



OXNARD SCHOOL DISTRICT

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VENTURA COUNTY
GRAND JURY

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Ventura County Grand Jury
800 S. Victoria Avenue, L#3751
Ventura, CA 93009

Re: Oxnard School District Response to the Ventura County Grand Jury Findings and Recommendations following the Grand Jury Study "*The Half Billion Dollar Elephant in our Schools*"

Esteemed Members of the Ventura County Grand Jury,

I would like to thank the Ventura County Grand Jury for the important work it has completed regarding its study of the financial impact on school districts of employer sponsored retiree health benefits or Other Post Employment Benefits (OPEB), and for sharing your findings and recommendations with Ventura County Local Educational Authorities (LEA's).

Oxnard School District (OSD) is well aware of GASB 45 reporting requirements on OPEB for our retiree health benefits, and I am cognizant of the magnitude of this \$55,496,476.00 actuarially derived unfunded long term liability in our debt structure and of the difficulty of making our current annually required contribution. The difficulty of funding this obligation during this period of unprecedented economic decline presents a major challenge for our District that has already had to cut its Unrestricted discretionary budget by more than \$30,000,000.00 over the last three budget years.

I agree with the Ventura County Grand Jury's view that the actuarial projections of retiree health benefit costs are highly speculative, especially over periods of many years. Also, based on the recommendations presented in OSD's Actuarial Study of Retiree Health Benefits Liabilities dated September 9, 2009, it is our intention to have a more in-depth study of the estimates and assumptions that were used to measure this long term liability in the upcoming study for 2011. In these changing economic times, the appropriateness of all previous actuarial estimates and assumptions may not hold true. It is the District's responsibility to employ whatever means necessary to ensure that these estimates and assumptions reflect our current reality.

Subject to any future actuarial study that may disprove or challenge the \$55,496,476.00 unfunded liability that Ventura County Grand Jury reported in

Mission: "We guarantee that each student is academically competitive and inspired to perseverant hope."

Finding F-12 for the Oxnard School District, we accept and concur with this section of the report on our District as presented.

I concur with the Grand Jury's conclusions that failure on the part of the Oxnard School District to take steps to address these liabilities may result in the downgrading of our credit rating, thereby inviting the displeasure of our bond holders and possibly increasing borrowing costs to the District.

Staff has reviewed the Ventura County Grand Jury report, and we provide our responses herewith to Recommendations R-01 through R-08 in accordance with your request.

R-01 Recommendation: That County School Districts adopt a policy of prefunding their retiree health care benefit plans by establishing an irrevocable trust fund for employees' health care benefits.

The Oxnard School District has been proactive in establishing an irrevocable trust fund for retiree health benefits. Unfortunately, due to our diminished financial resources brought on by the economic pressures of the recession, our District has not been able to continue prefunding the actuarially determined liability in the amount of \$55,496,476.00. We have prefunded over \$5,600,000.00 of this amount, and I am in agreement with the Grand Jury that prefunding this obligation makes for sound financial management. However, until the state of California makes our budget whole, giving us the ability to recover the millions of dollars that we have lost due to budget cuts, we have no alternative but to continue to pay for our retiree health benefit costs on an annual basis less the actuarially accrued liability.

Under the Board of Trustees' direction, our District's primary focus is to preserve our instructional programs as the number one priority given our very limited financial resources available. During our upcoming 2011 actuarial study, it is our intention to revisit the 2008-2009 actuarial estimates and assumptions that were used.

R-02 Recommendation: That County School Districts identify effective cost reductions that will allow the District to achieve their respective calculated ARC.

Our views coincide with those of the Ventura County Grand Jury regarding the need to adopt cost saving strategies that will enable OSD to prefund our retiree health benefits' long term liability by paying into the irrevocable trust the actuarially defined Annual Required Contribution (ARC). However, OSD's commitment to its retirees' current health benefits plan is driven by Board Policy 5540BP which clearly underscores the Board of Trustees' pledge that the District will fully absorb the cost for retiree health benefits up to age 69 years old.

