

2021 – 2022 KERN COUNTY GRAND JURY

**SISC – SELF-INSURED
SCHOOLS OF CALIFORNIA**

A Joint Power Authority

April 12, 2022

SISC

Self-Insured Schools of California

A Joint Powers Authority

SUMMARY:

The Self-Insured Schools of Kern (SISK) was created in 1978 (later changed to Self-Insured Schools of California [SISC]), to stem the spiraling cost of insurance for Kern County School Districts. Its underlying philosophy is, *Schools Helping Schools*. SISC is a Joint Powers Authority administered by the Kern County Superintendent of Schools (KCSOS). Originally established to handle districts exclusive to Kern, other districts within California soon asked to join. Today SISC is a multi-billion dollar joint powers government agency with hundreds of participating public-school entities.

SISC self-insures and indemnifies, but it is not an insurance company. It pays out claims in the areas of Workers' Compensation, Property and Liability, and Health and Welfare Benefits. Their goal is: *To provide the best coverage and service to our members while keeping costs affordable and stable.*

PURPOSE OF INQUIRY:

SISC is a group of Joint Powers Agencies that has never been investigated by the Grand Jury. California Penal Code §925a states, *The grand jury may at any time examine the books and records of any incorporated city or joint powers agency located in the county.* To that end, the 2021-2022 Kern County Grand Jury (Grand Jury) conducted an investigation into the operations and functions of SISC.

METHODOLOGY:

The Grand Jury conducted interviews with SISC officials and attended several board meetings. Also reviewed, were internet websites, budgets, audits and publications produced by SISC. Allied research on California Joint Powers Agency formation law was also conducted.

DISCUSSION OF FACTS:

The Joint Exercise of Powers Act, as codified in California Government Code §6500, governs Joint Powers Authorities which allows two or more public agencies to jointly exercise common powers. Forming these agencies establishes a creative approach to providing services. Joint Powers are utilized when government agencies formally agree to pool their resources to solve a problem or provide a service or achieve a shared goal. Additionally, they equip public agencies with the means to provide services efficiently and in a cost-effective manner.

Joint Powers Agreements are written documents outlining the purpose, terms and other legal aspects of the contract. They are created in an agreement that is completely separate from the member agencies. A Joint Powers Authority is a legally created entity that is often used interchangeably with the title, Joint Powers Agency, and are both governed by the Joint Powers Agreement. In this report, the acronym JPA will primarily be used for Joint Powers Agencies.

Self-Insured Schools of Kern was created in 1978. On July 17, 1996, the name was officially changed to Self-Insured Schools of California. When examining SISC, one is not looking at one JPA but three:

- SISC I, Workers' Compensation Program
- SISC II, Property and Liability Program
- SISC III, Health and Welfare Benefits Program

SISC I, WORKERS' COMPENSATION PROGRAM:

SISC I was formed July 1, 1978, and currently has 93 California public school entities. It covers 36,000 employees in 13 counties and operates the system with 36 employees. SISC I is funded by school district budget contributions; employees are not charged. Additionally, SISC I serves as the third party administrator for the Bakersfield City School District and the Kern High School District who are not part of the JPA and operate their own stand-alone Workers' Compensation Program.

SISC I, as all Workers' Compensation Programs, are governed by strict California law and are audited by the state every five years. On June 5, 2017, SISC I underwent an extensive routine audit by the Division of Workers' Compensation Audit and Enforcement Unit and passed with zero administrative penalties. SISC I was scheduled for another audit on March 21, 2022.

SISC I covers the first \$1 million; claims exceeding this are then covered, up to statutory limits, by a contracted excess carrier. Each member district is fully covered for work related injuries sustained by district employees. Additionally, in 2007 SISC I created a Medical Provider Network (MPN) which focuses on managed care to treat employees' injuries. The MPN has a pool of 4,000 physician and ancillary care providers across the state who are properly credentialed and vetted by SISC I.

