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EDC COB <edc.cob@edcgov.us>

Re: 5-26-15 Agenda- Early Separation Incentive

1 message

Joe Harn <joe.harn@edcgov.us> Sun, May 31, 2015 at 10:37 AM
To: Pamela Knorr <pamela.knorr@edcgov.us>
Cc: Robyn Drivon <robyn.drivon@edcgov.us>, Brian Veerkamp <brian.veerkamp@edcgov.us>, The BOSTHREE <bosthree@edcgov.us>, Ronald Mikulaco <ron.mikulaco@edcgov.us>, Kathy Witherow <kathy.witherow@edcgov.us>, Sue Novasel <sue.novasel@edcgov.us>, The BOSONE <bosone@edcgov.us>, Shiva Frentzen <shiva.frentzen@edcgov.us>, The BOSTWO <bostwo@edcgov.us>, The BOSFIVE <bosfive@edcgov.us>, The BOSFOUR <bosfour@edcgov.us>, Michael Ciccozzi <michael.ciccozzi@edcgov.us>, Laura Schwartz <laura.schwartz@edcgov.us>, EDC COB <edc.cob@edcgov.us>, Kim Dawson <kim.dawson@edcgov.us>, Jim Mitrisin <jim.mitrisin@edcgov.us>

Pamela,

Below is my response to e-mail that I received from you on May 19th. ***I am going to try and put your questions in italics.***

I am going to try to put my responses in a huge font.

1. ***These two paragraphs contradict each other....can you please provide more detail?***

The cash is the Retirees' Health Fund is the County's. To the best of my knowledge, your Board can direct that these monies be directed to any County purpose.

The cash in the Retirees' Health Fund came from charges to various departments and various state and federal programs. At that time, we reported to various state and federal programs that the money accumulated in the Fund would be used to make annual payments to retirees towards their health insurance costs.

With that said, can the County direct these funds to the purchase of the Public Safety Land and the Courthouse Road? Please explain....

Pamela, I don't believe that the two paragraphs contradict each other. This is the County's money. However, the farther we deviate from spending this money on its intended purpose (financing future retirees' health insurance stipend payments), the more likely we will be required to refund a significant portion of it to state and federal agencies. The BOS could spend this money on the Courthouse Road, but if the BOS did it is a certainty that we would be required to refund a significant portion of these monies to state and federal agencies.

2. If the BOS offered this 5 or 6 years ago, please explain specifically why this approach is problematic today?

It WAS problematic 5 or 6 years ago. Further, the then CAO made

representations that the County would begin to "pay down" this unfunded obligation again in a year or two. The last year that we charged the County's departments and programs the actuarial recommended funding amount was the year ended June 30, 2009. The annual funding amount recommended by the actuary was about $6,000,000.

3. Please describe, in detail, the scenario which would present a "material difference between the funds paid in by state and federal programs and the funds paid out, it is quite possible that the State Controller's Office would require us to provide a credit to the state and federal programs that were adversely affected" and how that would be measured and avoided?

The further we deviate from spending this money on its intended purpose (financing future retirees' health insurance stipend payments), the more likely we will be required to refund a significant portion of it to state and federal agencies. This can be avoided by charging the cost of this separation incentive directly to the budget units of the participants.

4. Do you have statistics on how many counties are pay as you go for the unfunded retiree liability?

I don't have those statistics.

5. What are you basing your assessment of "Our Retirees' Health Fund is already significantly underfunded". In a perfect world, what would be your recommendation for the funding level and have you brought a specific recommendation to the BOS in the past?

My basis for my assessment that "our Retirees' Health Fund is already significantly underfunded is the actuary's report that Risk Management commissioned, that was delivered in March, 2015, and that indicates that we have a $72 million obligation to our current and future retirees.

6. Please provide any legal authority that you are relying upon for the statements which you are making and/or the back up documentation to assist the Board in the decision making process.

As I told you in my e-mail to you on May 18th, I don't believe that there is a legal issue regarding using the Retirees' Health Fund monies on the proposed Early Separation Incentive. I believe that there is a significant risk that using these monies will cause a cost claim compliance problem with state and federal agencies.

Joe Harn
Auditor-Controller
El Dorado County

On Tue, May 19, 2015 at 4:13 PM, Pamela Knorr <pamela.knorr@edcgov.us> wrote:

> Hi Joe

Thank you for the information. Here are my questions:

1. These two paragraphs contradict each other....can you please provide more detail?

The cash is the Retirees' Health Fund is the County's. To the best of my knowledge, your Board can direct that these monies be directed to any County purpose.

