluate. A funding mechanism will be in place within the next fiscal year.	We are utilizing an annual pay-as-you-go approach to date. Plans have been discussed with the Board to establish a trust and a schedule of contributions.	The Board is prepared to work towards creating a trust during the 2010/11 fiscal year. All pay-as-you-go expenses are in the budget.	The District negotiates each year with employee unions to reevaluate shared expenses. During the 2009/10 fiscal year we established an HSA to save money for both the District and its employees.
Elk Grove (K-12)(LT)	Please see attached letter dated 07/15/10.	Please see attached letter dated 07/15/10.	Please see attached letter dated 07/15/10.	Please see attached letter dated 07/15/10.

Attachment A: Sacramento County School Districts' and SCOE's Responses to Grand Jury Report on "Unfunded Liabilities for Retiree Health Benefits"

Elverta (K-8)	The district provides lifetime benefits to only one person (retired superintendent). No retiree benefits for any other employees.	District utilizes an annual pay-as-you-go approach which is appropriate for a plan with only a single retiree.	District utilizes an annual pay-as-you-go approach which is appropriate for a plan with only a single retiree. The District is not offering this benefit to anyone else.	The district already negotiated a cap on benefits at $4800 per year ($400/mo) for full-time employees. This is pro-rated for less than full-time employees.
Folsom Cordova (K-12)	Based on actuarial reports updated every three years, FCUSD has identified its long term OPEB obligations and ramifications.	The FCUSD Board of Education established an irrevocable trust in 2007. The current fund balance is $5.6 million leaving an unfunded liability of $18.7 million. Each year, FCUSD deposits the value of .5% - 1% of its payroll into its irrevocable trust to annually reduce its unfunded liability.	FCUSD does have a plan other than pay-as-you-go. Each year, FCUSD deposits the value of .5% - 1% of its payroll into its irrevocable trust to annually reduce its unfunded liability.	The cost of OPEB has been discussed with both employee unions and they acknowledge the on-going obligations and funding plan.
Galt (K-8)	Galt Elementary has a current actuarial that quantifies its long-term OPEB obligations. It is currently having this actuarial updated.	Galt Elementary includes the retiree benefit costs in each of its multiyear analysis projections, but does not have a long term funding plan. The creation of a plan will involve lengthy negotiations with employee groups. Due to the current fiscal crisis, negotiating a plan does not look promising due to the impact of furlough days, etc. on employees. This would need to be a goal once the state has restored district finances to 100%, but not in the immediate future.	Galt Elementary has used a pay-as-you-go funding source for many years. Given the current fiscal crisis, funding other than pay-as-you-go is difficult, if not impossible to achieve. This would need to be a goal once the state has restored district finances to 100%, but not in the immediate future.	Galt Elementary currently has a cap on employee health benefits, including retiree benefits. Changing this cap will involve lengthy negotiations with employee groups and does not look promising for compromise in the near future, due to the current fiscal crises already taking furlough days, etc. from employees. This would need to be a goal once the state has restored district finances to 100%, but not in the immediate future.
Galt (9-12)	Does not apply because Galt Joint Union High School District does not offer retiree health benefits.	Does not apply because Galt Joint Union High School District does not offer retiree health benefits.	Does not apply because Galt Joint Union High School District does not offer retiree health benefits.	Does not apply because Galt Joint Union High School District does not offer retiree health benefits.

Attachment A: Sacramento County School Districts' and SCOE's Responses to Grand Jury Report on "Unfunded Liabilities for Retiree Health Benefits"

Natomas (K-12)	The Board is knowledgeable about the long-term fiscal impacts, having received actuarial reports dated June 2005, October 2007 and April 2010.	The Natomas Unified School District has been covering the current year annual costs on a Pay-As-You –Go basis. The district had a partial funding plan, and was contributing $638,000 in 2006-07 and 2007-08, even though it was recognized that this was not as much as the Actuary recommended. Due to the severe budget crisis the District is facing, the District discontinued the annual contribution as of 2008-09, and transferred most of the balance, $1,892,560 out of the Special Reserve Fund for Postemployment Benefits to the General Fund.	The District has a Negative Financial Certification, and is facing upward of a $17 million deficit over the next three years in the General Fund. The District will develop a funding plan for retiree benefits within the greater plan to solve the General Fund's fiscal crisis.	The District has, and continues, in the process of negotiations with its employer groups for solutions to the budget crisis.
River Delta (K-12)	In 2006 the District contracted with Public Agency Retirement Services (PARS) to assist with the implementation of GASB 45. A few of the services include maintaining a current actuarial study and managing the trust. As information is updated, reports are presented to the District's Board of Trustees and disclosed in the annual financial audit. The recent actuarial report presented was for the period ending July 2008. The next report is due July 2010. The District is in the process of updating the actuarial study as required.	PARS provides a plan for funding the current and future liability. The District contributes 1% of employee's salaries to the plan and funds the current obligations on a "pay-as-you-go." Due to the budget reductions, the District is unable to fund above the current obligations. The 1% contribution is included in the District's budget and treated like any other statutory benefit.	The District does have a plan to fund beyond the "pay-as-you-go" but due to the severe revenue reductions, the District does not have the resources to contribute additional funds to the plan. As funding permits, the District intends to fund above the "pay-as-you-go."	The District has negotiated this issue with the following results. The District's health benefits are capped at $400 per month and the District does not plan to increase this cap. In addition, the post employment benefit is only available to qualifying retirees as follows: $300 per month, must have worked last 10 consecutive years for the District, and have reached age 55 or older. Finally, retirees will not receive this benefit beyond age 65. Therefore, the District's costs are controlled and not escalating.

