

The Challenges of Employee and Retiree Health Benefit Costs for California Districts

June 11, 2019
Sacramento, California



Paul Bruno

- USC Rossier School of Education, K-12 Policy
- Lead Researcher in Getting Down to Facts II, author of *District Dollars 2: California School District Finances, 2004-5 through 2016-17*
- Research interests include teacher quality, teacher labor markets, collective bargaining, and school finance.
- Taught middle school science for five years in Oakland and Los Angeles



Jorge Aguilar

- Superintendent of Sacramento City Unified School District since May 2017
- Previous Associate Superintendent for Equity and Access at Fresno Unified School District where the district increased graduation rates, cut dropout rates and raised the “A-G” completion rates.
- More than 20 years of experience in K-12 and higher education, with a strong focus on equity and achievement.
- BA from University of California, Berkeley, and JD from Loyola Law School in Los Angeles.



Michael Fine

- Chief Executive Officer of Fiscal Crisis and Management Assistance Team (FCMAT)
 - FCMAT helps California's local educational agencies fulfill their financial and management responsibilities by providing fiscal advice, management assistance, training and other related school business services.
- Previously served as Deputy Superintendent of Business Services of the Riverside Unified School District
- BS from Cal Poly Pomona in Business Administration and a MA of Public Administration degree from California Baptist University



Agenda

- Presentation of findings from “The Challenges of Employee and Retiree Health Benefit Costs for California Districts,”
Paul Bruno
- Remarks from Superintendent Jorge Aguilar
- Remarks from Michael Fine
- Q&A



