County of Mendocino
Grand Jury

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Dollars and Sense: a Report on Retirement Funding
June 1, 2006

Summary

The 2005-2006 Mendocino County Grand Jury conducted an oversight of the funding of retirement benefits for County employees. Primarily pension finances were studied; health benefits and disability retirements were also examined.

Methods

The Grand Jury conducted interviews with members of the Board of Supervisors and County department heads and attended Employee Retirement Association Board meetings. The Jury reviewed Mendocino County Employees' Retirement Association (MCERA) reports, actuarial valuations, and Mendocino County audit reports. Also reviewed were the mechanisms of fund transfers between these various agencies regarding contributions, present and future payouts, and the Pension Obligation Bond loans. The Grand Jury obtained a specially defined financial data sheet from County officials for use in this oversight.

Background

A timeline of events:

- **1937** The State of California passes The County Employee Retirement Law
- **1994** The Government Accounting Standards Board (GASB) which sets the accounting standards for government entities in relationship to employee benefits, mandates in GASB-25 that by 1996 pension systems report an actuarial projection to cover liabilities for future employees. This changes the amount the County needs to accrue for the Pension Trust Funds.
- **1996** Mendocino County issues $30,720,000 in Pension Obligation Bonds (POB) to meet the mandated requirements of 1994 GASB-25.
- **2000** The County-funded Slavin study determines that the County salary scale is significantly below comparable jurisdictions. Many salaries are subsequently raised without the pension funds receiving a matching reserve for the resulting increase in future obligations.
- **2001-2002** As a result of changes in both national and local economic conditions, MCERA's Pension Fund investment returns drop, reducing its expected value of assets or Valuation Assets (VA).

- **2002** Taking advantage of low interest rates, the County issues $91,945,000 in Taxable Pension Obligation Bonds Refunding, Series 2002, to allow the County to defease (pay off) the initial Pension Obligation Bonds and to fully fund the residual portion of its Unfunded Actuarial Accrued Liability (UAAL).

The County of Mendocino participates in the Mendocino County Retirement Association, a multiple employer Defined Benefit Pension plan, which serves the employees of the County and two special districts. It was established under the County Employee Retirement Act of 1937.
The Grand Jury sought an overall picture of the funding of Mendocino County employee retirements, specifically examining the use of Pension Obligation Bonds to meet mandated requirements. (The 2002-2003 Grand Jury also issued a report on this topic.)
There are two major entities involved in funding County pensions: the County and MCERA. The Retirement Association Board controls the financial assets of the Pension Trust Fund and the investment of the employees' contributions. The County for its part collects employee contributions, determines the County's contribution, and transfers these funds to MCERA. (Definitions of terms used in this Report are given in Appendix A)

Findings

1. The Board of Supervisors (BOS) must approve any negotiated new or increased pension benefits.

Response (Board of Supervisors): The Board of Supervisors agrees with this finding.
Response (Interim CEO): The Interim Chief Executive Officer agrees with this finding.
Response (Auditor/Controller): The Auditor-Controller agrees with this finding.
Response (Treasurer/Tax-Collector): The Treasurer – Tax Collector agrees with this finding.
Response (Employee Retirement Association): The Retirement Association agrees with this finding.

2. While the BOS has sought input from actuaries in making pension benefit decisions, the BOS has not always consulted with County financial officials before approving new plans.

Response (Board of Supervisors): The Board of Supervisors agrees with this finding in that the Board has not always consulted with County financial officials before approving new "benefits".
Response (Interim CEO): The Interim Chief Executive Officer agrees with this finding in that the Board has not always consulted with County financial officials before approving new "benefits
Response (Auditor/Controller): The Auditor-Controller agrees with the finding that county financial officials were not always consulted by Administration or the BOS before approving benefit changes.
Response (Treasurer/Tax-Collector): The Treasurer - Tax Collector agrees with the finding, with the provision that the finding should state the BOS has not always consulted with County financial officials before approving new "benefits" (not plans). The plan is according to the

1937 Act Retirement Laws, which has not changed since inception, however the relative benefits have changed over the years.
Response (Employee Retirement Association): The Retirement Association agrees with this finding.

3. The decision by the BOS to retroactively, and without employee buy-in cost, reclassify Safety employees so as to give them higher-level benefit rates resulted in higher pension obligations.

Response (Board of Supervisors): The Board of Supervisors agrees with this finding.
Response (Interim CEO): The Interim Chief Executive Officer agrees with this finding.
Response (Auditor/Controller): The Auditor-Controller agrees with this finding.
Response (Treasurer/Tax-Collector): The Treasurer – Tax Collector agrees with this finding.
Response (Employee Retirement Association): The Retirement Association agrees with this finding.

4. The decision in 1998 by the BOS to no longer fund post-retirement health insurance benefits for future hires resulted in a reduction of County liability.

Response (Board of Supervisors): The Board of Supervisors agrees with this finding.
Response (Interim CEO): The Interim Chief Executive Officer agrees with this finding.
Response (Auditor/Controller): The Auditor-Controller agrees with this finding.
Response (Treasurer/Tax-Collector): The Treasurer – Tax Collector agrees with this finding.
Response (Employee Retirement Association): The Retirement Association agrees with this finding.