Robla (K-8)	The Board has reviewed and discussed the actuaries as well as had discussions with the District external auditors. They understand the extent and obligations of unfunded OPEB as well as understand that the District is currently "pay as you go". Current consideration is underway for resolution to fund future liability.	The Board has discussed options for the funding plan. These options are currently under consideration and it is expected that implementation will be available in 2011-2012.	The Board is currently exploring options to fund the outstanding OPEB obligation. This plan is expected to be implemented by 2011-2012.	The District has negotiated health benefits and currently offers sufficient, but not excessive, benefits to retirees. There are no current year or future retirees eligible for lifetime benefits. Retiree benefits are capped at the rate the retiree was entitled to on the last day of employment.
SCUSD (K-12)(LT)	Already Implemented. The Sacramento City Unified School District has been discussing the impact of the unfunded liability for a number of years. In 2005-06, the Board made a decision to set aside funds to contribute towards the liability even though the District was faced with financial constraints. While the funding stream was not on-going, the Board took the liability seriously and took early steps to begin addressing it. The District conducts an actuarial study every two years to quantify and project liabilities related to the District's other post-employment benefits (OPEB) obligations. The most recent, December 1, 2008, actuarial study was presented to the Governing Board and the public on March 4, 2010. The next actuarial study will be conducted as of December, 2010 and the results of that study will similarly be presented to the Governing Board and the public. In addition to conduction periodic	Will be implemented in the future. The District agrees that a funding plan is necessary. One component of the funding plan will be employee contributions and this component will begin with the start of the 2010-11 school year – based on a recent agreement with SCTA. The District begins the budget process for its 2011-12 budget in January. Given the instability and uncertainty in state funding of education and the record budget cuts that the District has been forced to absorb, additional funding commitments by the District in its 2011-12 budget will depend upon additional agreement and changes with our collective bargaining partners and the amount of new funding the District receives, through COLA to the District's apportionment, grants or other sources.	Will be implemented in the future. Through the collective bargaining process, the District has recently reached an agreement with its largest union, the Sacramento City Teachers Association, under which the District and the union agree to "work together to create a Trust to administer and fund the GASB-45 liability." The District has five different bargaining units that are each represented by different unions. The District will be working with each of these bargaining units to reach agreement on a Trust under which the District can pre-fund its OPEB obligations. Under an agreement with the District's teachers, current certificated employees will be making contributions towards the cost of their retiree health care beginning with the 2010-11 school year. These pre-funding contributions must be placed into a Trust that will be jointly administered.	Agree. Implementation in process. The District has recently reached an agreement with its largest union, the Sacramento City Teachers Association, which will result in a significant reduction of the District's OPEB liability. Under applicable provisions of the Education Code, the agreement with the teachers association was reviewed and approved by the Sacramento County Superintendent of Schools. This agreement will lower health care costs for both current and retired employees by making the following changes: a) Change in Health Net prescription program to increase co-pays. b) Change in the out-of-area coverage for retirees over 65 - to bring in line with costs for the District's in-area program. c) Extending in the vesting period to qualify for retiree health benefits

	actuarial studies, the District is also conferring with its consulting actuary to determine the projected savings of recently negotiated retiree health benefits and potential areas of change to create more savings.			from the current 10 years to 15 to 20 years, depending upon the age of retirement. d) Allowing retirees eligible for health benefits to decline coverage in return for a stipend equal to 50% of the premium cost. e) Begin employee contributions towards the cost of retiree health care. Contributions will by $15 per month in 2010/11 and will increase to $20 per month in 2011/12. These contributions are to be deposited into a jointly administered Trust. The District understands that the issue of unfunded OPEB liability will not be resolved by the changes that the District has already negotiated and that the solution to this issue will require additional and continued attention over several years. Negotiations with the District's unions over health benefit costs will resume as the relevant contract articles open for negotiation under the laws applicable to collective bargaining. Moreover, a committee of bargaining unit representatives and district staff will meet starting in July to discuss potential funding ideas.