5540BP results from previous collective bargaining agreements with our three employee bargaining units: Oxnard Educators Association (OEA), Oxnard Supportive Services Association (OSSA), and California School Employees Association (CSEA). Eligible retirees receive district provided health benefits up to age 69, after which they can continue to participate in the program provided they defray 100% of the costs for the services.

As noted above, OSD started to prefund the irrevocable trust for retiree health benefits; however, severe budget reductions have drastically impeded our ability to continue this funding in that the District does not have the discretionary funds needed for the ARC. We will continue to use the "pay as you go" model to discharge our annual obligations. It is our intention to resume making the Annual Required contribution whenever the state of California restores the millions of dollars that we have lost through budget reductions.

R-03 Recommendation: That County School Districts leverage off of the economies of scale by acting as one bargaining unit and selecting a health care plan for all employees.

OSD agrees with the Ventura County Grand Jury's recommendation that the County LEA's should leverage the potential opportunities through economies of scale in order to minimize costs. Our District is currently a member of the Gold Coast Joint Benefits Trust. The Trust has real monopsony power in the market place for health care plans. Being a part of this monopsony, the Trust purchases and negotiates deeply discounted prices for its members due to the group's buying power. OSD is well aware of the need to take strategic action to control health care benefit costs for its current employees and retirees. It is important that we inform the Ventura County Grand Jury that our District's retiree medical benefits were arrived at through the collective bargaining process, and that this agreement cannot be changed without bargaining this aspect of existing contracts. We will work with our Trust to find creative ways to control the costs for providing health benefits to current and retired employees.

R-04 Recommendation: That County School Districts use language in their financial reports so that the average County taxpayer, employee and retiree can understand how tax dollars are being spent and recognize the extent of the district's financial indebtedness.

Oxnard School District agrees with the Ventura County Grand Jury's recommendation that the esoteric language that is used in the Actuarial and Financial reports describing OPEB should be written in language that is more palatable to the layperson. GASB 45 pronouncements which prescribe the reporting of Retiree Health Benefits are written by the Government Accounting Standards Board (GASB). These pronouncements provide specific guidelines for independent financial auditors on what must be reported in the LEA's financial statements. Statement 45 is designed to provide the users of the District's financial statement with cogent information about the costs for providing post employment health benefits. There is no latitude for alternative reporting and all Districts are required to follow these guidelines specified by GASB.

As mentioned in an earlier response, the OSD projected actuarial accrued liability was determined using a number of actuarial assumptions and complex formulae. Our District does not have the internal capacity to determine these estimates; therefore, we are forced to contract out these services every two years for actuarial study. We do plan, however, to revisit the assumptions and estimates that were used to establish our Annual Required Contribution as well as the estimated long-term liability of \$55,496,476.00 for other post employment benefits.

R-05 Recommendation: That County School Districts place the entire district Budget on the district's website.

OSD agrees with the Ventura County Grand Jury Recommendation. The District's annual budget document is a public document which the law requires be published in specific places several days prior to the public adoption of the budget by the Board of Trustees. The budget adoption process is a public process wherein stakeholders and members of the community are invited to make public comments on the budget before its adoption.

It has been our practice to post our OSD's annual Adopted Budget on the District's website. The budget data is captured in forms prescribed by the state of California Department of Education, and the information contained in these forms comprises a large volume of data. Members of the public can call the District office with any questions that they might have on the budget or for clarification on any items of interest in the Adopted Budget.

Under AB 1200 and AB 2756, school districts are required to provide Board adopted 1st and 2nd Interim reports for review by their County Office of Education (COE). These reports attest to whether school districts may or may not meet their financial obligations in the current year and the two successive years. COE's have a number of intervention options for those Districts that failed to demonstrate that they continue to be a financially viable "going concern".

R-06 Recommendation: That County School Districts schedule sessions to communicate and educate employees, retirees, and parents of students regarding the OPEB issue and how this is being addressed by the district.

OSD agrees with this recommendation. Our District complies with all annual budget and financial reporting requirements of the state of California Department of Education and the State Controller's Office. Our District's budget development is a very public process that involves and invites input from a broad cross section of the Oxnard School District. Our Budget Advisory Committee (BAC) plays a pivotal role in helping the district to set budget priorities; budget study sessions are held for the Board and the public.

