

**COUNTY OF SACRAMENTO
CALIFORNIA**

To: Board of Supervisors

From: Office of Budget and Debt Management

Subject: Report Back – Provide Detail On Retained Earnings And Reserves

Supervisorial
District: All

Contact: Linda Foster-Hall, County Budget Officer, 874-2453

BACKGROUND:

The Board has asked that the Office of Budget and Debt Management provide detail on the use of Retained Earnings and Reserves in the Recommended Proposed budget. Additionally the Board has asked for information regarding what other reserves were reviewed and why additional resources were not used. Finally, the Board has asked what resources will be available next year from these sources.

DISCUSSION

Table 1 below details the reductions to various retained earnings and reserves used to support the Fiscal Year 2008-09 Recommended Proposed budget.

Table 1

FUNDING USED TO SUPPORT FISCAL YEAR 2008-09 BUDGET				
Retained Earnings Description	General Fund Amount	Other Funds	Total	
Retiree Medical	\$ 2,215,551	\$ 784,449	\$	3,000,000
Unemployment Insurance	924,052	298,509		1,222,561
Dental Insurance	303,362	110,356		413,718
FPARE	937,180	753,584		1,690,764
General Services	5,903,954	5,111,975		11,015,929
Parking Enterprise Fund	5,573,392			5,573,392
Parking Authority	1,257,797			1,257,797
OCIT	3,510,000	1,290,000		4,800,000
Workers Compensation	5,247,895	1,752,105		7,000,000
Total	\$ 25,873,183	\$ 10,100,978	\$	35,974,161
Reserves				
General Reserve	\$ 10,799,813		\$	10,799,813
Reserve for Future Pension Obligation Bond	19,116,000			19,116,000
Reserve for Future Pension Obligation Bond - Incremental Increase	5,998,964			5,998,964
Various Debt Service Fund - Rebates scheduled for Fiscal Years 2007-08 & 2008-09	4,272,266			4,272,266
Total	\$ 40,187,043		\$	40,187,043
Grand Total	\$ 66,060,226	10,100,978	\$	76,161,204

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Other Internal Service funds like the Public Works Fund, Capital Project Funds, Enterprise Funds and the First Five Commission were reviewed in this process. In these cases, any retained earnings would fall back to the program where the funds were collected or the funds are restricted by law to be used for a specific purpose. Therefore, no additional funding was drawn from these sources.

Since all of the funds identified in the table above are one-time in nature, they will not be available to offset any shortfall in Fiscal Year 2009-10.

The Board also asked for a detailed analysis of the remaining reserves. The Table 2 below reflects the remaining reserves in the General Fund. There are only two reserves that are considered unrestricted. These are the Reserve for Cash Flow and the Reserve for Future Pension Obligation Bond (highlighted in gray). While these reserves are not restricted, they have been established for specific purposes. The Reserve for Cash Flow is used to meet the cash requirements of the County’s General Fund.

Table 2 below reflects the total General Fund reserves as of the end of June 2008 and the changes in reserves that are anticipated during Fiscal Year 2008-09.

Table 2

State Controller County Budget Act (1985)		SCHEDULE 3 DETAIL OF PROVISIONS FOR RESERVES/DESIGNATIONS				
Fund No.	Description	Reserves/ Designations Balance as of June 30, 2008	Recommended Cancellations	Recommended Designations	Total Reserves/ Designations for Budget Year	Comments
001	GENERAL FUND					
	General Reserve	\$ 10,799,813	\$ 10,799,813	0	0	
	General Reserve-Dept Savings	0	0	0	0	
	Reserve for Cash Flow	32,421,527	0	0	32,421,527	
	Reserve for Imprest Cash	255,355	0	0	255,355	Restricted
	Reserve for DRR Debt Mgmt Acctg and Collection Sys	1,030,510	448,696	0	581,814	Restricted
	Reserve for Assistance Payments	0	0	0	0	
	Reserve for SAFCA	0	0	0	0	
	Reserve for RACOS Loan	2,900,000	0	0	2,900,000	Restricted
	Reserve for Future Pension Obligation Bond	35,844,473	25,114,964	0	10,729,509	
	Reserve for Health For All Loan	109,405	4,675	0	104,730	Restricted
	Reserve for Golf Fund Loan	127,775	127,775	0	0	
	Reserve for Loan Buyout (Teeter Plan)	3,250,961	0	1,217,232	4,468,193	Restricted
	Reserve for Teeter Delinquencies	1,554,726	590,768	0	963,958	Restricted
	Reserve for Spec. Deposits-Travel	100,000	0	0	100,000	Restricted
	Reserve for Tax Loss (Teeter Plan)	16,250,778	185,500	0	16,065,278	Restricted
	Reserve for TRANS Interest	416,250	0	0	416,250	Restricted
001	TOTAL-GENERAL FUND	\$ 105,061,573	\$ 37,272,191	\$ 1,217,232	\$ 69,006,614	

The Reserve for Future Pension Obligation Bond was originally established in Fiscal Year 2005-06 to pay the incremental increase in the Pension Bond obligations caused as a result of the refunding that was done during Fiscal Year 2003-04 (\$26.9 million). At that time it was reported that with this reserve the County could fund the additional Pension Obligation expense starting in Fiscal Year 2006-07 through June 2015. The Board then added \$19.1 million to this reserve in Fiscal Year 2006-07 when there was an unusually high fund balance bringing the total in this reserve to \$46.0 million. The Table 3 below identifies the uses of the Reserve for Future Pension Obligation Bond payments during the current year.

Table 3

Reserve for Future Pension Obligation Bond	Amount
Established in FY 2005-06 with pay back from State VLF "loan"	\$ 26,863,859
Increased reserve in FY 2006-07 from high fund balance	19,116,000
FY 2007-08 First incremental payment	(5,665,992)
Used a portion of proceeds to establish "RACOS Loan"	(2,900,000)
Funded anticipated shortfall in IHSS payments	(1,569,394)
Total Reserve Remaining	\$ 35,844,473

Since the \$19.1 million in Future Pension Obligation Bond reserves was from savings we had in prior years which was not anticipated and it was originally calculated into the Board’s policy on using the “VLF” loan repayment to offset the additional cost of the Pension Bonds debt service, it was recommended to use to offset the General fund shortfall. Had this not been the recommendation, the Sheriff and the District Attorney’s budgets would have reflected additional reductions totaling \$19.1 million (\$13.4 million and \$5.7 million for the Sheriff and the District Attorney respectively).

On April 29, 2008 the board established a loan with the Sacramento Housing and Redevelopment Agency for the purchase of a 6.6 acre site located at Auburn Blvd. and Garfield Avenue. As part of that transaction a reserve was established (Reserve for RACOS Loan). When this loan is repaid the funds will be returned to the “Reserve for Future Pension Obligation Bond” there will be funding available to pay for the incremental debt service on the Pension Obligation Bonds through June 2013.

Respectfully submitted,

APPROVED:
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County Executive

LINDA FOSTER-HALL
County Budget Officer

By: _____
NAVDEEP S. GILL
County Operations Officer