San Juan (K-12)	2007-08 was the first year that larger school agencies are required to begin reporting the Other Postemployment Benefits (OPEB) liability. San Juan Unified School District reports the OPEB obligations in the annual audit report prepared by the district's independent external auditor and presented to its Audit Committee and Board of Education. 2007-08 Fiscal Year Note 9 of the Audit Report-Audit Committee met December 16, 2008 and the Board of Education met December 16, 2008. 2008-09 Fiscal Year Note 9 of the Audit Report – Audit Committee met December 12, 2009 and the Board of Education met December 15, 2009.	On December 11, 2007, the San Juan Unified School District administration presented the 2007-08 First Interim Report to the Board of Education. The multi-year projection included an annual contribution starting in 2008-09 to fund the Other Post Employment Benefits (OPEB) liability over a 30 year period after completion of last PARS payment. On March 11, 2008, due to the State budget, SJUSD administration recommended delaying the OPEB contribution indefinitely. The State school funding budget crisis continues with funding being reduced by -15% (revenue limits) and -20% for categorical funds from a base of 2007-08.	San Juan Unified School District agrees with the recommendation. The District will examine establishing an irrevocable trust for retiree health benefits.	The District will include proposals to address the OPEB liability with both represented and non-represented employees during future bargaining. The District will examine options with employee groups to include modifying benefits; pre-funding the retiree obligation; increasing employee/retiree contributions; and/or establishing longer vesting periods.
Twin Rivers (K-12)	The Twin Rivers Unified School District annually contracts with an actuary to determine the magnitude of the OPEB liability. Although an on-going funding mechanism is in place, with State revenues cut by over 20% it is not possible to fully fund at this time.	TRUSD has a funding plan and an irrevocable trust fund for OPEB liability in place which is reviewed and updated annually. The contribution is based on projected pay-as-you-go financing requirements, with an amount to fund the actuarial accrued liability as determined annually by the board.	At the current time, the lack of adequate State funding does not permit the District to continue funding the irrevocable trust fund that was established to fully fund our OPEB liability. Until such time as funding improves, the District must use pay-as-you-go.	TRUSD already reduced benefits coverage for employees and continues to maintain a cap for retirees in order to control current OPEB costs and future liability.

SCOE (LT)	With advice from actuaries and accountants SCOE has and continues to assess and quantify its Long-Term OPEB obligations. An on-going funding mechanism is in place to fully fund the liability. In 2006, SCOE implemented a trust agreement with PERS to address the long-term unfunded liabilities associated with life time health benefits.	SCOE does have a funding plan that is updated on an annual basis. SCOE currently funds at a rate of 6% of employee's salaries. The contributions are appropriately budgeted in all budget years.	SCOE does have a funding plan other than pay-as-you-go for funding these on-going and increasing expenses. SCOE currently funds at a rate of 6% of employee's salaries.	SCOE already negotiated their plan to reduce benefits and increase contributions when they established the trust in 2006. SCOE negotiated increased vesting requirements, decreased benefits, employee contributions, and employer contributions. No other changes are necessary at this time, but we do reevaluate annually.

Steven M. Ladd, Ed.D.
Superintendent

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9510 Elk Grove-Florin Road, Elk Grove, California 95624

July 15, 2010

COPY

The Honorable Steve White, Presiding Judge
Sacramento County Superior Court
720 9th Street, Dept. 47
Sacramento, CA 95814

Dear Judge White:

Following is the Elk Grove Unified School District's response to findings and recommendation to the Sacramento County Grand Jury's 2009-10 Final Report regarding Unfunded Liabilities for Retiree Health Benefits. This response was approved by the Board of Education of the Elk Grove Unified School District at its regular meeting held July 13, 2010.

Finding 1. Sacramento County school district boards are not knowledgeable about the ultimate long-term fiscal impacts the unfunded liability for retiree health benefits will have on their districts.

Response to Finding 1: Disagree with Finding as to the Governing Board of the Elk Grove Unified School District. The District cannot comment on whether members of governing boards in other school districts are aware of the long-term fiscal impacts arising from unfunded liabilities for retiree health care. However, the Board members in this District are very aware of the funding issues related to post-retirement health care obligations and have been proactive in addressing these issues.

In 1995, before GASB-45 was implemented, the District and its employee organizations agreed to create the Elk Grove Benefits Employee Retirement Trust. a.k.a., EGBERT. EGBERT was formed as a voluntary employee benefits association, or VEBA, in accordance with Internal Revenue Code section 501(c)(9), and is jointly administered by a separate board made up of labor and management representatives. All eligible District employees who retire on July 1, 2000 or after receive their retirement health benefits through EGBERT and not the District.

The District makes financial contributions to the EGBERT trust in amounts that are negotiated with the District's employee organizations. In this "pre-pay" model, EGBERT manages the money held in its trust and is responsible for ensuring that the benefits EGBERT provides are within EGBERT's ability to pay. The District would like to note that the 2008 Sacramento County Grand Jury specifically found that "EGBERT has done well with its investments and with controlling management and consultant costs." (2007-2008 Final Report, Finding 2A, p.60.)

The District's Board remains informed about the funding status of EGBERT through review of the actuarial reports prepared by EGBERT's actuary, and through the collective bargaining process with its employee organizations. Members of the District's Board have held a public Board and Cabinet retreat, which included representatives of the EGBERT Board, to discuss EGBERT's accrued liabilities and available funds.

Recommendation 1.1: Sacramento County school district boards and superintendents, with advice from actuaries and accountants, should immediately assess and quantify their long-term OPEB obligations and ramifications.

