

# Calaveras County Financials: The Sky Isn't Falling

A Report prepared

by Calaveras County Supervisor Dennis Mills

Managing the taxpayer's money properly is the single most important responsibility of an elected official. Recently there have been questions raised about the financial condition of Calaveras County. I am pleased to report that we are in a sound financial condition.

**Structural Deficit** – Various critics are screaming like “Chicken Little” as though our financial sky is falling declaring that the county has a structural deficit and is in a serious financial mess. We are in the position of neighboring county with a \$7 million short fall. This allegation that Calaveras County has big financial problems is totally untrue.

**Structural Deficit Defined:** A Structural Deficit is that portion of the public sector deficit which exists even when the economy is at potential. Government spending beyond government revenues at times of normal, predictable economic activity, as opposed to a cyclical deficit.

**Structural Deficits** are created when “one time” money is spent to purchase or improve capital assets.

## Your Financial Position Is Not What's In Your Wallet: It's What's In Your “Lock Box”

Simply put a government's budget is just one element of its financial picture. For each of us, when we consider our financial position (net worth) it is analogous to what's in our wallet, our investments, and our capital assets. The money in your wallet or purse (the budget) is not a complete picture of your financial wherewithal.

When you spend all the money in your wallet in order to maintain cash flow then you go back to the bank. Money not needed in the short term is placed in short term investment pools. Money not anticipated to be needed for over 90 days is invested in treasuries, notes, and other instruments. Governments have liquid cash for short term obligations, plus funds in short- and long-term investment set aside as reserve funds.



## Calaveras County's Current Financial Condition

Calaveras County is in sound financial shape with the consolidated investment portfolio going over \$200 million for the first time in history in December 2019 showing we have no immediate need for the cash.

### Supporting Facts:

To support the fact that Calaveras County is in sound financial condition consider these facts:

**Grand Jury Analysis** – The Calaveras Grand Jury audits of county financials every year, if they find a spending or reserve problem, they will publicly state that fact as a finding. That is what they did with the City of Angels Camp in 2017. There has been no such finding.

**No Independent Auditor Confirms Problems** - County also submits to an independent annual audit. No management letter from an outside auditor has stated the county is in financial peril or misusing funds.

**State Finds No Problem in County Finances** - County is also required to submit the yearly budget to the state Controller's Office per State Government Code 29060. Should the state find we are in funding peril, they would indicate very publicly what the problem would be. County is required by law to maintain adequate reserves per State of California Government Code Section 29000. There has been no such state finding.

**Unfunded Liabilities Consistent with Other Counties** - Unfunded liabilities are defined as debt obligations much like long term annuities. The money is not all due today but will be at some point in the future. Calaveras County unfunded liability for pensions is in line with other counties in the state. Unfortunately, Angels Camp is listed as having the highest risk for other post-employment benefits (OPEBs) of all cities in the state.

**Return on Investment and Money Investments** – According to Chandler Investments, the County received a 3.94% return on investments over the past twelve months and received almost \$8 million in additional value on the consolidated investment portfolio. Money in investments are funds that are not needed to maintain cash flow and includes funds for required Reserve Accounts



**Audits of the County** - I believe it is important for all governmental organizations to be subject to audits to protect the use of taxpayer funds or grants from other outside sources. Every year a Comprehensive Annual Financial Report (CAFR) is completed by the Auditor which provides details how funds that are spent and available. Should the independent elected county Auditor find we are in financial peril, I am certain they would have stated so to the Board and public. No Auditor has presented such a finding.

**County Improvements Are Not Deficit Spending** - One-time money use during a budget cycle to purchase or improve capital assets is not deficit spending but can be defined as a “structural deficit” in a budget. Example constructing or repairing a building, replacing a road, and improving technology are capital assets. This type of spending is considered a “structural

deficit” in a budget because the county retains the improvement or purchase as an asset and is part of the county's net financial position.

**Summary** - Therefore if an institution has, for example, \$1 million in its accounts and then spends \$500,000 to construct a building, it retains the \$500,000 on its balance sheet for a total of \$1 million in net assets. This can be defined in accounting terms as a structural deficit.

## Confirming County’s Sound Financial Condition

The actions of the Calaveras County Board of Supervisors confirm we are in sound financial condition. If the county had serious financial problems, consider these questions:

**Building Repair** - Why is the county is doing major work repairing buildings (roof replacement, complete repaint, installation of gazebo, upgrades to IT, etc.) if there was a budget problem?

**New Buildings** - Would the county be considering demolition of the old jail and construction of a new DA facility if there was a budget problem?

**Money Provided to Fire Districts** - Would the county have given away millions in Butte Fire settlement money to the fire districts, the city, or the Fair if there was a budget problem?

**Road Repair in Butte Fire Area** - Would the county agree to spend \$13 million to repair roads in the Butte Fire area if there was a budget problem?

**New County Staff and Raises** - Would the county hire additional staff if it has a budget problem? Would the county be providing staff with raises if it was in a budget crisis?

## Marijuana Production Financial Impact: No Benefit – All Costs

Those “sounding an alarm” that our county is in near “financial ruin” contend that the county needs funds from the production and cultivation of marijuana in order to be financial solvent. This is not true. It is important to consider the following facts.

**No Substantial Revenue Collected** - When the County Chief Administrative Officer was asked what the associated costs of the new marijuana ordinance in relation to revenue, he could not supply the information.

**Taxpayers Pay The Cost of Pot Growing** - The urgency ordinance fees did not cover

county’s cost to clean up the damage to the environment, eradicate plants, force compliance, prosecute crimes and many other costs. The only cost the growers pay is the expense of the processing of their application. All other costs were funded by Taxpayers.

**Defending Pot Growers Lawsuit** - Taxpayers continue to pay to defend a lawsuit about the collection of fees and taxes from the Urgency Ordinance in court. The pot growers are suing the county after the county ended legal cultivation even though each grower



had signed on their applications acknowledging there were no refunds and agreed to hold the county harmless in case the program was canceled.

## **County Supervisors Training in Finance: A Long Term Goal**

There is a critical need for elected government officials to have adequate training and/or knowledge of basic government accounting and financing. Currently I am the only Supervisor trained in Government Accounting, assigned to the Treasury Committee (overseeing the investment portfolio) and to have sat on a government finance committee with budget oversight (CCWD). For the past three years I have been assigned to the Debt Advisory Committee . This committee has not met for one simple reason: there is no debt crisis.

### **Summary**

The bottom-line is that Calaveras County is in sound financial shape. The consolidated investment portfolio went over \$200 million for the first time in history in December 2019 demonstrating the county has no immediate need for the cash. There is a great deal of independent confirmation of these facts. Finally, we do not need to burden county, particularly the Sheriff and Building departments, with responsibilities for the enforcement of laws and regulation protecting our county from an out of control marijuana industry, legal or illegal. Bringing the pot production and cultivation industry is counterproductive in our efforts to improve our communities and way of life. Citizens are, of course, free to follow state law to grow a few plants themselves but growing a pot industry here is a mistake.

Calaveras County has a great future. Our finances will be even stronger as we bring responsible, positive growth here that results in more good paying jobs, businesses, services, and new housing. It will prosper with good schools and opportunities for our children. It will prosper as we commit ourselves to public safety and adequate law enforcement. It will grow as we improve services including as health care and housing for our seniors. With all of this, we need to have a continuing commitment to protecting our greatest assets: our areas natural beauty and rich history.