



SANTA PAULA UNION HIGH SCHOOL DISTRICT

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RECEIVED

AUG 24 2010

VENTURA COUNTY
GRAND JURY

August 17, 2010

Ventura County Grand Jury
Attention: H.G. Kelley, Foreman
800 South Victoria Ave., L#3751
Ventura, California 93009

Re: Grand Jury Report: "The Half Billion Dollar Elephant in our Schools' Closets"

Dear Ventura County Grand Jury:

The Governing Board and Administration of the Santa Paula Union High School District ("the District") has received the above-referenced Grand Jury Report. This letter constitutes the District's response to the Report in accordance with the requirements of Penal Code section 933.05(a) through (c).

I. RESPONSE TO FINDINGS

The District has reviewed Findings F-01 through and including F-37, and has generally determined that it does not possess requisite knowledge or information to agree or disagree wholly or partially with these findings with the exception of Finding F-18. As required by Penal Code section 933.05 (c), the District shall comment on the findings and recommendations pertaining to matters under the control of the governing board. Accordingly, and as required by Penal Code section 933.05 (a), the District responds to the Finding as follows:

A. Finding F-18

Santa Paula Union High School District (1,713 Students - 2 Schools)

- *the budget for the current school year is \$13,076,780*
- *the annual costs associated with health care benefits are \$1,468,116: \$1,286,062 for 102 active employees and \$182,054 for 16 retirees*
- *the projected total health care benefits costs over the next 30 years are expected to be \$3,048,700*
- *the retiree health care benefits plan remains open*
- *ARC is estimated to be \$255,828*
- *The health care benefits plan is not fully funded*

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- *The unfunded health care benefits liability is \$2,065,137*

The District acknowledges that there are two schools in the District; however, the District has a student population of approximately 1,749 students who were enrolled within the District for the 2009-2010 school year.

The District agrees with the Finding in that the current budget for 2009-10 is \$13,076,780. The District also agrees that the annual health care benefits cost is \$1,468,116; with \$1,286,062 applied to 102 active employees and \$182,054 for 16 retirees. The District agrees that under current projections the total health care benefits costs for retirees over the next 30 years are anticipated to approximate \$3,048,700.

The District is uncertain as to the meaning of the statement that, "the retiree health care benefits plan remains open." If this statement means that all new employees may continue to enroll in the District's retiree health care benefits plan, that is inaccurate. Since July 1, 2005, new employees of the District are no longer eligible to receive medical benefits through the District when they become retirees.

The District agrees that the Annual Required Contribution (ARC) is estimated to be \$255,828. The District also agrees that the health care benefits plan is not fully funded and that the unfunded health care benefits liability is \$2,065,137.

II. RESPONSE TO RECOMMENDATIONS

A. R-01

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

Although the District shares the concern set forth in the Grand Jury Report as to unfunded retiree health care benefits, and believes that the Grand Jury's recommendations have merit, the District will not implement the recommendation because of concerns with current financial conditions impacting the public educational system in California.

In light of the severe budget problems that are afflicting local, state, and federal levels of government, a policy of "prefunding" benefits plans is extremely problematical. Although the District agrees with underlying concern of Recommendation R-01 and would support the general objective of prefunding retiree health benefit plans as a means of insuring the availability of funds for such a purpose, the establishment of an irrevocable trust fund is not practical under the circumstances.

The District takes its retiree health care benefits funding obligations very seriously. However, the District has been severely impacted, along with other school districts and governmental agencies, by funding shortfalls. This has made it extremely difficult to engage in the budget planning that is proposed by the establishment of a separate irrevocable trust fund. Such a fund would require the diversion of limited funds to a new account at a time when funds needed to meet basic instructional and educational requirements are being severely reduced.

B. R-02

That County School Districts identify effective cost reductions that will allow the District to achieve their respective calculated Annual Required Contribution (ARC).

Although the District agrees with Recommendation R-02, the recommendation will not be implemented because it is not reasonable at the current time. Cost reductions do provide a means for the District to meet the Annual Required Contribution (ARC). However, the District notes that school districts are engaged in an ongoing struggle to meet all of their budget requirements while maintaining appropriate levels of service to students. In this regard, the District avers that its primary mission is to provide quality instructional services to its students. The District also notes that its employees have not received any salary increases for the past three (3) years. Therefore, under current budget constraints the District is unable to identify effective cost reductions to attain the goal of the Recommendation. In the event that the State of California restores education funding to adequate levels, and such funding is not encumbered by other obligations, there will be an opportunity for the District to pre-fund retiree benefits.

C. R-03

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.

The District has implemented Recommendation R-03 and agrees that economies of scale can provide leverage in the selection of health care plans. The District is a member of a consortium designated as the Coastal School Employee Benefits Organization (CSEBO), consisting of several other school districts in the region.

Based on the District's research of available health benefit plans, it was determined that the medical benefit plans available through this organization provide desirable and relatively cost effective coverage to employees. As such, its participation in CSEBO has produced costs savings that the District would not have been able to obtain on its own. The District believes this provides a realistic alternative as health care costs continue to escalate.