5. Disability retirement payouts begin immediately upon determination and are significantly higher than regular retirement benefits.

Response (Board of Supervisors): The Board of Supervisors agrees with this finding.
Response (Interim CEO): The Interim Chief Executive Officer agrees with this finding.
Response (Auditor/Controller): The Auditor-Controller agrees with this finding.
Response (Treasurer/Tax-Collector): The Treasurer – Tax Collector agrees with this finding.
Response (Employee Retirement Association): The Retirement Association agrees with this finding.
Response (Human Resources): The Human Resources Department can neither agree nor disagree with this finding due to the fact that this department has no direct knowledge of the Retirement System payouts.

6. Disability retirements have been increasing in the last 10 years.

Response (Board of Supervisors): The Board of Supervisors agrees with this finding.
Response (Interim CEO): The Interim Chief Executive Officer agrees with this finding.
Response (Auditor/Controller): The Auditor-Controller agrees with this finding.
Response (Treasurer/Tax-Collector): The Treasurer – Tax Collector agrees with this finding.
Response (Employee Retirement Association): The Retirement Association agrees with this finding.

Response (Human Resources): The Human Resources Department can neither agree nor disagree with this finding due to the fact that this department has no direct knowledge of the Retirement System and disability retirements.

7. County financial officials have estimated that the total debt for retirement has peaked and should soon show a steady reduction. Their estimate is that, when the current POB is fully paid in 2026, the MCERA funding level will be at what the County believes to be a fiscally responsible level, that is, at 90% of Actuarial Accrued Liability (AAL), meaning that 10% falls into the category of Unfunded Actuarial Accrued Liability (UAAL).

Response (Board of Supervisors): The Board of Supervisors agrees with this finding. Please see the responses provided by the Auditor/Controller.
Response (Interim CEO): The Interim Chief Executive Officer agrees with this finding. Please see the response provided by the Auditor Controller.
Response (Auditor/Controller): The Auditor-Controller agrees with this finding noting that the 90% funding threshold estimate is presently a mandated requirement within the provisions of our existing pension obligation bond issue. As such, there is every expectation that the UAAL will be under the 10% threshold when the obligation is paid off in 2026.
Response (Treasurer/Tax-Collector): The Treasurer – Tax Collector agrees with this finding, with the exception that the county financial officials estimate that the funding level will be 90% or higher.
Response (Employee Retirement Association): The Retirement Association agrees with this finding, with the exception that the county financial officials estimate that the funding level will be 90% or higher.

8. The total County financial picture regarding retirement benefit funding and debt can only be gained by reviewing the reports from both MCERA and the County budget.

Response (Board of Supervisors): The Board of Supervisors agrees with this finding.
Response (Interim CEO): The Interim Chief Executive Officer agrees with this finding.
Response (Auditor/Controller): The Auditor-Controller agrees with this finding.
Response (Treasurer/Tax-Collector): The Treasurer – Tax Collector agrees with this finding.
Response (Employee Retirement Association): The Retirement Association agrees with this finding.

9. The AAL for pensions is affected by the value of promised benefits to employees. County Administration and labor representatives negotiate periodically these promised benefits.

Response (Board of Supervisors): The Board of Supervisors agrees with this finding.
Response (Interim CEO): The Interim Chief Executive Officer agrees with this finding.
Response (Auditor/Controller): The Auditor-Controller agrees with this finding.
Response (Treasurer/Tax-Collector): The Treasurer – Tax Collector agrees with this finding.
Response (Employee Retirement Association): The Retirement Association agrees with this finding.

10. The pension fund assets are invested by MCERA until they are needed for a pension payout to retirees.

Response (Board of Supervisors): The Board of Supervisors agrees with this finding. Please see the response provided by the Treasurer/Tax Collector.
Response (Interim CEO): The Interim Chief Executive Officer agrees with this finding. Please see the response provided by the Treasurer/Tax Collector.
Response (Auditor/Controller): The Auditor-Controller agrees with this finding.
Response (Treasurer/Tax-Collector): The Treasurer – Tax Collector agrees with this finding. However, since MCERA has positive cash flows from both contributions and interest earnings there has not been a need to sell any investments to make pension payouts to retirees.
Response (Employee Retirement Association): The Retirement Association agrees with this finding. However, since MCERA has positive cash flows from both contributions and interest earnings there has not been a need to sell any investments to make pension payouts to retirees.

11. The County's contribution to MCERA for 2004-2005 was approximately $9,197,000. The employees' contribution for this year was approximately $5,622,000.[1] As of June 30, 2005 there were 1,333 active and 394 inactive employees in-rolled in the County's pension plan.[2]

