Ventura County Community College District

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Dr. James Meznek
Chancellor

June 17, 2010

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VENTURA COUNTY
GRAND JURY

H.G. Kelley, Foreman
Grand Jury
County of Ventura
800 South Victoria Ave.
Ventura, Ca 93009

Dear Foreman Kelley:

We have received and reviewed your report titled *The Half Billion Dollar Elephant in Our Schools' Closets* and are providing responses to the Grand Jury's recommendations as required by Code.

Although the Other Post Employment Benefit (OPEB) liability of the Ventura County Community College District (District) is significant, it is important to note that the Board of Trustees took action on November 9, 2004 to adopt a plan (attached as pages 4-7) to begin partially funding post-retirement health benefit costs beginning in 2005-2006 with a gradual increase in that funding over a three-year period in order to be at the required level of recording annual costs by the effective date of GASB 45 for the District (July 1, 2007). Although GASB 45 requires the recording of costs, it does not require the actual funding. However, the VCCCD Board of Trustees believed the funding of the annual required contribution (ARC) was necessary as well as the actual accounting. The District has been in full compliance with GASB 45 since fiscal year 2007-2008, as reflected in our annual financial audits. As we have had an occasion to meet with credit rating agencies, we have presented that plan, which was well received.

The balance that has been accrued toward the liability as of June 30, 2009 is approximately $9.2 million. In addition, at our June 16, 2010 Board meeting, the Trustees voted unanimously to contract with a consultant to assist the District in the consideration of an irrevocable trust for the investment of those funds.

Our responses to your recommendations follow:

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

District's Response: VCCCD concurs. The District has adopted a plan of prefunding, and is in the process of considering placing those funds in an irrevocable trust fund.

R-02 That County Schools Districts identify effective cost reductions that will allow the District to achieve the respective ARC.

District's Response: VCCCD concurs. The District has been meeting our ARC, in spite of these difficult times of state funding. We continue to consider various cost reductions and benefit plan modifications, as well as the reduction of those new employees that are eligible for retiree health benefits.

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.

District's Response: VCCCD concurs in part. Although the District does not agree that all County schools could act as a single bargaining unit, we have considered JPA's as an alternative of cost reductions and we will continue to do so.

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.

District's Response: VCCCD concurs. The District believes that we do that in our financial reports, including our budget documents

R-05 That County School Districts place the entire district budget on the district website.

District's Response: VCCCD concurs. The District has posted all District budgets (tentative and final adopted) since fiscal year 2005-2006. Those documents may be found on: http://www.vcccd.edu/about_the_district/reports.shtml

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.

District's Response: VCCCD concurs in part. The District has had numerous discussions in public at our open Board meetings regarding this issue and the District's solution. In addition, each year this matter is reviewed as a part of the District's public hearing on our annual budget. It is also a subject of discussion, again as a part of budget development, in our participatory governance committee, as well as during most contract negotiations with faculty.

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.

District's Response: VCCCD concurs. The Board of Trustees has adopted a plan of prefunding, and is in the process of considering placing those funds in an irrevocable trust fund.

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.**

District's Response: VCCCD partially concurs. The Board agrees that there must be solution to the financial situation and burden of retiree benefits. In addition to developing a funding plan, as of July 1, 2005 the VCCCD eliminated retiree benefits for all newly hired employees with the exception of full-time faculty. For faculty hired after July 1, 2001, retiree benefits are now provided only to age 65. As part of our current contract negotiations, the District has proposed the elimination of all retiree benefits for faculty hired after July 1, 2010.

We trust that this adequately responds to the recommendations of the Grand Jury and that our actions demonstrate that, as a Board of Trustees, we take this matter seriously and are committed to resolution, at least of our part, in this serious national problem.

In accordance with Code, we are also sending a copy of our responses to:

Honorable Kevin J. McGee, Presiding Judge
Superior Court of California, Ventura County
PO Box 6489
Ventura, CA 93006.

As a publically-elected Board, we appreciate your service and interest. If you require additional information from our district, please do not hesitate to let me know.

Sincerely,

Robert O. Huber,
Chair, Board of Trustees

Board of Trustees
Ventura County Community College District
November 9, 2004

APPROVAL OF THE SPECIFICS FOR THE METHOD TO FUND RETIREE HEALTH OBLIGATIONS Action	A -4

Issue

This item presents for approval the specifics for the method to fund retiree health benefit obligations in compliance with GASB 45 by the year required for implementation.

Background

Currently, the District records the cost of retiree health benefits in the year they are paid, and does not recognize the liability for future cost as the benefit is earned by the employees. For the past several years, the District has recognized the fact that we have a significant unfunded liability in the form of retiree health benefits. In 2000 and 2001, in order to mitigate the increasing future liabilities, health benefits for new hires were modified from lifetime benefits to those until the age of 65.

