Board of Supervisors
Strategic Planning Agenda
March 18, 2008

1. Arrival	8:00	
2. Introduction and Goals	8:30	Tom Miller Holly Heinzen
3. Budget Overview a. Update since January b. Initial Assumptions for 2008-09 c. Department Submitted Base Budgets / What is Included i. General Fund Recommendations 1. Revenues 2. Expenditures 3. Recommended Contributions d. Historical Trending	8:40	Jeff Bell
4. Health and Human Services	9:00	Bekki Riggan
5. Public Safety a. Santucci Justice Center Update	9:20	Bekki Riggan
6. Land Use a. Road Fund b. Road Projects c. CDRA	9:40	Allison Carlos
7. General Fund Budget Projection Model	9:55	Therese Leonard
8. Break	10:10	
9. Board Priorities / Implementation Status a. Methamphetamine Project Update b. Helicopter c. Placer Legacy d. Biomass e. Snow Removal	10:30	Various Presenters
10. Budget Challenges, Options and Discussion a. Budget Reduction Options b. Budget Priorities	11:00	Board and Staff Discussion
11. Board Discussion and Wrap Up	11:30	
12. Adjourn	12:00	

Revenue Budget vs. Actual
Two Year Comparison
As of February 29

	FY 2006-07			FY 2007-08		
	Budget	Revenue Received at 2/29	% of Bud.	Budget	Revenue Received at 2/29	% of Bud.
General Fund	327,347,288	173,177,627	53%	345,773,666	175,868,554	51%
Public Safety Fund	109,249,931	60,552,894	55%	119,786,464	69,279,247	58%
Other Funds	192,422,032	39,796,355	21%	280,024,483	44,946,390	16%

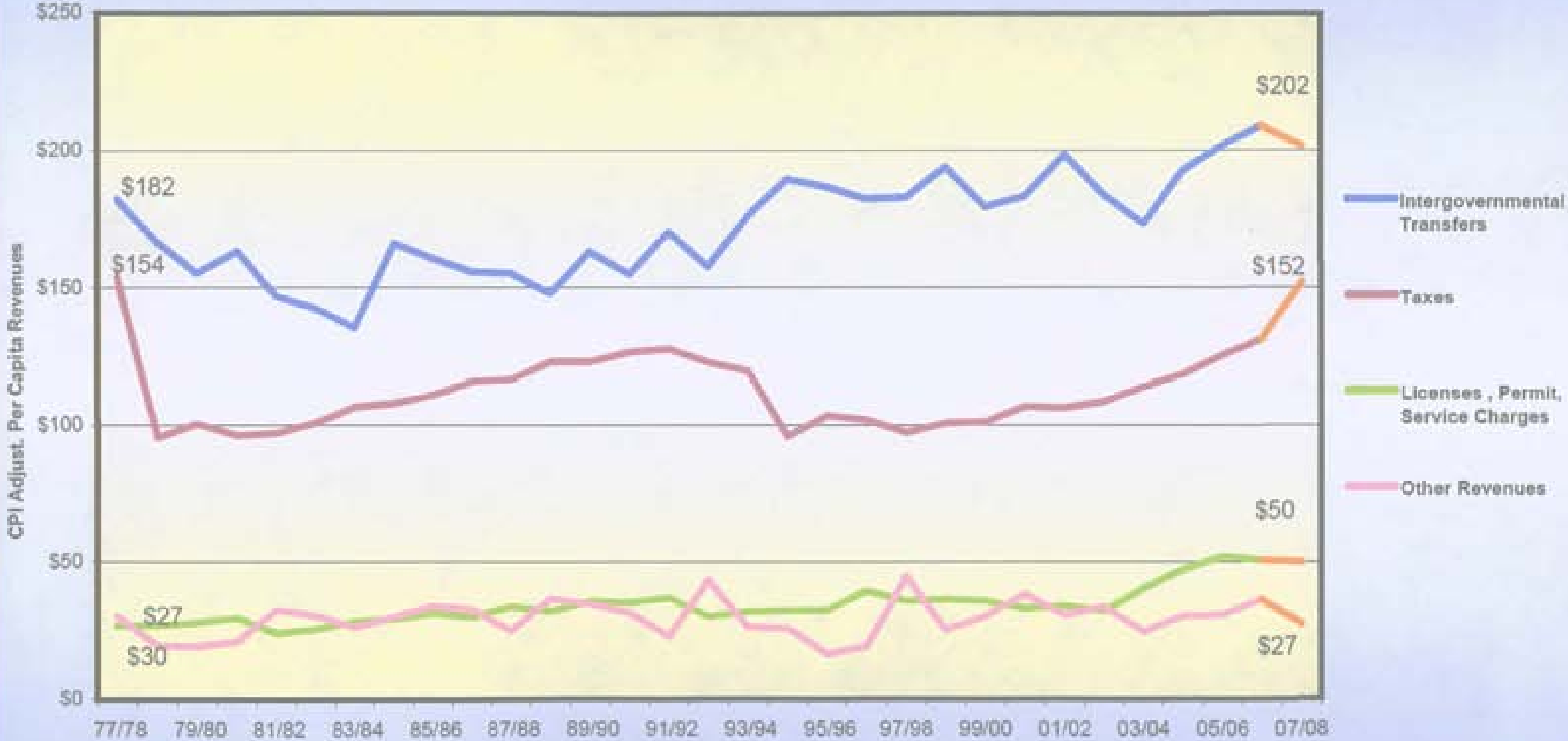
Expenditure Budget vs. Actual Two Year Comparison As of February 29

	FY 2006-07			FY 2007-08		
	Budget	Expenses & Encumbrances 2/29	% of Bud.	Budget	Expenses & Encumbrances 2/29	% of Bud.
General Fund	360,997,348	227,777,003	63%	382,468,803	244,355,733	64%
Public Safety Fund	117,103,842	63,527,233	54%	126,717,826	71,708,244	57%
Other Funds	233,352,974	82,768,299	35%	329,899,164	78,559,682	24%

(Tab 1) Page 2

PER CAPITA REVENUE

FY 1977-78 through FY 2007-08

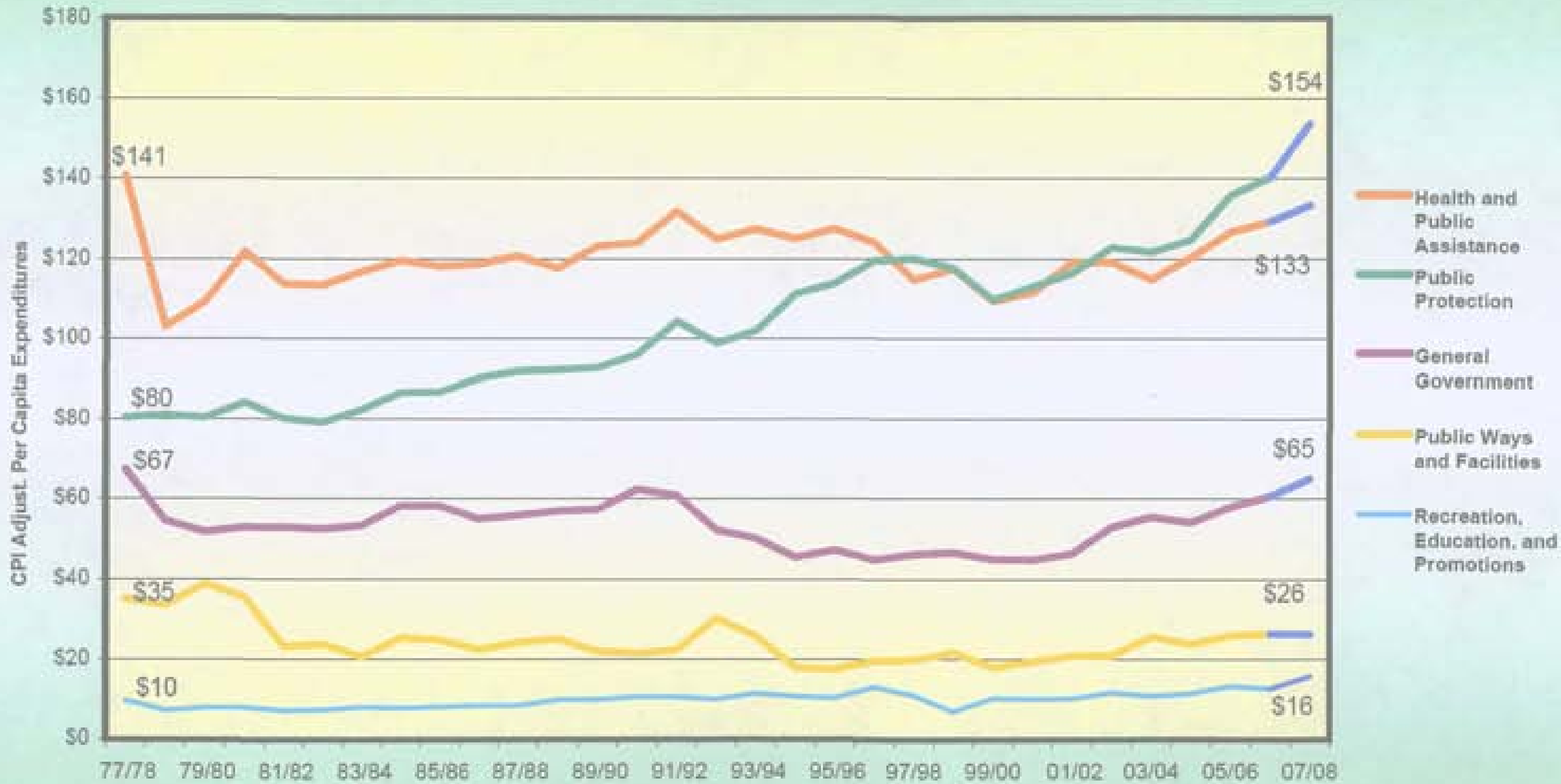


Placer County revenues are by major type, on a per capita basis, and CPI adjusted from FY 1977-78 through FY 2007-08. County taxes have never returned to the 1977-78 pre-Proposition 13 level on a per capita, CPI adjusted basis.

07-08 data (represented by the orange line) is budgeted data, the prior data points are actual receipts.

PER CAPITA OPERATING EXPENDITURE

FY 1977-78 through FY 2007-08



Placer County expenditures are by major government function on a per capita basis, adjusted for CPI. Only two functional categories, public protection and recreation, education and promotions are higher today than in 1977-78.
Health and Public Assistance includes Veteran's Services and Community Grants and Loans

Increased Sources:	$ 31,878,597	$ 19,455,659	$ (3,421,832)	
Uses				
Labor	$ 17,170,850	$ 11,591,204	$ 2,317,729	$168.9 million
Retiree Costs	835,327	2,901,648	2,017,264	Retiree health and dental
Supplies & Other (net)	1,909,411	49,760	(7,372,121)	
Building Fund	6,198,680	(5,071,500)	(8,081,666)	
Road Fund	300,000	-	(1,150,000)	Reduced 50%
Open Space Fund	78,750	74,410	(701,580)	Reduced 50%
Public Safety Contribution	4,327,920	11,110,593	8,452,752	$3m new + overhead increase + Sales Tax /State Shortfall
Library Fund	98,650	105,234	217,103	
Operating Contingencies	1,313,508	(1,338,273)	911,270	$6 million
New Reserves	(354,499)	32,583	(32,583)	General reserve & infrastructure s/b $6.1
Increased Uses:	$ 31,878,597	$ 19,455,659	$ (3,421,832)	
Balance:	$ -	$ -	$ -	

COUNTY BUDGET / Year End Adjustments:

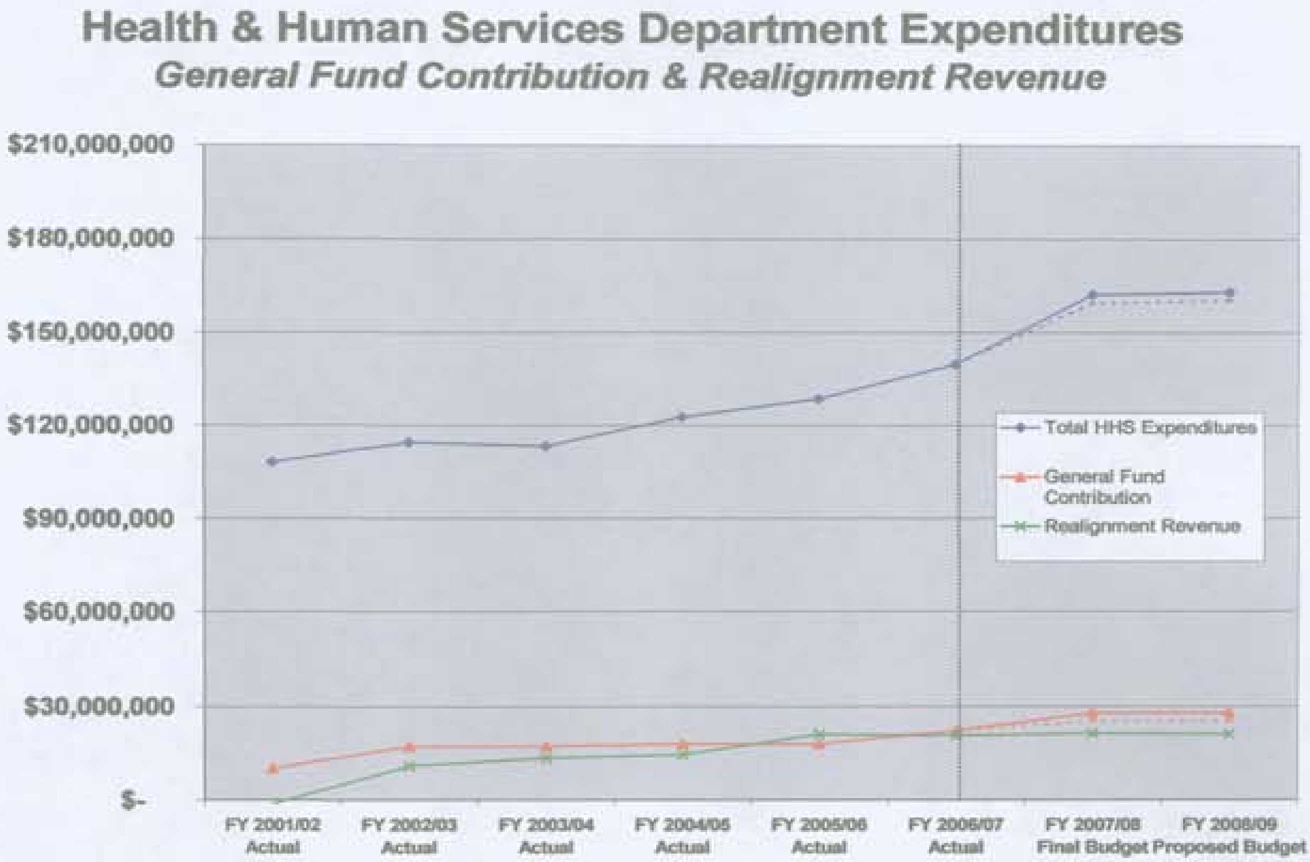
	FY 05-06	FY 06-07	FY 07-08	FY 08-09
General Reserve	$ 1,540,105	$ 975,484	$ 500,000	$ 500,000
Fixed Asset Reserve	3,465,202	696,119	500,000	500,000
Infrastructure Match	1,500,000	-	1,500,000	1,500,000
Trust & Reserve:	$ 6,505,307	$ 1,671,603	$ 2,500,000	$ 2,500,000
OPEB Budget to Trust	10,347,708	5,000,000	-	-
Total:	$ 16,853,015	$ 6,671,603	$ 2,500,000	$ 2,500,000

Note:
Staff will ask the Board of Supervisors, at the end of FY 07-08 and 08-09, to set aside additional reserves if funding is available.

BOS Strategic Planning Discussion
HHS

I. Historical Context

- o Review of recent funding trends for Health and Human Services



This graph depicts total Health and Human Services expenditures in comparison to State Realignment Revenues and County General Fund contribution.

- o Not depicted here are Other Department Revenues such as Grants and State/Federal Aid for required programs.
- o A spike in the trend line from FY 2006/07 forward is exacerbated by two factors:
  - A transition from Actual to Budgeted numbers, and;
  - A Cost Accounting shift of $2.7M GF in County IT and A-87 costs to the department to enhance State and Federal revenues

II. Health and Human Services Highlights:

- 7th Year of not receiving Cost of Doing Business (CODB) increases from the State in the following program areas:
    - Child welfare,
    - Foster care eligibility,
    - Adult protective services,
    - Adoptions,
    - Food stamps administration,
    - Cal-WORKs eligibility, and
    - In-Home Supportive Services

- California State Association of Counties (CSAC) Statewide study of the impact to counties of unfunded CODB increases (Attachment 1).
    - *7th year of roughly $5M year = $35M cumulative cost absorbed through service redesign or reductions*

- State 10% across-the-board funding reductions are anticipated to have a $2.6M impact to HHS, which could increase with the Governor's May Revise.

- Counter cyclical nature of the economy and mandated entitlement programs such as General Assistance. When economy falters revenue bases diminish and HHS caseloads typically increase. The County's cost for these mandated programs increases approximately $1M per year.

- Department anticipates receiving some new revenues in FY 2008/09 - $550k, or .3% of their total Gross Budget of $163M.

III. Steps Taken to operate within Available Funding

- Utilized private contracts to contain service costs (39% of services are provided through private contracts).

- Maximized internal billing and accounting procedures to enhance State and Federal revenues.
    - In FY 2007/08 IT costs were redirected to HHS to enhance revenue drawdown.

- Increased external/grant funding
    - Examples: FY 2005/06 HHS received two sources of additional funding -Federal Substance Abuse and Mental Health Administration (SAMSHA)

for mental health service redesign; and from the Mental Health Services Act.

- Triage of services to those with the greatest. (The number eligible for services continues to increase a percentage of population being served and depth of service provided is being reduced).

- Expanded efforts to more fully cover costs through fee adjustments
  - Animal Services
  - Clinics/public health laboratory
  - Environmental Health

IV. Impacts of Protracted Funding Constraints

- First year or two of funding impacts from flat State funding were addressed through reengineering and finding operational efficiencies.

- In recent years, programs and service levels are directly impacted with steadily increasing caseloads and waiting lists.

- In order to operate within existing revenues, including a General Fund level equal to that of last year, HHS must develop a spending reduction plan of $9.6M.

  - This year funding impacts are anticipated to trigger the need for public hearings (Bielensen) with the community.

V. Approach to Moving Forward

- Continue to identify cost reduction strategies.

- Continue to emphasize program operations in a way that maximizes state and federal funding levels.

- Continue to maximize use of alternative program delivery models, reduction and consolidation of services, and revised staffing approaches.

- Schedule a workshop with your Board to consider alternatives.

Attachment 1

California State Association of Counties

CSAC

February 6, 2008

1100 K Street
Suite 101
Sacramento
California
95814

Telephone
916.327-7500

Facsimile
916.441.5507

To: County Supervisors
County Administrators and Executives
County Public Information Officers

From: Roger Dickinson, Chair, CSAC Human Services Funding Deficit Work Group and Sacramento County Supervisor

Re: Human Services Funding Deficit Educational Effort

I am writing to urge your participation in our efforts to secure adequate state funding to remedy the human services funding deficit (formerly referred to as the "Cost of Doing Business"). As you can see from the attached county-by-county chart, this shortfall is costing counties almost a billion dollars annually.

CSAC is making the human services funding deficit a priority in 2008, and I am asking all county supervisors to elevate this important issue within your counties and among your legislative delegations. In these difficult budget times, we need to work together and fight to obtain the necessary funding to operate these state mandated programs. Your Board's midyear budget updates or legislative policy discussions are the perfect time to bring this important issue to the forefront.

State funding for programs such as child welfare, foster care eligibility, adult protective services, adoptions, food stamps administration, CalWORKs eligibility and In-Home Supportive Services administration have been frozen at 2000-01 levels, leaving counties in the difficult position of either reducing critical services or absorbing the costs of these mandated programs. In fact, the Schwarzenegger Administration estimated in May 2007 that the state should have paid counties **$835 million** more in 2006-07 just to operate these critical programs. Unfortunately, this year's budget situation is worse; the budget deficit is $14.5 billion and the Governor's January 10 proposed Budget includes additional significant cuts to county funding for administration of these programs.

In light of these recent events, one might think that our six-year battle to regain from the state the reasonable actual costs for operating these programs is now completely futile. But these lean budget times only underscore the fact that no other sector of the state's budget has been as tight as funding for social services, and that counties have been bearing the brunt of these cuts since 2001. In fact, we see an opportunity to raise this issue when the Governor talks about across-the-board cuts and equity: Where is the equity in reducing administrative funding to counties on top of huge year-over-year funding shortfalls?

The other side of the coin is to remember that a slowing economy creates higher demand for social services. Because of this, counties could be on the hook for even higher General Fund costs at the exact same time that the state, already derelict on funding since 2001, is proposing to cut the critical remaining funds we need to meet rising caseloads and increased regulatory oversight.

As county supervisors, we cannot let this situation rest. As chair of the CSAC Human Services Funding Deficit Work Group, I am asking you to immediately take three actions to help us in this fight:

Attachment 1

California State Association of Counties

1100 K Street
Suite 101
Sacramento
California
95814

Telephone
916.327-7500
Facsimile
916.441.5507

1. Educate yourself on the human services funding deficit issue by speaking with your county administrator and department heads about the impact in your county. Ask them to translate how the lack of funding directly affects services to your constituents, and place this issue on your Board agenda. Also, find out what your reasonable actual costs are and how the Governor's additional proposed cuts might further affect your local system.

2. Use the interest in your county's budget and the state's fiscal situation to raise the human services funding deficit issue during board meetings and with your constituents, legislative delegation, and local media. We have attached talking points to help you explain the significant impact the human services funding deficit is having on your county.

3. Report back to us on your actions and the reactions you receive. We will need to hear about your interaction with legislators, community groups, and the media to understand how your local experience will affect our overall effort. This will also help us to develop additional strategies as the state budget is being debated in Sacramento.

In the meantime, the Human Services Funding Deficit Work Group will continue to meet and work to frame the issue in four main areas – political, media, grassroots, and legal – so that we can develop a comprehensive action plan for counties. Your commitment and cooperation in the coming year on this issue will be critical, and I want to thank you in advance for your assistance.

We have attached two documents for your review: A quick list of each county's human services funding deficit and a one-page talking points document. I think you'll find these materials both startling and helpful. If you have questions, please contact me or Kelly Brooks of CSAC at 916.327.7500, or kbrooks@counties.org.

I want to thank you again for your attention to this important issue.

Sincerely,

Roger Dickinson
Sacramento County Supervisor

Attachments: *Human Services Funding Deficit Talking Points*
County-by-County Human Services Funding Deficit Figures

Attachment 1

County-by-County Human Services Funding Deficit for FY 2007-08

The 2007-08 human services funding deficit estimates were based on county reported costs to carry out mandated programs including Foster Care, Child Welfare Services, CalWORKs, Adoptions, and In Home Supportive Services. These costs were then compared to the funding counties received in the 2007-08 State Budget.

