

## **The “CSAC Affair”**

### **The Failure of Mendocino County Officials to Fulfill Their Fundamental Financial Duties to the People An Example May 23, 2011**

#### **Summary**

I published my first **California Counties Comparative Debt Report** in summer 2005 based on the State Controller’s Office’s **Annual Counties Financial Report** for fiscal year 2003. A key finding of my report was that Mendocino County had the highest per capita debt of all California Counties. I’ve just released my 7<sup>th</sup> Annual Report.

For five years County officials denied this finding – but mostly avoided discussing it as much as possible.

Then the County put Measure C on the November 2010 ballot asking voters to increase the County sales tax ½% for 10 years. County officials then asked the California State Association of Counties (CSAC) to determine if my finding was accurate. County officials appear to not have told anyone outside County government about this request when it was made.

I was managing the No on Measure C Campaign and it was obvious the issue of the County’s debt relative to other Counties was significant.

A CSAC Analyst produced a report showing that Mendocino County’s debt was relatively modest and not at all close to being the “most per capita” in California. Mendocino County Supervisor Kendall Smith immediately began to distribute this report to concerned citizens and the local media. I was forwarded this CSAC report at that time.

I immediately saw that the data used by the CSAC analyst was not the same as that I obtained from the State Controller. I sent my report and data to the CSAC analysis and asked him to confirm his data and tell me where it came from.

Two weeks later the CSAC analyst admitted he was “never able to reconstruct which numbers I used to arrive at the spreadsheet I sent (Mendocino County Treasurer) Schapmire. ... I would urge folks to not use that data.”

The analyst went on to say “The county's total unmatured principle per capita ranks 1st in the state. ... In fact, the county is so significantly in first place that I took a closer look. Nearly 86% of the county's bonded indebtedness is in pension obligation bonds. It is intellectually honest and provides useful information to leave the numbers as they are.”

After the CSAC analyst admitted his first report was erroneous no County official made any further mention of this issue.

I believe this demonstrates one of many fundamental flaws in how County officials manage our County’s finances. County officials as a whole are far more concerned about small-p “politics” – winning and losing – than they are about finding out what is really happening to our County’s finances and doing something about it. I believe the root cause is the same as reported in the **Kroll Report** about the City of San Diego’s very damaging debt caused by unfunded retiree benefits:

*San Diego officials cultivated and accepted a culture of financial management and reporting premised upon non-transparency, obfuscation, and denial of fiscal reality.*

## The “CSAC Affair”

### Introduction – Our County’s Deeply Dysfunctional Official Financial Culture

I first became significantly involved with Mendocino County officials in 1996 in economic development efforts. But by 2003 I had grown extremely uncomfortable about many aspects of how our County government operates – and in particular about its finances. I could sense “something big was wrong” but no one was talking about it.

I started to dig into County finances. What I found over the following couple of years “blew my mind”.

After 15 years of close observation of our County I’ve come to believe County officials have four fundamental financial duties to the people:

- Tell us the important financial truths about our County.
- Manage Our Public Money competently and transparently.
- Protect and Build our County’s financial strength.
- Don’t force unfair financial burdens on our kids.

County officials spectacularly and repeatedly violated these duties over the past 2 decades – and our County’s huge and destructive debt is the result. The degree of culpability varies – but as a group County officials have fallen far short of these duties to the people.

As I said in a recent YourPublicMoney.com Newsletter:

*Our County's financial leaders ignored the big problems, "papered" them over, avoided responsibility and accountability, placed short-term political goals over the long-term financial health of our County and its people, denied financial reality, put political posturing above performance, crossed over legal boundaries, and pushed bigger and bigger problems as far into the future as possible.<sup>1</sup>*

I realize that’s a very harsh thing to say – I wish it weren’t true. But I believe it is.

This memo describes one particular incident I believe demonstrates a number of these problems – not all, but several – the “CSAC Affair”.

### The “Most Indebted County Per Capita in California”<sup>2</sup>

I released my first **California Counties Comparative Debt Report** in summer 2005 based on the State Controller’s Office’s **Annual Counties Financial Report** for fiscal year 2003. A key finding of my report was that Mendocino County had the highest per capita debt of all California Counties.

(I’ve just released my 7<sup>th</sup> annual **California Counties Comparative Debt Report** based on the SCO Report for 2009. All 7 annual reports show Mendocino County had the highest per capita debt of all counties in the state.)