Response (Board of Supervisors): The Board of Supervisors disagrees with this finding. Please see the response provided by the Treasurer/Tax Collector.
Response (Interim CEO): The Interim Chief Executive Officer disagrees with this finding. Please see the response provided by the Treasurer/Tax Collector.
Response (Auditor/Controller): The Auditor-Controller is unable to verify the accuracy of this finding because the data in our possession is not readily available to make the determination at this time. Please refer to records held by MCERA for validation of this finding.
Response (Treasurer/Tax-Collector): The Treasurer – Tax Collector disagrees with this finding. The table referenced above shows the contributions that would be generated under the different scenarios presented. The $9,197,000 is the amount that would be generated from total county payroll if the county were paying the total normal costs to the system and also paying the full amount needed to amortize the UAAL over the remaining amortization period. The actual County contribution for 2004/2005 was $6,455,526 and employee contribution was $6,601,349.
Response (Employee Retirement Association): The Retirement Association disagrees with this finding. The table referenced above shows the contributions that would be generated under the different scenarios presented. The $9,197,000 is the amount that would be generated from total county payroll if the county were paying the total normal costs to the system and also paying the full amount needed to amortize the UAAL over the remaining amortization period. The actual County contribution for 2004/2005 was $6,455,526 and employee contribution was $6,601,349

[1] Mendocino County Employees' Retirement Association - Report on the Actuarial Valuation as of June 30, 2005 Page 25
[2] Mendocino County Employees' Retirement Association - June 30, 2005 Experience Study Report, Pages 3 and 4.

Response (Human Resources): The Human Resources Department can neither agree nor disagree with this finding due to the fact that this department has no direct knowledge of the Retirement System contributions.

12. The UAAL has not been recognized as a debt, so it is not included in any of the actual debt service payments made by the County.

Response (Board of Supervisors): The Board of Supervisors agrees with this finding.
Response (Interim CEO): The Interim Chief Executive Officer agrees with this finding.
Response (Auditor/Controller): The Auditor-Controller agrees with this finding.
Response (Treasurer/Tax-Collector): The Treasurer – Tax Collector agrees with this finding.
Response (Employee Retirement Association): The Retirement Association agrees with this finding.

13. County obligations for retirement funding is the sum of the unpaid POB balance by the County plus MCERA's UAAL, as reported each year. (See Appendix C, Chart 1).

Response (Board of Supervisors): The Board of Supervisors agrees with this finding.
Response (Interim CEO): The Interim Chief Executive Officer agrees with this finding.
Response (Auditor/Controller): The Auditor-Controller agrees with this finding.
Response (Treasurer/Tax-Collector): The Treasurer – Tax Collector agrees with this finding.
Response (Employee Retirement Association): The Retirement Association agrees with this finding.

14. As of 2005, the remaining debt owed to investors of the POB is approximately $99,930,000.[3]

Response (Board of Supervisors): The Board of Supervisors agrees with this finding.
Response (Interim CEO): The Interim Chief Executive Officer agrees with this finding.
Response (Auditor/Controller): The Auditor-Controller agrees with this finding.
Response (Treasurer/Tax-Collector): The Treasurer – Tax Collector agrees with this finding.
Response (Employee Retirement Association): The Retirement Association agrees with this finding.

15. The Pension Trust Fund statements reflect total assets of $288,238,797 as of June 30, 2005.[4]

Response (Board of Supervisors): The Board of Supervisors agrees with this finding.
Response (Interim CEO): The Interim Chief Executive Officer agrees with this finding.
Response (Auditor/Controller): The Auditor-Controller agrees with this finding.
Response (Treasurer/Tax-Collector): The Treasurer – Tax Collector agrees with this finding.
Response (Employee Retirement Association): The Retirement Association agrees with this finding.

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[3] County of Mendocino Audit Report -- June 30, 2005, Page 11
http://www.co.mendocino.ca.us/auditor/pdf/05%20Mendocino%20GASB34%20afs%20-%20FINAL%2019Apr06.pdf
[4] County of Mendocino Audit Report -- June 30, 2005, Page 01
http://www.co.mendocino.ca.us/auditor/pdf/05%20Mendocino%20GASB34%20afs%20-%20FINAL%2019Apr06.pdf

16. As of June 30, 2005, there were 809 retirees with an annual pension allocation of $12,013,000. This averages $14,849 per individual per year.[5]

Response (Board of Supervisors): The Board of Supervisors agrees with this finding. Please see the response provided by the Treasurer/Tax Collector.
Response (Interim CEO): The Interim Chief Executive Officer agrees with this finding. Please see the response provided by the Treasurer/Tax Collector.
Response (Auditor/Controller): We are unable to verify the accuracy of this finding based upon the information currently in our possession.
Response (Treasurer/Tax-Collector): The Treasurer – Tax Collector agrees with this finding. (Reference should be to page 7 of the experience study report.)
Response (Employee Retirement Association): The Retirement Association agrees with this finding. (Reference should be to page 7 of the experience study report.)
Response (Human Resources): The Human Resources Department can neither agree nor disagree with this finding due to the fact that this department has no direct knowledge of the Retirement System annual pension allocations.

17. Retirement-related outlays (pensions, health insurance, POB interest and principal) make up approximately 10 % of the County's annual budget.

Response (Board of Supervisors): The Board of Supervisors disagrees in part with this finding. Please see the response provided by the Auditor/Controller.
Response (Interim CEO): The Interim Chief Executive Officer disagrees with this finding. Please see the response provided by the Auditor/Controller.
Response (Auditor/Controller): The Auditor-Controller does not agree with this finding. For fiscal year 2004-05, retirement-related outlays made up approximately 7% of the County's actual costs.
Response (Treasurer/Tax-Collector): The Treasurer – Tax Collector agrees with this finding.
Response (Employee Retirement Association): The Retirement Association agrees with this finding.
Response (Human Resources): The Human Resources Department can neither agree nor disagree with this finding due to the fact that this department has no direct knowledge of the percentage of retirement-related outlays as it pertains to the County's total budget.

