

MENDOCINO COUNTY'S LONG-TERM DEBT



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**
August 30, 2011

Third Major Revision of Paper First Produced
10/16/08

MENDOCINO COUNTY'S LONG-TERM DEBT THREE PAGE SUMMARY

I. Two Significant Failures of Duty

County officials have four fundamental financial duties to the people: Tell the Truth, Manage Money competently and Transparently, Protect and Build Financial Strength, Don't Burden Our Kids. Significant and repeated failures to live up to these duties over the past 15 years created hundreds of millions of unnecessary debt that will take 30 years to pay.

The people have a duty to hold County officials financially accountable. We didn't.

II. Mendocino County's Debt – an Overview

The County's debt was about \$275 million on June 30, 2010. Unfunded Pensions created 85% of the debt. The County owes about \$83 million on the remaining balance of Pension Obligation Bonds (POB) sold in 1996 and 2002 to eliminate previous Unfunded Pension Deficits. Today's Pension Deficit is about \$150 million. Debt payments have grown significantly from \$2 million in 1995 to \$13 million in 2011.

Two sudden increases in debt payments in the past decade forced the County to cut staff. This created a chaotic staffing pattern. State Controller's Office data from Balance Sheets of all counties indicates that Mendocino County on a per capita basis has the highest debt, highest debt payments, and highest interest expense of all California counties. As a percent of the County's property tax income the County has the second highest debt payments and the highest interest expense. As a percent of the County's budget Mendocino has the highest debt payments and highest interest expense.

III. Pension Debt

Twenty one counties have their own retirement systems; they don't participate in CalPERS. Mendocino County is the smallest of those 21. The Mendocino County Employees Retirement Association (MCERA) is independent of the County. MCERA controls the Pension Fund.

On 6/30/10 the Pension Fund was supposed to have about \$435 million. Based on the market value of its investments it actually had 1/3 less. The County owed about \$85 million on its POBs. If the County's and MCERA's Pension Funding Plan had worked the County wouldn't owe a dime. It owes more than half of the money that should be in the fund. How did the County achieve less than half its funding goals?

Inadequate Pension Fund Investment Earnings: The Pension Fund's Actuarial Valuations show it earned 5.2% return on investment from 1997 through 2010. It needed to earn 8%. From 1996 through 2008 Mendocino's Pension Fund was the lowest performing of the 21 independent county Pension Funds – and one of only 2 that didn't achieve their target returns. That created \$100 million of the County debt.

Diversion of Pension Funds to Pay Retiree Healthcare: From 1993 through 2011 MCERA paid about \$42 million in retiree healthcare benefits. With "lost investment profits" this created \$50 million of the debt.

Officials said for years this was paid out of Pension Fund "Excess Earnings". The law that governs MCERA basically defines Excess Earnings as any amount of earnings over the Fund's target rate of return in any one year. This is an absurd definition. How can a Pension Fund earn an average of its target return if every time returns are over target the "excess" is taken away to spend on other things? It can't.

The Pension Fund has always been underfunded. The Pension Fund's long-term ROI is significantly below target. If there were Excess Earnings why was the County forced to borrow \$110 million in POB?

Every dollar paid by MCERA for retiree healthcare over the past 20 years simply increased the Pension Deficit, which increased the County's long term debt. Retiree Healthcare was paid with long term debt.

In addition during 2004-2006 MCERA diverted \$6.1 million of the County's required annual contributions to the Pension Fund to pay healthcare. This appears to me to be a direct violation of the 1937 County Employees Retirement Act. MCERA then "paid the County back" with an asset – a receivable called "Actuarial Value of Unrecorded Earnings". This appears to have been a claim against future Excess Earnings if and when they may ever arise. I believe this was not a "real" asset. MCERA took another \$3.5 million out of the Pension Fund to pay retiree healthcare and increased Actuarial Value of Unrecorded Earnings to \$9.6 million. MCERA "wrote" this asset off in summer 2010 - it had no value.

Other Causes of the County's Pension Debt: In several years the County Increased its payroll much more than it told its actuary. The County gave retroactive pension increases to 50 employees without contributing extra funding. The County didn't pay into the Pension Fund what it was supposed to a couple of years. The County has a much higher than average rate of disability retirements.

Deeply Flawed Actuarial Valuations: MCERA's long-time Actuary – Buck Consultants – admitted in January 2011 they made significant errors in Actuarial Valuations of the Pension Fund. Buck said the County's annual pension payments need to increase from \$9 million to \$13 million. In February 2011 MCERA received an "Actuarial Audit" of Buck's Valuations from another Actuarial firm – EFI. EFI found several other significant errors, and the County's annual payments need to increase to \$17 million. MCERA fired Buck and hired a new Actuary. I'm waiting to see the new Actuary's Valuation for 6/30/11 to see if they concur with EFI. This may increase the Unfunded Pensions by as much as \$90 million.

IV. Retiree Healthcare Debt

In September 1998 the Board of Supervisors (BOS) terminated its retiree healthcare benefits for employees hired after that date. It stayed in place for those hired before, subject to working 10 years for the County. The BOS said the first source of funding would be so-called "Pension Fund Excess Earnings". If there were no "Excess Earnings" the County would split the cost of the benefit 50-50 with retirees.

In 2004 the Governmental Accounting Standards Board (GASB) issued new standards that required the County to report the financial status of this benefit in the same way it had been required to report the status of its Pension for the past decade – as a footnote to the annual audited financial statements. The County would be required to make this change no later than its 2008 fiscal year audit.

The County put off finding out what the financial condition of this benefit until August 2008 – two months after the end of the year for which they were required to report it. The County hadn't set aside a dime – the unfunded retiree healthcare obligation was about \$135 million.

In September 2009 the BOS terminated its obligation to pay half the cost of this benefit in the event there aren't adequate Excess Earnings. County officials believe this means the County has no debt related to retiree healthcare. However, MCERA continued to pay out about \$4 million more in retiree healthcare from supposed "Excess Earnings" achieved before the County took this action – thereby increasing the County's debt.

It's clear hundreds of retirees believe they were promised this benefit in retirement and relied on what appears to have been statements made by County officials to that effect. My sense is the County has the ability to terminate the benefit because it was never included as a vested right in employee contracts. However, it also appears many retirees relied on what they had been told to their detriment.

V. Other Debt – Teeter

County officials have said the County has as much as \$10 million in "Teeter Debt". The "Teeter Plan" is a process by which the County distributes all the property tax owed to various other local governments in the County including delinquent taxes. The County then collects those delinquent taxes along with penalties and interest for its own account. The County has never adequately explained exactly what the Teeter Debt is. It appears the County probably used money from the County's "Treasurer's Pool" that may have belonged to

other local governments to pay those other governments the amount of delinquent taxes they were owed but didn't replace the money when it collected the delinquent taxes. Instead it appears the County spent the money on other things. But because we've never been given an adequate explanation we don't know.

VI. Two Major Financial Threats – Next Five Years

Doubling of Debt Payments: Several factors built into the Pension Fund's finances will probably double the County's debt payments over the next five years.

Significant Increases in Reported Pension Expenses and Debt: GASB has realized their current accounting standards for pensions has a huge fatal flaw – it allows governments to defer reporting real past pension expenses that created the huge unfunded public pension debt in the nation as long as 30 years into the future. This is a huge distortion of financial reality and allowed the County of Mendocino to incur over \$200 million of real pension expense in the past that it has never reported. GASB is well down the road to issuing new standards that will enforce huge changes on governments including the County. These new standards are scheduled to be released in summer 2012. Many governments will have to immediately comply. Mendocino County will have the option to delay compliance for an additional year.

I project that if these new standards had been in effect for the County's most recent financial statements (June 2010) reported debt would have increased from about \$120 million to around \$260 million. It would also have been forced to increase its reported annual pension expense by about \$35 million a year up to \$50 million instead of the \$13 million that was reported.

The political impact of these new rules very likely will be profound and citizens learn that in fact their governments have been operating with very significant real economic deficits for decades – but those deficits were “hidden” because the pension expenses that created unfunded pension debt were being reported over the following 30 years instead of when they really happened.

County staff was close to 1600 in 2009. About 350 positions have been eliminated. Unless economic conditions drastically improve we are likely to see County staff cut nearly in half from its 2009 level within the next 5 years.

VII. The Impact of the Debt

Most of the County's budget comes from the State and Federal governments in program grants that have to be spent in specific ways. The truly discretionary part of the County budget – the part where local decisions can direct services – is much smaller. The increase in debt payments is consuming a large portion of this discretionary part of the budget. We are losing local control over our County budget.

Assuming current assumptions “come true” (Pension Fund investment profits, future pension payments, etc.) over a half billion dollars will be extracted from our weak local economy over the next 30 years to pay this debt. It won't produce one minute of county services or one dime of infrastructure. County services will continue to be cut over the next 5 years. We can expect pressure to increase County fees and other taxes. The County's future workforce will be put under increasing pressure because of the lack of adequate funding. Retirees have already lost their healthcare benefit they planned on in their retirement.

And the possibility of bankruptcy must be taken seriously.

VIII. Attachments

Two attachments – the first is an explanation of the Fundamental Economics and Finances of the County's Defined Pension benefit, the second is a list of other reports and videos I've produced over the past several years, and other relevant information sources.

Table of Contents

I. TWO SIGNIFICANT FAILURES OF DUTY	1
A. THE FOUR FUNDAMENTAL FINANCIAL DUTIES OF COUNTY OFFICIALS.....	1
B. FUNDAMENTAL DUTY OF THE PEOPLE TO HOLD GOVERNMENT ACCOUNTABLE	1
II. MENDOCINO COUNTY’S DEBT - OVERVIEW	2
A. GROWTH OF THE DEBT	2
B. WHERE DID IT COME FROM?	2
C. DEBT PAYMENTS	2
D. IMPACT ON STAFFING LEVELS.....	3
E. COMPARED TO OTHER COUNTIES	3
III. PENSION DEBT	5
A. BENEFITS AND ORGANIZATION	5
B. THE PENSION DEBT.....	5
C. HOW WELL DID THE COUNTY ACHIEVE ITS PENSION FUNDING PLAN?	5
D. IMMEDIATE CAUSES OF THE COUNTY’S UNFUNDED PENSION DEBT	6
1. <i>Inadequate Pension Fund Investment Earnings:</i>	6
2. <i>Diversion of Pension Funds to Pay Retiree Healthcare:</i>	6
a) The Absurdity of “Excess Earnings”	6
b) Direct Diversion of County Pension Contributions	8
3. <i>Other Causes of the County’s Unfunded Pension Debt</i>	12
4. <i>Deeply Flawed Actuarial Valuations – Another \$90 Million of Debt?</i>	12
IV. RETIREE HEALTHCARE DEBT	16
A. BENEFITS AND ORGANIZATION	16
1. <i>September 1998</i>	16
2. <i>Government Accounting Standards Board</i>	16
3. <i>Aon Report – Unfunded Retiree Healthcare</i>	16
4. <i>September 2009</i>	17
5. <i>The Impact and the Law</i>	17
V. OTHER DEBT - TEETER DEBT	18
VI. TWO HUGE FINANCIAL THREATS - NEXT FIVE YEARS.....	19
A. DOUBLING OF DEBT PAYMENTS.....	19
B. HUGE INCREASES IN REPORTED PENSION EXPENSES AND DEBT	19
C. THE IMPACT OF THESE TWO THREATS	20
VII. THE IMPACT OF THE DEBT	21
A. LOSS OF LOCAL CONTROL OVER BUDGET	21
B. REDUCED PUBLIC SERVICES.....	21
C. INCREASED FEES AND OTHER TAXES.....	21
D. PRESSURE ON THE COUNTY WORKFORCE	21
E. NO MORE RETIREE HEALTHCARE BENEFIT	21
F. COULD MENDOCINO COUNTY GO BANKRUPT? - THE CITY OF VALLEJO	21
VIII. ATTACHMENTS	22
A. OTHER REPORTS.....	22
1. <i>Memos and Reports</i>	23
2. <i>Grand Jury Reports</i>	28
3. <i>Videos</i>	23
4. <i>Peer Review Group</i>	25
5. <i>Actuarial Valuations and Audits</i>	26
6. <i>Data Sources</i>	26

Foreword

This is the third major revision of a report that was first published in October, 2008. A second major revision was published July 15, 2009.