Response to Recommendation 1.1: Already Implemented.

The District conducts an actuarial study every two years to quantify and project liabilities related to the District's other post-employment benefits ("OPEB") obligations. EGBERT also conducts an actuarial study every two years to project EGBERT's liabilities and the EGBERT actuarial report is shared with the District's Governing Board. Additionally, both the EGBERT Board and the District's Board occasionally consult with their retained actuaries regarding the effects of proposed changes to OPEB, changes in eligibility for OPEB, or how those benefits are provided.

Finding 2. Sacramento County school districts have a variety of approaches in addressing the unfunded liabilities for contracted retiree health benefits. Some of those approaches include:

- Creating trust funds or other funding plans but stopping all contributions to them due to current economic conditions
- Creating trust funds and contributing to them
- Ignoring the problem
- Regarding the GASB standards as a "plan" when in fact it is only an accounting statement
- Utilizing an annual pay-as-you-go approach to these obligations, relying on their general funds for retiree health benefits.

Response to Finding 2: Agree with Finding.

Recommendation 2.1 All school districts should have a funding plan, and a schedule of contributions in their 2011-2012 budgets.

Response to Recommendation 2.1: Already Implemented.

The District's contributions to EGBERT are determined through collective bargaining with its employee organizations. The District has historically contributed more to EGBERT than

EGBERT pays out in benefits, and more than the "normal contribution" determined by EGBERT's actuary. For the 2010-2011 school year, the District's budgeted contribution to EGBERT will again be more than the actuarial normal contribution. As explained in more detail below, the District's contribution to EGBERT for 2011-2012 will increase. However, it is not possible to place the 2011-2012 contribution in context until EGBERT receives an updated actuarial report.

Recommendation 2.2 School district boards must find means other than pay-as-you-go for funding these ongoing and increasing expenses.

Response to Recommendation 2.2: Already Implemented.

Only those qualified employees who retired prior to July 1, 2000 have their post-retirement health care provided by the District. This represents a limited number of people that cannot be increased. The District does pay for these benefits on a pay-as-you-go basis. However, the amount of this liability is budgeted and will continue to decrease over time as the pool of eligible retirees diminishes. All other District employees that qualify for post-retirement health benefits must receive those benefits from EGBERT. As described above, EGBERT was established more than ten years ago and follows a pre-funding model where future liabilities are prefunded through current contributions.

Recommendation 2.3 All school boards should begin serious negotiations with their employee unions to reduce benefits or increase contributions.

Response to Recommendation 2.3: Already Implemented.

All employees that have retired on July 1, 2000 or after, and are eligible for post-retirement health benefits receive those benefits from EGBERT. The EGBERT Board has the exclusive authority to determine the level of benefits that it will provide and therefore the District does not negotiate with its employee organizations regarding the level of post-employment benefits. The District does, however, negotiate with its employee organizations regarding the eligibility requirements for post-retirement health care and has already negotiated changes to the terms of eligibility, such as increasing the vesting period from ten to fifteen years. This longer vesting period will both lower projected costs as well as help make sure that the individuals who qualify for post-retirement health care have worked for the district longer over the period of their active employment to contribute more toward the cost of their benefits in retirement.

In 2006-2007, instead of increasing each salary schedule by 1%, the District and its employee organizations agreed that an amount equal to 1% of salaries would be contributed to EGBERT. This contribution has been made each year and will continue on an ongoing basis.

In 2009-2010, the District reached a negotiated agreement with its teachers' union under which the District began contributing to EGBERT an amount equal to an additional 1% of teachers' salaries. This contribution will be made yearly on an ongoing basis. The District also reached negotiated agreements with most of its other employee organizations under which the District will contribute to EGBERT an amount equal to .25% of salaries in 2010-2011, with the percentage increasing by .25% per year in each of the following three years until it equals a full 1% of salaries.

In addition to the contributions that are based upon a percentage of salary, the District also contributes a fixed amount per month, per employee, to EGBERT. For the 2009-2010 school year the District contributed $80 per month, per employee, to EGBERT. Pursuant to negotiated agreements with most of its employee organizations, the District's monthly contribution will increase by $10 in each of the next five years as demonstrated in the following table:

SCHOOL YEAR	MONTHLY CONTRIBUTION
2010-2011	$90
2011-2012	$100
2012-2013	$110
2013-2014	$120
2014-2015	$130

The District has also agreed to make a one-time contribution of $1,650,000 to EGBERT. This lump sum contribution will be made in the future when state deficited revenues are received by the District.

One of the District's employee organizations did not agree to increased contributions to EGBERT. The EGBERT Board, in exercise of its exclusive authority to determine the level of benefits that EGBERT provides, has reduced the retirement benefits for all members of this employee organization who retire on July 1 2010, or after, to more closely match revenues and expenses and protect the fiscal health of the trust.

The combined effect of the extended vesting period, reduction of benefits, increases in fixed contributions, contributions based upon a percentage of salary, and lump sum contributions is expected to substantially increase EGBERT's funded status. The District understands that the issue of unfunded OPEB liability will not be completely resolved by the changes that the District has already negotiated and that the solution to this issue will require continued attention over several years. Negotiations with the District's employee organizations will continue to address these issues in the future.