Additionally, the independent financial report dated June 30, 2021, SISC I financial highlights reflect:

- *Total revenues were \$24,717,077 a decrease of 11.40% from the previous year of \$27,897,757. Premiums decreased 1.37% due to a slight decrease in the average funding rate from \$1.56 in 2019/2020 to \$1.55 in 2020/2021 and a decrease in district payroll. The base rate increased from \$1.05 in 2019/2020 to \$1.06 in 2020/2021. The \$1.06 base rate is at the recommended 50% confidence level. Investment income decreased 98.93% from the previous year. The return on investment in the bond market was lower this fiscal year. Administrative contract income increased 9.29% due to an increase in the rates for the self-insurance contracts.*

- *Total expenses were \$16,431,128 down 19.66% or \$4,021,019 from the previous year. This is due to the downward unpaid claims liability adjustment of \$3,778,344. The unpaid claims liability decrease is related to the COVID-19 pandemic. Due to the stay-at-home orders, the claim frequency was down significantly. Claims paid decreased, \$1,285,626 or 8.92%. The continued decrease is related to the COVID-19 pandemic. District employees were largely working from home during most of the fiscal year.*
- *Unpaid claims liability for the program decreased from \$56,666,228 at the beginning of the year, to \$52,887,884 at year-end as based on information provided by the most recent actuarial report. The SISC I program continues to be funded at the 90% confidence level for unpaid claims liability.*

For additional financial information, **see Appendix A: SISC I Balance Sheets and Statements of Revenues, Expenses and Changes in Net Position.**

SISC II, PROPERTY AND LIABILITY PROGRAM:

SISC II was established July 1, 1979, and currently serves 157 member public school agencies in 19 counties throughout California. SISC II serves approximately 400,000 students and its total insured value is in excess of \$12.8 billion. SISC II is funded by contributions from participating school entity budgets.

SISC II is a self-administered risk management program with a wide range of coverages for vehicles, general liability and property exposures. Per SISC II, *Our organization focuses its efforts towards the best possible services to our members in the area of Claims Management, Safety and Loss Control, and Student Accident Coverage.* SISC II saves money for its members by utilizing an in-house staff of 15 — hence, bypassing vendors. SISC II also saves money for its members by its implementation of aggressive claims management. SISC II covers the first \$250,000 for property claims, \$2 million for liability claims and \$2.25 million for sex abuse claims. In excess of this, SISC II contracts with outside providers for claims up to \$150 million for property claims and \$38 million for liability claims.

An important challenge SISC II faces is incorporating, into its management plan, claims filed for child sex abuse due to the passage of California Assembly Bill 218. On January 1, 2020, AB 218 was passed. It extends the statute of limitations to file claims for sex abuse cases to 22 years from the date the plaintiff attains the age of majority or within five years of the date the plaintiff discovers or reasonably should have discovered, that the psychological injury or illness occurring after the age of majority was caused by sexual assault, whichever is later. The full effect this will have on SISC II has yet to be determined.

Per the independent financial report dated June 30, 2021, SISC II financial highlights reflect:

- *Total revenues were \$39,074,364, up 9.83% from the previous year total of \$35,576,252. The increase is related to an increase in premiums of 15.16% and a decrease in investment income of 82.74%. The districts saw rate increases for property, liability and auto. Investment income decreased due to lower performance in the bond market.*

- *Total expenses were \$27,375,274, a decrease of 13.99% from the previous year or \$4,454,576. The decrease in expenses is mostly due to a decrease in claims paid and an increase in excess insurance premiums. The adjustment to the unpaid claims liability was down 22.84% from the previous year. The unpaid claims liability adjustment is based on the most recent actuarial study. The current study required an increase of \$2,007,614 to the liability. This increase is related to the passage of Assembly Bill 218 and the resulting large projected outstanding losses. Excess insurance premiums were up 20.03% over the previous year. This is due to the increase in high dollar claims being paid by the excess carriers throughout the insurance industry.*
- *The total unpaid claims liability on the Balance Sheet increased from \$48,271,276 at the beginning of the year, to \$50,278,890 at year-end. SISC II employed AON Risk Consultants, Inc. to conduct the annual actuarial review. Unpaid claims liability is funded at the 90% confidence level at June 30, 2021.*

For additional financial information, **see Appendix B: SISC II Balance Sheets and Statements of Revenues, Expenses and Changes in Net Position.**

SISC III, HEALTH AND WELFARE BENEFITS PROGRAM:

SISC III was established October 1979, and is the largest public school JPA in the United States. SISC III, with a staff of 30, serves 460 educational agencies in 40 counties and has a membership of approximately 360,000 covered employees. SISC III is funded by school district contributions, and it saves money for its members by administering the program and keeping costs low. SISC III offers a wide range of health benefits plans and options providing coverage to its clients. The pooling effect of the JPA gives SISC III bargaining leverage with health care vendors to negotiate for the best affordable rates. In essence, SISC III hires the health care carriers, i.e. Kaiser, Anthem Blue Cross, and rents their network of providers. SISC III has found this is the most cost effective way to provide coverage.

