



COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

KATHERINE J. MARTINIS, CPA
Auditor-Controller
E-mail: kmartin1@placer.ca.gov

ANDREW C. SISK, CPA
Assistant Auditor-Controller
E-mail: asisk@placer.ca.gov

MEMORANDUM

To: Honorable Board of Supervisors
From: Katherine J. Martinis, Auditor-Controller and
Thomas Miller, County Executive Officer
Submitted by: Therese Leonard, Principal Management Analyst
Date: August 1, 2006
Subject: Board approval of FY 2005-06 budget revisions to complete the accounting transactions for the fiscal year and allocation of new funding and cancellation of funding to various designation accounts.

Recommendations:

1. Board approval of budget revisions necessary to complete the accounting transactions for the fiscal year ending June 30, 2006 (Attachment 1).
2. Board approval to allocate \$141,420 to the designation for fixed asset acquisition in FY 2005-06 that resulted from interest earned on the Capital Improvement Securitization Fund.
3. Board approval to increase funding to the following designations in order to comply with Board adopted *Budget and Financial Policies*:
 - \$1,540,105 designation for economic uncertainties, and
 - \$3,323,782 designation for fixed asset depreciation.
4. Board approval for a new designation of \$1.5 million to provide future match funding requirements to procure State, Federal and other funding for bridge, road, etc. projects.
5. Board approval to increase the designation for contingency of \$3,576,748 in the Workers Compensation Fund.
6. Board approval of the following actions that relate to Other Post Employment Benefits:
 - a. Approve the budget revision that moves \$10 million from the designation for other post employment benefits (OPEB) out of designations and into a County trust account in order that those funds can earn interest
 - b. Approve the budget revision in the amount of \$347,708 to the trust account that represent interest earnings on the \$10 million noted in "a" above during FY 2005-06.
 - c. Approve the budget revision that adds funding to the County trust in response to GASB Statement No. 45 related to other post-employment benefits (OPEB) in the amount of \$10 million dollars.

Background / Discussion:

Each year, it is necessary to make estimated revenue and budgeted appropriations adjustments at year-end to comply with the requirements of the county budget act and appropriations limits set by Proposition No. 4. To complete the accounting transactions for the fiscal year ending June 30 the final budget revision for Health and Human Services administration is fully funded from increased revenue, the Veteran's Services appropriation increase was offset by a reduction in the General Fund's operating appropriation for contingency (Attachment 1).

The FY 2006-07 Proposed Budget provided for current operations but did not include additions to reserves. To promote financial stability, and to maintain the funding levels necessary to adhere with adopted County policies, the County Executive Office is requesting a redirection of a portion of the FY 2005-06 budget savings to various designations (Attachment #2). Although the proposed action could be deferred until adoption of the FY 2006-07 Final Budget, taking this action now will immediately restore the reserves established by the Board in past years and provide a solid policy and financial basis for the Board's consideration of the Final Budget. It should be noted that once the proposed action has been taken, the Board may opt to cancel these reserves in the Final Budget process and redirect the funds to specific projects or programs. The proposed action will have no impact on the FY 2006-07 Proposed Budget approved by the Board in June 2006. Sufficient funds are available to address the critical needs staff anticipates the Board will wish to consider in the FY 2006-07 Final Budget, which will be discussed in detail during the budget workshops later this month.

Capital Project Securitization Interest

The Capital Project Securitization Fund earned interest revenue of \$141,420 during FY 2005-06. The terms and conditions of the bond issuance, for which this fund was established, do not allow this fund to accumulate interest. As a result, these interest earnings revert to the General Fund. Consistent with the purpose of the Securitization Fund, and past years accounting practice, staff recommends that these revenues be allocated for building projects in lieu of being treated as general-purpose revenue. Staff recommends that your Board augment the capital reserves by \$141,420, the full amount of interest earned in the Capital Projects Securitization Fund in FY 2005-06.

Placer County Budget and Financial Policies

The Placer County Budget and Financial Policies adopted by your Board incorporate recommendations from the Government Finance Officers Association and National Advisory Council on State and Local Budgeting, and promote financial stability and long term planning.¹ While the FY 2006-07 Proposed Budget provided sufficient funding for current operations, it did not include additions to critical reserves. To that end, as part of the year-end closing process, staff recommends augmentations to various reserve accounts to maintain compliance with our adopted policies.

- The County strives to provide for a General Reserve and Designation for Economic Uncertainty that, when combined, is about 5% of the General Fund annual operating budget. Adhering to that policy requires a \$1,540,105 augmentation, which was not provided for in the Proposed Budget given unknowns related to the State budget and other funding constraints. With the adoption of the State budget and completion of the operating year, staff recommends that your Board augment the designation by this

¹ The Government Finance Officers Association recommends the development and implementation of financial policies to guide the creation, maintenance, and use of government resources. Adopted policies enhance an organizations financial control by providing direction to decision makers, streamlines the decision-making process, and assists governments to avoid the hazards of a short-term horizon for decision-making. The National Advisory Council on State and Local Budgeting further recommends that these policies address stabilization funds, the use of one-time revenues, and contingency planning.

amount. This reserve will bolster the County's overall financial posture and insure there is a prudent level of funding in case of catastrophic events or significant economic shift.

