FRESNO UNIFIED SCHOOL DISTRICT

INTRODUCTION

Has conflict of interest clouded the decision making regarding Fresno Unified School District's health benefits?[1] Fresno Unified School District's Health Plan has been allowed to run amuck to the tune of a $1,100,000,000 unfunded liability.[2] This Health Plan was largely responsible for the District's financial crisis in 2004-2005 and its excesses have come at the detriment of the students. As in most cases of "Management by Crisis", the Board of Education (Board) took some temporary action in 2005, to mitigate the bleeding. Much more needs to be done to tame this financial albatross.

REASON FOR INVESTIGATION

Prior Grand Juries have focused on the District's dismal academic and financial performance. In January 2005, *Choosing Our Future*, a blueprint to the future of FUSD was released. Also, in 2005, a new Superintendent was hired. The 2005-2006 Grand Jury with these events in mind, decided to concentrate on the financial aspect of the District.

BACKGROUND

Prior Boards have made a series of inept financial and personnel decisions. More than twenty-five years ago, the District was strapped for funds. In lieu of pay raises, the Board agreed to increase some employee benefits. Some still point to this decision, if the question of *excess benefits*[3] is raised. In fact, since then, not only have the District's employees received higher and higher benefits, but also higher and higher compensation. Today, the employees' total compensation per average daily attendance (ADA) is the highest among the State unified school districts, while the District is near the bottom academically and financially. These *excess benefits* have deprived the students in 2004-2005, of $58,005,764 if the Districts' total compensation per ADA were just at the State average.[4] That is, $58 million that could go toward restoring programs that have been cut due to these excesses.

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[1] F13 and F14
[2] *Choosing Our Future*
[3] Those benefits that are above the State average
[4] Ed-Data website, www.ed-data.k12.ca.us/finance/MC-FinanceResults.asp

RESOURCES

The Grand Jury extensively investigated the District's Health Plan costs and general administration. The resources examined included County elected officials, all members of the Board of Education, District employees, District's financial information, Health Plan Summary, *Choosing Our Future* and extensive use of the internet.

FINDINGS

F1 The District is self-insured for employees' health benefits.

F2 Prior to July 2005, *lifetime* health benefits were offered not only to every District employee who had worked 16 years and of the age 57 ½, but also to spouses and *dependents*.

F3 The lifetime health benefit costs were borne solely by the District with zero contribution from the beneficiaries.

F4 The estimated cost of this health benefit is approximately $25,000,000 per year.[5]

F5 The projected annual growth rate of health benefit costs for the next several years is 10% to 15%, in other words, the cost would double from $25 million to $50 million in 5 to 7 years.

F6 In August 2005, ratification of a negotiated three year bargaining agreement with Fresno Teachers Association, started to address this previously uncontrolled cost by implementing the following in regard to retiree health benefits:[6]

- Employees hired on or after July 1, 2005, are offered post-retirement health benefits after working 25 years with the District and attaining age 60.
- The coverage for these employees, their spouses *and qualified dependents* will be for a definite period of five years.
- The District's contribution to the Health Fund, for the next three years, is now capped at $13,649 per active eligible employee, or approximately $97,000,000 for Fiscal Year (FY) 2005-2006.[7]
- Any shortfall in the Health Fund will be made up by additional employee contributions to the Fund.
- Retirees will now contribute a small amount toward the cost of their health benefits. Pre age 65 retirees contribute at the same rate as active employees, $30 to $70 per month depending on marital status and *qualified dependents*.

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[5] Information provided by District
[6] Information provided by District
[7] Information provided by District

- Post age 65 retirees will not contribute based on the same rate as active employees, but will be assessed a small premium of $10 per month per retiree, spouse and/or *qualified dependents*.

F7 The negotiated agreement will result in a significant change in the projected cost of the health benefits for both the short-term and long-term.
- In the short-term, during the three year life of the agreement, the most the District's contribution to the Health Fund can increase is by the percent of Revenue Limit received from the State.
- In the long-term, the estimated long-term liability of post-retirement health benefits decreased from $1,100,000,000 to $792,946,371 a decrease of 28%.[8]

F8 The current stabilization of the District's financial condition is in large part due to the results of the health care benefits negotiated agreement.[9]

F9 The $792,946,371 unfunded health liability is not recorded on the District's financial statements. Governmental Accounting Standard Board Statement No. 45 (GASB 45) requires that 1/30th or approximately $ 26,431,546 of the unfunded healthcare liability be recognized as an expense every year beginning after December 15, 2006.[10]

F10 The Board and the bargaining units have agreed to manage the health benefits and associated cost by forming a new board called the Joint Management Health Board (JIMBY). Under this agreement, the Board representative has one vote and the bargaining units have one vote.