Recommendations

The Grand Jury recommends that:

1. the Auditor-Controller publish yearly a County Retirement Funding report to summarize the status of assets and liabilities of both the County and of MCERA, and to present the actual total numbers for the previous five years and projections for the upcoming five years, based upon current performance. (See Appendix C, Table 1). (Findings 7, 8, 11-14)

Response (Board of Supervisors): The recommendation will not be implemented. Please see the response provided by the Auditor/Controller and the Treasurer/Tax Collector.

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[5] Mendocino County Employees' Retirement Association - June 30, 2005 Experience Study Report, Page 3

Response (Interim CEO): The recommendation will not be implemented. Please see the response provided by the Auditor/Controller and the Treasurer/Tax Collector
Response (Auditor/Controller): While it is certainly feasible to compile the data for the current and five previous years of balance sheet performance of MCERA, I would hesitate to recommend to the board of supervisors using this data for projection purposes. Having this as an official report of the County of Mendocino could mislead readers of this report into a false sense of security that past performance is an accurate prognosticator of future financial trends. The stock market doesn't work that way. Rather, the better statistical data would be to view the counties' performance in the equities market over its entire history from inception-to-date. That information is readily available at any time through the retirement actuary.
Response (Treasurer/Tax-Collector): The recommendation will not be implemented because it is not reasonable. A report of actual assets and liabilities can be done accurately but five-year projections of assets and liabilities based on current performance will not be at all accurate and would be a waste of time and effort. The professional actuaries hired by the Employees Retirement system would not be able to accurately project assets and liabilities five years into the future. The stock market "crash" of 2001 through 2003 completely and unexpectedly altered the projections of assets from positive growth to double-digit losses.
Response (Employee Retirement Association): The recommendation will not be implemented because it is not reasonable. A report of actual assets and liabilities can be done accurately but five-year projections of assets and liabilities based on current performance will not be at all accurate and would be a waste of time and effort. The professional actuaries hired by the Employees Retirement system would not be able to accurately project assets and liabilities five years into the future. The stock market "crash" of 2001 through 2003 completely and unexpectedly altered the projections of assets from positive growth to double-digit losses.

2. the BOS consider increasing the County's payment to MCERA to lower the debt at a faster rate. (Finding 7)

Response (Board of Supervisors): The recommendation has not yet been implemented. Please see the response provided by the Treasurer Tax Collector.
Response (Interim CEO): The recommendation has not yet been implemented. Please see the response provided by the Treasurer Tax Collector.
Response (Auditor/Controller): The Auditor-Controller concurs with this recommendation subject to the availability of discretionary funding.
Response (Treasurer/Tax-Collector): The recommendation has not been implemented, but is being considered for the future. A proposal is being prepared by the retirement system actuary that will recommend changing the funding agreement between the retirement system and BOS to increase the target funding level from 90% of liabilities to100% of liabilities over a fifteen year phase in period.
Response (Employee Retirement Association): The recommendation has not been implemented, but is being considered for the future. A proposal is being prepared by the retirement system actuary that will recommend changing the funding agreement between the retirement system and BOS to increase the target funding level from 90% of liabilities to100% of liabilities over a fifteen year phase in period.

3. the BOS include Department heads responsible for the financial health of the County in its discussion of retirement obligation decisions. (Finding 1-3, 6)

Response (Board of Supervisors): The recommendation has not yet been implemented, but will be implemented within the next 6 months.
Response (Interim CEO): The recommendation has not yet been implemented, but will be implemented within the next 6 months at the direction of the Board of Supervisors.
Response (Auditor/Controller): The Auditor-Controller concurs with this recommendation.
Response (Treasurer/Tax-Collector): Implementation of this recommendation would be at the discretion of the BOS not the Employee Retirement Association. The Treasurer – Tax Collector does recommend that this Grand Jury Recommendation be implemented.
Response (Employee Retirement Association): Implementation of this recommendation would be at the discretion of the BOS not the Employee Retirement Association. The Employee Retirement Association does recommend that this Grand Jury Recommendation be implemented.

4. the BOS ensure that future employee benefits do not overburden the County with pension obligation debt. (Findings 2, 3, 12, 17)

Response (Board of Supervisors): The recommendation has not yet been implemented and requires further analysis by the County's Executive Office to determine future operational benefit costs. This can be done on an annual basis in conjunction with the meet and confer process with employee bargaining units.
Response (Interim CEO): The recommendation has not yet been implemented and requires further analysis. Implementation of this recommendation would be at the discretion of the BOS and not the CEO.
Response (Auditor/Controller): The recommendation has not yet been implemented. The decision of the county to pay down its un-funded pension obligation with pension obligation debt was a decision predicated purely on the basis of lowered interest costs. For that reason, it was a good business decision given the circumstances under which the county operated at the time of the original POB issuance in 2002. The Auditor-Controller concurs that future operational benefit costs should be paid for on a pay-as-you-go basis.
Response (Treasurer/Tax-Collector): The recommendation has not yet been implemented. Implementation of this recommendation would be at the discretion of the BOS not the Employee Retirement Association. The Treasurer – Tax Collector does recommend that this Grand Jury Recommendation be implemented.
Response (Employee Retirement Association): Implementation of this recommendation would be at the discretion of the BOS not the Employee Retirement Association. The Employee Retirement Association does recommend that this Grand Jury Recommendation be implemented.
Response (Human Resources): The recommendation has not been implemented and requires further analysis in conjunction with the Auditor and Treasurer Tax Collector.