The Budget adoption process is advertised and open to the public as required by California Education Code. Also as required by Ed Code, our annual audited financial statements are presented to the Board in an open public meeting. Our District intends to place greater emphasis on the OPEB issue during our review of the next annual financial audit.

R-07 Recommendation: That the VCOE and the elected officials of the individual districts take a proactive role in seeking solutions to the unfunded liability crisis and present these solutions to their districts.

Oxnard School District agrees with Ventura County Grand Jury's recommendation. OSD democratizes its annual budget development process by holding town hall meetings for broad discussions on current budget challenges with teachers, parents, stakeholders, the District's bargaining units and the BAC. Throughout the budget development process the District had extensive dialogue with the general community, inviting them to present their recommendations for budget improvements and their ideas for cost-saving strategies to align our fiscal year revenue and expenditure budgets.

I think that it would be an excellent idea for our District to engage the support of the community to address the OPEB issue by convening a Board- or Superintendent-appointed committee comprised of various stakeholders to explore options for communicating with the general community on this issue. The purpose of this committee would be to educate employees, retirees, and parents of students regarding the OPEB long term debt and to encourage public participation in finding real potential solutions to funding this huge liability. These solutions would be presented to the Board for discussion and adoption.

I assure the Ventura County Grand Jury that OSD recognizes the enormous magnitude of the financial resources that are required to liquidate this long term OPEB obligation, and we are committed to finding a working solution to this problem. We take this issue very seriously and staff will be directed to take this matter of funding the ARC into consideration during the next budget development cycle. Similar to the annually adopted budget, the annual audited financial statements are also presented to the Board in an open public meeting. However, because of the growing budgetary pressures over the past two years, OPEB issues had not been the focal point of our discussions. Considering all feasible / affordable options, the district elected to "pay as we go" for retiree health benefits.

R-08 Recommendation: That the VCOE and the elected officials of the individual districts consider alternatives to resolve this serious financial situation, such as:

Require greater benefit or premium cost sharing from retirees;

Implement a new defined contribution type retiree health care program for new employees; and

Freeze the employer-provided portion of the retiree health plan at present levels for currently covered active employees.

OSD agrees with the essence of these recommendations and I believe that the application of any combination of these recommendations merits some consideration. One of our bargaining units has agreed to the implementation of a variation of the second recommendation above tailored to meet the needs of their members. Our benefits are also capped for current active employees only. OSD's post employment retiree health benefit program is governed by Board policy and is a part of our collective bargaining process prescribed by law. Agreements made during the collective bargaining process are binding on all parties, i.e. the governing Board of the LEA and the represented employees to the agreement; therefore, any changes to these agreements must be effected through the collective bargaining process.

The buying power of our Joint Powers Authority, Gold Coast Joint Benefits Trust, has been helpful to our District in managing the increasing cost of health benefits for current and retired employees. We do have a benefit premium cap in place. Employees must meet certain eligibility requirements per Board policy in order to qualify for retiree benefits. We recently increased co-payments for current employees. Health care costs will continue to escalate without abatement for all Districts, and it would be irresponsible on our part not to bargain these issues with our

bargaining units when we are forced to survive on shrinking revenue budgets in these times. However, we will continue to fund retiree health benefits using the "pay as you go" model

Summary

OSD'S OPEB actuarially determined liability in the amount of \$55,496,476.00 is astronomical, and we must take steps to prefund this obligation while at the same time maintaining the focus on our mission to provide excellent instructional programs for the children attending our District. In these times of scarce financial resources we are forced to make tough choices which should not impede our efforts to educate students. We will continue to "pay as we go" for our retiree health benefits until our finances improves to the point where we can resume making our actuarially defined ARC that will lead to eliminating the OPEB liability. We will continue to make every effort to contain health care costs for our employees.

I thank you for the opportunity to address the Grand Jury on this very important topic. I can be reached at 805-487-3918, ext. 201 if you have any further questions.

Sincerely,



Julian T. Lopez, Ph.D.
Interim Superintendent
Oxnard School District

JTL/lg

Copy to: Honorable Kevin J. McGee, Presiding Judge, Superior Court of CA, Ventura County
Board of Trustees, Oxnard School District