REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

COMPENSATION, RETIREMENT BENEFITS, AND EMPLOYMENT CONTRACTS AT SCHOOL DISTRICTS, COMMUNITY COLLEGE DISTRICTS, COUNTY OFFICES OF EDUCATION, AND SPECIAL DISTRICTS

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Compensation, Retirement Benefits, and Employment Contracts at School Districts, Community College Districts, County Offices of Education, and Special Districts

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Office of the Auditor General
California

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Honorable Robert J. Campbell, Chairman
Members, Joint Legislative Audit Committee
State Capitol, Room 2163
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning compensation, retirement benefits, and employment contracts at school districts, community college districts, county offices of education, and special districts.

Respectfully submitted,

KURT R. SJOBERG
Auditor General (acting)

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Results in Brief

The results of our survey of a sample of school districts, community college districts, county offices of education, and special districts indicate the following:

- All county offices of education, most school districts and community college districts, and some special districts pay members of their governing boards some form of compensation while the board members are serving the districts;

- Most community college districts and some school districts, county offices of education, and special districts offer retirement benefits to members of their governing boards, but usually with significant requirements; and

- School and community college districts commonly extend employment contracts with superintendents before the contracts are due to expire.

Background

California has 1,012 school districts, 58 county offices of education, 71 community college districts, and approximately 5,000 special districts. Special districts include entities such as water districts, reclamation districts, recreation and park districts, and cemetery districts. In this review, we surveyed a statistically selected sample of districts and county offices of education to determine the extent to which they have provided retirement

benefits to members of their governing boards. We also collected information on the extent to which these boards renegotiate their employment contracts with their chief executive officers before existing contracts are due to expire, thereby extending the term of the employment contract.

Compensation Paid to Board Members

All county offices of education, most school districts and community college districts, and some special districts pay members of their governing boards some form of compensation while the board members are serving the districts. Specifically, 276 of 455 school districts, community college districts, county offices of education, and active special districts in our survey provided one or more types of compensation to their boards. Compensation paid to or on behalf of board members while they were serving on the boards included salaries, stipends for meetings attended, medical benefits, dental benefits, vision care benefits, and life insurance benefits.

Retirement Benefits Paid to Board Members

Most community college districts and some school districts, county offices of education, and special districts offer retirement benefits to members of their governing boards, but usually with significant requirements. For example, 84.5 percent of the community college districts in our survey offered a variety of retirement benefits to at least 419 board members who have served at any time since January 1, 1986. However, only a portion of the board members elected to receive such benefits. For example, although 47 of the 58 community college districts that responded to our survey offered medical benefits to retirees, only 21 (44.7 percent) of those districts had board members opt to receive them. Other retirement benefits offered included retirement stipends, dental benefits, vision care benefits, and life insurance benefits. In contrast, only 36.4 percent of school districts, 41.2 percent of county offices of education, and 9.7 percent of special districts in our survey offered retirement benefits to board members.

Although the entities offered and paid for a variety of retirement benefits for board members, most imposed significant eligibility requirements. Specifically, almost all of the entities required either that members serve a minimum number of years before becoming eligible to receive medical retirement benefits, or that board members themselves bear some or all of the benefit costs. Although the entities commonly offered retirement benefits to board members, the costs of providing the benefits were small when compared with the entities' overall operating costs. Recent changes in federal law may influence the frequency with which local districts and county offices of education offer retirement benefits to their governing board members.

Early Contract Renewal and Extension for Chief Executive Officers

School and community college districts commonly extend employment contracts with their chief executive officers before the contracts are due to expire, thereby extending the term of the contracts. Although renewing and extending contracts before they are due to expire can result in longer unexpired terms, the length of unexpired terms may or may not affect the size of termination settlements.

Introduction

California has 1,012 school districts, 58 county offices of education, 71 community college districts, and approximately 5,000 special districts. In fiscal year 1990-91, the State's General Fund provided an estimated $11.6 billion to school districts and county offices for the education of approximately 4.9 million students in kindergarten through grade 12. An estimated $4.9 billion in local revenues supported the education of these students during this period. To California's 71 community college districts in fiscal year 1990-91, the State's General Fund provided an estimated $1.5 billion for the education of approximately 1.4 million students at 107 community colleges. An estimated $793.2 million in local revenues supported community college education in that year.

Property taxation at the local level is the most common source of operating funds for special districts, which include entities such as water districts, reclamation districts, recreation and park districts, and cemetery districts. According to the State Controller's Office, in fiscal year 1988-89, special districts' property tax revenue amounted to approximately $1.9 billion. The State also provides funds to special districts. For example, in fiscal year 1988-89, the State provided approximately $134 million of the approximately $2.4 billion that it cost nonenterprise special districts for their operations. Nonenterprise districts are all those other than airport, electric, harbor and port, transit, waste disposal, water, and hospital districts.

We received surveys from 88 school districts, 51 county offices of education, 58 community college districts, and 258 active special districts describing the composition of their governing boards. In some cases, members of the boards were elected. In other cases, they were appointed or members served on the board as a result of being on the county's board of supervisors or the city council. School district boards generally had from five to seven members, most of whom were elected to those positions. In some cases, student representatives were appointed to serve on school district boards.

Similarly, governing boards of county offices of education had either five or seven members, most of whom were elected to their positions. In one case, all seven members of the governing board served because they were on the county board of supervisors. Community college districts had as few as five members and as many as nine members. Again, most of the members were elected to serve on the boards, but in some cases members were appointed.

In contrast, the governing boards of special districts were far more varied in terms of their sizes and how their members came to serve on the boards. The boards had as few as 2 members (the Arbuckle Cemetery District) and as many as 51 members (the Metropolitan Water District of Southern California). Additionally, some special districts reported that their boards comprised combinations of elected members, appointees, and, occasionally, ex officio members. For example, the South Coast Air Quality Management District reported that, of the 12 members on its governing board, 3 are appointed, 4 serve because they are on a county board of supervisors, and 5 serve because they are on a city council.

Scope and Methodology

The Legislature asked us to determine the extent to which local districts provide lifetime benefits to board members, regardless of the duration of their service. We were also asked to determine the extent to which districts renegotiate their employment contracts with their chief executive officers (CEOs) before those contracts are due to expire, thereby maintaining a significantly large unexpired term on the contracts.

To accomplish our goals, we reviewed laws and regulations pertaining to benefits for governing boards and to employment contracts between local boards and their chief executive officers. To select a sample of school districts, we first arranged the school districts in order from those with the largest average daily attendance to those with the smallest. Then we divided them by attendance population into four equal groups. Similarly, we arranged the nontransit special districts in order from those with the largest revenues to those with the smallest. Then we divided them by revenue into four equal groups. In addition, we divided transit districts into two groups: those with revenues of $100 million and higher, and those with revenues of under $100 million. We used data from the State Controller's Office to select our sample of special districts. We then mailed questionnaires concerning retirement benefits for board members to random, stratified samples of 91 school districts and 297 special districts. We also sent our questionnaire to all of the county offices of education and the community college districts in the State. We received and analyzed data from 88 (96.7 percent) of the 91 surveyed school districts, 51 (87.9 percent) of the 58 county offices of education, 58 (81.7 percent) of the 71 community college districts, and 278 (93.6 percent) of the 297 surveyed special districts. Of the 278 special districts, 20 reported that they are no longer actively involved in the business for which they were created. Consequently, they are excluded from our analyses.

In addition to data regarding retirement benefits for board members, we collected data regarding compensation paid to board members while they were serving on the boards. We also tested early contract renewals to determine whether they result in larger settlements if entities terminate the contracts with their CEOs.

To assess whether the data we received from local entities were accurate, we visited three school districts, three community college districts, two county offices of education, and one special district, reviewing their documents related to compensation, retirement benefits, and employment contracts with CEOs. For the most part, the data submitted in the surveys were correct. However, in some cases, responding entities calculated the average compensation-per-board-member-per-month using only board members who received

the compensation. Other entities used all board members when calculating averages. Consequently, the average compensation costs we report may be overstated by an uncertain amount. We employed a statistical consultant who used the data from the completed survey to make statewide projections concerning retirement benefits for members of local district boards. Finally, we asked the Public Employees' Retirement System (PERS) to provide us with actuarial estimates of the cost of providing lifetime benefits to a sample of individuals who are currently receiving retirement benefits.

Because we are reporting the results of our survey and are making no recommendations, we did not send our report for comment to the 456 entities that responded to our survey.

Chapter 1 Compensation Paid to Governing Board Members of School Districts, Community College Districts, County Offices of Education, and Special Districts

Chapter Summary

All county offices of education, most school and community college districts, and some special districts in our sample paid members of their governing boards some form of compensation while they served the entities. The types of compensation included salaries, stipends, medical benefits, dental benefits, vision benefits, and life insurance benefits. For example, 50 (98.0 percent) of the 51 county offices of education, 47 (81.0 percent) of the 58 community college districts, 55 (62.5 percent) of the 88 school districts, and 83 (32.2 percent) of the 258 special districts in our sample paid their board members either salaries or stipends for attending meetings. These entities also sometimes reimbursed members for necessary expenses. During one year, these 276 local districts and county offices of education paid up to $12.1 million in compensation to members of their governing boards, which had seats for 1,670 members.