According to the independent financial audit dated September 30, 2020, ...SISC III establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expense) that have been reported but not settled, and of claims that have been incurred but not reported...SISC III also offers its members certain value-added services such as COBRA administration and the SISC Flex program (an IRC 125 cafeteria plan)...

Per the independent financial report dated September 30, 2020, SISC III financial highlights reflect:

- *Total revenues were \$2,639,716,772, an increase of 5.87% from the previous year or \$146,414,097. The change in revenues is attributable to:*
 - a) An increase in premiums of 5.94%. The increase is a result of a slight increase in rates for medical and pharmacy rates. Premiums account for 99.48% of total revenues for the SISC III program.*
 - b) A decrease in investment income of \$861,111 or -5.93% due to slightly lower rates of return in the bond market.*

- *Total expenses were \$2,482,489,489, an increase of 2.95% from the previous year or \$71,156,317. The change is a result of the following:*
 - a) *A slight increase in claims paid of \$16,716,664 or 0.95%. This is related to program growth.*
 - b) *An increase of \$64,308,119 or 11.73% in purchased insurance due to growth in the HMO programs.*
 - c) *Disbursements to credible districts were \$11,129,280. This number will fluctuate depending on district requests.*
 - d) *The adjustment to paid claims liability decreased \$9,797,896 or -103.45%. This large downward adjustment was due to claims paid being lower than originally projected. The COVID-19 pandemic caused medical provider offices to see fewer patients, which effected claims payments.*

- *The Balance Sheet reflects the following changes:*
 - a) *Total assets are up \$150,238,115 from 2019 to 2020 or 20.19%. This increase is mainly due to claims paid being less than expected and premiums collected being more than expected, leading to using less cash than anticipated. \$40 million was transferred from cash to investments during the fiscal year.*
 - b) *Other assets increased in the current year due to additional pre-funding deposits being required by providers. Receivables also increased due to an increase in pharmacy rebates.*
 - c) *Liabilities decreased \$6,989,168 from 2019 to 2020 or -3.22%. This is due to a decrease in accounts payable, the unpaid claims liability, and deferred premiums. Due to the COVID-19 pandemic claims payable were down, fewer districts paid their premiums in advance, and expected claims payments decreased. An actuarial study was performed as of September 30, 2018.*

For additional financial information, **see Appendix C: SISC III Balance Sheets and Statements of Revenues, Expenses and Changes in Net Position.**

At each Board meeting, SISC discusses investments and investment performance results. Any surplus funds that are available are invested in the following vehicles:

- Kern County Treasury
- Local Agency Investment Fund (LAIF)
- The following investment management accounts:
 - Reinhart Partners
 - Morgan Stanley
 - Wells Fargo Advisors

SISC's investment portfolio and results are made readily available to the public.

The Grand Jury noted the following:

- A. SISC offices are located at the Larry E. Reider Education Center, 2000 K Street, Fifth Floor, Bakersfield, California.
- B. All SISC personnel are employees of the Kern County Superintendent of Schools.
- C. SISC I, SISC II and SISC III each have Joint Powers Authority founding documents. Each system has its own Bylaws.
- D. Each system has a governing Board of Directors, and each has specifics as to who shall sit on the Board so that all areas in California outside of Kern County are represented.
- E. All Board members are public school employees and elected by JPA members. Board members are elected to serve three-year staggered terms.
- F. The Bylaws state, *The Board shall have as its chairman the Kern County Superintendent of Schools or his designee unless another chairman is elected by the majority vote of the total membership of the Board.* The Chief Executive Officer is the Chairman of all three Boards and is appointed by KCSOS.
- G. It is common for various Board members to serve on more than one board. Per the Bylaws of each JPA, to reach a quorum, *a majority of members* must be present. Voting by proxy is not allowed.
- H. Board meetings are held at the SISC office in Bakersfield and members from other counties travel to Bakersfield for the meetings. During the height of the COVID-19 pandemic, meeting attendance was facilitated via ZOOM. As of March 8, 2022, ZOOM attendance is no longer used and SISC has resumed with in-person board meetings.
- I. There is one Chief Executive Officer and one Chief Financial Officer for all three JPAs. Each SISC JPA has a Senior Executive and a Coordinator.
- J. On its website SISC has made available, Board Agendas as well as financial information. It also includes SISC podcasts, which provide current information on legal affairs, mandates, government codes, COVID-19 impact, etc.
- K. Board of Director Meetings for all three SISC JPAs are advertised and agendas are posted. Printed agendas are available at the meetings. Recently attended meetings revealed quorums were met and the Chairman allowed ample time for public comment.
- L. The SISC website does not provide Board monthly meeting minutes. Upon request, minutes are available via email.

- M. A review of various Board meeting minutes indicated no complaints from the public.
- N. There are additional valued added programs that SISC provides its membership. The programs include an IRS Section 125 Flex Plan, a GASB 45 Trust, an Investment Pool and a Defined Benefit Plan. The SISC Defined Benefit Plan is a qualified pension plan for part-time, seasonal employees, who are not participating in any other retirement plan of the employer, county or state, i.e., CalPERS and CalSTRS. More information on these programs is available on the SISC website.
- O. The three SISC JPA systems are financially independent of one another and maintain separate funds with the Kern County Treasurer. Ethical barriers and standard accounting practices are in place to prevent the comingling of funds. Additionally, each JPA founding document treats each as a separately funded agency.

FINDINGS:

- F1. SISC displays a well-designed, user-friendly website, sisc.kern.org that is maintained by the KCSOS.
- F2. Board meetings for all three SISC JPA systems are run in an organized, timely and businesslike manner. No violations of the Ralph M. Brown Public Meeting Act were noted.
- F3. The practice of having the same Chairman (the SISC CEO) for all three SISC board meetings, although unusual, works very well. All three SISC JPA systems are adequately served and there does not appear to be conflicts of interests between the three systems.
- F4. All three SISC JPA systems are above-board in their effort to be transparent and accountable to their JPA members.

COMMENTS:

The Grand Jury would like to thank SISC officials and staff for their cooperation with interviews, information and documentation requests. All Grand Jury requests were met in a timely and professional manner.

The Self-Insured Schools of California is a tremendous organization that provides a valued service to member school entities in Kern County and throughout California. It is a shining point of pride for Kern County, in that something as valuable and well organized as SISC originated and is based here. In investigating Joint Powers Authorities in general, SISC has proved to be the model of what a JPA ought to be, and is. *Schools Helping Schools* — SISC answers the call.

RECOMMENDATIONS:

At this time, the Grand Jury has no recommendations.

NOTES:

- The Self-Insured Schools of California should post a copy of this report where it will be available for public review.
- Persons wishing to receive an email notification of newly released reports may sign up at: www.kerncounty.com/grandjury
- Present and past Kern County Grand Jury Final Reports and Responses can be accessed on the Kern County Grand Jury website: www.kerncounty.com/grandjury

RESPONSES ARE REQUIRED PURSUANT TO CAL. PENAL CODE § 933, SUBD. (C) AND 933.05 WITHIN 90 TO:

- **PRESIDING JUDGE**
KERN COUNTY SUPERIOR COURT
1415 TRUXTUN AVENUE, SUITE 212
BAKERSFIELD, CA 93301
- **FOREPERSON**
KERN COUNTY GRAND JURY
1415 TRUXTUN AVENUE, SUITE 600
BAKERSFIELD, CA 93301

Reports issued by the Grand Jury do not identify individuals interviewed. Cal. Penal Code § 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Grand Jury.

