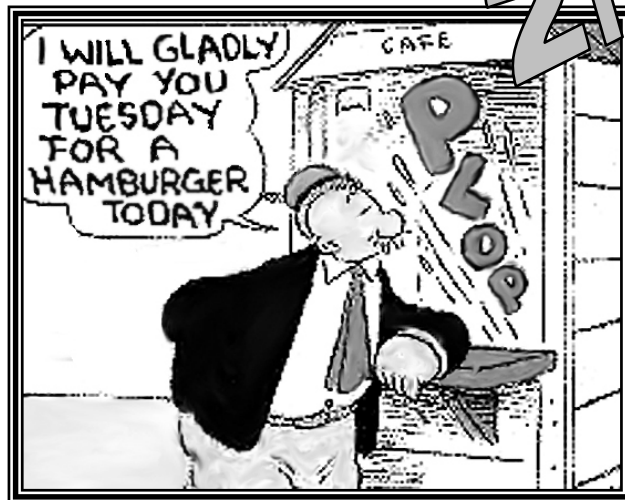


MENDOCINO COUNTY'S LONG-TERM DEBT

Excerpt
2/4/10

The purpose of this Excerpt is to show citizens what County officials have refused to respond to for the last 16 months - and what incumbents running for office should respond to.



The purpose of this paper is to clarify the nature, causes and effects of the County of Mendocino's Long-Term Debt to the citizens of the County.

© John G Dickerson

October 16, 2008

Minor Revision - 12/3/08

Foreward

Have you ever just known you weren't hearing the whole story? That something was going on but you couldn't see what it was? That no one was telling you the most important stuff?

This is my attempt to explain what I've learned over the past 12 years about what was going on that no one was telling us - the steady and enormous growth of the County of Mendocino's long term debt. But it's not just about the debt. It's also about how some County officials purposely kept that debt out of public view, how they repeatedly put off dealing with core problems, and how they pushed it as far into the future as they could. It's about how the County's systems and its internal culture led to this debt and even today blinds County officials to its reality. And it's about how the "political class" of Mendocino County - all across the political spectrum - was so easily distracted by their "hot button" issues that no one paid any real attention to this debt and the severe damage it is going to do.

I also briefly lay out a few of what I think are the most important things we need to do to stop Mendocino County's debt-creating monster.

At its core is the belief that this really is your land, and my land. That what Ben Franklin said when asked a question by a woman as he stepped out of the Constitutional Convention in 1787 is true:

Lady - "Well, Doctor, what have we got?"

Ben - "A Republic, Madam, if you can keep it."

If we, the politically active citizens in Mendocino County, can't "keep our republic" in a County of 86,000 people, how can we hope to maintain our national democratic republic with over 300 million people?

The ultimate fate of our governments, especially in our small County, is our responsibility - the citizens and the people. At some point, it doesn't work to blame the politicians - at some point we have to realize "We have met the enemy, and he is us." **We elected the politicians. Even if they're on our team, in fact most especially if they are, it's our responsibility to find out about the big things they do and hold them accountable.**



This report is my responsibility. In a report of this breadth there are probably mistakes. I've tried to make sure the data used is accurate, but I wouldn't want to put my head in a guillotine as a guarantee.

But - please - if you see an assertion of fact that you think isn't correct - please let me know.

As always, interpretation and analysis are subject to debate. But it seems to me the evidence is pretty overwhelming.

Please note the breadth, depth, and extent of analysis in this table of contents. You don't need to read it in detail to get the point.

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The County has not responded to any of the assertions on this page. They are very explicit - they are backed up with detail in the body of the report.

ge 1

In 1996 the County of Mendocino's Total Long Term Debt was \$76 million. Today it's \$315 million. Annual debt payments grew from \$3.5 million to \$15 million. In 1996 debt payments were 25% of the County's portion of our property taxes. Today they're nearly 60%.

More than \$400 million will be paid toward this debt over the next couple of decades. Not one dime will produce services or investments. These payments will force the County to cut services, raise fees and other taxes, curtail future salaries and benefits, and make significant cuts in retiree healthcare.

"I will gladly pay you Tuesday for a Hamburger today." - Wimpy

That, in a nutshell, is a whole lot of what happened.

Common sense - don't build up credit card debt to buy groceries. Some day you'll hit your credit limit and won't be able to buy groceries on credit. Then, you're in trouble if you don't have enough cash.