Laws Governing Compensation

Section 53201 of the California Government Code generally permits some compensation paid by the various school districts, community college districts, county offices of education, and special districts. It allows the legislative body of a local agency to provide health and welfare benefits, such as medical, dental, vision, and life insurance benefits, to the officers of the local agency. Local agencies include school districts, county offices of education, community college districts, and special districts. Legislative bodies include the governing boards of these entities and board members are included among the officers of the local agencies.

Other California statutes also allow the compensation that these entities provide to their local governing board members. Section 72425 of the California Education Code, for example, allows community college districts to compensate members of the governing boards of those districts. Special districts vary in type and, according to the State Controller's Office, are correspondingly operated under more than 200 different California statutes. For example, municipal utility districts, which are a type of special district, are governed by the Public Utilities Code. Section 11908.2 of that code sets compensation for governing board members of certain municipal utility districts at no more than $100 for each day's attendance of a meeting, not to exceed ten days per month plus an annual adjustment.[1]

Survey Results

We gathered survey information from 455 school districts, community college districts, county offices of education, and active special districts on whether they compensate their governing board members. Compensation included salaries, stipends paid for meeting attendance, medical benefits, dental benefits, vision benefits, and life insurance benefits.[2] In addition, local districts and county offices of education sometimes reimbursed board members for necessary expenses.

Our survey results indicate that 276 of the 455 active districts and county offices of education in our sample provided one or more types of compensation to their governing boards. Specifically, all of the 51 county offices of education in our sample paid board members some form of compensation. In addition, 57 (98.3 percent) of the 58 community college districts and 77 (87.5 percent) of the 88 school districts in our sample paid

[1] We did not review whether compensation paid to board members complied with all applicable laws or other requirements.

[2] Although contributions to retirement plans on behalf of board members are a form of compensation, we discuss such contributions in Chapter 2 as part of our overall review of retirement benefits.

members of their governing boards some form of compensation. Although only 91 (35.3 percent) of the 258 special districts in our sample paid some form of compensation to board members, when one excludes the small nontransit districts from our sample, 74.0 percent paid some form of compensation to their board members.

Tables 1 through 7 show the number of entities in our sample, the number and percentage of these entities that paid some type of compensation to board members, the average amount that the entities paid each board member per month, and the range of these payments. For example, as shown in Table 1, 30 (34.1 percent) of the 88 school districts in our sample paid their board members an average of $480.33 per month. These payments ranged from $80 per month at a small school district to $1,500 per month at 2 of the largest school districts.

Table 1 Average Salary Paid per Board Member, per Month

	Sample Size	Number That Pay	Percentage That Pay	Average Dollars Per Month	Low	High
School Districts						
Largest	11	4	36.4%	$1,062.50	$500	$1,500
Large	26	16	61.5	492.19	325	750
Medium	11	5	45.5	249.00	125	400
Small	40	5	12.5	208.00	80	240
Total	**88**	**30**	**34.1%**	**$ 480.33**		
Community College Districts	**58**	**6**	**10.3%**	**$ 567.83**	$100	$1,500
County Offices of Education	**51**	**3**	**5.9%**	**$ 400.00**	$300	$ 500
Special Districts						
Largest	10	2	20.0%	$ 917.00	$834	$1,000
Large	17	2	11.8	600.00	600	600
Medium	15	0	0.0	0.00		
Small	208	5	2.4	148.00	15	375
Large Transit	5	0	0.0	0.00		
Other Transit	3	0	0.0	0.00		
Total	**258**	**9**	**3.5%**	**$ 419.33**		

Another method of compensating governing board members for their services to local districts and county offices of education was to pay them a per-meeting stipend, as is shown in Table 2. In these cases, governing board members did not receive flat salaries but were paid for each board meeting they attended. Community college districts, county offices of education, and special districts reported that their governing board members more often were compensated based on a per-meeting stipend than through a flat salary. School districts reported that their governing board members were sometimes compensated with per-meeting stipends.

Table 2 Average Meeting Stipends Paid per Board Member, per Month

	Sample Size	Number That Pay	Percentage That Pay	Average Dollars Per Month	Low	High
School Districts						
Largest	11	6	54.5%	$787.50	$100	$2,000
Large	26	7	26.9	424.29	80	750
Medium	11	3	27.3	400.00	400	400
Small	40	9	22.5	85.56	10	240
Total	**88**	**25**	**28.4%**	**$386.60**		
Community College Districts	**58**	**41**	**70.7%**	**$322.54**	$ 20	$2,000
County Offices of Education	**51**	**47**	**92.2%**	**$110.40**	**$ 10**	$ 400
Special Districts						
Largest	10	4	40.0%	$245.00	$200	$ 315
Large	17	11	64.7	340.00	100	846
Medium	15	9	60.0	252.89	100	667
Small	208	44	21.2	115.25	4	850
Large Transit	5	4	80.0	469.00	376	500
Other Transit	3	2	66.7	184.00	150	218
Total	**258**	**74**	**28.7%**	**$193.39**		

In addition, as shown in Tables 3 through 5, most of the school districts, community college districts, and county offices of education, as well as some of the special districts we surveyed, provided medical, dental, and vision benefits for their governing board members while they served their terms.

Table 3 Average Medical Benefits per Board Member, per Month

	Sample Size	Number That Pay	Percentage That Pay	Average Dollars Per Month	Low	High
School Districts						
Largest	11	10	90.9%	$283.20	$ 44	$ 428
Large	26	25	96.2	299.76	128	466
Medium	11	9	81.8	348.11	300	410
Small	40	26	65.0	324.65	183	503
Total	**88**	**70**	**79.5%**	**$312.86**		
Community College Districts	**58**	**51**	**87.9%**	**$372.00**	$ 163	$ 807
County Offices of Education	**51**	**43**	**84.3%**	**$317.02**	$ 44	$ 480
Special Districts						
Largest	10	4	40.0%	$275.25	$185	$ 416
Large	17	11	64.7	481.91	59	1,400
Medium	15	6	40.0	260.00	38	450
Small	208	12	5.8	259.50	87	537
Large Transit	5	4	80.0	354.50	300	435
Other Transit	3	1	33.3	281.00	281	281
Total	**258**	**38**	**14.7%**	**$336.18**		

Table 4 Average Dental Benefits per Board Member, per Month

	Sample Size	Number That Pay	Percentage That Pay	Average Dollars Per Month	Low	High
School Districts						
Largest	11	10	90.9%	$39.60	$27	$ 59
Large	26	25	96.2	47.92	14	85
Medium	11	8	72.7	47.25	24	68
Small	40	26	65.0	49.62	6	89
Total	**88**	**69**	**78.4%**	**$47.28**		
Community College Districts	**58**	**46**	**79.3%**	**$53.74**	$20	$ 74
County Offices of Education	**51**	**38**	**74.5%**	**$48.47**	$22	$ 72
Special Districts						
Largest	10	3	30.0%	$48.67	$17	$ 66
Large	17	10	58.8	70.40	31	130
Medium	15	5	33.3	33.00	10	62
Small	208	9	4.3	36.78	4	60
Large Transit	5	3	60.0	53.33	40	60
Other Transit	3	1	33.3	61.00	61	61
Total	**258**	**31**	**12.0%**	**$50.55**		

Table 5 Average Vision Benefits per Board Member, per Month

	Sample Size	Number That Pay	Percentage That Pay	Average Dollars Per Month	Low	High
School Districts						
Largest	11	7	63.6%	$ 9.29	$ 3	$24
Large	26	20	76.9	12.30	4	24
Medium	11	8	72.7	12.63	6	16
Small	40	23	57.5	14.52	5	34
Total	**88**	**58**	**65.9%**	**$12.86**		
Community College Districts	**58**	**38**	**65.5%**	**$15.16**	$ 6	$25
County Offices of Education	**51**	**30**	**58.8%**	**$12.93**	$ 3	$25
Special Districts						
Largest	10	2	20.0%	$ 9.00	$ 8	$10
Large	17	8	47.1	14.63	6	30
Medium	15	3	20.0	11.67	9	15
Small	208	6	2.9	16.00	13	22
Large Transit	5	2	40.0	14.00	13	15
Other Transit	3	1	33.3	11.00	11	11
Total	**258**	**22**	**8.5%**	**$13.86**		

Table 6 shows that school districts, community college districts, county offices of education, and special districts sometimes compensated their governing board members by providing them with life insurance benefits while they served in office. Like the previous types of compensation, governing board members in a majority of the community college districts in our survey received life insurance benefits. However, only half of the school districts and 45.1 percent of the county offices of education provided life insurance benefits to board members. Further, only a limited number of special districts indicated that their governing board members received this type of compensation.