The Challenges of Health and Welfare Benefit Costs for California Districts

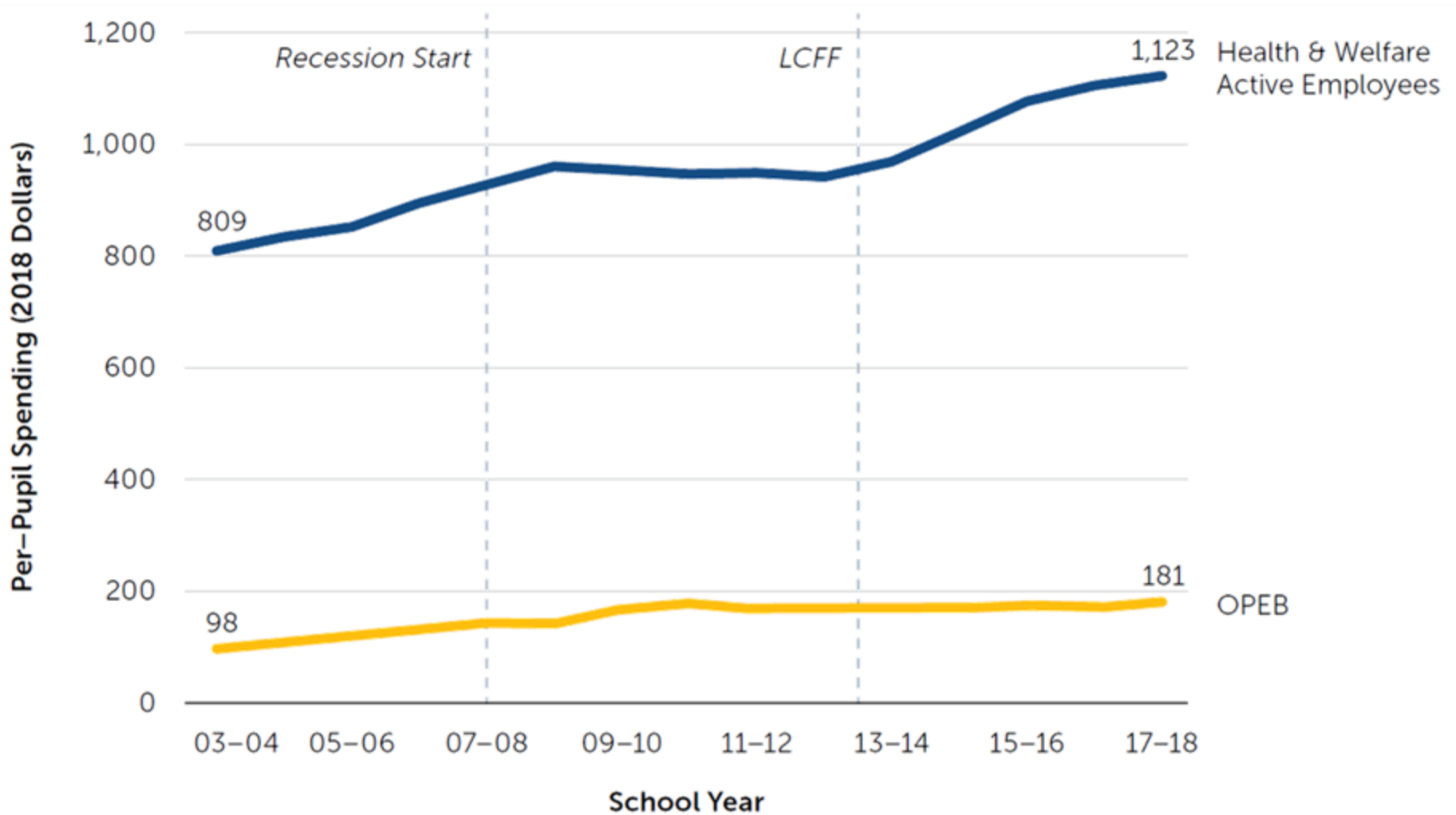
Paul Bruno

Rossier School of Education

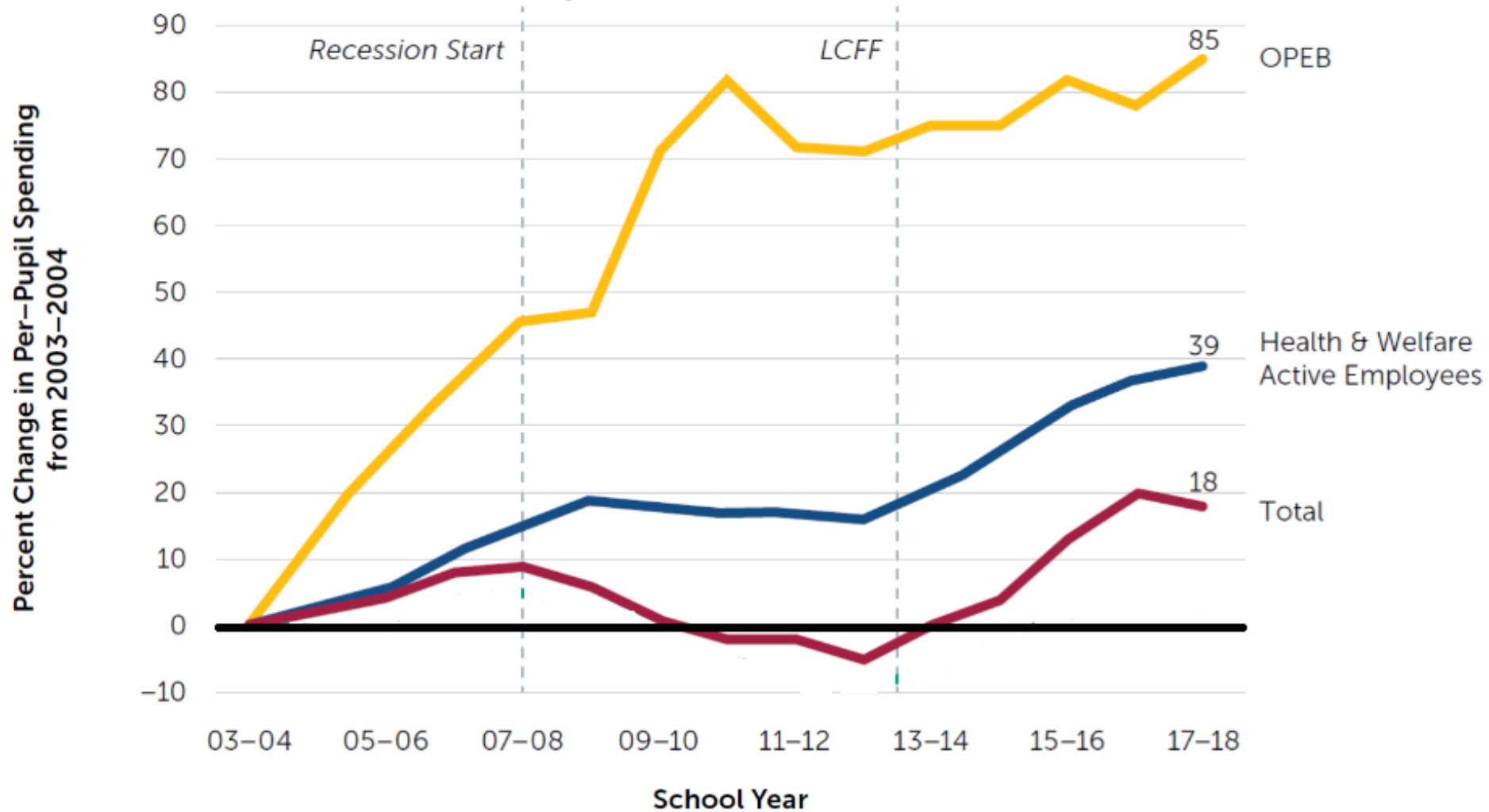
University of Southern California

June 11, 2019

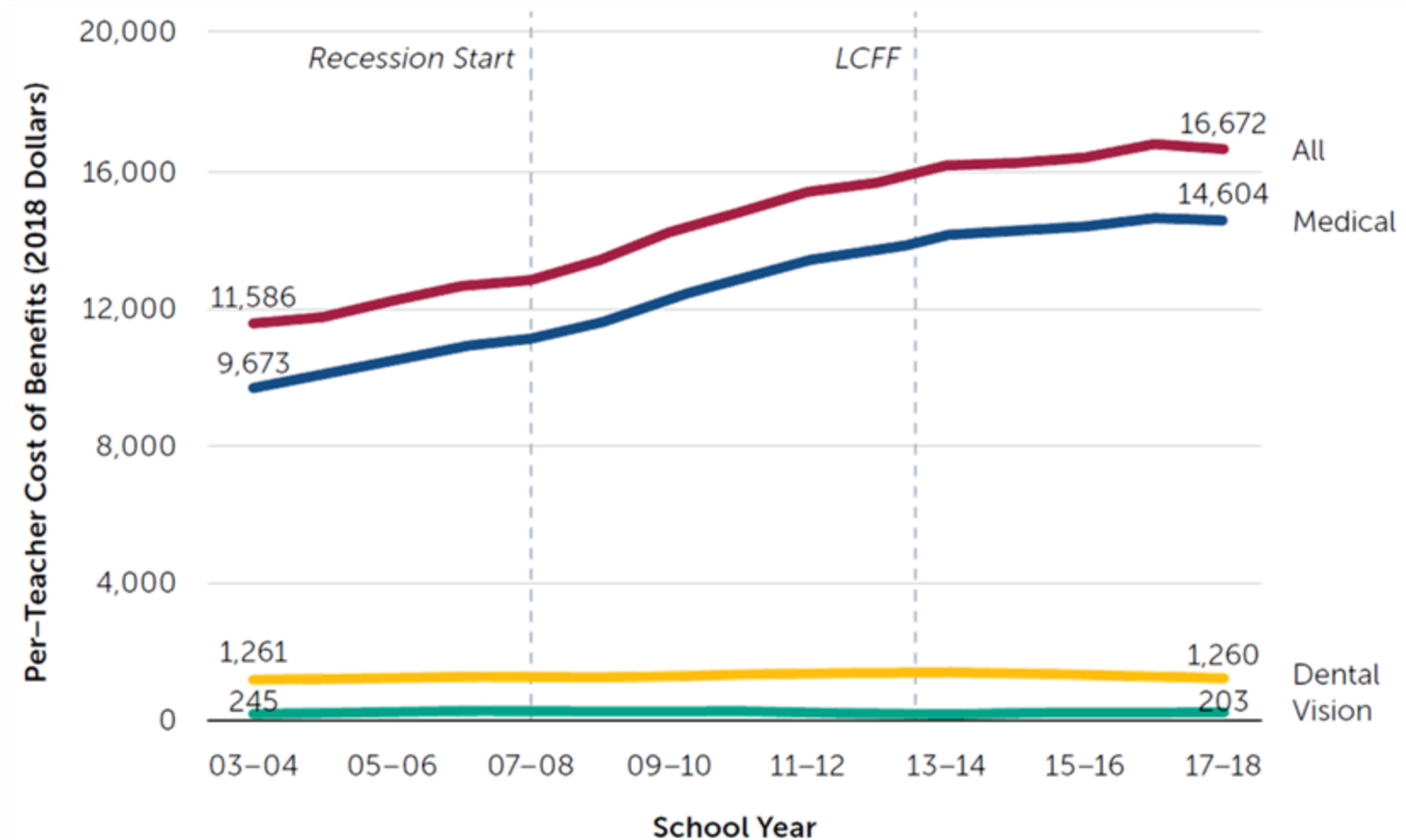
Health Benefit Costs Have Increased



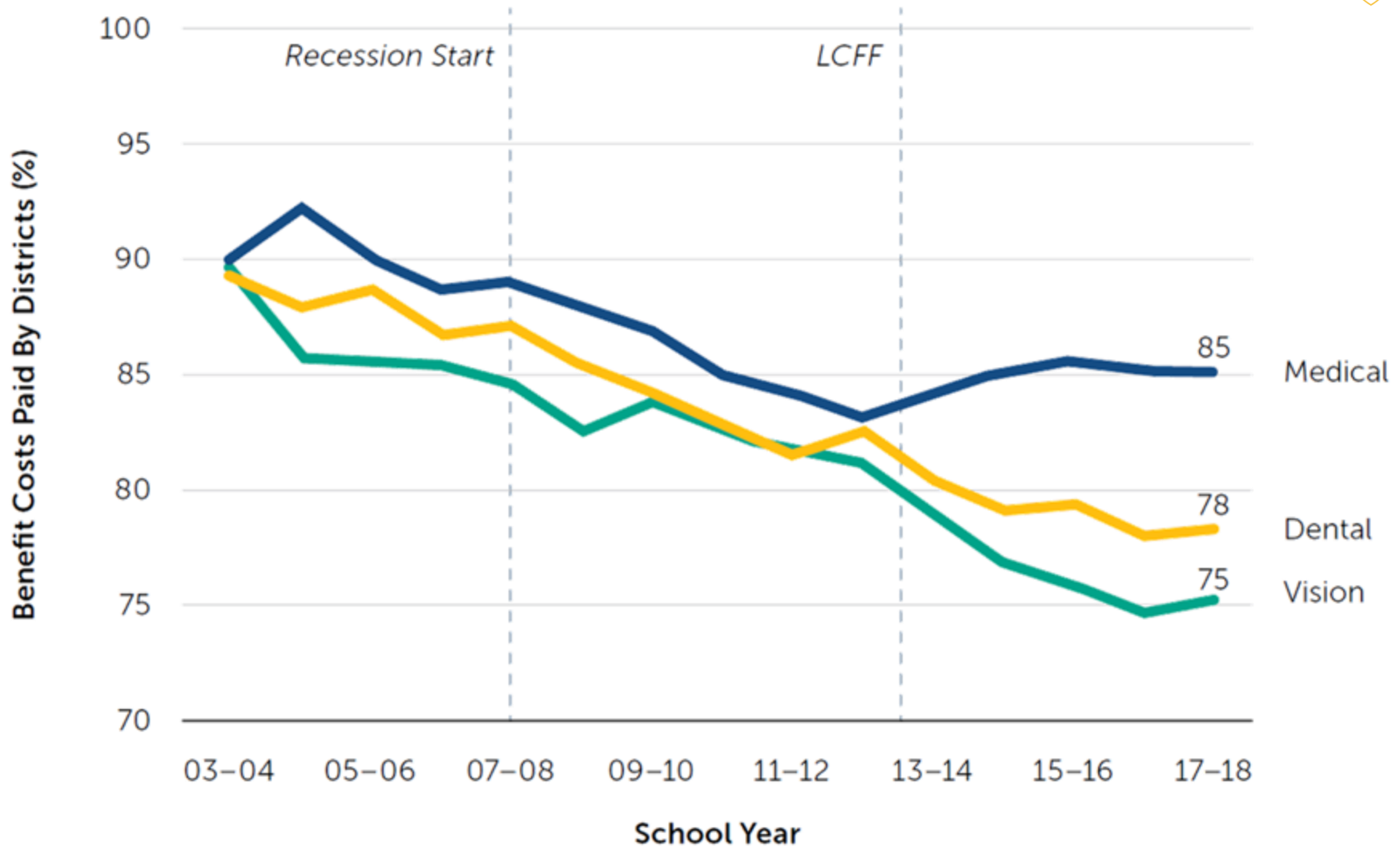
Health Benefit Costs Have Grown Faster than District Budgets