Comments

Mendocino County is not alone in facing the issue of affordability of its pension plans; there is now a considerable national debate going on about this problem.

Issued in order to pay current obligations and expenses, the POB must be paid. The current obligation is the present value of future promised retirement payments. In accounting, this is a very real current expense that is no different from salaries or office equipment.

Publication of County pension fund numbers are not conveniently summarized in one document but are found in portions of several documents. The reasons for separating the calculations of County and MCERA operations may be sound accounting, but their financial results should be combined and made available for easier public understanding. Appendix C, Table 1 presents important numbers supplied by county officials for the Grand Jury's oversight. The charts shown in Figures 1, 2 and 3 depict some of this data as well.

Responses Required:

Mendocino County Board of Supervisors (All Findings and Recommendations)

CEO, Mendocino County (All Findings and Recommendations)

Mendocino County Auditor/Controller (All Findings and Recommendations)

Mendocino County Treasurer/Tax Collector (All Findings and Recommendations)

Mendocino County Employee Retirement Association (All Findings and Recommendations)

Mendocino County Department of Human Resources (Findings 5, 6, 11, 16, 17, Recommendation 4)

Appendix A – Definitions

Makeup of the Mendocino County Employee Retirement Association (MCERA) Board -- four non-County government individuals appointed by the Board of Supervisors (which has the option of appointing one of its own), two members of the Retirement Association elected by general members, one retired member elected by retirement members, one Safety member elected by Safety members, and one ex-officio, who is the Retirement Administrator/County Treasurer.

AAL (Actuarial Accrued Liability) – the portion, as determined by a particular cost method, of the total present value of benefits (the plan's current and expected benefits payments plus administrative expenses) that is attributable to past service credit. Imagine a planned schedule of future payments for every covered employee, and then back-calculate the present value of all those monthly checks when added together. This gives the Actuarial Accrued Liability (AAL) for the MCERA pension plan. It is called Actuarial because it incorporates statistical employee lifetimes and averages of financial performance in this calculation. The liabilities that MCERA has are the value of all the pension promises made to employees and to current retirees. Its result is in present dollars. The AAL for Mendocino County as of June 30, 2005 was $289,467,000.[6]

VA (Valuation Assets) – equal to the actual pension reserves held by MCERA. As of June 30, 2005, the valuation assets were $253,487,000.[6]

(UAAL) Unfunded Actuarial Accrued Liability – the difference between a fund's Actuarial Accrued Liability (AAL) and its current assets. If a fund's Actuarial Accrued Liability (AAL) exceeds its current assets, then the fund has a shortfall that is known as an Unfunded Actuarial Accrued Liability (UAAL). This shortfall is the difference between what the fund has on hand (on the books) right now and what is expected to be needed to pay current and future benefits. As of June 30, 2005, Mendocino County had a UAAL of $35,980,000.[6]

AAL	-	VA	=	UAAL
$289,467,000	-	$253,487,000	=	$35,980,000.

In other words, the UAAL is the shortfall the fund would face if its assets were liquidated and the present value of the benefits was paid today. Although the UAAL represents a shortfall in assets relative to liabilities, it does not represent a cash loss because, in reality, the fund is not liquidating nor are all benefits and costs due today. The UAAL is calculated yearly and reported by MCERA. In accordance with the funding agreement between the County and the Employees' Retirement Association, the County is required to amortize the portion of the UAAL that is in excess of the target balance equal to 10% of the total AAL. The County is required to fund any excess UAAL under the terms of the funding agreement.

Smoothing -- the difference between the expected and actual investment returns, after expenses, spread over five years (only 20% is recognized for any one year). This method took effect as of June 30, 2005.

AVA (Actuarial Value of Assets) – the smoothed value of assets. These assets are called Actuarial Value of Assets because they are calculated from the present market or paper value by a 5-year smoothing process intended to average out yearly investment return variations. Note that the AVA is in current dollars. As of June 30, 2005, the Actuarial Value of Assets was $273,884,295.[7]

POB (Pension Obligation Bonds) – bonds that may be issued by state or local governments to reduce their UAAL as a part of an overall strategy for managing pension costs. From a purely financial perspective, issuing pension obligation bonds can reduce expenses and even produce savings for a government if the interest rate paid on the bonds is less than the rate of return earned on proceeds placed in the pension plan.

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[6] Mendocino County Employees' Retirement Association - Report on the Actuarial Valuation as of June 30, 2005 Page 4
[6] Mendocino County Employees' Retirement Association - Report on the Actuarial Valuation as of June 30, 2005 Page 4
[7] Mendocino County Employees' Retirement Association - Report on the Actuarial Valuation as of June 30, 2005 Page 31

Pension Obligation Bonds must be issued on a taxable basis because current federal tax law restricts the investment of the proceeds of tax-exempt bonds in higher-yielding taxable securities. Pension Obligation Bonds are a legal debt of the County, and have required payment schedules for principal and interest. Governments issuing pension obligation bonds must be aware of the risks involved with these instruments and must manage these risks.