Sincerely,

Steven M. Ladd, Ed.D.
Superintendent and Secretary to the Board of Education

cc: Members of the Board of Education, Elk Grove Unified School District
Mr. David W. Gordon, Superintendent, Sacramento County Office of Education
Ms. Tamara J. Sanchez, Assistant Superintendent, Business Services, Sacramento County Office of Education
Mr. Rich Fagan, Associate Superintendent, Finance and School Support, Elk Grove Unified School District
Mr. Glen De Graw, Associate Superintendent, Human Resources, Elk Grove Unified School District and EGBERT Management Co-Chair
Mr. Charles F. Chatten, EGBERT Labor Co-Chair

Unfunded Liabilities for Retiree Health Benefits

A School District Fiscal Time Bomb!

Summary

The school districts in Sacramento County have an unfunded liability for retiree health benefits approaching $1 billion. While the districts owe retiring or retired teachers and other employees that sum, many districts do not have the money to pay their obligations. Districts and employees negotiated the benefits when times were good, but no funds were ever set aside to pay for them. Apparently districts thought they could pay from each year's budget. However, that is not a realistic expectation. Sacramento City Unified School District alone owes $500,000,000 and is trying to put aside $1 million each year to pay the obligation. The liabilities are so large that school districts may go bankrupt or retired teachers may not receive health benefits. Yet many districts admit they have no plan to deal with their unfunded liability.

The attached table reflects self-reported information from each school district in Sacramento County and the Sacramento County Office of Education regarding the unfunded liabilities for retired employees' health benefits. This table includes the adopted budgets, shows whether or not the districts have discussed this issue at a board of education public meeting in the last three years, and if there is a plan to fund its debts. The notes represent some of the detailed information given to the grand jury.

Definitions

For purposes of this report the following definitions are provided:

"<u>Pre-funding</u>" is setting aside funds to pay for future benefits while the employee is working.

"<u>Pay-as-you-go</u>" is meeting the employers' OPEB[1] cost obligation on a year to year basis with current revenue.

"Unfunded liability" is the actuarial value of anticipated future financial obligations that is not covered by similar value of assets and anticipated revenues.

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[1] OPEB includes post employment healthcare, as well as other forms of post employment benefits (for example, life insurance) when provided separately from a pension plan. (Governmental Accounting Standards Board summary of Statement 45, June, 2004.)

Background

The history of collective bargaining by teachers dates from the 1960s. Prior to this, school districts and administrators had virtually unrestricted power to establish working conditions and compensation for teachers. Pensions were generally awarded to retired teachers at age 65, with 35 years of service. In the early 1960s, various states granted school employees the right to "meet and confer", a form of collective bargaining. Resulting agreements offered salary stability, guaranteed benefits, and modifications of terms and conditions of employment for school employees.

Retiree health benefits were initially granted to school district employees from generous and well-to-do school districts. Some of these health benefits were lifetime and some included family coverage. The school districts often bore the entire cost of these benefits. These benefits became the subject of meet and confer sessions and went on to be a very important part of collective bargaining between boards of education and employees.

Since 1985, the California State Legislature has taken several actions to enhance health benefits of retired teachers. Districts that provide health and/or dental benefits for current teachers must permit retired teachers and their spouses to enroll in the same plan. The law also allows plans to set higher premiums for retired members as compared to current employees. This is based on retirees' typically higher utilization of medical services. However, state law does not include a requirement for districts to contribute to retirees' coverage. Thus many districts have obligated themselves contractually to fund these benefits but never set aside any money for them.

Approach

In gathering data for this study, the grand jury conducted interviews and took sworn testimony from school board members, superintendents, district personnel, and an actuary with a public entity; reviewed collective bargaining agreements and the minutes of school board meetings; reviewed district policies and administrative procedures; and attended school board meetings. A self-reported survey was completed and submitted by each school district and the county office of education.

Disclaimer

Sacramento County school districts were asked to self-report the dollar amount of unfunded liability for retiree health care costs. The cost of these future benefits is part of the total obligation of each district. The attached table contains the amounts reported. The accounting/actuarial methods used by each district for arriving at the amounts may not be the same. Some districts chose the Other Post Employment Benefits (OPEB) amount while other districts used actual retiree health care benefits costs. Reported amounts require numerous inputs and assumptions and these vary widely among the districts. Some districts only report their cash outlays for OPEB benefits in a given year, rather than reporting employer costs of accrued OPEB benefits earned by employees in that year--and these two amounts may differ. In this study it was not possible to examine the details of each reported unfunded liability or to bring these amounts to a common definition with common assumptions. As a result, the districts' actual unfunded liability amounts could vary significantly from the self-reported unfunded health liability amounts in the table.

Nevertheless, these potential variations do not change county school districts' financial obligations for retiree benefits in addition to pensions. The results of this survey should be viewed as point-in-time, self-reported data that provides insight into the magnitude of these unfunded liabilities. The grand jury is not pointing out the exact amount of the debt so much as the fact of a largely ignored obligation.