When I released my first Debt Comparison Report in 2005 former County Auditor-Controller Dennis Huey stated in a Board of Supervisors budget workshop that summer that Mendocino wasn't the most indebted in the state. But - as has ALWAYS been the case for all County officials regarding this particular finding - he offered no data or analysis to refute the data reported by the State Controller.

<sup>1</sup> YourPublicMoney.com email newsletter 5/3/11, available at <http://hosted-p0.vresp.com/355265/5073ae9c61/ARCHIVE>

<sup>2</sup> Copies of my most recent **California Counties Comparative Debt Reports** are available at <http://yourpublicmoney.com/data/data.shtml> - scroll down the YPM Reports column to “County Comparisons”. These reports are based on data from the California State Controller’s Office’s **Counties Annual (Financial) Report** available at [http://www.sco.ca.gov/ard\\_locrep\\_counties.html](http://www.sco.ca.gov/ard_locrep_counties.html).

### **Measure C – Raise County Sales Tax on 11/10 Ballot – and CSAC**

County officials ignored every subsequent Debt Comparison Report - UNTIL they put Measure C on the 11/10 ballot asking the voters to increase the County sales tax 1/2% for TEN YEARS (which they said was "temporary"). Their core argument was that these additional tax revenues were needed to maintain vital public services that were being destroyed by the worst recession since the Great Depression. The County was a "victim" of that recession – it was simply caught up in the same problems as thousands of other local governments across the US.

I managed the "No on Measure C" campaign. I didn't do that because I didn't think our County was in deep financial trouble – just the opposite. My basic reason for opposing Measure C was that it did nothing to address the real cause of our County's financial crisis – and in fact would make it worse. Our core problem was deeply flawed financial management that refused to understand what had gotten the County into its dangerous financial condition and act to correct it. Measure C was in fact evidence of that flawed financial management. The 1/2% sales tax increase was a "number picked out of a hat". There was no analysis of the scale and timing of the County's financial needs – Measure C wasn't part of an overall plan to survive the financial crisis. There was absolutely no discussion of the need for reform.

Instead of addressing basic problems of their own making County officials wanted the people to increase their taxes.

County officials knew I was managing the No on Measure C campaign and that the "most indebted County per capita in California" finding would be used against Measure C.

I have said repeatedly that the fact that we are far more in debt than most is a very strong indication that there is something "uniquely wrong" in our County compared to the "systemic" debt problems plaguing local governments all over the country. I believe Mendocino County officials didn't want to face that argument in the Measure C campaign.

County Treasurer Shari Shrapmire asked the California State Association of Counties (CSAC - pronounced "Sea-Sack") to analyze the SCO data I had used to determine where Mendocino ranked in comparative debt among all CA counties.

According to its website –

*The primary purpose of CSAC is to represent county government before the California Legislature, administrative agencies and the federal government. CSAC places a strong emphasis on educating the public about the value and need for county programs and services.*<sup>3</sup>

CSAC assigned one of its Legislative Analysts – Geoffrey Neill – to perform this research and analysis.

The first I heard of CSAC's involvement in this issue was when I was forwarded an email sent by Mendocino County Supervisor Kendall Smith on 9/9/2010 to an influential citizen:

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<sup>3</sup> California State Association of Counties - <http://www.csac.counties.org/>

*Attached is the data sheet showing Mendocino County debt related to other counties in the state as I mentioned to you recently. Below are also some specifics sent to the Treasure/Tax Collector from CSAC. This information was sent to the Ukiah Daily Journal. Let me know if you have any questions...*

*Best,  
Kendall*

*I think this should help you set the record straight with the folks up there that are taking an active interest in their government. Note especially that Mendocino's debt rankings are favorable compared to counties of a similar size (the debt ratios tend to be higher in counties with fewer people).*

*Geoffrey Neill  
Legislative Analyst  
California State Association of Counties*

Supervisor Smith sent the CSAC report to lots of people and to the Ukiah Daily Journal. One of those people forwarded Smith's email with the CSAC report asking me if it was true I was wrong. It was immediately clear the data used by the CSAC analyst was NOT the data in the SCO Annual Counties Financial Report. I sent the CSAC analyst an email – which included -