Table 6 Average Life Insurance Benefits per Board Member, per Month

	Sample Size	Number That Pay	Percentage That Pay	Average Dollars Per Month	Low	High
School Districts						
Largest	11	8	72.7%	$10.50	$ 2	$26
Large	26	24	92.3	10.58	2	21
Medium	11	4	36.4	8.50	2	14
Small	40	8	20.0	9.38	3	25
Total	**88**	**44**	**50.0%**	**$10.16**		
Community College Districts	**58**	**38**	**65.5%**	**$13.47**	$ 2	$50
County Offices of Education	**51**	**23**	**45.1%**	**$10.70**	$ 2	$38
Special Districts						
Largest	10	3	30.0%	$ 6.00	$ 2	$10
Large	17	7	41.2	14.57	2	27
Medium	15	4	26.7	34.50	2	72
Small	208	4	1.9	13.75	3	24
Large Transit	5	2	40.0	31.50	15	48
Other Transit	3	1	33.3	4.00	4	4
Total	**258**	**21**	**8.1%**	**$18.10**		

In addition to the types of compensation discussed above, 28 (6.2 percent) of the active 455 school districts, community college districts, county offices of education, and special districts in our survey provided their governing board members with other benefits. These other benefits sometimes included prescription drug benefits, accidental death and dismemberment benefits, long-term disability benefits, and counseling benefits. Governing board members in these 28 entities received between $1 and $79 per month in other benefits. The average amount of compensation governing board members received in other benefits was $18.75 per month.

Finally, school districts, community college districts, county offices of education, and special districts sometimes reimbursed governing board members for necessary expenses associated with service on the board, as is shown in Table 7. Necessary expenses sometimes included travel and mileage costs and printed materials costs. One county office of education, for example, paid governing board members an average of $176 per month to compensate them for mileage and travel costs related to their service on the board.

Table 7 Average Expenses Reimbursed per Board Member, per Month

	Sample Size	Number That Pay	Percentage That Pay	Average Dollars Per Month	Low	High
School Districts						
Largest	11	6	54.5%	$155.83	$ 42	$ 260
Large	26	9	34.6	228.44	10	1,317
Medium	11	5	45.5	93.80	23	139
Small	40	3	7.5	51.67	15	110
Total	**88**	**23**	**26.1%**	**$157.17**		
Community College Districts	**58**	**43**	**74.1%**	**$127.42**	$ 5	$ 900
County Offices of Education	**51**	**30**	**58.8%**	**$ 61.83**	$ 5	$ 225
Special Districts						
Largest	10	3	30.0%	$124.67	$ 28	$ 176
Large	17	5	29.4	240.20	6	520
Medium	15	3	20.0	92.67	13	200
Small	208	8	3.8	134.63	5	812
Large Transit	5	2	40.0	415.50	183	648
Other Transit	3	1	33.3	150.00	150	150
Total	**258**	**22**	**8.5%**	**$177.77**		

Reported Costs of Compensation Paid to Board Members

The local districts and county offices of education that responded to our survey reported the average cost of each type of compensation paid per board member each month. Since some entities used only the members who received each type of compensation to calculate the average while others used all board members whether they had received the type of compensation or not, the reported costs may be overstated. To provide an estimate of the total cost of compensation paid to board members, we multiplied the average total monthly cost for each district by the number of seats on that particular district's board. This figure may also be overstated because, in some cases, some seats may have been vacant for all or part of the year. We did not attempt to estimate the cost of compensation to board members statewide.

Based on data reported, 77 of the 88 school districts in our sample paid their governing board members a total of up to $3.7 million in compensation, including reimbursement of expenses, in one year. These 77 school districts had a total of 419 seats on their governing boards. In addition, during one year, 57 of the 58 community college districts in our sample paid their board members up to $3.6 million, including reimbursement of expenses. These 57 community college districts had a total of 379 seats on their governing boards. Further, all the 51 county offices of education in our sample paid their board members up to $1.8 million, including reimbursement of expenses, in one year. The 51 county offices of education had 309 seats on their governing boards. Finally, 91 of the 258 special districts paid their board members up to $3.0 million in compensation, including reimbursement of necessary expenses. These 91 special districts had a total of 563 seats on their governing boards.

Chapter 2 Retirement Benefits Paid to Governing Board Members of School Districts, Community College Districts, County Offices of Education, and Special Districts

Chapter Summary

Most community college districts and some school districts, county offices of education, and special districts in our survey offered retirement benefits to members of their governing boards. These retirement benefits include stipends, medical benefits, dental benefits, vision benefits, and life insurance benefits. However, not all board members opted to receive these retirement benefits. Although the entities commonly offered retirement benefits to board members, the costs of providing the benefits were small when compared with the entities' overall operating costs. To be eligible for these retirement benefits, board members usually had to meet significant requirements imposed by the entities. For example, many of the districts and county offices of education required a minimum age or minimum term of service. In addition, entities sometimes require retired board members to pay for all or a portion of the benefit costs. Recent changes in federal law may influence the frequency with which these local districts and county offices of education offer retirement benefits to their governing board members.

Laws Governing Retirement Benefits

Section 53201 of the California Government Code permits the legislative body of a local agency to provide health and welfare benefits to retired members of the legislative body who elect to accept the benefits and who authorize the local agency to deduct from their compensation the portion of the cost not paid by the agency. Local agencies include school districts, community college districts, county offices of education, and special districts; legislative bodies include the governing boards of those entities.

We gathered survey information from 455 school districts, community college districts, county offices of education, and active special districts on the type of retirement benefits they provided to their governing board members.

Survey Results

The local districts and county offices of education we surveyed varied in the frequency with which they offered retirement benefits, including retirement stipends, medical benefits, dental benefits, vision benefits, and life insurance benefits. Forty-nine (84.5 percent) of the 58 community college districts in the survey reported that they offered retirement benefits to at least 419 members of their governing boards who have served at any time since January 1, 1986. Correspondingly, 41.2 percent of the 51 county offices of education, 36.4 percent of the 88 school districts, and 9.7 percent of the 258 special districts responding to the survey offered retirement benefits to at least 679 governing board members who served during the same time.

Retirement Stipends

One type of retirement benefit offered to governing board members was retirement stipends. Retirement stipends are fixed sums of money paid periodically to individuals once they have retired. According to our survey results, the Public Employees' Retirement System (PERS) usually and the State Teachers' Retirement System (STRS) sometimes administered and paid out the retirement stipends that local districts and county offices of education made available to board members. The local districts and county offices of education in the survey often contributed toward retirement stipends while individuals were working on the board, but did not pay any stipend amounts directly to retired board members. In these cases, the cost of the retirement stipend to the local districts and county offices of education is the amount they contributed as opposed to the amount that is eventually paid out to the retiree.

Table 8 shows the number of entities in our sample, the number and percentage that offered to make contributions toward retirement stipend plans on behalf of their governing board members, the number and percentage that had at least one member who opted to participate in the plans, and the total contributed during the most recent year of each board member's service. The table also shows the range spent on individual board members. For example, although 17 (19.3 percent) of the school districts in our sample offered retirement stipend plans to their board members, 12 (70.6 percent) of the 17 school districts had any board members who opted to receive the benefit. These 12 school districts contributed a total of $42,795 for board members during each member's most recent year of service. School districts contributed as little as $61 for one board member's retirement stipend plan and as much as $2,040 for another plan.

Table 8

Annual Contributions to Retirement Stipend Plans

	Sample Size	Number That Offer	Percentage That Offer	Number Whose Members Participate	Percentage Whose Members Participate	Total Spent	Low	High
School Districts								
Largest	11	5	45.5%	4	80.0%	$26,738	$ 61	$2,040
Large	26	9	34.6	6	66.7	9,636	224	875
Medium	11	1	9.1	1	100.0	5,337	530	786
Small	40	2	5.0	1	50.0	1,084	195	347
Total	**88**	**17**	**19.3%**	**12**	**70.6%**	**$42,795**		
Community College Districts	**58**	**29**	**50.0%**	**26**	**89.7%**	**$46,312**	$ 10	$2,103
County Offices of Education	**51**	**4**	**7.8%**	**4**	**100.0%**	**$ 4,375**	$ 21	$ 350
Special Districts								
Largest	10	2	20.0%	2	100.0%	$24,547	$504	$1,631
Large	17	4	23.5	3	75.0	12,515	414	1,190
Medium	15	0	0.0	0	0.0	0	--	--
Small	208	7	3.4	5	71.4	23,213	33	3,407
Large Transit	5	2	40.0	1	50.0	4,990	91	840
Other Transit	3	0	0.0	0	0.0	0	--	--
Total	**258**	**15**	**5.8%**	**11**	**73.3%**	**$65,265**		

Note: The dollar amounts reported on this table are for the most recent year of governing board members' service on the board.