This is as true of the County of Mendocino as it is for our families. The County of Mendocino has not been paying its living expenses for years. The main way the County did this was to make promises to employees about retirement benefits that the County did not pay for. It charged them on a credit card.

The County makes this promise to employees - "Work a certain number of years for the County, and we'll pay you a pension when you retire." (People hired before 9/98 also get healthcare in retirement.)

Here's what should have happened - the County should have properly invested enough money each year so that as employees retire there would be enough money already set aside to pay their retirement benefits. And the County should have reported the full expense and accumulated debt of benefits earned each year.

Here's what actually happened. First, the County failed to put aside \$150 million needed to pay these promises. This was a large part of benefits earned over 15 years, but was never reported as expenses. Second, the County Pension Fund's return on investment was the worst of any county system in the State. Third, funds intended to pay future pensions were diverted to pay retiree healthcare. The result - County debt for retirement benefits already earned by employees is \$250 million. Given the stock market these days, it's probably much worse. * See Note Below

Most of the County's debt was created from 1996 to 2005. County officials in those years failed in their duty not only to protect the finances of our County, but also to make sure citizens knew about these problems. They never asked us if we agreed to take on this Debt. They never asked if it was OK to make future generations pay for County services today.

It's easy for County Officials to make promises about retirement benefits to employees that they don't have to fulfill. It's easy for Union Officials to get praise from their members by saying "See, we brought home the bacon," when a big chunk of the bacon doesn't have to show up for decades. Their agreements are only words on a piece of paper - they aren't dollar bills. It will be someone else's problem decades later when the bills come due.

The bills are now coming due.

* 2/4/10 - 16 Months later - the County's debt has grown to \$350 million. Indeed, Pension Fund losses in the stock market caused most of that growth in debt - but not all. EVERY ONE OF THESE THREE MAIN CAUSES CONTINUED UN-ABATTED SINCE THIS REPORT WAS PUBLISHED!

II. MENDOCINO COUNTY'S LONG-TERM DEBT = NEARLY \$1/3 BILLION

Long-Term Debts are multi-year financial obligations that are legally enforceable by an external party.¹

A. How Much is Our County's Long Term Debt Today?

The County's Total Long Term Debt (given the definition above) is nearly \$1/3 Billion. (See the footnote on the next page that describes where these numbers come from.)

Table 1 - Long Term County Debt - Where Reported (\$ Millions) - June 2008

On the Balance Sheet	
Pension Obligation Bonds	\$92.1
Certificates of Participation (real estate)	26.2
Other	16.7
Total	\$135.0
Required Supplementary Information to the Balance Sheet	
Unfunded Pension Liability	\$31.7 ²
Unfunded Retiree Healthcare Liability	136.2 ³
Total	\$167.9
 Teeter Plan	 \$13.0
 Total Long Term Debt	 \$314.0

This 3 page section is just to show the how specific this report is.

B. Where Did This Debt Come From?

Liabilities that result from the County's Retirement Benefits constitute more than 80% of the County's Long Term Debt - over \$250 million. Some of these are listed on the Balance Sheet (Pension Obligation Bonds), but most are (or will be) listed as footnotes (Unfunded Pension and Healthcare Liabilities).

Real Estate obligations constituted about 8% of total Long Term Debt. All other sources, including Teeter Plan, make up 9%.

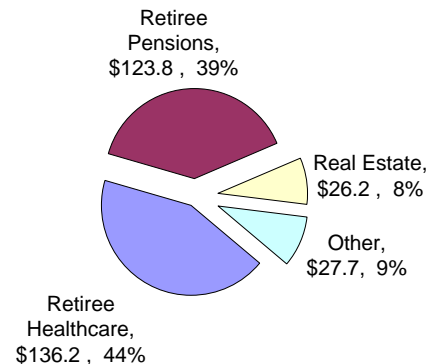


Figure 1 - Source of County Debt

¹ These may be reported directly on the County's Balance Sheet as Liabilities or required to be disclosed in footnotes. They range from those created directly from transactions with external parties to those based on professionally-derived estimates, as long as there is a real obligation that can be legally enforced by an external party. They may be liabilities directly of the County, or of organizations controlled by the County for which the County is ultimately responsible. The specific terms of their payment may range from absolute certainty to a fairly high degree of uncertainty, as long as it is certain that payment must be made - or that the County intends to act as though the payments must be made - and a professionally-competent projection of repayment is available.

² As of June 30, 2006

³ See page 19 for a discussion of the legal status of this debt.

