



VENTURA COUNTY OFFICE OF EDUCATION

Stanley C. Mantooth, County Superintendent of Schools

July 2, 2010

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

VENTURA COUNTY
GRAND JURY

Members of the Ventura County Grand Jury:

Thank you for all the work that the Ventura County Grand Jury does on behalf of the residents of Ventura County. The Grand Jury provides an independent voice for the identification and investigation of various issues affecting Ventura County. On June 8, 2010, the Grand Jury issued its report entitled: *The Half Billion Dollar Elephant In Our Schools' Closets*. In that report, the Grand Jury required a response from the Ventura County Office of Education to recommendations R-01 through R-08.

I have reviewed the report and, per the requirement, I am submitting the following response on behalf of the Ventura County Office of Education. As you know, each Local Educational Agency located in Ventura County is a self-governing local governmental entity subject to the Constitution of the State of California and the various California Codes that apply. Therefore, the following response is made on behalf of the Ventura County Office of Education alone and should not be considered as a response for any other Local Educational Agency in Ventura County.

Recommendation R-01: 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 Ventura County Office of Education (VCOE) supports the Grand Jury's concept of prefunding retiree health care benefit plans, as is demonstrated by the fact that VCOE has set aside approximately 75% of its retiree health care benefits' liability in a special reserve fund. However, VCOE disagrees with the Grand Jury's recommendation that all districts adopt a policy establishing an irrevocable trust fund for these prefunding amounts.

Retiree benefit costs are a growing concern for nearly every governmental agency in the county. Collecting and securing current funding for these future benefits is clearly a prudent thing to do in order to provide for the financial stability of the agency and at the same time to provide a secure benefit for the agencies' retirees. However, given the current economic environment, and the devastating cuts passed onto the Local Educational Agencies by the State of California, many districts are faced with the tough choice of prefunding retiree benefits or providing quality educational programs for their current students. Once this economic crisis ends and the State is able to restore

education funding, then districts will be better able to prioritize their resources and make decisions that would include funding retiree benefits.

The Ventura County Office of Education is currently pre-funding its retiree benefits but does not plan to implement an irrevocable trust fund at this time.

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

The Ventura County Office of Education concurs in part with Recommendation R-02. It is clear that every LEA offering retiree benefits must make plans to provide for these benefits in the future. During the current economic crisis, cost reductions would be the only way possible to provide for additional pre-funding of the retiree benefits. Again, should a district cut the programs offered to their current students to pre-fund retiree benefits? We suggest that as additional funding becomes available in the future, Districts will have the opportunity to more carefully plan for the use of these additional funds. However, this possibility relies heavily on the state's priority in restoring education funding, and for that restored funding to be unrestricted and available for the discretionary use of the local governing board.

The Ventura County Office of Education is currently pre-funding its retiree benefits and will continue to do so as long as it does not negatively impact services to our current students.

Recommendation 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 Ventura County Office of Education concurs with Recommendation R-03 that economies of scale can provide savings in just about every type of expenditure category, both in the private and governmental sectors of the economy.

Currently, School Districts in Ventura County are in fact leveraging economies of scale for health care plans. All but two districts are members of some type of group purchasing plan for health care benefits. Nine LEAs are members of the Coastal School Employee Benefits Organization. Six LEAs are members of the Self-Insured Schools of California. Three LEAs belong to the Gold Coast Joint Benefit Trust. One LEA receives medical benefits from the California Value Trust. These LEAs, as well as the two that are self-insured, have determined that their medical benefit plans provide the best mix of coverage for their employees, with the prudent use of limited financial resources. It is a well-documented fact that the cost of medical benefits continues to grow at levels outpacing the general economy. Because of these large cost increases, LEAs, and other private and governmental entities, must continue to monitor their benefit costs closely and be prepared to make adjustments to their plans. However, we

are reminded that medical benefits are subject to the collective bargaining process and cannot be unilaterally changed by the Governing Boards of the local Districts.

The Ventura County Office of Education is currently a member of the Coastal School Employee Benefits Organization. This office will continue to work together with this group to provide cost effective medical benefits for our employees.

Recommendation 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 Ventura County Office of Education concurs in part with Recommendation R-04. As the Grand Jury report pointed out, the reporting of post-employment benefits in the annual audited financial report of an LEA is governed by the Governmental Accounting Standards Board in their regulation #45 (GASB 45). GASB 45 gives specific guidance to independent auditors on what must be presented in the annual audited financial statements. As stated in the Grand Jury report, "GASB 45 provides those who use government financial reports with improved information about the cost of providing post-employment benefits. . ." In addition, unaudited financial information is required to be presented to the State of California on forms prescribed by the State Superintendent of Public Instruction. Therefore, School Districts in Ventura County are working under very specific reporting requirements of unaudited and audited financial data.