COUNTY	2007-08 Human Services Funding Deficit
Alameda	-34,602,403
Alpine	-318,365
Amador	-611,015
Butte	-7,395,985
Calaveras	-1,020,657
Colusa	-696,476
Contra Costa	-23,021,637
Del Norte	-1,325,218
El Dorado	-3,088,895
Fresno	-25,979,426
Glenn	-1,339,887
Humboldt	-4,584,192
Imperial	-5,715,193
Inyo	-608,471
Kern	-23,635,349
Kings	-3,233,772
Lake	-1,976,870
Lassen	-884,554
Los Angeles	-321,151,333
Madera	-3,379,009
Marin	-3,397,533
Mariposa	-713,812
Mendocino	-5,275,009
Merced	-8,079,084
Modoc	-475,846
Mono	-402,022
Monterey	-8,672,540
Napa	-1,649,407
Nevada	-1,477,791
Orange	-43,679,091

COUNTY	2007-08 Human Services Funding Deficit
Placer	-5,142,844
Plumas	-760,395
Riverside	-53,888,648
Sacramento	-55,663,330
San Benito	-1,056,886
San Bernardino	-47,258,410
San Diego	-56,355,374
San Francisco	-24,222,710
San Joaquin	-14,621,210
San Luis Obispo	-6,307,487
San Mateo	-9,992,354
Santa Barbara	-7,600,692
Santa Clara	-37,332,432
Santa Cruz	-5,710,026
Shasta	-4,513,075
Sierra	-307,300
Siskiyou	-1,286,790
Solano	-8,054,373
Sonoma	-9,127,951
Stanislaus	-12,760,794
Sutter	-2,261,864
Tehama	-2,228,706
Trinity	-587,984
Tulare	-10,848,598
Tuolumne	-1,389,088
Ventura	-11,439,282
Yolo	-4,196,786
Yuba	-3,690,729
TOTAL	**- $936,996,955**

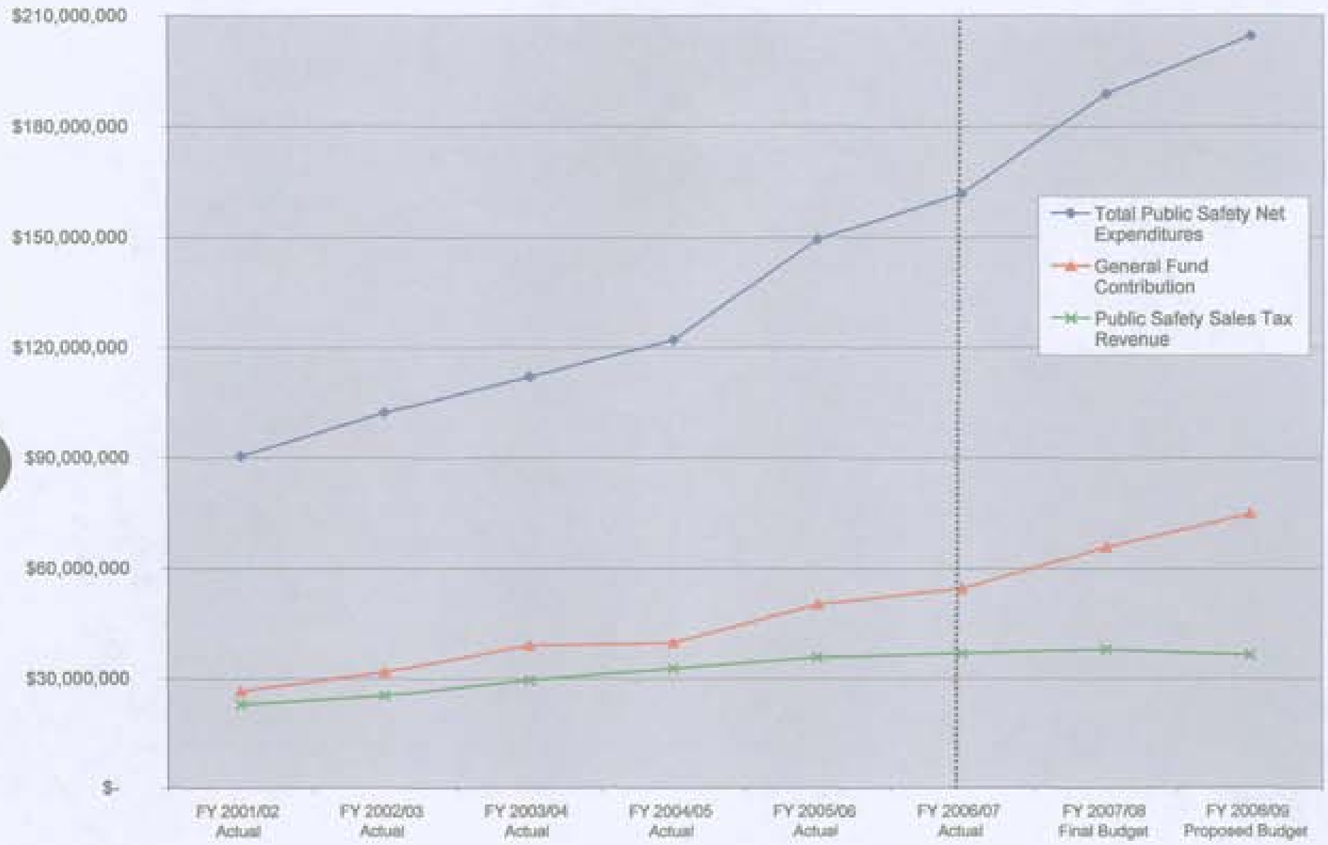
Methodology: *Estimates were developed by adding the total statewide deficits between individual county costs reported on the 2007 CODB surveys and 2007-08 allocations. The statewide amounts were then multiplied by each county's percent-to-total of the 2007-08 allocation for each program. Premises excluded by the Administration's estimate in the 2007 May Revise have been included as has the Adoptions program. Amounts are estimates and may be higher or lower than individual county estimates.*

BOS Strategic Planning Discussion
Public Safety

I. Historical Trends

- Review of recent funding needs for total Public Safety

Public Safety Expenditures
General Fund Contribution & Public Safety Sales Tax Revenue



This graph depicts total Public Safety expenditures in comparison to Public Safety Sales Tax Revenues and County General Fund contribution.

- Not depicted here are Other Revenues such as Charges for Law Enforcement Services, Penalties and Fines, Grants, and State and Federal Aid.
- The spike in the trend line from FY 2006/07 forward is exacerbated by a transition from Actual to Budgeted numbers.

II. Public Safety System Highlights

- The faltering State prison system and anticipated impact on County facilities and programs

- State funding reductions currently projected at $.5M

- Turning curve on Public Safety Sales Tax revenues
  - *Current year budget shortfall = $1.5M*

- County population growth drives increases in Countywide services
  - DA's proposed organizational changes
  - Potential need to open vacant Juvenile Detention Facility pod
  - South Placer Jail Planning Efforts
    - Cost estimates for first phase- $77M for project related costs; and $20M for annual operating costs

- Diminishing revenues at the County level limit our ability to augment departments as in prior years

III. Steps Taken to this Point

- Public Safety departments continue to work with us on cost containment efforts

- Criminal Justice Policy Committee meets monthly to discuss system needs and process improvements

IV. FY 2008-09 Department Highlights

- $13.5M in new Public Safety funding requests for FY 2008-09
  - $10.6M Cost of Doing Business increases
  - $2.9M New Requests
  - Offsets
    - $4.2M Projected Fund Balances
    - $2M Increased Revenues
      - $7.3M Net Increases Requested

- Sheriff's Department
  - $4.7M Cost of Doing Business increases (reflects $2.3M in cost savings by department)
    - *No New Requests*

- Offsets
  - $2M Department Projected Fund Balance
  - $2M Increased Revenue
    - $687K Net Increase Requested

- Probation Department
  - $2.8M Cost of Doing Business increases
    - *$673K New Requests*
    - Offsets
      - $1.6M Department Projected Fund Balance
      - No New Revenues
        - $1.9M Net Increase Requested

- District Attorney's Office
  - $3.1M Cost of Doing Business increases
    - *$2.2M New Requests*
    - Offsets
      - $600K Department Projected Fund Balance
      - No New Revenues
        - $4.7M Net Increase Requested

V. Overarching Goals in Moving Forward

- Continue to support public safety within available funding levels

- Continue to maximize use of alternative program delivery models and cost containment strategies that minimize impact to public safety

Bridge Projects

- Majority funding from Federal government ($12M)
- Requires matching contributions from County's Road Fund ($1.2M)
- Major Bridge Projects
  - Barton Road at Miners Ravine Replacement ($2.4M)
  - Foresthill Bridge seismic design ($2.0M)
  - Wise Road at N. Ravine Bridge Replacement ($1.8M)
  - Dick Cook Road Bridge Replacement ($1.8M)

Major Road Projects

- Majority of funding from Traffic Fee program ($30M)

- Major Road Projects
  - Sunset Blvd/Highway 65 Interchange ($22M)
  - Auburn-Folsom Road 4-Lane ($7.2M)
  - Horseshoe Bar Road Curve Improvement ($600K)
  - Placer Hills Shoulder Widening ($500K)
  - Overlays, Chip/Slurry Seal, Pothole Patching ($1M)

General Fund Budget Projections

Updated: 3/18/08

	2005-06 Actual	2006-07 Actual	2007-08 Final Budget	2008-09 Updated Projection	2009-10 Projection	2010-11 Projection	2011-12 Projection	2012-13 Projection	2013-14 Projection	2008 to 2014 Average ^ Estimate
Estimated Fund Balance Carryover:			$ 29,772,478	$ 22,146,848	$ 22,000,000	$ 22,000,000	$ 22,000,000	$ 24,000,000	$ 23,000,000	
Revenues:										
Taxes	$ 141,241,032	$ 156,097,056	160,551,157	165,912,901	171,580,560	177,423,151	184,934,386	197,537,507	214,387,005	5.8%
Intergovt'l Revenues	111,712,189	120,906,284	120,849,400	118,929,167	120,626,677	121,726,677	123,326,677	123,876,677	123,876,677	0.8%
Other	62,039,270	64,674,544	61,941,643	62,704,434	62,292,830	62,418,208	63,060,444	63,266,720	63,977,121	0.4%
West Placer Development Assessments	-	-	-	-	-	-	175,000	837,000	1,186,210	192.6%
Total Revenue & Carryover:	**$ 314,992,491**	**$ 341,677,885**	**$ 373,114,678**	**$ 369,693,350**	**$ 376,500,066**	**$ 383,568,036**	**$ 393,496,507**	**$ 409,517,904**	**$ 426,427,013**	3.1%
Expenditures:										
Salaries & Benefits	$ 128,577,697	$ 145,838,623	$ 164,189,623	$ 168,524,616	$ 169,222,643	$ 172,654,559	$ 174,184,697	$ 174,175,835	$ 181,924,953	1.6%
Services, Supplies & Other	119,266,830	110,200,202	119,497,380	112,552,556	113,136,708	112,081,246	110,376,712	108,517,947	110,897,231	-0.3%
Public Safety	49,005,114	53,310,103	64,420,696	72,873,448	77,873,448	82,873,448	87,873,448	92,873,448	97,873,448	6.9%
Facility & Roads	28,887,216	25,795,896	24,974,396	15,742,730	16,400,896	16,962,396	17,551,971	18,171,025	18,821,031	No cut restoration
SP Jail Operating Costs	-	-	-	-	-	-	5,676,838	23,842,720	25,034,856	SO Estimate
PS Radio System	-	-	-	-	575,000	618,000	1,056,798	1,056,798	1,056,798	Ongoing Cost
Total Uses of Funds:	**$ 325,736,857**	**$ 335,144,824**	**$ 373,082,095**	**$ 369,693,350**	**$ 377,208,695**	**$ 385,189,649**	**$ 396,720,464**	**$ 418,637,773**	**$ 435,608,318**	3.6%
Reserve Addition/(Cancel)			32,583	-	(708,629)	(1,621,613)	(3,223,956)	(9,119,869)	(9,181,305)	
Net Income/(loss):	**$ (10,744,366)**	**$ 6,533,060**	**$ -**	**$ -**	**$ 0**	**$ (0)**	**$ (0)**	**$ (0)**	**$ 0**	
Year End Reserve Adjustments	(6,505,307)	(1,671,603)	-	-	-	-	-	-	-	
Add. OPEB Contribution	(10,347,708)	(5,000,000)	-	-	-	-	-	-	-	
Reserve Balances (after year end adjustments)										
Capital Reserves	$ 32,046,794	$ 31,742,912	$ 31,742,912	$ 29,742,912	$ 29,034,283	$ 29,034,283	$ 29,034,283	$ 24,474,349	$ 19,883,697	
Other Designations & Reserves	25,555,238	26,047,883	26,135,580	26,135,580	26,135,580	24,513,967	21,290,011	16,730,076	12,139,423	
Total General Fund Reserves	$ 57,602,032	$ 57,790,795	$ 57,878,492	$ 55,878,492	$ 55,169,863	$ 53,548,250	$ 50,324,294	$ 41,204,425	$ 32,023,120	

Notes:

1. Assumes revised health sharing formula begins in January 2012 (negotiate in upcoming contract cycle). Estimated savings of $2 to $2.8 million per year for active & retiree health employer costs. The new health formula would reduce the Actuarial Report's unfunded liability by $15-20 million and the annual required contribution by $2-3 million. Target OPEB payroll charges at 15% of salary.
2. Assumes no General Fund augmentation for Health and Human Services & other funding shortfalls: FY 2009/10 $4.2 million; FY 2010/11 $5.5 million; FY 2011/12 $6 million; FY 2012/13 $6.5 million.
3. Salary increases 4% COLA per year.
4. Secured property tax growth: FY 2009/10 4%; FY 2010/11 5%; FY 2011/12 8%; FY 2012/13 10%; FY 2013/14 10%. Also applies to VLF in lieu property tax as based on assessed valuation growth.
5. HHS & other intergovernmental revenue growth: FY 2009/10 $500,000; FY 2010/11 $1.5 million; FY 2011/12 $3 million; FY 2012/13 $3.5 million; FY 2013/14 $3.5 million.
6. Sales tax 2% growth per year starting in FY 2009/10.
7. Assumes relatively flat carryover fund balance each of the 5 model years projected.
8. No contribution is included for waste water projects in the model.

General Fund Budget Projections

Updated: 3/18/08

	2005-06 Actual	2006-07 Actual	2007-08 Final Budget	2008-09 Updated Projection	2009-10 Projection	2010-11 Projection	2011-12 Projection	2012-13 Projection	2013-14 Projection	2008 to 2014 Average ^	
Placer County OPEB Analysis:											
Payroll Charges:										**Payroll Totals**	
OPEB General Fund		$ 4,047,012	$ 7,568,900	$ 8,602,494	$ 10,514,159	$ 12,425,825	$ 14,433,073	$ 15,033,073	$ 15,633,073	$ 88,257,609	58%
Other Funds OPEB		2,853,733	5,325,060	6,270,018	7,663,355	9,056,693	10,519,697	10,769,697	11,019,697	63,477,950	42%
Total New OPEB from Payroll :		$ 6,900,745	$ 12,893,960	$ 14,872,512	$ 18,177,514	$ 21,482,518	$ 24,952,770	$ 25,802,770	$ 26,652,770	$ 151,735,559	100%
Note: Assumes 80/20% formula in FY 2011/12.				9%	11%	13%	15%	15%	15%		
************											
CalPERS Trust Funding Plan:											
County OPEB Trust	$ 20,912,117	$ 33,444,428	$ 33,444,428	$ 20,418,388	$ 19,260,900	$ 9,191,286	$ 26,676	$ 1,379,446	$ 3,582,216		
Disbursement from CalPERS Trust				9,890,000	4,500,000	2,100,000					
New Payroll Funding			12,893,960	14,872,512	18,177,514	21,482,518	24,952,770	25,802,770	26,652,770		
Trust Less ARC Payment:			(25,920,000)	(25,920,000)	(32,747,128)	(32,747,128)	(23,600,000)	(23,600,000)	(22,248,144)		
County OPEB Trust Balance			$ 20,418,388	$ 19,260,900	$ 9,191,286	$ 26,676	$ 1,379,446	$ 3,582,216	$ 7,986,842		

GENERAL FUND
Base Funding Year – Projections as of 3/18/08

The General Fund Budget Model illustrates potential implications of revenue and expenditure changes on future budget cycles. The model was built with a number of candid assumptions and anticipates funding reductions that may be necessary to stay within available funding sources.

FY 2008-09 General Fund Recommended Budget (draft pending further analysis & Board direction):

Sources of Funds: $3.4 million reduction

- Slow economy; dynamic real estate market
- Estimate less carryover fund balance (pending year end close)

Uses of Funds: $3.4 million budget reductions

- Salary & benefits $4.5 higher
- Public Safety contribution $8.4 million higher ($3.4 A-87 & other, $2 million to offset revenue reductions)
- Reduced contributions, services & supplies and other costs to stay within available funding sources (does not use reserves to balance)

GENERAL FUND BUDGET MODEL

1. FY 2008-09 acts as the "Base Funding Year"
   a. Budget reductions are not restored & continue into each of the 5 years modeled:
      i. 135-160 positions from FY 2007-08 remain vacant and unfunded
      ii. Road & open space contributions continue at the 50% reduction
      iii. Capital contribution continues with $2 million reduction each year
      iv. No restoration of one-time funding reductions from FY 2007-08
   b. Anticipates slow growth, flat and / or declining revenues

2. General Fund Budget Projection Model - Assumptions
   a. Anticipates revised health sharing formula (starts FY 2011-12)
   b. Assumes that the General Fund contribution to Health & Human Services (HHS) remains flat at $28 million

i. HHS staff cost increases are excluded from the model as it is assumed the State will not fund these cost increases.

c. General Fund contribution to Public Safety constrained to $5 million new dollars per year. May result in a net reduction budget as these dollars may not fully fund cost increases.
   i. Provides for Public Safety Radio System operations (no funding included for capital outlay or debt payments)
   ii. Funding to operate the Placer County – Bill Santucci Justice Center Jail (365 beds / 3 months in year 3, then 12 months in years 4 & 5)

d. *No funding included for waste water projects.*

e. Revenue growth slower / relatively flat first 2 years due to stagnant economy, then reasonable growth in later 3 years.

3. General Fund Budget Projection Model – Program Impacts
   a. ***Expenditure growth significantly outpaces new revenues generated***
      i. To balance the budget, the General Fund may require further staff / other reductions in the Model years.
      ii. Each subsequent year, General Fund programs may receive a declining % of budget dollars.
      iii. Likely that less funding will be available for facility or road infrastructure (no cut restoration).
      iv. Will probably require the cancellation of reserves and / or carryover to fund ongoing operations (years 3 – 5).
      v. ***Structural budget imbalance begins with the new funding requirements related to the South Placer Jail.***
   b. Model assumes Public Safety will likely receive a growing % of the General Fund budget each year. **These dollars will likely not be sufficient to maintain current service levels**.
      i. Expect declines in Public Safety Sales Tax revenue over next few years due to a declining allocation % and flat / declining State sales tax revenue receipts.
   c. Health and Human Services may continue to experience a significant / real decline in service delivery if it is determined that the funding from the General Fund and State remains flat and employee costs grow. Reductions of between $4-7 million each year are expected (dollars are not budgeted in the model / assumed reductions).

Placer Methamphetamine Project Update

Through the Leadership of the Board of Supervisors, HHS developed "The Placer Meth Project" a DVD local perspective on the methamphetamine problem and community solutions distributed to over 1200 community members who attended forums in Lincoln, Auburn, Roseville, Rocklin and North Lake Tahoe. In addition the production was provided to media, schools, websites, and community newsletters. The project, coordinated by the Placer Mental Health Alcohol and Drug Advisory Board and the Placer Substance Abuse Prevention Unit resulted in collaborative efforts to reduce the effects of substance abuse in Placer County and the establishment of several community based groups who continue to meet to address this issue by working on local campaigns to reduce underage drinking and other planned activities. A campaign for parents to be responsible social hosts will be launched in April, 2008.

Town Forums Continue

Loomis Town Forum on Drug use in Placer County
April 2, 2008
6:30 PM
Del Oro High School Theater

Youth Involvement

In addition, youth forums were convened in various cities in Placer County to hear from youth their ideas on how to reduce the impact of substance abuse. As a result of these forums the youth perspective has been incorporated in the Placer Prevention Plan. A highlight of the youth involvement was the production of 5 different youth-developed DVD's addressing the problems associated with methamphetamine and other drug use. These DVD's will be released to the public in April, 2008.

The Methamphetamine Treatment Pilot

The Board of Supervisor dedicated funding to enhance the treatment opportunities for targeted women and their children. Research confirms that the length of participation in treatment is one of the best indicators for predicting long-term positive outcomes. The HHS project delivered intensive substance abuse service and community support to women with methamphetamine dependence and their families. To date, six families have been served, and early outcomes are showing most promising results. Of the first 2 graduates, the first, featured in the Auburn Journal in January, has secured employment, and is maintaining full custody of her son.

In addition, 1500 persons received helped with addiction in our county programs in the last fiscal year. **Almost 40% had a problem with methamphetamine**. Persons with addictions who entered the variety of treatment alternatives in our community most likely had tried treatment at least once before. Addiction, like many chronic and relapsing conditions (similar to smoking, diabetes and obesity) require more than one treatment attempt to achieve recovery.

Methamphetamine Update

Dr. Alex Stalcup
April 24, 2008 at The Ridge.

Dr. Alex Stalcup, MD is Board Certified in Pediatrics, certified in Addiction Medicine by the American Society of Addiction Medicine (A.S.A.M.). He will be providing specific information on the treatment of methamphetamine for law enforcement, treatment providers, family members and the community.

AS350B Helicopter Acquisition
Status Update

Timelines

- Purchase / Acquisition
  - Original Purchase Order issued to American Eurocopter in February 2007
  - Amended Purchase Order with updated cost estimates and California sales tax issued near the end of January 2008
- Delivery Date
  - Current best estimate for Airframe delivery – February 2009
  - Actual delivery date is a moving target. Delivery could happen sooner should American Eurocopter receive order cancellations from other customers in their delivery pipeline – no known openings prior to the January-March 2009 timeframe exist at this time
- Operational Date
  - Ready for Law Enforcement Service – August 2009
    - After acceptance of airframe from American Eurocopter, Airframe will be turned over to "Completion Shop" for installation of Mission Equipment (estimated between 90-120 days)

Updated Costs

- Airframe
  - Original Purchase Order issued for $2,099,160
  - Amended Purchase Order, including updated costs and California sales tax, issued for $2,338,282
- Mission Equipment
  - Original Estimate in January 2007 - $938K
  - Updated Estimate as of February 2008 - $1.5M
    - Updated estimate based on actual airframe configuration and modifications to original specifications are dictated by proposed operations
- Total Updated Cost Estimate - $3.8 million

Funding Options

- Outright Purchase Option - $3.8 million one-time payment
  - Payable within 30 days of airframe delivery
- Lease Option #1 - $640K annual payment
  - 7 year lease at 4.25%
  - First payment due approximately January 2010 (based on 2/09 delivery date)
- Lease Option #2 - $480K annual payment
  - 10 year lease at 4.25%
  - First payment due approximately January 2010 (based on 2/09 delivery date)

Placer Legacy Funding
Financial Report
As of January 31, 2008

Fund	Title	Trust & Reserve Balance
370420	Wetland Mitigation Private	340,795
370614	Open Space Preservation Trust Fund	89,581
370615	United Way Contribution to Placer Legacy	19,234
370660	Tree Preservation Fund	478,044
150	Open Space reserves	5,504,105
370420	Swainson Hawk Fund	360,000
	River Parkways Grant Program -8-06	324,770
	River Parkways Grant Program -6.07	1,487,510
370993	Martis Valley Open Space Impact Fees	249,915
	Bickford Ranch D.A. Fees	
	Total	**8,853,954**

Includes preliminary funding estimates of $3.6 million primarily for Hidden Falls Regional Park improvements

PLACER LEGACY PROGRAM SUMMARY

FY 2007-08, Issued March 2008

PLACER LEGACY

Conserving Our Land
Protecting Our Heritage

Background

The Placer Legacy Open Space and Agricultural Conservation Program was created in 2001 to implement the open space and conservation polices of the General Plan by meeting a number of objectives:

- Maintain a viable agricultural segment of the economy;
- Conserve natural features necessary for access to a variety of outdoor recreation opportunities;
- Retain important scenic and historic areas;
- Preserve the diversity of plant and animal communities;
- Protect endangered and other special status plant and animal species; and
- Separate urban areas into distinct communities, and ensure public safety.

Program Funding

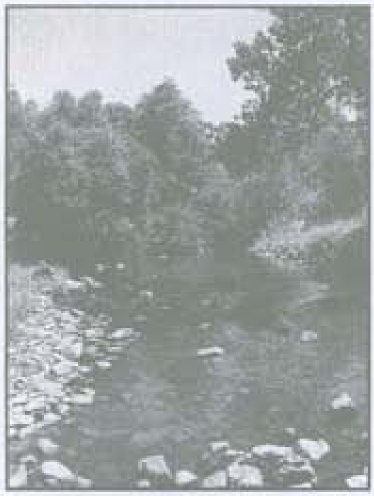
Program funding for Placer Legacy is derived from several sources including donations, grants, in lieu fees collected to mitigate the impacts of developments, the County General Fund and federal and state monies. Placer Legacy expenditures to date total over $24 million with offsetting revenues of over $12 million. Table 1 lists expenditures to date by program area.