Appendix B – Pension Obligation Bond Details

On December 19, 1996, Mendocino County issued $30,720,000 in Taxable Pension Obligation Bonds (POB). Payments were due July 1st in estimated annual principal installments of $1,655,000, increasing to $4,770,000 in the year 2009, at variable interest rates with interest payable semiannually on July 1st and January 1st at rates ranging from 5.54% to 6.97%. Final maturity would have been July 1, 2009.

By 2002, the increase in AAL and a reduced VA resulted in a UAAL of $68,768,000.

When interest rates were low, the County on December 12, 2002 issued $91,945,000 in Taxable Pension Obligation Bonds Refunding, Series 2002 to allow the County to fund the residual portion of its UAAL toward retirement benefits for County employees. The amount being funded with proceeds of the 2002 Bonds equals the present value of the payments the County would otherwise be required to make to amortize the current UAAL, discounted at the Retirement Association's actuarially assumed earnings rate of 8%. Estimated annual principal installments are due on July 1 of each year, starting at $885,000 and increasing to $7,560,000 in the year 2026, with variable interest rates with interest payable semiannually on July 1st and January 1st at rates ranging from 2.07% to 5.00%. Final maturity is July 1, 2026.

This bond issue includes proceeds sufficient to defease approximately 50% of each maturity of the $23,795,000 outstanding principal amount of the original 1996 taxable Pension Obligation Bonds. The amount of principal defeased was $11,245,000 and the interest was $3,911,938, totaling $15,156,938. By refunding and defeasing the 1996 bonds, the County has restructured the amortization schedule of its outstanding debt so as to achieve a more level annual debt service pattern.[8]

[8] Mendocino County Final Budget for Fiscal Year 2004-2005 Page 471
http://www.co.mendocino.ca.us/auditor/budget/04-05/

