Opinion: EDC continues deficit spending

By Larry Weitzman

Having deficit budgets is commonplace in the federal government. They just effectively print more money to cover it. (They do it by borrowing money such as selling T-bills.) But in subordinate governments, while borrowing is sometimes done and some jurisdictions even end up going bankrupt (making future borrowing even more expensive and many times next to impossible), it is frowned upon.

Here in El Dorado County we have had two straight years of general fund budget deficits and our next budget will make it a third straight negative year. The only reason EDC is surviving is because of a $50 million plus cash fund balance built through the FY 12-13.



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With respect to the EDC deficit, it only relates to the general fund portion of the budget, the discretionary part of the budget in which the Board of Supervisors can determine how the money is spent whether on senior programs, analysts in the CAO’s office, funding a music festival or on law enforcement. The other part of the budget, which about equals the general fund, is non-discretionary. It must be spent as the revenues specify, like road fund money or government funded mental health. Much of that money is federal or state and must be

spent as specified. These non-discretionary revenues have nothing to do with deficits or surpluses.

Let’s review again how EDC got into a deficit situation, what caused it and why it’s going to get worse. It only requires the examination of a few numbers which are from a CAO PowerPoint presentation from a Dec. 16, 2014, BOS meeting and are available on the EDC website.

First let’s examine the last five years of actual revenue and expense general fund data starting with FY 09-10. The numbers are in the millions of dollars

Fiscal Year	09-10	10-11	11-12	12-13	13-14	14-15
Revenue	182.3	182.4	183.2	196.8	197.3	?
Expenses	178.7	177.8	176.1	182.9	205.1	?
Surplus/(negative)	3.6	4.6	7.1	13.9	(7.8)	(15-20 est.)

The final number is the best estimate from the CAO and the auditor’s offices. Now let’s look at salaries and benefits for the last five years which are about 65 percent of general fund expenses.

Fiscal Year	09-10	10-11	11-12	12-13	13-14	14-15
Salaries/Benefits	117.9	118.2	116.0	118.5	132.3	142.0 (est.)

Notice the deficits started when salaries and benefits skyrocketed, as they were effectively level at $118 million for the FY 09-10 to 12-13. They rose by about $14 million in FY 13-14 and will rise by about $24 million estimated for the

FY 14-15 that ends June 30. While the rest of county expenses remained relatively constant, it is salaries and benefits that are almost entirely responsible for the current deficit issues and will continue to grow. In two years that is $38 million in extra spending on salaries and benefits. As a side note, county revenues for the FY 05-06 to 08-09 where almost level at an average of $188.7 million, meaning revenue growth in 10 years averages less than 1 percent and will not overcome the spending as it is growing at a much higher rate.

There are two reasons why salaries and benefits grew at such a rapid rate: (1) New, additional hiring of perhaps 100 or more general fund positions (for the last nine months, the CAO refuses to do an analysis of the hiring when this deficit became obvious. This demonstrates a complete lack of transparency, i.e., what are they hiding?); (2) The 15 percent raise, with the hiring being responsible for about 75 percent of the accumulated $38 million jump in new salaries attributable to the growth in the county bureaucracy. Law enforcement hiring is near zero. While Supervisor Shiva Frentzen back in September asked for an analysis of this new hiring, Supervisor Brian Veerkamp did not support her motion.

The current budget was set by the previous BOS with only three votes. It is bleeding about $1.3 million a month. Veerkamp is the only remaining BOS member that voted yes. Supervisors Frentzen and Ron Mikulaco voted no to the current hemorrhaging budget, which now becomes the Veerkamp budget.

Supervisor Veerkamp has received emails from the county auditor for the past nine months warning the BOS that spending is exceeding revenues and prompt action to reduce spending is imperative. Veerkamp suggested the formation of an ad hoc budget committee in September 2014. He stated in an open BOS session, “We’ve got major budget issues. I’d feel much better getting all those other things to a committee and make sure we get multiple minds on this and develop a plan, a prioritized plan and the 15/16 (FY budget) deficit is the target. And I

understand it. I have seen deficits all my career tied to the county. But we have to be very real about it and we have to start addressing it now. Not six months from now, not a month from now. Now." An ad hoc budget committee was formed in which Veerkamp became the de facto chairman, with the express purpose that "this committee will provide recommendations to the BOS regarding funding sources and expenditures of funds." Those exact words were stated as the purpose of the committee on the application form.

The result of the committee was a page and a half, 10-point set of government speak budget guidelines and at a recent BOS meeting Veerkamp stated its purpose was "long range budget planning." Veerkamp has a very short and self-serving memory. The ad hoc committee's purpose was not just spending cuts for the next fiscal year of 15-16, it was for immediate cuts to the current budget to stop bleeding $1.3 million a month. On July 1 this will accelerate to $1.7 million a month when the last 5 percent raise of the Terri Daly and Veerkamp 15 percent raise which was approved on Nov. 5, 2013, kicks in. Hence, the Veerkamp deficit.

Reviewing the CAO Pamela Knorr FY 15-16 budget is more of the same. Salary and benefits will continue to grow, seniors will face a loss in services, there will be no improvement in other county services, and as I have written in the past, hang on to your wallets as fees (targeted taxes) are going to go up.

The senior cuts discussed recently are in the proposed Knorr budget. These are miniscule cuts that previously provided huge benefits. Senior lunch programs and Perks Court transitional housing, gone. However, the overstocked and overstaffed Knorr CAO office with its $1.8 million of new analysts and administration staff is left intact. Cost of fee based county services, like building fees and recording fees are going up. Does the public get more sheriff's deputies or assistant district attorneys that provide public safety and law enforcement? Forgetaboutit. In fact, of the new county hiring,

all of public safety that is historically the main purpose of county government had two new net employees in the last two years.

What is amusing is how CAO Knorr tries to lay the “blame” for this budget on the BOS when she writes in her proposed budget, “These decreases are related to the proposed 6.25 percent cut instruction by the BOS for general fund programs.” The 6.25 percent across the board cut was a recommendation directly from CAO Knorr. It was part of a presentation by the CAO dating from Feb. 24, 2014. The CAO has completely ignored solving the problem by attacking the cause, overspending and overhiring. While the buck stops with the BOS, the CAO is driving the ship and demanding authority to do so; especially after claiming at a recent BOS meeting (April 28) “section 304 of the EDC Charter gives the CAO the responsibility to prepare the budget and the BOS the right to modify it.”

Yet at a Jan. 6 BOS meeting Knorr tells the BOS, “Your real need is to stop spending.” Four months later the same Knorr tells the BOS you are a policy body and it’s the CAO’s job to do the budget claiming the power under section 304 above. Her fix is a 6.25 percent cut while trying to claim it wasn’t her idea. Knorr appears to have two faces. Real leaders accept responsibility for their recommendations. The 6.25 percent cut will not solve the problem.

While the CAO claims the deficit for FY 15-16 is down by $10 million, leaving only $10 million more to go, most of the savings will prove to be illusory, except for the loss in senior programs. Those savings won’t amount to more than a single analyst in her office as will be explained in a future column. In a year or less, the entire county surplus will be gone. At that point and only then will needed layoffs occur. And layoffs and firings should start at the cause, which should also start at the top, the very top.

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