However, the District also notes that it has no control over the costs imposed by the health care industry and that the elements of health care benefits are subject to the collective bargaining process. Therefore, the District may not adjust coverage or benefits without agreement from the employee unions.

D. R-04

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.

The District will not implement Recommendation R-04 because it is not warranted. In this regard, the District meets the reporting requirements established by Governmental Accounting Standards Board (GASB) Statement 45, which governs the reporting of post-employment benefits in the annual

financial reports prepared by the districts and the reporting of unaudited financial information that must be presented to the State of California on forms that are prepared by the State Superintendent of Public Instruction. Although the District agrees that the reporting of complex financial data should be improved to enable greater understanding of the data by the average taxpayer, employee, and retiree, it is not in a position to adjust the method of reporting that is required.

Therefore, as all of the reporting done by County School Districts must comply with the specific reporting requirements of the State of California and the GASB, this Recommendation is not reasonable or warranted under the circumstances.

E. R-05

That County School Districts place the entire district budget on the district website.

The District concurs with Recommendation R-05 and had already been working towards implementation. Under existing practice, the budget of the District is available for public inspection like any other public record. The District's budget is reported on the forms required by the State Superintendent of Public Instruction. The forms are lengthy and complex with district budgets often exceeding 100 pages.

The utilization of current technology to place public information such as district budgets on websites is a very constructive idea. The District has retained a website developer and is presently engaged in developing and upgrading its website to improve the accessibility of such information to the general public. The District is hopeful that it will complete the website project by the end of the year. However, it is noted that the communication of information on the budget is still controlled by the format prescribed by the State Superintendent of Public Instruction.

F. R-06

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.

The District has implemented Recommendation R-06. The District already complies with all reporting requirements concerning the annual budget and preparation of the annual financial statements. As part of this practice, open budget sessions are conducted with the Board during the development of the annual budget. The budget sessions and eventual adoption of the budget are scheduled by public notice and are open to the general public. The annual audited financial statements are also presented to the Board in an open public session. As a result, five open sessions are held that are open to all interested parties at which budget matters including OPEB are discussed.

OPEB issues are an integral part of the budget and financial statement process. The District currently includes OPEB as part of the District's General Fund and this item is part of the discussion conducted during the open hearings in the budget and the annual financial statement review process.

G. R-07

That the VCOE and the elected officials of the individual districts take a pro-active role in seeking solutions to the unfunded liability crisis and present these solutions to their districts.

The elected Board members of the District have implemented this recommendation and will continue to seek solutions to address the unfunded liability crisis. The District's governing Board members have worked hard with VCOE and other elected school officials with the limited funds available to address the fiscal crisis facing the Districts. The District's governing Board members recognize their obligation to the constituents of the District to continue to collaborate on ideas and solutions with VCOE and other districts to deal with the unfunded liability crisis. As part of this process, the Board monitors the budgetary needs of the District through the review process discussed above. One of the steps in being proactive has been improving communications with the public. In fact, the Board approved the contract with a website developer to improve the transmission of District information to the public through its website. (See Response to Recommendation R-05).

H. R-08

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;

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

The District has implemented Recommendation R-08, but not to the scale suggested by the Grand Jury. As is generally known, escalating health care costs is a serious problem contributing to the budget crisis faced by all levels of state government, including school districts.

The District believes that this issue must be addressed, but notes that post-employment retiree benefits are a part of the collective bargaining process. Therefore, agreements made during that process are binding on the District and employees and retirees. Any changes to retiree benefits must be made through the negotiating process and each of the suggested alternatives is a subject of bargaining.

The District is actively considering alternatives including those proposed by Recommendation R-08 to provide for cost sharing of premiums. Currently the District pays for 100% of the premium cost. Discussions with the employee unions have begun to address this issue. The District is seeking premium cost sharing, including caps on the District's contributions towards benefits with any cost in excess of that limit to be borne by District employees and retirees.

The District notes since July 1, 2005, new employees are no longer eligible to receive medical benefits from the District when they become retirees.

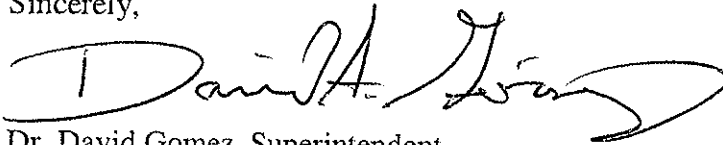
The Grand Jury can rest assured that the District will continue to explore and identify means of addressing the unfunded liability crisis and to minimize benefit costs.

III. CONCLUSION

The Santa Paula Union High School District thanks the Grand Jury for highlighting the need to address the serious financial situation arising from unfunded retiree health care benefits. This is an issue that requires serious discussion among all affected parties including the County Office of Education and school districts to evaluate the options available to deal with this matter.

In closing, we trust that the responses set forth herein comply with the Penal Code requirements.

Sincerely,

A handwritten signature in black ink, appearing to read "David Gomez", with a large, sweeping flourish at the end.

Dr. David Gomez, Superintendent

cc: Governing Board, Santa Paula Union High School District
Honorable Kevin J. McGee, Presiding Judge