School District Responses for Information on Unfunded Liabilities for Retired Employee Health Benefits

School District	Superintendent	Adopted 2009-10 Budget (General Fund) as per SCOE	Self-Reported Unfunded Health Liability	Has the issue of unfunded liability for retired employee health benefits been discussed with your Board of Education within the last three years?	Is there a payment plan currently in place or currently being negotiated regarding this unfunded liability?	Notes from information by school districts.
Arcohe (K-8)	Mark Cornfield	$3,570,366	$568,000	No	No	See note 1
Center (K-12)	Scott Loehr	$37,348,171	$5,898,425	No	No	
Elk Grove (K-12) (LT)	Steven Ladd	$482,902,748	$33,329,761	Yes	Yes	See note 2
Elverta (K-8)	Elizabeth Golchert	$2,172,541	$139,962	No	Yes	See note 3
Folsom Cordova (K-12)	Patrick Godwin	$144,043,900	$18,700,000	Yes	Yes	See note 4
Galt (K-8)	Karen Schauer	$31,545,743	$5,104,307	Yes	No	See note 5
Galt (9-12)	Daisy Lee	$19,440,693	$0	n/a	n/a	
Natomas (K-12)	General Davie, Jr.	$76,196,471	$5,440,225	Yes	No	See note 6
River Delta (K-12)	Richard Hennes	$18,191,190	$3,313,242	Yes	Yes	See note 7
Robla (K-6)	Ralph Friend	$16,294,184	$130,969	Yes	No	See note 8
SCUSD (K-12) (LT)	Jonathan Raymond	$366,069,730	$560,100,000	Yes	Yes	See note 9
San Juan (K-12)	Pat Jaurequi	$360,293,651	$74,785,897 (OPEB)	Yes	Yes	See note 10
Twin Rivers (K-12)	Frank Porter	$252,719,433	$8,161,958 $67,139,320	Yes	Yes	See note 11
SCOE (LT)	David Gordon	$120,201,816	$33,366,368	Yes	Yes	See note 12
Totals		$1,930,990,637	$816,178,434			

(LT) = Lifetime Benefits

The following notes are highlights of *verbatim* information provided by the school districts within Sacramento County and the Sacramento County Office of Education.

Notes from School District Responses for Information on Unfunded Liabilities for Retired Employee Health Benefits

1. **Arcohe Union School District** – GASB 45 is a requirement for our district this year. During this year Arcohe will be putting our plan and trust in place.

2. **Elk Grove Unified School District** – Liability for retiree health care is broken into two different groups. Eligible employees that retired prior to July 1, 2000 receive their retiree health benefits through the District. The District pays the premiums for retirees to participate in the lowest cost plan that is offered to current employees. All eligible employees retiring after July 1, 2000, do not receive any post-retirement health benefits from the District. Rather, this second group of retirees is the responsibility of the Elk Grove Benefit Employee Retirement Trust ("EGBERT"). EGBERT has its own separate Board of Directors which sets benefit levels and manages the EGBERT trust assets . . . As of June 1, 2007 the District unfunded liabilities dollar amount was $33,329,761 . . . As of October 15, 2008 the unfunded liabilities dollar amount for EGBERT was $214,022,367.

The District's liability for pre-July 1, 2000 retirees is funded on a pay-as-you-go basis. Due to the July 1, 2000 cut off date, the number of District retirees in this group and the corresponding liability for benefits is steadily decreasing over time. The cost of this pay-as-you-go model is built into the District's budget and reviewed each year.

3. **Elverta Joint School District** – Pay-as-you-go is the current practice.

4. **Folsom Cordova Unified School District** – (Minutes of Board meeting of 02-15-07) . . . approve the establishment of a Fund 71 (irrevocable trust) to meet the District's negotiated obligations for retiree benefits according to Governmental Accounting Standards (GASB) 45 . . . Contributions are made annually. Approximately $1.6M annually is deposited into irrevocable trust. 2010-11 deposit will be less due to significant budget cuts from the State.

5. **Galt Joint Union Elementary School District** – The District had an actuarial study performed in 2008 that was presented to and approved by the Galt School Board . . . A payment plan is not currently in place for this liability. However, the District maintains a Retiree Benefit Fund that maintains a fund balance capable of funding current year plus the following 2-3 years out.

6. Natomas Unified School District – (Minutes of December 12, 2007 Regular Board Meeting) . . . [presentation of] actuarial Study of Retired Health Liabilities prepared by Total Compensation System, Inc. . . GASB 45 requires the District book this long-term liability starting in 2008-09.

7. River Delta Unified School District – (Board meeting minutes of February 17, 2009) . . . [Adoption of] Resolutions #603 to 606 giving approval to provide post-retirement vesting conditions for [all] employees and satisfy CalPERS vesting requirements.

8. Robla School District – (Board minutes of September 17, 2009) . . . approval of Actuarial Report for Robla School District's financial obligations for post retirement.