The cash in the Retirees' Health Fund came from charges to various departments and various state and federal programs. At that time, we reported to various state and federal programs that the money accumulated in the Fund would be used to make annual payments to retirees towards their health insurance costs.

With that said, can the County direct these funds to the purchase of the Public Safety Land and the Courthouse Road? Please explain....

2. If the BOS offered this 5 or 6 years ago, please explain specifically why this approach is problematic today?

3. Please describe, in detail, the scenario which would present a "***material difference between the funds paid in by state and federal programs and the funds paid out, it is quite possible that the State Controller's Office would require us to provide a credit to the state and federal programs that were adversely affected***" and how that would be measured and avoided?

4. Do you have statistics on how many counties are pay as you go for the unfunded retiree liability?

5. What are you basing your assessment of "***Our Retirees' Health Fund is already significantly underfunded***". In a perfect world, what would be your recommendation for the funding level and have you brought a specific recommendation to the BOS in the past?

6. Please provide any legal authority that you are relying upon for the statements which you are making and/or the back up documentation to assist the Board in the decision making process.

Please provide the feedback by COB on Friday so that we can proceed accordingly.

Thank you,
Pamela

On Tue, May 19, 2015 at 6:31 AM, Joe Harn <joe.harn@edcgov.us> wrote:

> Dear Supervisors,
>
> The Early Separation Incentive in some instances may save the County money and probably will reduce the number of layoffs that your Board will be required to implement this summer in order to adopt a structurally balanced budget.
>
> It is my recommendation that your Board fund this program out of the various budget units that the participants work in. Largely, that means the general fund.
>
> The cash is the Retirees' Health Fund is the County's. To the best of my knowledge, your Board can direct that these monies be directed to any County purpose.
>
> The cash in the Retirees' Health Fund came from charges to various departments and various state and federal programs. At that time, we reported to various state and federal programs that the money accumulated in the Fund would be used to make annual payments to retirees towards their health insurance costs.
>
> Five or six years ago when the BOS offered an Early Separation Incentive, the BOS directed that the money would come from the Retirees' Health Fund.

In the event that there is a material difference between the funds paid in by state and federal programs and the funds paid out, it is quite possible that the State Controller's Office would require us to provide a credit to the state and federal programs that were adversely affected. That would have an adverse affect on the County's General Fund.

Our Retirees' Health Fund is already significantly underfunded. The fiscally conservative thing to do is to leave the cash in the Fund or use the cash for its original intended purpose.

Joe Harn
Auditor-Controller

County of El Dorado

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JOE HARN, CPA
Auditor-Controller

BOB TOSCANO
Assistant Auditor-Controller

May 31, 2015

Board of Supervisors
County of El Dorado
330 Fair Lane
Placerville, California 95667

Subject: Funding for the Proposed Early Separation Incentive

Ladies and Gentlemen:

The CAO has asked me to make additional comments regarding the proposed use of the County's Retiree's Health Fund to pay for this incentive.

The County's Retiree's Health Fund currently has cash of about $12 million and a liability of $72 million, leaving an unfunded obligation of about $60 million. The $72 million liability is the best estimate that the actuary could calculate. The actuary was hired by our Risk Management Unit and the actuary's report was delivered to the County in March of this year. The $72 million liability represents the actuary's estimate of the present value of future retirees' health stipend payments that we are contractually obligated to make. Because we are currently under-funded by $60 million I cannot recommend that we tap this fund at this time. Your Board should in fact be annually appropriating millions of dollars to fully fund this contractual obligation.

In the past, prior Boards have "raided" this Fund to pay for golden handshakes. That was a bad idea then and it's a bad idea now. We are under this current financial stress because of the irresponsible actions of prior Boards. I cannot recommend that you now mimic this action of a prior Board.

The $12 million cash balance that resides in this Fund was established by annual charges to various budget units in the County, including budget units that run federal and state programs. At the time these charges were levied, the County represented that the monies that reside in this fund would be used to finance future retirees' health stipend payments for employees of various federal and state programs. The more the County deviates from the original purpose of these funds the more likely that the County will be required to refund these monies to the state and federal government.

By contrast, if you choose to finance the currently proposed Early Separation Incentive by charging the cost of the incentive directly to individual budget units, it is likely that a significant portion of the cost of the incentive will be chargeable to various federal and state funding sources.

If you have any questions, please contact me.

Sincerely,

Joe Harn

Joe Harn, CPA
Auditor-Controller

cc: Pamela Knorr, CAO