F11 *13 out of 17* members of the JIMBY Board are recipients of District health care benefits.

F12 6 *out of 7* members of the Fresno Unified School Board are recipients of District health care benefits.

F13 FUSD is California's 4th largest school district.[11]

F14 FUSD has approximately 80,760 students (2004-2005)[12]

F15 In FY 2004-2005, FUSD had a budget of $869,000,000.[13]

F16 The District's Health Plan Summary document is dated December 1, 1996.

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[8] Information provided by District
[9] Information provided by District
[10] *Choosing Our Future*
[11] District website, http://www.fresno.k12.ca.us/facts.html
[12] Ed-Data website, www.ed-data.k12.ca.us/finance/MC-FinanceResults.asp
[13] District website, http://www.fresno.k12.ca.us/facts.html

F17 The District's health care contribution per employee has risen from $6,900 in 2000, to $13,649 in 2005, a 97.8% increase in just five years.[14]

F18[15]

Expenditure per Student by Type	**FUSD**	**State Average**	**Variance**	**Total Variance**
2004-2005		**Unified School**	**per ADA**	
		Districts		
Average Daily Attendance(ADA)	**75,137**	**n/a**		
Certificated *Salary*/ADA	**$ 3,901**	**$ 3,664**	**$ 237**	**$17,807,469**
Non-Certificated *Salary*/ADA	**$ 1,090**	**$ 1,094**	**$ (4)**	**$ (300,548)**
Employee Benefits/ADA	**$ 1,984**	**$ 1,445**	**$ 539**	***$40,498,843***
Total	**$ 6,975**	**$ 6,203**	**$ 772**	**$58,005,764**

CONCLUSIONS

C1 Unfunded liability

- Monies that should be going to students' education are going toward excessive health benefits.
- The District's health benefits must be brought in line with State averages as soon as possible.
- The District has demonstrated that it is not capable of controlling a pay-as-you-go self-insured plan.
- The District's Summary Health Care Plan Document is out of date. The Summary Plan is currently in the process of being updated.

C2 Board of Education

- The Board is operating a $900,000,000 business.
- The paramount qualifications of a board member should be management and financial expertise.
- Many board members lack the financial expertise to make informed decisions.
- Board members should be free from *conflict of interest*.
- The Board does not seem to have the political will or a sense of urgency in further reducing the unfunded health liability.

C3 JIMBY

- Board members should be free from *conflict of interest*.

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[14] *Choosing Our Future*

[15] Ed-Data website, www.ed-data.k12.ca.us/finance/MC-FinanceResults.asp

RECOMMENDATIONS

R1 The Board must hire an independent outside insurance plan consultant to assist in putting the Health Plan out to bid and securing a new plan. The District must get out of the health insurance business.

R2 Concurrently, the Board must continue to reduce the unfunded healthcare liability by further increasing employee premiums and copayments and limiting benefits to achieve parity with the State average.

R3 The Board must freeze increases to Certificated employees until their salary/ADA is in line with the State average.

R4 We recommend that the Board take a leadership role in obtaining an intensive professional training program in fiscal management and oversight. The trainers should be outside consultants who specialize in this type of training. Key FUSD staff should be included to speak to the specifics of the District. This training *must* be mandatory. This recommendation unfortunately reiterates last year's Grand Jury's findings and recommendations. The Grand Jury considers this an urgent need which MUST BE ADDRESSED with action not words.

R5 Programs that have been negatively affected by these excesses, such as art, music and technical-vocational education, must be revisited as savings are realized.

COMMENTS

- The voters should to be aware the FUSD Board is running a $900,000,000 business the paramount qualifications for which must include management and financial expertise.

- Since a large part of the FUSD's recent financial crisis was due to out of control health benefits, voters must consider candidates for the Board who do not have a *conflict of interest* with these issues, i.e., District employees, retirees or spouses thereof.

REQUEST FOR RESPONSES

Pursuant to Penal Code Section §933.05, the Grand Jury requests responses as follows:

From the FUSD Board of Education: R1 through R5.

Please be reminded that the responses from elected officials are due within 60 days of the release of this report and 90 days for others.