Marin County Schools
July 30, 2013

Response to Grand Jury Report dated May 22, 2013 "Marin's Retirement Health Care Benefits: The Money Isn't There"

The Grand Jury Report requests responses to all 10 findings and all 6 recommendations from the School Board President for each of the 12 Marin School Districts surveyed in their May 2013 report on Marin County's Retirement Health Care Benefits. Each finding and suggested responses are listed below with discussion points to assist the districts in developing their individual responses. The response must be conducted subject to the notice, agenda and open meeting requirements of the Brown Act.

The Grand Jury specifically commended Mill Valley School District on page 13 of the report and Dixie School District on page 14.

GRAND JURY FINDINGS

F1. We find that many of Marin's local governments and special districts are failing to pre-fund future costs for retired employees by making investments to cover promised benefits for active employees. This jeopardizes the certainty that retiree health care benefits promised to current employees will be paid.

If you have established a trust, state that fact, how long ago the trust was established, how much of the ARC you have funded, and what percentage of the UAAL you have funded.

If you have not established an irrevocable trust, describe the public decision making process and factors considered:

- *Costs of maintaining a separate trust vs the benefits of maintaining a trust – school districts are limited in the financial instruments they may invest in.*
- *Cash-flow concerns.*
    - *Revenue Limit/State funded school districts have experienced an increasing need for access to cash as the State has deferred an ever increasing amount of state aid into the subsequent year.*
    - *Basic aid districts need a cash reserve to manage the lag in time between the distribution of local property taxes and operating costs.*
- *Describe the district's unappropriated ending fund balance in relationship to the entire OPEB liability – do you have sufficient reserves to "fully fund" the OPEB liability? Has the board committed or assigned any of the ending fund balance to the OPEB liability?*
- *Describe the historical trend of pay-as-you-go (PAYG) OPEB costs and summarize the estimated future cost of PAYG – can you demonstrate the projected cost is stable? Describe the factors driving the cost:*
    - *number of retirees eligible for the benefit*
    - *the district's share of the cost of the benefit.*

- *The need to maintain flexibility during the period of uncertainty surrounding the implementation of the Affordable Care Act and its impact on health benefits, associated costs, and employer responsibilities.*

F2. The failure of the majority of entities studied in this investigation to begin an investment program to provide a portion of the needed funds to pay for retiree health care benefits leads to generation shifting of the payment responsibility. Thus it appears to be, at the least unethical, and even a breach of fiduciary responsibility.

See F1: Cash Flow issues coupled with the ability of the district to 'fund' the OPEB liability with ending fund balance are necessary considerations in a full exercise of fiduciary responsibility. If the district projects a stable or declining pay as you go cost, there is no generational shifting of the payment responsibility.

F3. The extreme 30 year amortization period used by most entities minimizes the annual cost of funding the liability gap and further defers to future generations the compensation owed to present employees who provide services to present taxpayers and customers. Shorter amortization periods should be required for reasons of equity and to ensure that the promised benefits will be provided.

The amortization period allows the district to gradually phase in the cost of the liability that had been incurred prior to the adoption of GASB-45 and conforms to current accounting guidance for governmental entities.

F4. By capping retiree health care benefits, the City of San Rafael has reasonable certainty as to what those costs are. Other entities studied here that promise to pay for future retiree health care with uncertain and likely rapidly increasing costs are accepting an unknown and potentially very costly risk.

Describe the district's cap and any other limits on retiree benefits, such as number of years and/or age limit on receiving benefits.

F5. Because a few Marin County cities and other entities studied provide very limited benefits yet still appear able to meet community service needs, and because providing such benefits is increasingly rare in the private sector, such benefits appear to be unnecessary for attracting and retaining employees. Accordingly, for active and newly hired employees, the benefits should be trimmed and costs should be shared between the employees and their employer.

Benefits are subject to negotiations with the district's bargaining units and as such cannot be unilaterally changed. Describe any limits the district has successfully negotiated.