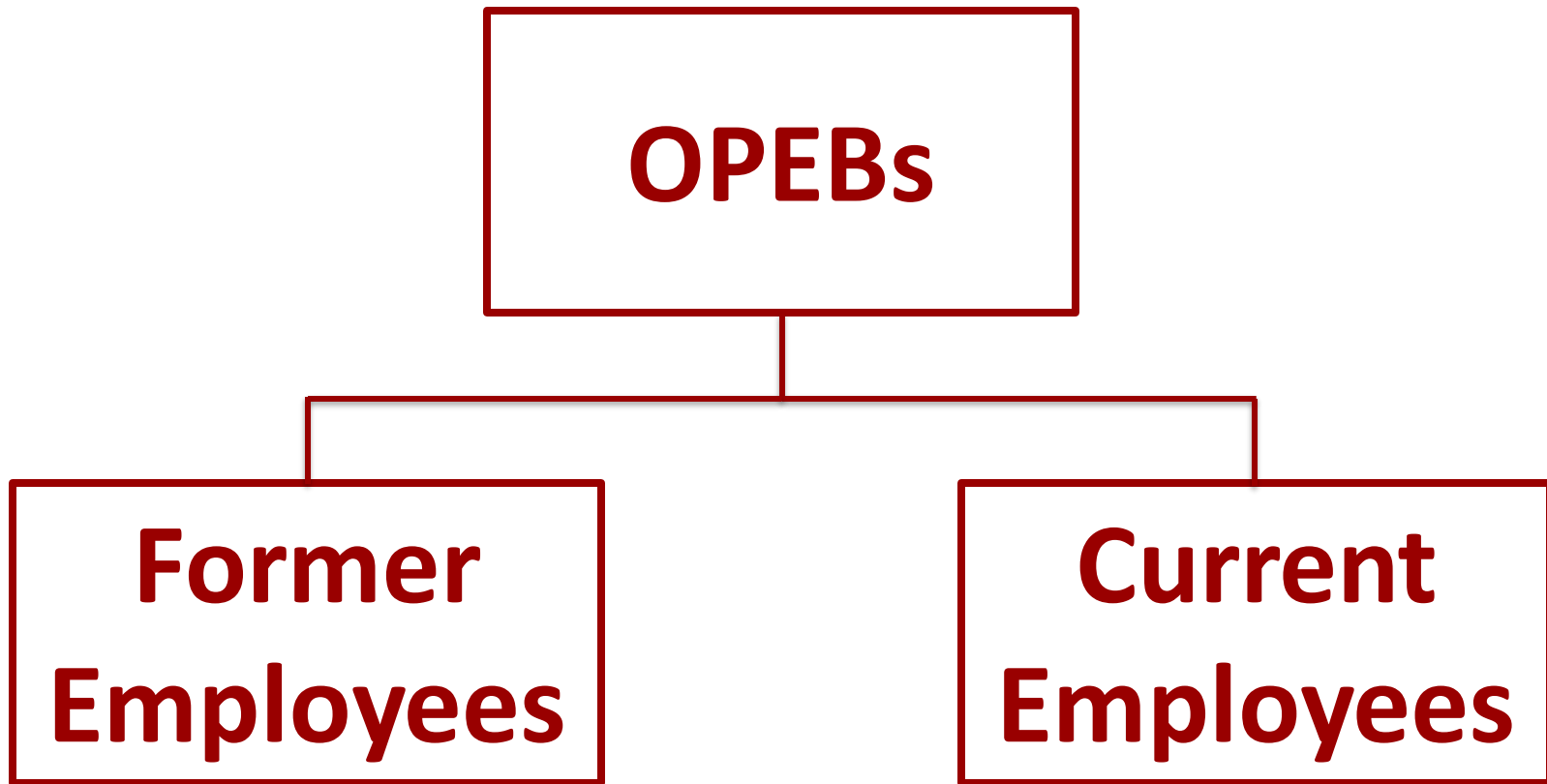
The Cost of Coverage for Each Worker has Increased



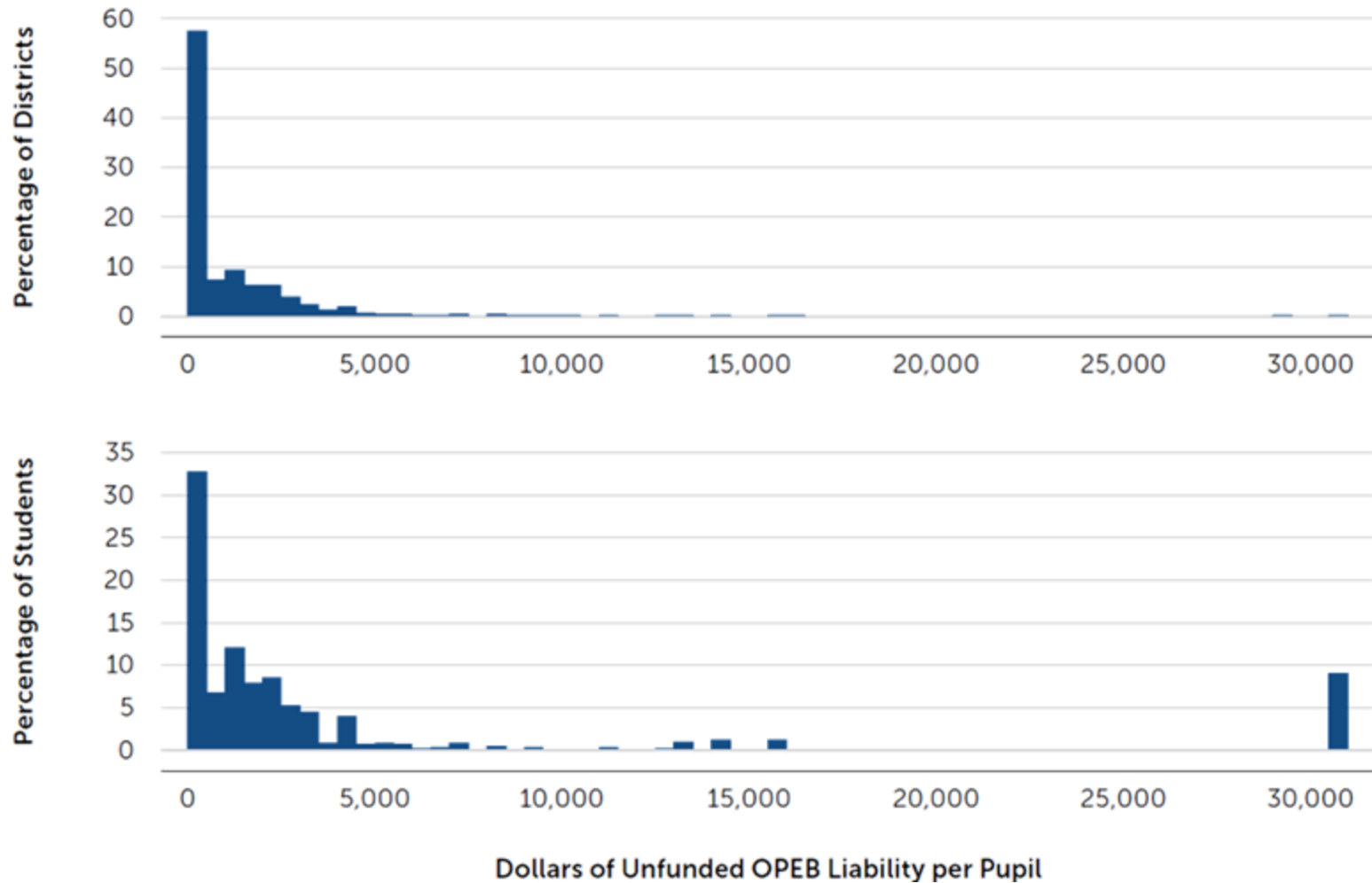
Districts Pay Most of Annual Benefit Costs



