

OPEN LETTER TO THE CITIZENS OF MENDOCINO COUNTY

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Because we are a politically diverse group of experienced financial professionals, John Dickerson of www.YourPublicMoney.Com requested we review his work on Mendocino County's debt. Dickerson's work is far broader than volunteers can review. We chose to focus on the causes of most of the County's debt: Unfunded retiree benefits.

We know the volatile atmosphere surrounding these issues. Some retirees believe their benefits are unjustly being threatened. Some taxpayers believe their money is wasted. Some young citizens believe unfair debt is being shoved on to their backs.

We take no position on what County retiree benefits should be. But they should be properly funded to meet existing financial commitments and their finances easily understandable by and accurately reported to the public.

Building and protecting our County's financial strength is the best way to provide good public services, maintain retirement benefits, provide value to taxpayers, take care of current and future employees, and not force unfair debt on our children.

We will be submitting a more detailed report of our findings to the Board of Supervisors

What We Found

First, a review of a recent State Controller's report on California county's retirement finances suggests that a) on a per County resident basis, our reported County's debt is among the largest in the state and b) this debt negatively impacts our budget perhaps more than any other county.

Second, some argue the County's total debt is \$380 million - others say \$175 million. County and Retirement Association documents indicate the debt is about \$350 million. The largest difference is attributable to unfunded retiree health care benefits.

Third, somewhere between 75% and 85% of the County's debt was created by unfunded retiree pensions and healthcare.

Fourth, unfunded pension benefits are responsible for between \$135 million to \$200 million of today's debt. The difference depends on how Pension Fund Assets are valued. Pension Obligation Bond debt today is \$90 million - the rest is today's balance of unfunded pensions. The County's analysis that undertaking this debt and issuing these bonds largely solved the pension debt issue was incomplete and shortsighted at best. (County financial analysis, planning, and control are likely insufficient in many ways.)

Fifth, there are many sources of uncertainty about the County's retiree healthcare debt. The most recent professional estimate is the County owes about \$130 million. The County claims retiree healthcare is paid from Pension Fund "Excess Investment Earnings". Closer analysis reveals these payments only contribute to pension plan underfunding and have increased the County's long-term debt. The County needs to continue the process of resolving how it will pay this benefit without increasing long term debt.

Sixth, there are significant concerns about the Retirement Association's financial statements. They do not provide the public, retirees, and even Retirement Board members the information needed to evaluate County retirement fund finances because they do not clearly distinguish pension monies from healthcare monies.

Seventh, other County Retirement Associations are helping their counties weather difficult financial times in ways that our County Pension Board should investigate.

Finally, the actuary who calculates our County pension financing has been sued in Stanislaus County for using incorrect data in their projections. Mendocino County should investigate to determine if these allegations have merit, and if true, were similar assumptions used when determining our County pension liability.

Concluding Remarks

Underfunded government and private retirement obligations are not only a local problem but a worldwide phenomenon. That reality doesn't make them OK.

The County's debt currently jeopardizes its ability to provide services, erodes public confidence, negatively impacts the current workforce, and reduces the County's ability to attract and maintain a qualified future workforce. Continued growth of this debt will make matters far worse. If the County were to default on debt payments, a possibility to be taken seriously, the impacts would be much worse.

The County's debt is unsustainable, even in the short term. The County should not take on any more debt! The real expenses for pensions and healthcare need to be paid each year. There should be no more "unfunded debt" that gets pushed into the future. The increase of debt should be staunch immediately as one would cauterize a bleeding wound. We are talking about millions of dollars. Furthermore, the County must find out how it has continued to go in debt.

The Board of Supervisors should appoint a committee of qualified citizens along with appropriate staff and two Supervisors to determine the best way to solve this crisis and create a sustainable budget for the future.

But as important as anything, the concerned citizens of our County need to take these issues very seriously - for the sake of our County's future.

For further reading, the YourPublicMoney website provides Dickerson's detailed and comprehensive evaluation of our County's finances. See also the Buck Retirement Actuarial Report @ <http://www.mendolibrary.org/retirement/reports.htm>