Table 1—Through December, 2007

Cost by Program	Total Cost	Outside Funding & Reimbursement	Net County Cost
Program Start-up	$465,016	$0	$465,016
Natural Resources Activities	$3,142,422	$1,079,429	$2,062,992
Program Implementation	$20,368,046	$10,960,071	$9,407,975
Public Outreach	$753,359	$0	$753,359
Total Cost	$24,728,843	$12,039,500	$12,689,342

Several departments work to meet program objectives and implement program activities. *Facility Services* oversees land acquisition negotiations and the development of parks. The *Planning Department* implements watershed planning, property evaluations, conservation planning and public outreach activities. The *Agricultural Commissioner* provides input related to the agricultural component of the work program and promotes the availability and sale of locally grown agricultural products. The *County Executive Office* and *County Counsel* provide administrative support in policy direction, process, legal assistance and financial oversight.

Program Descriptions



Placer Legacy comprises four primary areas of program work including program startup, natural resource activities, program implementation (acquisition, monitoring, development and maintenance) and public outreach.

Program Start up activities included preparing an implementation plan to direct program activities and assembling staff to implement the program. This phase of the program is completed.

Natural Resource activities involve realizing program objectives, such as watershed and conservation planning, and stream and creek restoration.

Program Implementation activities consist of purchasing properties and conservation easements, monitoring acquired properties and easements, making improvements to acquired properties for public access and maintaining County parks and trails. This component of the program involves working with "willing-seller" property owners to ensure that the potential land acquisition meets the goals of the Placer Legacy program as well as the needs of the property owners. A summary of acquisitions appears on the following pages.

Some improvements entail constructing trails and staging areas, providing restrooms and picnic facilities and improving road access. Maintenance activities on some properties consist of clearing plant debris, clearing brush to reduce wildfires and ensuring safe use for the public.

Public Outreach activities consist of educating the public about the Placer Legacy program through publications, billboards and ongoing media stories, giving presentations to the Board of Supervisors and interested stakeholders at meetings, workshops, forums and events, and supporting local farmers and ranchers by marketing local agricultural products at festivals, fairs, grocery stores, farmers' markets and restaurants.

Placer Legacy

County Initiated Acquisitions Completed to Date

Property / Date Acquired	Acres	Use	Acquisition Cost	Secured Grants and Other Funding	County Acquisition	Improvement Cost Projections (County)	Annual Maintenance Projections (County)
Aitken Ranch Fall 2000	320	Agricultural easement	$399,000	$0	$399,000	$0	$0
Green Valley Trail* Fall 2003	234	Trail & conservation easement	$314,000	$298,000	$16,000	$30,000	$2,000
Lyndell Grey Farm Fall 2003	17.6	Agricultural easement	$65,000	$0	$65,000	$0	$0
Hidden Falls Regional Park Phase 1* Fall 2004	220	Fee title - passive regional park	$767,000	$0	$767,000	$1,800,000	$100,000
Hidden Falls Regional Park Phase 2* Winter 2003	961	Fee title - passive regional park	$3,500,000	$1,279,066	$2,220,934	$5,200,000 #	$200,000
Blue Oak Ranch Fall 2004	500	Open Space easement		Gift	$0	$0	$0
Heritage Plaza* Winter 2004	0.8	Fee title - Lake Tahoe open space & public access	$1,319,000	$1,319,000	$0	$0	$7,000
Cisco Grove* Gould Park Winter 2004	15.7	Fee title - Yuba River public access	$150,000	$97,578	$52,422	$172,422	$10,000
Sundance - Lakeview Farms Winter 2005	137	Conservation easement & Development rights	$325,000	$325,000	$0	$0	$0
Linda Creek Crossing* Winter 2005	0.58	Fee title - Trail access	$70,000	$0	$70,000	$400,000	$1,000
Kirk Ranch Summer 2007	281	Conservation easement & Development rights	$1,900,000	$1,265,000	$635,000	$0	$0
Totals	**2,687**		**$8,809,000**	**$4,583,644**	**$4,225,356**	**$7,602,422**	**$320,000**

* - Available for public use or will be available in the future
\# - EIR in progress—estimate may change

County Participation in Other Open Space Acquisitions

Property	*Use*	*Acres*	*Secured Grants & Other Funding*	*County Contribution*
Schallenberger Ridge* - 2005	Fee Title - Donner Lake State Park - Public Access	1,970	$0	$150,000
Taylor Ranch - Spring 2007	Fee Title - Trail Access	321	$0	$285,000
Liberty Ranch Big Hill Preserve - Summer 2007	Conservation Easement - Trail Access	313	$0	$315,000
Waddle Ranch* - Fall 2007	Conservation Easement - Public Access	1,482	$0	$5,626,427
Totals		4,086	$0	$6,376,427

*Available for public use or will be available in the future.

Property Descriptions

Aitken Ranch
Located along Auburn Ravine, this 320-acre property is protected by an agricultural conservation easement and contains the largest single valley foothill riparian habitat on any single parcel in western Placer County. In addition, the site protects one mile of Auburn Ravine, valley grasslands, vernal pools and existing ranching operations. Replacing the existing easement in favor of a state or federal habitat conservation easement will result in the return of the County's original purchase costs plus interest. No public access is permitted on this property.

Green Valley Trail
The acquisition included the purchase of a habitat conservation easement and public access trail easement on 234 acres of forested land located in Alta near Giant Gap overlooking the North Fork American River Canyon. A public trail staging area on Moody Ridge Road provides access to the Green Valley Trail which leads to the North Fork American River.

Lyndell Grey Farm
This 17.6-acre property is protected through the purchase of an agricultural conservation easement. The property is a portion of what remains of a much larger family ranch that had been held by the same family for generations. The easement does not permit public access.

Hidden Falls Regional Park - Phase 1
Located between Auburn and Lincoln, Hidden Falls Regional Park - Phase I (Didion Ranch) opened in October 2006. The 220-acre open space park features seven miles of trails suitable for hiking, running, biking and horseback riding. In addition, visitors can enjoy fishing, picnicking, wildlife viewing, photography and other passive recreational pursuits. A paved, accessible trail, parking lot, equestrian staging area and restrooms are also available.

Hidden Falls Regional Park - Phase 2

Phase 2 (Spears Ranch) consists of 961 acres of blue oak woodland with over two miles of Coon Creek in the center of a valley running east/west through the site. The site was selected in coordination with the Trust for Public Land, and when combined with the adjacent Phase I, will result in over 1,100 acres available for passive recreational activities. An environmental review process currently underway must be completed before initiating improvements to this acreage.

Blue Oak Ranch

Through a gift from the long-time property owner, the County secured a conservation easement over 21 residential lots totaling 500 acres. Adjacent to Hidden Falls Regional Park, this easement removed approximately 140 units of potential holding capacity from sensitive habitat and limits each remaining parcel to a 3-acre use area. The easement preserves the rural residential landscape and open space character of this property, which is dominated by blue oak woodlands and riparian areas. The easement does not permit public access.

Heritage Plaza

This acquisition comprises 0.8 of an acre of lake front property in Tahoe City. This parcel was the last privately owned, undeveloped parcel in the commercial core. With a grant from the California Tahoe Conservancy and funding from the North Lake Tahoe Resort Association, this property preserves and enhances regional public access and recreational opportunities in the Lake Tahoe basin.

Cisco Grove Gould Park

This 15.7 acre park opened in October 2006 and includes picnic tables, paved parking, a restroom and two historic structures from the commercial era of Cisco Grove on old Highway 40. The park currently sits adjacent to Interstate 80 along the south fork of the Yuba River and protects aquatic and montane riparian habitat. The Placer Land Trust, in partnership with the Emigrant Greenway trust, purchased the property for $237,500 from the Gould family, who in turn, sold the property to the County for $150,000, thus preserving $97,578 in grant funding from the state.

Sundance - Lakeview Farms

The 137-acre property is protected through the purchase of conservation values that include floodwater conveyance and storage, flood management and wildlife habitat and agricultural purposes. Secondary uses include open space and recreation. The project was funded 100% by a grant from the Department of Water Resources and includes opportunities for riparian restoration. No public access is permitted.

Linda Creek Crossing

The County purchased the fee title interest in 0.58 of an acre in the Wexford Subdivision in Granite Bay to allow the realignment of a regional trail in order to allow for construction of a crossing over Linda Creek. This trail connection is the final segment to allow year-round use of the regional trail from the State Park at Beals Point connecting to trails within the City of Roseville.

Kirk Ranch

This 281-acre property in western Placer County is protected through the purchase of a conservation easement, thus preserving the property's long-standing history of agricultural activities and a large tract of rangeland. Property assets include dense stands of blue oak woodland, grassland/dry pasture, perennial and seasonal creeks, scenic views, and to the north, the shoreline of the Camp Far West Reservoir on the Bear River.

Schallenberger Ridge

Placer County contributed $150,000 toward the purchase of the 1,970-acre Schallenberger Ridge property from the Croman Timber Corporation. Acquisition of this property tripled the size of Donner Lake State Park. The ridgeline property dominates the skyline immediately south of Donner Lake.

Taylor Ranch

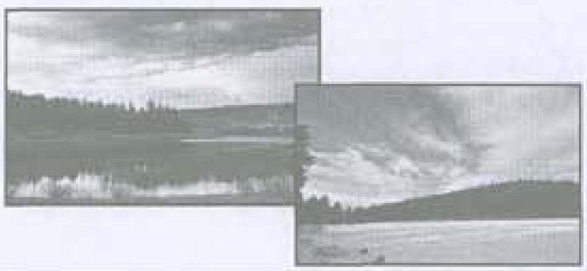
Placer County contributed $285,000 towards the purchase by the Placer Land Trust of 321 acres in an area of the largest contiguous oak woodlands remaining in Placer County. Situated less than a mile from Hidden Falls Regional Park, the site also features a wide range of riparian and foothill habitat and is traversed by Coon Creek. The purchase includes a public access trail easement.

Liberty Ranch Big Hill Preserve

Secured by the Placer Land Trust, the County contributed $315,000 towards this 313-acre conservation easement and public access trail easement. The former Freiheit property is located on Big Hill, situated between the Coon Creek and Bear River watersheds, the property contains beautiful oak woodlands, granite rock outcroppings, seasonal streams and habitiat for numerous wildlife species. Liberty Ranch offers panoramic views of the Central Valley, Sutter Buttes, Coast Range and Sierra Nevadas. The property adjoins two PLT preserves (the 160-acre Kotomyan Big Hill Preserve and the 321-acre Taylor Ranch Preserve, creating an 802-acre open space preserve).

Waddle Ranch

Placer County's contribution to the Tahoe Donner Land Trust towards the purchase of 1,481 acres in the Martis Valley preserves the most ecologically diverse property in the entire Valley due to its undeveloped land use status and the diversity of the site, ranging from meadow habitat to upland riparian and forested features. The property contains significant diversity of wildlife habitat, including sagebrush and grasslands, bitterbrush, two linear miles of streams, seasonal wetlands and vernal pools, and old growth pine forests. The protection of Waddle Ranch as permanent open space would link Martis Creek Lake National Recreation Area with Tahoe National Forest and other nearby open space areas. Funded with development fees and federal revenue, the property closed escrow in October 2007 and is accessible to the public for a range of passive recreational activities.



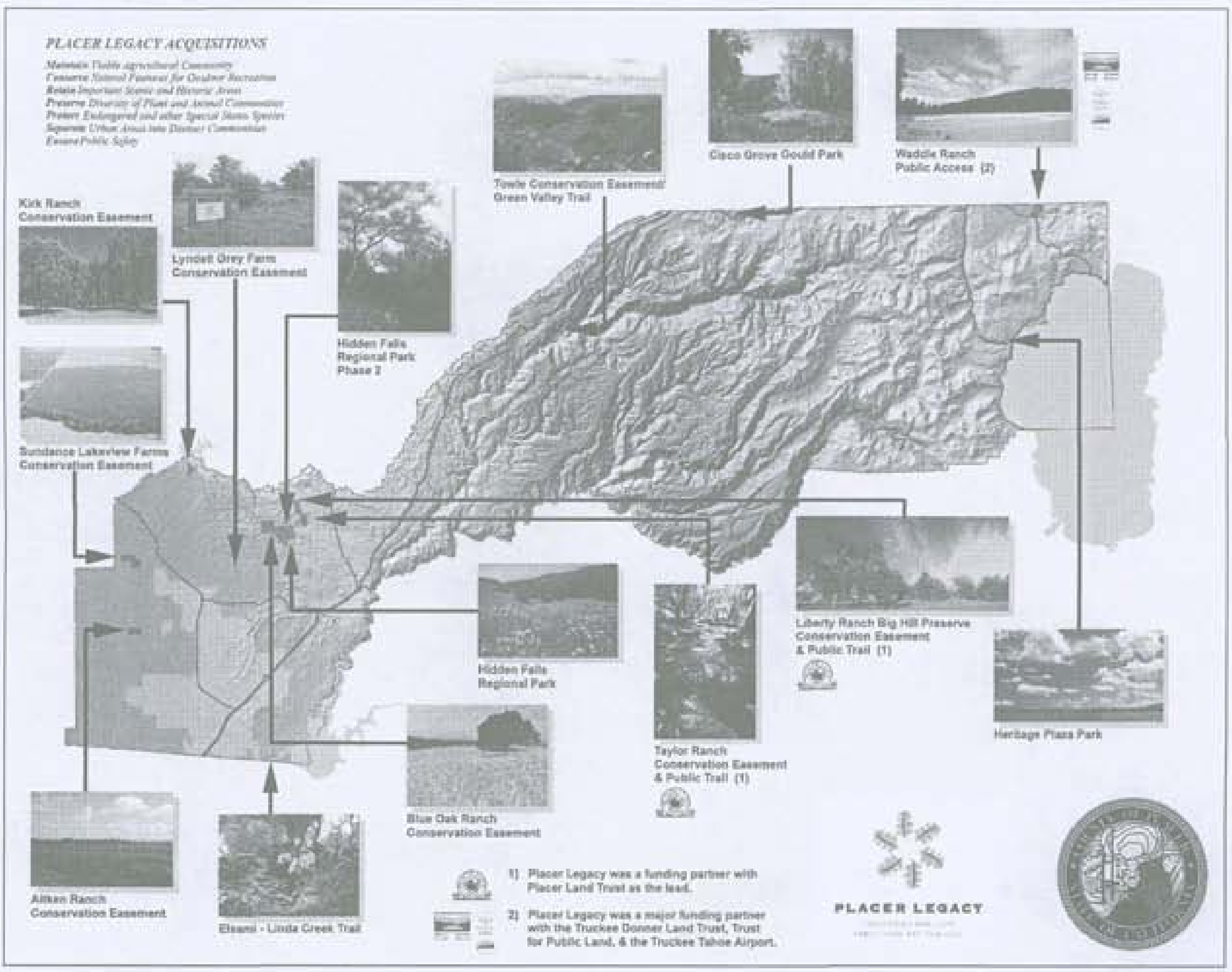
Accomplishments to Date

- Worked with willing-seller property owners and other agencies to conserve 6,774 acres of land throughout Placer County
- Opened Cisco Grove Gould Park and Hidden Falls Regional Park in October 2006
- Awarded $1.47 million in state River Parkway Grant Program funding for park site improvements
- Secured nearly $5.8 million in grants to assist in land transactions, restoration activities, biological surveys, and natural resource planning efforts
- Completed Squaw Creek Restoration Feasibility Study
- Completed the Truckee River Corridor Access Plan and Dry Creek Greenway Recreation Plan
- Completed watershed plans for Auburn Ravine, Coon Creek, Pleasant Grove, Curry Creek and Dry Creek
- Completed a riparian-restoration project along Miners Ravine, a fish-passage study for Coon Creek and Auburn Ravine, and a water quality monitoring assessment for the Pleasant Grove and Curry Creek watershed
- Teamed with the Nevada Irrigation District to prepare a fish-passage improvement design project for Hemphill Dam and the Route 65 gauging station
- Promoted the Mountain Mandarin and the Placer Farm and Barn Festivals, which have both enjoyed increasing attendance each year
- Developed outreach brochures for the Auburn Ravine/Coon Creek and Dry Creek watersheds
- Published the Western Placer County Natural Resources Report and the Placer Legacy spring 2007 newsletter
- Published the sixth annual edition of the Placer County Agricultural Guide

Current Activities

- Conducting ongoing property investigations and real estate negotiations to explore a variety of opportunities
- Continuing riparian habitat and duck habitat restoration for Lakeview Farms
- Applying for $4 million in state Wildlife Conservation Board funding for blue oak woodlands preservation
- Assisting with acquisitions for blue oak woodlands by providing technical assistance and by potentially providing match funding to complete transactions on one or more properties
- In concert with the Nevada Irrigation District, initiating the fish-passage project on Auburn Ravine
- Working with the Flood Control District to secure flood and conservations easements in the Coon Creek watershed
- Working with landowners to implement the Rock Creek Restoration Plan
- Initiating additional park improvements to Hidden Falls Regional Park site (Phase 1), and continuing environmental review for Phase 2 of the park site improvements
- Working with the Department of Public Works to prepare a comprehensive Water Quality Monitoring Program in the Martis Valley
- Continuing the environmental review process for the Truckee River Corridor Access Plan
- Coordinating with the Truckee Watershed Council, the Tahoe Public Utilities District and Public Works on the Truckee River Riparian Restoration Project
- Coordinating with Public Works on the Blackwood Creek and Ward Creek restoration efforts in the Tahoe area
- Continuing to assist Placer County growers to enhance their marketing efforts

Placer Legacy Properties



Biomass Expenditures and Funding
FY 05-06 through FY 08-09

Expenditures	FY 05-06 Actual	FY 06-07 Actual	FY 07-08 Est	FY 08-09 Est	FY 09-10 Est
Contract (Brett Storey)	$ 2,455				
Salary & Benefits & Expenses (Brett Storey)		$ 99,443	$ 78,000	$ 80,975	$ 87,574
Professional Services		14,105	100,000		
Program Implementation		29,061	95,000		
Website Development & Educational Materials			10,000		
Dept of Energy Earmark			615,000		912,426
Sierra Nevada Conservancy Grant Expenditures			18,000		
Feasibility Study			25,000		
CROP study	25,000				
Total Expenditures	27,455	142,609	941,000	80,975	1,000,000
Funding					
HR2389	2,455	142,609	172,500		
APCD Grant			70,000		
US Dept of Energy			492,000		500,000
County soft match (BS sal & benes etc) and Sierra Pacific Power expenditures			123,000		
Sierra Nevada Conservancy Grant Revenues			49,500		
Total Revenues and Offsets	2,455	142,609	907,000	-	500,000
General Fund Cost	$ 25,000	$ -	$ 34,000	$ 80,975	$ 500,000

HR 2389 funding is uncertain for 08-09 and 09-10

Assumptions

1. For FY 07-08 through FY 08-09 costs for Brett Storey are estimated at 60% FTE.
2. The $612,000 DOE earmark will cross two years but will be budgeted in 07-08. The County match will be matched by Brett's time and costs incurred by Sierra Pacific Power.
3. There are no additional grants or earmarks identified for FY 08-09. There is currently no funding identified to offset Brett's Salary & Benefits.
4. Costs for FY 09-10 total $1 million including Brett Storey's time. Net cost to the County is $500,000 in this presentation. Brett's proposal suggests that our partners will incur sufficient costs (that we can use as match) to offset the County match. If so, County cost will be Brett Storey's salary and benefits ($87,574).
5. The timeline suggests that the $1 million earmark would be used beginning in FY 08-09, which would mean the $500k match would need to be budgeted.

STAFFING AND COMPENSATION COSTS

Estimated General Wage Increase 2008 (Less DSA)		
(assumes 3% increase)		
2008-09 Costs	**$**	**3,371,018**
Full Year Costs	**$**	**5,843,098**

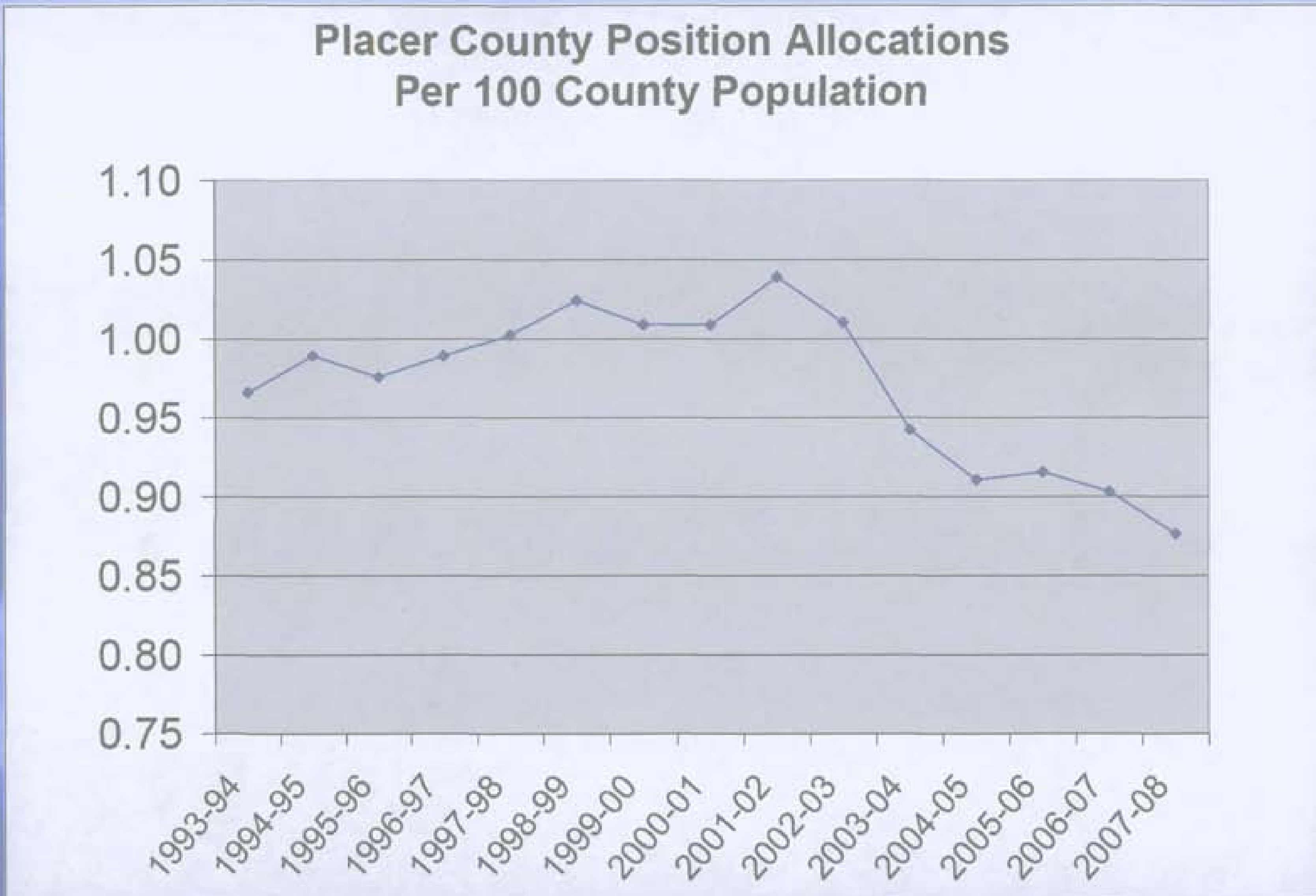
Note: Current Memorandum of Understanding calls for an increase by an additional 2.5% to 5% based on the change in the California CPI for urban wage earners and clerical workers for the period from July 2007 to June 2008.