Appendix A shows the number of governing board members who opted to receive the different types of retirement benefits.

Only two districts in our survey indicated that they paid stipends directly to retired board members. Both of them were special districts and reported that they were fully or partially responsible for administering the retirement stipends themselves. In these cases, the benefit cost to the entities is the actual amount of the stipends paid out. During the most recent 12-month period in which they provided retirement benefits to a given individual, the two districts paid a total of $2,753 in retirement stipends to four board retirees.

Medical and Other Benefits

Tables 9 through 12 present information similar to that in Table 8 for the other types of retirement benefits that the entities reported offering to retired board members. The tables show that community college districts consistently offered these retirement benefits to their board members more frequently than did the other entities we surveyed. Table 9 presents data regarding retirement medical benefits, and Table 10 presents data regarding dental benefits.

Table 9

Annual Retirement Medical Benefits

	Sample Size	Number That Offer	Percentage That Offer	Number Whose Members Participate	Percentage Whose Members Participate	Total Spent	Low	High
School Districts								
Largest	11	4	36.4%	0	0.0%	$ 0	$ --	$ --
Large	26	12	46.2	2	16.7	31,200	3,600	4,200
Medium	11	4	36.4	2	50.0	6,383	2,783	3,600
Small	40	6	15.0	0	0.0	0	--	--
Total	**88**	**26**	**29.5%**	**4**	**15.4%**	**$ 37,583**		
Community College Districts	**58**	**47**	**81.0%**	**21**	**44.7%**	**$143,012**	**$ 476**	**$7,298**
County Offices of Education	**51**	**18**	**35.3%**	**7**	**38.9%**	**$ 41,226**	**$1,369**	**$5,747**
Special Districts								
Largest	10	3	30.0%	2	66.7%	$ 7,341	$ 328	$3,886
Large	17	7	41.2	1	14.3	4,192	4,192	4,192
Medium	15	3	20.0	2	66.7	7,383	3,276	4,107
Small	208	8	3.8	3	37.5	6,847	32	2,865
Large Transit	5	2	40.0	1	50.0	11,992	5,996	5,996
Other Transit	3	0	0.0	0	0.0	0	--	--
Total	**258**	**23**	**8.9%**	**9**	**39.1%**	**$ 37,755**		

Note: The dollar amounts reported on this table are for the most recent 12-month period in which the benefits were provided to governing board members.

Table 10

Annual Retirement Dental Benefits

	Sample Size	Number That Offer	Percentage That Offer	Number Whose Members Participate	Percentage Whose Members Participate	Total Spent	Low	High
School Districts								
Largest	11	3	27.3%	0	0.0%	$ 0	$--	$--
Large	26	10	38.5	2	20.0	4,952	456	782
Medium	11	2	18.2	1	50.0	708	708	708
Small	40	4	10.0	0	0.0	0	--	--
Total	**88**	**19**	**21.6%**	**3**	**15.8%**	**$ 5,660**		
Community College Districts	**58**	**34**	**58.6%**	**14**	**41.2%**	**$11,510**	**$248**	**$653**
County Offices of Education	**51**	**15**	**29.4%**	**5**	**33.3%**	**$ 3,963**	**$269**	**$858**
Special Districts								
Largest	10	1	10.0%	0	0.0%	$ 0	$--	$--
Large	17	5	29.4	1	20.0	624	624	624
Medium	15	3	20.0	2	66.7	1,356	671	685
Small	208	3	1.4	1	33.3	831	831	831
Large Transit	5	2	40.0	1	50.0	1,440	720	720
Other Transit	3	0	0.0	0	0.0	0	--	--
Total	**258**	**14**	**5.4%**	**5**	**35.7%**	**$ 4,251**		

Note: The dollar amounts reported on this table are for the most recent 12-month period in which the benefits were provided to governing board members.

As Table 11 demonstrates, not more than 40 percent of the local entities we surveyed offered vision benefits to governing board retirees. In addition, each type of local entity spent less than $2,500 on vision benefits for the most recent 12-month period in which they provided them to board retirees.

Table 11

Annual Retirement Vision Benefits

	Sample Size	Number That Offer	Percentage That Offer	Number Whose Members Participate	Percentage Whose Members Participate	Total Spent	Low	High
School Districts								
Largest	11	3	27.3%	0	0.0%	$ 0	$ --	$ --
Large	26	8	30.8	2	25.0	1,448	120	242
Medium	11	1	9.1	1	100.0	197	197	197
Small	40	3	7.5	0	0.0	0	--	--
Total	**88**	**15**	**17.0%**	**3**	**20.0%**	**$1,645**		
Community College Districts	**58**	**22**	**37.9%**	**9**	**40.9%**	**$2,403**	**$ 48**	**$258**
County Offices of Education	**51**	**10**	**19.6%**	**4**	**40.0%**	**$ 586**	**$ 41**	**$ 96**
Special Districts								
Largest	10	0	0.0%	0	0.0%	$ 0	$ --	$ --
Large	17	3	17.6	1	33.3	112	112	112
Medium	15	0	0.0	0	0.0	0	--	--
Small	208	1	0.5	1	100.0	84	84	84
Large Transit	5	2	40.0	1	50.0	318	159	159
Other Transit	3	0	0.0	0	0.0	0	--	--
Total	**258**	**6**	**2.3%**	**3**	**50.0%**	**$ 514**		

Note: The dollar amounts reported on this table are for the most recent 12-month period in which the benefits were provided to governing board members.

A limited number of local districts and county offices of education offered life insurance benefits to their governing board members. As shown in Table 12, except for large transit districts, approximately one-fourth or less of the local entities offered life insurance benefits to their governing board retirees.

Table 12

Annual Retirement Life Insurance Benefits

	Sample Size	Number That Offer	Percentage That Offer	Number Whose Members Participate	Percentage Whose Members Participate	Total Spent	Low	High
School Districts								
Largest	11	2	18.2%	1	50.0%	$9,000	$1,000	$2,000
Large	26	6	23.1	0	0.0	0	--	--
Medium	11	0	0.0	0	0.0	0	--	--
Small	40	0	0.0	0	0.0	0	--	--
Total	**88**	**8**	**9.1%**	**1**	**12.5%**	**$9,000**		
Community College Districts	**58**	**15**	**25.9%**	**5**	**33.3%**	**$1,171**	$ 61	$ 228
County Offices of Education	**51**	**8**	**15.7%**	**4**	**50.0%**	**$9,295**	$ 21	$2,000
Special Districts								
Largest	10	0	0.0%	0	0.0%	$ 0	$ --	$ --
Large	17	1	5.9	0	0.0	0	--	--
Medium	15	2	13.3	2	100.0	357	28	329
Small	208	1	0.5	0	0.0	0	--	--
Large Transit	5	2	40.0	1	50.0	1,104	552	552
Other Transit	3	0	0.0	0	0.0	0	--	--
Total	**258**	**6**	**2.3%**	**3**	**50.0%**	**$1,461**		

Note: The dollar amounts reported on this table are for the most recent 12-month period in which the benefits were provided to governing board members.

In a few cases, school districts, community college districts, county offices of education, and special districts offered benefits other than retirement stipends, medical benefits, dental benefits, vision benefits, and life insurance benefits to governing board retirees. Specifically, 2 (3.4 percent) of the 58 community college districts, 2 (2.3 percent) of the 88 school districts, one (2.0 percent) of the 51 county offices of education, and one (0.4 percent) of the 258 special districts in our survey offered board retirees other benefits. These other benefits included prescription drug benefits, psychological counseling benefits, employee assistance program benefits, and death benefits. Of the six entities that offered other retirement benefits, only one governing board retiree in a community college district opted for one of these retirement benefits—an employee assistance program. For the most recent 12-month period in which it provided this benefit, the district paid a total of $23 for that retiree.

Estimated Costs of Providing Retirement Benefits to Board Members

Our statistical consultant used our survey results to estimate the costs to school districts, community college districts, county offices of education, and special districts statewide of providing retirement benefits to board members. Although the local entities commonly offered retirement benefits to board members, we estimate that the actual costs of providing the benefits were small relative to total operating costs. School districts spent $292,862 and county offices of education statewide spent $67,603 in contributions to board members' retirement stipend plans during the members' most recent year of service and for medical, dental, vision, and life insurance benefits to retirees during the most recent year in which they received them. This combined expenditure of $360,465 is small when compared with the estimated $17.1 billion spent by all school districts and county offices of education for operations in fiscal year 1990-91. Similarly, community college districts statewide spent only $250,223 for these types of retirement benefits, as compared with the estimated $2.7 billion spent by community college districts for operations in fiscal year 1990-91. Special districts spent an estimated total of $840,908 for these types of retirement benefits, as compared with an estimated $10.4 billion

spent on operations in fiscal year 1988-89.[3] Table 13 details our estimates of the amounts spent statewide for the different types of retirement benefits. Because so few districts in our survey reported that they had incurred costs for retirement benefits other than contributions to retirement stipend plans, medical benefits, dental benefits, vision benefits, and life insurance benefits, we were unable to estimate the cost of other retirement benefits statewide.