This report provides much (but nowhere near all) of my core analysis and findings developed over the past 8 years about Mendocino County's debt – what it is, what caused it, what impact it will have. The purpose of this report is to lay out these analyses and findings for the organizing committees of a "Mendocino County Citizens' Financial Reform Coalition" (the "real" name has not yet been determined).

I anticipate a committee of local financial professionals will review this document and conduct a "peer review" to determine the accuracy of data, appropriateness of analysis, and whether or not my conclusions rest on a solid foundation of data and analysis.

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 15 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.

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 90,000 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 in our political party or group, 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 overwhelming.

Mendocino County's Long Term Debt

I. TWO SIGNIFICANT FAILURES OF DUTY

A. The Four Fundamental Financial Duties of County Officials

I believe Mendocino County officials have four basic financial duties to the people of the County:

- Tell us the important truths about our County's finances.
- Manage Our Public Money competently and transparently.
- Protect and build our County's financial strength.
- Don't impose unfair financial burdens on our kids.

These duties **transcend political ideology and affiliation** – they aren't "liberal", "conservative", "progressive", or "libertarian". People across the political spectrum believe in these values and expect them to be fulfilled.

Each has been repeatedly and egregiously violated over the past 15 years. As a result significant County debt was created that will impose a very high cost on the people of our County for the next several decades.

B. Fundamental Duty of the People to Hold Government Accountable

Abraham Lincoln honored those who died at Gettysburg:

It is for us the living ... to be dedicated here to the unfinished work which they who fought here have thus far so nobly advanced ... that government of the people, by the people, for the people, shall not perish from the earth.

Millions of people over hundreds of years paid a terrible price so that we are not just accountable to government, but government is also accountable to us.

As things stand today our County's debt will require hundreds of millions of dollars to be extracted from our weak local economy over the next 3 decades without producing one minute of public service or one dime of public infrastructure.

This debt would not exist if we the people had paid attention to what County officials were doing to our County's finances. But because we didn't a terrible financial burden has been placed on the future. Kids not even born yet will be paying this debt 30 years from now that was generated in the past 15 years during our time.

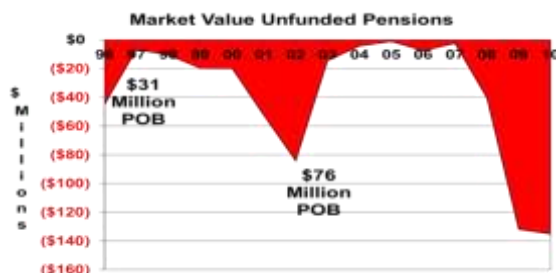
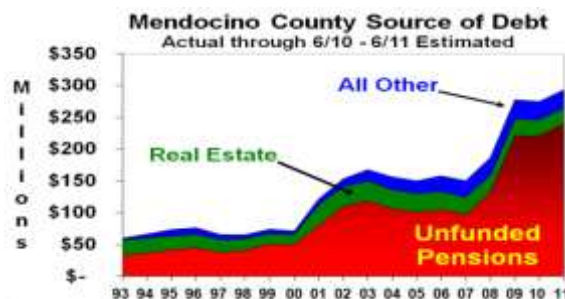
We must begin to live up to the standard expressed by Mr. Lincoln 150 years ago on that hallowed ground.

II. MENDOCINO COUNTY'S DEBT - OVERVIEW

A. Growth of the Debt

June 30, 1993 **\$60 million**
 June 30, 2010 **About \$275 million**

The growth of Unfunded Pensions is the main "driver" of the County's debt. This graph includes the Pension Fund's deficit using the "Market Value" of the Pension Fund's assets. Debt in 1993 was about \$60 million. As of the last audited financial statements (6/30/10) it was \$275 million; it will approach \$300 million as of the end of June 2011.¹



1996: County develops **\$45 million of "Unfunded Pension Obligations"** - borrows \$31 million in "Pension Obligation Bonds" ("POB").

2002: County again develops **Unfunded Pension Obligation**, this time around **\$70 million**. Borrows an additional \$76 million by selling more POB.

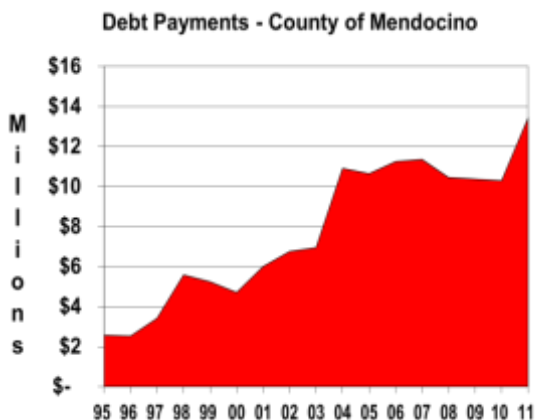
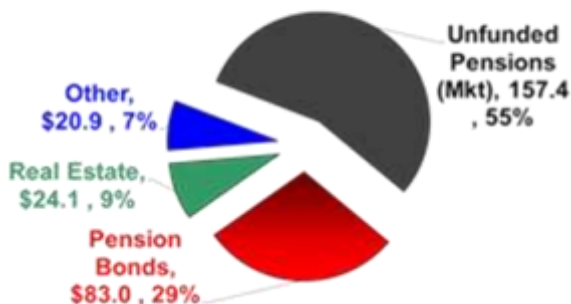
2008 - 09: For the third time in 13 years the County again develops a significant Unfunded Pension Obligation \$132 million as of June 30, 2009.

B. Where Did It Come From?

Unfunded Pensions caused 85% of the debt - around \$240 million.

"Real Estate" and a broad range of "Other" debt make up about 15% of the debt.

Mendocino County Reported Debt
 Estimated - June 30, 2011
 \$285 Million



C. Debt Payments

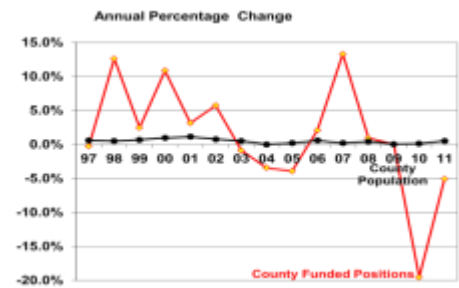
Debt payments steadily grew from a little more than \$2 million a year in 1995 to \$7 million in 2003 – then jumped to nearly \$11 million in one year. They stayed at that plateau until the most recently developed Pension Deficit pushed them over \$13 million

in fiscal year 2010-11.

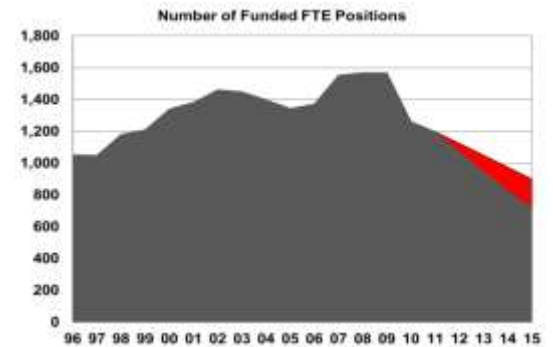
¹ However see page 12 – the County's debt may be as much as \$90 million more than this.

D. Impact on Staffing Levels

The upper graph shows the annual percentage changes in the County’s population (black) and in the number of authorized full-time equivalent positions as reported in the County of Mendocino’s Final Annual Budgets for each year. It shows 1997 through 2011.



The lower graph shows the number of authorized full-time equivalent positions. The actual number of employees is less than this because there are always a certain number of authorized positions that aren’t filled for various reasons. However, this is the target employed workforce. The graph shows 1996 through 2011 with my projections through 2015.



Large Unfunded Pension Deficits developed in 2002 and 2008. These caused debt payments to “spike” in 2003 and 2011. These deficits and subsequent spikes in payments to eliminate them – along with the effect of the recessions during those years – forced the County to eliminate Funded Positions.

The chaotic nature of changes in the number of County Funded Staff Positions is obvious. It’s hard to escape the conclusion that when the County had money it increased its staff, and when its debt payments took the money the County cut staff – rather than planning a long-term “steady state”.

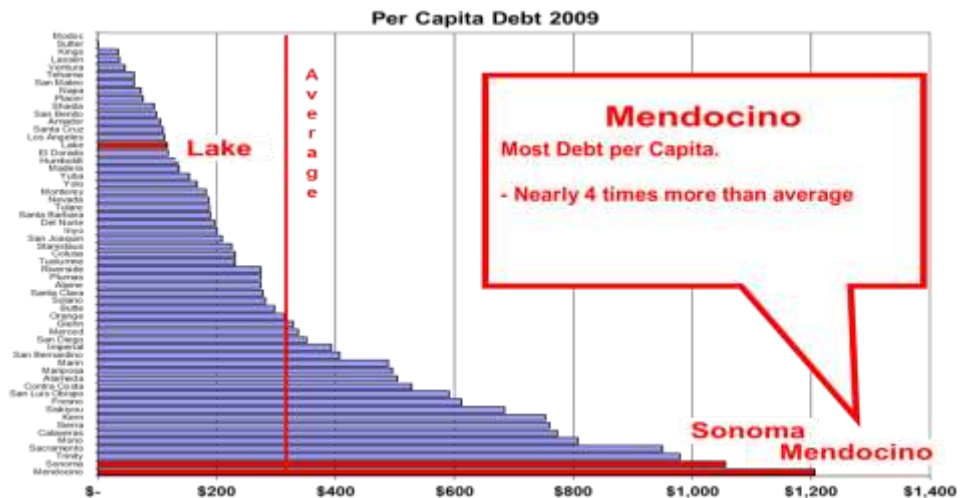
	Pop.	Staff
97 - 02	5.4%	39.0%
02 - 05	1.3%	(8.1%)
05 - 08	0.6%	16.7%
08 - 11	0.7%	(23.6%)