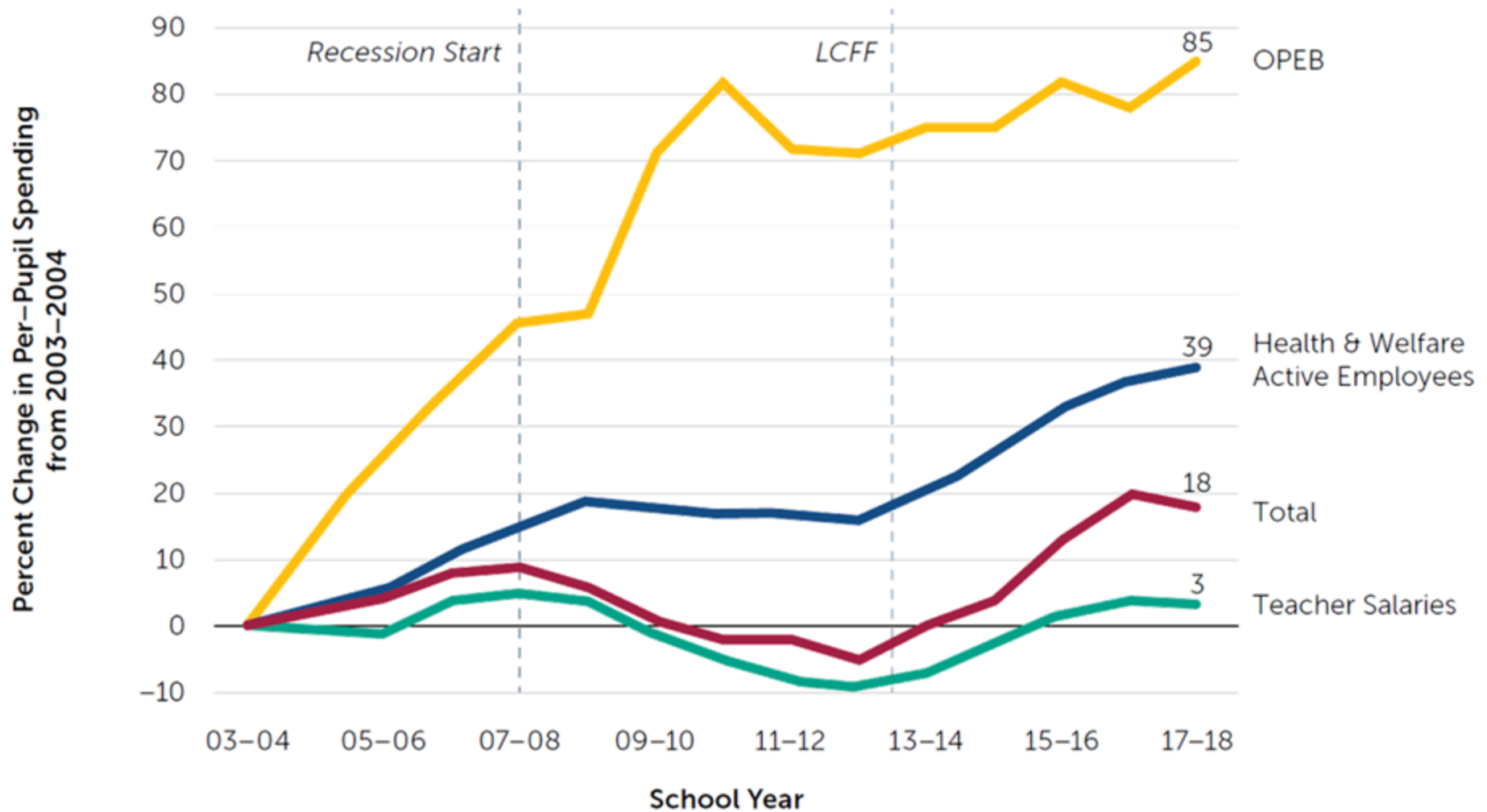
Districts Have Both Immediate Costs and Liabilities for Retiree Benefits



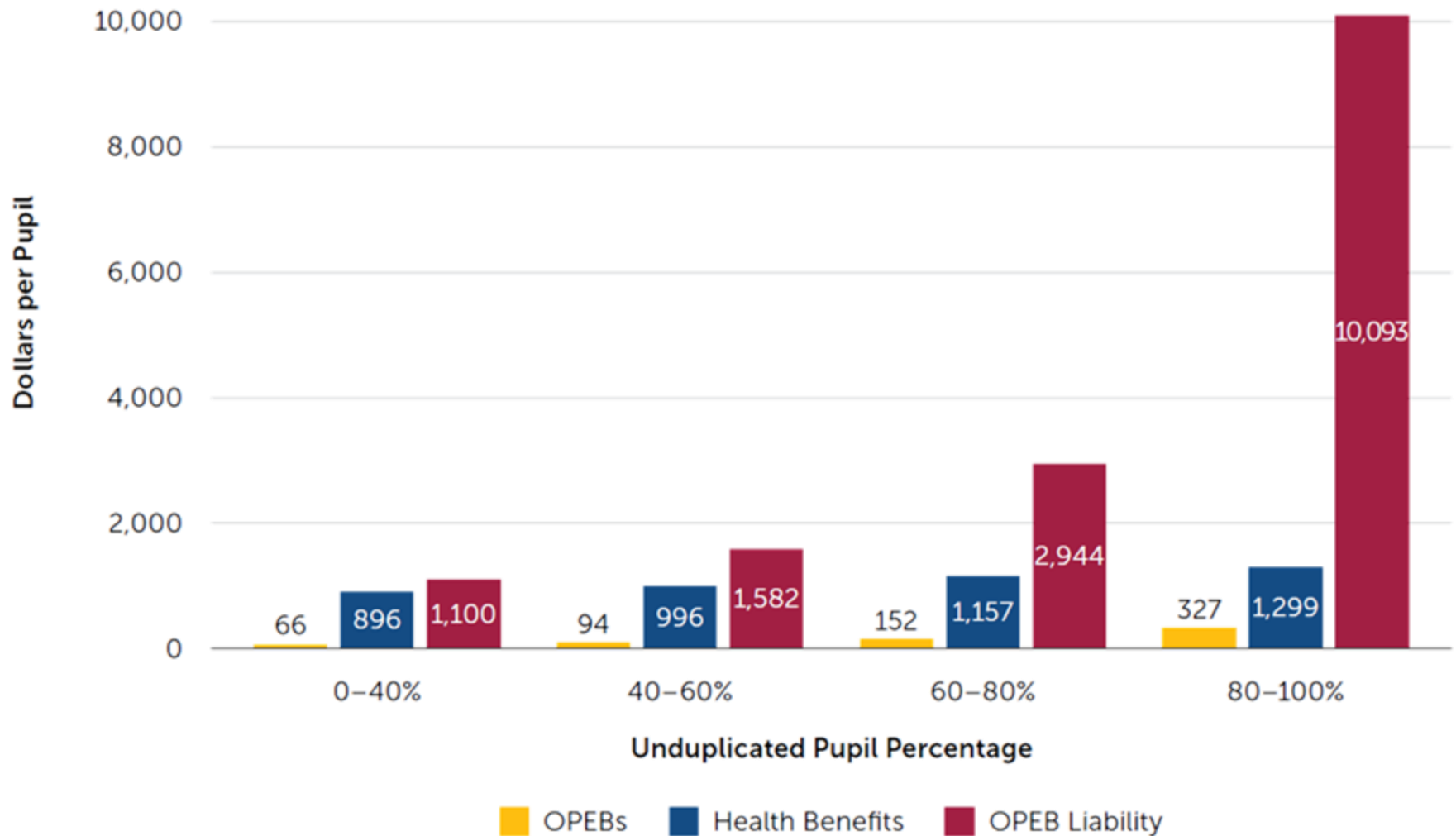
Unfunded OPEB Liabilities are Disproportionately in Large Districts



Health Benefits Put Pressure on Budgets



Health Benefits Put Pressure on Budgets



Possible Steps for Districts



1. Require employees to pay a larger share of benefit costs.
 - Saves districts on each plan, staff may choose cheaper plans
 - Can use savings to increase salaries
 - Can provide tax-advantaged health spending accounts
2. Reduce generosity of retiree benefits
 - Require employees to serve longer to earn benefits
 - Provide benefits for fewer years after retirement
3. Pre-fund OPEBs
 - Prevents accumulated unfunded liabilities
 - Investment returns can be used to pay for benefits



Paul Bruno

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Two Major Types of Health Benefits



Health and Welfare Benefits for Active Employees

Benefits for workers *currently* working in the district.

