RESPONSE TO GRAND JURY REPORT FORM

Report Title: *Marin's Retirement Health Care Benefits: The Money Isn't There*

Report Date: May 22, 2013

Public Release Date: June 3, 2013

Response by: Robert Dickinson

FINDINGS

- I (we) agree with the findings numbered: F4, F6, F7, F8, F10
- I (we) disagree wholly or partially with the findings numbered: F1, F2, F3, F5, F9

  (Attach a statement specifying any portions of the findings that are disputed; include an explanation of the reasons therefor.)

RECOMMENDATIONS

- Recommendations numbered R3, R4 + R6 have been implemented.

  (Attach a summary describing the implemented actions.)

- Recommendations numbered — have not yet been implemented, but will be implemented in the future.

  (Attach a timeframe for the implementation.)

- Recommendations numbered — require further analysis.

  (Attach an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or director of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.)

- Recommendations numbered R1, R2 + R5 will not be implemented because they are not warranted or are not reasonable.

  (Attach an explanation.)

Date: 8/28/13 Signed: Robert Dickinson

Number of pages attached 4

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August 14, 2013

Rich Treadgold, Foreperson
Marin County Civil Grand Jury
3501 Civic Center Drive, Room #275
San Rafael, CA 94903

Dear Mr. Treadgold,

This report represents the Ross School District response to the Marin County Civil Grand Jury's 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. Below please find our responses.

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.
We have established a separate fund, with a fund balance in excess of $96,000 above the pay-as-you-go annual contribution. The Board's long term commitment is to increase this amount when and if circumstances allow. However, Basic Aid districts need a cash reserve to manage the lag in time between the distribution of local property taxes and operating costs.
The District currently has an unappropriated ending fund balance policy to achieve a 40% reserve over time, which when achieved would fully fund the Unfunded Acturial Accrued Liability (UAAL). Currently the District has achieved a 30% unappropriated ending fund balance of $1,587,808.
The District feels the need to maintain flexibility during this period of uncertainty surrounding the California state budget, appropriations to school districts, and 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.

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. While the pay-as-you-go amount does increase over the next several years, we expect that our funding levels will increase proportionately and provide the necessary resources to finance this obligation.

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.
Over the last several years the District has negotiated new and more restrictive levels of retiree benefits. Currently the only benefit offered since July 1, 1999 to new employees is single-only coverage from age 55 to age 65, thus eliminating lifetime benefit offerings.

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 unit and, as such, cannot be unilaterally changed. We have negotiated new limits to benefits, as noted in our response to Finding F4.

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.
We have posted the entire GASB 45 Valuation, dated 7/1/2012, with the summary of all pay-as-you-go amounts on the District's website.

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.

We have negotiated new language, as noted in our response to Finding F4. Benefits are subject to negotiations with the district's bargaining unit and, as such, cannot be unilaterally changed.

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.

The District's actuarial study is presented and accepted at a public board meeting and a revised study is completed every three years and posted on the District's website.

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.

The District has negotiated with its bargaining unit a reduced retiree benefit package with coverage limited to single-only from age 55 ending at age 65.

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.

The District's most recent actuarial study used a discount of 4% which is considered fairly reasonable, revising it down from the previous study rate of 5%.

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 its "Pay-Go" funding of those benefits for present retirees.

We have established a separate fund, with a fund balance in excess of $96,000 above the pay-as-you-go annual contribution. The Board's long term commitment is to increase this amount as circumstances allow. However, Basic

Aid districts need a cash reserve to manage the lag in time between the distribution of local property taxes and operating costs.

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.

Over the last several years the District has negotiated more restrictive levels of retiree benefits. Currently the only benefit offered since July 1, 1999 to new employees is single-only coverage from age 55 to age 65, thus eliminating lifetime benefit offerings.

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

See the response to Recommendation R3.

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

Benefits are subject to negotiations with the district's bargaining unit and as such cannot be unilaterally changed. We have negotiated new language, as noted in our response to Recommendation R3 and will continue to examine opportunities to manage future liabilities

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.

The District's actuarial study is presented and accepted at a public board meeting and a revised study is completed every three years and posted on the District's website.

If you have any questions or comments, please contact our Superintendent, Chi Kim, at (415) 457-2705 ext. 212.

Sincerely,

Robert A. Dickinson
Board President