C. Growth of the County's Long-Term Debt Over the Years

Figure 2 shows the growth of the "Reported" or "Known" Long-Term Debt of the County⁴.

The huge jump in Long Term Debt in 2007 results from the County's Unfunded Retiree Healthcare Liability disclosed for the first time in the Aon Consulting *Actuarial Valuation Study* dated 8/21/08. See Retiree Healthcare-Related County Debt on page 17 for an explanation.

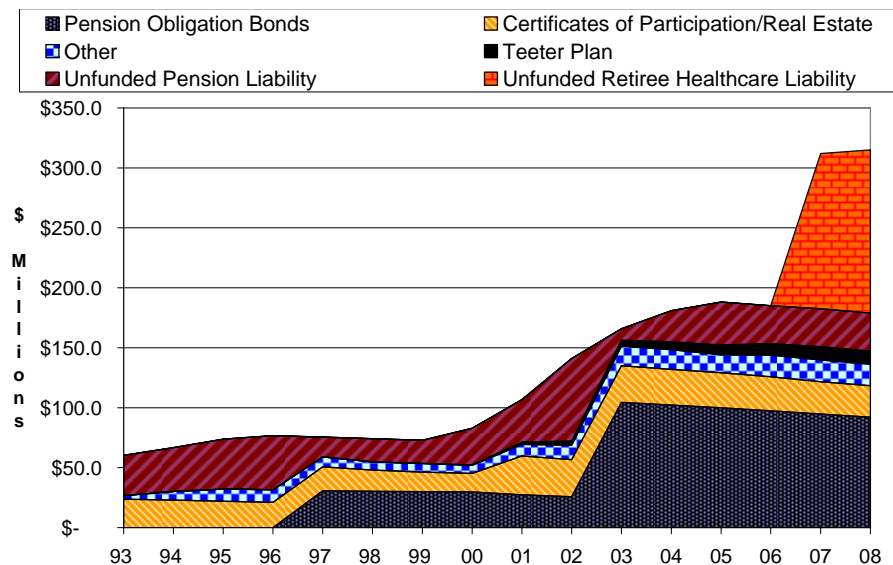


Figure 2 - Growth of Mendocino County's Long Term Debt

D. Debt Service Payments

This graph shows payments on Long-Term Debt as it is defined and identified in this paper. "Debt Service" is payment of debt principal and interest. These are the actual payments for 2007 and before and those that are scheduled and projected for fiscal year 2008 through the next 10 years. (The County's fiscal year is July through June.)

A very significant contributor to future Debt Service payments is the newly disclosed Retiree Healthcare Benefits Liability.

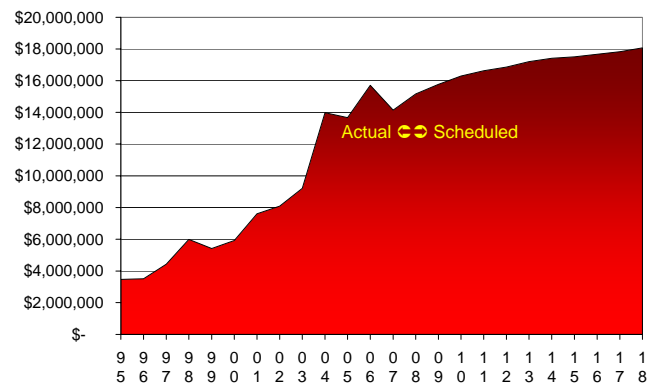


Figure 3 - Payments on Long-Term Debt

⁴ Sources: *Audited County Financial Statements*, State Controller's *Public Retirement Systems Annual Reports*, *Actuarial Valuation Study - County of Mendocino Retirement Health Plan*, Aon Consulting, 8/21/08.

The value of Unfunded Pension Liability has not yet been reported for either FY07 or FY08; it is estimated here to be the same as FY06. (But given what's happening in the stock market as this paper is being written, it's probably much more than that.) There is a slight confusion about whether the values for Unfunded Retiree Healthcare are here assigned to the correct year or if they should be moved 1 year into the future. The only question is whether the '07 figure should really be '08. Clearly there were Unfunded Retiree Healthcare Liabilities before 2007, but the County had never calculated what they were. The values for other debt in 2008 are based either on projections shown in footnotes to the County's Fiscal Year 2007 audited financial statements or County budget documents.