Primarily:

- Coverage for medical, dental, and vision services.
- Life insurance

Other-Than-Pension Post-Employment Benefits (OPEBs)

Benefits (other than pensions) for workers *no longer* working in the district.

Primarily:

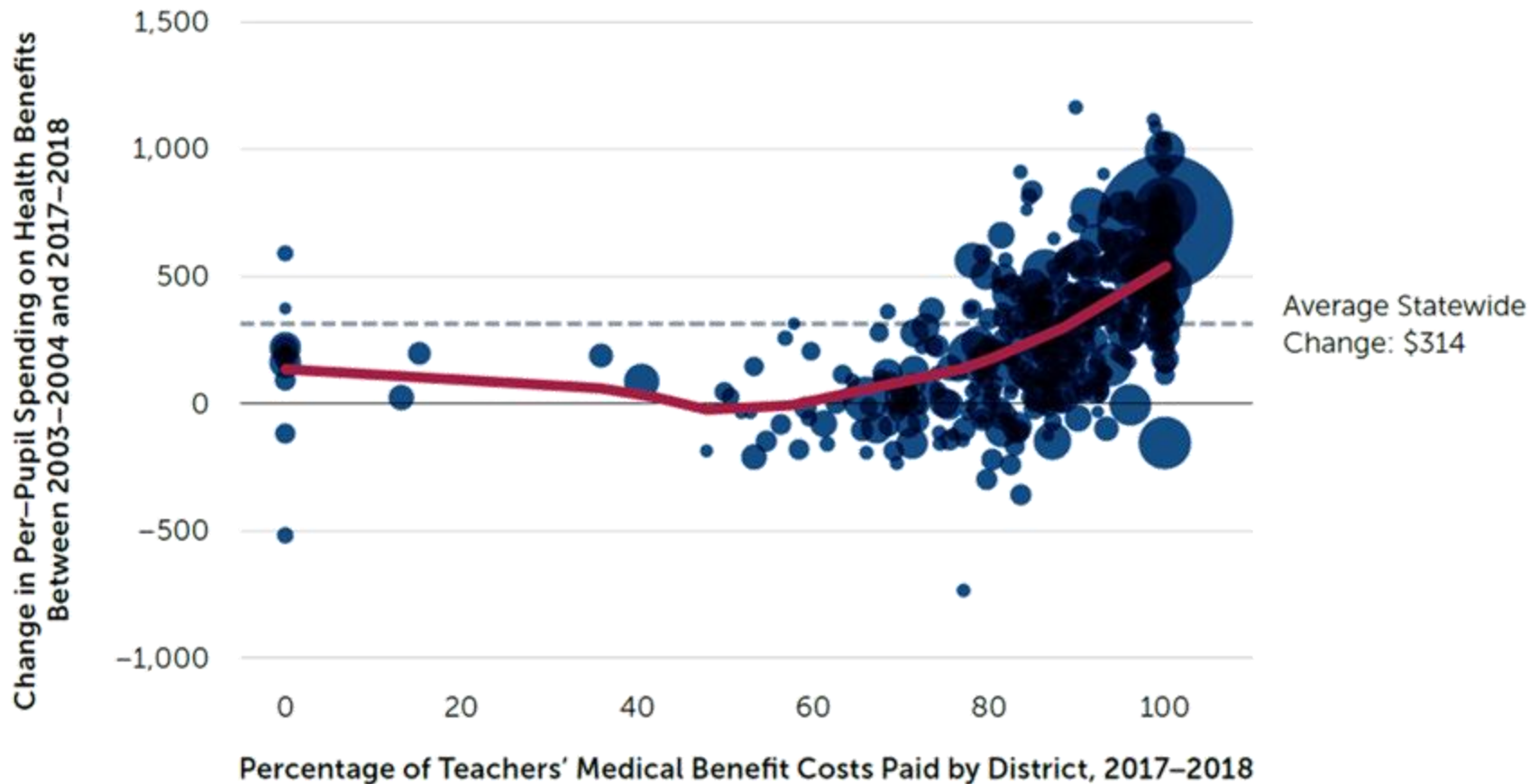
- Health and welfare benefits for retirees.



District	Health Benefit Spending		% of Teachers' Benefit Costs Paid by District			
	Per Pupil	% of All Spending	Medical	Dental	Vision	Enrollment
Highest per-pupil spending on health and welfare benefits						
Pajaro Valley Unified	2844	16.9	97.7	98.8	100	18220
Mountain View-Los Altos Union High	2213	9.8	99.8	100	100	4285
Sacramento City Unified	2045	12.6	100	100	100	40508
Solana Beach Elementary	1923	5.6	93	91	100	2916
Albany City Unified	1914	11.3	98.9	100	100	3656
Sequoia Union High	1872	6.2	100	100	100	8837
Coachella Valley Unified	1854	11.0	99.7	100	100	18146
Southern Kern Unified	1838	10.7	98.8	100	100	3560
San Diego Unified	1825	9.1	100	100	100	104454
Washington Unified	1817	11.6	96.1	0	0	2602
Largest percentage of spending on health and welfare benefits						
Pajaro Valley Unified	2844	16.9	97.7	98.8	100	18220
Pacifica	1585	14.1	95.8	100	0	3111
Salinas City Elementary	1681	13.6	88.6	94.7	100	8844
King City Union	1560	13.2	99.1	100	100	2661
Sacramento City Unified	2045	12.6	100	100	100	40508
Anaheim Union High	1627	12.1	100	100	100	30704
Richland Union Elementary	1678	12.1	100	100	100	3031
Bakersfield City	1763	12.1	100	100	100	30699
Victor Elementary	1472	12.1	100	100	100	12479
Los Banos Unified	1454	12.0	87.1	100	100	10863

Note: Excludes districts with fewer than 2,500 students. District contributions to benefit costs come from J-90 files. For Pajaro Valley Unified and Los Banos Unified, district benefit cost shares are taken from 2016–2017 as these districts did not report these figures in 2017–2018.

Larger Employer Contributions Contribute to Growing Health Benefit Spending



Note. Excludes districts with fewer than 2,500 students in 2017-2018. Marker size proportional to enrollment. Health benefit spending includes spending on all health and welfare benefits for active employees excluding OPEBs. Curve is lowess.