Merit and Longevity Increases anticipated in 2008-09		
Merit Increases	$	1,235,743
Longevity Increases		330,674
Total Merit and Longevity	**$**	**1,566,417**

Estimated "Mandatory Time Off" Savings:		
Salary	$	561,715
Benefits (PERS - Social Sec)		162,830
Total Per Day	$	724,545

Total Compensation Survey

By July 1, 2008 the County shall have completed a total compensation survey to include a number of comparable survey agencies. Prior to that time, the parties agree to meet to determine total compensation components, benchmarks and criteria for implementing any adjustments. After the survey completion, the parties will agree to meet to determine what the adjustments will be, if any.


Placer County Position Allocations
Per 100 County Population
1.10
1.05
1.00
0.95
0.90
0.85
0.80
0.75
1993-94
1994-95
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08

Revenue Totals for Operating Funds

	Actual 2006-07	Budget 2007-08	CEO Rec 2008-09
General Fund	340,435,569	343,342,200	348,599,852
Public Safety Operations Fund	105,700,654	119,321,953	122,688,403
Public Ways & Facilities Fund	42,506,999	130,693,250	132,333,812
Capital Projects Fund	30,834,740	98,011,321	117,878,481
Open Space Fund	2,970,468	1,803,160	1,251,691
Other Funds	22,518,171	26,411,532	25,048,784

Community Support
Budget Request
FY 2008-09

	Expenditure Description	FY 07-08 budget	FY 08-09 Recommended Funding
1	Contribution to Open Space	$ 1,403,160	$ 717,716
2	Contribution to General Liability Insurance	1,229,432	1,011,146
3	Contribution for County Library	1,071,344	1,234,762
4	PCWA re licensing	500,000	200,000
5	Legislative Advocate Contracts	380,551	297,761
6	Middle Fork Re-licensing Consultant	350,000	350,000
7	Miscellaneous Agencies, Contributions & Services	349,020	301,877
8	Professional Services - various	250,000	250,000
9	Fire District Radio Charges	173,366	173,376
10	Sierra-Sacramento Valley Emergency Medical Services	156,647	158,629
11	Placer County Arts Council	150,000	120,000
12	Contribution to Flood Control District	114,600	120,000
13	County Imaging Project	108,000	0
14	Tahoe Regional Planning Agency	100,915	140,915
15	Special Community Contributions - Revenue Sharing	100,000	100,000
16	West Nile Virus/Response for health issues	100,000	100,000
17	Economic and Fiscal Studies	100,000	100,000
18	Senior Initiatives	80,000	80,000
19	Placer County Resource Conservation District Services	70,325	70,325
20	Placer County Air Pollution Control District	53,032	55,000
21	California State Association of Counties (CSAC)	40,376	41,168
22	Area 4 Agency on Aging	38,470	44,259
23	Sierra Economic Development District / Sierra Planning Org	37,507	0
24	Law Enforcement Chaplaincy	35,000	35,000
25	County Fairgrounds Programs	25,000	25,000
26	Sacramento Area Council of Governments	16,301	17,145
27	Local Chambers - Memberships & Contributions	12,508	12,508
28	Regional Council of Rural Counties	12,476	12,476
29	Fish and Game	8,000	8,000
30	American River Authority	5,000	5,000
31	Gold Country Fair	5,000	5,000
32	Law Library		20,000
	Total	$ 7,076,030	$ 5,807,063

MEMORANDUM
OFFICE OF THE
COUNTY EXECUTIVE
COUNTY OF PLACER

TO:	Honorable Board of Supervisors
FROM:	Thomas M. Miller, County Executive Officer
	Submitted by: Holly Heinzen, Assistant County Executive Officer
DATE:	August 7, 2007
SUBJECT:	Capital Facilities Financing Plan

REQUEST

1. It is requested that the Board of Supervisors affirm priorities for County capital facility construction projects through FY 2015-16 and provide direction to staff to proceed with capital financing recommendations for these projects.
2. Direct staff to initiate the preliminary work to issue certificates of participation for the South Placer Courthouse.

BACKGROUND

Consistent with the Comprehensive Facility Master Plan adopted by the Board of Supervisors in 1996, and the Capital Facilities Financing Plan affirmed on July 24, 2006, staff proceeded with the design and construction of the capital projects identified as priorities necessary for the delivery of county services. These projects included the Finance and Administration Building, Juvenile Detention Center, Main Jail Housing Unit 4, Fulweiler Administration Building Renovation, Community Development Resource Center, Auburn Justice Center, Cabin Creek Public Works Relocation Project, Placer County – Bill Santucci Justice Center site acquisition, South Placer Courthouse and the Children's Emergency Shelter. Funding for these projects has been provided from a variety of sources, including state and federal grants, Capital Facility Impact Fees (CFIF), Master Settlement Agreement revenue securitization, debt proceeds (certificates of participation) and General Fund contributions and reserves.

As of the mid 1990's, your Board implemented the CFIF collection process in the unincorporated areas of the County and secured the approval for collection of the CFIF in all but one of the cities in the County. This fee is applied to new development to offset the cost of capital facilities required to accommodate growth. Your Board also had the foresight to set aside over $33 million in capital infrastructure reserves over the last decade, made ongoing contributions to the operating budget for facility construction projects, and dedicated securitized funds from the Master Settlement Agreement in the amount of $53.3 million to support capital construction.

The nature of capital facility construction is dynamic and, as a result, activities such as planning, estimated costing and funding, and project prioritization need to be reviewed periodically. Included for your Board's consideration today is the Capital Facilities Financing Plan that includes updated construction costs and delivery dates for facilities identified as priorities for the County through 2015-16. Since inception of the original plan, the County's Finance Committee has worked closely with Facility Services to provide the Board and county management team with a framework that supports the capital facility projects by matching potential funding sources with the established project priority and construction timelines.

Staffs anticipate that the Capital Facilities Financing Plan will need to be updated annually due to the dynamic nature of the construction and finance markets, changes in construction costs, and economic conditions. The Plan provides a "baseline" that essentially identifies what cash is needed throughout the decade, and calls for debt to be issued that would fill the cash flow gap. As the County moves through the next few years, as each major project comes up, a critical review will be conducted to determine the best means to fund that project at that point-in-time. Issues that will be evaluated are:

- Pay-as-you-go vs. issue new debt
- Borrowing rate vs. the amount of interest that can be earned on reserves
- Identify the useful life of the facility
- Identify the policy implications of construction, debt, use of reserves
- Look at opportunities for grants and other community funding support
- Issue debt to insure maximum financial flexibility

CAPITAL PROJECTS 10 YEAR FUNDING REQUIREMENTS

The Capital Projects 10 Year Funding Requirements schedule reflects the proposed delivery of major projects and their anticipated funding needs through 2015-16 (attachment #1). This schedule was developed to illustrate continued implementation of the 1996 Comprehensive Facilities Master Plan, including the updated Criminal Justice Master Plan. The schedule is arranged in tiers, reflecting the general priority of each project. Tier definitions and associated projects are as follows:

<u>Tier 1</u> – These projects are all currently under construction and significant funding has been allocated by your Board. The Community Development Resource Center is in the project closeout phase and occupancy of the Auburn Justice Center began in spring of 2007. The South Placer Courthouse, the Public Works Relocation at Cabin Creek and Children's Emergency Shelter are projected to be completed in the fall of 2007. The B Avenue Extension project is complete. The Colfax Library was purchased in 2006. Pending Board direction, the Courthouse will require about $35 million in additional funding in FY 2007-08.

<u>Tier 2</u> – These are projects where the Board of Supervisors previously provided specific policy direction, but for which significant project funding has not yet been allocated. They include the Adult Detention Center in South Placer, the Burton Creek Justice Center, the South Placer and Auburn Animal Shelters, the Rocklin and Foresthill Libraries and the Placer County – Bill Santucci Justice Center Office Building. At your Board's Strategic Planning Workshop in March, you further directed staff to explore various methods to accelerate the delivery of the Rocklin Library. Both city and county staff are currently working on one such proposal which

they believe will accelerate the expansion of the service in Rocklin. Staffs plan to return to your Board in the near future with an agreement reflecting such.

<u>Tier 3</u> – These projects represent the next series of anticipated projects to be completed after Tier 1 and 2 projects. They include the Tahoe General Government Center, a Health and Human Services (HHS) Office Building and an HHS Clinic and Laboratory facility. Land acquisition for the Tahoe General Government Center is anticipated to occur during FY 2007-08.

<u>Tier 4</u> – Miscellaneous projects in Tier 4 are typically smaller in nature and cost, but occur with regularity every year and therefore funding needs should be addressed in the long range plan. Also included in Tier 4 is a Warehouse/Archive facility that will require over $6.5 million dollars for construction on a site in Dewitt that has yet to be specifically determined.

<u>Tier 5</u> – These projects represent a number of facility needs that have been identified within the County's Capital Improvement Plan but have not been included within Tiers 1 through 4. Included in Tier 5 are three Placer County – Bill Santucci Justice Center projects including a District Attorney / Probation Office Building, Sheriff Sub-Station, Phase II of the Adult Detention Center, and a new Administration Center. Most of these projects will begin the planning and / or construction process after FY 2015-16, however up to $5 million may be needed for a new South Placer Office Building prior to the close of the decade.

Not included specifically in the plan is an additional $1.5 million annual contribution to future infrastructure, roads and bridges that will be used as match to obtain state and federal funding.

CAPITAL PROJECT FUNDING MECHANISMS

The Capital Project Funding Mechanisms table depicts the timeline and cost for the construction projects described above, identifies proposed funding sources, and depicts the information in a cash flow schedule (attachment #1 / lower half of the sheet). Upon review of current and future construction needs, staff identified $284 million, in current dollars, of capital facility needs for the next decade and $298 million for the decade beyond. The following funding mechanisms have been identified to finance these construction costs.

- New and existing reserves
- Ongoing General Fund contributions (with 5% inflator)
- Facility impact fees (growth)
- Debt proceeds (certificates of participation)
- Securitization of Master Settlement Agreement revenue
- Community funding to support projects including the Rocklin Library and the West Placer Animal Shelter
- Federal funding such as that used to support the Children's Emergency Shelter

Utilization of these funds is predicated on a number of assumptions.

- An inflator was applied to project costs increasing the $284 million to $402 million by the end of the decade. The inflator was factored at 8% for FY 2006-07 through 2008-09, and 6.5% thereafter.
- Fiscal year 2006-07 was designated the "base year" for funding estimates.

- Beginning with FY 2008-09, the General Fund will contribute at least $12 million per year toward capital construction, increasing 5% per year.
- Consistent with the Budget and Financial Policy, the General Fund will continue to set an amount equal to the annual depreciation expense into reserves each year (approximately $3.5 million).
- The General Fund will assume responsibility for new operating costs associated with debt service principal and interest payments. Debt levels will be maintained in accordance with the County's Debt Management Policy.
- General Fund revenues are expected to increase by 5% annually over the next decade.
- Community contributions, state and federal bonds and other revenues are realistically applied as an offset to specific project costs.
- A 2% annual growth factor was applied to the capital facility impact fee collections.
- Master settlement agreement, securitized revenues are 100% dedicated to project construction.
- A portion of the capital reserves and facility impact fee balances will be retained to address new and replacement facilities identified for the decade 2016-17 through 2026-27.

The County's adopted Budget and Financial Policy and Debt Management Policy were referenced when evaluating the timing and issuing of debt to fund capital projects. Issuing debt commits a government's revenue several years into the future, and may limit its flexibility to respond to changing economic conditions and service priorities, revenue inflows, and / or cost structures. Adherence to a debt policy ensures that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit quality. The County intends to maintain the infrastructure necessary to provide public services, but does not intend to rely upon long-term debt to defer current obligations. Notwithstanding this intent, debt financing is a powerful and often necessary tool for undertaking major capital projects that can not be financed on a pay-as-you-go basis.

GENERAL FUND BUDGET PROJECTION MODEL

In addition to preparing a plan to address capital construction needs over the next decade, the Finance Committee also reviewed the major costs associated with new facility construction and operation and the impacts they would have on the General Fund. To that end a "budget" model was developed that not only projected future revenues and expenditures for the General Fund, it incorporated the following new operating costs into the model:

1. Beginning with FY 2008-09, the annual General Fund contribution to infrastructure will be at least $12 million per year, increased by 5% inflator each year.
2. Principal and interest on new debt service absorbed by the General Fund, reduced by the Courthouse Construction Trust Fund revenues per agreement with the AOC.
3. Other Post Employment Benefit (OPEB) contributions, consistent with the actuarial report, are phased into the County Budget over several years until annual collections equal the amount recommended under GASB Statement 45.
4. The $1.5 million per year contribution to future infrastructure reserves will be used as a funding match for bridge and road construction to obtain state and federal funding.
5. Operating funding to open the new jail in South Placer in the year 2011.

6. Funding was allocated for lease and operating costs related to the public safety radio system and other technology.
7. As reserve balances are drawn down to pay for construction, those balances have been reduced in the model.

The General Fund Budget Projection Model factors in ongoing financial commitments in compliance with established Budget and Finance Policies. As a result, the model depicts increased contributions to reserve accounts every year and maintains the County's General Fund operating contingencies at policy levels. The General Fund Budget Projection Model illustrates that funding the Capital Facilities Financing Plan is feasible, and that the General Funds ongoing obligations can be met if all assumptions hold true as stated. The assumptions by which this budget model was constructed are conservative and reasonable, and the County is well positioned to address capital construction needs over the next decade.

SOUTH PLACER COURTHOUSE

On April 20, 2004 your Board authorized the execution of a lease purchase agreement between the County and JB Management, L.P. (JBM) for the Courthouse in South Placer. Per the terms of this agreement, JBM would construct the courthouse facility and the County agreed to lease the completed project for a term of twenty (20) years. At the conclusion of the lease term, the County would then have the option to purchase the facility for the nominal consideration of a dollar. In lieu of the leasing arrangement, under this agreement, the County has the option to purchase the building at any time by paying the actual costs of its construction to JBM.

In keeping with space planning requirements of the Trial Court Facilities Guidelines, the designed building size for the Courthouse is about 110,700 square feet. The total cost to construct the Courthouse is currently estimated at $46.5 million inclusive of all costs for land, site improvements, construction and fees. Included within the County Budget, the Board dedicated Master Settlement Agreement securitized revenues in the amount of $13.56 million to offset this cost. The remaining Courthouse balance of $33+ million will need to be debt financed, paid for with General Fund reserves, or funded utilizing a combination of both strategies.

Pursuant to the terms of the South Placer Justice Center Commerce 65 Master Agreement, the County has the following options:

20 YEAR LEASE WITH JBM

Scenario #1: Lease Purchase Agreement

The final lease rate under the Lease Purchase Agreement will reflect the amortized costs of construction, certain fees and financing costs incurred by JBM. Under this scenario JBM would arrange the permanent financing, for a 20-year term, and the County would make lease payments. Given that permanent financing rates and related loan-to-value ratios fluctuate over time, a permanent interest rate cannot be assured until the final commitment has been entered into by JBM with a lending institution at project completion. Current projections place the developer's commercial borrowing rate at 6.62% with an annual lease payment of $3.2 million.

Scenario #2: Lease Purchase Agreement Offset by Cash
All conditions remain the same as in "#1" above, however the County could pay cash for part of the construction costs and finance the balance. With this option, and annual lease payments would be reduced.

Scenario #3: Lease Purchase Agreement / Purchase during the Lease Term
The County could purchase the Courthouse from JBM during the course of the lease term. The total cost under this scenario would be considerably higher than in "#1" or "#2" above as the price would include penalties resulting from prepayment of JBM's permanent financing, JBM's unamortized loan balance on the Courthouse Property and other actual costs incurred by JBM in constructing the Courthouse as yet not reimbursed through rent payments already made by the County.

COUNTY PURCHASE OF THE COURTHOUSE

Scenario #4: Issue Certificate of Participation
Given that the County can issue debt for less than commercial rates, the Finance Committee recommends that the County assume the debt in lieu of JBM. The cost of issuance will be slightly higher, but the total cost of the debt significantly lower. Current projections place the County's borrowing rate at 4.48% with an annual lease payment of $2.64 million. Total cost of the debt would be $52.85 million vs. the developer cost of $62.3 million, saving the County over $9 million over the 20 year term (attachment #2). In addition, due to the agreement with the AOC the County would be able to apply Courthouse Construction Trust Funds against the debt issue of approximately $500,000 per year bringing the cost to the County down significantly. These funds could also be applied against a lease.

Scenario #5: Pay Cash for Courthouse
The County has $33 million in capital reserves that could be used, in conjunction with the securitization dollars, to pay cash for the $46 million Courthouse project. This action would use all capital reserves held by the County. Since the final cost for this construction project will not be known until project closeout, the final cost could exceed $46 million, in which case additional funding would be needed to fill the gap. This scenario eliminates the need to issue debt and pay ongoing debt service for the Courthouse. However, by using cash on hand, the scenario severely limits the General Fund's financial flexibility to address cash flow needs and future infrastructure priorities as noted in the plan.

Cash in the Treasury includes revenue and reserve accounts. As a result, General Fund reserves provide "cash" to offset operating cash shortages each month as needed. The General Fund Cash Flow Model (Attachment #3) clearly illustrates the need for the County to have cash on hand to offset business operations throughout the course of the fiscal year, as the County typically does not receive revenue in excess of expenses each month. The County's General Fund "draws" from other cash sources to fund this need, an amount that ranges from zero to $59 million depending on the month. Less funding is needed in the months property tax revenue posts, while more funding is required in the months prior to those infusions of cash and at that the end of the fiscal year. To further illustrate this point, approximately $40 million in revenue accruals are expected to post at the end of this fiscal year in the General Fund. State, Federal and other outside sources reimburse the County for services provided after the County has fronted the $40 million cost, and reimbursement is received within six months to a year of the year end close.

The 100% use of capital reserves for purchase of the Courthouse places the General Fund in the position where it would need to borrow funds from the Treasury to meet cash flow needs that arise with monthly operating deficits. As a result, the County would be required to pay interest back to the Treasury for the use of these funds, which would be significant new cost to the General Fund. Without the use of reserves to offset cash flow needs, triggering Treasury loans, the General Fund's interest expense would have been about $1.2 million. The General Fund earns interest revenue for all funds held as cash in the Treasury, including reserve accounts. In FY 2006-07 the General Fund earned $9 million interest revenue.

RECOMMENDATION

The Finance Committee, County Executive Office and Facility Services have all been instrumental in the preparation of this updated model, and each supports the Capital Facilities Financing Plan presented today. Your Board's affirmation of this updated Capital Facilities Financing Plan will provide staff the direction necessary to coordinate project design, construction of financing in an efficient manner.

Based upon the review and analysis discussed previously, the Finance Committee recommends that the County first use Master Settlement Agreement Securitization funding in the amount of $13.56 million to pay down the Courthouse obligation. It is further recommended that the County issue debt for all or most of the balance needed to fully fund Courthouse construction. As the project nears completion, debt and interest rates will be reviewed with a focus on maximizing the county's cash flow and funding needs. Staffs are requesting direction to initiate the preliminary work to issue certificates of participation for the South Placer Courthouse.

FISCAL IMPACT

Capital Facility needs identified during the next ten years total approximately $284.4 million dollars in current dollars and approximately $402.7 million by the time of construction. This contrasts with the current County's capital reserves of $90 million, including reserves held for capital construction ($33 million) and capital facility impact fee balances ($57.2 million), and $13.56 million that resulted from the resecuritization of the Master Settlement Agreement revenue stream at the end of FY 2005-06. Adoption of the conceptual plan for financing the County's facility needs will utilize a combination of accumulated reserves, current or pay-as-you-go funding from within County budget resources, prudent debt obligation, development growth fees, and other revenues to bridge the $313 million "gap" between the capital funds needed over the next decade and the funds on hand.

Attachment #1: Capital Facilities Financing Plan
Attachment #2: Courthouse Financing Options
Attachment #3: General Fund Cash Flow Model

Attachment #2

South Placer Courthouse
COP vs. Developer Financing

Method		Amount		Costs of Issuance	Rate		Annual Debt Service		Payments 20 Years
COP	$	34,770,000	$	770,000	4.48%	$	2,642,995	$	52,859,900
Developer	$	34,345,000	$	345,000	6.62%	$	3,117,106	$	62,342,120
							Excess Costs for Developer Financing:	$	9,482,220

General Fund Cash Flow Model

Fiscal Year: July 1 through June 30th

Attachment #3

Month End Cash Needs	Month 1 July	Month 2 August	Month 3 September	Month 4 October	Month 5 November	Month 6 December	Month 7 January	Month 8 February	Month 9 March	Month 10 April	Month 11 May	Month 12 June
Revenue	$ (5,122,354)	$ 8,024,238	$20,849,311	$35,087,664	$48,291,770	$138,502,086	$159,242,646	$173,177,627	$184,870,978	$266,205,724	$284,496,781	$297,579,609
Expenditures	11,556,846	34,601,324	61,590,109	85,322,193	107,691,640	132,182,483	158,921,052	206,312,455	233,176,618	259,204,383	284,878,262	312,186,345
Cash draw needed	**$16,679,200**	**$26,577,086**	**$40,740,798**	**$50,234,529**	**$59,399,870**	**$ (4,319,603)**	**$ (321,594)**	**$ 33,134,829**	**$ 48,305,640**	**$ (6,911,361)**	**$ 381,481**	**$ 14,606,737**
Est. Interest Cash Draw:	$ 63,472	$ 107,219	$ 170,587	$ 205,645	$ 241,668	$ -	$ -	$ 134,464	$ 202,262	$ -	$ 1,617	$ 61,588
										Total Interest Expense		**$ 1,188,821**

Notes:

1. Property tax is distributed in December and April, with a minor distribution in June.
2. At year end close, revenue accrual estimates of $40 million or 11-13% will be accrued (cash to be received in the following fiscal year for expenses paid in the current fiscal cycle).
3. Data was taken from the Performance Accounting System for FY 2006-07.
4. Encumbrances are not included with expenditures as they are a noncash transaction until expended.