E. Compared to Other Counties

The **State Controllers Office's** produces annual compilations of the finances of various types of political subdivisions of the State – Cities, Special Districts, Redevelopment Agencies, etc. One is the **Annual Counties Report**, for all California

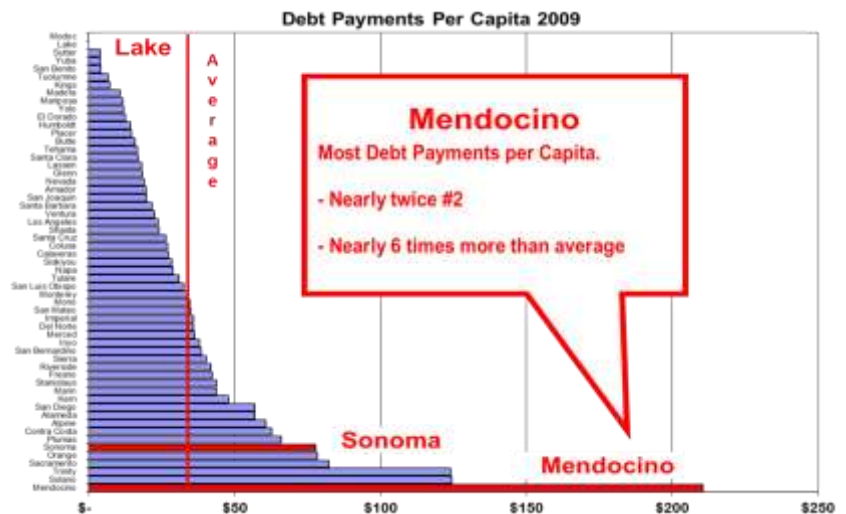
Counties.² According to the most recently available report, Mendocino County ...

Has the highest amount of debt per capita:

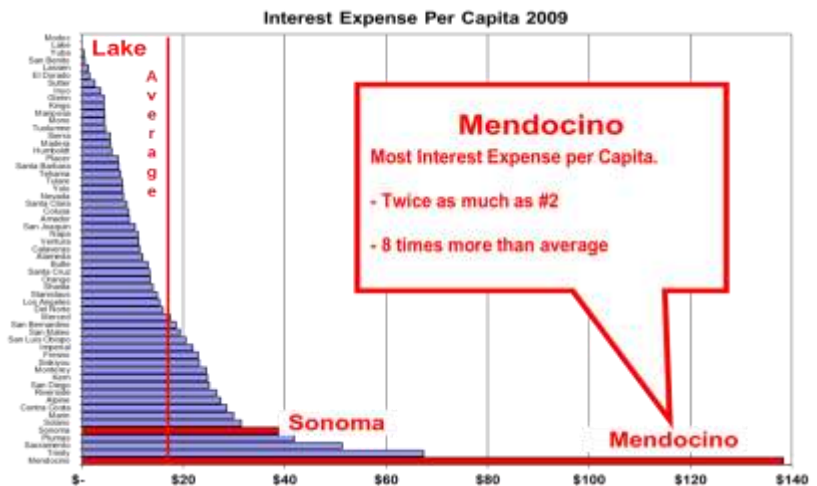


² I released my 7th annual **California Counties Comparative Debt Report** in May 2011. It’s available at my website (see below) in the “Data” section. The data is from each county’s annual audited financial reports including debt. Although these reports are the best source of data for the debt of California counties I know of, there are issues with the data. It doesn’t include the value of Unfunded Retiree Benefits (Pensions, Healthcare, etc.). This is very significant for some counties. There are other data issues as well – they are described in my report. However, these comparisons are based on most of the debt as reported on County Balance Sheets and is meaningful – though not complete.

- Pays the highest debt payments per capita.



- Incurs the highest interest expense per capita.



In terms of the **percentage of County property tax revenue** consumed by debt Mendocino County has:

- The **highest** percentage consumed by **interest expense** (29%).
- The **second highest** percentage consumed by **debt payments** (45%).

As a **percentage of total County expenditures** Mendocino has:

- The **highest** percentage of **debt payments** (10% of total expenditures)
- The **highest** percentage of **interest expense** (6.6%)

III. PENSION DEBT

A. Benefits and Organization

Most counties in California participate in the State-wide California Public Employees Retirement System (**CalPERS**). **Twenty one** counties have their own **independent retirement systems**. The **Mendocino County Employees Retirement Association (MCERA)** is the **smallest** of these 21. MCERA has an independent Board of Directors - some chosen by the County, some by employees and retirees. The County and its employees pay annual contributions to MCERA's Pension Fund. MCERA has **total control over the County's retirement fund investments**. Eventually MCERA pays the actual pensions.

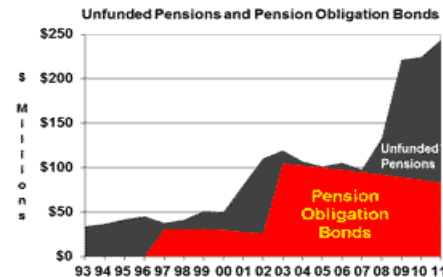
B. The Pension Debt

The County's Pension Liabilities exist in two forms:

- **Unfunded Pension Obligations**
- **Pension Obligation Bonds (POB)**

The County has twice sold POBs:

- 1996 - \$31 Million
- 2002 - Net of \$76 Million in 2002.



The 2002 POBs totaled \$92 million. Some paid off part of the previous bonds - so the net was \$76 million.

Pension Obligation Bonds simply transform Unfunded Obligations into Bond Debt. In fact the total debt winds up being larger because the cost of issuing the POBs is rolled into the value of the bonds. POBs are Unfunded Pensions in a different form; **the cause of the debt is the same.**

C. How Well Did the County Achieve Its Pension Funding Plan?

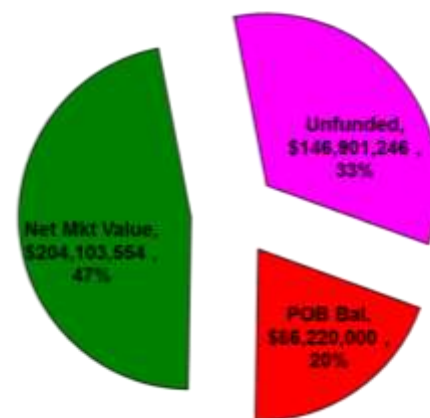
The Pension Fund's Actuary prepares what's called an Actuarial Valuation for the Pension Fund every year. One of the most important things to understand about these Valuations is they are the County's Pension Funding Plan. If everything had worked the way it was defined in past Valuations the Pension Fund would be fully funded.

The Valuation for June 30, 2010 showed that the Pension Fund was supposed to have \$435 million on that date. But the market value of its assets was 1/3 less. Further the County still owed \$86 million on Pension Obligation Bonds that were borrowed in 1996 and 2002 to eliminate earlier Pension deficits. If the Pension Funding Plan inherent in previous Valuations had "worked" the County would have no unfunded pension debt.

The County and MCERA achieved less than half the County's Pension Funding Plan over the past 15 years. The County still owed \$237 million - it wasn't supposed to owe a dime.

How did the County so badly fail to achieve its pension funding goals?

Pension Market Value Funding Position
Amount that Should be in Fund = \$435 million
6/30/2010



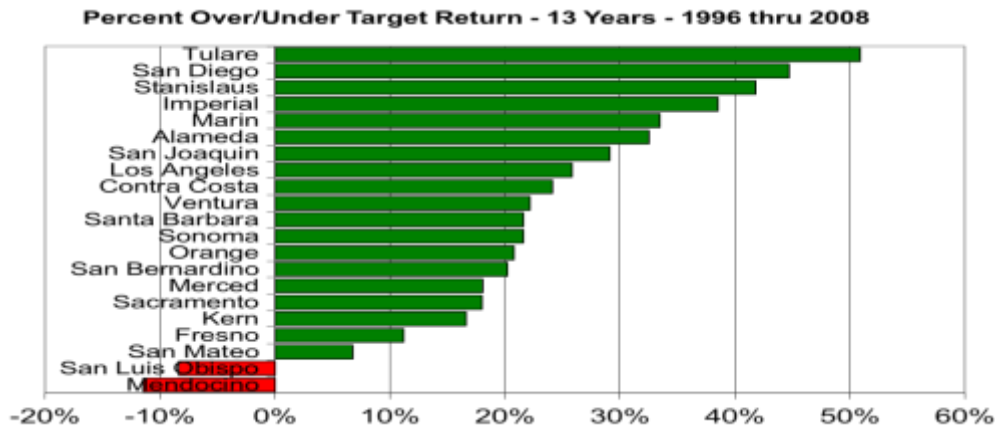
D. Immediate Causes of the County's Unfunded Pension Debt

There are two major causes:

1. Inadequate Pension Fund Investment Earnings:

MCERA's **target yearly return on investment** has been **8%** for decades. The Pension Fund's Actuary has reported its **actual returns** from 1997 through 2010 were **5.2%** - **a third below target**. This produced about \$100 million of unfunded pensions over those years and is – by far – the largest source of unfunded pensions.

This shows the average return for the 21 non-CalPERS counties from 1996 through 2008.³ MCERA produced the lowest average return – only 2 of the 21 that didn't achieve its target rate.



2. Diversion of Pension Funds to Pay Retiree Healthcare:

From 1993 through June 2011 MCERA paid about \$42 million in retiree healthcare benefits. County and Retirement officials until very recently said these benefits were paid out of “Pension Fund Excess Earnings”. This produced about \$50 million of the County's Unfunded Pension Debt.

a) The Absurdity of “Excess Earnings”

On 9/22/09 I spoke to the Board of Supervisors in public comment:

I'm glad to see retirees with good health care. That's not my issue. My concern is how the County finances it.

It's been said for years the County's cost is paid out of Excess Earnings in the Pension Fund.

- But the Pension Fund's **own Actuary** says its 12 year return - not including last year's disaster - was 20% below its goal.
- **If there were Excess Earnings**, why was the County forced to borrow \$110 million to eliminate Unfunded Pensions in '96 and '02?
- Unfunded Pensions as of June would have been reported as \$55 million - except you're changing the formulas to make it appear to be less.
- But the Fund's **real** cash deficit was \$110 million. And there's nothing you can do to change it.
- Unfunded Pension Obligations increased in 14 of the last 16 years.
- The Pension Fund has always been under-funded.

*The claim that Retiree Healthcare was paid from Excess Earnings is absurd and indefensible given any definition of “Excess Earnings” the public would accept. How could anyone up here tell the people with a straight face that \$4 million or so of Retiree Health costs this year will be paid out of Excess Earnings when the Fund was **\$130 million short** of its target over the last two years?*

³ Public Retirement Systems Annual Report, California State Controller's Office for 1996 through 2008

The policy has been that if the Pension Fund earns more than its target those “Excess Earnings” are swept out of the Fund to pay Retiree Healthcare.