Table 13 Total Expenditures for Board Member Retirement Benefits

	Contributions to Retirement Stipend Plan	Medical Benefits	Dental Benefits	Vision Benefits	Life Insurance Benefits	Total Benefits
School Districts	$126,927	$133,852	$17,944	$5,139	$ 9,000	$292,862
Community College Districts	56,692	175,066	14,090	2,942	1,433	250,223
County Offices of Education	4,975	46,884	4,507	666	10,571	67,603
Special Districts	552,550	247,479	33,905	2,348	4,626	840,908

Lifetime Costs of Retirement Benefits for Selected Board Retirees

Because the cost of providing retirement benefits over the lifetime of recipients depends on factors that vary widely from individual to individual, we were not able to estimate the total cost to school districts, community college districts, county offices of education, and special districts of providing retirement benefits to their board members. However, we asked the PERS to provide us with estimates of what it will cost districts to provide retirement benefits to three individuals over their lifetimes. In these cases, the districts made contributions toward retirement stipend plans to the PERS during the time the individuals served on the boards. In addition, the districts continue to pay the PERS for medical benefits on behalf of the three individuals who are now retired. The PERS made these estimates using the districts' actual contributions to the

[3] Fiscal year 1988-89 was the most recent year for which we were able to obtain estimates of operating expenditures of special districts statewide.

retirement stipend plans and medical premiums to date. It also assumed a 3 to 5 percent increase in medical premiums in fiscal year 1992-93 and annual increases of 8 to 10 percent in medical premiums in following years. The PERS stated that the 8 to 10 percent increases were considered most likely but that there was a very good chance that the actual medical benefit costs would fall outside of that range. The PERS noted that 18 to 20 percent inflation in medical premiums has been common over the last several years but that employers are becoming less able to afford a high level of inflation.

The PERS estimated that it will cost one special district from $31,000 to $33,000 to provide retirement stipends and medical benefits over the life of one board member who served on its board from 1971 through 1986. This individual was 81 years old when the district completed our survey. The PERS also estimated that it will cost the same special district from $64,000 to $74,000 to provide retirement stipends and medical benefits over the life of another board member who served on the district's board from 1957 through 1989. This individual was 66 years old when the district completed our survey. According to this district, it has made retirement stipend and medical benefits available to its board members since 1972, its members serving a minimum of five years to be eligible. The PERS states that the two employees have paid from 4.3 percent to 32.0 percent of the total annual contribution toward their retirement stipend plans. The board members did not pay any portion of the cost of their retirement medical benefits.

In the final example, the PERS estimated that it will cost a community college district from $61,000 to $69,000 to provide retirement stipend and medical benefits over the life of one of its board members who served the district from 1965 through 1988. This individual was 64 years old when the district completed our survey. The district reported that it has made retirement stipend benefits available to its board members for more than ten years and that board members must serve a minimum of five years and must be a least 50 years of age to be eligible. The district also reported that it has made retirement medical benefits available to board members since 1988 and that board members must serve a minimum of five years to receive them. According to the PERS,

the employee's portion of the total contribution toward the retirement stipend plan ranged from 34.8 percent to 48.6 percent. The district reported that its retired board members do not pay any portion of the cost of their retirement medical benefits.

Eligibility Requirements for Retirement Benefits

School districts, community college districts, county offices of education, and special districts that offered retirement benefits to their board members sometimes imposed significant requirements for benefit eligibility, for example, a minimum service requirement. All of the special districts that offered retirement stipends to their board members required their members to serve a minimum time in office before they could be eligible to receive retirement benefits. In addition, most of the school districts and community college districts, and half of the county offices of education that offered retirement stipends to their board members also imposed such a requirement. These districts and county offices of education generally required board members to serve a minimum of 4 or 12 years before they could be eligible for the retirement stipends.

Similarly, the majority of the local districts and county offices of education in the survey also required governing board retirees to meet minimum service requirements to qualify for medical, dental, vision, life insurance, and other retirement benefits. According to the survey data, these entities usually required board members to serve a minimum of 4 or 20 years on their governing boards before they could be eligible for those health and welfare benefits during retirement. For all the entities that responded to our survey, the most frequent minimum service requirement for these benefits, however, was 12 years.[4]

[4] The most frequent minimum service requirement for medical, dental, vision, and life insurance benefits may be 12 years because of Section 53201 of the Government Code. As stated earlier, this section allows local agencies to provide health and welfare benefits to retirees. In addition, it permits legislative bodies, including governing boards, to continue any health and welfare benefits for former elective members of the legislative body who served after January 1, 1981, and whose total years of service was not less than 12 years or who have less than 12 years of service and agree to pay the full costs of those benefits.

In addition to a minimum service requirement, local districts and county offices of education sometimes required board retirees to meet minimum age levels to be eligible for retirement benefits. The survey results indicate that these entities generally required governing board retirees to be at least 50 years of age before they could be eligible to receive retirement stipends, medical benefits, dental benefits, vision benefits, life insurance, and other retirement benefits. For example, all but one of the 29 community college districts that made retirement stipends available to governing board members required them to be 50 or 55 years of age to be eligible for the stipends. Similarly, 50 percent of the special districts and 40 percent of the county offices of education that offered dental benefits to board retirees required them to be at least 50 years of age to qualify.

As another eligibility requirement for retirement benefits, governing board members were sometimes responsible for paying all or a portion of the cost of retirement benefits offered to them. According to the survey results, board retirees in local districts and county offices of education sometimes paid a portion of the cost of retirement stipends, medical benefits, dental benefits, vision benefits, life insurance benefits, and other retirement benefits offered to them. According to the survey results, governing board members paid between less than one percent and 100 percent of the cost of the stipends, medical benefits, and dental benefits offered to them in retirement. In all the entities except special districts, governing board members paid either 10 or 100 percent of the cost of vision and life insurance benefits provided to them once they retired. Of the six local districts and county offices of education that offered them, only one school district reported that its governing board members paid some portion of the cost of the other retirement benefits it offered. Appendix B contains detailed information regarding the number of entities that reported having minimum service, age, and copayment requirements for participation in the various retirement benefits available to board members.

Impact of Changes in Federal Law

Beginning in 1991, changes to the Federal Internal Revenue Code may affect those local districts and county offices of education that currently do not offer retirement benefits to their governing board members. Under prior federal law, service as an employee for a local government entity was not treated as employment for purposes of the Federal Insurance Contributions Act (FICA). However, the Omnibus Budget Reconciliation Act of 1990 (OBRA 1990) broadened the definition of "employment" for FICA tax purposes to include service performed after July 1, 1991, as an employee of a local government unless the employee is a "member of a retirement system" of the entity. Under this law, the Internal Revenue Service (IRS) prescribes guidelines whereby one may determine, on a case-by-case basis, whether an employee falls in this category. Consequently, we are unable to say whether members of local district governing boards will be classified as local government employees under OBRA 1990.

Based on the survey responses we received, 9 (15.5 percent) of the community college districts, 59 (67.1 percent) of the school districts, 30 (58.8 percent) of the county offices of education, and 233 (90.3 percent) of the active special districts do not currently offer retirement benefits to members of their governing boards. Many of the special districts that do not offer retirement benefits have boards that serve voluntarily or ex officio as members of other governing bodies (such as county boards of supervisors), receiving no compensation directly from the special districts they serve. It seems unlikely that the IRS would deem such board members to be employees of the special districts. However, the IRS may consider those board members of districts and offices who are compensated for their services to be local government employees. More than ten local districts and county offices of education reported that they either had recently or will soon be affected by the changes in federal law brought about by OBRA 1990. In total, 366 (80.4 percent) of the districts and offices that responded to our survey reported that they were aware of the changes in federal law brought about by OBRA 1990.

Chapter 3 Early Renewals and Extensions of Employment Contracts for Chief Executive Officers by School Districts, Community College Districts, County Offices of Education, and Special Districts

Chapter Summary

School and community college districts commonly renew and extend the terms of employment contracts with their superintendents before existing contracts are due to expire. Specifically, 68 (77.3 percent) of the 88 school districts that responded to our survey reported that they have renegotiated such contracts more than 6 months before the contracts were due to expire on a total of 265 occasions since January 1, 1981. These renegotiations occurred as early as 44 months and an average of 24 months before the contract expiration date. In addition, 52 (88.1 percent) of the 59 community college districts that responded to our survey reported that they had renegotiated such contracts more than 6 months before the contracts were due to expire on a total of 253 occasions since January 1, 1981. These renegotiations occurred as early as 41 months and an average of 26 months before the existing contracts were due to expire.

