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## ensions contribute to county's budget woes

The enhanced benefits are spurring more workers to retire.

**By Cameron Jahn -- Bee Staff Writer**  
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When told during a staff meeting a few weeks back that Sacramento County was looking at a budget shortfall for the fourth straight year, the county's top executive - frustration clearly on his mind - turned on his heel and walked away from the bearer of bad news.

It's budget time for the county, and the ledger is again stained with red ink.

This year, the county faces \$9.7 million in budget cuts, and officials are blaming the shortfall on an unexpected \$10

million increase in pension costs.

"We've seen significant improvement (on the budget) since last year, and if it weren't for the retirement cost increases, we would be in the black," said the frustrated chief executive, Terry Schutten.

The increased retirement costs, however, are largely the county's own doing.

Supervisors gave all county employees - from sheriff's captains to secretaries - an enhanced pension package in 2003 that cost the county \$69 million its first year. During the first year of the additional benefits, 669 people retired - more than the 614 who retired in the three years before the new retirement benefits went into effect. Overall, 923 employees have retired since the new pension formula kicked in.

The retirement system now pays benefits to more than 6,500 people. The average monthly stipend is \$2,008.

County officials knew increasing retirement benefits would be costly, but they felt pressure from labor unions to enhance pensions for the county work force after state workers received an increased pension package in 2000, said Supervisor Roger Dickinson.

"We are competing with the state for employees, both in recruitment and retention," said Dickinson, who supported the county's pension increase. "If I'm a transportation engineer and the state offers me a better pension and better wages, I can just as easily go work for Caltrans as I can work for Sacramento County."

The Sacramento County Employees' Retirement System board of directors now expects to earn less money on its investments, meaning the county will have to spend another \$43 million to cover retirement costs during the next two years.

Richard Stensrud, the new executive in charge of the county's retirement system, said his organization plays the hand dealt to it by the Board of Supervisors.

"It's always hard to hear that costs are going up, but it is also important to keep in mind the circumstances we do not control," such as the benefit formulas, employee salaries, the investment market and the number of retirees, Stensrud said. "Our job is to put a price tag on the benefits and establish a plan for how to fund them."

Next year, the county will contribute 3.8 percent more to its employees' pension accounts due to cost increases.

Supervisor Roberta MacGlashan, who won a seat on the board in November after campaigning for fiscal restraint and austere budgets, said the county needs to rein in spending whenever possible.

"The difficulty is that we don't control all of the expenditure side of the ledger, especially when talking about increases in payments to the retirement system,"



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she said.

Supervisors turned down the chance to cut \$2 million in costs in March by eliminating a medical subsidy for retirees. The perk, as much as \$244 per month for each retiree, was paid out of excess earnings from the retirement system's investments. After those excess earnings disappeared with the declining stock market, supervisors agreed to continue paying the subsidy out of the general fund.

Also fueling the county's ongoing budget woes are pension bonds worth nearly \$1 billion that the county floated to finance the increased retirement benefits. Bond payments are growing larger by the year, laying greater claim to the county's discretionary spending.

All told, county coffers are on the hook for \$305 million in bond payments during the next five years.

"This is our biggest challenge in the coming years, how to deal with the debt service on our pension bonds," said Geoff Davey, the county's chief financial officer.

Add to that the existing gap between the county's revenues and expenditures, and Schutten's frustration becomes understandable.

Over the next five years, the county faces budget deficits totaling \$268 million, a figure characterized by a staff report as a "fairly optimistic" estimate.

In recent years, supervisors have used one-time pots of money and sold off vacant land to shrink the amount of cuts necessary to close their budget shortfalls.

Those temporary funds have largely dried up.

Dickinson is confident an improved economy and money carried over from last year's budget will produce enough to cover the anticipated \$9.7 million shortfall by the start of the new fiscal year July 1.

"I would say we're in a year now where we basically will be able to maintain what we are doing now without any cuts," he said.

But, if the Legislature approves Gov. Arnold Schwarzenegger's budget as is, Sacramento County would lose \$20.9 million next fiscal year, mainly in transportation, probation and Sheriff's Department funding, prompting more local cuts.

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