APPENDIX A:

**SELF-INSURED SCHOOLS OF CALIFORNIA
WORKERS' COMPENSATION PROGRAM (SISC I)**

BALANCE SHEETS
June 30, 2021 and 2020

	2021	2020
ASSETS		
Cash and cash equivalents (Note 2)	\$ 16,770,149	\$ 20,203,577
Investments (Note 3)	85,898,613	78,239,258
Premiums receivable	6,573,685	6,402,974
Other receivable	29,916	60,489
Prepaid insurance	452,556	452,418
	<u>\$ 109,724,919</u>	<u>\$ 105,358,716</u>
LIABILITIES AND NET POSITION		
Liabilities		
Accounts payable	\$ 576,776	\$ 711,790
Deposit payable (Note 4)	437,451	443,839
Unpaid claims liability (Note 7)	52,887,884	56,666,228
	<u>53,902,111</u>	<u>57,821,857</u>
Contingencies (Note 6)		
Net Position	55,822,808	47,536,859
	<u>\$ 109,724,919</u>	<u>\$ 105,358,716</u>

See Notes to Financial Statements.

**SELF-INSURED SCHOOLS OF CALIFORNIA
WORKERS' COMPENSATION PROGRAM (SISC I)**

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Years Ended June 30, 2021 and 2020**

	2021	2020
Operating revenues:		
Premiums	\$ 24,055,997	\$ 24,389,588
Investment income	31,503	2,932,128
Administrative contract income	629,577	576,041
	<u>24,717,077</u>	<u>27,897,757</u>
Operating expenses:		
Claims paid	13,133,016	14,418,642
Unpaid claims liability adjustment	(3,778,344)	(1,151,729)
Excess insurance premiums	929,677	905,169
Rent, administrative and other (Note 5)	4,597,060	4,497,849
Other	1,549,719	1,782,216
	<u>16,431,128</u>	<u>20,452,147</u>
Change in net position	8,285,949	7,445,610
Net position, beginning	47,536,859	40,091,249
Net position, ending	<u>\$ 55,822,808</u>	<u>\$ 47,536,859</u>

See Notes to Financial Statements.

APPENDIX B:

**SELF-INSURED SCHOOLS OF CALIFORNIA
PROPERTY AND LIABILITY PROGRAM (SISC II)**

**BALANCE SHEETS
June 30, 2021 and 2020**

	2021	2020
ASSETS		
Cash and cash equivalents (Note 2)	\$ 28,223,263	\$ 18,181,635
Investments (Note 3)	42,718,827	37,324,272
Receivables	823,406	1,105,929
Prepaid insurance	3,803,697	5,401,260
	<u>\$ 75,569,193</u>	<u>\$ 62,013,096</u>
LIABILITIES AND NET POSITION		
Liabilities		
Accounts payable	\$ 856,649	\$ 1,003,876
Deferred income	-	3,380
Unpaid claims liability (Note 6)	50,278,890	48,271,276
	<u>51,135,539</u>	<u>49,278,532</u>
Contingencies (Note 5)		
Net Position	<u>24,433,654</u>	<u>12,734,564</u>
	<u>\$ 75,569,193</u>	<u>\$ 62,013,096</u>

See Notes to Financial Statements.

**SELF-INSURED SCHOOLS OF CALIFORNIA
PROPERTY AND LIABILITY PROGRAM (SISC II)**

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Years Ended June 30, 2021 and 2020**

	2021	2020
Operating revenues:		
Premiums	\$ 38,740,088	\$ 33,639,097
Investment income	334,276	1,937,155
	<u>39,074,364</u>	<u>35,576,252</u>
Operating expenses:		
Claims paid	10,157,526	15,669,023
Unpaid claims liability adjustment	2,007,614	2,601,932
Excess insurance premiums	11,856,082	9,877,721
Rent and administrative expenses (Note 4)	3,028,824	2,948,255
Other	325,228	732,919
	<u>27,375,274</u>	<u>31,829,850</u>
Change in net position	11,699,090	3,746,402
Net position, beginning	12,734,564	8,988,162
Net position, ending	<u>\$ 24,433,654</u>	<u>\$ 12,734,564</u>

See Notes to Financial Statements.