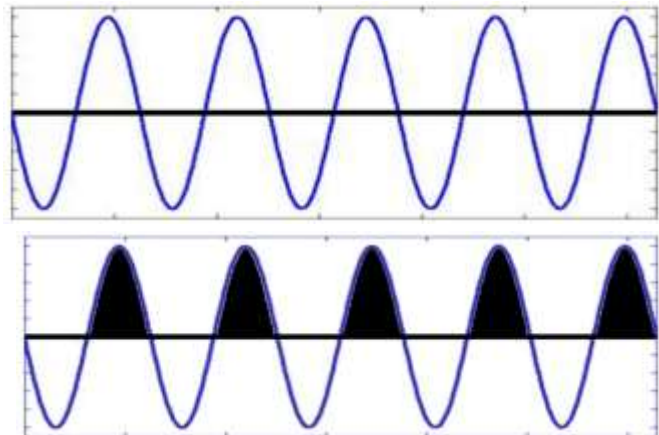
That dooms the Pension Fund to be under-funded. It has to absorb its shortfalls, but can’t keep its surplus.

The County’s Retiree Health cost has been funded by increasing Unfunded Pensions. Then the County borrows money to eliminate them. That means the ultimate source of the funds will be cuts in staff and public services over the next 30 years so that debt can be paid.

(Continued below)

The 1937 County Employees Retirement Act defines Pension Fund Excess Earnings, in effect, as any investment earnings above the target rate of return in any one year – even if the Pension Fund is underfunded.⁴ This is an absurd definition – but it’s the law.

If the black line is the target rate of 8%, sometimes the actual return will be above target – sometimes below. But the idea is that over time the average works out to 8%.



This provision of the law allows the bottom graph to happen – all the earnings above the 8% target are taken out of the Pension Fund.

How – then – can the Fund average 8% return on investment. The answer is – it can’t.

To the extent MCERA followed the requirements of the law in calculating and using these so-called “Excess Earnings” they didn’t violate the 1937 County Employee Retirement Act.

However – it is inconceivable to me that financial officials charged with managing the finances of a \$150 million yearly County Budget and a \$300 million Pension Obligation wouldn’t understand this simple reality – you can’t earn an average of 8% if you take every dime you earn over 8% out of the Pension Fund. The Fund is doomed to be underfunded.

This shows the Pension Fund’s deficit at market value.

If you divert money out of an underfunded Pension Fund to pay anything other than pensions – such as retiree healthcare – then you are driving the Fund deeper and deeper into the hole.

On October 9, 2009 this exchange occurred between County Supervisor Kendall Smith in her role as a member of the Retirement Board and Tim Knudsen, former Retirement Administrator and County Treasurer-Tax Collector and at the time an alternate member of the Retirement Board (in the event the regular retiree representative wasn’t able to attend).



Kendall Smith:

⁴ California Government Code Section 31592.2. In addition a “Contingency Reserve” equal to 1% of the market value of the Pension Fund’s Assets must remain in the Fund – this has a relatively minor impact.

The other point that needs to be made ... there seems to be little understanding (in the public and retirees) ... by invoking that part of the 1937 Act that allows Excess Earnings to be used for (retiree) health care in essence the County is significantly contributing to the health care because if that (the provision) wasn't invoked and Excess Earnings were not the sole source of the funding - primary source - for the funding of retiree health - that fact alters the County's Unfunded (Pension) Liability. So in essence **if the Excess Earnings were not directed to retiree health they would be directed to bringing down the County's Unfunded (Pension) Liability.**

In an "indirect" way the County of Mendocino is contributing to retiree health. That's missed by most people because it's rather convoluted. It's not an obvious contribution but that is a fact.

Tim Knudsen:

Not necessarily because it's up to this (Retirement) Board what to do with "their" Excess Earnings - not the County and it doesn't necessarily have to go toward paying down the Unfunded (Pension) Liability. It has to go to retirement issues of some sort but the (Retirement) Board could [for example] determine that they want anything to go into a contingency reserve and not to use it to pay down the Unfunded Liability.

Kendall Smith:

Most (County Retirement) Systems I don't think use Excess Earnings for retiree health.

Tim Knudsen:

Not anymore.

Two things stand out. First, it was recognized that the use of so-called "Excess Earnings" to pay retiree healthcare directly increased the County's unfunded pension debt. Second, most other non-CalPERS County Retirement Systems didn't use Excess Earnings to pay retiree healthcare anymore – and both Knudsen and Smith knew it.

b) Direct Diversion of County Pension Contributions

On 9/22/09 I concluded my remarks to the Board of Supervisors:

But even if this **policy** technically conforms to the law, the Retirement Association's financial statements show **there weren't enough Excess Earnings as defined in the law to pay the County's share of Retiree Health over the past 11 years.**

Think about that.

The Retirement Association needs to show how its payments of Retiree Healthcare from Excess Earnings conformed to the law. At this point, I don't think it did.

The County never asked for such an accounting from MCERA.

However, a reformist member of the Retirement Board did. As a result on March 17, 2010 former Retirement Administrator and County Treasurer-Tax Collector Tim Knudsen gave a report to the Retirement Board about how retiree healthcare had been financed over the previous decade.

In his explanation⁵ to the retirement Board Knudsen said:

⁵ I transcribed this session from a video of the meeting.

In the 2003, 2004 area ... there's about three years ... again trying to be in compliance with the IRS we followed a program that we received information on from Sacramento County - a proper way of paying for health insurance. **It was determined that the County was responsible for health insurance so we followed a procedure of taking a portion of (the) County's contribution (to the Pension Fund) paying for health insurance out of that. When we had Excess Earnings we would immediately reimburse that** but - every single month we would reimburse anything we had taken of the County's contribution and put into the health insurance reserve. ... **There were some years where we were short of Excess Earnings and we didn't do that immediately** - reimbursement of the County contribution.

We found out from the Actuaries that because of the 2002 Pension Obligation Bonds where the County had an Agreement where they were not making any payment on an unfunded (pension) liability - they were only making a contribution on their - what they call the "normal cost" contribution - **we could not actually take that money because the Government Code again specifies you have to make at least normal cost contribution. So, we stopped that**⁶

But **we did use the previously adopted policy, or plan, of recognizing market value appreciation to repay the County for the funds that we had borrowed for those three years** and to set up some funds that - the \$3.4 million dollars (to fund the next couple of years of retiree healthcare payments).

We again adopted the three year smoothing plan that the Actuaries had us adopt back in 1998. **We used \$9 ½ million in market value appreciation to repay the County the full amount shown in the County Contribution column and reserve the \$3.4 million that was going to be used to pay for future health insurance.**

Current Retirement Administrator Jim Andersen later said:

*There's still \$9.557 million that's still outstanding from that practice (Actuarial Adjustment). ... There may be a way we can "eliminate" that **asset**.*

*... This **liability** that's sitting on the books - what is the disposition of the Board as far as addressing that in the future?*

How can this \$9.557 million be both an asset and a liability?

What does all this mean? To summarize some of the salient points:

- Former Retirement Administrator Knudsen said "at the end of 2003 we had one million five thousand dollars (in the retiree healthcare reserve) - we started the year with that. And then we had no more Excess Earnings but we had health insurance we were paying for."
- Over the following three fiscal years MCERA "followed a process of 'diverting' a portion of the monthly County Contributions made to the Retirement System into the reserve for retiree health insurance".
- According to Knudsen's spreadsheet that was a part of his written report, a total of \$6.1 million was diverted in this way out of the County's contribution and into the "reserve for retiree health insurance" over the following 3 years - fiscal year ending 6/04 through fiscal year ending 6/06.
- Knudsen reports several things happened in 2006-2007:

⁶ It should be noted that Mr. Knudsen was County Treasurer/Tax Collector when the 2002 Funding Agreement was developed and executed, and in fact Knudsen signed the 2002 Funding Agreement in his role as Retirement Administrator - a position he also occupied. Mr. Knudsen should have known and probably did know that the Funding Agreement allowed the County to not make payments toward the UAAL - as long as it was less than 10%. As County Treasurer he should and probably did know how much the County was contributing to MCERA during these years. And as Retirement Administrator he implemented the "diversion" of a significant portion of the County's contribution in those years.

- “In 2006 - 2007 we had actual Excess Earnings of \$9 ½ million. That was actually the year that we put in our Excess Earnings policy ... we had so much Excess Earnings - so much market value appreciation - we needed to figure out something to do with it. ... What we decided to do was fund 3 years of health insurance ...”
- “...we were informed by the actuary that since the county was not making any contributions toward an unfunded liability, because of the 2002 POB agreement, the process of diverting money to the reserve to pay for retiree health insurance meant the county was not making the ‘normal contribution’ to the retirement system and violated certain sections of the 1937 Act Government Code.”
- “We again adopted the three year smoothing plan that the Actuaries had us adopt back in 1998. We used \$9 ½ million in market value appreciation to repay the County the full amount shown in the County Contribution column and reserve the \$3.4 million that was going to be used to pay for future health insurance.”
- The current Retirement Administrator then referred to the \$9.557 million:
 - “... There may be a way we can eliminate that asset.”
 - “This liability that’s sitting on the books – what is the disposition of the Board as far as addressing that in the future?”

California Government Code Section 31587 (part of the 1937 County Employee Retirement Act) states:

The (retirement) board shall apply the contributions of the county or district to its obligations under the system in the order and amounts as follows:

First, in an amount equal during each fiscal year to the liability accruing to the county or district because of service rendered during such year and on account of service and disability pensions, in an amount determined by the actuarial valuation as interpreted by the actuary.

This is the provision that Knudsen said MCERA’s Actuary indicated might be a violation of the 1937 Act.

Knudsen said they “paid the County back”. With what? The money was gone – spent on retiree healthcare insurance. This is a summary of MCERA’s Balance Sheet provided to the Retirement Board for 1/31/09:

ASSETS	
Cash	\$17.7
Receivables	1.6
Investments	280.3
Actuarial Value of Unrecorded Earnings	9.6
TOTAL ASSETS	\$309.2
LIABILITIES & UNDISTRIBUTED EARNINGS	
Members Deposit Reserve	64.0
Accounts Payable	2.5
Retired Members Reserve	231.7
Misc.	7.9
Undistributed Earnings	3.1
TOTAL LIAB. & UNDISTRIBUTED EARN.	309.2

I believe what happened during 2004-2006 is that out of a total the County paid to MCERA of about \$20 million – which was the “amount determined by the actuarial valuation as interpreted by the actuary” (as stated in the law) - Knudsen “credited” the County \$6.1 million to the “Retiree Healthcare Reserve” (part of

the Misc. Reserve above) instead of to either the “Members” or “Retired Members Reserve” – which is where contributions to the Pension Fund are recorded.

Then when he wanted to “pay the County back” Knudsen credited those Reserves where contributions to the Pension Fund are recorded – but – since the money was gone he had no additional cash to increase the assets. So – instead of increasing cash, he created an account titled “Actuarial Value of Unrecorded Earnings”. But in addition they still needed another \$3.5 million to pay retiree healthcare during the next year so he added that much to the “Actuarial Value” account and increase the Retiree Healthcare Reserve by that amount. Then – as retiree healthcare was paid the Healthcare Reserve would be reduced dollar for dollar.

But what is “Actuarial Value of Unrecorded Earnings”?

