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Jonathan P. Raymond, Superintendent

July 26, 2010

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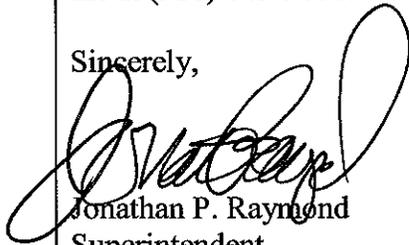
Honorable Steve White, Presiding Judge
Sacramento County Superior Court
720 9th Street
Department 47
Sacramento, CA 95814

RE: Response of Sacramento City Unified School District to 2009-2010 Sacramento County Grand Jury Final Report

Dear Judge White:

The Board of Education of the Sacramento City Unified School District, at a regular meeting held on July 22, 2010, adopted the enclosed as the District's response to the Grand Jury's final report. The District's response is hereby submitted in compliance with Penal Code Sections 933 and 933.05. If the Grand Jury has questions regarding how its recommendations have been implemented they should not hesitate to contact me at (916) 643-9000.

Sincerely,



Jonathan P. Raymond
Superintendent

Cc: Becky Castaneda, Grand Jury Coordinator
(by e-mail castanb@saccourt.com)

**RESPONSE OF SACRAMENTO CITY UNIFIED SCHOOL DISTRICT TO 2009-10
SACRAMENTO COUNTY GRAND JURY FINAL REPORT:**

Finding 1. Sacramento County school district boards are not knowledgeable about the ultimate long-term fiscal impacts the unfunded liability for retiree health benefits will have on their districts.

Response to Finding 1: Partially Agree with Finding.

Recommendation 1.1: Sacramento County school district boards and superintendents, with advice from actuaries and accountants, should immediately assess and quantify their long-term OPEB obligations and ramifications.

Response to Recommendation 1.1: Already Implemented.

The Sacramento City Unified School District Board of Education has been discussing the impact of the unfunded liability for a number of years. In 2005-06, the Board made a decision to set aside funds to contribute towards the liability, even though the District was faced with financial constraints. While the funding stream was not on-going, the Board took the liability seriously and took early steps to begin addressing it. The District conducts an actuarial study every two years to quantify and project liabilities related to the District's other post-employment benefits (OPEB) obligations. The most recent December 1, 2008 actuarial study was presented to the Governing Board and the public on March 4, 2010. The next actuarial study will be conducted as of December, 2010 and the results of that study will similarly be presented to the Governing Board and the public. In addition to conducting periodic actuarial studies, the District is also conferring with its consulting actuary to determine the projected savings of recently negotiated retiree health benefits, and potential areas of change to create more savings.

Finding 2. Sacramento County school districts have a variety of approaches in addressing the unfunded liabilities for contracted retiree health benefits. Some of those approaches include:

- Creating Trust funds or other funding plans but stopping all contributions to them due to current economic conditions
- Creating Trust funds and contributing to them
- Ignoring the problem
- Regarding the GASB standards as a "plan" when in fact it is only an accounting statement
- Utilizing an annual pay-as-you-go approach to these obligations, relying on their general funds for retiree health benefits.

Response to Finding 2: Agree with Finding.

Recommendation 2.1 All school districts should have a funding plan and a schedule of contributions in their 2011-2012 budgets.

Response to Recommendation 2.1: Will be Implemented in the Future.

The District agrees that a funding plan is necessary. One component of the funding plan will be employee contributions and this component will begin with the start of the 2010-11 school year, based on a recent agreement with SCTA. The District begins the budget process for its 2011-12 budget in January. Given the instability and uncertainty in state funding of education and the record budget cuts that the District has been forced to absorb, additional funding commitments by the District in its 2011-12 budget will depend upon additional agreements and changes with our collective bargaining partners and the amount of new funding the District receives, through COLA to the District's apportionment, grants or other sources.

Recommendation 2.2 School district boards must find means other than pay-as-you-go for funding these ongoing and increasing expenses.

Response to Recommendation 2.2: Will be Implemented in the Future.

Through the collective bargaining process, the District has recently reached an agreement with its largest union, the Sacramento City Teachers Association, under which the District and the union agree to "work together to create a Trust to administer and fund the GASB-45 liability." The District has five different bargaining units that are each represented by different unions. The District will be working with each of these bargaining units to reach agreement on a Trust under which the District can pre-fund its OPEB obligations. Under an agreement with the District's teachers, current certificated employees will be making contributions towards the cost of their retiree health care beginning with the 2010-2011 school year. These pre-funding contributions must be placed into a Trust that will be jointly administered.

Recommendation 2.3 All school boards should begin serious negotiations with their employee unions to reduce benefits or increase contributions.

Response to Recommendation 2.3: Agree. Implementation in Process.

The District has recently reached an agreement with its largest union, the Sacramento City Teachers Association, which will result in a significant reduction of the District's OPEB liability. Under applicable provisions of the Education Code, the agreement with the teachers association was reviewed and approved by the Sacramento County Superintendent of Schools. This agreement will lower health care costs for both current and retired employees by making the following changes:

- a. Change in Health Net prescription program to increase co-pays.
- b. Change in the out-of-area coverage for retirees over 65 to bring in line with costs for the District's in-area program.
- c. Extending the vesting period to qualify for retiree health benefits from the current 10 years to 15 to 20 years, depending upon the age of retirement.
- d. Allowing retirees eligible for health benefits to decline coverage in return for a stipend equal to 50% of the premium cost.
- e. Begin employee contributions towards the cost of retiree health care. Contributions will be \$15 per month in 2010-2011 and will increase to \$20 per month in 2011-2012. These contributions are to be deposited into a jointly administered Trust.

The District understands that the issue of unfunded OPEB liability will not be resolved by the changes that the District has already negotiated and that the solution to this issue will require additional and continued attention over several years. Negotiations with the District's unions over health benefit costs will resume as the relevant contract articles open for negotiation under the laws applicable to collective bargaining. Moreover, a committee of bargaining unit representatives and District staff will meet starting in July to discuss potential funding ideas.