



Michael Watenpaugh, Ed.D., Superintendent
DISTRICT OFFICE

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August 14, 2017

The Honorable Kelly V. Simmons
Marin County Superior Court
P.O. Box 4988
San Rafael, CA 94913-4988

Jay Hamilton-Roth, Foreperson
Marin County Civil Grand Jury
3501 Civic Center Drive, Room #275
San Rafael, CA 94903

Dear Judge Simmons and Mr. Hamilton-Roth:

Attached please find the response to recommendations #1 to #9 as requested by the 2016-2017 Marin County Civil Grand Jury to the report "Marin's Retirement Health Care Benefits: The Money Still Isn't There," dated May 10, 2017, from the San Rafael Elementary School District and San Rafael High School District Board of Education.

Thank you for your continued interest in and support of our public schools.

Sincerely,

Michael Watenpaugh, Ed.D
District Superintendent

Rachel Kertz, President
San Rafael City Schools Board of Education

RESPONSE TO GRAND JURY REPORT

Marin's Retirement Health Care Benefits: The Money Still Isn't There San Rafael City Schools

August 14, 2017

RECOMMENDATION

R1: Each agency should adopt a *formal, written policy* for contributions to its Other Post-Employment Benefits (OPEB) plan.

Response:

The recommendation has not yet been implemented.

San Rafael City Schools, San Rafael Elementary School District (ESD) and San Rafael High School District (HSD), hereafter referred to as "District", follows the California School Boards Association board policy recommendations. Whenever such a policy is available, the District will bring to the Board of Education for approval. At this time, the District accounts for its OPEB is on a "pay-as-you-go" basis. The current OPEB plan is further iterated in the notes to the financial statements published with the District's annual audit.

RECOMMENDATION

R2: Each agency's standard practice should be to consistently satisfy its formal, written OPEB contribution policy.

Response:

The recommendation has not yet been implemented.

The District will implement and record its practice once the District adopts a formal, written policy for contributions to its OPEB plan per the California School Boards Association recommendation.

RECOMMENDATION

R3: Each agency's OPEB contribution policy and practice should support a projection under GASB 75 that its OPEB plan assets will be sufficient to make all projected OPEB benefit payments.

Response:

The recommendation will not be implemented at this time.

Because San Rafael City Schools is unique in that it is comprised of two separate Districts, routine and fiscally prudent consideration by the Board of Education has been taken on how best to manage the OPEB liability and manage limited cash resources. Both Districts manage their OPEB on a pay-as-you go basis. In addition, the Districts have set-up Fund 20 that is designated strictly to fund the OPEB liability. This fund currently has a fund balance of \$2,498,700 for the ESD and \$2,004,900 for the HSD. This arrangement has funds designated towards the OPEB liability but also gives the Board flexibility which it would not have under an irrevocable trust.

RECOMMENDATION

R4: Each agency that uses special reserve funds for Postemployment Benefits should transition to a trust meeting the criteria of GASB 75.

Response:

The recommendation will not be implemented at this time.

Although the Grand Jury's recommendation is well founded in practice, there are many reasons the District's Board did not move forward with implementing an irrevocable trust:

- Costs of maintaining a separate trust vs the benefits of maintaining a trust – school districts are limited in the financial instruments they may invest in.
- Cash-flow issues coupled with the ability of the District to fund the OPEB liability with ending fund balances are necessary considerations in a full exercise of fiduciary responsibility.
 - State funded school districts have experienced an increased need for access to cash as the State was deferring an ever increasing amount of state aid into the subsequent year.
 - Both Districts need a cash reserve to manage the lag in time between the distribution of local property taxes and operating costs.

- The need to maintain flexibility during the period of uncertainty surrounding the ongoing implementation of the Affordable Care Act and its impact on health benefits, associated costs, and employer responsibilities.
- The immediate impact of the newly increased pension costs at a time of modest revenue increases.
- The impact of increasing enrollment at the basic aid high school district.
- The impact of declining enrollment at the state-funded elementary school district.

As noted in above, the Fund 20 has been established to help fund the OPEB liability. This arrangement has funds designated towards the OPEB liability but also gives the Board flexibility, which it would not have under an irrevocable trust.

