



COUNTY OF PLACER

AUDITOR-CONTROLLER
& COUNTY EXECUTIVE

KATHERINE J. MARTINIS, CPA
Auditor-Controller

THOMAS M. MILLER
County Executive Officer

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 7, 2007
Subject: Board approval of FY 2006-07 budget revisions to complete the accounting transactions for the fiscal year, and the allocation of new funding to reserves and the Other Post Employment Benefits trust.

Recommendations:

1. Board approval of budget revisions necessary to complete the accounting transactions for the fiscal year ended June 30, 2007 (Attachment 1).
2. Board approval to allocate \$696,119 to the designation for fixed asset acquisition in FY 2006-07 that resulted from interest earned on the Capital Projects Securitization Fund.
3. Board approval to increase funding in the amount of \$975,484 to the designation for economic uncertainties in order to comply with Board adopted *Budget and Financial Policies*.
4. Board approval of 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 \$5 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 the Dental and Vision Fund is fully funded from increased revenue (Attachment 1).

The FY 2007-08 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 2006-07 budget savings to the designation for economic uncertainties (Attachment #2). Although the proposed action could be deferred until adoption of the FY 2007-08 Final Budget, taking this action now will immediately restore the General Reserve level of 5% 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 2007-08 Proposed Budget approved by the Board in June 2007. Sufficient funds are available to address the critical needs staff anticipates the Board will wish to consider in the Final Budget, which will be discussed in detail during the budget workshops later this month.

Capital Projects Securitization Interest

The Capital Project Securitization Fund earned interest revenue of \$696,119 during FY 2006-07. 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 \$696,119, the full amount of interest earned in the Capital Projects Securitization Fund in FY 2006-07.

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 2007-08 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 \$975,484 augmentation, which was not provided for in the Proposed Budget given unknowns related to the State budget and other funding constraints. With the completion of the operating year, staff recommends that your Board augment the designation by this 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.
- Unlike past years, the County will not be augmenting the equipment and building reserves in an amount equal to the annual depreciation expense. Adhering to that policy would have required a \$3.3 million augmentation in FY 2006-07. Given the current economic climate, and final budget operation funding needs, staff will not be asking your Board to augment the capital reserves. As a result, less funding will be available to 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

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.

that end, last year your Board set aside \$1.5 million that would be made available for grant match requirements. While staff is not making a request for funding this year, we hope to augment this fund at the end of the next fiscal year.

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.

Over the last two years your Board minimized the future impact of GASB 45 by proactively setting aside \$10 million each year in anticipation of the future contributions that will be required to fund OPEB. In addition, in FY 2006-07 the County began to charge appropriations a percent for every dollar of payroll paid that is set aside for OPEB. To date, \$28 million has been collected and placed in a County "trust fund" which earns interest. Staff will return to the Board this fall to request approval to establish an investment trust with CalPERS. The Finance Committee developed a plan to address the ongoing OPEB required contribution. To that end, beginning with FY 2007-08 the County will begin to make annual OPEB contributions to the CalPERS trust in accordance with an actuarial evaluation. The County's current obligation is estimated at \$25.9 million per year based upon a 30 year amortization and 7.75% discount rate.

In keeping with "plan" requirements staff is again asking that your Board set aside an additional \$5 million to continue to pre-fund the liabilities associated with the required GASB 45 implementation.

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 2007-08 Proposed Budget adopted by the Board of Supervisor's in June 2007 as prior year budget savings will fund the request.

Attachments

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

Attachment #1

**Fiscal Year 2006-07
Final Budget Revisions**

<u>Appropriation Title</u>	<u>Increase Appropriation</u>	<u>Revenue Increase</u>
Dental & Vision Fund	\$ 265,000	\$ 265,000

General Fund Recommended Designations and Reserves

Attachment #2

Description	Balance at June 30, 2007	%	Recommended Changes	Revised Balance	%	Reserve's Intended Use
Advances Receivable & Other	\$ 4,015,106	7%	\$ -	\$ 4,015,106	7%	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.
General Reserve	4,314,212	8%	-	4,314,212	8%	
Economic Uncertainties	11,858,786	21%	975,484	12,834,270	23%	
Capital Outlay	31,046,794	55%	-	31,046,794	55%	
Infrastructure Match	1,500,000	3%	-	1,500,000	3%	
Automation	493,883	1%	-	493,883	1%	
Future Occurrence	2,945,526	5%	-	2,945,526	5%	
Totals:	\$ 56,174,307			\$ 57,149,791		

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.

PLACER COUNTY

PAS DOCUMENT NO.

PC AUDITOR-CONTROLLED BUDGET REVISION

POST DATE: 2007 JUL 27 IP 2:42

DEPT NO.	DOC TYPE	Total \$ Amount	TOTAL LINES
17	BR	530,000.00	2

Auditor-Controller
 County Executive
 Board of Supervisors

Cash Transfer Required
 Reserve Cancellation Required
 Establish Reserve Required

ESTIMATED REVENUE ADJUSTMENT										APPROPRIATION ADJUSTMENT												
DEPT NO.	T/C	Rev	Fund	Sub Fund	OCA	PCA	OBJ 3	PROJ.	PROJ. DTL	AMOUNT	DEPT NO.	T/C	Rev	Fund	Sub Fund	OCA	PCA	OBJ 3	PROJ.	PROJ. DTL	AMOUNT	
17	006	270	850	270	850	000030	14008	8785		265,000.00	17	014	270	850	000030	14008	3923				265,000.00	
										TOTAL											TOTAL	265,000.00

REASON FOR REVISION: Increase Revenue and Expenditures for Dental/Vision Internal Service fund for FY 2006/2007.

Prepared by Karen Mayer Ext 4059
 Department Head [Signature]
 Board of Supervisors

Date: 7/27/07
 Page:

Budget Revision #

PLACER COUNTY
BUDGET REVISION

PAS DOCUMENT NO. _____

- Cash Transfer Required \$ 5,000,000.00 (From fund 100 to Fund 370/600)
- Reserve Cancellation Required \$5,000,000 (Fund 100 - 2410)
- Establish Reserve Required

Auditor-Controller
 County Executive
 Board of Supervisors

Dept No.	Doc Type	Total \$ Amount	Total Lines
10	BR	\$5,000,000.00	1

ESTIMATED REVENUE ADJUSTMENT						APPROPRIATION ADJUSTMENT											
Ref. No.	T Code	Rev	OCA	PCA	OBJ L-3	Proj. No.	DUI	Dept No.	T Code	Rev	OCA	PCA	OBJ L-3	Proj. No.	DUI	AMOUNT	
1								10	014		100700		3780			5,000,000.00	
2																	
3																	
4																	
5																	
6																	
7																	
8																	
9																	
TOTAL													0.00		TOTAL		5,000,000.00

REASON FOR REVISION: To move OPEB dollars into the trust account from unrestricted / undesignated for OPEB.

Department Head *[Signature]*
 Board of Supervisors
 Auditor-Controller

Date: _____
 Page: _____
 Budget Revision # _____

Distribution:
 All copies to Auditor
 Rev 9/14/88