I believe it is a claim against Pension Fund Excess Earnings at some point in the future if and when they occur.

I also believe this does not satisfy the legal definition of an asset – although I can’t say for certain because I’m not trained in the law of public finance.

This would be like wanting to borrow money from your bank and so you give your banker your Balance Sheet that has a “receivable” for \$1 million on it. The banker asks “What is this \$1 million receivable?” “Well, I’m still working and I figure I’ll earn at least that much more money before I retire so therefore I have an asset worth \$1 million that I’ll earn in the future.”

That’s not an asset. It’s a hope – a projection. It isn’t an asset until you earn it.

MCERA took “real money” in 2004 through 2006, money that the County paid in the amount MCERA’s Actuary calculated was the required yearly contribution, money the law says must go into the Pension Fund, and diverted about 1/3 of it to pay for retiree health benefits.

Then when it “came to MCERA’s attention” they were violating the 1937 Act by making these diversions MCERA made bookkeeping entries to make it appear the County was “paid back” for those diversions.

But MCERA paid the County back with a “phantom” asset - MCERA “borrowed money” from future “Excess Earnings” - except MCERA didn’t know when those future Excess Earnings would appear.

Further – the law isn’t about “crediting the County”, it’s about where the money goes – it’s supposed to go into the Pension Fund – period.

I can’t say with certainty – but I believe these series of transaction were violations of several laws. I asked the County Board of Supervisors to investigate these transactions, but nothing seems to have been done.

But obviously the County knew about these diversions – after all the County’s Treasurer at the time was also the Retirement Administrator who was making these transactions. The Pension Fund Actuarial Valuations indicate the County didn’t make its full required Normal Contributions in those years – even though it did. And the County’s audited financial statements for those years report in footnotes yearly amounts of contributions to the Pension Fund after the healthcare diversion occurred.

It must be pointed out the County was making those yearly “Normal Contributions” on behalf of employees who were working in those years – not retirees. Many – probably most of those employees were hired after September 1998 when the BOS changed the Retiree Healthcare benefit so that only people hired before that date were eligible to receive this benefit. That means money the County was contributing to the Pension Fund on behalf of employees who were working for the County in those years was diverted to pay a benefit that many – perhaps most of those employees could never get.

I believe that is a direct violation of fiduciary responsibility on the part of the Retirement Board and its Administrator. But – again – I can’t say with certainty because I’m not trained in how fiduciary responsibility “works” in a public pension fund.

The Retirement Board “wrote off” the \$9.557 million “Actuarial Value of Unrecorded Earnings” at the beginning of fiscal year 2010-2011 in essence “admitting” it wasn’t an asset that had any value.

3. Other Causes of the County's Unfunded Pension Debt

There are a number of other factors that increased Mendocino County's Unfunded Pensions:

- In several years the County Increased its payroll much more than it told its actuary.
- County gave retroactive pension increases to 50 employees without contributing extra funding.
- County didn't pay into the Pension Fund what it was supposed to a couple of years.
- County has a much higher than average rate of disability retirements.

4. Deeply Flawed Actuarial Valuations – Another \$90 Million of Debt?

We have recently learned that the Actuarial Valuations performed for the County's Pension Fund have been very seriously flawed. I am less certain of this – but the Unfunded Pension Deficit may be as much as \$90 million more than is currently reported. I have **NOT** included this in the County's debt; I am waiting until a new Actuary performs the Actuarial Valuation for June 30, 2011.

Beginning sometime in mid-2009 I began to become aware of a very significant issue regarding Buck Consultants in Stanislaus County. Buck had provided actuarial services to MCERA for around 14 years. They had also provided those services to the Stanislaus County Employees Retirement Association (StanCERA). StanCERA fired Buck sometime in late 2008 – early 2009.

The Modesto Bee published a number of articles throughout 2009 about this issue. On 3/11/09 they reported:

... an actuarial firm ... audited the pension plan's past payout assumptions and found them flawed."

*... higher (County) contribution costs stem from what the audit called **flawed assumptions** made in the past about what the county will owe to future retirees. The assumptions deal with **when employees retire, how they will opt to take their pension benefits, when they will get salary raises, how long they will live, and what the inflation rate and rate of return will be on the pension fund.***

The county's contribution to the pension fund would increase by 70 percent to 90 percent if the estimates are accurate ...⁷

I found a number of articles published in the Bee. On 12/24/09 an article in the Bee included:

RESCO (Retired Employees of Stanislaus County) also is suing StanCERA's previous actuaries, Buck Consultants, in the U.S. District Court in Fresno⁸. That lawsuit charges that the firm's faulty projections about the number of employees who will draw benefits from StanCERA resulted in a shortfall of employer contributions to the fund in recent years.

RESCO says Buck should be held responsible for the interest that StanCERA would have gained from the contributions.⁹

Especially after the December article I became very concerned.

I met with Mendocino County Supervisor John McCowen in January 2010 and in a separate meeting that month with Supervisor Carre Brown. I told them about what had happened in Stanislaus County about Buck and provided them with copies of the articles cited above and others. McCowen told me he had never heard about these issues. Brown thought something about Stanislaus had come up but not in an alarming way.

⁷ County Pension Generates Tension, Modesto Bee, 3/11/09

⁸ Federal District Court – Eastern California/Fresno: "Nasrawi et al v. Buick Consultants, LLC et al – Filed 11/24/09, 1:09-cv-02061-OWW-GSA, A civil action was filed in Stanislaus County Superior Court - "Nasrawi, D Vs. Buck Consultants" on 10/8/09. The case's status as of 1/27/11 was "open". The case number is 646617.

⁹ Retirees Challenge StanCERA Over \$60M Reserve Shift, Modesto Bee, 12/24/09

On 2/2/10 the County Board of Supervisors had on their regular Board meeting agenda an issue about the County's finances. I addressed the Board in Public Expression. At the end of my statement I told the full BOS about what had happened in Stanislaus regarding Buck and strongly urged them to find out what was really going on and whether or not the errors Buck was alleged to have made in Stanislaus County may have happened in Mendocino. I said ...

There's another thing I want to bring to your attention, and I have a feeling this Board has not heard this story.

Basically the County of Stanislaus, the County Pension Fund, the Retired Employees of Stanislaus County (an association of retired employees), the actuary who was hired by the Pension Fund to review Buck's work, and the replacement for Buck Consulting all say that Buck Consulting's flawed actuarial studies is going to force an increase in the County's pension payments of 60 (sic – it was 70) to 90% a year. And they are being sued by the Retired Employees of Stanislaus County in Federal Court in Fresno for damages. ...

This is such a huge issue. You have to find out what's going on with that. That's the guy who's been the Actuary here for 15 years.

And the second thing I think you really need to find out as a Board – I don't think you knew about this. This has been going on for 16 months – you should have known about this. Staff should have told you – someone should have told you about this and I don't think you heard about it.

Think about what the impact would be if your payments went up 60% to 90%.

Supervisor Kendall Smith had been the BOS representative on the Retirement Board for a number of years and was very involved with retirement benefit issues. She reacted very strongly criticizing my bringing the subject up at the BOS meeting. She further stated ...

(Buck is) a huge corporation that has international offices When the San Francisco office was consolidated into the LA office it's true there were some actuarial accounting mechanisms that were discovered to not be accurate or properly orchestrated. They were thoroughly reviewed – they (Buck) went back retrospectively and looked how those would apply to other counties and they looked specifically at Mendocino County and specifically what they found ... the same type of actuarial missteps that were formula based did not have much impact on Mendocino County's final numbers. They looked at that in the last two Actuarial Reports. ... Mendocino County ... doesn't have any flawed data relative to that earlier issue discovered in Stanislaus County.

I believe this was the first time Supervisors Colfax and Pinches had heard about the extent of the potential problem or the details Smith described about Buck's "review".

Although I followed up with Supervisor McCowen and Brown a couple of times after this – I believe nothing was done by them, the Board of Supervisors, or the County Administration to follow up on these issues.

However, once again reformist members of the Retirement Board did – as they should. (I believe the Retirement Board is being far more responsible over the past year or so than it was over the previous 15 years.) In its 5/19/10 meeting the Retirement Board directed that the current Retirement Administrator – Jim Andersen – send an RFP to a number of other Actuarial firms to obtain an "Actuarial Audit" of Buck's Actuarial Valuation for June 30, 2009. An Actuarial Audit would examine Buck's Actuarial calculations and assumptions and test their accuracy and conformance to "Generally Accepted Actuarial Principles".

EFI Actuaries were hired to perform this Actuarial Audit; its report was due in February 2011.

The Retirement Board held a meeting on 1/19/11. The major item on its agenda was a review of the new Actuarial Valuation produced by Buck Consultants for the fiscal year ending 6/30/10. This Valuation contained Buck's recommendations for the County's contributions to the Pension Fund for fiscal year 2012 beginning in 7/1/11. This is from page 18 of the Valuation:

YourPublicMoney.Com ♦ PO Box 301 ♦ Redwood Valley, CA 95470
info@ **YourPublicMoney.Com** (707) 485-0702

- 1) *Prior year recommended rates*: The rates as recommended in the actuarial valuation as of June 30, 2009. These rates include all the benefit enhancements under the Memoranda of Understanding between the County and the bargaining units.
- 2) *Prior year adopted rates*: Rates adopted by the Board of Supervisors.
- 3) *Current year recommended rates*: In accordance with the new methodology, the County will amortize the Unfunded Actuarial Accrued Liability (UAAL) over a 30 year period from June 30, 2009.

	EMPLOYER		EMPLOYEE	
	% of Payroll*	Annual Amount	% of Payroll	Annual Amount
1) Prior year recommended rates *	13.25%	\$ 9,571,000	9.84%	\$ 7,108,000
2) Prior year adopted rates **	13.25%	\$ 9,143,000	9.84%	\$ 6,790,000
3) Current year recommended rates**	19.08%	\$13,166,000	9.69%	\$ 6,686,000

* Based on June 30, 2009 payroll.
** Based on June 30, 2010 payroll.

The following table shows the impact on the employer recommended contribution of demographic changes and investment performance during the 2010 plan year, and changes in methodology.¹⁰

Contribution under prior agreement (6/30/09)	\$9,571,000
Revision in amortization method	549,000
Investment loss	875,000
Demographic salary losses	(430,000)
Change in application of assumptions	3,347,000
Reduction in salary scale	(235,000)
Group taking 10% reduction in pay	(511,000)
Contribution under current methodology	<u>\$13,166,000</u>

Buck recommended the County's payment to the Pension Fund jump from \$9.5 million to \$13.2 million – almost a 40% increase in one year.

During this meeting, the lead Actuary for Buck – Harold Loeb – directly admitted that Buck had made exactly the same errors it made in Stanislaus County and the “discovery” of those errors was causing them to increase the County's contribution nearly 40% in one year.

My understanding is that this amount will be added to the County's unfunded pension amortization payments over the next 29 years.

At its next monthly meeting on 2/16/11 the Retirement Board received the Actuarial Audit from EFI Actuaries. EFI audited Buck's 2009 Valuation – not the 2010 Valuation that was provided to the Retirement Board in January. Here's a quote from the Audit's Executive Summary:

The actuarial assumptions used by Buck are seriously flawed.