XII. ATTACHMENTS -**A. Independent County Retirement Systems & MCERA Return on Investment**

Twenty-one counties operate their own Retirement Funds in California. The rest participate in statewide California Public Employee Retirement System (CalPERS). Mendocino County's System Mendocino County Employees Retirement Association (MCERA) - is the smallest of these separate Retirement Funds.

Most of the statistics in this report about how MCERA compares to the other independent systems comes from the 10 most recent *Public Retirement Systems Annual Reports* from the California State Controllers Office. The table below reports the "Average Yield on Assets" for each county system calculated and reported by SCO sorted from highest 10 year average Yield to lowest.

Table 6 - Average Yield on Assets - 21 Independent County Retirement Systems - 10 Years

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Average
Tulare	21.1%	17.4%	17.8%	12.7%	23.8%	-3.1%	-3.2%	3.1%	17.40%	11.70%	11.9%
San Diego	16.6%	19.8%	15.3%	12.4%	16.0%	-7.2%	-3.2%	5.2%	23.50%	15.90%	11.4%
Stanislaus	14.5%	25.7%	15.1%	12.0%	7.5%	8.4%	-4.7%	6.7%	18.80%	9.40%	11.3%
Imperial	16.4%	20.6%	18.9%	10.6%	19.0%	-5.7%	-3.2%	7.0%	16.90%	9.30%	11.0%
Alameda	11.4%	14.6%	20.4%	17.0%	15.2%	0.6%	-2.8%	-7.1%	26.30%	12.20%	10.8%
San Joaquin	9.4%	14.5%	18.6%	11.2%	15.0%	4.3%	0.7%	-5.2%	26.60%	12.60%	10.8%
Marin	21.6%	22.7%	18.0%	10.5%	11.6%	-3.0%	-6.4%	1.4%	19.10%	10.40%	10.6%
Contra Costa	9.4%	16.0%	21.5%	15.1%	15.8%	1.3%	-3.7%	-10.5%	24.40%	13.10%	10.2%
Ventura	13.0%	20.7%	20.0%	12.9%	8.1%	0.3%	-6.7%	4.5%	16.80%	9.60%	9.9%
Sonoma	9.0%	16.7%	21.5%	15.6%	15.9%	0.2%	-6.5%	-11.9%	26.70%	11.90%	9.9%
Los Angeles	14.4%	17.4%	15.4%	13.8%	16.2%	-7.4%	-5.3%	3.9%	16.30%	11.90%	9.7%
Santa Barbara	14.7%	20.3%	19.3%	10.9%	6.7%	-2.9%	-4.8%	5.0%	16.30%	10.40%	9.6%
Orange	11.7%	13.5%	16.2%	13.4%	16.7%	1.4%	-2.7%	-5.6%	19.30%	11.80%	9.6%
Merced	10.5%	25.8%	15.0%	11.8%	11.2%	-2.9%	-4.8%	5.5%	13.70%	9.70%	9.6%
San Bernardino	9.7%	18.9%	16.9%	14.6%	11.3%	-2.3%	-4.6%	1.2%	16.60%	10.40%	9.3%
Kern	13.3%	19.6%	14.0%	11.8%	9.6%	-5.8%	-4.6%	5.9%	17.10%	11.40%	9.2%
Sacramento	9.6%	20.6%	18.2%	12.1%	10.3%	-5.4%	-5.4%	3.5%	16.60%	11.00%	9.1%
Fresno	11.4%	21.1%	20.2%	8.0%	9.2%	-1.6%	-3.5%	2.1%	13.00%	10.30%	9.0%
San Mateo	10.1%	18.4%	17.2%	7.5%	10.3%	-4.5%	-6.1%	3.6%	16.00%	10.20%	8.3%
San Luis Obispo	8.1%	6.0%	12.0%	12.4%	6.0%	4.4%	0.2%	-3.8%	16.60%	8.00%	7.0%
Mendocino	9.8%	16.6%	5.2%	7.9%	13.3%	-9.3%	-7.0%	4.4%	15.70%	9.60%	6.6%
AVERAGE	12.7%	18.4%	17.0%	12.1%	12.8%	-1.9%	-4.2%	0.9%	18.7%	11.0%	9.7%
Mendocino - % of Aver	-23%	-10%	-69%	-35%	4%	386%	66%	389%	-16%	-13%	-32%
Mendo - % of 8% Target	23%	108%	-35%	-1%	66%	-216%	-188%	-45%	96%	20%	-17%

The two bottom rows show how much MCERA was over or under (first) the average of all 21 systems, and (second) its own target rate of return of 8%.