*I was forwarded an email you sent to Supervisor Smith regarding California Counties' relative debt measures. My copies of SCO County debt data do not conform to yours. I'm very eager to hear where your data came from - if SCO is distributing wildly different data they deserve significant criticism for so misleading the public.*

On 9/15/10 I attended Mendocino County's Democratic Party Central Committee to argue that liberals and progressives need to demand that the County must find out what caused this debt, what needs to be done, and what it will take to resolve the current financial crisis while maintaining vital public services. I argued that the County had not done any projections of what was going to happen with its debt, and that all the money generated by Measure C would be completely consumed by increasing debt payments within 3 years. The problem in fact is much bigger than what Measure C could “fix”.<sup>4</sup>

Supervisor Smith also attended that meeting to argue that the Democratic Party Central Committee should endorse Measure C. At the meeting discussed the CSAC Report that demonstrated that my analysis about the County's debt was wrong.

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<sup>4</sup> As it turns out the County's Pension Fund Actuary was caught making the same mistakes they'd made in several other counties that I'd warned County Supervisors about a year before - and once again was ignored. These mistakes by the Actuary are forcing the County's unfunded Pension Deficit payments to increase in one year as much as what Measure C would have raised. Measure C would have been completely consumed by the County's Pension debt payments in ONE YEAR - not 3 as I had projected.

The next day I sent another email to the CSAC analysis - he had not yet replied to me:

*I'm attaching the analysis I released for 2008 re Comparative Debt Measures of California Counties per data from SCO. You can check my data numbers with the appropriate tables in the 2008 CSO Annual Counties Report.*

*I was at a meeting last night at which I presented this information. Supervisor Smith was there as well. I can't recall exactly what she said, but I believe it was referencing your report - and I believe she was indicating your report showed by analysis isn't correct.*

*As I say on the last page of the report attached to this email - if I made a mistake I want to know about it. If I'm in error I'll correct my analysis and apologize if appropriate.*

*The people of our County have to make a decision about a County Measure. The relative positioning of our County's debt vis a vis other counties is a significant issue in this campaign. I believe your report is being used as "proof" that my report is wrong.*

*As I say - if my report is wrong, please show me where your data is from.*

*However, if you made an inadvertent error I expect you will let us know quickly.*

Later that day the CSAC analyst sent an email back to me:

*I've spent quite a bit of time yesterday and today going through the numbers, trying to reconstruct how I arrived at the numbers I reported. Unfortunately, I didn't make notes on my process, but I'm getting there.*

On 9/21/10 Mr. Neill from CSAC sent an email to me and several other people including County Supervisor Kendall Smith, County Treasurer Shari Schapmire, and the editor of the [Ukiah Daily Journal](#) KC Meadows.

*First of all, I was never able to reconstruct which numbers I used to arrive at the spreadsheet I sent Ms. Schapmire. In my zeal I kept no notes, but since I can't rediscover those same numbers using the same dataset I used before, I would urge folks to not use that data.*

*The issue at hand, as I understand it, is Mendocino County's debt level compared to other counties in California.*

*Measuring debt service is one indicator of total debt. Your (referring to me - John D) analysis of debt service is perfectly correct in that regard; the fact that I used the term "debt service" at the top of the first column of the spreadsheet I sent to Ms. Schapmire was sloppy and I apologize for the resulting confusion. I have a feeling that I included certain capital expenses. Regardless, I was more careful this time.*

*(continued on next page)*

*So, Mendocino. The county's lease obligations per capita rank 11th in the state. The county's total bonded indebtedness per capita ranks 1st in the state (just like their debt service does in your analysis). The county is one of 43 counties that doesn't have any construction loans. The county's short-term interest per capita ranks 2nd in the state, well ahead of the 3rd place county (Ventura). The county's total unmatured principle per capita ranks 1st in the state.*

*In fact, the county is so significantly in first place that I took a closer look. Nearly 86% of the county's bonded indebtedness is in pension obligation bonds. It is intellectually honest and provides useful information to leave the numbers as they are.*

After this email nothing more was said or communicated to any member of the public that I am aware of by any County official regarding Mendocino County's debt relative to other Counties.

### **What This Means Regarding How Well County Officials Fulfill Their Fundamental Financial Duties**

When I released my first **California Counties Comparative Debt Report** in summer 2005 one County official – then County Auditor/Controller Dennis Huey – stated in a County Board of Supervisors Workshop that my finding that Mendocino County was the most indebted County per capita in California was wrong. But he offered no data or analysis to prove his assertion.