Tier	No.	Project	Committed Funding													Totals	
1	1.1	Community Develop. Resource Ctr.			30,066,006											$30,066,006	
	1.2	South Placer Courthouse			14,338,039		32,151,898									46,489,937	
	1.3	South Placer Site & Infrastructure			6,314,172		7,248,304									13,562,476	
	1.4	Auburn Justice Center			38,344,138											38,344,138	
	1.5	OPW Relocation - Cabin Creek		800,000	8,184,114											8,984,114	
	1.6	Children's Shelter	1,600,000	3,000,000	6,876,789											11,476,789	
	1.7	B Avenue Extension			2,318,883											2,318,883	
	1.8	Colfax Library			239,221	1,580,779										1,820,000	
		Subtotal Tier 1:														$151,078,142	
2	2.1	SPJC - Adult Detention				2,000,000	1,000,000	25,000,000	25,000,000	22,000,000						$75,000,000	
	2.2	Burton Creek Justice Center				5,000,000	2,000,000	3,500,000	7,000,000	2,000,000						19,500,000	
	2.3	Animal Shelter															
	2.4	A. West Placer		800,000	800,000	2,000,000	3,400,000	7,000,000								14,000,000	
	2.5	Site Acquisition					2,000,000									2,000,000	
	2.6	B. Auburn				1,490,294	600,000	1,400,000	1,509,706							5,000,000	
	2.7	Rocklin Library				1,651,314	2,000,000	2,000,000	7,000,000	5,848,686						18,500,000	
	2.8	Site Acquisition					1,500,000									1,500,000	
	2.9	Foresthill Library				600,000	1,125,000									1,725,000	
	2.10	South Placer Justice Office			4,800,000	4,000,000	16,000,000									24,800,000	
		Subtotal Tier 2:														$162,025,000	
3	3.1	Tahoe General Government Facility					8,060,000	1,100,000	1,000,000	3,000,000	5,000,000	3,850,000				$22,000,000	
	3.2	HHS Office Building										2,000,000	3,000,000	20,000,000	20,000,000	45,000,000	
	3.3	HHS Clinic / Lab							1,500,000	1,500,000	4,500,000	4,500,000				12,000,000	
		Subtotal Tier 3:														$79,000,000	
4	4.1	Warehouse / Archives							1,500,000	1,500,000	2,000,000	1,500,000				$6,500,000	
	4.2	Miscellaneous Facilities Projects				4,000,000	3,428,500	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	19,428,500	
		Subtotal Tier 4:														$25,928,500	
5	5.1	SPJC - DA / Probation	Planned for occupancy after 2016/17											3,000,000	3,000,000	$6,000,000	$62,001,300
	5.2	SPJC - Sheriff Sub-Station														-	35,085,410
	5.3	SPJC - Adult Detention: Phase II														-	113,398,873
	5.4	Administration Center														-	87,482,252
		Subtotal Tier 5:														$6,000,000	$297,967,935
		Total Annual Funding Required:	1,600,000	4,400,000	110,088,101	23,163,327	78,803,702	41,800,000	46,028,798	37,448,686	17,000,000	16,350,000	4,000,000	23,500,000	24,500,000	$384,273,184	
		Required funding plus noted inflator:	1,600,000	4,400,000	110,088,101	23,163,327	91,688,715	53,279,048	61,806,585	63,888,884	19,791,892	24,575,858	7,799,816	43,196,328	47,860,660	$402,729,313	

	CAPITAL PROJECT FUNDING MECHANISMS	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	TOTALS
	Beginning Cash and Reserves in General and Building Funds	$ 33,022,787	$ 47,591,290	$ 27,274,128	$ 22,778,987	$ 7,380,798	$ 895,174	$ 11,080,344	$ 10,000,881	$ 19,495,970	$ 12,118,634	$ 1,818,287
	& Capital Facility Impact Fees	$ 87,251,883	$ 58,812,677	$ 51,488,800	$ 33,378,378	$ 18,480,827	$ 2,743,808	$ 9,032,650	$ 12,431,187	$ 23,343,655	$ 27,474,392	$ 30,827,744
1	Revenues											
2	New General Fund Contrib. to Projects & Reserves	$ 21,540,868	$ 18,553,500	$ 15,923,782	$ 16,553,782	$ 17,215,282	$ 17,608,867	$ 18,638,181	$ 19,404,830	$ 20,208,987	$ 21,063,247	$ 187,003,098
3	Capital Impact Fees - Est. Annual Revenue & Interest Received	2,374,994	9,889,977	9,883,778	10,081,452	10,283,081	10,488,742	10,698,517	10,912,487	11,130,737	11,353,352	98,897,116
4	COP Proceeds (Debt)	-	34,770,000	-	-	-	-	-	-	-	-	34,770,000
5	Estimated Tobacco Securitization Revenue	13,888,754	-	-	-	-	10,000,000	-	-	-	-	23,888,754
6	Other Revenue - Grants, Bonds, Contributions, Courthouse Trust	907,538	2,000,000	8,500,000	7,800,000	8,448,686	500,000	500,000	500,000	11,250,000	11,250,000	47,066,224
7	*Total Revenues:*	$ 38,091,894	$ 65,013,477	$ 32,307,658	$ 34,136,234	$ 33,947,049	$ 38,898,599	$ 29,837,878	$ 30,817,417	$ 42,589,725	$ 43,656,599	$ 389,296,189
8	Expenditures											
9	Project Funding Requirements (Less use of Impact Fees)	$ 21,149,327	$ 74,739,664	$ 24,279,048	$ 36,806,666	$ 27,506,564	$ 15,681,892	$ 17,075,858	$ 7,799,816	$ 36,196,328	$ 38,860,800	$ 301,678,886
10	Project use of Impact Fees	1,014,000	16,807,054	28,000,000	25,000,000	39,000,000	4,200,000	7,300,000	-	7,000,000	8,000,000	123,321,054
11	Estimated Additional Debt Service Payments	-	880,998	2,642,995	2,642,995	2,642,995	2,642,995	2,642,995	2,642,995	2,642,995	2,642,995	22,024,958
12	*Total Expenditures:*	$ 22,163,327	$ 92,447,716	$ 54,921,043	$ 64,449,663	$ 69,149,559	$ 22,424,587	$ 27,518,853	$ 10,409,811	$ 45,838,323	$ 50,603,685	$ 446,928,688
13												
14	Ending Cash, Reserves & Capital Facility Impact Fees	$109,209,997	$ 78,799,727	$ 89,158,342	$ 25,841,082	$ 3,638,082	$ 20,113,894	$ 22,431,818	$ 42,839,626	$ 39,891,030	$ 32,644,031	$ 32,644,031

MEMORANDUM
OFFICE OF THE
COUNTY EXECUTIVE
COUNTY OF PLACER

TO: Honorable Board of Supervisors

FROM: Jan M. Christofferson, County Executive Officer
By: Therese D. Leonard, Principal Management Analyst

DATE: January 7, 2003

SUBJECT: FY 2003-04 Budget Overview and Placer County Budget and Financial Policy

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REQUEST

It is requested that the Board of Supervisors approve the attached Resolution to adopt the Placer County Budget and Financial Policy (Exhibit I) and receive report from the County Executive Office.

BACKGROUND

The Government Finance Officers Association recommends the development and implementation of financial policies to guide the creation, maintenance, and use of resources. Adopted policies enhance 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 (i.e. contingency, unreserved); the use of one-time revenues; the use of unpredictable revenues; and contingency planning.

The County Executive Office report to the Board will include discussion of State funding impacts; County budget priorities and policies; prudent revenue estimates and reserve levels; discussion of the Capital Facility Financing Plan and budget implementation; and the preservation of the long term financial strength of the County.

FISCAL IMPACT

Adoption of the Placer County Budget and Financial Policy will promote financial stability and long-term planning by providing direction to the County Executive Office in developing and managing the Proposed and Final Budgets. The policy will also provide a context to guide Board decisions during the budget process and throughout the fiscal year.

PLACER COUNTY
BUDGET & FINANCIAL POLICY

PURPOSE:

To promote financial stability and long-term planning; to direct the County Executive Office in the development and management of the County Budget; and to provide a context to guide Board decisions during the budget process and throughout the fiscal year.

POLICIES:

General

1. The County Executive Office shall prepare and submit no later than June 30 of each year a Proposed Budget for consideration and adoption by the Placer County Board of Supervisors. A Final Budget will be submitted for consideration and adoption by September 30th of each year.

    1.1. The Budget will incorporate direction and input from the Board of Supervisors and County departments as to County operating and capital needs and priorities.

    1.2. The Budget will include the financial status of the County and its key funds, including financial condition and trends, budgetary impacts, and liabilities and issues that may impact future County resources.

    1.3. The Budget will identify expected sources of revenue and other resources, and recommended program and capital expenditure and reserve uses for the next fiscal year.

    1.4. The Budget will include performance information for County programs. Program performance measures will be developed and used for long term planning and decision-making, including future resource allocation and in consideration of new or increased funding requests.

2. The County Executive Office shall provide periodic reviews of revenue and expenditures, identify significant variances from budget, and recommend actions to address shortfalls or unanticipated increases.

3. The County Executive Office shall prepare and/or supervise the preparation of fiscal projections, capital financing plans, costing methodologies,[1] and other studies as will provide for current and future County obligations.

Revenues

1. Ongoing costs will be funded with ongoing revenues to promote fiscal stability, predictability, sustainability, and long-range planning.

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[1] The Auditor-Controller prepares the annual countywide cost allocation (A-87) plan.

1.1. New or increased, ongoing revenues will meet current obligations and reduce reliance on one-time funding and fund balance carryover.

1.2. New programs will identify an ongoing funding source(s) not already obligated for current County operations or for the future costs of current operations.

2. Budget realistic and probable revenue estimates.

 2.1. Budgeted revenue will not be based on high levels of anticipated growth or be contingent upon the passage of legislation or future actions by the Board of Supervisors.

 2.2. Revenues that are volatile and/or sensitive to changes in the economy should be conservatively estimated.

 2.3. State revenues in the Proposed Budget will be budgeted considering the Governor's January Proposed Budget for the upcoming fiscal year.

3. Imposing or adjusting fees or other charges will be periodically evaluated for any service provided by the County where full cost recovery—including department and County administration—is not currently achieved. Budget estimates will not include fee increases unless the Board of Supervisors has approved the increase.

4. County administrative (A-87) costs will be charged to non-General Fund and subvented General Fund appropriations in accordance with the annual Countywide Cost Allocation Plan.

 4.1. Funds or budgets that lack sufficient appropriations or reserves to pay A-87 charges, as identified by the Cost Allocation Plan, will prepare and submit to the County Executive Office a written plan to ensure future payment.

 4.2. Departments will include estimated A-87 costs in their requested expenditure budgets.

 4.3. A-87 reimbursements may be credited as general purpose General Fund revenues or applied to offset program costs as determined by the County Executive Office.

 4.4. Some funds may be specifically excluded from paying part or all of the A-87 costs as determined by the County Executive Office.

5. The County Executive Office shall solicit and consider revenue estimates from the Auditor-Controller, and other County departments as appropriate, for major tax and general-purpose revenues and for estimated carryover fund balance in preparation of the Proposed Budget.

6. Prior to applying for and accepting Federal or State grants, departments must identify current and future fiscal implications of either accepting or rejecting the grant. Areas of note are matching fund obligations, non-supplanting requirements, required continuation of the program after grant funds are exhausted, and if the program is consistent with the County's long-term goals and objectives. Before discretionary program costs are increased, departments should include recovery of department and county administrative costs of at least ten percent of direct costs for state and federal grants.

Expenditures

1. Annual priority for General Fund funding will be given to capital improvements consistent with the County's Capital Facilities Financing Plan and Road Maintenance Master Plan.

2. Carryover fund balance will be used to fund one-time expenditures, reserves and contingencies and should not be used to finance ongoing operational costs.

3. New position requests will be considered through the budget process and not otherwise during the fiscal year unless urgent circumstances exist.

4. Partial or fully funded State and/or Federal programs, administered by the County, will be implemented at the level of funding provided by the State or Federal government. County overmatches for departments with maintenance-of-effort requirements will not increase, and funding levels may be reduced or eliminated.

5. All requests for new program funding should be accompanied with clear and concise statements of the program's mission, performance objectives and intended measurable outcomes.

6. Efficiency and economy in the delivery of County services are top priorities; departments are expected to make productivity improvements within their service delivery areas and reduce expenditures for discretionary programs and services.

   6.1. County departments are encouraged to consolidate programs and organizations and consider alternatives for service delivery to reduce costs and the need for increased staffing.

   6.2. In developing recommendations that may require operational reductions, departments should ensure that administrative and non-service areas have been reduced to the maximum extent possible before reducing direct services.

7. Automation and technology proposals must measurably demonstrate how cost savings will be achieved or how services will be improved, along with identifying potential sources of funding.

8. The County Executive Office will annually review rate changes for county internal service funds. Internal services funds are expected to make productivity improvements within their service delivery areas, reduce expenditures for discretionary programs and services, make administrative and non-service area reductions to the extent feasible, consolidate programs and organizations, and consider alternatives for service delivery <u>before</u> cutting direct services or proposing increased rates.

9. The General Fund's Appropriation for Contingencies should be budgeted at not less than 1.5% of the operating budget. Appropriations for Contingencies should be budgeted in all other funds, at not less than ½ of 1% of operating expenditures. In no event will Appropriation for Contingencies exceed the amount prescribed by law.

Capital Budgets

1. Capital Budgets will expand to include a list of capital construction and road projects with brief descriptions; estimated to-date and total project costs; planned project costs for at least three future fiscal years for extended projects; length of time to project completion; and proposed funding sources including current funding available.

2. Capital projects which are not encumbered or completed during the fiscal year, or multi-year projects, will be re-budgeted or carried over to the next fiscal year. Increased project costs for rebudgeted projects must be clearly identified with Final Budget adoption.

3. Capital projects will not be budgeted unless there are reasonable expectations that resources will be available to pay for them and a financing plan has been developed.

   3.1. Where applicable, assessments, impact fees, user-based fees, and/or contributions should be used to fund capital projects. Projects benefiting other operating, internal services and enterprise funds shall be funded from those funds on a pro-rata basis.

   3.2. Where alternative sources of financing are not available or sufficient for full funding, and the project is deemed critical for the provision of services or to meet mandated services levels, debt financing may be used in accordance with the County Debt Policy[2]. Debt will not be used to finance on-going operational costs, including those incurred due to new facilities.

4. Project reimbursements to the County Capital Projects Fund shall not exceed actual expenditures, plus 25% of any encumbered contract balances.

   4.1. Facility Services may request advance funding for any project costing less than $100,000 when the project has begun.

   4.2. An accounting of all costs shall be made by Facility Services to the requesting department following project completion.

5. Departments will prepare replacement schedules and develop and implement financing plans for major capital equipment.

Reserves & Appropriation for Contingencies

1. The General Fund's total General Reserve and Designation for Economic Uncertainties should be accumulated over time until 5% of the annual operating budget reserve level is achieved (calculation = appropriations less capital outlay, reserves & contingencies).

2. The General Fund's Reserve for Future Occurrences should be accumulated to a level that would provide for anticipated increases in medically indigent and public assistance caseloads during economic downturns (estimated increased General Fund costs of $2+

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[2] The Placer County Debt Policy is with the Finance Committee for review and will be submitted to the Board of Supervisors for consideration in 2003.

million annually for three or four consecutive years). Reserve amounts may be adjusted periodically due to population, caseload, or funding changes.

3. The General Fund allocation to the Designation for Fixed Asset Depreciation will be equivalent to the County facility depreciation expense (estimated at $1.1 million annually). Accumulated funds may be used in accordance with the long-term County Capital Financing Plan for facility replacement and construction.

4. Moderate increases to Non-General Fund Designations for Contingencies should be accumulated over time until a 5% reserve level is achieved. Additional reserves should be accumulated for equipment replacement and other identified needs. Smaller funds, or funds with uncertain or expected delays in reimbursement, may need to accumulate a larger reserve percentage for cash flow reasons.

5. Reserves for self-insurance funds shall be actuarially determined at least every other year. Reserves should be maintained at the 80% confidence level for net estimated losses.

6. Loans or transfers to or from internal services and enterprise funds shall be limited to meeting one-time funding requirements in County operating funds, and shall require repayment with interest.

Adopted by the Board of Supervisors on 1/7/03.

County of Placer
Retiree Healthcare Plan

Bartel Associates, LLC

June 30, 2007
Actuarial Valuation

November 2007

BARTEL ASSOCIATES, LLC

ACTUARIAL VALUATION CERTIFICATION

This report presents the June 30, 2007 actuarial valuation for the County of Placer Retiree Healthcare Plan ("Plan"). The purpose of this valuation is to:

- determine the Plan benefit obligations as of June 30, 2007 pursuant to Governmental Accounting Standards Board Statement No. 45 (GASB 45), and
- calculate County of Placer's 2007/08 fiscal year Annual Required Contribution for the Plan under GASB 45 assuming GASB 45 is adopted for the 2007/08 fiscal year and pre-funded the full annual required contribution through CalPERS OPEB Trust.

This report includes the following sections:

- Section 1 presents a staff summary of the GASB 45 valuation results.
- Section 2 provides financial accounting information, including the 2007/08 Annual Required Contribution and the June 30, 2007 benefit obligation.
- Section 3 provides the results of the actuarial valuation.
- Sections 4, 5, and 6 summarize the census data, plan provisions, funding method, and actuarial assumptions that form the basis for this valuation.
- Section 7 includes a summary of GASB 45.

This report presents Bartel Associates' best estimate of the County of Placer Retiree Healthcare Plan liabilities and costs in accordance with accepted actuarial principles and our understanding of GASB 45.

The undersigned are members of the American Academy of Actuaries and meet Academy Qualification Standards to render the actuarial results and opinions in this report.

Respectfully submitted,
Bartel Associates, LLC

Bianca Lin

Bianca Lin, ASA, MAAA
Assistant Vice President

John E. Bartel

John E. Bartel, ASA, MAAA
President

November 2007

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Acronyms used in this report

Actuarial and accounting terminology used in this report

- AAL – Actuarial Accrued Liability
- AOC – Annual OPEB Cost
- ARC – Annual Required Contribution
- EAN – Entry Age Normal Cost Method
- GASB 45 – Governmental Accounting Standards Board Statement No. 45
- NOO – Net OPEB Obligation
- OPEB – Other (than pensions) Post Employment Benefits
- PVPB – Present Value of all Projected Benefits
- UAAL – Unfunded Actuarial Accrued Liability

Bargaining Groups

- DSA – Placer County Deputy Sheriff's Association
- MGMT - Management and Confidential Employees
- PPEO - Placer Public Employee Organization

SECTION 1
STAFF SUMMARY

On June 21, 2004, the Governmental Accounting Standards Board approved Statement No. 45 (GASB 45), Accounting Standards for Other (than Pensions) Post Employment Benefits (OPEB). The information presented in this report is based on the financial reporting standards established under GASB 45.

GASB 45 is phased in similar to GASB 34. For Phase 1 governments, GASB 45 is effective for fiscal years beginning after December 15, 2006. GASB 45 is therefore first effective for the County of Placer for the fiscal year beginning on July 1, 2007.

The County of Placer provides postretirement medical and dental benefits to employees who retire directly from the County after attaining age 50[1]. Eligible retirees can continue participation in the medical and dental plans, with the County contributing up to a cap, varies by bargaining unit.

The June 30, 2007 benefit obligations and the 2007/08 Plan cost from the June 30, 2007 actuarial valuation using a 7.75% discount rate are as follows (amounts in 000's):

	June 30, 2007
■ **Present Value of Projected Benefits (PVPB)**	$319,448
Total present value of all expected future benefits at the valuation date calculated using selected actuarial assumptions. The PVPB is a measure of the total plan liability or obligation for benefits due to past and future service for current employees and retirees.	
■ **Actuarial Accrued Liability (AAL)**	231,558
Liability or obligation for benefits earned or allocated to past service at the valuation date calculated using selected actuarial methods and assumptions.	
■ **Plan Assets**	
Assets that have been segregated and restricted in a trust so that they can only be used to pay Plan benefits.	0
■ **Unfunded Actuarial Accrued Liability (UAAL)**	
The excess of the AAL over the Plan Assets. This represents the amount of the liability earned at the valuation date that must still be funded. If Plan Assets exceed the AAL, there will be a Plan Surplus.	231,558

[1] 5 years County service and 10 years County service required if hired after January 1, 2005.

	2007/08 Plan Cost
■ **Normal Cost (NC)** The value of employer promised benefits expected to be earned or allocated to the current fiscal year.	$11,486
■ **Annual Required Contribution (ARC)** Normal Cost (value of benefits expected to be earned or allocated to the fiscal year) plus a 30-year amortization of the unfunded AAL.	25,920
■ **Annual OPEB Cost (AOC)** The AOC equals the ARC, adjusted for prior differences between actual contributions and the ARC.	25,920
■ **Estimated Benefit Payments** Cash flow expected for the current year for County promised retiree healthcare benefits. It includes payments for current retirees and active employees expected to retire during the year.	9,890

SECTION 2
ACCOUNTING INFORMATION

The County will adopt the GASB 45 for its 2007/08 fiscal year and pre-fund the full ARC through CalPERS OPEB Trust. We have performed a June 30, 2007 actuarial valuation. The 2007/08 ARC, AOC, and the estimated June 30, 2008 NOO are as follows.

Annual Required Contribution (ARC)

The 2007/08 GASB 45 cost determined by this valuation includes the Normal Cost and a 30 year amortization of the unfunded AAL (amounts in 000's):

	Total
■ Normal Cost	$ 11,486
■ UAAL amortization	14,434
■ Total ARC	25,920
■ Projected 2007/08 Payroll	156,411
■ As a % of Payroll	16.6%

Annual OPEB Cost (AOC)

The AOC is equal to the ARC, except when the County has a Net OPEB Obligation (NOO) at the beginning of the year. When that happens, the AOC will equal the ARC adjusted for expected interest on the NOO (offset by interest on contributions made) and reduced by an amortization of the NOO. The AOC for fiscal year 2007/08 is determined as follows (amounts in 000's):

	Total
■ ARC	$ 25,920
■ Interest on NOO	0
■ Amortization of NOO	(0)
■ Total AOC	25,920
■ AOC as a % of Payroll	16.6%

Net OPEB Obligation (NOO)

The NOO is the historical difference between actual contributions made and the ARC. If an agency has always contributed the required contribution, then the NOO equals zero. However, contributions have not been "made" for purposes of GASB 45 unless they have been segregated in an irrevocable trust for the sole purpose of paying plan benefits.

Based on the AOC developed above, the June 30, 2008 NOO is (amounts in $000's):

	Total
■ June 30, 2007 NOO[2]	$ 0
■ AOC	25,920
■ Expected 2007/08 contributions	(25,920)
■ Expected June 30, 2008 NOO	0

2 Assumes the June 30, 2007 Net OPEB Obligation is zero.

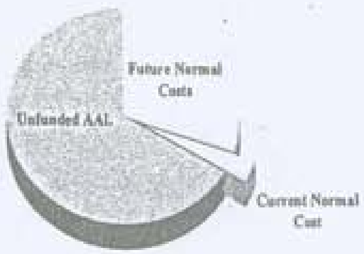
Actuarial Obligations

The following actuarial definitions are used in this section:

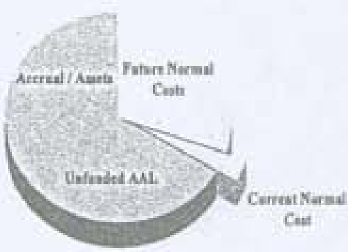
- The Present Value of all Projected Benefits (PVPB) is the present value of all expected future benefits at the valuation date calculated using selected actuarial assumptions.
- The Actuarial Accrued Liability (AAL) is the liability or obligation for benefits earned or allocated to past service through the valuation date calculated using selected actuarial methods and assumptions.
- The Normal Cost is the value of benefits expected to be earned during or allocated to the fiscal year using selected actuarial methods and assumptions.
- Plan Assets must be segregated in a trust for the sole purpose of paying plan benefits in order to be considered Plan Assets for GASB 45.

This report develops the AAL and Normal Cost using the Entry Age Normal actuarial cost method. It is designed to produce a Normal Cost that, if all assumptions are met, will generally be a level percent of payroll. The following charts illustrate a sample PVPB, both with and without plan assets, with the shaded area representing the AAL:

Without Assets



With Assets



Actuarial Obligations
June 30, 2007
7.75% Discount Rate
(amounts in 000's)

	DSA	MGMT	PPEO	Total[3]
■ Present Value of Benefits				
• Actives	$34,742	$26,727	$135,158	$196,627
• Retirees	21,819	21,007	79,995	122,821
• Total	56,561	47,734	215,153	319,448
■ Actuarial Accrued Liability				
• Actives	17,115	16,790	74,832	108,737
• Retirees	21,819	21,007	79,995	122,821
• Total	38,934	37,797	154,827	231,558
■ Assets	0	0	0	0
■ Unfunded AAL	38,934	37,797	154,827	231,558
■ Expected 2007/08 Pay-As-You-Go Cost	1,423	1,778	6,689	9,890

3 Includes 231 MGMT and PPEO employees in the special districts, internal service fund and enterprise fund.

Annual Required Contribution (ARC)
2007/08 Fiscal Year
7.75% Discount Rate
(amounts in 000's)

	DSA	MGMT	PPEO	Total[4]
■ ARC - $				
• Normal Cost	$1,964	$1,360	$8,162	$11,486
• UAAL Amortization[5]	2,427	2,356	9,651	14,434
• ARC	4,391	3,716	17,813	25,920
■ **Payroll**	22,385	29,751	104,275	156,411
■ ARC - %				
• Normal Cost	8.8%	4.6%	7.8%	7.3%
• UAAL Amortization	10.8%	7.9%	9.3%	9.2%
• ARC	19.6%	12.5%	17.1%	16.6%

[4] Includes all 231 employees in the special districts, internal service fund and enterprise fund .

[5] Amortized as a level percent of payroll over 30 years.

Cash Flow Projection
(amounts in 000's)

The following table shows the projected "pay-as-you-go" benefit payments for the next 10 years. The projection assumes the number of County employees remains constant.