The calculation of the future cost of post-employment benefits is a complex task. School districts are required to enlist the services of an actuary in order to make these complex calculations. These actuarial reports are public record and available for inspection.

The Ventura County Office Education meets the reporting requirements of the State of California and the Governmental Accounting Standards Board. However, we agree that the reporting of this complex financial information could be improved so that the information is more usable for the average reader. This item will require additional study to determine how this information could be better presented.

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

The Ventura County Office of Education concurs in part with Recommendation R-05. The budget of a LEA, like any public record, is available for public inspection. The annual budget is reported on forms required by the State Superintendent of Public Instruction. These forms are complex and lengthy, with the average LEA budget easily exceeding 100 pages. Websites provide unprecedented access to information about an LEA, however the information needs to be in a form that is easily accessed and is

usable to the reader. The current budget format prescribed by the State Superintendent of Public Instruction may not meet these requirements.

The Ventura County Office of Education currently posts summary budget information on the VCOE website. We also routinely review this information in order to determine the best format to ensure that the budget material is presented in a meaningful way to the average user.

Recommendation 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 Ventura County Office of Education concurs with Recommendation R-06. VCOE complies with all reporting requirements concerning the annual budget and the annual financial reports of VCOE. Budget study sessions are held with the board and are open to the public during the development of the annual budget. The adoption process is advertised and open to the public as required by California Education Code. The annual audited financial statements are also presented to the Board in an open public meeting. OPEB issues are an integral part of the budget and annual financial statement process and are included in the discussions at these public meetings.

The Ventura County Office of Education currently includes the discussion of OPEB issues in the budget and annual financial statement process.

Recommendation R-07: 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.

The Ventura County Office of Education concurs with Recommendation R-07. The Ventura County Board of Education and the Administration of the Ventura County Office of Education have taken a proactive role in addressing the unfunded liability at VCOE. Steps taken to address the issue include closing eligibility for post-employment benefits and funding approximately 75% of the unfunded liability in a special reserve fund. Additional funding of this liability will be made, as appropriate, given the current funding crisis in the State of California.

The Ventura County Office of Education has been proactive in addressing this issue and has been successful in limiting the unfunded liability for post-employment benefits by limiting the pool of eligible employees and pre-funding a large amount of the future costs of retiree benefits.

Recommendation 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; and

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

The Ventura County Office of Education concurs in part with Recommendation R-08. In almost all cases, the post-employment retiree benefit programs are a part of the collective bargaining process mandated by law. Agreements made during that process are binding on both the LEA Governing Board and the represented employees. Any changes made to these agreements must currently be effected through the collective bargaining process.

Generally speaking, it is clear that the escalating costs of health care are impacting everyone, and School Districts are not immune. LEAs throughout the State are looking at ways to reduce their current and future costs associated with medical benefits for both active and retired employees. Plan changes, benefit reductions, plan caps, increased co-payments, and closing the eligibility for retiree benefits plans are just a few of the strategies LEAs are using to reduce costs.

The Ventura County Office of Education is currently honoring its retiree benefits program by prefunding the costs whenever possible. In addition, VCOE has taken steps to limit the escalating costs of medical benefits for current employees by implementing a benefits premium cap for all employees. This cap protects the organization from additional premium increases. Unfortunately, it does not protect individual employees and their families from out of pocket expense due to the escalating cost of healthcare.

Summary

The Ventura County Office of Education takes the cost of employee benefits for both current and retired employees very seriously. VCOE has taken steps to limit the effect of escalating benefits costs for retirees by closing program eligibility and prefunding approximately 75% of the unfunded liability. In addition, VCOE has limited the costs for current employees by placing a cap on the employer-paid portion of the medical benefits and will continue its work in assessing health care benefit plans and their impact on the organization's financial statements.

Thank you for the opportunity to respond to the Grand Jury on this topic. If you have

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any additional questions or comments, please feel free to contact me via phone at 805-383-1901 or via e-mail at mantooth@vcoe.org.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Mantooth". The signature is fluid and cursive, with a large initial "S" and a long, sweeping underline.

Stanley C. Mantooth
Ventura County Superintendent of Schools

cc: Honorable Kevin J. McGee, Presiding Judge, Superior Court of CA, Ventura Co.
Members, Ventura County Board of Education