

#17-06: How El Dorado County Can Navigate the CalPERS Crisis

FINDINGS

F1. The unfunded CalPERS liability for El Dorado County is \$346 million as of July 2016.

Board of Supervisors Response:

The Board of Supervisors agrees with this finding.

F2. El Dorado County pays annual CalPERS payments monthly, resulting in interest charges payable to CalPERS.

Board of Supervisors Response:

The Board of Supervisors agrees with this finding.

F3. El Dorado County pays only the minimum amount due to CalPERS; it does not make additional payments to reduce the UAL.

Board of Supervisors Response:

The Board of Supervisors agrees with this finding.

F4. El Dorado County has an established policy to set aside additional funding for post-employment benefits, but not specifically for CalPERS obligations.

Board of Supervisors Response:

The Board of Supervisors partially disagrees with this finding.

The Board of Supervisors has a budgeting philosophy for treatment of both OPEB and CalPERS long-term obligations, but has not adopted specific policies for setting aside funds for these purposes.

With the adoption of the FY 2017-18 Budget, the Board approved a budgeting philosophy of establishing and funding a CalPERS Payment Reserve equal to the General Fund's estimated additional contribution for the following two years. In concept, this reserve serves as a revolving fund, with funds being drawn down in the immediate budget year's Recommended Budget based on the budgeted General Fund cost increase, and subsequently replenished in the same year, once the carry-forward fund balance amount is known, and based on the updated 2-year estimated cost. Maintaining this reserve, and using funds to help cover the increase in CalPERS costs in each subsequent budget year, will help ensure the County is able to fund those required contributions in future years.

Separately, Budget Policy B-16, Policy #12 - Other Post-Employment Benefits (OPEB) was recently updated and states, “El Dorado County shall continue the policy of “pay as you go” to fund the County’s OPEB liability. OPEB costs will be allocated to the respective County departments based on a State–approved allocation formula. The Board may modify this policy at any time, to allocate un-appropriated discretionary resources to fund the OPEB liability, to set funds aside to fund future years’ liabilities, or to begin funding on-going OPEB liabilities by establishing a pre-funding trust.”

F5. Historically, El Dorado County has not provided information to the public about it’s CalPERS obligation in a way that clearly illuminates the scope of the pension obligation.

Board of Supervisors Response:

The Board of Supervisors agrees with this finding.

While information regarding the annual CalPERS employer costs has been included in prior year budgets, this information typically was not consolidated and highlighted as a major budget concern. The annual Recommended Budget for FY 2017-18 and for FY 2018-19, and the respective presentations to the Board and public, have included anticipated countywide cost impacts as well as a summary discussion of the reason for cost increases and the anticipated long-term budget implications.

RECOMMENDATIONS

R1. El Dorado County should establish a policy to escalate contributions to reduce the UAL.

Board of Supervisors Response:

This recommendation requires further analysis.

Any change to current policy requires thorough analysis, including evaluation of current year and future year impacts. Changes to CalPERS payment policies will also require presentation to, and evaluation and approval by, the Board of Supervisors. Staff will work to bring an initial discussion and analysis to the Board for consideration within the next six months.

R2. El Dorado County should evaluate pre-paying the annual CalPERS contribution by paying the UAL portion annually rather than monthly to lessen interest charged by CalPERS.

Board of Supervisors Response:

This recommendation requires further analysis.

Any change to current policy requires thorough analysis, including evaluation of current year and future year impacts. Changes to CalPERS payment policies will also require presentation to, and evaluation and approval by, the Board of Supervisors. Staff will work to bring an initial discussion and analysis to the Board for consideration within the next six months.

R3. El Dorado County should create a dedicated trust to assure that funds set aside in the budget for CalPERS costs are used for that purpose.

Board of Supervisors Response:

This recommendation requires further analysis.

While the Board of Supervisors has established a separate account with funds designated for future CalPERS cost increases, these funds are only designated by the Board of Supervisors and if necessary could be used for other purposes with a vote of the Board. Evaluation of a dedicated trust has been considered; however, the County will need to issue a Request for Proposals in order to move forward with establishing a trust.

Staff will work to bring an initial discussion and analysis to the Board for consideration within the next six months.

R4. El Dorado County should fund the CalPERS trust account to the maximum extent possible.

Board of Supervisors Response:

This recommendation requires further analysis.

Funding for a CalPERS trust will be evaluated in conjunction with Recommendation 3 above.

Staff will work to bring an initial discussion and analysis to the Board for consideration within the next six months.

R5. As part of the yearly budget process, El Dorado County should report the details of its CalPERS obligation in simple and understandable terms prominently on the County's website and in a press release, so that citizens can understand the extent of future CalPERS obligations.

Board of Supervisors Response:

This recommendation has been partially implemented with the past two budget processes, and will be fully implemented within the next six months in conjunction with the FY 2019-20 budget process. Implementation will include additional information published to the County's website along with relevant press releases and related communications.