Fiscal Year	Benefit Payments
2007/08	$9,890
2008/09	11,296
2009/10	12,988
2010/11	14,278
2011/12	15,533
2012/13	17,157
2013/14	18,754
2014/15	20,401
2015/16	22,054
2016/17	23,616

Participant Statistics

June 30, 2007

	DSA	MGMT	PPEO	Total[6]
■ **Actives:**				
➢ Count	320	317	1,985	2,622
➢ Average age	38.7	49.2	46.4	45.8
➢ Average service	8.9	11.5	8.4	8.8
➢ Average PERS Wages	$69,953	$93,851	$52,531	$59,653
➢ PERS Payroll (000's)	$22,385	$29,751	$104,275	$156,411
■ **Retirees:**				
• In Payment Status				
➢ Count	139	177	743	1,059
➢ Average age	59.9	64.9	65.3	64.6
➢ Ave retirement age	50.6	57.8	58.0	57.0
• Retired > 1/1/00 & Waived Coverage				
➢ Count	n/a	n/a	n/a	142[7]
➢ Average age	n/a	n/a	n/a	60.3
➢ Ave retirement age	n/a	n/a	n/a	56.8
• Total				
➢ Count	n/a	n/a	n/a	1,201
➢ Average age	n/a	n/a	n/a	64.1
➢ Ave retirement age	n/a	n/a	n/a	57.0

[6] Includes 231 MGMT and PPEO employees in the special districts, internal service fund and enterprise fund.
[7] Includes 23 retirees with dental coverage only

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Active Employee Coverage

June 30, 2007

Medical Coverage

Medical Plan	Single	2-Party	Family	Total
Blue Shield	240	235	371	846
Kaiser	226	198	332	756
PERS Choice	66	68	91	225
PERS Choice Tahoe	5	3	2	10
PERSCare	4	1	2	7
PERSCare Tahoe	31	33	27	91
PORAC	5	3	6	14
PORAC Tahoe	6	6	12	24
WHA	42	54	101	197
Waived	n/a	n/a	n/a	452
Total	625	601	944	2,622

Retired Participant Coverage

June 30, 2007

Medical Coverage – Pre 65

Medical Plan	Single	2-Party	Family	Total
Blue Shield Bay/Sac	78	89	38	205
Blue Shield LA Area	-	2	-	2
Blue Shield North	-	2	-	2
Blue Shield South	1	-	-	1
Kaiser Bay/Sac	49	75	29	153
Kaiser OOS	2	1	-	3
Kaiser South	-	1	-	1
PERSCare Bay/Sac	11	3	2	16
PERSCare LA Area	-	-	1	1
PERSCare OOS	4	2	-	6
PERSCare South	1	-	-	1
PERS Choice Bay/Sac	45	50	18	113
PERS Choice LA Area	1	1	-	2
PERS Choice North	3	1	1	5
PERS Choice OOS	20	32	4	56
PORAC	5	11	3	19
Western Health	3	5	7	15
Waived	n/a	n/a	n/a	118
Total	223	275	103	719

Retired Participant Coverage

June 30, 2007

Retiree Medical Coverage – Post 65

Medical Plan	Single	2-Party	Family	Total
Blue Shield Bay/Sac	42	29	1	72
Blue Shield North	1	1	-	2
Blue Shield South	2	1	-	3
Kaiser Bay/Sac	75	66	2	143
Kaiser OOS	1	2	-	3
PERSCare Bay/Sac	56	57	-	113
PERSCare North	2	4	-	6
PERSCare OOS	13	11	-	24
PERSCare South	1	1	-	2
PERS Choice Bay/Sac	25	30	1	56
PERS Choice LA Area	-	1	-	1
PERS Choice North	3	1	-	4
PERS Choice OOS	8	16	-	24
PERS Choice South	-	1	-	1
PORAC	1	-	-	1
Western Health	3	-	-	3
Waived	n/a	n/a	n/a	24
Total	233	221	4	482

Participant Coverage

June 30, 2007

Retiree Medical Coverage – Total

Medical Plan	Single	2-Party	Family	Total
Blue Shield Bay/Sac	120	118	39	277
Blue Shield LA Area	-	2	-	2
Blue Shield North	1	3	-	4
Blue Shield South	3	1	-	4
Kaiser Bay/Sac	124	141	31	296
Kaiser OOS	3	3	-	6
Kaiser South	-	1	-	1
PERSCare Bay/Sac	67	60	2	129
PERSCare LA Area	-	-	1	1
PERSCare North	2	4	-	6
PERSCare OOS	17	13	-	30
PERSCare South	2	1	-	3
PERS Choice Bay/Sac	70	80	19	169
PERS Choice LA Area	1	2	-	3
PERS Choice North	6	2	1	9
PERS Choice OOS	28	48	4	80
PERS Choice South	-	1	-	1
PORAC	6	11	3	20
Western Health	6	5	7	18
Waived	n/a	n/a	n/a	142
Total	456	496	107	1,201

Participant Coverage

June 30, 2007

Dental Coverage

Active

Single	2-Party/ Family	Waived	Total
1,038	1,482	102	2,622

Retiree

Single	2-Party	Family	Waived	Total
395	133	58[8]	615	1,201

[8] Includes 2 retirees with domestic partners.

Active Employees
Age /Service/Pay Distribution

DSA

		Service							
Age		Under 1	1-4	5-9	10-14	15-19	20-24	25 & Over	Total
Under 25	Count	2	10	-	-	-	-	-	12
	Average Salary	49,996	51,533	-	-	-	-	-	51,277
25-29	Count	6	29	10	-	-	-	-	45
	Average Salary	47,803	51,870	64,599	-	-	-	-	54,156
30-34	Count	3	23	29	4	-	-	-	59
	Average Salary	56,894	58,012	69,820	67,156	-	-	-	64,379
35-39	Count	3	16	30	19	4	-	-	72
	Average Salary	58,833	58,983	71,456	81,259	84,757	-	-	71,484
40-44	Count	2	7	18	17	11	4	-	59
	Average Salary	79,598	70,302	71,662	77,127	89,519	90,192	-	77,930
45-49	Count	1	4	6	8	12	6	1	38
	Average Salary	77,482	51,271	68,754	84,461	89,985	86,437	85,284	80,382
50-54	Count	-	-	3	3	7	4	5	22
	Average Salary	-	-	55,616	85,504	84,413	77,903	89,087	80,514
55-59	Count	-	1	2	1	3	2	3	12
	Average Salary	-	84,266	70,274	70,526	65,167	80,944	75,876	73,363
60-64	Count	-	-	-	-	-	-	1	1
	Average Salary	-	-	-	-	-	-	83,518	83,518
65 & Over	Count	-	-	-	-	-	-	-	-
	Average Salary	-	-	-	-	-	-	-	-
Total	Count	17	90	98	52	37	16	10	320
	Average Salary	57,098	56,434	69,636	79,355	86,215	84,555	84,186	69,953

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Active Employees
Age /Service/Pay Distribution

Management

		Service							
Age		Under 1	1-4	5-9	10-14	15-19	20-24	25 & Over	Total
Under 25	Count	1	1	-	-	-	-	-	2
	Average Salary	65,187	38,999	-	-	-	-	-	52,093
25-29	Count	1	2	2	-	-	-	-	5
	Average Salary	56,701	45,042	50,595	-	-	-	-	49,595
30-34	Count	1	3	6	1	-	-	-	11
	Average Salary	75,525	75,012	65,016	42,996	-	-	-	66,696
35-39	Count	1	6	8	1	4	-	-	20
	Average Salary	77,958	75,952	66,799	104,238	104,632	-	-	79,541
40-44	Count	5	9	14	7	8	3	-	46
	Average Salary	88,221	73,664	83,349	83,283	84,864	86,282	-	82,429
45-49	Count	3	14	16	14	18	6	1	72
	Average Salary	77,312	82,736	86,721	84,311	99,491	108,968	143,601	90,922
50-54	Count	3	13	20	16	13	13	11	89
	Average Salary	99,362	74,889	89,989	158,663	113,831	116,720	101,807	109,293
55-59	Count	1	10	10	7	11	5	9	53
	Average Salary	56,701	98,080	78,270	113,216	95,573	137,827	122,321	102,906
60-64	Count	-	4	4	4	1	1	2	16
	Average Salary	-	88,187	66,309	95,164	91,881	87,426	101,991	86,371
65 & Over	Count	-	1	2	-	-	-	-	3
	Average Salary	-	99,590	36,716	-	-	-	-	57,674
Total	Count	16	63	82	50	55	28	23	317
	Average Salary	81,450	79,965	79,284	112,447	100,205	114,520	111,667	93,851

Active Employees
Age /Service/Pay Distribution

PPEO

		Service							
Age		Under 1	1-4	5-9	10-14	15-19	20-24	25 & Over	Total
Under 25	Count	18	21	1	-	-	-	-	40
	Average Salary	36,846	37,212	52,467	-	-	-	-	37,429
25-29	Count	26	66	21		-	-	-	113
	Average Salary	45,718	46,650	47,941	-	-	-	-	46,676
30-34	Count	31	73	59	7	-	-	-	170
	Average Salary	45,855	46,434	50,319	52,817	-	-	-	47,940
35-39	Count	18	81	76	37	9	-	-	221
	Average Salary	50,132	51,348	56,187	60,225	52,308	-	-	54,438
40-44	Count	17	66	106	43	26	7	-	265
	Average Salary	42,957	50,099	57,438	59,174	64,575	56,061	-	55,627
45-49	Count	17	62	130	58	44	24	20	355
	Average Salary	36,186	44,116	55,325	53,887	58,463	58,487	56,692	52,895
50-54	Count	25	78	112	63	49	22	18	367
	Average Salary	51,170	49,481	54,279	54,406	53,653	65,433	62,194	54,042
55-59	Count	13	40	114	48	48	22	14	299
	Average Salary	46,118	47,572	48,494	56,201	61,716	51,653	65,736	52,667
60-64	Count	5	26	51	22	23	6	4	137
	Average Salary	37,873	64,300	48,223	46,057	53,993	54,380	70,179	52,428
65 & Over	Count	-	1	10	4	1	2	-	18
	Average Salary	-	41,412	63,080	55,816	59,025	42,868	-	57,791
Total	Count	170	514	680	282	200	83	56	1,985
	Average Salary	44,643	48,495	53,348	55,424	58,072	57,639	61,685	52,531

Active Employees
Age /Service/Pay Distribution

Total

		Service							
Age		Under 1	1-4	5-9	10-14	15-19	20-24	25 & Over	Total
Under 25	Count	21	32	1	-	-	-	-	54
	Average Salary	39,448	41,743	52,467	-	-	-	-	41,049
25-29	Count	33	97	33	-	-	-	-	163
	Average Salary	46,430	48,178	53,150	-	-	-	-	48,831
30-34	Count	35	99	94	12	-	-	-	240
	Average Salary	47,649	49,990	57,273	56,778	-	-	-	52,841
35-39	Count	22	103	114	57	17	-	-	313
	Average Salary	52,583	53,967	60,950	68,008	72,255	-	-	59,963
40-44	Count	24	82	138	67	45	14	-	370
	Average Salary	55,440	54,410	61,922	66,248	74,279	72,289	-	62,515
45-49	Count	21	80	152	80	74	36	22	465
	Average Salary	44,028	51,232	59,160	62,268	73,555	71,559	61,942	61,030
50-54	Count	28	91	135	82	69	39	34	478
	Average Salary	56,333	53,111	59,599	75,887	68,112	83,807	78,965	65,548
55-59	Count	14	51	126	56	62	29	26	364
	Average Salary	46,874	58,195	51,203	63,584	67,890	68,531	86,493	60,664
60-64	Count	5	30	55	26	24	7	7	154
	Average Salary	37,873	67,484	49,538	53,612	55,571	59,100	81,174	56,156
65 &Over	Count	-	2	12	4	1	2	-	21
	Average Salary	-	70,501	58,686	55,816	59,025	42,868	-	57,774
Total	Count	203	667	860	384	292	127	89	2,622
	Average Salary	48,587	52,539	57,677	66,090	69,574	73,571	77,130	59,653

Benefit Summary

<table>
<tr><th></th><th>PPEO, Management</th><th>PCDSA</th></tr>
<tr><td>■ Eligibility</td><td colspan="2">• Full time / Part time employees service retirement from the County
• Continue participating in PEMHCA after retirement
• Hired > 1/1/05 require 10 years CalPERS service & 5 Years County service</td></tr>
<tr><td>■ Health Benefit
• Cap</td><td>• Hired < 1/1/05 & Retired < 1/1/07
➢ Prior to 6/30/10:
County Share = 100% x Ave. of Highest & Lowest HMOs (excl. WHA)
➢ Effective 7/1/10:
County Share for Non PERSCare = 90% x Premium,
County Share for PERSCare = Frozen at 2007 level
• Hired < 1/1/05 & Retired ≥ 1/1/07
➢ Prior to 12/31/07:
County Share = 100% x Ave. of Highest & Lowest HMOs (excl. WHA)
➢ Effective 1/1/08:
County Share for Non PERSCare = 90% x Premium,
County Share for PERSCare = Frozen at 2007 level
• Hired ≥ 1/1/05: the greater of
➢ County Share from the above,
➢ State 100/90 formula = 100% x Ave. of 4 most popular plans in CA</td><td>• Hired < 1/1/05:
➢ County Share = 90% x Ave. of All Plans in Auburn minus $20/month
• Hired ≥ 1/1/05: the greater of
➢ County Share,
➢ State 100/90 formula = 100% x Ave. of 4 most popular plans in CA</td></tr>
</table>

	PPEO, Management	PCDSA
• Vesting	• Hired < 1/1/05: ➢ Service & Disability Retirement: 100% • Hired ≥ 1/1/05: ➢ Disability Retirement: 100% ➢ Service Retirement.: % based on service ▪ < 10 years 0% ▪ ≥ 10 years 50% + 5% x (Service - 10)	• Hired < 1/1/05: ➢ Service & Disability Retirement: 100% • Hired ≥ 1/1/05: ➢ Dis. Retirement: 100% ➢ Service Retirement: % based on service ▪ < 10 years 0% ▪ ≥ 10 years 50% + 5% x (Service -10)
• Spouse Benefit	• Included	• Included
■ Dental Benefit	• Retired > 1/1/02, County pays one-party premium (retiree only)	• Retired > 7/1/00: County pays one-party premium (retiree only)

2007 Retiree Caps[9]

	Hired < 1/1/05			Hired > 1/1/05		
Barg. Unit	Single	2-Party	Family	Single	2-Party	Family
PPEO/Mgmt	$457.68	$915.38	$1,190.00	$457.68	$915.38	$1,190.00
DSA	426.24	864.08	1,125.76	439.00[10]	864.08	1,125.76

Projection of Future County Share Cap
Single Coverage

	Current County Share			New 90/10 County Share Effective 1/1/08			
Year	100/90 State Formula	DSA County Share	PPEO/Mgmt Old County Share	Blue Shield	Kaiser	PERS Choice	PERS Care
2007	$439.00	$426.24	$457.69	$435.79	$388.05	$409.66	$457.69
2008	471.00	447.14	501.80	479.64	423.60	434.23	457.69
2009	516.90	494.41	550.70	526.37	464.88	480.02	457.69
2010	563.88	542.85	600.75	574.22	507.13	527.01	457.69
2011	611.43	591.91	651.41	622.64	549.90	574.61	457.69
2012	658.99	640.95	702.80	671.07	592.67	622.18	457.69
2013	705.92	689.28	752.08	718.86	634.88	668.98	457.69
2014	751.57	736.15	800.72	765.35	675.94	714.25	457.69
2015	795.24	780.81	847.25	809.83	715.22	757.18	457.69
2016	836.24	822.48	890.93	851.58	752.09	796.98	457.69

9 Excludes administrative fee 0.3%

10 2007 State 100/90 formula ($439/$823/$1,042) applies

Dental Premiums

Prior 7/1/2007

Plan	Single	2-Party/Family
DenDel	$50.36	$100.72

Effective 7/1/2007

Plan	Single	2-Party/Family
DenDel	$42.00	$84.00

2007 Retiree Monthly PEMHCA Premiums
Bay Area/Sacramento

	Non Medicare Eligible			Medicare Eligible		
Plan	Single	2-Party	Family	Single	2-Party	Family
Blue Shield	$484.21	$968.42	$1,258.95	$318.95	$637.90	$956.85
Kaiser	431.17	862.34	1,121.04	289.68	579.36	869.04
PERS Choice	455.18	910.36	1,183.47	341.75	683.50	1,025.25
PERSCare	769.50	1,539.00	2,000.70	371.68	743.36	1,115.04
PORAC	439.00	822.00	1,045.00	351.00	701.00	1,049.00
WHA	395.85	791.70	1,029.21	296.86	593.72	890.58

2008 Retiree Monthly PEMHCA Premiums
Bay Area/Sacramento

	Non Medicare Eligible			Medicare Eligible		
Plan	Single	2-Party	Family	Single	2-Party	Family
Blue Shield	$532.93	$1,065.86	$1,385.62	$341.44	$682.88	$1,024.32
BlueShield Net Value	478.22	956.44	1,243.37	304.66	609.32	913.98
Kaiser	470.67	941.34	1,223.74	273.36	546.72	820.08
PERS Choice	482.48	964.96	1,254.45	349.11	698.22	1,047.33
PERS Select	467.18	934.36	1,214.67	349.11	698.22	1,047.33
PERSCare	749.83	1,499.66	1,949.56	404.60	809.20	1,213.80
PORAC	452.00	847.00	1,076.00	308.00	614.00	983.00

SECTION 6
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods

The actuarial cost method used for this valuation is the Entry Age Normal (EAN) cost method. Under the EAN cost method, the plan's Normal Cost is developed as a level percent of payroll throughout the participants' working lifetime.

The Actuarial Accrued Liability (AAL) is the cumulative value, on the valuation date, of prior Normal Costs. For retirees, the AAL is the present value of all projected benefits. The initial unfunded AAL is being amortized over 30 years as selected by the County.

The plan is assumed to be ongoing for cost purposes. This does not imply that an obligation to continue the plan exists.

Funding Policy

We understand that the County will adopt the GASB 45 for its 2007/08 fiscal year and pre-fund the full ARC through CalPERS OPEB Trust.

Actuarial Assumptions

■ **Discount Rate** • The County will pre-fund through CalPERS for the fiscal year 2007/08. • 7.75%, representing CalPERS investment return.
■ **General Inflation** • 3.0% per annum. • Same as CalPERS assumption.
■ **Aggregate Payroll Increase** • 3.25% per annum. • Same as CalPERS assumption.
■ **Salary Merit Increases** • CalPERS' 1997-2002 Experience Study
■ **Mortality, Withdrawal, Disability** • CalPERS 1997-2002 Experience Study
■ **Retirement Assumption** • CalPERS 1997-2002 Experience Study • Miscellaneous: 2.5% @ 55 • Safety: 3%@ 50

■ **Healthcare Trend**

	HMO		PPO	
Year	Pre-Medicare	Post-Medicare	Pre-Medicare	Post-Medicare
2007	*Actual 2007 premiums*		*Actual 2007 premiums*	
2008	*Actual 2008 premiums*		*Actual 2008 premiums*	
2009	9.7%	10.1%	10.5%	10.9%
2010	9.1%	9.5%	9.8%	10.2%
2011	8.4%	8.8%	9.0%	9.4%
2012	7.8%	8.1%	8.3%	8.6%
2013	7.1%	7.3%	7.5%	7.7%
2014	6.5%	6.6%	6.8%	6.9%
2015	5.8%	5.9%	6.0%	6.1%
2016	5.2%	5.2%	5.3%	5.3%
2017+	4.5%	4.5%	4.5%	4.5%

■ **Dental Trend**

- 4%
- Premium rates reduced at 7/1/07

■ **Participation**

- Future Retirees:
  - Currently covered – 100%
  - Not currently covered – 90%
- Current Retirees:
  - In payment status – 100%
  - Not in payment status – 15% will re-elect

■ **Cap Increase**

- Same as Healthcare Trend

■ **Medical Plan at Retirement**

- Currently covered: same as current plan.
- Not currently covered: weighted premium based on current distribution.
- WHA moves to Kaiser in 2008

■ **Medicare Eligible Rate**

- 100%
- Everyone eligible for Medicare will elect Part B coverage

■ **Marital Status**

- Currently covered: current marital status
- Not currently covered: 80% married

■ **Spouse Age** • Males 3 years older than females if spouse DOB missing
■ **Dependents** • Miscellaneous - 10% have family coverage • Safety - 30% have family coverage • No family coverage > age 65
■ **Current Waived Retirees** • Assume 15% covered 5 years after retirement • 0% if retired < 1/1/2000
■ **Future New Participants** • Closed Group – no future new participants assumed.

GASB OPEB SUMMARY

On June 21, 2004, the Governmental Accounting Standards Board approved Statement No. 45 (GASB 45), accounting standards for *other* (than pensions) *post employment benefits* (OPEB). Accounting for these benefits – primarily postretirement medical – can have significant impact on state and local government financial statements. This section summarizes GASB 45.

Background

Historically, most public sector entities have accounted for OPEB using a "pay-as-you-go" approach; very few have prefunded or even accrued for these benefits. This means OPEB costs are ignored while an employee renders service and recognized only after an employee retires. GASB argues this delayed recognition shifts "costs" from one taxpaying generation to another. The GASB position is that OPEB, like pension benefits, are a form of deferred compensation. Accordingly, GASB 45 requires recognizing OPEB (in the financial statement) *as employees render service* (and consequently earn the benefit), rather than when paid.

Effective Dates

GASB 45 effective dates are phased in similar to GASB Statement No. 34:

- Fiscal years beginning after December 15, 2006 for GASB 34 phase 1 governments (total annual revenue of $100 million or more)
- Fiscal years beginning after December 15, 2007 for GASB 34 phase 2 governments (total annual revenue of $10 million to $100 million)
- Fiscal years beginning after December 15, 2008 for GASB 34 phase 3 governments (total annual revenue less than $10 million).

What Benefits are OPEB?

OPEB includes most post employment benefits, other than pensions, that employees are entitled to after leaving employment:

- Retiree medical
- Dental
- Prescription drug
- Vision
- Life insurance
- Outside group legal
- Long-term care
- Disability benefits outside a pension plan

OPEB does not include vacation, sick leave, COBRA, or ad hoc early retirement incentives, which fall under other GASB accounting statements.

Accounting Standards

Under GASB 45, pay-as-you-go accounting is replaced with accrual accounting. This is virtually identical to GASB's approach under Statement No. 27, with the key financial statement components being an Annual Required Contribution, an Annual OPEB Cost, and a Net OPEB Obligation.

- **Annual Required Contribution (ARC)**: GASB 45 doesn't require an agency to make up any shortfall (unfunded Actuarial Liability) immediately, nor does it allow an immediate credit for any excess Plan Assets. Instead, the difference is amortized over time. An agency's ARC is nothing more than the employer current Normal Cost (value of benefits being "earned" during a year), plus the amortized unfunded Actuarial Liability (or less the amortized excess Plan Assets).Simply put, ARC is the value of benefits earned during the year plus (or minus) something to move the plan toward being on track for funding. GASB 45 allows actuaries to amortize the unfunded Actuarial Liability (or excess Plan Assets) on a level dollar or level percent of payroll basis. We believe most agencies will want to use a level percent of payroll amortization because it's more consistent with the budget process and how pension contributions are usually calculated. ARC must be based on the underlying OPEB promise (as understood by the plan sponsor and employees).
- **Annual OPEB Cost (AOC)**: The first year an agency complies with the new standards, the AOC equals the ARC. In subsequent years, the AOC will equal the ARC, adjusted for prior differences between the ARC and AOC.
- **Net OPEB Obligation (NOO)**: An agency's NOO is the historical difference between actual contributions made and the ARC. If an agency has always contributed the ARC, the NOO equals zero. However, an agency has not "made" the contribution unless it has been set aside *and* cannot legally be used for any other purpose.

Implementation Process

The implementation process will be relatively straightforward: An agency will hire an actuary to calculate the ARC. The first time an agency does this, their AOC equals their ARC. The agency then decides whether to contribute all, none, or part of the ARC into a Trust that cannot legally be used for any purpose other than paying OPEB.

If an agency always contributes the ARC, then each subsequent year's AOC equals their ARC – and the NOO is zero. The first year an agency does *not* contribute the ARC, they must establish an NOO equal to the difference between their actual contribution and the ARC. The subsequent year's AOC equals the ARC, adjusted for interest and amortization of the NOO.

