Opinion: Frugality a necessity in EDC

By Larry Weitzman

On Dec. 28, the El Dorado County Board of Supervisors gave its residents a huge, new obligation of about $2.3 million annually.

EDC is borrowing about $57 million to pay for the building of new sheriff’s facility on some land off of Missouri Flat Road in Placerville which was purchased about a year ago, at a cost of about $2.7 million for this specific purpose. There is little question that a new sheriff’s facility is needed, but at what cost? Whether it would be $30 million or $60 million, there is no question of the need.


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What appears to be the problem is how are we going to pay for it? There is no question that this is a very low cost loan deal at a 2.38 APR with a 40-year amortization term when compared to current home loan interest rates which have “ballooned” to 4.5 percent recently. If this deal, which was approved at this BOS meeting by a 5-0 vote, had gone into next year, the loan rate would have increased by a full percentage point. The BOS was advised at the meeting that this increase would cost EDC another $600,000 a year annually in interest and a total cost of $24 million over the life of the 40-year loan. Actually, because it is a fully amortized loan, while the first year might cost an additional $600,000, the last year it would be almost zero, so the total additional interest cost would be about $12 million.

The problem is how is EDC going to pay for this? The budget is already stretched to the limit if not already underwater. But with this new loan simultaneously also comes a new, even greater obligation foisted upon us by CalPERS, which is the administrator of EDC's retirement system.

With our $600 million plus retirement account came the bad, but more realistic move by CalPERS last month of lowering of the "discount" rate (from 7.5 to 7 percent) which is the projected rate of return of EDC's retirement fund. This is the result of at least two very bad years where the actual rate of return fell to 2 percent and then to 0.6 percent. Many experts think the discount rate should be reduced to at least 6.5 percent or even 6 percent. But the effect of the one-half percent lowering of the rate alone will equate to an additional $3 million annual cost to EDC's annual expenditure starting in a couple of years. This is on top of the $2.3 million created by the new EDC long term obligation, but CalPERS additional funding spending was already going to increase by a total of $61 million over the next six years which now becomes more like $75 million of additional spending over the next six years. Up until now, EDC had no long-term debt. Now it will have an additional annual expenditure of over $5 million.

But wait, there is more significant future obligations coming due. First are the long-term county obligations of funding the health care costs of county retirees. Nothing has been set aside for these known costs and the unfunded liability is estimated to be approaching $63 million, a bill that is coming due and which is unplanned for.

Also, unaccounted for are the fiscally failing rural fire districts. While El Dorado Hills Fire is sitting in fat city and flush with money, mostly because of their initially generous Assembly Bill 8 rate, the rest of the 10 or so districts are in dire straits (no offense to the rock group of the same name who sang “Money for nothing”). El Dorado County Fire is sustaining itself via cutbacks, but the other small, rural districts have bleak futures without EDC involvement. Where will those millions of dollars come from?

More unplanned for expenditures are deferred EDC maintenance of its facilities. And then there is road maintenance of EDC’s over 1,000 miles of county maintained roads. In the past, this obligation has been funded by General Fund money of $1 million to $3 million a year, but with a BOS edict recommended by prior CAO Larry Combs, General Fund road maintenance was suspended by the BOS. While it has been reinstated, it was done so in name only by the current BOS as their plan is to take $2 million from the MC & FP which will be difficult at best as described in a prior column. Combs also said in the recruitment bulletin for the new CAO that EDC was in strong financial condition and that the F/Y 2015-16 budget was structurally balanced. That’s what you get when you hire a carpetbagger who has no interest in our county and a CAO (Combs) that the BOS doesn’t vet.

All of these fiscal problems, issues and more were laid out in a four-page letter dated Dec. 28, 2016, and made part of the hearing’s public record to the BOS from the county watchdog and head accountant, Joe Harn. It can be seen and read on the Legistar for the meeting.

BOS members said the usual platitudes about taking on this new EDC obligation, Supervisor Brian Veerkamp saying, “We will be up against the wall in other areas;” “Kick the can down the road Ranalli” did kick the can by saying “Harder decisions will have to be made in the future.” Maybe Supervisor Michael Ranalli should be trying out as a punter for the 49er’s (no offense meant regarding their already dismal season). Supervisor Sue Novasel made the brilliant remark, “The way we can grow is by growing the revenue." No suggestions were made of cutting the red tape for business, however. The BOS's true fiscal conservative, Shiva Frentzen, remarked that "…must watch every penny we will spend. I will be even more frugal." We will have to see what newly elected Supervisor John Hidahl will do.

Newly minted CAO Don Ashton perhaps summarized the situation best when he said we all know we need a new sheriff's facility, but "this loan … will make things difficult … and some will be painful decisions. We are paying for prior decisions, it's a situation we all inherited because of (a prior) failure to plan and save money."

While CAO Ashton is saddled with the here and now, it was the BOS' failure to direct prior administrative staff for more austerity. They had plenty of warning not only from my columns over the past three years, but from the Auditor-Controller who continually said for at least the past three and a half years that there was going to be a painful, fiscal train wreck. Three and a half years ago, EDC ended the fiscal year with a $54 million cash balance, almost the exact amount of this new loan.

Ashton knows what to do; spending must be cut. The BOS should direct the CAO to do what is necessary to make EDC fiscally sound with the least detrimental effect on EDC residents. It can be done as in the city of South Lake Tahoe recently. Residents should feel no pain because of the BOS' bad prior decisions.

Larry Weitzman is a resident of Rescue.