



Union High School District

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**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
BOARD OF TRUSTEES  
BOARD WORKSHOP  
AGENDA**

**NOVEMBER 12, 2009  
5:00 PM**

**DISTRICT OFFICE BOARD ROOM 101  
710 ENCINITAS BLVD., ENCINITAS, CA. 92024**

The Governing Board of the San Dieguito Union High School District has scheduled a Board Workshop for Thursday, November 12, 2009, at the above location, in the Board Room.

- 1. CALL TO ORDER..... 5:00 PM

**INFORMATION ITEMS**

- 2. Budget Update
- 3. Adjournment

In compliance with the Americans with Disabilities Act, if you need special assistance, disability-related modifications, or accommodations, including auxiliary aids or services, in order to participate in the public meetings of the District's Governing Board, please contact the [Office of the District Superintendent](#). Notification 72 hours prior to the meeting will enable the District to make reasonable arrangements to ensure accommodation and accessibility to this meeting. Upon request, the District shall also make available this agenda and all other public records associated with the meeting in appropriate alternative formats for persons with a disability.

# Budget Update

Board Workshop  
November 12, 2009

San Dieguito Union High School District  
Business Services

# Table of Contents

- ▶ Basic Aid Reserve
- ▶ Creation of Trust for Other Post Employment Benefits (OPEB)

# Basic Aid Reserve

# Basic Aid Reserve

- ▶ Why have a separate Basic Aid Reserve?
  - Funding is no longer based on student attendance and state aid
  - Fluctuations in property values and enrollment can significantly change our revenue outlook
  - Basic Aid districts subject to further cuts or legislative action to equalize funding

# Basic Aid Reserve

- ▶ Recommend the Board adopt a formal policy establishing the Basic Aid Reserve
  
- ▶ Considerations:
  - What amount or percentage should be set aside?
  - Should a minimum be established?
  - Should a maximum be established?
  - When is reserve calculated?
  - What criteria should be used to draw down on the reserve?
  - Where should reserve be kept?

# Basic Aid Reserve

- ▶ What amount or percentage should be set aside?
  - Staff recommends 50% of the increase in property tax over prior year be added to Basic Aid Reserve
  - Remaining 50% would be used for step, column, inflation, and to fund other priorities

# Basic Aid Reserve Example

	09/10	10/11	11/12	12/13	13/14
Estimated Revenue Limit	72,000,000	72,500,000	74,000,000	76,000,000	78,000,000
Estimated Property Tax	80,000,000	81,000,000	82,000,000	84,000,000	86,000,000
<b>Excess Tax</b>	<b>8,000,000</b>	<b>8,500,000</b>	<b>8,000,000</b>	<b>8,000,000</b>	<b>8,000,000</b>
<b>Excess Growth</b>	<b>-</b>	<b>1,000,000</b>	<b>1,000,000</b>	<b>2,000,000</b>	<b>2,000,000</b>
Beginning Basic Aid Reserve	3,750,000	3,750,000	4,250,000	4,750,000	5,750,000
<b>50% of Excess Growth</b>	<b>-</b>	<b>500,000</b>	<b>500,000</b>	<b>1,000,000</b>	<b>1,000,000</b>
Ending Basic Aid Reserve	3,750,000	4,250,000	4,750,000	5,750,000	6,750,000



# Basic Aid Reserve

- ▶ Minimum Basic Aid Reserve:
  - School Services of California recommends an amount equal to the difference between Basic Aid and Revenue Limit
  - This will take time to build in the current economic climate

# Basic Aid Reserve

- ▶ Maximum Basic Aid Reserve:
  - None for the foreseeable future
  - May need to consider as district matures into Basic Aid and funding exceeds the Base Revenue Limit

# Basic Aid Reserve

- ▶ When would we calculate reserve amount?
  - Estimate at adoption
  - Reconcile at End of Year

# Basic Aid Reserve

- ▶ What criteria should be used to draw down on Basic Aid Reserve?
  - Changes in enrollment or property tax
  - One-time expenses
  - On-going expenses in deficit years