Unfunded OPEB Liabilities are Disproportionately in Large Districts

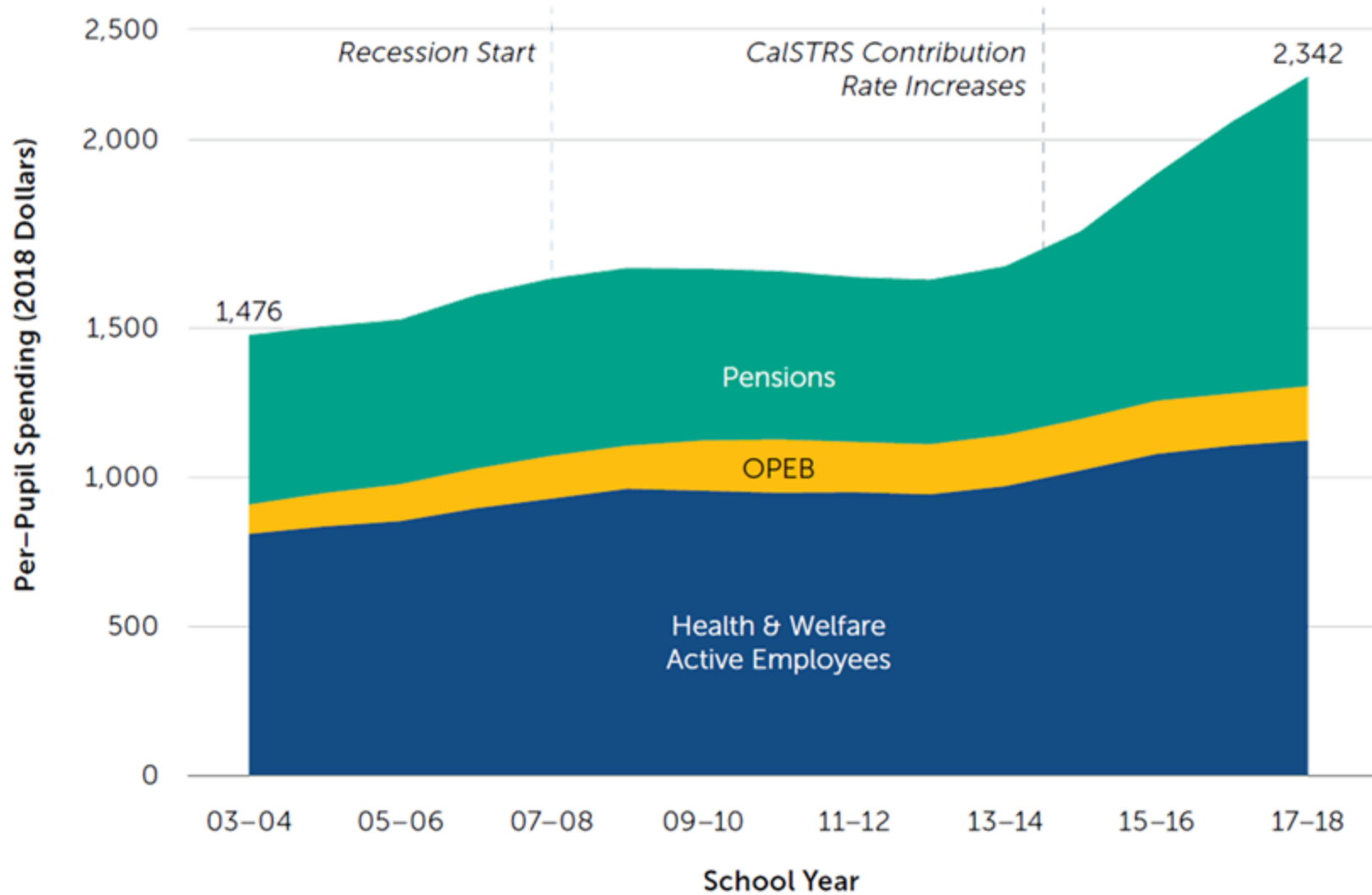


Largest Total Unfunded Liabilities			
District	Total (Millions)	Pupils	Per Pupil
Los Angeles Unified	15456	506531	30514
Fresno Unified	996	70648	14098
San Francisco Unified	681	52273	13026
Sacramento City Unified	632	40508	15595
West Contra Costa Unified	443	28318	15635
Long Beach Unified	333	74157	4491
Clovis Unified	300	42720	7014
Chaffey Joint Union High	198	23871	8294
Alhambra Unified	192	16794	11421
Garden Grove Unified	183	43131	4248

Note: Liabilities reflect disclosures on J-90 surveys.

Largest Unfunded Liabilities Per Pupil			
	Total (Millions)	Pupils	Per Pupil
Midway Elementary	6	85	67013
Los Angeles Unified	15456	506531	30514
Eureka City Schools	108	3678	29442
Healdsburg Unified	24	1517	16066
West Contra Costa Unified	443	28318	15635
Sacramento City Unified	632	40508	15595
Fresno Unified	996	70648	14098
San Francisco Unified	681	52273	13026
San Lorenzo Unified	134	10467	12790
Alhambra Unified	192	16794	11421

Health Benefits Put Pressure on Budgets



The Challenges of Employee and Retiree Health Benefit Costs for California Districts

Policy Analysis for California Education (PACE)
Sacramento, CA
June 11, 2019

Jorge A. Aguilar, Superintendent
Sacramento City Unified School District

ARTICLE 13 - EMPLOYEE BENEFITS

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100% Coverage for Employee + Family

13.1.1.1 The Board shall fully pay the cost of the above health insurance plans for eligible employees, and will pay one-hundred percent (100%) of the premium cost for those dependents, including domestic partners and spouses, covered by the plans. In the event that a unit member has a spouse or domestic partner who is also employed by the District, the District shall pay only for one plan to cover the unit member and his/her spouse/domestic partner, provided that the benefits for any individual teacher are not reduced.

In the matter of factfinding

) Case No.: PERB SA-IM-2689-E

)
) between the

) FACTFINDING REPORT AND
) RECOMMENDATIONS

)
) SACRAMENTO CITY UNIFIED SCHOOL
) DISTRICT

)
) and the

)
) SACRAMENTO CITY TEACHERS
) ASSOCIATION

) Date: August 5, 2003

Factfinding Panel:

THOMAS L. HODGES, Chairperson
RON BENNETT, District appointed panel member
YALE WISHNICK, Association appointed panel member

II. HEALTH BENEFITS

A. Cost Containment

The Chairperson recommends that a "floating" cap on health benefits be established at the Kaiser premium level. The panel further recommends that co-payments in the amount of \$15.00 for medical office visits and Pharmaceuticals be established, and that the cap and co-pays apply to all covered employees, including retirees. Additionally, the panel recommends the "floating cap" and co-pays be established effective July 1, 2002, but that implementation only be effective beginning July 1, 2003.

The District presented data that the average cost of health and welfare benefits increased 16.2% for 2002-03. Pursuant to its obligation not to alter the status quo provisions of the collective bargaining agreement, the District absorbed this increase. Additionally, the District provides lifetime health benefits for its retirees. The District presented credible evidence that it presently faces an unfunded liability of approximately \$345 million dollars based upon its obligation to pay the entire cost of health benefits for active and retired employees.

Additionally, in 2001-02 the District ranked number 1 in its average and maximum contributions to health benefits compared with the unified districts used by the District for comparison. The average contribution exceeds the statewide unified average included in District Graph 7. The Association in its Table F-3 reported that the average district contribution for 2001-02 was \$6,509.00. This contribution ranked the district 7 in the Association's 20 comparison districts. Application of the 16.2% increase to this amount brings the average contribution for 2002-03 to \$7,563.00.

Rank	District	Average Active Employee District Contribution Per FTE*	Maximum District Contribution for Active Employees Per FTE
1	Sacramento City USD	\$21,659	\$34,804
2	San Juan USD	\$14,860	\$22,184
3	Elk Grove USD	\$13,432	\$17,147
4	Twin Rivers USD	\$9,290	\$13,621
5	Natomas USD	\$8,291	\$11,976

Source: 2017-18 J-90 report

* Full-time equivalent (FTE)