Special districts also engage in the practice, but to a lesser degree, while county offices of education do not. Most county offices of education have elected superintendents who serve four-year terms. Only 3 (5.9 percent) of the 51 county offices that responded to our survey reported that they employ their superintendents under a contract. None of these counties reported any instance since 1981 of renewing and extending an employment contract with a superintendent more than six months before an existing contract expired. Special districts infrequently have chief executive officers (CEOs) serving under employment contracts. Specifically, 45 (17.4 percent) of the 258 active special districts that responded to our survey reported having at least one CEO under contract since 1981. Only 7 (15.6 percent) of these districts

reported instances in which they renegotiated and extended CEOs' employment contracts more than 6 months before the contract expiration date. Although we found that renewing and extending contracts before they are due to expire may result in longer unexpired terms, the length of a contract's unexpired term may or may not affect the size of a termination settlement.

Laws Governing Early Contract Renegotiation

No single code or section in California law addresses the timing of renegotiations and renewals of employment contracts between school districts, community college districts, county offices of education, or special districts and their CEOs. The governing boards of school and community college districts have the authority, under the California Education Code, Sections 35031 and 72411, respectively, to renegotiate and extend a superintendent's employment contract at any time they choose, provided the superintendent consents to the action. Further, a superintendent's contract is deemed to be automatically renewed for the same term if the board has not taken action either to renew or to terminate the contract at least 45 days (for school districts) or six months (for community college districts) before the existing contract's termination date. Before July 28, 1983, the minimum time for renewing or terminating a superintendent's contract with a school district was also six months. Because our data regarding actual instances of early employment contract renewals and extensions at school districts covers the period from 1981 to the present, we have chosen consistently to identify early employment contract renewals and extensions as those that occurred more than six months before an existing contract's termination date.

County superintendents of schools are usually elected officials. However, the California State Constitution, Article 9, Section 3, states that a superintendent either may be elected by the county's voters for a four-year term at each gubernatorial election or may be appointed by the county board of education. For example, the county charter of San Diego County states that the county board of education shall appoint the superintendent of schools by majority vote to serve either at its pleasure or on a fixed-term contract not to exceed four years. Further, the San Diego County charter states that the superintendent may be removed by a majority vote of the board.

Special districts in California operate under more than 200 different statutes, according to the *Annual Report 1988-89 on Financial Transactions Concerning Special Districts of California*, published by the State Controller's Office. Many of these statutes are specific to single special districts. For example, the Orange County Water District operates under authority of the Orange County Water District Act, Water Code Appendix, Section 40-1 et seq. Other statutes are more general, allowing for the creation and operation of types of special districts rather than of individual special districts. For example, the Local Hospital District Law, Health and Safety Code, Section 32000 et seq., serves as the statutory authority for at least 75 hospital districts throughout California. The special districts that reported instances of early contract renewal and extension with their CEOs operate under the authority of six different statutes. None of these six statutes sets forth criteria for the negotiation or renewal of employment contracts between the special districts and their CEOs.

We mailed questionnaire surveys to 91 California school districts, 71 community college districts, 58 county offices of education, and 297 special districts requesting detailed information about the employment contract history of each district CEO since 1981 as well as any contract terminations and settlements that may have occurred during that period. In addition, we asked the districts and offices to provide information on the reasons (if any) they had for negotiating early contract extensions with their CEOs. We received responses to our survey from 88 of the 91 school districts, 59 of the 71 community college districts, 51 of the 58 county offices, and 278 of the 297 special districts.[5] Of the 278 special districts, 258 reported that they are active, while the remaining 20 reported that they are presently inactive or are defunct.

[5] One community college district responded only to the portion of our survey that addressed employment contracts with CEOs. As a result, our sample size for this chapter is larger than the sample discussed in Chapters 1 and 2.

The Extent of Early Contract Renegotiation

School and community college districts commonly renew and extend the terms of employment contracts with their superintendents before existing contracts are due to expire. Sixty-eight (77.3 percent) of the 88 school districts that responded to the survey reported that, on at least one occasion since 1981, their boards had renegotiated and extended employment contracts of district superintendents more than six months before the expiration of the superintendents' existing contracts. Sixty-eight of the 88 responding school districts reported a total of 265 instances of early contract renewal. For example, one school district reported that its board has agreed to renegotiate and extend employment contracts early with two superintendents on 7 different occasions since 1981. These contracts were extended as early as 39 months before the existing contract expiration dates. Similarly, another school district reported 6 instances of early contract renewal and extension involving two superintendents since 1982. These extensions occurred from 19 to 24 months before the expiration of existing contracts. Overall, the 68 school districts renewed and extended contracts as early as 44 months before existing contracts were due to expire. On the average, they renegotiated the contracts 24 months before the expiration of existing contracts.

Similarly, 52 (88.1 percent) of the 59 community college districts that responded to our survey reported that, on at least one occasion since 1981, their boards had renegotiated and extended employment contracts of district superintendents more than six months before the superintendents' existing contracts expired. These 52 community college districts reported a total of 253 such instances of early contract renewal. For example, according to one community college district, its board has renegotiated and extended employment contracts early with two superintendents on 8 different occasions since 1981. The district extended each of these contracts 36 months before the expiration of the existing contracts. Another community college district has renewed its current superintendent's four-year contract annually since 1981. Thus, this superintendent has never had less than 36 months remaining on the current employment contract. Overall, the 52 districts renewed and extended contracts as early as 41 months before existing contracts were due to expire. On the average, the districts renegotiated the contracts 26 months before the expiration of existing contracts.

In contrast, 48 (94.1 percent) of the 51 county offices of education that responded to our survey reported that their superintendents are elected officials and, therefore, are not subject to employment contracts. The remaining 3 counties reported that their county boards of education appoint a superintendent of education to serve under contract to each board. However, none of these 3 counties reported any instance since 1981 of renewing and extending an employment contract more than six months before an existing contract expired.

Only 45 (17.4 percent) of the 258 active special districts that responded to the survey reported that they had employed at least one CEO under contract since 1981. The remaining 213 special districts provided various explanations for not having had any CEOs who served under contract. In some instances, districts reported that the CEO position is voluntary. Many other districts reported that they are under the jurisdiction of county or city governments with a county or city officer serving, ex officio, as the manager of the special district. Still other districts reported having managers who serve without contract and at the pleasure of a board.

Seven (15.6 percent) of the 45 districts that reported having employed at least one CEO under contract since 1981 also reported that they had renegotiated and extended one or more of these contracts more than six months before the CEO's existing term of employment expired. The 7 districts reported a total of 18 such instances of early contract renewal and extension. For example, one hospital district reported that it has negotiated an early renewal and extension of its current CEO's contract on 3 separate occasions since 1981. These contract renewals were negotiated as early as 17 months before the existing contracts were due to expire. Similarly, a transit district reported that it has twice agreed to early renewals and extensions of its current CEO's contract since 1990. These renewals were negotiated 29 and 33 months before the existing contracts were due to expire. Overall, the special districts renewed and extended contracts as early as 36 months before existing contracts were due to expire. On the average, they renegotiated the contracts 21.5 months before the expiration of existing contracts.

Reasons for Early Renegotiation

The districts we surveyed reported that they renegotiated and extended employment contracts with superintendents and CEOs before contracts were due to expire for several reasons.[6] Most commonly, the districts wanted to maintain continuity of leadership. The second most common reason cited was the wish to express satisfaction with the individual's job performance. Finally, a number of districts stated that early renewals and extensions provided the superintendent or CEO with a sense of job security. Thus, districts believe that several important strategic and motivational reasons justify the practice of renewing and extending employment contracts before they are due to expire.

The Effect of Early Renewals and Extensions on Termination Settlements

On occasion, contracts with superintendents and CEOs may be terminated before their scheduled expiration dates. One of our purposes was to determine whether early renewals and extensions affected the termination settlements in such cases. We found that they may or may not result in larger payoffs in the event of contract termination. While the entities that responded to our survey reported approximately 1,200 contracts or contract renewals and 530 early renewals and extensions, there were only 17 instances when contract terminations involving cash settlements occurred subsequent to early renewal and extension.

School Districts

Of the 265 contracts that school districts reported as early renewals and extensions, only 8 (3.0 percent) were followed by early terminations and cash settlements. The average net settlement for the 8 terminations was $98,513; the average remaining term in these cases was 22 months. However, school districts also reported that they paid termination settlements on contracts that had not been renegotiated and extended early. Of the 376 reported contracts that had not been renegotiated early, 14 (3.7 percent) were followed by early terminations and cash settlements. The average settlement amount for these terminations was $108,633, while the average remaining term was 14.2 months.

[6] Of the 192 districts that reported superintendent or CEO contract data, 103 did not provide any reasons.

Community College Districts

Of the 253 contracts that community college districts reported as early renewals and extensions, only 8 (3.2 percent) were followed by early terminations and cash settlements. The average settlement amount for the 8 terminations was $82,225, while the average remaining term in these settlements was 18.4 months. The districts also reported a total of 138 contracts that had not been renegotiated early, of which 2 (1.5 percent) were followed by early terminations and cash settlements. In one of these cases, a district paid $126,000 in settlement for seven months of an unexpired contract; the other district paid $53,000 to settle ten months remaining on the contract.