Disclosure Requirements

This may be the most important aspect of GASB 45.When disclosed, some agencies will show large OPEB unfunded liabilities, while others will show small or no unfunded liabilities. These differences *may* require an adjustment in an agency's bond rating.

Plan sponsors must disclose in their financial statement footnotes:

- Basic plan information
  - Plan type
  - Benefits provided
  - Authority under which benefits were established
- Plan funding/contribution policy information:
  - Required contribution rates for active members and employers shown in dollars or as a percent of payroll
- Plan Funded Status information:
  - AOC and the dollar contributions actually made
  - If the employer has a NOO, also
    - Components of the AOC
    - NOO increase or decrease during the year
    - End of year NOO
  - 3-year history of
    - AOC
    - Percent of AOC contributed during the year
    - End of year NOO
  - Most recent year's plan Funded Status
  - Actuarial methods and assumptions used to determine the ARC, AOC, and Funded Status.

In addition, plan sponsors must provide 3 years of historical required supplementary information:

- Valuation dates
- Actuarial asset values
- Actuarial Liability
- Unfunded Actuarial Liability (excess Plan Assets)
- Plan funded ratio
- Annual covered payroll
- Ratio of unfunded Actuarial Liability (excess Plan Assets) to annual covered payroll
- Factors that significantly affect comparing the above information across the years.

Defining the Plan

GASB 45 refers to the *substantive plan* as the basis for accounting. It may differ from the *written plan* in that it reflects the employer's cost sharing policy based on:

- Past practice or communication of intended changes to a plan's cost sharing provisions, or
- Past practice of cost increases in monetary benefits.

The substantive plan is the basis for allowing recognition of potential future plan changes. This approach requires entities to acknowledge the underlying promise, not just the written plan.

What if retirees participate in the active healthcare plan, but are charged a rate based on composite active and retiree experience?(This was a contentious issue during the statement drafting, with one of the seven board members dissenting from Board adoption of the final statement.)In general, GASB 45 requires recognition of the implied subsidy. However, if benefits are provided through a community rated plan (premium rates based on experience of multiple employers rather than a single employer), and the same premium is charged for active and retired participants, it is appropriate to value unadjusted premiums.

Actuarial Assumptions and Discount Rate Requirements

Under GASB 45, the actuary must follow current actuarial standards of practice, which generally call for explicit assumptions – meaning each individual assumption represents the actuary's best estimate.

GASB 45 also requires basing the discount rate on the source of funds used to pay the benefits. This means the underlying expected long-term rate of return on Plan Assets for funded plans. Since the source of funds for unfunded plans is usually an agency's general fund, and California and most other state law restricts what investments agencies can have in their general fund, unfunded plans will need to use a low (for example, 4% to 5%) discount rate. If an agency sets up a Trust and diversifies Trust Plan Assets, however, the discount rate might be much higher (such as 6%) depending on the Trust fund's expected long-term investment return.

Transition Issues

Typically, new accounting standards allow transition from old to new requirements.Because historical ARC calculations will rarely be available, GASB 45 takes a prospective transition approach: there is no requirement for an initial transition obligation.But if AOCs, before transition, were calculated consistently with the standard, a NOO at transition can be established at an agency's discretion.

Valuation Frequency Requirements and Small Plans

GASB 45 requires an actuarial valuation at least every two years for plans with more than 200 (active, inactive, and retired) members. Plans with fewer than 200 members will need a valuation every 3 years. In a significant departure from prior standards, though, GASB 45 allows plans with fewer than 100 members to elect a simplified measurement method not requiring an actuarial certification.

Miscellaneous -- PERS Report

		FY 2007-08 Platform		FY 2008-09 Platform		^
Report as of October 22, 2007						
Employer rate						
Normal Cost		9.438%		9.447%		0.009%
Amortization Bases		4.581%		4.923%		0.342%
Employee rate		7.750%		7.757%		0.007%
Total rate:		21.769%		22.127%		0.358%
Present Value of Projected Benefit	$	633,623,743	$	705,757,699	$	72,133,956
Entry Age Normal Accrued Liability	$	478,475,961	$	535,257,491	$	56,781,530
Unfunded Liability (Excess Assets)	$	76,878,029	$	90,772,784	$	13,894,755
Funded Status		86.3%		87.8%		1.50%

Safety -- PERS Report

		FY 2007-08 Platform		FY 2008-09 Platform		^
Report as of October 22, 2007						
Employer rate						
Normal Cost		15.830%		15.314%		-0.516%
Amortization Bases		9.124%		10.308%		1.184%
Employee rate		8.759%		8.783%		0.024%
Total rate:		33.713%		34.405%		0.692%
Present Value of Projected Benefit	$	208,113,157	$	238,583,505	$	30,470,348
Entry Age Normal Accrued Liability	$	159,443,969	$	182,401,679	$	22,957,710
Unfunded Liability (Excess Assets)	$	37,930,522	$	48,102,102	$	10,171,580
Funded Status		78.6%		78.2%		-0.40%

Purpose of the Report

This report presents the results of the June 30, 2006 actuarial valuation of the MISCELLANEOUS PLAN OF THE COUNTY OF PLACER of the California Public Employees' Retirement System (CalPERS). The valuation was prepared by the Plan Actuary in order to:

- set forth the actuarial assets and accrued liabilities of this plan as of June 30, 2006;
- certify the actuarially required employer contribution rate of this plan for the fiscal year July 1, 2008 through June 30, 2009 is 14.370%;
- provide actuarial information as of June 30, 2006 to the CalPERS Board of Administration and other interested parties; and
- provide pension information as of June 30, 2006 to be used in financial reports subject to Governmental Accounting Standards Board (GASB) Statement Number 27 for a Single Employer Defined Benefit Pension Plan.

Use of this report for other purposes may be inappropriate.

Required Contributions

	Fiscal Year 2007/2008	Fiscal Year 2008/2009
Required Employer Contributions		
Employer Contribution Required (in Projected Dollars)		
Payment for Normal Cost	$ 11,705,389	$ 12,865,486
Payment on the Amortization Bases	5,681,897	6,704,450
Total (not less than zero)	$ 17,387,286	$ 19,569,936
Annual Lump Sum Prepayment Option*	$ 16,750,322	$ 18,853,013
Employer Contribution Required (Percentage of Payroll)		
Payment for Normal Cost	9.438%	9.447%
Payment on the Amortization Bases	4.581%	4.923%
Total (not less than zero)	14.019%	14.370%
Required Employee Contributions (Percentage)	7.750%	7.757%

Funded Status

	June 30, 2005	June 30, 2006
Present Value of Projected Benefits	633,623,743	705,757,699
Entry Age Normal Accrued Liability	478,475,961	535,257,491
Actuarial Value of Assets (AVA)**	401,597,932	444,484,707
Unfunded Liability	$ 76,878,029	$ 90,772,784
Market Value of Assets (MVA)	$ 412,734,840	$ 470,110,043
Funded Status (on an MVA basis)	86.3%	87.8%
Superfunded Status	No	No

* Payment must be received by CalPERS between July 1 and July 15.

** The Actuarial Value of Assets is used to establish funding requirements, while the funded ratio based on the Market Value of Assets is a better indicator of the solvency of the plan.

MEMORANDUM
OFFICE OF THE
COUNTY EXECUTIVE
COUNTY OF PLACER

TO: Honorable Board of Supervisors
FROM: Jan M. Christofferson, County Executive Officer
Submitted by: Placer County Finance Committee
Jenine Windeshausen, Treasurer-Tax Collector; Kathy Martinis, County Auditor-Controller; Robert Bendorf, Assistant County Executive Officer; and Therese Leonard, Principal Management Analyst
DATE: April 8, 2003
SUBJECT: **Placer County Debt Management Policy**

REQUEST

It is requested that the Board of Supervisors approve the attached Resolution to adopt the Placer County Debt Management Policy (Exhibit I).

BACKGROUND

The Government Finance Officers Association recommends the development and implementation of policies to guide the issuance and management of debt. Issuing debt commits a government's revenues several years into the future, and may limit the government's flexibility to respond to changing service priorities, revenue inflows, or cost structures. Adherence to a debt policy ensures that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit quality. The County intends to maintain the infrastructure necessary to provide public services, but does not intend to rely upon long-term debt to defer current obligations. Notwithstanding this intent, debt financing is a powerful and often necessary tool for undertaking major capital projects that can not be financed on a pay-as-you-go basis. This Debt Management Policy is consistent with the Placer County Budget and Financial Policies that were adopted by the Board of Supervisors on January 7, 2003.

FISCAL IMPACT

Adoption of the Placer County Debt Management Policy will promote financial stability and long-term planning by providing direction to the County Executive Office in managing the County's financial affairs. The policy will also provide a context to guide Board decisions when approached with debt issuance requests.

Placer County

Debt Management Policy

Prepared by the Placer County Finance Committee
(The County Executive Office,
The Treasurer/Tax Collector and
The Auditor-Controller)

Note: Approved by the Board of Supervisors on April 8, 2003.

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I. DEBT POLICY PURPOSE

The Placer County Debt Policy Pserves as a tool in managing the County's financial affairs. The County recognizes the importance of making an ongoing commitment to maintain the facilities and infrastructure necessary to provide public services, but does not intend to rely upon long-term debt to defer its current obligations and unduly burden future Boards of Supervisors and tax payerstaxpayers with current County responsibilities. Notwithstanding these concerns, debt financing is a powerful and necessary tool for undertaking major capital projects that cannot be reasonably financed on a pay-as-you go basis.

This policy is intended to assist the County in meeting the following objectives.

- Maintain a prudent balance of debt and equity in meeting long-term capital needs in the form of pay-as-you-go financing. Debt and equity balance will be considered when planning the use of debt financing to address facility needs and other public infrastructure, and will ensure against incurring a level of fixed debt obligation that denies an appropriate level of future operating flexibility.

- Maintain financial discipline, prudence and long term stability.

- Ensure the County's long-term ability to maintain an acceptable level of service to its citizenry.

- Lower the cost of borrowing by maintaining high ratings and easy access to capital markets.

- Establish and periodically review policies, goals, objectives and standards that will enable the County to maintain or improve its credit ratings.

- Keep policy makers informed of the County's policies, goals, and standards with regard to the issuance of debt.

- Facilitate approval of debt issuance using predetermined, certain policies.

- Incorporate debt management practices into the County's planning and project management activities.

- Support decisions based upon sound financial and management practices; reduce political influence in the debt issuance process.

II. SCOPE OF DEBT AND OTHER OBLIGATIONS GOVERNED BY THIS POLICY

This policy addresses a variety of long-term County obligations, such as, but not limited to:

- voter-approved bonds which impose or increase taxes or assessments;
- lease revenue bonds and certificates of participation payable out of general resources; and
- limited obligations payable out of project or system revenues or other restricted funds.

This policy includes all debt that must ultimately be approved by the Placer County Board of Supervisors. This policy is not intended to address interfund borrowing; interagency borrowing; tobacco securitization; loans from the County Treasurer pursuant to the California State Constitution; or investment activities of the County Treasurer including but not limited to reverse repurchase agreements and securities lending.

III. USES OF COUNTY DEBT

The appropriate purposes for which the County would consider debt financing are the following.

1. **Generational equity**: Allows the cost of large capital investments to be spread appropriately between current taxpayers and service users, and future taxpayers and service users.

2. **Accelerating highest priority projects**: Capital improvements that are deemed to be of such a high priority to the public safety and welfare of the County that the cost of construction delay far exceeds the interest expense of a debt financing. Debt financing will be considered for high priority capital projects where the total project cost significantly exceeds available funding from the annual operating budget.

3. **Self-supporting obligations**: Debt where the financed project pays for itself through increased revenues or through the reduction of other County expenditures.

4. **Leveraging specific revenues:** Debt that offsets a mismatch in the timing of revenues and expenditures.

5. **Economic development:** Debt is appropriate when it provides a capital investment that generates the revenue necessary to support repayment, or when the County desires to allocate existing resources toward such development.

6. **Voter approval:** Projects or debt obligations approved by the voters are deemed by virtue of

such approval to be appropriate for debt financing.

IV. CAPITAL PLANNING POLICIES

The County will attempt to fund capital projects with grants, land use fees including impact fees, or other non-recurring resources. When such funds are insufficient the County will use appropriate special or enterprise revenues for capital projects that serve the purposes of such funds, or consider the development of new funding sources. If such funds are not available or practical the County may consider the use of general revenues, operating surplus, and/or unrestricted fund balance or capital reserves to fund capital projects. The County may consider leveraging these resources with bonds or certificates of participation.

V. BALANCING DEBT WITH COUNTY EQUITY

The County will minimize debt by deferring capital projects and by dedicating a portion of its resources towards pay-as-you-go capital investment. The County will continue to balance debt and equity by investing a portion of annual revenue in the capital program, providing for reserves and for depreciation. The County should avoid deferral of necessary capital improvements that result in greater costs associated with deferred maintenance or replacement.

VI. DEBT AFFORDABILITY TARGET LIMITATIONS

"Debt affordability" is considered in the policies established by the county, and financial and economic ratios recognized by rating agencies. Target ratios identified in this policy are guidelines and should be revisited as the County's capital program and financial resources change.

The principal affordability measures will be the following.

1. *As a percent of budget*: Consistent with market practices this ratio will be calculated as a percent of General Fund revenue, as a percent of General Fund revenue less General Fund intergovernmental revenue, and as a percent of operating expenditures. Placer County will keep ratios at or below the median for California counties.

2. *Tax rate threshold:* The County recognizes taxpayer sensitivity to tax rates. The County's Bond Screening Committee established in its "Rules and Procedures of the Assessment and Community Facilities Districts" limits for approving any such special district obligations where the aggregate tax would exceed 2% of assessed value. Bond issues achieving a level of community support sufficient to meet the 2/3rd-majority vote will be deemed to be an exception to the guidelines for financial and economic measures.

3. *Rating agency ratios:* The rating agencies, bond insurance companies and institutional investor analysts commonly rely on certain ratios to measure a jurisdiction's debt load. In addition to the ratios of debt as a percent of revenues and expenditures, the rating agencies employ debt as a percent of assessed valuation; debt as a percent of personal income; and debt per capita.

These three ratios are not direct measures of issuer debt affordability, however they provide useful benchmarks by which the County can compare itself to its peers and affect the way bond market participants view the County. The County's goal is to maintain such measures at levels that are at or below the average of comparable counties. Moody's Investors Services publishes debt measures for California Counties, which will be utilized as a source document for comparison purposes.

The County may determine that a particular improvement is of such high necessity to ensure the safety and welfare of County residents that it must incur obligations in excess of these thresholds. To the extent such thresholds are ever exceeded for such purposes, it is the intention of the County to avoid future occurrences of debt or other fixed obligations until such thresholds are restored.

VII. DEBT ADMINISTRATION

Debt management will be the responsibility of the County Executive Officer (CEO) and the Treasurer Tax Collector as follows:

1. **Reviewing and recommending debt financing–CEO & Treasurer.** The CEO and Treasurer Tax Collector will be responsible for reviewing, analyzing and recommending new issue debt financing when appropriate and consistent with these policies. The County's Finance Committee will review proposed County debt financing proposals and make recommendations to the CEO and Board of Supervisors.

2. **Leading the process of issuance–CEO, Treasurer and County Counsel.** Departments will work together to select financial advisors, underwriters, bond counsel, disclosure counsel and other members of a financing team. Officials will prepare bond documentation including official statements, and will review them for material errors or omissions before such documents can be deemed final.

3. **Fiscal agent–Treasurer.** The Treasurer will be responsible for selecting trustees and other fiscal agents associated with bond and certificate of participation issues. To the extent permitted by bond counsel, the rating agencies or any bond insurer, the Treasurer will serve as the County's fiscal agent on its debt transactions.

4. **Continuing annual disclosure–Treasurer, Auditor-Controller, Facility Services & CEO.**

The Securities and Exchange Commission ("SEC") requires that underwriters obtain promises in writing from municipal debt issuers to provide specified financial and operating information on an annual basis. This promise for continuing annual disclosure is set forth in a separate agreement between the issuer and the underwriter who purchases the County's bonds. The County Executive Office will oversee the preparation of annual disclosure reports as required under federal law and regulations, and consistent with the continuing disclosure agreement pertaining to that financing. Such reports will be reviewed in the manner of initial official statements. Under continuing disclosure requirements the County is obligated to provide ongoing disclosure of material events, including those that are specifically enumerated in the agreement.

5. **Arbitrage administration–Treasurer.** The Treasurer is charged with responsibility for establishing and maintaining, either directly or through contract, a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. This effort includes tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the County's outstanding debt issues.

6. **Covenant Administration–CEO.** The CEO will establish and maintain a system for monitoring the various covenants and commitments established within the documentation of a bond issue, and ensuring that County staff or consultants take such actions as required to comply with the various covenants of a financing.

7. **Small lease-purchases–CEO.** No County Department, agency, or sub-unit will enter into a lease-purchase contract, or incur some other form of indebtedness, of more than $24,999 without the express approval of the Board of Supervisors.

8. **Investing Bond Proceeds–Treasurer.** The Treasurer is responsible for investing all bond or certificate of participation proceeds held by the County and directing the investment of all funds held by a trustee under an indenture or trust agreement. Investments will be consistent with those authorized by state and federal law.

VIII. BOND RATINGS

The County intends to maintain its bond ratings at least at the current level, or higher. The only currently rated obligations are various certificates of participation, secured by long-term County leases, which have been rated A1 by Moody's Investors Service and A by Standard and Poor's Corporation. These ratings are among the highest of all California counties. High bond ratings result in reduced borrowing costs, as well as provide a level of independent validation of the County's financial management.

Since credit rating agencies typically take into account the following four economic and financial measures when evaluating credit quality, the County will keenly consider the impact of future debt on these measures:

1. **Economy and tax base**–These factors include residential wealth and income, population, and major employers. Rating agencies' review assessed valuation, both as an indicator of the economy as well as a source of revenue, and taxable sales (particularly relevant for public safety revenues). These factors are the most difficult for the County to influence.

2. **Debt**–The various measures of indebtedness used by rating agencies have been discussed above. Rating agencies are increasingly reviewing debt management practices, and look favorably on the adoption of formal financial, budget and debt management policies and other management practices.

3. **Finances**–Fund balance and other measures of operating results, funded contingency reserves, and cash balances are analyzed by rating agencies, both as measures of financial flexibility and as indicators of financial management and control.

4. **Management**–While always the most difficult quality to assess, ratings reflect the judgment of the credit rating agency as to the strength of a county's management team.

IX. LEASE OBLIGATIONS

Lease financing should be considered in the context of partnership and leveraging opportunities that involves other agencies or outside revenue sources. Situations may occur which require an additional level of analysis regarding the thresholds described above. There may be opportunities to convert existing lease payments made to private lessors, into lease-purchase payments for more permanent facilities (usually with an imbedded tax-exempt cost of funds). Under the latter mechanism the County would gain a long-term equity interest in the property, owning it outright at the end of the lease term.

Long-term investments in **lease-purchased facilities** should be considered in lieu of short-term leases. Staff should conduct a risk assessment as to the long-term need for the facility; the probability that state and/or federal funding for facility costs will be available over the lease term; and a cost analysis of the relevant net costs to the County of alternative financing approaches.

X. DEBT STRUCTURE CONSIDERATIONS

1. **Rapidity of Debt Repayment** . Borrowing by the County should be of a duration that does not exceed the economic life of the improvement that it finances. The debt repayment term

should be shorter than the improvements projected life in an effort to improve the County's credit profile through early retirement of debt, and to recapture debt capacity for future use. The County may choose to structure debt repayment on any particular transaction so as to consolidate or restructure existing obligations or to achieve other financial planning goals.

2. **Capitalized Interest .** The County may include within its borrowings additional funds to pay interest on the obligation during an initial period. Such capitalizing of interest will be most commonly used to secure lease obligations during the project construction period, as generally required under California law, or to secure an improved financing structure for strategic management of cash flow.

3. **Asset Transfers .** The County may choose to secure a lease revenue obligation, such as certificates of participation, by leasing an existing facility to its tax-exempt lessor and leasing it back to secure a transaction that will finance another County improvement. Such "asset transfers" can lower the cost of a financing by improving its credit quality and can eliminate the need for capitalized interest to lower the total size of a borrowing.

4. **Special fund financing .** Under California law certain funds dedicated to special or enterprise operations can be pledged to repay revenue bonds or certificates of participation. Such financing will be excluded from the calculations of debt capacity. The County Executive Office will be responsible for determining that the use of such funds to secure bonds does not violate restrictions on such funds, and that underlying program commitments can be maintained in addition to meeting debt service obligations on debt secured by the restricted funds.

5. **Mello-Roos and Assessment Bonds .** The existing "Rules and Procedures of the Assessment and Community Facilities Districts Screening Committee" [adopted December 2000] contain the County's policies in this area. The CEO will evaluate programs in light of the total tax rate burden described herein.

6. **Short-term financing .** The County will consider issuing Tax and Revenue Anticipation Notes for annual cash flow purposes or other short-term financing instruments to the extent such notes would reduce expenses, increase revenues and/or expedite the meeting of County goals.

7. **Variable Interest Rate Securities**–As an alternative to selling traditional fixed-rate lease revenue bonds or COPs, the County can sell obligations where the interest is periodically re-set. Typically, the interest rate on these bonds would be re-set weekly, and the County would procure a liquidity instrument such as a letter of credit from a bank. The liquidity provided to investors by this structure can result in substantially lower interest rates. In exchange for the likelihood of lower payments, the County would accept the risk that interest rates could rise. Placer County should consider the issuance of variable rate debt to the extent that it anticipates maintaining cash balances, which would serve as a natural hedge for variable

interest rate risk. To the extent that interest rates rise, thereby increasing debt service on variable rate debt, interest earnings to the General Fund would rise as well. Conversely, the use of variable rate instruments as part of a debt portfolio helps manage investment earnings risk. Without such debt, when interest rates fall, a county must simply adjust to reduced interest revenues. If a portion of debt were issued in variable rate mode, the reduction in interest income would be partially offset by a reduction in lease payments.

XI. METHOD OF SALE

There are generally three ways bonds can be sold, through a competitive, negotiated sale or a private placement. The following outlines the basis by which the County will determine the appropriate method of sale for a given financing.

1. **Competitive Process .** With a competitive sale, any interested underwriter is invited to submit a proposal to purchase an issue of bonds. The bonds are awarded to the underwriter(s) presenting the best bid according to stipulated criteria set forth in the notice of sale. The County, as a matter of policy, will seek to issue its debt obligations through a competitive process unless it is determined in consultation with the Treasurer/Tax Collector that such a sale method will not produce the best results for the County. This type of sale process is also significantly more likely to give the County higher market exposure which creates an awareness of County credit that increases market interest in future debt issues of the County.

2. **Negotiated Sale .** Under this method of sale, securities are sold through an exclusive arrangement between the issuer and an underwriter or underwriting syndicate. At the end of successful negotiations, the issue is awarded to the underwriters. Negotiated underwriting may be considered if it fits one or more of the following criteria:
   extremely small issue size; complex financing structure or nature of the project being financed (i.e., variable rate financing, new derivatives and certain revenues issues, etc.); compromised credit quality of the County or the issue; other issue or market factors which lead the CEO and Treasurer to conclude that a competitive sale would not be effective. When determined appropriate by the CEO and Treasurer, and approved by the board, the County may elect to sell its debt obligations through a negotiated sale.

3. **Private Placement.** When determined appropriate, usually in the case of a very small issue, the County may elect to sell its debt obligations through a private placement or limited public offering. Selection of a lender or placement agent will be made pursuant to selection procedures developed by the CEO and Treasurer.

XII. REFUNDING OF COUNTY INDEBTEDNESS

The County Executive Office will monitor the County's existing indebtedness, and will initiate the refunding of such obligations if it would generate a reasonable level of savings. The following guidelines will be used in determining whether a refunding would be appropriate.

- **Debt Service Savings – Advance Refunding** . The County may issue advance refunding bonds (as defined by federal tax law) when advantageous, legally permissible, financially prudent, and net present value savings, expressed as a percentage of the par amount of the refunded bonds, equal or exceed 5 percent. The County Executive Office can approve a lower savings threshold to the extent that such a threshold is appropriate given the specific conditions of the proposed refunding.