I produced annual editions of my **Comparative Debt Report** over the next 5 years each showing Mendocino County had the most debt per capita in California. I know of no attempt over those five years by any County official to determine whether or not this finding was correct. In fact County officials didn't want to discuss it.

But then they put Measure C on the ballot. As soon as they had something they wanted to win – Measure C's tax increase – my finding became a threat they finally had to address.

It was the political threat that worried them – not the financial reality implied.

I believe this demonstrates County officials as a whole are far more concerned about small-p “politics” – winning and losing – than they are about finding out what is really happening to our County's finances and doing something about it.

When the CSAC guy sent his deeply flawed analysis Smith and other County officials jumped all over it to show my analysis was wrong. But when I forced the CSAC guy to admit his huge mistake (which he honorably did) there wasn't one more public peep out of Smith - or any other County official about it.

There was no “oh my gosh – we are the most indebted according to SCO data – we better find out what's happening.” It was – silence. And it still is.

### **The Problem of Ascribing Motivations – and the Kroll Report (City of San Diego)**

For years I've described myself as a “Money-Hound”. I've got my nose to the ground and I'm following the money. If I come to a rock and the trail disappears under it I'll stick my nose under it and flip it over. If something comes crawling out I'll sniff it and figure out what it is, then pick up the money-trail again and start sniffing.

I wouldn't spend a lot of time trying to hypothesize where I think the trail is going – I'll just keep sniffing and follow the money and report what I find.

And I wouldn't hypothesize **why** people do what they do. I'll just report what they do. I'm not a psychoanalyst; I'm not a mind-reader. What matters is whether or not County officials do their job – do their duty. And that can be demonstrated by objective facts – it doesn't rely on psychology.

BUT – after years of following the money trail in Mendocino County and becoming more and more distressed about where I found it leading me I read the best report I've seen about a similar situation in another local government – the **Kroll Report**. Officially titled **Report of the Audit Committee of the City of San Diego**, the Kroll Report was an “investigation into the San Diego City Employees' Retirement System and the City of San Diego Sewer Rate Structure”.<sup>5</sup>

We don't have problems in our County government about Sewer Rate Structures. But we have a lot of problems regarding debt related to retirement benefits.

When I read the Executive Summary to the Kroll Report I was electrified. Kroll's description of the core problems and required solutions was EXACTLY applicable to Mendocino County. You can substitute “County of Mendocino” for “City of San Diego” and everything in these summary statements is exactly relevant:

*Evidence made available in this investigation demonstrates numerous failures of San Diego City government - on the part of government officials and outside professional “gatekeepers” alike - to conform to the law, to adhere to principles of sound governance and financial reporting, and to protect the financial integrity of the City's pension system and thereby the welfare of the City itself.... The evidence demonstrates not mere negligence, but deliberate disregard for the law, disregard for fiduciary responsibility, and disregard for the financial welfare of the City's residents over an extended period of time<sup>6</sup>.*

*While this conduct was plainly unlawful, the evidence does not demonstrate that City officials set out with the objective of defying legal mandates. Rather, the evidence suggests that at root San Diego City officials fell prey to the same type of corruption of financial management and reporting that afflicted municipalities such as Orange County and such private sector companies as Enron, HealthSouth, and any number of other public corporations. That is, San Diego officials cultivated and accepted a culture of financial management and reporting premised upon non-transparency, obfuscation, and denial of fiscal reality.<sup>7</sup>*

*At the most basic level, fundamental reform is needed in the process by which the City budgets, monitors, and reports its finances.*

*Foremost, accountability for fiscal decision-making and disclosure must be built into the City's financial reporting system.<sup>8</sup>*

In the past 16 years I've seen just about all County officials behave like this. Political ideology and political affiliations didn't make a difference.

*A politician thinks of the next election; a statesman thinks of the next generation.  
James Freeman Clarke ~ 1873*

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<sup>5</sup> The **Kroll Report** is available at <http://www.sandiego.gov/mayor/news/kroll.shtml>. I have a summary of the findings of Kroll and a discussion of their applicability to Mendocino County at <http://yourpublicmoney.com/data/data.shtml#kroll>

<sup>6</sup> Executive Summary – Kroll Report, p 1

<sup>7</sup> Kroll, p 3

<sup>8</sup> Kroll, p 6