Offices of Education and Special Districts

As noted earlier, none of the county offices of education that had superintendents under contract reported early renewals and extensions of contracts. Among the 18 early contract renewals and extensions that special districts reported, only one (5.6 percent) was followed by a termination and cash settlement agreement. In that instance, a hospital district reported terminating the employment contract of its CEO 32 months before its scheduled expiration date, paying $206,042 in settlement. The special districts also reported 142 contracts that had not been renegotiated early, of which five (3.5 percent) were followed by early terminations and cash settlements. For example, a harbor district reported that a CEO had been terminated after 18 months of a 24-month contract and that the district had paid $39,375 in settlement for the remaining 6 months of the contract. The largest of these 5 settlements was for $320,000, paid to resolve a contract with no definite remaining term. The average settlement amount for the 5 terminations was $127,936; the average remaining term for the 4 contracts having definite terms was 18.8 months.

Factors Affecting the Size of Termination Settlements

Although we found that early renewal of contracts may result in larger unexpired terms when contracts are terminated early, the length of the unexpired term did not always determine the size of the termination settlements. Several factors may influence the size of a settlement. For example, the terms of a specific contract or

negotiated settlement agreement can specify the size of such settlements. The hospital district mentioned on page 39 that terminated its CEO's contract 32 months before its expiration had such an arrangement. Although the district had renewed and extended the contract earlier, the terms of the contract specified that the district would pay a settlement equivalent to 24 months' compensation in any event of employment termination. The actual termination settlement specified that the former CEO would receive his salary for 20 months. Thus, even though the early renewal extended the contract, resulting in a longer unexpired contract period at the time of termination, it had no effect on the amount of the settlement.

Similarly, a community college district reported terminating a contract with a superintendent approximately 19 months before her contract was to expire. The contract had also been renewed and extended early. However, the terms of a settlement agreement stipulated that she would receive her salary through June 30, 1986, which was the ending date of the prior contract rather than of the extended contract. Again, the termination settlement was not reached solely on the basis of the period remaining on the contract.

Additionally, a district's termination settlement with its CEO or superintendent may call for the individual to continue to serve the district even after the contract has ended. For example, the superintendent of a school district or community college district may continue to teach for the district or serve as a consultant under terms of a negotiated settlement. In at least two cases in our sample, terminated superintendents continued to serve the districts in this way. Thus, the negative financial effect of an early renewal and extension may be offset, at least in part.

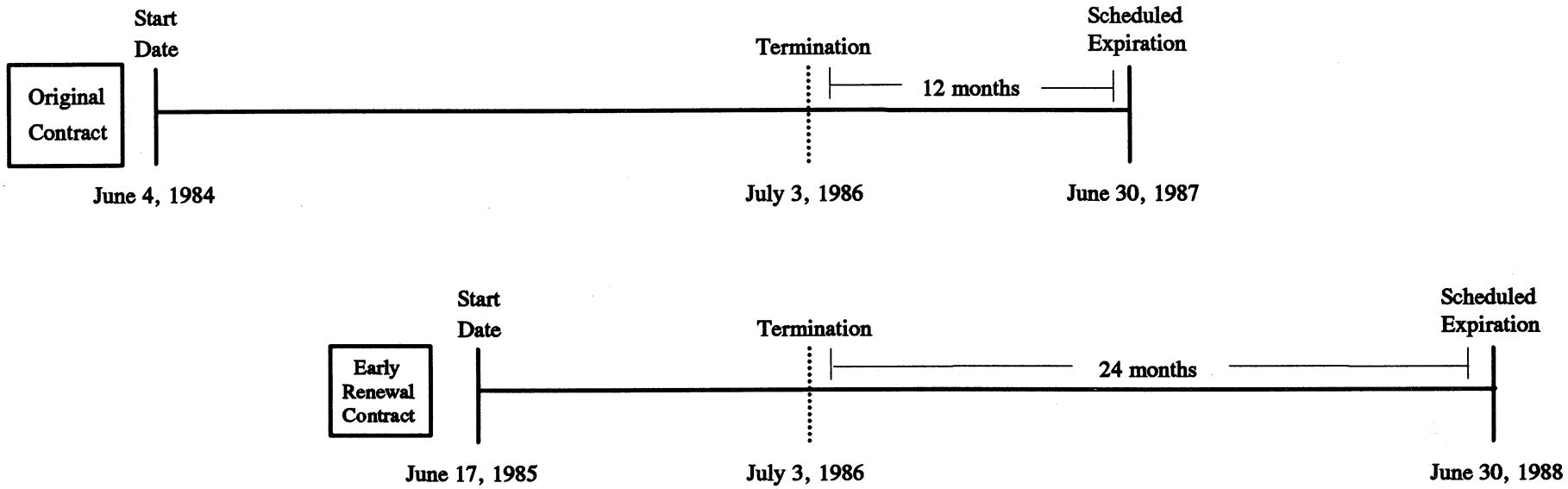
Possible Negative Effects

Even if a contract settlement is based solely or primarily on the contract period remaining at the time of termination, the financial effect of an early renewal and extension may depend on whether the termination occurred before or after the expiration date of the

previous contract. Figure 1 depicts a termination and settlement at a school district in our sample that occurred after an early renewal and extension but before the date on which the prior contract would have expired.

Early Renewal and Extension of Employment Contracts

Contract Terminated Before Original Contract's Expiration Date



Summary of Dates

June 4, 1984	Original contract executed
June 30, 1987	Original contract scheduled for expiration
June 17, 1985	Early contract renewal and extension
June 30, 1988	Extended contract scheduled for expiration
July 3, 1986	Termination of employment

- Under original contract, settlement period would have been 12 months.
- Under extended contract, settlement period was 24 months.

Figure 1

In this case, the contract was renewed and extended early on June 17, 1985. At that time, the scheduled expiration date of the contract changed from June 30, 1987, to June 30, 1988. As shown in the figure, the district subsequently terminated the extended contract on July 3, 1986. Thus, the contract period that remained to be settled was 24 months. However, in the absence of the early renewal and extension, the settlement period would have been only 12 months (July 3, 1986, through June 30, 1987).

The district settled with the superintendent for approximately $240,000. Further, the district stated that the length of the unexpired term of a superintendent's employment contract influences the negotiated terms of a buy-out when the district terminates a superintendent early. Thus, since the unexpired contract term was longer than it would have been without the early renewal, and since that unexpired term may have influenced the buy-out negotiation process, the early renewal may have had a negative financial effect on the district.

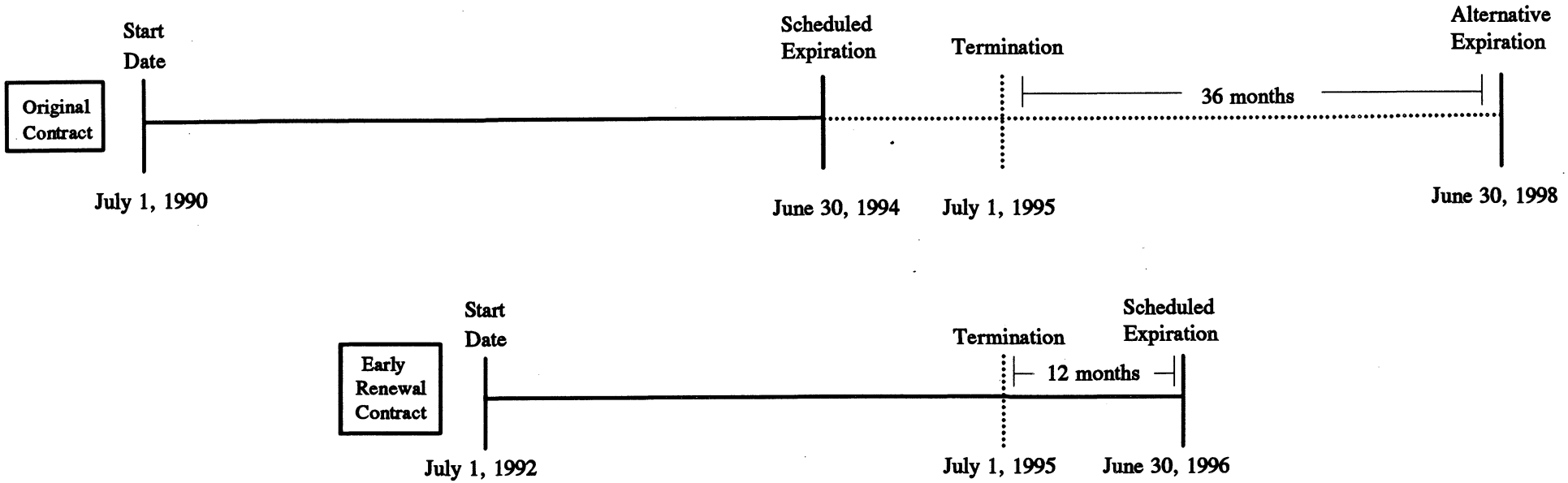
There were six termination settlements reported in our sample that were associated with longer unexpired contract terms as a result of early contract renewals and extensions. However, in only three of these six terminations did the extended term dates affect the negotiated settlements. In two other terminations, as described earlier, the settlement amount was specified in the contract or settlement agreement and, therefore, was unaffected by the longer unexpired contract. The sixth district was unable to tell us what affected the amount of the termination settlement.