The method used by SCO to calculate Average Yield is explained in each Annual Report. These reports and other annual reports about all types of local governmental entities in the state are available to download as pdf files at <http://www.sco.ca.gov/ard/local/locprep/index.shtml#publications>.

You don't need to "study" these data attachments. There are here to show you that we showed the County exactly what data we used to produce this report.

B. Mendocino County Long-Term Debt Balances

\$ Million - As of June 30 ... (sources - County Audited Financial Statements, Actuarial Valuations of Retirement Benefits)

Table 7 - Balance of Long-Term Debt - County of Mendocino - 1993 through 2008

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
BALANCES	On the Balance Sheet																
	Pension Obligation Bonds					30.7	30.3	30.0	29.8	27.4	25.7	104.5	102.3	99.9	97.5	94.9	92.2
	Certificates of Participation	23.9	23.1	22.1	21.2	20.0	17.8	16.4	15.6	32.4	31.1	30.5	29.8	29.2	28.3	26.9	26.2
	Other	2.7	7.1	10.1	10.5	8.3	6.7	7.2	6.5	9.7	12.1	16.3	16.4	15.1	18.2	18.2	17.9
	Total	26.6	30.2	32.1	31.7	59.0	54.9	53.6	51.9	69.5	68.9	151.3	148.5	144.3	144.0	140.0	136.3
	Footnotes in the Balance Sheet																
	Unfunded Pension Liability	33.8	36.6	41.7	45.0	16.5	19.4	19.4	30.5	35.4	68.8	9.6	26.0	36.0	31.7	31.7	31.7
	Unfunded Retiree Healthcare															129.4	136.2
	Total	33.8	36.6	41.7	45.0	16.5	19.4	19.4	30.5	35.4	68.8	9.6	26.0	36.0	31.7	161.0	167.9
	Teeter Plan								0.5	2.0	3.5	5.0	6.5	8.0	9.5	11.0	11.0
GRAND TOTAL	60.4	66.8	73.9	76.7	75.5	74.3	73.0	82.3	104.8	137.6	160.9	174.5	180.3	175.6	312.0	315.2	
\$ CHANGES	On the Balance Sheet																
	Pension Obligation Bonds				30.7	(0.4)	(0.3)	(0.2)	(2.4)	(1.7)	78.8	(2.2)	(2.3)	(2.5)	(2.6)	(2.7)	
	Certificates of Participation	(0.9)	(1.0)	(0.9)	(1.1)	(2.2)	(1.5)	(0.8)	16.8	(1.3)	(0.5)	(0.7)	(0.6)	(0.9)	(1.5)	(0.6)	
	Other	4.4	2.9	0.4	(2.3)	(1.6)	0.5	(0.7)	3.2	2.4	4.2	0.2	(1.3)	3.0	0.0	(0.3)	
	Total	3.6	1.9	(0.5)	27.3	(4.1)	(1.3)	(1.7)	17.6	(0.6)	82.5	(2.8)	(4.2)	(0.3)	(4.0)	(3.7)	
	Footnotes in the Balance Sheet																
	Unfunded Pension Liability		2.8	5.1	3.3	(28.5)	2.9	0.0	11.0	4.9	33.4	(59.2)	16.4	10.0	(4.3)	0.0	0.0
	Unfunded Retiree Healthcare															129.4	6.8
	Total		2.8	5.1	3.3	(28.5)	2.9	0.0	11.0	4.9	33.4	(59.2)	16.4	10.0	(4.3)	129.4	6.8
	Teeter Plan								0.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	0.0
GRAND TOTAL		6.3	7.1	2.9	(1.2)	(1.2)	(1.3)	9.3	22.5	32.8	23.3	13.6	5.8	(4.6)	136.4	3.2	
%	Total LTD - Year to Year		10%	11%	4%	-2%	-2%	-2%	13%	27%	31%	17%	8%	3%	-3%	78%	1%
	Total From Beginning		10%	22%	27%	25%	23%	21%	36%	73%	128%	166%	189%	198%	191%	416%	421%

Major Changes in Balances (\$10 million or more) noted **Bold in Yellow**. There were Unfunded Retiree Healthcare Liabilities before 2007, but the County had never calculated what they were. The last 2 rows are (first) the percentage change year-to-year and (second) from 1993. Teeter Plan Debt growth is estimated - and not very significant compared to the rest.