¹⁰ *Valuation*, page 18

We encountered a number of demographic assumptions used by the current Actuary that are unreasonable and fall outside the range of generally accepted actuarial principles.

Actuaries state the amount the County must pay to the Pension Fund in two ways – as an absolute dollar amount and as a percent of total payroll. What really happens is the County uses the percent of payroll to calculate for each payroll period the amount it needs to pay to the Pension Fund. Since the actual yearly payroll never – as a practical matter – turns out to be exactly the number the Actuary assumed, the actual dollar amount of the County’s payments to the Fund will always vary from the value reported in the Valuation – but the percentage should be the same.

In its 2009 Valuation Buck recommended the County should pay 13.25% of its payroll into the Pension Fund. What EFI is saying above is that if all 7 of its recommendations are adopted, the actual percentage should have been 24.45%. The dollar amount of the County’s payments projected by Buck was \$9.57 million. EFI is saying it should have been \$17.66 million - \$8 million more – nearly double!

Further, Buck reported that the “Funded Ratio” of the County’s Pension Fund was 83.4% as of June 30, 2009.¹¹ EFI is saying in the last column of the table above that the ratio should have been 9.2% less – or 74.2%. That would have meant that instead of the \$336.3 million reported by Buck as the Pension Fund’s “Actuarial Value of Assets”, EFI believes it should have been \$299.2 million, \$37 million less. And that means EFI believed the “Actuarial” value of unfunded pensions was really \$103 million instead of the \$67 million reported by Buck.

Buck had already fessed up to one significant error. The “corrections” of that problem is already included in next year’s \$4 million increase.

But EFI identified five other problems beyond what Buck admitted and reported they would increase the County’s pension payments another \$4 million on top of Buck’s \$4 million. So –the audit turned Buck’s \$4 million increase into about \$8 million.

¹¹ This is based on the “Actuarial Value of Assets” and the resulting “Unfunded Actuarially Accrued Liability”. This is not based on the real market value of the Pension Fund’s investments. The “real market value” of the Funded Ratio was 67%. Very simply put – the “Actuarial Value” is based on a five year “moving average” of the Pension Fund’s investment returns. The effect is to “slow down” changes in the total asset value used in Actuarial Valuations. The purpose is to prevent sudden precipitous increases in the employer’s unfunded pension amortization payments. That is an understandable and reasonable goal. However, all too often people badly misinterpret what the Actuarial Value of Assets is – they talk as though that is the real value of assets in the Pension Fund. It isn’t – and this confusion causes a lot of problems. See my report *How Pension Funds Work* at <http://yourpublicmoney.com/data/data.shtml> for a more complete explanation – scroll down the left side of the page.

IV. RETIREE HEALTHCARE DEBT

A. Benefits and Organization

1. September 1998

Before 1998 all County employees had access to retiree healthcare benefits. In September of that year the County Board of Supervisors changed the benefit. Some of the key provisions of Board of Supervisors Resolution No. 98-147:

- Manner of providing the benefit will comply with federal tax laws and the benefit will be non-taxable.
- MCERA may transfer all or part of Pension Fund “Excess Earnings” to pay the costs of the retiree healthcare benefit.
- BOS will annually determine the level of subsidy to defray cost of retiree health insurance benefit.
- Current Retirees at that time were eligible for the full benefit. Current employees on that date were also eligible for the full benefit if they work for the County for at least 10 years.
- First source of funding to be Pension Fund Excess Earnings from previous years. If not adequate – the County and retirees will “split the costs” 50% - 50%.

At that time administration of the benefit was shifted to the County Administration and Human Resources, although MCERA would pay for the benefit from “Excess Earnings”.

2. Government Accounting Standards Board

The Government Accounting Standards Board (GASB), the organization with the highest authority to establish Generally Accepted Accounting Principles for State and Local Governments in the United States, published GASB Statement 45 - “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”.

This new standard required the County of Mendocino to report the financial status of its retiree healthcare benefit no later than its June 2008 audited financial statements in a similar manner as has been required for its pension benefit since 1998. That is, the County would have to put a note in the “Required Supplemental Information” section of its audited financial statements the value of the Actuarial Value of Retiree Healthcare Assets, the Actuarial Accrued Liability for the benefit, and the Unfunded Actuarial Accrued Liability (UAAL).

3. Aon Report – Unfunded Retiree Healthcare

The BOS and MCERA held a joint meeting on 11/1/05. During public comment I made this statement:

*The Government Accounting Standards Board (GASB) announced new rules in 2004 that will require the County to disclose its Unfunded Retiree Healthcare Liability in its June 2008 audited financial statements. No one in the County knows what that number will be, but those of us who have thought about it expect it to be big. **You’ve got 2½ years before you have to disclose that unfunded liability.** I strongly urge you to **find out as soon as possible** what that number is. **Give yourselves and your retirees at least 2 years to come up with a plan** about what to do about what is almost certainly going to be a big debt.*

The County didn’t take my advice. It deferred finding out the bad news until it finally received a report from Aon Actuaries **in August 2008 – two months after the close of the fiscal year for which they had to report** the financial status of its retiree healthcare benefit.

Aon reported the County’s benefit was **\$136 million underfunded**. The County hadn’t set aside a dime.

4. September 2009

MCERA Retirement Administrator Jim Andersen gave a report to the BOS regarding the status of the retiree health fund. Andersen reported that the balance in the retiree healthcare fund (which had been derived from "Pension Fund Excess Earnings" was expected to be fully depleted in 18 months - early in 2011.

The BOS then adopted a resolution that made one very significant change relating to this retirement benefit. The language in the 1998 Resolution regarding the "50-50 split" (50% from retirees, 50% from the County general fund) source of funding in the event there are no available "Excess Earnings" was deleted from the 2009 Resolution. The effect was to remove the County as a "backup" source of funding, and to limit funding to Pension Fund Excess Earnings and retiree contributions.

The effect of this action was believed by the BOS to mean since the County had no direct obligation to pay from its General Fund, then it had no debt.

5. The Impact and the Law

There is **great dispute** about whether or not retirees have a **legal right** to receive this benefit as they do pensions. It appears to me that the County has the legal authority to unilaterally change the terms of this benefit including termination of the benefit. However – "I'm not a lawyer". And – there is a concept called "detrimental reliance" – if you tell someone you'll do something, they rely on your doing what you said you'd do, then you don't and the person is hurt, they may have a cause of legal action against you. Many retirees believe they were told by County officials they could count on retiree healthcare benefits.

These are statements made at a BOS meeting on 4/20/10 by retirees.



Keith Solinin (?) - Retired Groundskeeper: All through those years (of my employment) I was told I would have health insurance in my retirement. ... I picked a date to retire knowing I'd be comfortable in retirement. I make \$2328 gross a month in retirement. ... I now pay \$171 a month for health insurance for just myself. The County is proposing an increase to \$531 a month ... that amount will increase to \$731 a month 14 months from August (2009).

I didn't plan for this in my life plan. The rules I played by all these decades have changed. I didn't change them. You the Board of Supervisors did. How can you balance the budget on the back of the retirees? This is incredibly unfair and unethical. To dump the whole cost of healthcare in our laps is despicable, and I mean it.



Lorolei Hammond – I did pay attention to the literature I was given when I was hired by the County and did pay attention to the wording about insurance and what was available to retirees and how many years I needed to work for the County to secure not only my vested interest in the retirement fund but my healthcare insurance (as well).

I don't know how it was possible for the Board of Supervisors to determine that they have no fiduciary responsibility to continue funding our health care.



Dave Johnson – retired Human Resources Director: Lorolei ...used the term "vested interest". And in the handout we used to give to employees when they came through the front door which was then the HR office was literature that said 'this is how you vest your interest in the County's retirement plan'. It didn't use the word 'promise' or 'assurance' or some softer word. When you say 'vested interest' to me it sounds like the very next thing to a legal right. And I think that's exactly where we are. I think it's a serious mistake of the Board of Supervisors to take this on (terminating the County's obligation to fund retiree healthcare) without consideration of obligations that they made years ago to many (retirees) in this room.

V. OTHER DEBT - TEETER DEBT

The County collects all the property tax in Mendocino County and then distributes most of it to other property tax supported local government entities – cities, school districts, etc. It used to be that if a certain property owner was delinquent in paying this tax the County would have to keep track of how much of that delinquency – plus penalties and interest – belonged to the local governments that received a share of that parcel's property tax. This created a very complex bookkeeping mess.

The Teeter Plan was passed by the legislature to create a simplified method – and to incentivize counties to collect delinquent property taxes. Under this plan the County pays all the other local governments the full amount they are supposed to receive regardless of delinquencies. Then the County “owns” those delinquencies 100%. Delinquent property tax is secured by the real estate itself. The law provides a very dependable process by which – if the delinquent tax isn't paid – the County can force the sale of the property to collect the delinquent tax – plus penalties and interest. This works out – in most counties – to be “profitable” for the county.

But something happened in Mendocino County that's different from most other counties. Orange County, for example, borrows money from a financial institution to pay the delinquent part of the tax to all the other local governments. Then as it collects those delinquent taxes it pays the loan back.

Apparently Mendocino County didn't borrow money from an outside party – it used money in the “County Treasurer's Pool”. The Treasurer's Pool is a short term investment fund controlled by the County used to invest cash that isn't needed in the immediate future into short-term “money market” types of investment instruments. This provides a higher rate of return than if the money just sat in the bank. Many other local governments are required to put their “excess” money into the Treasurer's Pool and others choose to do so because the County can afford to have staff to manage the program.

For years County officials have talked about the “Teeter Debt”, but they've never explained it in a way that makes sense to me. It appears the County took money out of the Treasurer's Pool to pay the other local governments the delinquent part of their property tax. But when the County collected the delinquent taxes with penalties and interest they must have spent it rather than replace the money they took from the Treasurer's Pool.

An issue is – did that money belong to other local governments in the first place? Does the County actually have all the money it's supposed to have that “belongs to other people”?

I don't know – because I've never seen an explanation – even though I've asked for it several times.

And this year the Supervisors are once again talking about the “problems” with the Teeter Debt.

VI. TWO HUGE FINANCIAL THREATS - NEXT FIVE YEARS

This is a summary of another paper I produced two months ago.¹²

A. Doubling of Debt Payments

Seven specific factors will produce this result. Of these three are “built into” the math of Pension Funds.

First is “**smoothing**”. The Pension Fund was \$135 million below its target investment returns in 2008 and 2009. If that entire shortfall had been included in calculating the County’s required pension deficit elimination payments in 2010 the County’s payments to the Pension Fund would have gone from \$8 million to \$16 million in one year. The process called “Smoothing” spreads that increase out over 5 years. That means the County’s pension deficit payments will increase that much over five years assuming the Fund earns an average of 8%.

Second, the Pension Fund’s target rate of return (8%) is also an **interest rate** that increases the pension deficit every year. That in turns increases the County unfunded pension deficit payments each year. So that magnifies the increase caused by “smoothing”.

