L. Weitzman #25 BOS 11/6/15

Mountain Democrat

Monday, December 15, 2014 PLACERVILLE, CALIFORNIA 99 CENTS

The balancing act: D-Day is fast approaching

By Larry Weitzman

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Although President Eisenhower used the term D-Day meaning "Departed Day," for the purposes of this column it means "Deficit" day and it is fast approaching. Actually El Dorado County is already running at a deficit and has been doing so for about a year and a half. At the end of the county fiscal year on June 30, 2013, EDC had a general fund balance of about $54 million. At the end of the FY 2014, the general fund balance was down to $45 million. In other words spending exceeded revenue by $9 million and therefore operated for FY 2014 at a $9 million "loss." That is operating at a deficit.

According to its own projections, the county general fund for the FY 2015 (July 1, 2014 to June 30, 2015) will operate at a $32 million deficit and that's based on a sales and property tax growth of 5 percent. Those revenue projections appear to be overstated in that just four months prior a similar EDC projection showed that property tax revenues would be flat over the next five years. That might be a more reasonable assumption since the real estate market is relatively flat. Secondly, three years of history shows that property tax revenues for the FY 2012, 2013 and 2014 were $52.5 million, $52.7 million and $54.6 million, respectively. There are some rising property tax assessments from Prop 8, but the last three years doesn't demonstrate the kind of growth projected in the latest forecasts. But let's get to the real issues, the overspending created by the former CAO, Terri Daly.

In my Balancing Act column of Oct. 6, titled "The Budget Debacle," I discussed that that the 170 new employees hired by Terri Daly over the last two years cost the county about $13.6 million annually based on an average salary and benefits of $80,000. When you examine the fiscal history of the county, that number will become more important.

The county has little control over its revenues as it comes from taxes and fees and right now there is little new activity which points to rising revenues except for minor property tax assessment adjustments because of Proposition 8. Otherwise revenues will probably grow no more than the rate of inflation. Even if property values rise significantly, other than Prop. 8 adjustments, Prop. 13 limits the rise in property tax revenues to just 2 percent a year. The only real way for significantly increased property taxes is new development and that doesn't look too realistic, considering the current slow/no-growth climate in El Dorado County.

But what can be controlled by the county are General Fund expenditures. And this is where history becomes important. According to our chief budget officer, salaries and benefits make up about 65 percent of the county General Fund expenditures. For the last four fiscal years, actual salary and benefit expenditures were as follows, FY 2011, $118.2 million, FY 2012 $116 million, FY 2013 $118.5 million and for FY 2014 $132.1 million.

As you can see when the excessive employee hiring started during the f/y 2013 there was a small increase in salaries but from FY 2013 to FY 2014 the increased cost of employees grew by, that's right, $13.6 million. Understand some of that increase was due to the first 5 percent of a 15 percent across-the-board pay raise (about a 1.75 percent impact), which is also Terri Daly's doing, that took effect in the middle of the FY 2014.

When EDC budgets and forecasts, they include all employee positions whether filled or not. For the FY 2015 the forecasted budget shows $153 million in salary and benefits. But currently there is an 8 percent vacancy factor (that is average vacancy rate for unfilled positions for the last

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several years), so if none of those positions are filled, the real expenditure for salary and benefits should be about $141 million. That would still mean a deficit for the year of about $20 million.

When you compare fy 2015 $141 million in salary and benefit expenditures to the level of fy 2013, the increase in salary and benefits over the two-year period is $23 million. It is the main cause of the EDC deficit. The secondary cause is the Terri Daly 15 percent raise. When it becomes fully implemented during fy 2015, salary and benefit expenditures will continue to grow for the following years and the deficit for future years will make the current situation look like small potatoes as revenue growth will not keep up.

Even EDC's own salary and benefit expenditures are projected to grow about $8 million annually for the next four years with a corrected number (unfilled positions accounted for) of $172 million by the fy 2019. An actual projected growth of $31 million over four years and $54 million since fy 2013 all because of 170 mostly unnecessary new employees hired by Terri Daly. As written in previous columns, the position of the county is untenable.

What is the solution? It's a rather obvious one in that there has been little change, if any in county services over the last three years, so it appears there is no identifiable benefit from the 170 new hires. As to public safety, the sheriff has essentially no new hires from these recently hired 170 employees. The plurality of the 170 employees were hired into the CAO's office, yes by Terri Daly. She packed her office with 18 do-nothing analysts, fiscal techs and other administrative positions that alone cost the county nearly $2 million a year.

Daly said in recent open session of the Board of Supervisors that "even with these new 170 hires, the county is not back to pre-recession levels," implying that we are no longer in a recession. That's funny, perhaps Daly could explain why the nation's work force has shrunk to its lowest level in decades, income is still below pre-recession levels, housing prices are still in the tank in spite of historically low interest rates and most new jobs are low level, low-pay retail and service jobs?

The solution is obvious, the county is going to have to lay off most of those 170 new employees and most of the deficit will magically disappear. There should also be a freeze of the last portion of the Daly 15 percent raise. Done, problem solved. Now, who on the BOS has the guts to do it? Certainly not outgoing BOS member Ron Briggs when he was recently quoted in the Tahoe Tribune as saying 'the board has never uttered the words "layoffs" or "budget cuts" so any employees concerned can "assuage their fears."

Larry Weitzman is a resident of Rescue.

Comments

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