APPENDIX C:

**SELF-INSURED SCHOOLS OF CALIFORNIA HEALTH
AND WELFARE BENEFITS PROGRAM (SISC III)**

**BALANCE SHEETS
September 30, 2020 and 2019**

	2020	2019
ASSETS		
Cash and cash equivalents (Note 2)	\$ 493,468,103	\$ 410,387,539
Investments (Note 3)	292,585,784	246,456,208
Receivables (Note 4)	78,865,094	61,037,119
Other assets (Note 5)	29,399,857	26,199,857
	<u>\$ 894,318,838</u>	<u>\$ 744,080,723</u>
LIABILITIES AND NET POSITION		
Liabilities		
Accounts payable	\$ 47,320,953	\$ 52,375,357
Deposits payable (Note 6)	9,316,080	8,736,080
Deferred premiums	3,715,521	5,903,209
Unpaid claims liability (Note 9)	149,764,124	150,091,200
	<u>210,116,678</u>	<u>217,105,846</u>
Contingencies (Note 8)		
Net Position	<u>684,202,160</u>	<u>526,974,877</u>
	<u>\$ 894,318,838</u>	<u>\$ 744,080,723</u>

See Notes to Financial Statements.

**SELF-INSURED SCHOOLS OF CALIFORNIA HEALTH
AND WELFARE BENEFITS PROGRAM (SISC III)**

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

Years Ended September 30, 2020 and 2019

	2020	2019
Operating revenues:		
Premiums	\$ 2,626,057,424	\$ 2,478,782,216
Investment income	13,659,348	14,520,459
	<u>2,639,716,772</u>	<u>2,493,302,675</u>
Operating expenses:		
Claims paid	1,774,026,137	1,757,309,473
Purchased insurance	612,690,644	548,382,525
Outside professional managers	72,595,760	69,860,859
Distributions	11,129,280	15,821,424
Unpaid claims liability adjustments	(327,076)	9,470,820
Rent and administrative expenses (Note 7)	7,555,787	6,466,549
Other	4,818,957	4,021,522
	<u>2,482,489,489</u>	<u>2,411,333,172</u>
Change in net position	157,227,283	81,969,503
Net position, beginning	526,974,877	445,005,374
Net position, ending	<u>\$ 684,202,160</u>	<u>\$ 526,974,877</u>

See Notes to Financial Statements.

August 29, 2022

Presiding Judge
Kern County Superior Court
1415 Truxtun Avenue, 2nd Floor
Bakersfield, CA 93301

We are pleased to respond to the Grand Jury's report regarding Self Insured Schools of California (SISC). We were asked to provide a response for each of the Grand Jury's findings / recommendations, and are pleased to offer the following information:

Response to Findings:

F1: *SISC displays a well-designed, user-friendly website, sisc.kern.org that is maintained by the KCSOS.*

We concur with this finding. Our website is reflective of our ongoing efforts to bring current information to the SISC membership.

F2: *Board meetings for all three SISC JPA systems are run in an organized, timely and businesslike manner. No violations of the Ralph M. Brown Public Meeting Act were noted.*

We agree with the finding. Our monthly board meetings for all three JPAs are focused on conducting SISC business in an efficient and transparent manner.

F3: *The practice of having the same Chairman (the SISC CEO) for all three SISC board meetings, although unusual, works very well. All three SISC JPA systems are adequately served and there does not appear to be conflicts of interests between the three systems.*

We agree with the finding. Although SISC operates from one site, all three JPAs function as separate entities. The overall organization can be managed by the same person without any incompatibility.

F4: *All three SISC JPA systems are above-board in their effort to be transparent and accountable to their JPA members.*

We agree with this finding as well. SISC strives to meet the needs of its membership by keeping schools as the top priority in all decision making.

Response to Recommendation:

At this time, the Grand Jury has no recommendations.

SISC acknowledges the fact that there are no recommendations put forth by the Grand Jury. We thank the Grand Jury for its analysis of our programs. Finally, we will continue to adhere to our

philosophy of "Schools Helping Schools" and we appreciate the Grand Jury recognizing that in their final report.

Sincerely.

A handwritten signature in blue ink, appearing to read "Nick G. Kouklis", with a long horizontal flourish extending to the right.

Nick G. Kouklis, CEO
Self-Insured Schools of California (SISC)

Cc: Foreman, Kern County Grand Jury