C. Mendocino County Payments on Long-Term Debt

Does not include payments of Unfunded Pension Liabilities - could be very significant. For example, an Unfunded Pension Liability of \$50 million would require the County to pay "interest" into the Pension Fund of \$4 million a year. Does not include projections of payments on new debt in the future.

Table 8 - Long Term Debt Payments - \$Millions, Mendocino County, Yr End 6/30 2000-2007 Actual, 2008-2018 Scheduled/Projected

	ACTUAL									SCHEDULED & PROJECTED									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
PAYMENTS OF DEBT REPORTED ON BALANCE SHEET																			
Pension Ob Bonds																			
Prin	1.005	1.405	1.655	1.925	2.225	2.340	2.455	2.585	2.730	2.885	3.055	3.240	3.405	3.575	3.755	3.940	4.155	4.385	4.630
Int	2.000	1.910	1.813	2.585	5.967	5.719	5.917	5.688	5.189	5.026	4.848	4.675	4.509	4.335	4.151	3.949	3.725	3.490	3.241
Ttl	3.005	3.315	3.468	4.510	8.192	8.059	8.372	8.273	7.919	7.911	7.903	7.915	7.914	7.910	7.906	7.889	7.880	7.875	7.871
Cert of Part																			
Prin	0.781	1.135	1.335	0.525	0.740	0.570	0.885	0.900	0.635	0.660	0.730	0.720	0.755	0.790	0.830	0.870	0.905	0.955	1.000
Int	0.500	1.370	1.684	1.530	1.507	1.464	1.435	1.399	1.347	1.320	1.292	1.260	1.229	1.192	1.154	1.115	1.074	1.031	0.982
Ttl	1.281	2.505	3.019	2.055	2.247	2.034	2.320	2.299	1.982	1.980	2.022	1.980	1.984	1.982	1.984	1.985	1.979	1.986	1.982
Cap Leases																			
Prin	0.181	0.178	0.222	0.337	0.396	0.480	0.487	0.497	0.430	0.394	0.297	0.231	0.082						
Int			0.040	0.040	0.043	0.020	0.020	0.015	0.079	0.056	0.034	0.017	0.005						
Ttl	0.181	0.178	0.262	0.377	0.439	0.500	0.507	0.512	0.509	0.449	0.331	0.248	0.087						
Loans Payable																			
Prin				0.016	0.033	0.035	0.036	0.029	0.021	0.021	0.022	0.023	0.089						
Int				0.010	0.012	0.010	0.009	0.008	0.007	0.006	0.005	0.004	0.007						
Ttl				0.025	0.045	0.045	0.045	0.036	0.027	0.027	0.027	0.027	0.096						
TOTAL PAYMENTS of BALANCE SHEET DEBT																			
Principal	1.967	2.718	3.212	2.787	3.377	3.423	3.862	4.018	3.823	3.960	4.103	4.213	4.266	4.454	4.585	4.810	5.060	5.340	5.630
Interest	2.500	3.280	3.537	4.156	7.527	7.214	7.382	7.110	6.624	6.408	6.180	5.958	5.747	5.534	5.305	5.064	4.799	4.521	4.223
Total	4.467	5.998	6.750	6.943	10.878	10.593	11.199	11.083	10.411	10.341	10.256	10.144	9.985	9.892	9.890	9.874	9.859	9.861	9.853
Retiree Healthcare Pmts	1.450	1.614	1.338	2.271	3.077	3.033	4.471	3.014	4.713	5.407	6.013	6.451	6.849	7.216	7.523	7.627	7.811	7.970	8.213
TOTAL DEBT PAYMENTS - BALANCE SHEET DEBT + UNFUNDED RETIREE HEALTHCARE DEBT																			
Principal	1.967	2.718	3.212	2.787	3.377	3.423	3.862	4.018	3.823	3.960	4.103	4.213	4.266	4.454	4.585	4.810	5.060	5.340	5.630
Interest	2.500	3.280	3.537	4.156	7.527	7.214	7.382	7.110	6.624	6.408	6.180	5.958	5.747	5.534	5.305	5.064	4.799	4.521	4.223
Retiree Healthcare	1.450	1.614	1.338	2.271	3.077	3.033	4.471	3.014	4.713	5.407	6.013	6.451	6.849	7.216	7.523	7.627	7.811	7.970	8.213
Total	5.917	7.612	8.088	9.214	13.980	13.671	15.715	14.142	15.160	15.775	16.297	16.622	16.861	17.204	17.413	17.501	17.670	17.831	18.066

We listed our data sources for all to see.

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