Third, the County had to choose one of two methods to calculate how much the yearly pension deficit payments would be over the next 30 years. It chose the “**Level Percent of Payroll**” method. Without going into the details that method starts out with low payments. Then **payments slowly triple over 30 years**. So that method itself causes payments to increase each year – on top of the two factors above. In fact the beginning payments are so low they don’t even start to pay each year’s interest expense for 12 years. That’s called “**Negative Amortization**” – the debt is actually going up! Then it takes another 8 years just to pay off the interest that wasn’t paid in those first 12 years. That means the County won’t start to actually pay today’s debt (in dollar terms) until 20 years from now!

The other four factors are unique to the Mendocino County Employees Retirement Association. By far the most significant is the **Pension Fund’s Actuary – Buck Consultants** – admitted in January 2011 they had been making a very **big calculation error for years** – and as a result the County **Pension Fund payments** need to **increase \$3.3 million** in each of the **next 29 years** to make up for it. The next month another Actuary (EFI) presented what’s called an “**Actuarial Audit**” – an evaluation of Buck’s calculations. EFI said the County’s payments needed to increase **\$8 million a year**. This is huge.

In addition the **calculation** of the **first year County pension deficit payment** was **deeply flawed**. It understated the County’s required unfunded pension payments. **Payments have to significantly increase** to correct that error. Also, the Retirement Association’s pension payments and operating expenses have been significantly more than County and employee pension contributions some time. That “**negative operating cash flow**” increases the Pension Fund’s deficit and that increases the County’s pension deficit payments. Finally the Retirement Association “**wrote off**” a **\$9.6 million “receivable” as bad debt**. I think that was a “**fake asset**”; I’m highly concerned about several legal aspects related to this write off. Retirement Association officials say that write off won’t affect future County pension deficit payments – I’m not convinced.

B. Huge Increases in Reported Pension Expenses and Debt

The Governmental Accounting Standards Board (**GASB**) intends to impose **huge changes** on pension financial reporting within five years. Their current standards have a **fatal flaw**. They allow state and local governments to **report pension expenses** related to **unfunded pension** deficits as an expense of the future - when the pension deficit debt is paid. But they aren’t - **they’re expenses of the past**. Government employees earn their pensions while they’re working even though they don’t receive them until after they retire. When they retire they have completely earned their pensions. **The true economic pension**

¹² **Two Huge Financial Threats – County of Mendocino – Next Five Years**, John G Dickerson (YourPublicMoney.com), 4/5/11, available in the Data Section of www.YourPublicMoney.com

expense always happens before employees retire - never when they receive their pension payments - that is a payment of a debt.

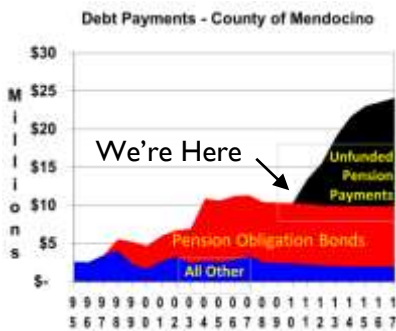
The biggest “shock” I’ve had in 5 years of digging into our County’s debt was when I suddenly realized **Mendocino County** honest-to-God incurred **hundreds of millions of dollars of past retirement expenses** it **has never reported to the people**. GASB intends to stop governments from getting away with that.

Today unfunded pensions are not actually reported as debt. They’re just listed in a footnote. **GASB** would force them to be **reported directly as liabilities**. Other reforms will force the value of the debt to be **much higher than reported today**. I project the County’s reported debt would jump from around \$150 million to around \$500 million in 2015 or 2016.

Mendocino County will also be forced to report **much higher pension expenses**. Instead of spreading pension expenses related to unfunded pension deficits over 30 years, the County will have only 12 to 15 years. The amount of pension expenses that can be shoved into the future will be hugely reduced. This will cause large reported pension expenses the year the new requirements go into effect. The County will also have to report the full interest expense related to pension deficits each year – not just the part it pays. Several other changes will also increase the County’s reported pension expenses.

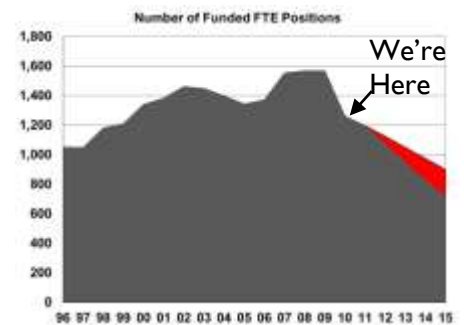
I project that when these new standards are imposed the County’s reported annual pension expenses will increase about \$45 million a year, and an “extraordinary” pension expense of about \$35 million would be reported in the first year the standards take effect. Then over the next several years annual reported pension expenses would be about \$50 million more.

C. The Impact of These Two Threats



Two-thirds of the County’s expenses are payroll and benefits. Budget cuts necessarily mean staff cuts. The County **has already cut about 350 staff positions** – nearly a quarter. **About that many** are likely to be cut in the **next 3 years** solely because of increased debt payments.

Our County receives most of its property tax income in two months – December and April. There are no cash reserves to carry



it over the summer and fall. It relies on short term “working capital” loans to make it through. Such a huge jump in reported expenses and debt combined with further deterioration of cash caused by increased debt payments may threaten the County’s ability to continue to obtain these loans.

If the County could no longer borrow these short-term operating loans, payroll would be weeks late – maybe months. Then what? And - It would be practically impossible for the County to report that it is satisfying the requirement of the State Constitution to operate with a balanced budget. Then what?

These two specific threats may well drive Mendocino County into insolvency within five years.

VII. THE IMPACT OF THE DEBT

A. Loss of Local Control over Budget

About half the County's funding comes from the Federal and State governments and the other half comes from "independent-local" sources. The Federal-State funds have significant restrictions about how the money can be spent. They also often require some amount of "matching funds" from the County; these funds are also restricted as to how they can be used. And – we can expect both Federal and State funding to be constrained over the next several years.

I estimate the **truly discretionary part of the budget** is somewhere between **\$30 to \$50 million**. The County must **pay its debts out of this part of its budget**; the Federal and State governments are not interested in helping pay our debts. The **more debt** - the **less local control** over the County's resources.

B. Reduced Public Services

Nearly \$500 million will be extracted out of Mendocino County's discretionary local funding over the next 2 to 3 decades to pay this debt. Kids not even born year will have to generate funds to pay this debt. It won't produce one minute of public services or one dime of improved County infrastructure.

C. Increased Fees and Other Taxes

Pressure will increase within the County to increase discretionary revenues. This can only come from County controlled taxes - primarily the "**bed tax**" - and **fees-licenses-fines-etc**. Together these are a little less than 20% of the County's total revenue. The County may evaluate selling fixed assets as well.

D. Pressure on the County Workforce

Most of the County's budget is spent on its staff. The **more debt payments** are the **less can be paid for staff**. The growth of the County's debt is going to bring pressure to **reduce the amount (or at least the growth of the amount) the County spends on its current and future staff**. This can't be avoided.

E. No More Retiree Healthcare Benefit

Hundreds of retirees who thought they had been promised that the County would make a significant contribution to their healthcare costs during retirement have lost that benefit.

F. Could Mendocino County Go Bankrupt? - The City of Vallejo

We have no "position" directly on the issue of whether or not the County of Mendocino will or should enter bankruptcy. But if the County keeps digging the debt hole deeper it will effectively go bankrupt.

The City of Vallejo filed for bankruptcy in May 2008. Its major goal is to reduce the amount of pensions and other benefits it already owes. On March 13, 2009, in the first ruling of its kind, the bankruptcy judge held the City has the authority to void its existing union contracts unilaterally.

The City of Vallejo recently filed a "restructuring plan" and exited bankruptcy. However, although I haven't analyzed the plan I strongly suspect it isn't enough and the City will be back in its fiscal crisis before too long.

VIII. ATTACHMENTS

A. Other Reports

Over the past several years I've produced many reports including some videos on these and other issues. Several of these reports provide considerable more information about the issues discussed in this report. They are all available at: <http://yourpublicmoney.com/data/data.shtml>, or go to the home page of www.YourPublicMoney.com and go to the "Data" section.

The following pages are a copy I made of the Data section page in June 2011. The links "work" (if you have the Word file).

1. Memos and Reports

YOURPUBLICMONEY.COM produces memos and larger reports from time to time about the issues addressed in this website. Many originally appear as Supplementary Information in the website that provide more detail about specific topics being discussed.

We post new Memos and Reports every few weeks - check back.

- **County Comparisons:** California County comparative debt measures, rank ordering, and graphs based on the *Annual Counties Report* from the State Controller's Office - **pdf files**

- [County Comparisons - Fiscal Year 2007:](#) (7/1/09) (397KB)

- [County Comparisons - Fiscal Year 2008:](#) (8/18/10) (402KB)

New!

- [County Comparisons - Fiscal Year 2009:](#) (5/20/11) (885KB)

- [The "CSAC Affair":](#) (5/23/11)
One example of how County officials fail their fundamental financial duties to the people - pdf file (204KB).

- [BOS Debt Actions:](#) (UPDATED - 4/26/11) A Sampling of Board of Supervisors actions regarding debt since 1996 - 15 years of deeply flawed financial management of retiree benefits - pdf file (210KB).

3. Videos

[Click here](#) for a list of video programs you need to view these videos.

These are best viewed on high-speed internet connections.

Some people can't pause the videos or rewind - most should be able to. If you have that problem, you may want to download the video. Windows users - right click- then "Save Target As" - give it a name and browse to the folder to which you want to save it.

- [BOS Being Told of Buck Error in Stanislaus - Supervisor Smith's Denial - released 3/2/11:](#)

Snippet of me telling County Supervisors on 2/2/10 that an "Actuarial Audit" in Stanislaus County in December 2008 reported that their Pension Fund's Actuary - Buck Consultants - committed very substantial errors that will force that County's payments to its Pension Fund to significantly increase. As of the date of the release of this video Buck has been our County Pension Fund's Actuary for well over 10 years. The video shows Supervisor Kendall Smith flatly denying Buck made the same mistake here - which we found out one year later they did. (video - 3 minutes 46 seconds).