9. Sacramento City Unified School District – (Board agenda item October 2, 2008) . . . $560.1 million as of 12/2008 actuarial report received December 2009 and will be presented to Board of Education at future meeting . . . $1.0 million has been set aside to start funding this liability. There is no on-going funding stream identified for this purpose at this time.

10. San Juan Unified School District – (Board budget presentation of June10, 2008) . . . Administration was recommending funding the annual OPEB obligation at $2.8 million for GASB 45 compliance after completion of PARS payments. However, due to the State budget plan, SJUSD administration is recommending delaying the OPEB contribution indefinitely . . . (On December 16, 2008) . . . Due to continued reductions in funding from the State, there are no current plans to fund this liability.

11. Twin Rivers Unified School District - $8,161,958 is the amount of unfunded liability as of June 30, 2009. $67,139,320 is the amount on our actuarial study for current and future retirees as of June 30, 2009. Currently, it is a pay-as-you-go plan.

12. Sacramento County Office of Education (SCOE) – (Memo from superintendent indicates SCOE has a funding mechanism in place through an irrevocable trust to eventually fully fund the liability for lifetime retiree health benefits.)

Discussion

With pension plans, a school district knows what the costs are going to be. With health care, the actual costs are not under a school district's control. A school district has no ability to affect health care costs or premiums. It is at the mercy of providers and insurers. While these costs have increased exponentially, school districts, boards and superintendents have either been unaware of or ignored their growing liability for retiree health care benefits. Few responsible parties have acknowledged the fact that obligations are growing rapidly but no funds are being set aside to pay the obligations. In the past this has not been a cause for alarm heard by (or from) school boards, superintendents, state regulators, state legislature or unions. Many districts have used a pay-as-you-go approach to meet their financial obligations for these retirement benefits. They appeared to believe that they would always have sufficient money to pay for them. The problem with pay-as-you-go is that districts may not have sufficient funds to pay the current year's retiree health benefits and also pay for necessary school programs. The size of the unfunded liability has increased substantially but the school districts' income has not.

The self-reported data collected from the 13 school districts in Sacramento County and the Sacramento County Office of Education indicate that four school districts have not discussed the topic of unfunded health care liabilities for retirees in the last three years. Seven school districts have developed plans to make payments toward their unfunded liabilities but six of these school districts have not funded these plans due to state budget cuts. However, six school districts have made no plans and continue to pay-as-they-go. The self-reported data of some districts simply addressed the Governmental Accounting Standards Board (GASB) standard, which is only an accounting statement, and not a plan to pay the obligation.

In June 2004, GASB released Statement 45 and Statement 43, which detail accounting and financial reporting duties by employers for OPEB. "This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers."[2] Therefore, school districts that offer post employment health care to their employees should follow the GASB regulations and report their obligations.

However, it is not enough for a school district to follow GASB and report its unfunded liability. If a school district has long-term fiscal obligations for OPEB due to collective bargaining agreements with employees, the district should develop a plan for meeting such obligations. The district may apply to the state for reimbursement up to $15,000 for activities related to developing a plan to meet its OPEB obligations. The plan should include the OPEB review of the financial obligations determined by the actuary and the strategy for funding the obligation.

In recent years some districts became alarmed at the trend of increased annual costs for retiree health benefits. To meet ever-growing unfunded liability amounts, some districts developed trust funds to buffer these exceedingly high costs, which must be paid out of the districts' general funds. Others made plans to gradually pay down their unfunded liability but have stopped these payments due to current budget shortages. Some districts simply have ignored the problem.

One of the difficulties in resolving the problem is the relationship between school boards and school unions. The unions have enormous influence on both school boards and administrators. School boards consist of locally elected community members. Basic qualifications usually include that the members live in the school district, are registered voters, and are at least 18 years old. Many people who run for school boards are parents of children who attend schools in their district. These parents have been active in their child's school and want to become "more involved" or want to "move up," some with political aspirations and some with single-issue concerns. A school board candidate campaigns for a

[2] Governmental Accounting Standards Board, Summary of Statement 45, June 2004.

short time, to a limited audience, and frequently demonstrates a limited knowledge of school district governance but expresses a willingness to learn, a "grass roots" profile. School board members generally serve a three or four year term. Elections historically have a very low voter turnout.

School boards are often regarded as relatively weak governing bodies composed of part-time members with limited amounts of time to dedicate to the position, a limited knowledge of school district responsibilities and procedures, a limited interest in serious or strained negotiations with employees, and a dependence on the superintendent for information and guidance. School board members typically receive packets of agenda items a few days before the school board meeting. They have a limited amount of time to devote to the study of the agenda items, and a limited amount of time to confer with the superintendent or appropriate school district staff. Board members talk on the phone and use e-mail with district staff but must be ever mindful of following the Brown Act[3] regulations regarding talking with other school board members. It should be noted that some school boards often combine closed session agenda items such as labor negotiations or disciplinary actions so they fall outside of the guidelines of the Brown Act thereby holding sessions that are closed to the public. Many school board members apparently only scan the summary pages to agenda packets and generally follow staff recommendations. Most have limited knowledge about school budgets, finance, and their own responsibilities as elected officials. Often board members know little or nothing about unfunded retiree health care liabilities.