Possible Positive Effects

The early renewal and extension of a superintendent's or CEO's contract may have a beneficial financial effect on a district in some circumstances. Figure 2 depicts a hypothetical scenario in which an early renewal and extension occurs on July 1, 1992, shifting the superintendent's contract expiration date from June 30, 1994, to June 30, 1996.

Early Renewal and Extension of Employment Contracts

Contract Terminated After the Original Contract's Expiration Date



Summary of Dates

July 1, 1990	Original four-year contract executed
June 30, 1994	Original contract scheduled for expiration
June 30, 1998	Alternative four-year expiration
July 1, 1992	Early four-year contract renewal and extension
June 30, 1996	Extended contract scheduled for expiration
July 1, 1995	Termination of employment

- Under alternative four-year extension, settlement period would have been 36 months.
- Under extended contract, settlement period was 12 months.

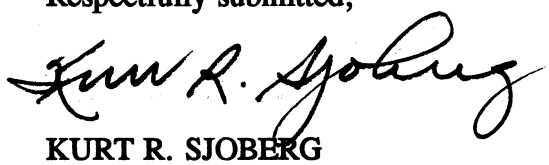
Figure 2

The termination of the contract in this example occurs on July 1, 1995, and the district reaches a settlement based on the remaining 12 months of the CEO's contract. Assuming that the district would have renewed the original contract, upon its expiration, for a new four-year term had it not negotiated the early four-year renewal, we may conclude that the early contract extension has been financially beneficial for the district. In short, the settlement under the early extension contract is 12 months while the settlement under the alternative four-year renewal at June 30, 1994, would have been 36 months.

In this instance, the conclusion that the early renewal and extension has been financially beneficial for the district is based completely on the hypothetical four-year renewal. Since each contract is unique and the circumstances governing renewal or termination vary, one cannot state with certainty that any particular early renewal and extension is or will be financially advantageous for a district. In 11 of the 17 termination settlements that followed early renewals and extensions of contracts in our sample, whether early renewal and extension had a beneficial, adverse, or neutral effect on the amount of cash settlements can only be speculated upon. In any case, one can presume that, when entities renew and extend their superintendents' or CEOs' contracts early, they have no expectation of terminating the contract early. Instead, they do so for reasons that they consider beneficial. Further, the circumstances that ultimately determine whether the early renewal and extension of the contract was a costly or beneficial decision are difficult to predict at the time of renewal.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



KURT R. SJOBERG
Auditor General (acting)

Date: January 21, 1992

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Appendix A Board Members Who Opt To Receive Retirement Benefits

Most community college districts and some school districts, county offices of education, and special districts that we surveyed offered retirement benefits to members of their governing boards. Specifically, 84.5 percent of the 58 community college districts, 36.4 percent of the 88 school districts, 41.2 percent of the 51 county offices of education, and 9.7 percent of the 258 special districts responding to our survey offered retirement benefits to their governing board members. These retirement benefits included retirement stipends, medical benefits, dental benefits, vision benefits, and life insurance benefits. The following table shows the number of governing board members who opted to receive retirement benefits in each type of local district and in the county offices of education that responded to our survey.

Number of Governing Board Members Who Opted To Receive Retirement Benefits

	Retirement Stipends[1]	Medical Benefits	Dental Benefits	Vision Benefits	Life Insurance Benefits	Other Benefits
School Districts						
Largest	23	0	0	0	6	0
Large	18	8	8	8	0	0
Medium	8	2	1	1	0	0
Small	4	0	0	0	0	0
Total	**53**	**10**	**9**	**9**	**6**	**0**
Community College Districts	**108**	**39**	**25**	**18**	**9**	**1**
County Offices of Education	**15**	**13**	**10**	**9**	**12**	**0**
Special Districts						
Largest	22	4	0	0	0	0
Large	15	1	1	1	0	0
Medium	0	2	2	0	2	0
Small	28	4	1	1	0	0
Large Transit	12	2	2	2	2	0
Other Transit	0	0	0	0	0	0
Total	**77**	**13**	**6**	**4**	**4**	**0**

Note: This table contains data on individuals who served as governing board members since January 1, 1986.

[1] This column includes the number of board members for whom local districts and county offices of education made contributions to retirement stipends in their most recent years of service on governing boards.

Appendix B Requirements for Retirement Benefits Eligibility

Community college districts, school districts, county offices of education, and special districts that offered retirement benefits to their governing board members sometimes imposed significant requirements for benefit eligibility. For example, governing board members sometimes were required to serve a minimum number of years in office before they could be eligible to receive retirement benefits. In addition, local districts and county offices of education sometimes required board members to meet minimum age levels. Governing board members were also sometimes responsible for paying all or a portion of the cost of retirement benefits offered to them.

The following table provides information about the local entities in our survey that imposed minimum eligibility requirements for board members' retirement benefits. The table in this appendix contains the number of local entities that offered each type of retirement benefit, the number that paid for each type of retirement benefit on behalf of their board members, the number and percentages that imposed a minimum service requirement, the number and percentages that imposed a minimum age requirement, and the number and percentage that required governing board members to pay for all or a portion of their retirement benefits. This appendix includes information for each type of retirement benefit, including retirement stipends, medical benefits, dental benefits, vision benefits, and life insurance benefits.

Eligibility Requirements for Various Retirement Benefits

	Entities Offering Stipends	Entities Paying Stipends	Entities With Minimum Service Requirement	Percentage With Minimum Service Requirement[1]	Entities With Minimum Age Requirement	Percentage With Minimum Age Requirement[1]	Entities With Board Members Sharing Cost	Percentage With Board Members Sharing Cost[2]
Retirement Stipends Based on Compensation								
School Districts	17	12	16	94.12%	16	94.12%	16	94.12%
Community College Districts	29	26	28	96.55	28	96.55	25	86.21
County Offices of Education	4	4	2	50.00	4	100.00	2	50.00
Special Districts	15	11	15	100.00	13	86.67	7	46.67
Total	**65**	**53**	**61**	**93.85%**	**61**	**93.85%**	**50**	**76.92%**
Medical Benefits								
School Districts	26	4	24	92.31%	9	34.62%	15	57.69%
Community College Districts	47	21	44	93.62	19	40.43	7	14.89
County Offices of Education	18	7	17	94.44	7	38.89	3	16.67
Special Districts	23	9	22	95.65	15	65.22	6	26.09
Total	**114**	**41**	**107**	**93.86%**	**50**	**43.86%**	**31**	**27.19%**
Dental Benefits								
School Districts	19	3	17	89.47%	2	10.53%	10	52.63%
Community College Districts	34	14	30	88.24	13	38.24	9	26.47
County Offices of Education	15	5	13	86.67	6	40.00	4	26.67
Special Districts	14	5	14	100.00	7	50.00	1	7.14
Total	**82**	**27**	**74**	**90.24%**	**28**	**34.15%**	**24**	**29.27%**
Vision Benefits								
School Districts	15	3	15	100.00%	2	13.33%	8	53.33%
Community College Districts	22	9	21	95.45	11	50.00	6	27.27
County Offices of Education	10	4	10	100.00	4	40.00	2	20.00
Special Districts	6	3	6	100.00	1	16.67	0	0.00
Total	**53**	**19**	**52**	**98.11%**	**18**	**33.96%**	**16**	**30.19%**
Life Insurance Benefits								
School Districts	8	1	8	100.00%	0	0.00%	4	50.00%
Community College Districts	15	5	15	100.00	6	40.00	1	6.67
County Offices of Education	8	4	5	62.50	2	25.00	2	25.00
Special Districts	6	3	5	83.33	2	33.33	1	16.67
Total	**37**	**13**	**33**	**89.19%**	**10**	**27.03%**	**8**	**21.62%**
Other Retirement Benefits								
School Districts	2	0	2	100.00%	0	0.00%	1	50.00%
Community College Districts	2	1	2	100.00	1	50.00	0	0.00
County Offices of Education	1	0	1	100.00	1	100.00	0	0.00
Special Districts	1	0	1	100.00	1	100.00	0	0.00
Total	**6**	**1**	**6**	**100.00%**	**3**	**50.00%**	**1**	**16.67%**

[1]These percentages were derived by dividing the number of entities with a requirement by the number of entities that offered the retirement stipends.
[2]These percentages were derived by dividing the number of entities with board members sharing the cost by the number of entities that offered the retirement stipends.

cc: Members of the Legislature
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