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John G Dickerson – www.YourPublicMoney.com

Grand County Pension Bargain – or Bankruptcy?

John G Dickerson

This is the last of three articles about Mendocino County's unfunded pension debt. They are on www.YourPublicMoney.com with links to evidence that supports every assertion.

Unfunded pension debt is by far the biggest threat to our County's ability to provide services and infrastructure needed for a safe and prosperous county. As more local taxes are consumed public safety will be seriously compromised and roads will fall apart. As core public services fail jobs will get harder to find and property values will be stymied.

In the first article I described the Perverse Incentive that drives the creation of this debt. The County's unaccountable employee/retiree dominated Retirement Board transferred hundreds of millions from the County and taxpayers to employees and retirees behind the public's back. Laws were broken. Policies to placate the public were passed then ignored. Financial reports were rigged. Decades of reckless financial mismanagement went unchallenged. (Please visit my site.)

The people of Mendocino County were sucker-punched by the Retirement Board.

In the second I told employees and retirees their "pension house" is on fire and only a miracle can keep it from collapsing. We the People didn't hold County officials accountable. Employees and retirees didn't hold Retirement Directors they elected accountable. We have a responsibility to work together to clean up the mess.

This final message is based on some hard conclusions.

The Retirement Board imposed nearly $100 million more unfunded pension debt over the past 5 years during a strong stock market. But officials avoided confronting the core causes of this debt by shoving the pain of paying it as much as 30 years into the future (with interest) – the longest legally allowable.

The next recession is when the pain is likely to become too great to ignore because tax collections always decrease, demand for social services increases, and Pension Fund investment losses doubles unfunded pension debt and County taxpayers must replace those losses.

But taxpayers must pay existing taxes no matter how bad services get and the Retirement Board can keep shoving payment of the growing debt into the future. Left to themselves they might be able to limp along a decade or more.

Mendocino is the most damaged California county by unfunded pension debt. That debt equals its total assets. Total debt is 25% more than assets. We will likely be the first California County to enter federal municipal bankruptcy to make significant cuts to retiree pensions. The longer this goes on the worse it will be. It's impossible to rebalance our County's debt with our local economy without significantly cutting pensions.

This debt has been allowed to get too big. Major pain can't be avoided. I can think of only one way to reduce the pain and fairly spread it around.

Grand Pension Bargain

This would require a complex negotiation among the key stakeholder groups and there's no way to lay out the specific results ahead of time. But ultimately if we are to avoid the much worse result of federal bankruptcy five things must occur:

- A temporary increase in County revenues (probably a tax) must be approved by voters based on iron-clad assurances the following four goals will be accomplished.
- Employees and retirees agree to take up front cash payments – or some equivalent - to "buy down" a significant amount of today's unfunded pension debt to a level necessary for the County to properly fund the services and infrastructure the People have a right to expect.
- Fundamental changes to the structure and governance of retirement benefits are made so that significant unfunded pension debt can never again be imposed on our county.
- Employees can plan on secure predictable retirement income.
- Fundamental changes in the structure and function of county financial management will happen so we can have much more assurance they will be professionally competent, motivated by the long-term needs of the people, and truly be financially accountable.

There are many ways these goals could be achieved - but this is what a Grand Bargain must do.

The challenge now is to develop a process to make this happen – some of which may require changes in State law. The alternative is awful – a much worse hit imposed on employees and retirees in federal bankruptcy and the near destruction of our County's ability to provide the services the People need.

Until these changes are made voters should understand every proposal to increase their taxes is driven by increasing unfunded pension debt payments. Every other proposed tax increase is really a "Pension Tax" that does nothing to stop creating more debt.

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