F6. Marin entities using "Pay-Go" funding are paying only the current year health care benefits of those already retired. This ignores the reasonably known rising costs to cover future retirees who are already heading for retirement. Some actuarial valuation reports the Grand Jury studied provided those future "Pay-Go" estimates year-by-year, so they should be readily available from the actuary's valuations. Estimates of those annual costs for each of the next 10 years should be provided to the public so that those who will incur those costs can know those costs.

See F1: Describe the historical trend of pay-as-you-go (PAYG) OPEB costs and summarize the estimated future cost of PAYG – is the projected cost stable? Describe the factors driving the cost: number of retirees eligible for the benefit and the district's share of the cost of the benefit.

F7. Employers studied for this report should include an age-60, or even later, date for retiree health care benefits to commence in future negotiations with employees and their representatives.

See F4. Describe the district's limits on retiree benefits, such as age can start to collect, number of years can collect, and/or age limit on receiving benefits.

F8. The results of retiree health care actuarial cost analyses are summarized if at all only in obscure notes to annual financial statements. The public is entitled to more readily accessible explanation of these costs because the public will bear those costs.

The district's annual audited financial statements provide full disclosure of the district's OPEB including the key assumptions used in the actuarial study. The audited financial statements are discussed at a public board meeting.

Discuss the frequency of the District's actuarial study and whether it is presented and accepted at a public board meeting.

Discuss other ways in which this information is made publicly available.

F9. There is a wide range of retiree health care benefits offered among the entities studied in this investigation. No clear explanation for the range from minimal to extremely generous is readily available. Those entities that are promising relatively generous benefits should provide clear justifications to their citizens and customers.

Describe the District's benefit. Describe the history behind high benefits if appropriate.

F10. Most of the entities the Grand Jury investigated are using fairly reasonable discount rates of 4% - 5% per year to bring back to today in actuarial valuations the future annual costs of retiree health benefits. However, some are using higher and highly questionable rate assumptions that are not justified by the investments (if any) that they have made to grow and fund the future benefits. The result is to understate the total funding needed today and in future years, to pay for those future benefits.

Describe the discount used in the latest actuarial study. If higher than 5%, describe why. Districts may need to obtain this information from your actuary.

GRAND JURY RECOMMENDATIONS

R1. Begin setting aside in separate investment accounts, if it is not already doing so, each year's funds for amortizing its retiree health care benefits' UAAL, in addition to it's "Pay-Go" funding of those benefits for present retirees.

Describe the amount set aside. If you report a net OPEB asset you are contributing more than required if reporting a net OPEB obligation you are contributing less than required. Even if you are contributing on PAYG you may have accrued an OPEB asset. This will occur if the future PAYG cost is projected to decline.

R2. Begin a program to lower the amortization period for funding its retiree health care benefits UAAL from as much as 30 years presently, to approach (within 10 years), the commonly used 17 year amortization period for retiree pension funding.

The amortization period allows the district to gradually phase in the cost of the liability that had been incurred prior to the adoption of GASB-45 and conforms to current accounting guidance for governmental entities.

R3. Negotiate caps on the amounts it commits to pay existing and new employees for retiree health care benefits.

Describe the District's cap on employer paid benefits, how this has changed over time in terms of what percentage of benefits the District provides.

R4. Negotiate a higher retirement age than the currently applicable age for the commencement of retiree health care benefits.

See F4 and F7: Describe the district's limits on retiree benefits, such as age can start to collect, number of years can collect, and/or age limit on receiving benefits.

R5. Require active employees to make a contribution towards the cost of their retiree health care benefit.

Describe the district's cap for both active and retired employees.

R6. Place a link on its website to provide the latest actuarial valuation of its AAL, its UAAL, its consequent percent funded, its discount rate (annual percentage) used to determine these values, and a projection of outlays ("Pay-Go") for retiree health care benefits for each of the current and subsequent 10 years.

Describe the district's current process for making this information available. If not currently available on the district's website, describe any future plans to do so, or reasoning why not.