Currently, the District pays the maximum rate of \$34,804 for 553 employees

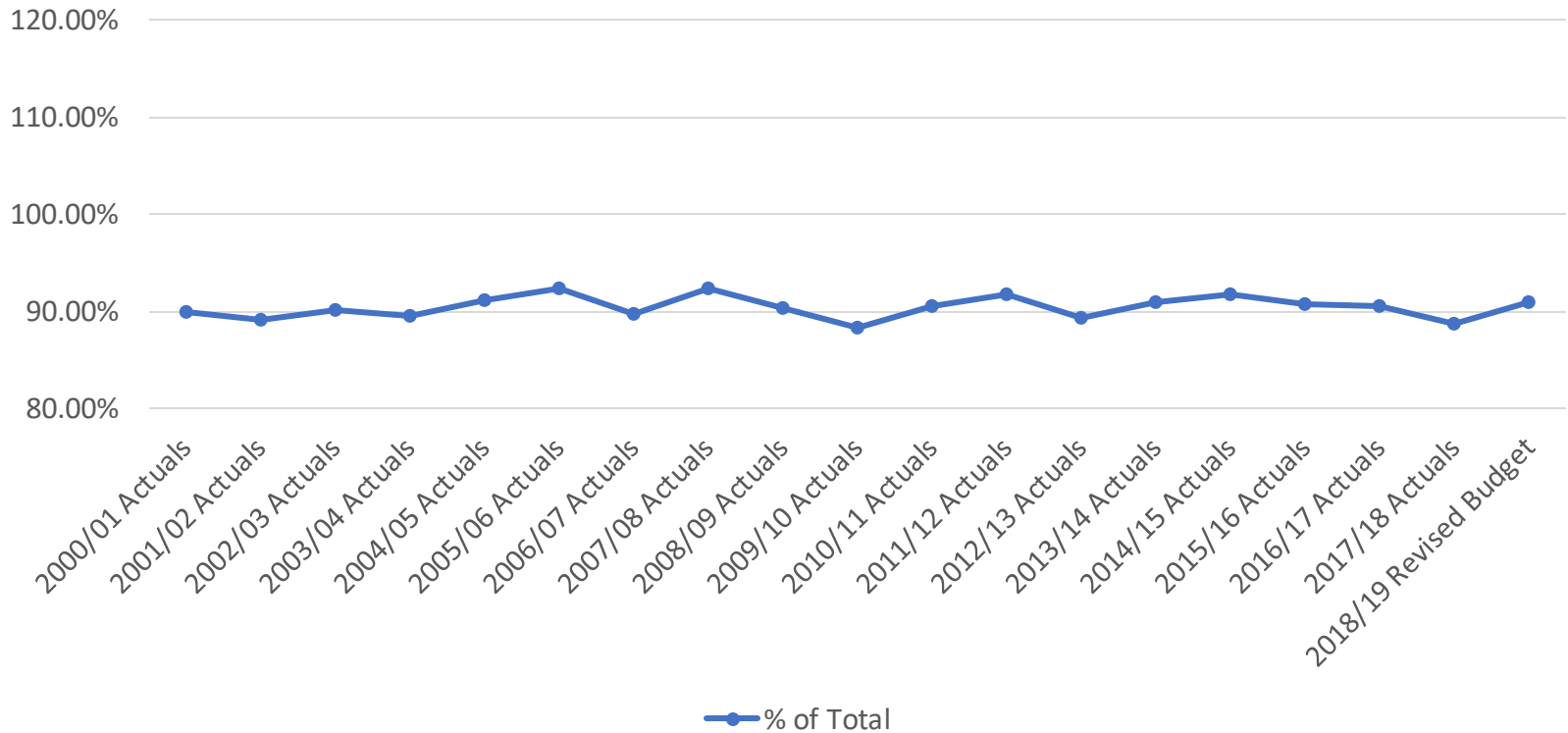
Fiscal Crisis Management Assistance Team 2006 Report

Employee salaries and benefits make up the largest part of the district's budget, and projecting them accurately can be one of the most critical elements in any financial projection. At the time of FCMAT's visit, the district's salary and benefit compensation was 91.79% of the total general fund. Expenditure projections for certificated salaries, classified salaries, services/consultants and capital outlay categories all exceeded the current budgeted amount. Although expenditure transfers at year end may result in many of these underbudgeted categories self-correcting, this type of budget practice is neither correct nor safe and does not conform to industry standards. The district has been unable to maintain its required reserve at year-end closing since the 1998-99 fiscal year although the 2% has been maintained in the adopted budget and during interim reporting. For districts the size of Sacramento City Unified, the state recommends available reserves of at least 2% of total general fund expenditures, transfers out, and other uses.

Fiscal Crisis Management Assistance Team 2018 Report

- Is the percentage of the district's general fund unrestricted budget that is allocated to salaries and benefits at or under the statewide average for the current year?
- The statewide average for unified school districts as of 2016-17 (the latest data available) is 84.63%. At 2018-19 first interim, the district is exceeding the statewide average by 6.37%. (91%)
- Is the percentage of the district's general fund unrestricted budget that is allocated to salaries and benefits at or below the statewide average for the three prior years?
- The district exceeds the statewide average in this area for all three prior years, with its highest percentage in 2015-16 at 6.93% higher than the state average. (92%)