# Basic Aid Reserve

- ▶ Where do we keep Basic Aid Reserve?
  - Staff recommends showing it as a component of the ending balance
    - Allows more flexibility than if in a Special Reserve Fund
    - Reserve is in plain sight in General Fund reports

# Creation of Trust for Other Post Employment Benefits (OPEB)

# GASB 45 – Actuarial Update

- ▶ Starting in 08/09, District is required to disclose funded status of plan and “unfunded actuarial accrued liability” (UAAL) in District’s annual financial report
- ▶ From this point on, District will accumulate a liability called the “net OPEB obligation”
- ▶ The “net OPEB obligation” will increase if District’s policy is “pay-as-you-go”

# Fundamental Change

<b>Benefits</b>	<b>Current</b>	<b>GASB 45</b>
<b>Earned</b>	During Employment	During Employment
<b>Paid</b>	After Employment	After Employment
<b>Funded</b>	Usually When Paid	<i>Pre-funding Encouraged</i>
<b>Expensed</b>	When Funded <i>(Pay As You Go)</i>	<i>When Earned (Accrual Accounting)</i>



# Estimated Net Obligation at June 30, 2009

Annual Required Contribution (ARC)	\$1,932,402
Interest on New OPEB Obligation	\$0
Adjustment to ARC	<u>\$0</u>
Annual OPEB Cost	\$1,932,402
Estimated Employer Contributions (Inclusive of Benefit Payments)	<u>(\$723,321)</u>
Increase in Net OPEB Obligation	\$1,209,081
Net OPEB Obligation (Asset) - Beginning of Year	<u>\$0</u>
Net OPEB Obligation (Asset) - End of Year	\$1,209,081

Source: Epler Company, GASB Actuarial Valuation as of July 1, 2008 / April 2009 Report

# Required Supplementary Information

## (Funding Progress at July 1, 2008)

Actuarial Accrued Liability (AAL)	\$13,005,147
Actuarial Valuation of Assets (AVA)	\$0
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$13,005,147</u>
Funded Ratio	0%
Estimated Payroll	\$63,643,000
UAAL as Percentage of Covered Payroll	20%

Source: Epler Company, GASB Actuarial Valuation as of July 1, 2008 / April 2009 Report

# Options for District

1. Do nothing and continue “pay as you go”
2. Set aside funds in GF or special fund to address future liability
  - This would not count towards unfunded liability or net OPEB obligation as reported in financial statement
  - Funds could be withdrawn from account anytime
3. Pre-funded liability by setting up irrevocable trust with administration and investment of funds by others
  - Make annual decision on funding level of Annual Required Contribution (i.e., “pay as you go”, 50%, 75%, 100%)

# Benefits of Pre-Funding

- ▶ **Stabilized Costs**
  - Funding over time prevents the growth of the District's unfunded liability
- ▶ **Investment Flexibility**
  - Assets held in a trust are likely to generate higher returns over time
- ▶ **Benefit Security for Employees**
- ▶ **Funding Equity**
  - Funding liability not transferred to the next generation
- ▶ **Credit Implications**

# Who is experienced to do this type of administration and investment?

- ▶ Staff has met with CalPERS and PARS (Public Agency Retirement Systems) to review their program features and fees
  
- ▶ Staff is recommending district join CalPERS' California Employers' Retiree Benefit Trust (CERBT)
  - CERBT was formed in 2007 and now has over \$1 billion in the trust
  - There are currently 104 public agencies participating in CERBT including 64 cities, 10 counties, 2 courts, and 17 school districts
  - CalPERS has had an excellent record of investment returns over a long period of time
  - CERBT is a not-for-profit OPEB service provider, therefore can offer their administrative services at a lower fee (20 to 50 basis points)

# How will funds be invested in CERBT?

- ▶ The investment board for CERBT is recommending the following asset allocation:
  - Equities 64%
  - Real Estate 10%
  - Fixed Income 26%
  
- ▶ Actuarial Assumed Return = 7.75%

# Next Steps

- ▶ Board to approve necessary agreement(s) to join California Employers Retirement Benefit Trust
- ▶ Consider using a portion of Special Fund 17–42 (\$2.1M) as a down payment towards unfunded liability
- ▶ District to annually decide how much to fund beyond “pay as you go” amount