Opinion: More red ink in El Dorado County

By Larry Weitzman

It has been a tough two months for the new CAO, Don Ashton, as he attempts to turn a lemon budget created by the inept Larry Combs into lemonade. While he wasn't given a direct order from the Board of Supervisors to cut $10 million out of the Combs budget, he has achieved about $6 million reduction.

But out of control salaries and benefits have become blight upon the county, especially considering the need for a new sheriff's facility. Budget hearings started on Sept. 12. And while our new CAO has tried to structurally balance the El Dorado County budget, the problem will remain without a significant change in direction of county policy. Helping reduce the deficit was a onetime nearly $2 million "gift" (money due) from the Red Hawk casino for a payment that was thought to be due in December 2017 that will actually be received in December 2016.


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And another piece of "good" news was a potential reduction in the interest rate to 2.375 percent currently, if the county could lock in this rate, for the proposed $61 million sheriff's facility. This would save the county about $400,000 annually over the 40-year life of the loan ($16 million total). Understand that this improvement should be voted on and approved by the citizens of EDC pursuant to a reasonable interpretation of Measure A. It should have been on the November ballot.

But that gets to the issue of the loan requirement that the county have a structurally balanced budget for the next five years. When that question was asked by the fiscally savvy Second District Supervisor Shiva Frentzen to the CAO at the end of the Sept. 12 meeting, the answer was a yes. However, the county auditor, who was also asked the same question, said while it was balanced per state law, it wasn't structurally balanced and the CAO eventually agreed with the auditor when he qualified his answer saying with the add-on budgeted items presented at this meeting, then the budget is not structurally balanced meaning that revenues will be exceeded by ongoing operating expenses.

Interestingly there was little said about "operating efficiencies" which was such a large topic of recent BOS meetings. But it was discussed with respect to one item brought to the attention of the BOS by the county auditor. The county is underbilling for county development services charged by the Community Development Agency both in the hours charged and the hourly rate to developers. CDA head, Steve Pedretti, brought the hourly rate issue to the BOS about six months ago and got a rate increase from $100/hour to $119/hour for planners in the Development Services Division. These are charges billed to developers for county services necessary for their projects.

However, there are still issues of whether this and other billing rates are sufficient as well as billing for appropriate amounts of time that are charged back to developers. The county auditor was concerned that we are still under billing and "that long range planning staff is not charging all the hours that it should to specific billable projects." The recovery of this money from developers could amount to hundreds of thousands of dollars annually "and reduce the need for General Fund support to the CDA." Hopefully, CDA will within a few weeks recommend a series of improved billing practices to recapture this significant "found money."

The elephant in the room is still the cost of salary and benefits. For four years ending with the fiscal year of June 30, 2013, the county salary and benefits were virtually identical for each of those years at $118 million. Since then salary and benefits have grown like star thistle to $132 million the next year, continuing to $152 million for the year ended on June 30, 2016. The last budget projection for FY 15-16 produced in May 2016 estimated salary-benefits at $156 million, so it came in about $4 million less primarily from unfilled vacant positions. Our new CAO has held the line on new positions or employee additions for FY 16/17 effectively at zero new General Fund employees. That is good, but even still the new salary-benefits budget projection is $168 million. The real total should be at year's end more like $160 million or maybe slightly less based on vacant positions, which are budgeted along with actual filled positions. That will mean that the growth in salary-benefits in just four years will be $42 million.

Our chief financial officer projects the salary-benefits growth at 4.5 percent annually. Currently there are ongoing negotiations for a new contract as the prior 15 percent raise contract ended on June 30, 2016. In that contract most EDC employees received raises they were not asking for in that they were looking for 9 percent. Instead of a raise with respect to this new contract, maybe there should be a 3 percent give back, 1 percent a year. That would go a long way to reach fiscal sanity in EDC and stop the enormous salary growth.

Additionally, the other growing bubble is pension benefits. CalPERS has had two bad years relative to their investments and that may give rise to rapidly increasing pension cost contributions. County contribution requirements are three-times higher than the federal Social Security requirements for private employers (about 18.7 percent versus 6.2 percent). And that number is rising. And for public safety employees the rate is almost six time higher (about 36 percent versus 6.2 percent). This is a serious problem which needs a thorough examination. The final component of the salary-benefits issue is health care. South Lake Tahoe City Manager Nancy Kerrey is a noted expert on reducing these costs. Maybe someone should ask for a meeting. Maybe there are some savings available there.

But while our new CAO attempts to work his extensive knowledge and magic to control the budget, the EDC BOS could give him some general direction on cutting the budget and then let him do his job. As an aside, the BOS has authorized at least $2 million from the Missouri Flat Master Circulation & Funding Plan for road maintenance. That is a great idea if it’s legal to do so. County counsel is to prepare a legal opinion regarding the legality of such a transfer. I am not so sure.

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