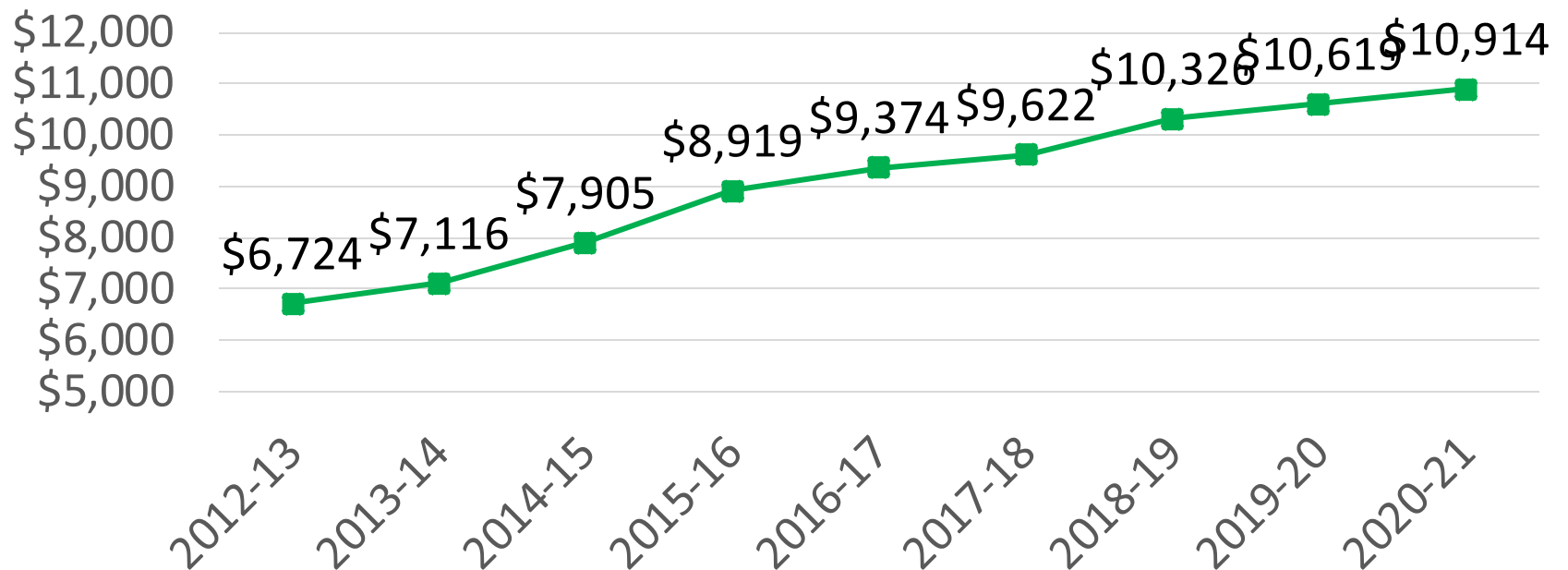
Benefits and Salaries % of Total



Comparison General Fund Unrestricted Total Expenses to Benefits and Salaries



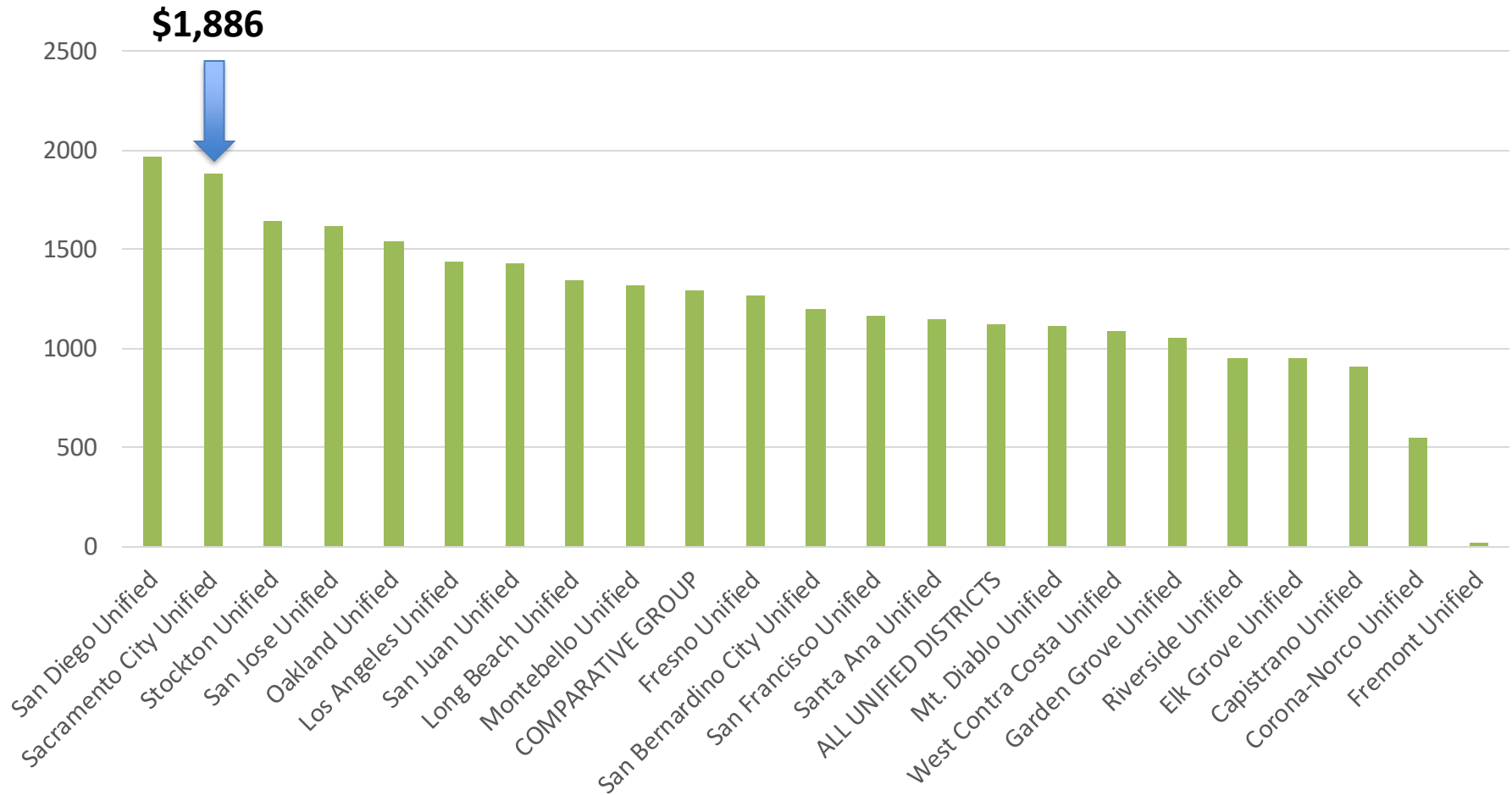
Local Control Funding Formula Revenue (Dollars Are Per-Student)



Source: Fiscal Crisis & Management Assistance Team (FCMAT) Local control Funding Formula Calculator (LCFF) as of First Interim, 10/31/2018

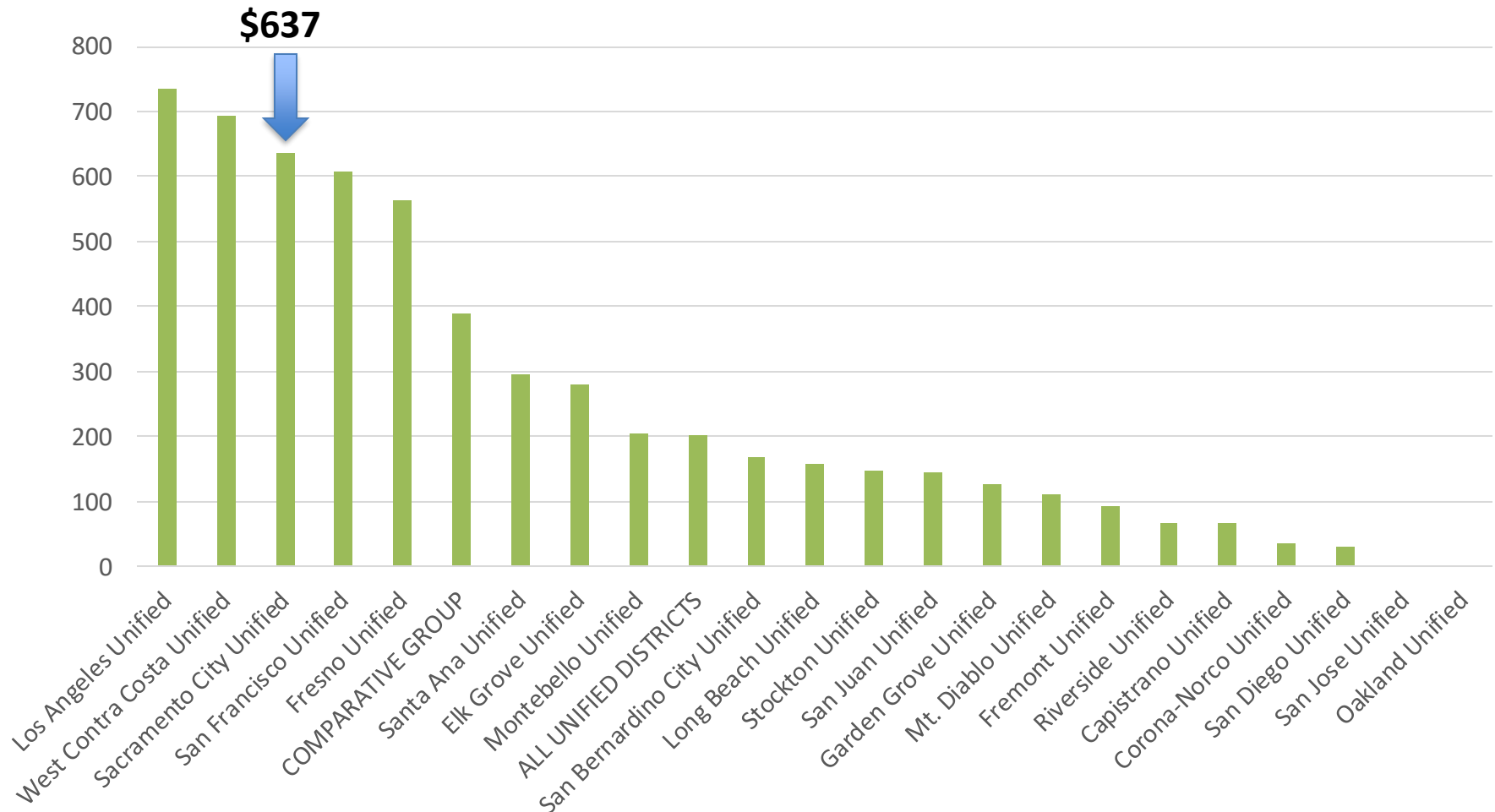
Health and Welfare Benefit Expense Per ADA Statewide Comparison

Health and Welfare Benefit Expense Per ADA for 2017-18
(Total of Object Codes 3401, 3402, 3901, and 3902)



Retiree Health Benefits Per ADA

OPEB Expense Per ADA for 2017-18
(Total of Object Codes 3701, 3702, 3751 and 3752)



SCUSD Retirement Expenditures
PERS/STRS pensions, Social Security, Medicare, and OPEB
2005-06 through 2018-19

	General Fund Unrestricted	All Funds
2005-06 Actuals	\$ 24,539,823	\$ 44,548,381
2006-07 Actuals	\$ 25,343,865	\$ 46,143,369
2007-08 Actuals	\$ 25,397,580	\$ 46,451,343
2008-09 Actuals	\$ 25,654,918	\$ 47,816,261
2009-10 Actuals	\$ 24,464,993	\$ 47,599,647
2010-11 Actuals	\$ 26,841,872	\$ 51,460,970
2011-12 Actuals	\$ 29,288,072	\$ 53,265,695
2012-13 Actuals	\$ 25,133,971	\$ 47,361,252
2013-14 Actuals	\$ 29,102,794	\$ 50,253,955
2014-15 Actuals	\$ 42,131,643	\$ 72,235,595
2015-16 Actuals	\$ 44,887,835	\$ 78,778,180
2016-17 Actuals	\$ 43,494,159	\$ 78,100,241
2017-18 Actuals	\$ 49,814,763	\$ 94,090,612
2018-19 Revised Budget	\$ 54,551,330	\$ 98,009,963