- Annually, the County strives to augment the equipment and building reserves in an amount equal to the annual depreciation expense. Adhering to that policy would have required a \$3,323,782 augmentation in FY 2005-06. Similar to the above recommendation, staff asks that your Board augment the designation for fixed asset depreciation by this amount. These funds will advance the County's effort to build criminal justice, health and human service, libraries and other government facilities needed to serve our growing County and replace our aging infrastructure.

Infrastructure

County staff has identified a number of bridge and road projects that need to be undertaken over the next decade. Given the significant cost related to these projects, staff will pursue outside funding sources such as State, Federal and other grant/funding sources. Typically these grants require an in-house "match" of funds be made by the requesting agency to apply against the total project cost. To that end, staff are requesting that your Board begin to set aside \$1.5 million per fiscal year into a designation account that would be made available for grant match requirements.

Other Post-employment Benefits (OPEB)

In FY 2007-08 GASB 45, a new public sector accounting standard, will be implemented that relates to benefits provided for retirees other than pensions². GASB 45 attempts to more fully represent the full liability of OPEB by requiring governmental agencies to include the amount of these long-term liabilities in their financial statements. Most agencies, including Placer County, pay for OPEB costs due in the current year with no assets set aside to fund future benefit costs. GASB 45 establishes a framework for funding the long-term liabilities associated with OPEB. The amounts required to fund OPEB, on an actuarially sound basis, will significantly exceed the current annual pay-as-you-go outlays for these benefits.

Last year your Board minimized the future impact of GASB 45 by proactively setting aside \$10 million in anticipation of the future contributions that will be required to fund OPEB. These funds were placed in a designation that did not earn interest. As a result, staff are requesting that these funds be transferred to a County "trust fund" where they can begin to earn interest (\$10,000,000). Staff also requests that you allocate an additional \$347,708 to that trust fund to represent interest earned for FY 2005-06. At some future date, probably in FY 2007-08 when the OPEB obligation will be recorded in the County's financial statements, these funds will be transferred outside the County to an investment trust to maximize earning potential. This investment option is not available at this time, and is in the process of being developed by agencies such as CalPERS.

In addition, staff are again asking that your Board set aside an additional \$10 million to continue to prefund the liabilities associated with the required GASB 45 implementation at 2007-08 fiscal year-end.

Workers Compensation

The Placer County Budget and Financial Policy adopted by your Board provides guidance that the reserves for self-insurance funds be actuarially determined and the reserve level should be maintained at the 80% confidence level for net estimated losses. The actuarial review completed by Bickmore Risk Services in April 2006 places the Workers Compensation liability for outstanding claims at \$13.3 million (85% confidence level). The report further recommends that an amount in

² OPEB mainly relate to retiree health care benefits, but can also include life insurance and other benefits.

addition to the discounted expected loss costs be set aside as a margin for contingencies. Currently, Placer County's Workers Compensation liability account contains \$16.9 million. As a result, staff are recommending that the liability account be reduced to meet the 85% confidence level of the actuarial report and that \$3.57 million be reallocated to the Workers Compensation designation for contingency.

Fiscal Impact:

In accordance with Govt. Code sections 29000 through 29144, all budget revisions between appropriations, of over-expended appropriations, of additional revenues, and for fixed assets or capital projects require your Board's approval. The attached year-end budget revisions were covered by increased revenue to offset the expenditure and do not require additional County resources.

The funding additions to various designations promotes Placer County's financial stability and, in addition, maintains the funding levels necessary to adhere with adopted County policies. This action will have no impact on the FY 2006-07 Proposed Budget adopted by the Board of Supervisor's in June 2006 as prior year budget savings will fund the request.

Attachments

Attachment #1

**Fiscal Year 2005-06
Final Budget Revisions**

<u>Appropriation Title</u>	<u>Increase Appropriation</u>	<u>Revenue Increase</u>
HHS Administration	\$ 48,758	\$ 48,758

<u>Appropriation Title</u>	<u>Increase Appropriation</u>	<u>Decrease Another Appropriation To Offset</u>
Veterans Service Officer	\$ 25,000.00	\$ 25,000.00