Appendix C — Financial Charts and Table

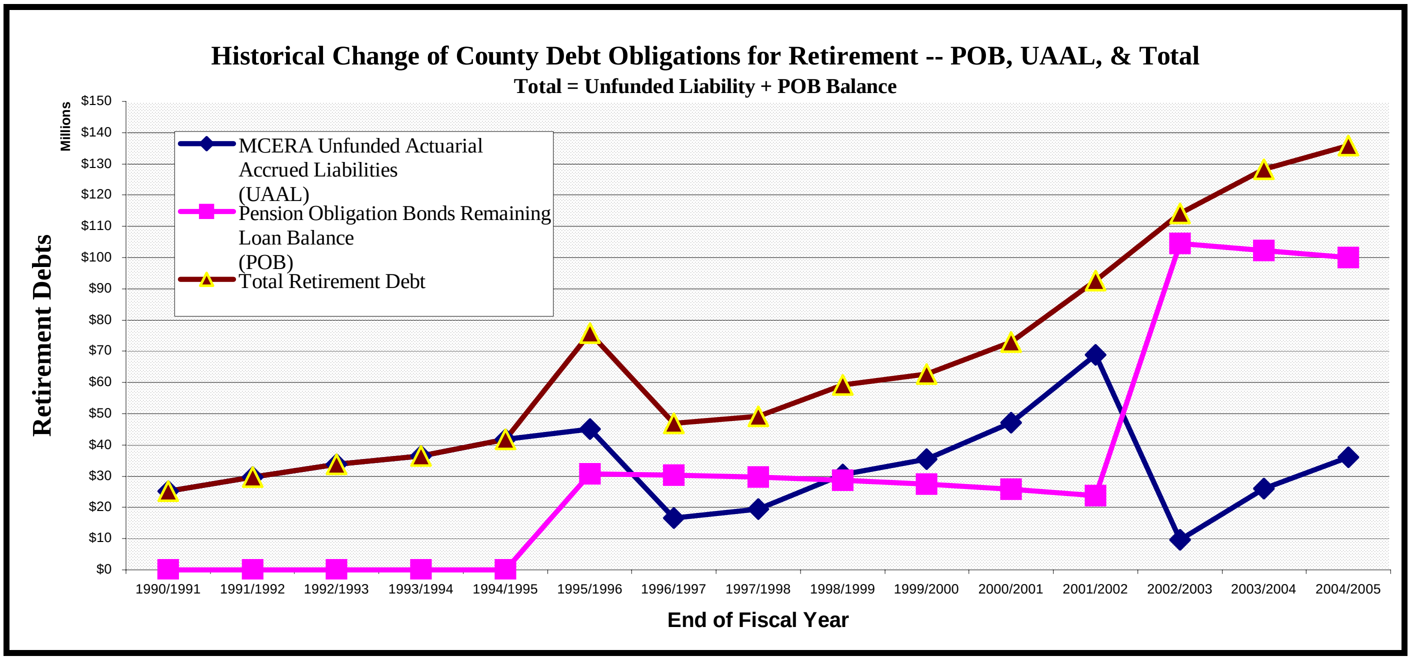

Chart 1 -- Historical Change of County Debt Obligations for Retirement

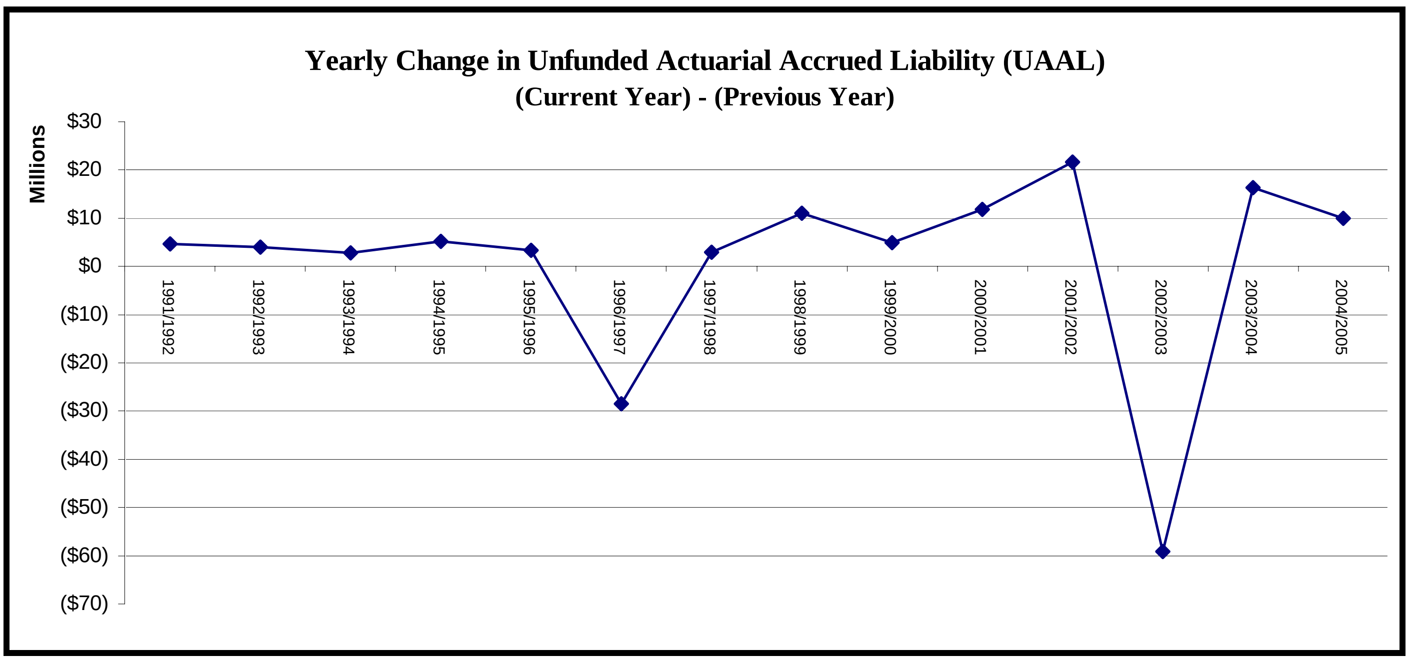

Chart 2 -- Yearly Change in Unfunded Actuarial Accrued Liability (UAAL)