RECOMMENDATION

R5: Each term of service, elected or appointed officials of each agency should take a public agency financial class.

Response:

The recommendation has been implemented. Each of the District's Board members has participated the Marin County Office of Education hosted Masters in Governance program facilitated by the California School Boards Association along with various other financial workshops and programs.

In addition, the District holds various annual Board of Education Budget Workshops and presentations including the annual adopted budget, unaudited actual budget, First Interim Budget, January Governor's Budget Report, Second Interim Budget Report and Governor's May Revision Report. These workshops and presentations are open to the public, in which all budget components are reviewed, from enrollment projections to revenues and expenditures for the past, current and future two additional budget years. Because over 80% of all expenditures are for the total compensation of employees, these costs are a major focus of every fiscal workshop and presentation.

In 2016-17, the Board of Education held several special Board meeting to discuss long-range financial planning, in which rising pension costs were reviewed and discussed. Other financial planning topics were discussed as well. Annually from September through June, monthly Budget Advisory Committee (BAC) meetings are held to discuss these same topics with District stakeholders which comprise teachers, classified staff, administration, managers, community members and Board members.

Recommendations from the BAC were presented to the Board for recommendation and implementation. This established format will continue to be used during 2017-18.

If additional classes are recommended by the Civil Grand Jury and created for public agency officials in Marin County, they will be recommended to the District Board members.

RECOMMENDATION

R6: Each agency should make its CAFRs, Audits, and GASB valuations more readily understandable by the general public.

Response:

The recommendation has been implemented.

The format and content of the annual audit is prescribed by standards set by the American Institute of Certified Public Accountants in accordance with generally accepted accounting principles (GAAP) set by the Governmental Accounting Standards Board (GASB). The report includes a Management Discussion and Analysis section where we provide information regarding our OPEB obligation and funding plan. Footnotes to the financial statements also provide significant supporting information that address our policies and practices with respect to OPEB. Similarly, the OPEB actuarial study report is prepared in accordance with standards set by outside bodies. The District presents these reports to our Board and community, along with a narrative that describes the substance of the report and its implications for our District financial plan to fund our OPEB obligations in a readily understandable format. These reports are readily available on the District's website for public review.

RECOMMENDATION

R7: Each agency should ensure that all of its public financial *presentations* are more readily understandable and scheduled during hours convenient for the public.

Response:

The recommendation has been implemented.

The District holds Board meetings normally twice a month, at 6:00 p.m. to ensure community members have an opportunity to attend and participate in discussions regarding any financial presentation. Board meeting dates are published on the District's website, including time and location. Board meeting agendas are published for public review at least 72 hours in advance. The District's administrative team prepares readily understandable financial presentations to accompany the major budget and financial reporting periods. Every June, prior to the beginning of the new fiscal year, the Board of Education holds a Public Hearing and Budget Workshop Board meeting, which is also open

to the public. Staff are always available at these meeting to answer questions before, during or after the meeting.

RECOMMENDATION

R8: Each agency should have the following downloadable and text-searchable documents readily accessible on their website: the last five years of CAFRs/Audits and the last three actuarial reports.

Response:

The recommendation has been partially implemented and will require further analysis.

The Districts webpage at <http://www.srcs.org/business> includes the last five years of Financial Audit Reports and the last three Actuarial Valuation Reports. During 2017-18 school year, the webpage is being updated so these are downloadable as text-searchable documents.

RECOMMENDATION

R9: Before the next round of bargaining begins, each agency should prioritize the cost containment strategies to be used, including reducing or eliminating OPEB benefits for future employees.

Response:

The recommendation has been implemented.

The District's collective bargaining position with its workforce is to continue to address "Total Compensation," where total compensation is defined as salary, statutory benefits, pension and, health and welfare benefits. The District has negotiated OPEB for eligible employees that is limited to five years or until 65 years old (whichever occurs first) with monthly caps for Administrators, Managers and confidential employees at \$276/mo.; elementary certificated staff @ \$230/mo., high school certificated staff hired before 6/12/12 at \$276/mo., hired after 6/12/12 at \$300/mo. with 10 years of service, \$400/mo. with 15 years and \$608 with 20 years. During future negotiations the District will investigate areas of consideration to manage the cost of OPEB benefits through the collective bargaining process.