General Fund Recommended Designations and Reserves

Attachment #2

Description	Balance at June 30, 2006	%	Recommended Changes	Revised Balance	%	Reserve's Intended Use
Advances Receivable & Other	\$ 3,959,993	6%	\$ -	\$ 3,959,993	6%	General Fund loans to other agencies / will be repaid in a future fiscal year. Also includes reserves for inventories, imprest cash, compensated leave and contingencies.
Other Post Employment Benefits	10,000,000	16%	(10,000,000)	-	0%	Partial funding for "set aside" related to the unfunded liability for retiree health and life insurance. Move to a County trust.
General Reserve	4,314,212	7%	-	4,314,212	7%	Emergency response / State declared disaster *
Economic Uncertainties	10,318,881	17%	1,540,105	11,858,986	19%	Shortfall in revenue / unexpected increased costs*
Capital Outlay	28,581,591	46%	3,465,202	32,046,793	52%	Buildings & equipment replacement **
Infrastructure Match	-	0%	1,500,000	1,500,000	2%	Funding for State and Federal match requirements for bridges & roads.
Automation	493,883	1%	-	493,883	1%	Upgrade automation **
Future Occurrence	4,120,528	7%	-	4,120,528	7%	Public assistance / medical services / caseload increase
Totals:	\$ 61,788,886			\$ 58,284,193		

Notes:

* Per Finance and Budget Policy, the two category of reserves should equal 5% of General Fund Operating Budget (less capital outlay and budgeted contingencies).

** Dedicated to fund the Capital Facility Financing Plan for buildings and automation.

BUDGET REVISION

POST DATE:

DEPT NO.	DOC TYPE	TOTAL LINES
10 BR	Total \$ Amount	2
	50,000.00	

Cash Transfer Required
 Reserve Cancellation Required
 Establish Reserve Required

Auditor-Controller
 County Executive
 Board of Supervisors

ESTIMATED REVENUE ADJUSTMENT										APPROPRIATION ADJUSTMENT											
DEPT NO.	T/C	Rev	Fund	Sub Fund	OCA	PCA	OBJ'S	PROJ.	PROJ. DTL	AMOUNT	DEPT NO.	T/C	Rev	Fund	Sub Fund	OCA	PCA	OBJ'S	PROJ.	PROJ. DTL	AMOUNT
											23	014				002310	990VS	2555			25,000.00
											10	015				19990		5600			25,000.00
										TOTAL											
										0.00											
										50,000.00											

REASON FOR REVISION: Year end budget revision to balance Veterans Dept Budget for FY 2005-06

Prepared by Cathy R. Cross Ext 4087
 Department Head *[Signature]*
 Board of Supervisors

Date: 7/19/06
Page:

Budget Revision # FOR INDIVIDUAL DEPT USE

75

BUDGET REVISION

AP 13 F.Y. 05-06

FAS DOCUMENT NO.

POST DATE: 20061301

DEPT NO.	DOC TYPE	Total \$ Amount	TOTAL LINES
14 BR		97,515.82	2

Cash Transfer Required
 Reserve Cancellation Required
 Establish Reserve Required

Auditor-Controller
 County Executive
 Board of Supervisors

ESTIMATED REVENUE ADJUSTMENT										APPROPRIATION ADJUSTMENT											
DEPT NO.	T/C	Rev	Fund	Sub Fund	OCA	PCA	OBJ'S	PROJ.	PROJ DTL	AMOUNT	DEPT NO.	T/C	Rev	Fund	Sub Fund	OCA	PCA	OBJ'S	PROJ.	PROJ DTL	AMOUNT
14	006	100	100		994200	94200	6869			48,757.91	14	014	100	100	994200	94200	1005				48,757.91
										TOTAL											
										48,757.91											

REASON FOR REVISION: To appropriate additional unbudgeted Emergency Medical Services Processing revenue in HHS Admin-42000 and increase the

appropriation for Overtime and Call Back in the same amount in order to keep total expenditures within appropriation for year-end close.

F.Y. 05-06

Prepared by Loi Haskins Ext 1833
 Department Head _____
 Board of Supervisors _____
 Date: 7/27/06
 Page: 1

Budget Revision # _____ FOR INDIVIDUAL DEPT USE

BUDGET REVISION

- Cash Transfer Required \$20,347,780.00 (From fund 100 to Fund 370/600)
 - Auditor-Controller
- Reserve Cancellation Required \$20,347,780.00 (Fund 100 - 2420/662000)
 - County Executive
 - Board of Supervisors
- Establish Reserve Required

Dept Doc No. Type	Total \$ Amount	Total Lines
10 BR	\$20,347,780.00	1

ESTIMATED REVENUE ADJUSTMENT						APPROPRIATION ADJUSTMENT													
Ref. No.	Dept No.	T Code	Rev	OCA	PCA	OBJ L-3	Proj. No.	Dtl	AMOUNT	Dept No.	T Code	Rev	OCA	PCA	OBJ L-3	Proj. No.	DRI	AMOUNT	
1	10	014								10	014		100700		3780			20,347,780.00	
2																			
3																			
4																			
5																			
6																			
7																			
8																			
9																			
TOTAL										TOTAL									
										0.00									

REASON FOR REVISION: To move OPEB dollars into the trust account from the designation for OPEB.

Distribution: _____ Date: _____
 All copies to Board of Supervisors
 Auditor Auditor-Controller
 Rev 9/1/66
 Budget Revision # _____

