Marin County Schools

Responding to Grand Jury Request re: Other Post Employment Benefits by August 12, 2017

We recommend all districts review the data the Grand Jury has collected at https://goo.gl/fSqOfX. We will discuss with business officials at DBO meeting on June 14th 2017.

FUNDING OTHER POST EMPLOYMENT BENEFITS

Recommendation #1 Each agency should adopt a *formal, written policy* for contributions to its Other Post-Employment Benefits (OPEB) plan.

> Most Marin county districts account for their OPEB costs on a 'pay-as-you-go' basis. Your policy, as such is iterated in the notes to the financial statements published with the annual audit. CSBA should provide a policy template you can modify as appropriate through gamut online.

Recommendation #2 Each agency's standard practice should be to consistently satisfy its formal, written OPEB contribution policy.

> Each district's formal written OPEB contribution policy should document the existing practice.

Recommendation #3 Each agency's OPEB contribution policy and practice should support a projection under GASB 75 that its OPEB plan assets will be sufficient to make all projected OPEB benefit payments.

> Each district has unique circumstances that may preclude adopting a plan to begin funding the OPEB liability through contributions to an irrevocable trust. See discussion points below.

Recommendation #4 Each agency that uses special reserve funds for Postemployment Benefits should transition to a trust meeting the criteria of GASB 75

> Each district has unique circumstances and it may not be immediately feasible to move these cash reserves to an irrevocable trust. See discussion points below.

The Grand Jury is recommending that all public agencies adopt policies and practices that support the full funding of OPEB benefits through an irrevocable trust. As of June 30 2016, two Marin county districts had created irrevocable OPEB trusts (Mill Valley & Tamalpais) although we understand at least one other district may be in process of creating an OPEB trust. In addition, six districts currently maintain special reserves for OPEB.

Although the Grand Jury's recommendation is well founded in best practices, there are many reasons a district may decide not to move forward with funding the OPEB liability at this time:

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 in not having a dedicated trust.

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.*
    - *State funded school districts have experienced an increased need for access to cash as the State was deferring 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 ongoing implementation of the Affordable Care Act and its impact on health benefits, associated costs, and employer responsibilities.*
- *The immediate impact of the newly increased pension costs at a time of modest revenue increases.*
- *The impact of increasing enrollment at basic aid high school districts.*
- *The impact of declining enrollment at state-funded school districts.*

GASB-75 implementation

GASB-75 is effective beginning in the 2017-18 year. The new standard requires actuarial valuations to be no more than two years old, therefore, all agencies will need a study dated no earlier than July 1, 2016. We recommend you discuss implementation of the new standard with your auditor.

The new standard will require the entire unfunded liability to be shown on the face of your financial statements much as the proportionate share of the pension liability is shown on the face of your financial statements. Previously, the unfunded liability was amortized over twenty to thirty years. As a result, you should expect total liabilities to increase in your published financial statements for the year ending June 30, 2018. Our experience to date has been that the increase in these long-term liabilities, even where the financial statements reflect negative unrestricted net assets, has not impacted district credit ratings.

FINANCIAL LITERACY, TRANSPARENCY and COMMUNICATION

Recommendation #5 – Each term of service, elected or appointed officials of each agency should take a public agency financial class.

The Marin County Office of Education hosted a Masters in Governance program facilitated by the California School Boards Association.

Describe Board orientations and workshops…

The Government Finance Officers Association publishes a series of 'Elected Officials Guides' that are highly recommended.

Recommendation #6 – Each agency should make its CAFRs, Audits, and GASB valuations more readily understandable by the general public.

The format and content of the annual audit is prescribed by standards set by the American Institute of Certified Public Accountants in accordance with generally accepted accounting principles (GAAP) set by the Governmental Accounting Standards Board (GASB).

Similarly the OPEB actuarial study report is prepared in accordance with standards set by outside bodies.

Many districts prepare summaries of their documents for presentation to their boards which should be referenced in response to this recommendation.

Recommendation #7 – Each agency should ensure that all of its public financial *presentations* are more readily understandable and scheduled during hours convenient for the public.

In general, all districts hold board meetings in the evenings to ensure parents have an opportunity to attend. Most districts prepare 'readily understandable' presentations to accompany the major budget and financial reporting periods. We recommend your response describes the time of day board meetings are held and includes a description of your practice in providing financial and budget presentations.

Recommendation #8 – Each agency should have the following downloadable and text-searchable documents readily accessible on their website: the last five years of CAFRs/Audits and the last three actuarial reports.

All text documents loaded to your website must be searchable in accordance with Title V regulations. Your technology staff will be able to assist with this requirement. Most districts are already loading financial reports to their websites. Your response should reference your practice and provide the web address/link if your documents have been uploaded to the web.

NEGOTIATIONS TO REDUCE OPEB OBLIGATIONS

Recommendation #9 – Before the next round of bargaining begins, each agency should prioritize the cost containment strategies to be used, including reducing or eliminating OPEB benefits for future employees.

In responding to this recommendation you might address the following strategies/issues:

- OPEB as a recruitment and retention tool
- Bargaining for total compensation including OPEB if applicable
- Benefit Cap for OPEB
- Retirement age for OPEB eligibility
- Requiring active employees to contribute towards the cost of their retiree health
- OPEB eligibility upon qualifying for Medicare

We have also attached a Best Practice Guide from the Government Finance Officer's Association on Ensuring OPEB Sustainability that discusses other areas of consideration in managing the cost of OPEB benefits.