- **Debt Service Savings – Current Refunding** . The County may issue current refunding bonds (as defined by federal tax law) when advantageous, legally permissible, and financially prudent, and net present value savings equal or exceed 3% of the outstanding amount of refunded bonds.

XIII. FINANCINGS TAKEN ON BEHALF OF OTHER PARTIES

From time-to-time private entities may request that the County issue debt that meets a shared, private/public objective. While these policies do not attempt to comprehensively address such financing, the following policy considerations are noted.

The County has established a Bond Screening Committee to consider requests by developers or other property owner to create special benefit assessment and Mello-Roos special tax districts to assist in financing the infrastructure requirements of new development. This committee recently updated its Rules and Procedures. Those procedures are generally consistent with the policies articulated herein, and that document and these debt policies should be considered as complementary documents.

Under the federal tax code, local agencies such as counties can sell tax-exempt bonds on behalf of certain private activities, such as small industrial development projects, private solid waste operations, and low-income housing. Because of complexities in state law, counties rarely serve as issuers of such "conduit obligations"; they are more typically issued by the state or by joint-powers authorities. From time-to-time the County may be asked to conduct a public hearing for such transactions, as required of a local agency by the federal tax code. (Hearings referred to as a "TEFRA" hearing, after the name of the federal legislation that introduced this requirement, the "Tax Equity and Fiscal Reform Act."). The County review will focus on matters of County concern such as the public policy goals of the project and land use, and to ensure that there are no conflicts with County policies or goals. The County recognizes that such financing, if issued by a non-county agency, will not be deemed by any market participant to be County debt.

CalPERS Retirement Overview & Options

Historical Information
Placer County has been member of the California Public Employees Retirement System (CalPERS) since January 1, 1949 and joined Social Security January 1, 1959.

Retirement Eligibility
Employees must have at least five (5) years of service with the California Public Employees Retirement System and be at least age fifty (50) to retire.

Current CalPERS Retirement Formulas

- CalPERS retirement plans are defined benefit plans using age, service and compensation to determine the monthly retirement benefit.
- Miscellaneous employees are covered by the CalPERS Local Miscellaneous 2.5% @ 55 Benefit formula.
- Deputy Sheriffs, Investigators, Probation Officers and Correctional Officers and related safety classifications are covered by the CalPERS Local Safety 3% @ 50 formula.
- Both plans use the employee's highest, or final year, compensation to determine the monthly benefit.

CalPERS Retirement Options Available for Future New Hires

- Three Year Final Compensation – The retirement calculation is based upon the employee's last three years or highest three years of employment.
- Benefit Formula Modification – Future hires could be covered by a different retirement formula such as the 2.0% at 55 or 2% at 60 Miscellaneous formulas or the 2.0% @ 50 Safety formula.
- **Impacts**: Changing the final compensation period and/or the benefit formula would reduce the County's accrued liability for future employees as these provisions are only for new hires as defined by the CalPERS government code. An actuarial would need to be completed to determine the change in the accrued liability. It should be noted that the liability change will be reduced over time based upon employee turnover and the final retirement under the current formula. The liability could ultimately be reduced in by 6.5% to 10.5% depending on employee demographics. In addition, the provisions are subject to negotiations with the bargaining units and the amendment contract process with CalPERS.

CalPERS Retirement Option Available for Current Employees

- Through the collective bargaining process, employees and the employer can share the cost of the retirement plan for both the employer and employee cost. Currently the County pays 7% of the 8% miscellaneous member contribution and 9% of the safety member contribution as identified under the CalPERS rules.

General Requirements for Leaving Cal PERS

- Subject to negotiations with each of the bargaining units
- Minimum one-year notice to CalPERS
- Must be done by agency resolution/ordinance and passed by a 2/3 vote
- Placer County is liable for any deficit funding for earned benefits for all employees, including Trial Court employees.
- The Miscellaneous unfunded liability as of June 30, 2005 (the most recent CalPERS actuarial) is $76,878,029. The Safety unfunded liability is $38,103,438.
- Special Note: Placer County Trial Courts are part of the County's current contract and would need to be notified of termination of the contract. Trial Courts would need to negotiate with their employees on the impacts of terminating the CalPERS Contract. Effective January 1, 2006, Trial Courts may execute their own contract w/ CalPERS.

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March 13, 2007

AGENDA ITEM #

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: Public Employee Post-Employment Benefits Commission

II. PROGRAM: Member and Benefit Services Branch

III. RECOMMENDATION: This is an information item.

IV. BACKGROUND:

The Public Employee Post-Employment Benefits Commission was created by Executive Order S-25-06 on December 28, 2006. The purpose of the Commission is to propose ways for addressing growing pension and retiree health obligations.

By January 1, 2008, the Commission must send a report to the Governor and Legislature that will:

- Identify the full amount of post-employment health care and dental benefits for which California governments are liable and which remain unfunded.
- Evaluate and compare various approaches for addressing state and local governments' unfunded retirement health care and pension obligations.
- Propose a plan to address state and local governments' unfunded retirement health care and pension obligations.

The commission consists of twelve members, six appointed by the Governor, three appointed by the Speaker of the Assembly and three appointed by the Senate President proTem. On February 20, 2007, the Governor and legislative leaders announced the appointment of commission members.

The Governor's appointees are:

- Gerald Parsky (Chairman of the Commission), chairman of the Aurora Capital Group, a Los Angeles-based investment firm.

- Matthew Barger, senior advisor at the private equity investment firm Hellman & Friedman LLC.

- Paul Cappitelli, a member of the San Bernardino County Sheriff's Department since 1978, currently serving as commander of the West Valley Detention Center.

- John Cogan, senior fellow at the Hoover Institution and a professor of public policy at Stanford University.

- Connie Conway, vice-chair of the Tulare County Board of Supervisors.

- Curt Pringle, Mayor of the City of Anaheim and president of Curt Pringle & Associates. He previously served in the California State Assembly and was Speaker in 1996.

The legislature appointed the following members to the commission:

- Ronald Cottingham, President of the Peace Officers Research Association of California and a lieutenant with the San Diego County Sheriff's Department.

- Theresa Ghilarducci, a national expert on employee pensions, trustee on General Motors Retiree Health Fund and a past presidential appointee to the advisory board of the Pension Guaranty Corp. She is a Professor of Economics and Policy Studies at the University of Notre Dame and is the director of Notre Dame's Higgins Labor Center.

- Jim Hard, president of California's largest union of public employees, Service Employees' International Union Local 1000.

- Leonard Lee Lipps, public school teacher and regional manager of the California Teacher's Association.

- Dave Low, assistant director of Governmental Relations for the California School Employees Association. Low is a member of the Committee of Bar Examiners of the State Bar of California.

- Robert Walton, retired in 2005 after 34 years in state government, including more than 30 years with the California Public Employee's Retirement System. Walton was a member of the Governmental Finance Officers Association and National Conference of Public Employee Retirement Systems.

The positions do not require Senate confirmation, and the commission members will not receive a salary.

The first meeting of the commission is scheduled for March 9, 2007. Monthly updates regarding commission activities will be provided to the Benefits and Program Administration Committee.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic Plan, but is part of Member and Benefit Services regular and ongoing workload.

VI. RESULTS/COSTS:

None.

Kathie Vaughn Assistant Executive Officer Member and Benefit Services Branch	Kenneth W. Marzion Assistant Executive Officer Constituent Relations

Health Care Overview

Labor – Management Health Care Committee: Agreement with PPEO includes forming an advisory health care committee to explore options, including options other than those offered by PERS that will serve the needs of the County and its employees. Changes to the current health program can only occur through the meet and confer process.

CalPERS Recommended Health Program Changes

- **Withdrawals and plan design changes**
  Blue Shield, the HMO, recommends to exit the following high cost counties: Colusa, Mendocino, Plumas, and Sierra and modifying the plan design in the following high cost counties: Butte, El Dorado, Glenn, Mariposa, Napa, San Luis Obispo and Sonoma counties.

- **Impact:** CalPERS requires Blue Shield to offer one rate Statewide – modifying or eliminating the high cost counties would reduce the Statewide premiums, but could potentially increase the public agency regional rating factor, currently at 110%, used to determine Placer County's rates. The withdrawal and plan design changes would eliminate the risk/cost sharing across the state rate. Keeping the status quo, will increase rates and the regional rating factor further.

- **High Performance Network:** Blue Shield HMO recommends creating a high performance physician network (HPN) to encourage members to use more efficient, high quality providers, and offer CalPERS members a lower cost Blue Shield HMO plan option with the same plan design.

  There are 17 counties included in the proposed HPN service area including western Placer County.

  Under the proposed HPN, member premiums will likely decrease 5% to 7% based on the 2007 premium. Members remaining in the extended network Basic and Medicare plans will likely see an increase in premiums of 2% to 4%.

- **Benefit Plan Design Changes** CalPERS last approved changes to its benefit design in 2002. CalPERS staff is recommending various changes, primarily to the HMO plans, including increasing the Hospital co-pay from $0/visit to $100/visit; increasing office visits from $10/visit to $15/visit; increase in pharmacy co-pay for brand name drugs from $15/Rx to $20/Rx; mail order pharmacy co-pay for brand name drugs from $25/Rx to $40/Rx and non-formulary from $75/Rx to $90/Rx; and emergency room visits from $50/occurrence to $75/occurrence.

  Impacts: Agreement with PPEO contains a 90%/10% cost sharing for the employer and employee respectively beginning in 2008. Currently, in negotiations with DSA. With the HPN employees would have additional option at a reduced cost. In addition plan design changes and withdrawals from high cost service areas could help mitigate premium increases for both the employee and the employer.

CalPERS Other Post Employee Benefits Trust

- Officially opened to accept contribution March 1, 2007 only for employers who participate in the CalPERS health program. The Other Post Employee Benefits (OPEB) Trust is set up as an IRS 115 Irrevocable Trust.
- CalPERS will use the same individuals to manage the OPEB trust as they use for the pension plan
- Employers must file a completed OPEB actuarial using the CalPERS OPEB assumptions.
- Employers must also execute the required CalPERS contract resolution.
- Contributions can be made after the actuarial and resolution is reviewed by CalPERS staff.
- Contributions can be made monthly, quarterly, annually in amounts of not less than $5000. Initially, by check – electronic transmissions not available yet.
- Participation cannot be terminated nor contributions accessed to pay for health benefits for three years so that the trust can build assets and not maintain a large cash balance.
- Can do a trustee to trustee transfer of assets.
- If Universal Health Care is adopted contributions would be returned if the OPEB liability is reduced to zero.
- CalPERS will also be examining the following:
    - Performing in-house actuarials
    - Setting up member accounts for employee contributions
    - Enhanced reporting and accounting functions

Health Savings Accounts (HSA's)

Description: Health Savings Accounts are a federally approved, tax exempt account set up in conjunction with a high deductible health plan. Interest accrues tax deferred if used to pay eligible medical expenses.

Eligibility: Employees and retirees that are covered under a high deductible health plan. Retirees covered by Medicare are not eligible.

High Deductible Health Plan Requirements (HDHP): 2006 annual deductible as follows:

Coverage Type	Minimum Deductible	Maximum Deductible
Individual	$1050	$5250
Family	$2100	$10,500

Deductibles are indexed for inflation.

Ownership: Employee – The individual takes the account when leaving.

Funding: Employee and/or employer contributions held in a trust or custodial account. Employer contributions are excluded for FICA. Accounts are set up by the employee & employee contributions are tax deductible.

Annual HSA Contribution Limits: Up to $2700 per individual and $5450 per family or the deductible amount. There is also a $700 additional contribution available to individuals over age 55. Married couples need to coordinate contribution limits based upon HDHP coverage levels, effective dates of coverage and age.

Amount Available on the First Day of Coverage: Only the amount contributed to date.

Qualified Expenses: Medical expenses as defined under IRS Code 213 except health premiums. Substantiated expenses are reimbursed.

Rollover: Automatic and unlimited carry over from year to year if funds are not expended.

Other: Generally cannot be integrated with other accounts such as Flexible Spending or Health Reimbursement Accounts.

CalPERS Health Plans: Currently CalPERS does not offer any health plans to our employees that qualify as a High Deductible Health Plan therefore, an HSA is not available.

Flexible Savings Accounts (FSAs)

Description: Flexible Savings Accounts are a federally approved, tax exempt accounts set up to cover health care costs not covered under a benefit plan.

Eligibility: Employees and retirees

Ownership: Employer – Cannot be rolled over to a new employer.

Funding: Employees typically, but employers may also make contributions that are deposited into an account (no trust requirements). Interest does not accrue.

Annual FSA Contribution Limits: Employer determines the minimum and the maximum amount.

Qualified Expenses: Medical expenses as defined under IRS Code 213 except health premiums and long term care services. Substantiated expenses are reimbursed.

Amount Available on the First Day of Coverage: Annual amount must be available regardless of the amount contributed.

Rollover: Carry over usually prohibited; the use it or lose it rules applies. However, plans can allow a 2 ½ month extension or have the unexpended balance placed in a Health Savings Account if applicable.

Other: Can be integrated with other accounts such as Health Reimbursement Accounts or Health Savings Account.

CalPERS Health Plans: Can use a Flexible Spending Account with any of the CalPERS health plans. However, employees could not roll over unused contributions to an HSA since none of current CalPERS health plans qualify as a High Deductible Health Plan.

Other Retirement Benefit Plans

Defined Benefit Plan

A **defined benefit plan** provides benefits that are calculated using a defined formula. Benefit formulas generally use a member's years of service, age at retirement, and compensation (average salary for a defined period of employment) for the benefit determination. The employee is essentially guaranteed the formula amount unless the employer goes bankrupt. The CalPERS retirement plans are known as defined benefit plans.

Advantage: Excellent recruitment and retention tool. Employees value a defined benefit plan and can plan their retirement income with more certainty.

Disadvantage: Depending on the investment vehicle, investment market swings, both positive & negative, will impact employer contributions and liabilities. Employer is guaranteeing a monthly benefit to the employee. Employers can modify existing defined benefit pension plans to mitigate costs which in turn impacts employee morale and retention.

Defined Contribution Plan

Under a **defined contribution plan**, the employer & the employee contribute a specified amount to the plan. These contributions and the investment earnings, determine the amount the employee receives at retirement. Typically the employee directs the investment vehicle. Placer County currently has two defined contribution plans - a 401(k) plan and 457 plan.

Advantage: Employer can specifically define its contributions to the plans and has greater control over its liabilities. Employee can accumulate their assets and draw down on them as they see fit in retirement. Employees are more engaged in their retirement planning.

Disadvantages: Recruitment & retention could be problematic for an agency w/ only a defined contribution plan as most public agencies are in a defined benefit plan. According to our deferred compensation plan administrators, employees typically do not contribute enough or choose appropriate investment vehicles to fund their retirement. Average private sector defined contribution plan asset is $62,000, and $48,000 for public sector employees, according to a recent study by Fidelity Investments.

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Feature Article

Defined Contribution Replacement Plans After the Pension Protection Act of 2006

by Pamela Hundt Reid, Assistant Vice President

The stricter funding requirements and higher PBGC premiums required under the Pension Protection Act of 2006 (PPA) along with changes in accounting rules will inspire more employers to explore ways to stabilize or reduce the cost of providing defined benefit (DB) retirement benefits. Some employers will consider revising investment strategies and DB plan formulas while some will curtail their DB programs for some or all employees and possibly enhance their defined contribution (DC) plans to fill in the gaps presented by those reductions. This article will discuss ways to design and operate such an enhanced DC replacement plan.

One Approach: Transform DB Costs to DC Enhancements

One approach employed in developing a replacement plan design is to calculate the projected costs of the stated benefits under the current DB plan. These projected costs, divided by the employer's total annual payroll, form the basis for a DC formula expressed as a percentage of annual salary per participant.

While the approach provides a more stable cost obligation based on the current level of commitment, experience has shown that many employers find the combined cost too rich to sustain. While a useful starting point, other factors generally lead to adjustments.

Ways to Reduce Negative Impact on Older Workers

When DB plan accruals are curtailed and replaced by a DC benefit, in many cases younger employees can realize greater benefits than the DB plan would have provided over the long-term. However, older employees often realize smaller retirement benefits than expected. To offset this inequity, employers may consider an age-weighted or age and service-weighted profit sharing contribution formula (in addition to any employer matching contributions). In such a contribution formula, the allocation of any profit sharing contribution made to the DC plan will benefit older, longer-service employees. An age-weighted or age and service-weighted formula may not be appropriate or practical in every case because of coverage and nondiscrimination requirements under IRS regulations. However, a number of testing options in those regulations ordinarily support the use of such features.

Comparing Benefits in the Marketplace

When considering an enhanced DC plan design, employers may wish to benchmark their proposed benefits against those offered in the marketplace. SEC Forms 8-K and 10-K provide information about what many publicly traded companies have done. The chart below illustrates what some employers have done, including the much publicized retirement plan transition leading to the freeze of the IBM pension plan.

Name of Company	Defined Benefit Plan Change	Date Announced	Date Effective	Defined Contribution Replacement Plan Provisions	Number of Employees
DuPont	DB Plan closed to new hires. Current employees accrue a DB benefit at one-third of previous rate.	August 2006	January 2007	100% match on first 6% of salary deferred (up from 50% of first 6% of salary deferred). Starting 1/1/08, company will contribute an additional 3% of salary.	30,000
General Motors	DB Plan frozen for salaried employees. Employees hired before 1/1/01 will receive a modified pension benefit based on 1.25 times salary for future years of service.	March 7, 2006	January 1, 2007	Match 50% (up from 20%) up to 4% of base salary deferred. Employees hired after 1/1/01 to receive an annual contribution of 4% of salary.	335,000 full-time employees; 42,000 participants affected.
Hewlett-Packard Co.	DB Plan closed to new hires and employees whose combined age and service did not equal a minimum of 62. As of 1/1/08, all employees moved to enhanced DC plan.	July 19, 2005	January 1, 2006	100% match increased from 4% to 6% of deferred pay.	71,000 US employees; 26,100 participants of traditional defined benefit plan and 6,100 participants of cash balance plan affected.
IBM	DB Plan converted to hybrid forms for new hires and younger groups of employees; ultimately frozen for all employees as of 12/31/07.	January 6, 2006	January 1, 2008	100% match on salary deferred up to 6% (up from 50%). Exempt PEP participants receive additional 4% company contribution. Nonexempt PEP participants receive additional 9%. Cash balance participants receive additional 2% company contribution. Employees hired after 12/31/04 receive match of 100% on first 5% of deferred pay (rather than on 6%) and an additional 1% employer contribution.	120,000 US employees; 117,000 affected (31,000 pension equity, 86,000 cash balance).
Motorola Inc.	DB Plan closed to new US hires.	December 17, 2004	January 1, 2005	If hired after 1/1/05, match 100% up to 3% of salary deferred and 50% up to 5% of salary deferred. If hired prior to 1/1/05, match 50% on first 6% of salary deferred.	30,600 US employees.
Verizon Communications Inc.	DB Plan frozen for managers; employees covered by DB plan will receive an 18-month enhancement to the value of their pension.	December 5, 2005	June 30, 2006	Matching contribution of 150% up to 6% of salary (from 5%).	240,000 US employees; 50,000 participants affected.
NCR Corp.	DB Plan closed to new US hires and for US employees below age 40.	May 2004	September 1, 2004	Increased 401(k) match from 3.75% to 5% of salary. Employees who remain eligible for the DB Plan continue to receive a 3.75% matching contribution.	11,400 US employees; 9,200 participants affected.

Another Approach: Income Replacement

Another method used to design a DC replacement plan targets a retirement income replacement ratio for each employee—that is, the percentage of pre-retirement income an employee will need to replace to have a secure retirement—instead of replacing the benefits provided by the DB plan. Establishing a replacement ratio for a plan under this model is not easy because an employer cannot foresee the retiree's expenses nor total assets available upon retirement—e.g., from housing, inheritance, a long-term care policy, or taxable savings and investments. To address this, employers can set their target at some portion of a recognized benchmark such as the 75% retirement income replacement ratio recommended in the Aon Consulting/Georgia State University's *Retirement Income Replacement Ratio Study*.

Under this design, typically the employer and employee share the responsibility for achieving the employee's replacement ratio, rather than funding towards the target merely with employer contributions and investment income. Accumulating sufficient funds to achieve a contemplated replacement ratio is dependent upon the employee's (1) contributing to the plan, (2) contributing in sufficient amounts (preferably in increasing amounts over time), (3) utilizing an asset allocation strategy and faithfully rebalancing investments, and (4) not overweighting the account with employer stock. In this approach, the employer functions like a coach in designing the plan to provide incentives and elicit good saving behaviors from employees.

PPA Opens Doors for More Planning Tools and More Saving (Pension Protection Act)

PPA encourages employers to adopt plan designs that support participation and asset diversification. For instance, beginning in 2008, employer plans that incorporate the automatic enrollment provisions under PPA are deemed to pass 401(k) and 401(m) nondiscrimination testing. The automatic enrollment provisions provide for a minimum deferral rate that increases over time, a minimum non-elective or matching employer contribution, limits on withdrawals, and full vesting after two years of service.

In addition, under PPA, plan fiduciaries are granted a prohibited transaction exemption for providing investment advice that meets certain restrictions and can limit their liability for investment results when they use a default investment vehicle for participants who fail to make an investment selection. Although regulations have not yet been finalized, the likely effect of limiting liability for default investments in DC plans will ultimately encourage the use of targeted allocation strategies that are periodically rebalanced for participants who fail to make their own investment choices. Similarly, PPA's prohibited transaction exemption for employers who make investment advice available to participants should encourage employers to help participants implement better investment strategies.

Lastly, PPA provisions requiring certain plans to permit participants to diversify out of employer stock will reduce the risk to employees of overweighting their accounts in a single investment.

Oversight of Fiduciary Duties and Plan Results

Recent litigation has underscored the point that fiduciary duties under ERISA include (1) the prudent selection of investments and service providers, (2) a quantitative review of fees charged for service providers' work, and (3) the ongoing monitoring of investments and service providers. ERISA requires fiduciaries to obtain the assistance of experts when they do not possess sufficient knowledge or expertise to fulfill such duties. (For further information on fiduciary duties and fees, consult Aon Consulting's three Research Briefs: *Fiduciary Fundamentals Under ERISA, Fiduciary and Investment Issues: Beyond the Basics,* and *Managing Mutual Fund Expenses: A Fiduciary Obligation.*)

In addition to the fiduciary oversight of investments, vendor services, and fees, procedures should be implemented to periodically evaluate the plan's performance in meeting its targeted objectives. For example, if the plan has been designed around a replacement ratio target, the employer should seek data to demonstrate quantitatively that the plan is on target to meet its replacement ratio goal. Such data should measure participation rates segmented by age, service, compensation levels, deferral rates, and investment returns. Since few, if any, record keepers routinely analyze or report on plan utilization, the assistance of a third-party consultant may be needed.

If the results of the evaluation indicate the plan is failing to meet its objectives, then remedial actions should be developed and implemented. If participation rates are low, for instance, the level of the employer-matching contribution, as well as the effectiveness of the enrollment procedures and employee communications, should be evaluated. Are the employee communications effective in encouraging participation? Saving at sufficient levels? Is investment education provided? Are on-line savings tools available? If so, are they utilized? How did the investment funds perform? Should any be put on a watch list? Removed? Fiduciaries may need the unbiased advice of a third party to make these assessments and to formulate corrective policies and actions.

Summary

Employers play an important role in helping employees accumulate funds for a secure retirement. This role has traditionally been filled through DB plans, which are on the decline. Therefore, there is increasing pressure to enhance DC plans. Sponsors may consider a number of approaches in designing these replacement plans and may find it beneficial to set performance goals and continually measure the results against those goals. Because the risk of investment loss in DC plans is borne by participants, plan fiduciaries may need to step up their diligence in documenting their efforts to monitor investment offerings, fees, and the suitability of vendor services so as to be prepared for participant litigation. These issues will surely take on increasingly greater importance as employers expand the role of DC plans in providing retirement benefits

For more information on this topic,
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