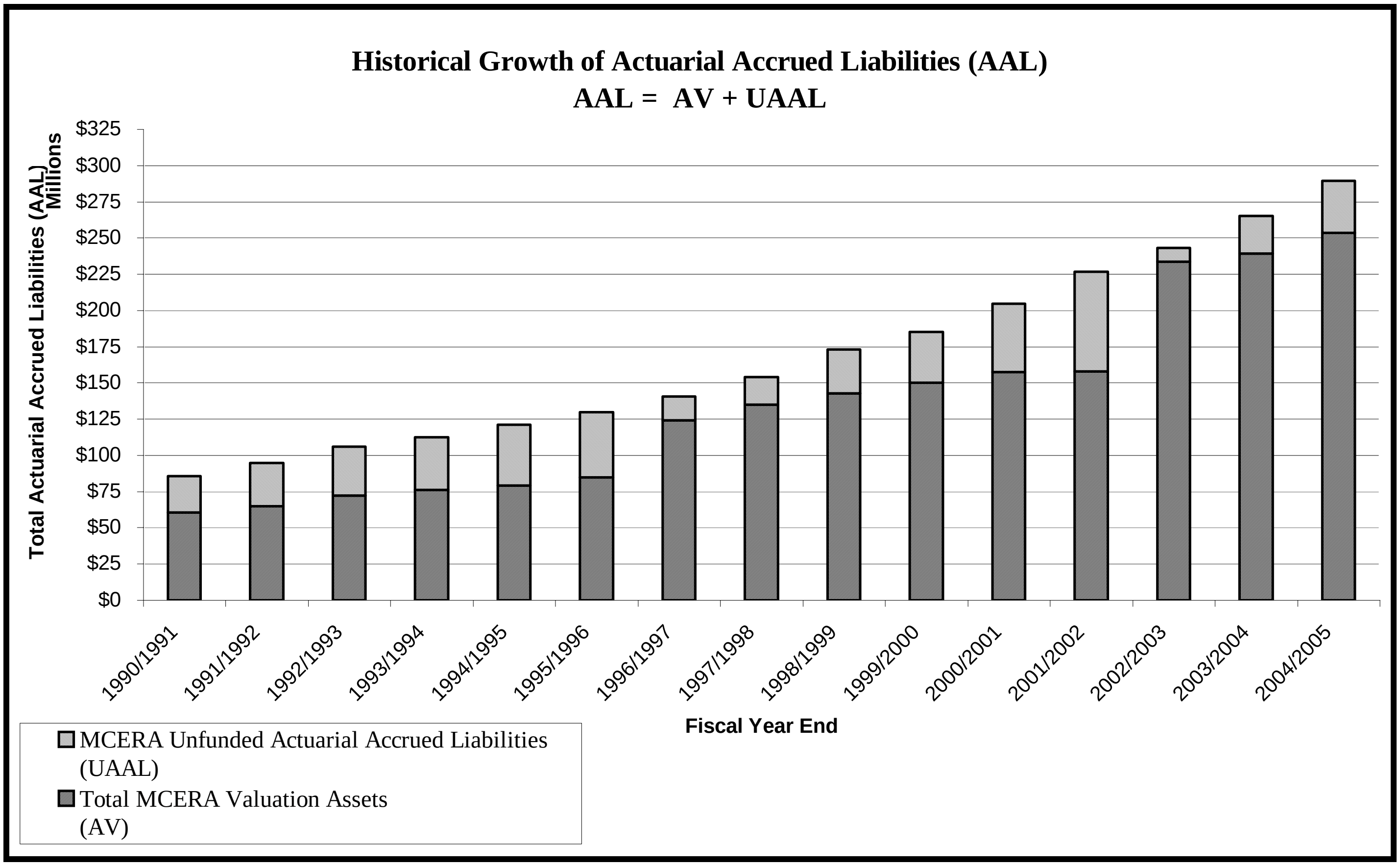

Chart 3 -- Historical Growth of Actuarial Accrued Liabilities (AAL)

Historical Values of Key Retirement Funding Data

A	B	C	D	E	F	G	H	I	J
Ending Budget Year	Total MCERA Actuarial Accrued Liabilities (AAL)	Total MCERA Valuation Assets (AV)	MCERA Unfunded Actuarial Accrued Liabilities (UAAL)	Percentage of UAAL that is Unfunded	Yearly Change in UAAL Col-D		Pension Obligation Bonds Remaining Loan Balance (POB)	MCERA Unfunded Actuarial Accrued Liabilities (UAAL)	Total Retirement Debt
Source:	Retirement Audit Report	Retirement Audit Report	Retirement Audit Report	Calculated Col-D/Col-B	Calculated CurYr - PrvYr		County Audit Report	Retirement Audit Report	Calculated Col-H + Col-I
1990/1991	$85,604,000	$60,431,000	$25,173,000	29.406%			0	$25,173,000	$25,173,000
1991/1992	$94,761,000	$64,947,000	$29,814,000	31.462%	$4,641,000		0	$29,814,000	$29,814,000
1992/1993	$105,866,000	$72,062,000	$33,804,000	31.931%	$3,990,000		0	$33,804,000	$33,804,000
1993/1994	$112,535,000	$75,976,000	$36,559,000	32.487%	$2,755,000		0	$36,559,000	$36,559,000
1994/1995	$121,027,000	$79,322,000	$41,705,000	34.459%	$5,146,000		0	$41,705,000	$41,705,000
1995/1996	$130,036,000	$84,992,000	$45,044,000	34.640%	$3,339,000		$30,720,000	$45,044,000	$75,764,000
1996/1997	$140,783,000	$124,286,000	$16,497,000	11.718%	($28,547,000)		$30,405,000	$16,497,000	$46,902,000
1997/1998	$154,263,000	$134,836,000	$19,427,000	12.593%	$2,930,000		$29,685,000	$19,427,000	$49,112,000
1998/1999	$173,250,000	$142,775,000	$30,475,000	17.590%	$11,048,000		$28,780,000	$30,475,000	$59,255,000
1999/2000	$185,423,000	$150,056,000	$35,367,000	19.074%	$4,892,000		$27,375,000	$35,367,000	$62,742,000
2000/2001	$204,699,000	$157,545,000	$47,154,000	23.036%	$11,787,000		$25,720,000	$47,154,000	$72,874,000
2001/2002	$226,883,000	$158,115,000	$68,768,000	30.310%	$21,614,000		$23,795,000	$68,768,000	$92,563,000
2002/2003	$243,342,000	$233,764,000	$9,578,000	3.936%	($59,190,000)		$104,495,000	$9,578,000	$114,073,000
2003/2004	$265,141,000	$239,191,000	$25,950,000	9.787%	$16,372,000		$102,270,000	$25,950,000	$128,220,000
2004/2005	$289,467,000	$253,487,000	$35,980,000	12.430%	$10,030,000		$99,930,000	$35,980,000	$135,910,000
2005/2006		Data came from MCERA - Benefit Changes by Bargaining Unit Presented to BOS Workshop 16 Aug 2005					$97,475,000		
2006/2007							$94,890,000		

Table 1 – Historical Values of Key Retirement Funding Data