- [Bill Gates on Public Pensions - released 8/14/10](#) - "Gates interviewed at the July 2010 Aspen Ideas Festival - asked about if the US has a problem with unfunded state and local government pensions - Gates states "only fraudulent accounting" allows governments to pretend they have balanced budgets. (video - 5

- [**Two Huge Financial Threats - County of Mendocino - Next Five Years**](#): (4/5/11) A two page summary of the report below.pdf file (164KB)
- [**Two Huge Financial Threats - County of Mendocino - Next Five Years**](#): (4/5/11) Two major financial threats are likely to push Mendocino County into insolvency within the next five years - more than doubling of debt payments within 3 to 4 years and a loss of ability to borrow short term operating loans.19 page report with 2 page summary - pdf file (902KB)
- [**Bad News Just Got Much Worse - Pension Fund Payments to Double**](#): (2/28/11) In January 2011 Mendocino County's Pension Fund's Actuary - Buck Consultants - admitted they made very serious errors in their analysis of the Pension Fund over many years. As a result they recommend the County's payments to the Pension Fund increase from \$9 million to \$13 million. This was the same error discovered 2 years ago in Stanislaus County. One year ago Supervisor Smith strongly assured the public Buck hadn't made the same mistake here - but it did.9 page pdf file (496KB)
- [**Independent County Audit Committee - Concept**](#): (8/11/10) My initial proposal to organize such a Committee in Mendocino County. - **6 page pdf file (316KB)**
- [**Mendocino County's Financial Time Bombs - In Place and Lit**](#): (8/5/10) A month ago I saw what I'm afraid is the specific path that minutes).
- [**Comments on Grand Jury Report on Retirement Association and Violations of Law - released 6/20/10**](#): My comments to County Supervisors on 6/9/10 (the day after the County Grand Jury released its third report on our County's Retirement Association in the decade) focusing on very possible violations of law (video - 5 1/2 minutes).
- [**Retirees at Board of Supervisors 4/2/10 - "We've Been Betrayed"**](#): Mendocino County Retirees tell Board of Supes how they feel about termination of County funding of retiree health benefits (video - 16 minutes).
- [**First Do No Harm - 12/9/09**](#): The video that exposed the "political fraud" of funding Retiree Healthcare with so-called "Pension Fund Excess Earnings". Since this video was released the County abrogated its previous commitment to pay for this benefit, and as of mid-2011 this benefit is no longer being paid by the Retirement Association. Our problem wasn't that retirees were getting healthcare benefits - it's the fact it was paid for by increasing the County's long-term debt. (a serious video - slightly over 50 minutes).
- [**My Fundamental Criticism of "Pension Fund Excess Earnings" - released 10/15/09**](#): I laid out my analysis of why the County and Retirement Association's use of so-called "Pension Fund Excess Earnings" is so deeply flawed for County Supervisors in their 9/9/09 meeting (2 1/2 minutes).
- [**Board of Supervisors - 9/15/09 -**](#)

will lead Mendocino County to financial disaster. - **6 page pdf file (467KB)**

- **[How Pension Funds Work](#)** : (8/4/10) Actuaries plan and analyze pension funds. You can't know how our County got this deep in debt or what needs to be done about it if you don't understand what they do. This is my best effort to explain the basics as simply as I can. For concerned citizens who want to and officials who need to understand. Be prepared to spend a few hours. It's important. - **35 page pdf file (658KB)**
- **[Unfunded Pension Payment Schedules \(Amortization\)](#)** : (6/21/10) The County of Mendocino was required to begin to make Unfunded Pension Deficit payments in fiscal year 2010-11 on top of its normal yearly contributions. This paper describes how payment schedules developed by the County's Retirement Association are deeply flawed, and presents corrected schedules. The method being used by the County to determine annual payments doesn't even pay interest expense for the first 12 years and therefore increases the County's debt.- **pdf file (401KB)**
- **[GASB Preliminary Views - Major Changes to Pension Accounting-Reporting](#)** : (6/21/10) GASB (Government Accounting Standards Board) is developing very major changes in how the finances of retiree benefits will be reported. These changes would have a very major impact. - **pdf file (327KB)**

[Part A](#): Good discussion of changes needed in County Planning process (planning for the County, not the Building Department). You see frustration at the lack of County Executive leadership. 15 minutes.

- **[Board of Supervisors - 9/15/09 - Part B](#)**: Supervisor Colfax gets very angry at another Supervisor - mostly uncut. 20 minutes
- **[Board of Supervisors - 6/3/09](#)**: Working on fiscal year 2009-10 budget. Issue - layoffs in Sheriff's Department. You will see for yourself the desperate situation. - 8 minutes.

4. Peer Review Group

Three financial professionals reviewed our analysis of Mendocino County's debt with a focus on the cause of most of that debt - unfunded retiree obligations. The group was organized at the end of 2009. In early February 2010 the Group published a letter in the *Ukiah Daily Journal* and provided the County Board of Supervisors with a more detailed report about their findings. Both are available below.

- **[Video of 2 Peer Group Members "stirring up" County Supervisors](#)**: Financial Pros deliver bad news to the Board of Supes - some get excited (video - 24 minutes).
- **[Letter to BOS and Citizens](#)**: This is the text of the article that was published in the **Ukiah Daily Journal** on 12/2/10. (pdf file - 92KB).
- **[Report to Board of Supervisors](#)**: This is a more detailed report of

- **[Statistical Analysis - Pension Payments to County Retirees](#)**: (5/25/10) In spring 2010 the Retirement Association released a list of all projected pension payments to retirees for 2010-2011. This is a statistical analysis of that data. 5 page pdf file (205KB)
- **[Our Summary of the "Kroll Report"](#)**: (4/7/10) The Kroll Report is the most comprehensive analysis of a case of terrible mismanagement of the funding of local government retiree benefits. There are some interesting parallels with Mendocino County. - **pdf file (194KB)**
- **[The Executive Summary from the "Kroll Report" - dated 8/8/06](#)**: This is the Executive Summary of the Kroll Report. They summarize what went wrong and why, why it took so long to get to serious effective reform, and a list of powerful recommendations that are highly relevant to Mendocino County. - **pdf file (260KB)**
- **[Excerpts from First Mendocino County Debt Report dated 10/16/08 \(NOTE - zip file link below\)](#)**: (2/4/10) The purpose of this excerpt from the original 45 page report is to show Mendocino County citizens the breadth, depth, and extent of this report that County officials have not made even one attempt to refute in the 16 months since it was published. - **pdf file (915KB)**
- **[Excerpts from First Mendocino County Debt Report dated 10/16/08 \(NOTE - zip version\)](#)**: (2/4/10) A "zip version" of the report above -

Peer Group findings and recommendations that was provided to the Board of Supervisors. (pdf file - 37KB).

5. Actuarial Valuations and Audits

We received very bad news in January and February 2011. Mendocino County's long time Actuary - Buck Consultants - admitted in January they had been making a very significant error for a number of years. As a result the County's payments to the Pension Fund needed to increase from \$9 million to \$13 million next year.

A month later another Actuary - EFI - produced an "Actuarial Audit of Buck's 2009 Valuation. They found more significant errors. If their recommendations are adopted the County's payments to the Fund would increase to \$17 million.

- **[Pension Fund Actuarial Valuation as of June 30, 2010 - Buck Consultants](#)**: Buck admitted to significant errors - pdf (1.6MB)
- **[Actuarial Audit of Buck Consultants June 30, 2009 Actuarial Valuation - EFI Actuaries](#)**: Even more errors identified - pdf (1.6MB)

6. Data Sources

These are some of the more important sources of data and information we

should download in 1/3 less time, but you have to be able to "un-zip" the file. **pdf file (656KB)**

- **[Supervisors in the Frying Pan - Two Huge Issues - 2009/10 Budget Report Card: Grade F:](#)** (12/1/09) Mendocino County's Pension Fund was \$130 million below its target investment returns in the past 2 years. If nothing changed the County's payments would jump from \$6 million to \$60 million in a decade. This memo describes the two immediate challenges they faced. The BOS receives a failing grade. - **pdf file (282KB)**
 - **[Lies, DAMN LIES, and Actuarial Statistics:](#)** (8/27/09) The Value of the Pension Fund is calculated by subtracting Total Pension Obligations from the value of Pension Fund Assets. But there are two types of Asset Values - the real Market Value, and the calculated Actuarial Value. It's extremely not to misuse or confuse the two, as County Officials are doing. - **pdf file (371KB)**
 - **[The 800 Pound Gorilla:](#)** (8/27/09) A **1 page summary of the paper below - pdf file (296KB)**
 - **[The 800 Pound Gorilla:](#)** (8/27/09) 6 pages - The Market Value of the County's Pension Fund is about \$113 million less than it needs to be to pay all the pensions it owes in the future. County officials are focusing on trying to reduce payments to the Fund over the next few years to help get through the current budget crisis. But they are ignoring the "800 Pound Gorilla".
- used in our analysis of Mendocino County's debt.
- **[General List:](#)** A pdf file with many of the important data sources - pdf (321KB)
 - **[County of Mendocino Audit \(Financial Statements\) Reports:](#)** Available online for 2000 forward. Previous year audit reports available in the County Auditor's Office at 501 Low Gap Road, Ukiah.
 - **Budgets:** Some online. Previous year budgets available in the County Auditor's Office or County Chief Executive Office at 501 Low Gap Road, Ukiah.
 - **[Mendocino County Employees Retirement Association Audits, Valuations:](#)** MCERA began putting these and other reports on line in 2009. Previous reports available at MCERA office, 625-B Kings Court, Ukiah
 - **[Counties Annual Reports:](#)** State Controller's Office website page listing all publications - choose the Counties link.
 - **[Public Retirement Systems Annual Report:](#)** State Controller's Office website page listing all publications - choose the Public Retirement link.
 - **[Actuarial Valuation - Retiree Healthcare:](#)** (8/21/08) First report County ever received about its Unfunded Retiree Healthcare debt - pdf file (323KB).

- This debt will grow 8% a year until it is eliminated. This is a very dangerous situation and there are no good solutions - **pdf file (367KB)**

- **Unfunded Pensions - Situation:** (4/30/09) Report immediately after County learned its Actuary predicts a \$125 million Unfunded Pension Obligation as of 6/30/09 - **pdf file (351KB)**
- **Questions for 3/18/09 Meeting:** (3/12/09) Memo for meeting arranged by 2 Supervisors with me and Retirement Association officers - questions, data, analysis. Retirement officers did not prepare for these questions and for the most part have made no attempt to answer them. **pdf file (398KB)**
- **Two Stories:** (5/10/09) These narratives give a sense of how the County Board of Supervisors has approached issues relating to its debt including **telling the people the truth - web page in new window.**
- **Retiree Healthcare Debt Brief:** (10/8/08) Analysis of Mendocino County's Retiree Healthcare debt-with AON consulting valuation attached - **pdf file (519KB).**

2. Grand Jury Reports

The Mendocino County Grand Jury has produced three reports regarding Mendocino County's unfunded pension debt and the Mendocino County Employees Retirement Association (MCERA) in the past

decade.

- [**2010 Grand Jury Report - Unfunded Liability - Our Children's Inheritance:**](#)
 (6/7/10) The most recent Grand Jury report. *"MCERA neither reflect(s) realistic possibilities for financial growth, nor demonstrate(s) transparency in their reporting". " Mendocino County's short term thinking has resulted in the real possibility of financial disaster including bankruptcy". "Major cuts in personnel, salaries and services are necessary ...". "Several past GJ reports ... have been ignored ... Current criticism by community members cannot be easily ignored. The questions raised need to be answered."*
"Communications with the public must be transparent and accurate". "Basic assumptions of MCERA need to be examined". "The citizens of Mendocino County need to hear truth, not rhetoric."
pdf file (140KB)
- [**2006 Grand Jury Report - Dollars and Sense: a Report on Retirement Funding:**](#) (6/1/06)
pdf file (399KB)
- [**2003 Grand Jury Report - The Mendocino County Employees Retirement Association:**](#)
 (6/30/03) **pdf file (366KB)**