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 43 and 45 which will soon require accounting for the costs and liabilities associated with retiree health benefits on an accrual basis, i.e. over the working lifetime of eligible employees.

To comply with accounting and regulatory requirements will require that retiree health benefit costs be prefunded. "Prefunding" retiree health benefits refers to the practice of setting aside funds that are earmarked for retiree health benefits while employees are still actively employed, i.e. before the funds are actually expended to pay for retiree health benefits. By prefunding retiree benefits, there will be enough funds available at retirement that, with interest, will be sufficient to pay all promised retiree benefits without the need for additional District contributions. Without a reserve already set aside, GASB 45 statement requires a district to calculate an annual required contribution, which is composed of the amount necessary to amortize the initial "past service liability" and the annual contribution required to fund retiree benefits over the projected working lifetime of eligible employees. GASB 45 allows for the funding of the past service liability over a period of 30 years as long as an authorized method is utilized. The District must implement GASB 45 no later than 2007-08.

For Districts without established reserves, the new GASB accounting standards will allow districts to establish retiree health accrual expenses based on a level percentage of payroll. This is an option that is not available to private employers. Expressing retiree health costs as a level percentage of payroll is important for three reasons. First, it dramatically reduces first year accrual costs from what they would be to fund the liability through other means. Second, in establishing a pattern of retiree health accrual expenses that track with payroll expenses, costs will be more consistent and predictable, and be more fiscally manageable as they will closely tract revenue. Third, in accordance with CCC Accounting Advisory 96-02, the District will be able to charge retiree health costs to categorical programs, as well as other contracts and grants and other funding sources, thereby reducing the cost to the general fund.

It is critical to establish a plan that will enable the District to offer competitive retiree health benefits at a cost that is fiscally viable. Sound fiscal management of retiree health benefits is more than a matter of compliance with accounting principles and standards, but is necessary to provide benefit security for current and future retirees, as well as providing more consistent funding for vital student services.

At the August 10, 2004 Board meeting, the Board took action to approve a plan to begin early and gradual funding as part of the 2005-06 budget, and to be fully compliant with GASB 45 by the required implementation date.

Analysis

Because of the need to develop a percentage of payroll to apply to the cost of salaries, we needed a current actuarial study. That study was prepared on October 22, 2004 by Total Compensation Systems, Inc. The actuarial shows the estimated amount that would have accumulated if the District begun pre-funding retiree health benefits when each current employee and retiree was hired to be $145,234,626. This calculation is based on the requirements of GASB 45. The amount is often called the "past service liability."

To meet the requirements set forth in GASB 45, the District needs to provide the amount necessary to amortize the initial "past service liability" over a period of 30 years, and provide the annual contribution required to fund retiree benefits over the working lifetime of eligible employees (the "annual accrual cost"). Combining the accrual and amortization costs in the first year produces total first year pre-funding costs of $8,758,631. This amount would be in lieu of the "pay-as-you-go" costs of $4,729,500, an increase of $4,029,131.

To fully implement the pre-funding method in this fiscal year, the District would have to assess a retiree health fringe benefit rate of 14% on the average to each eligible salary dollar. (The rates range from 11% to 18% depending on employee group). This fringe benefit rate would be assessed to all eligible employee group salaries in all funds, including categorical, grants and contracts, auxiliary services, etc.

Because the District has three years to fully implement the GASB requirements, it is recommended that the District account for the additional cost gradually over a three-year period.

Currently, the District's Blue Cross Dividend Accounting Plan has produced a surplus of $1,531,865. It would be prudent for that surplus to be used for one-time, not on-going expenses, and therefore it is recommended that the District request a withdrawal of the surplus and apply that refund to the unfunded liability, thereby reducing costs in future years. This recommendation is in addition to implementing the pre-funding methodology.

Fiscal Impact

The gradual implementation of the pre-funding method, spread evenly over a three-year period, would result in an increase in costs of approximately $875,000 per year over the prior year in each of the next three years in the general fund and significant additional funding from other funds in each year.

Staff Position

Academic Senates (as appropriate): N/A

Review by Legal Counsel: N/A

Recommendation of Chancellor

The Chancellor recommends approval of the plan, as presented, to begin the funding of retiree health benefit obligations as a percent of payroll as part of the 2005-06 budget and fiscal year accounting process, and to apply the surplus from the Blue Cross Dividend Accounting Plan to the unfunded liability.

Further Information

Sue Johnson

11.9/04, Item A-4 sj