Typically teacher unions are most interested in identifying and endorsing school board candidates who have philosophies and goals that align with those of the teachers and teacher unions. Because of the size of their membership and their financial resources, unions have an enormous impact on school board elections.

As well as influencing school board elections, teacher unions and other employee groups can greatly influence the hiring and the tenure of superintendents. The result is a political tension for superintendents trying to please school board members and to develop positive relationships with staff and their union representatives. Historically, many superintendents are former classroom teachers who have moved from being site administrators, to district level administrators to superintendents. Most superintendents have additional degrees in educational administration and some have participated in short-term superintendent skill development programs offered by professional associations. There is now a growing interest in large districts in hiring superintendents with corporate, military or business experiences, along with knowledge of finance and labor negotiations. The school board usually selects a superintendent who matches the perceived needs of current school board members.

The issue of retiree unfunded health liabilities shows the impact of board members who can be short-term elected officials and superintendents who serve at the fragile pleasure of school boards. In summary, school boards and school district superintendents can easily assume the unfunded liability costs will occur in the future, under someone else's leadership.

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[3] See California Government Code section 54950 or follow the link: www.leginfo.ca.gov/

The focus of this Sacramento County Grand Jury study has been to identify unfunded retiree health care costs for school districts within the county. School districts have promised benefits that may not be paid or that can ultimately bankrupt the district, especially during the current economic climate. The financial obligation of school districts is overwhelming, especially for those who have adopted a pay-as-you-go plan. The information supplied to the grand jury indicates the total unfunded liability for retiree health care costs in Sacramento County school districts is approaching $1 billion.

Conclusion

While employers, employees, and retirees seem to consider an employer-sponsored health plan a desirable benefit, the continuing escalation of health care and premium costs places enormous fiscal pressure on school districts that try to maintain the benefits. Unless union contracts are renegotiated so that benefits are reduced or employees contribute to the payment of healthcare costs, the consequences will be devastating.

Health care costs will continue to escalate. If school districts fail to plan for funding of negotiated obligations for retiree health benefits, and employees and/or unions fail to assume some of the costs of the benefits, school districts will be unable to provide a quality education for students and may become bankrupt. In order to avoid these dismal prospects the Sacramento County Grand Jury makes the following findings and recommendations:

Findings and Recommendations

Finding 1 Sacramento County school district boards are not knowledgeable about the ultimate long-term fiscal impacts the unfunded liability for retiree health benefits will have on their districts.

> **Recommendation 1.1** Sacramento County school district boards and superintendents, with advice from actuaries and accountants, should immediately assess and quantify their long-term OPEB obligations and ramifications.

Finding 2 Sacramento County school districts have a variety of approaches in addressing the unfunded liabilities for contracted retiree health benefits. Some of those approaches include:

- Creating trust funds or other funding plans but stopping all contributions to them due to current economic conditions
- Creating trust funds and contributing to them
- Ignoring the problem
- Regarding the GASB standards as a "plan" when in fact it is only an accounting statement
- Utilizing an annual pay-as-you-go approach to these obligations, relying on their general funds for retiree health benefits.

> **Recommendation 2.1** All school districts should have a funding plan, and a schedule of contributions in their 2011-2012 budgets.

Recommendation 2.2 School district boards must find means other than pay-as-you-go for funding these ongoing and increasing expenses.

Recommendation 2.3 All school boards should begin serious negotiations with their employee unions to reduce benefits or increase contributions.

Response Requirements

Penal Code sections 933 and 933.5 require that specific responses to both the findings and recommendations contained in this report be submitted to the Presiding Judge of the Sacramento Superior Court by (August 9, 2010) from:

- **Mark Cornfield, Superintendent, Arcohe Union School District**
- **Scott Loehr, Superintendent, Center Joint Unified School District**
- **Steven Ladd, Superintendent, Elk Grove Unified School District**
- **Elizabeth Golchert, Superintendent, Elverta Joint School District**
- **Patrick Goodwin, Superintendent, Folsom Cordova Unified School District**
- **Karen Schauer, Superintendent, Galt Joint Union School District**
- **Daisy Lee, Superintendent, Galt Joint Union High School District**
- **General Davie, Jr., Superintendent, Natomas Unified School District**
- **Richard Hennes, Superintendent, River Delta Unified School District**
- **Ralph Friend, Superintendent, Robla School District**
- **Jonathan Raymond, Superintendent, Sacramento City Unified School District**
- **Pat Jaurequi, Superintendent, San Juan Unified School District**
- **Frank Porter, Superintendent, Twin Rivers Unified School District**
- **David Gordon, Superintendent, Sacramento County Office of Education**

- **Mail or hand-deliver a hard copy of the response to:**

- **Hon._Steve White, Presiding Judge, Sacramento County Superior Court**
- **720 9th Street, Dept. 47**
- **Sacramento, CA 95814**
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- **In addition, e-mail the response to Becky Castaneda, Grand Jury Coordinator, at castanb@saccourt.com**