



MENDOCINO COUNTY EXECUTIVE OFFICE

NEWS RELEASE

CONTACT: Executive Office (707) 463-4441

TO: MENDOCINO COUNTY NEWS MEDIA
FR: MENDOCINO COUNTY EXECUTIVE OFFICE

Ukiah, California...December 30, 2015

***COUNTY OF MENDOCINO RECEIVES "A" CREDIT RATING
BY FITCH RATINGS – OUTLOOK STABLE***

Fitch Ratings recently conducted a customary review of Mendocino County's credit rating and stability. Today, December 30, 2015, the County received the following Press Release from Fitch outlining their findings.

FITCH AFFIRMS MENDOCINO COUNTY, CA'S POBS AT 'A'; OUTLOOK STABLE

Fitch Ratings-San Francisco-30 December 2015: Fitch Ratings has affirmed the following Mendocino County, CA (the county) ratings:

--\$64.15 million pension obligation refunding bonds (POBs) series 2002 at 'A';
--Implied general obligation rating at 'A+'.

The Rating Outlook is Stable.

SECURITY

The POBs are an absolute and unconditional obligation of the county imposed by law, the payment of which is not limited to any special source of funds.

KEY RATING DRIVERS

CONTINUED FINANCIAL IMPROVEMENT: The county's financial position continues to improve following a period of substantial expenditure reductions and management reforms.

LIMITED ECONOMIC GROWTH: The county continues to face challenges associated with a long-term economic contraction. After falling for many years, employment levels increased modestly in the past few years while population growth has flattened. In addition, wealth and income levels remain well below state and national averages.

MANAGEMENT REFORMS SUSTAINED: The county continues to make notable progress in addressing weaknesses previously cited by Fitch. Management recently met increased fund balance targets, updated treasury practices, and updated the capital improvement plan.

MODERATE DEBT AND ELEVATED PENSIONS: Overall debt levels are moderate and expected to remain so given no additional planned borrowing in the intermediate term. Pension contribution requirements are considerable and rising, though total carrying costs are manageable.

RATING SENSITIVITIES

LIMITED REVENUE FLEXIBILITY AND ECONOMY: The rating is likely limited to the current level due to the county's constrained revenue raising ability coupled with the inherent limitations of its economic base.

CREDIT PROFILE

Mendocino County is located in northern California, along the Pacific coast, approximately 115 miles north of San Francisco. The county's estimated population of 90,000 is little changed from the 1990s and is dispersed across 3,500 square miles - a land area larger than several states.

FINANCIAL IMPROVEMENT CONTINUES

The county ended fiscal 2014 with a fourth consecutive year of strong general fund operating results. The operating surplus after transfers for 2014 equaled 6.2% of general fund spending, raising the unrestricted fund balance to 19.6% of spending (\$27.3 million). This is a notable improvement from just 3.6% (\$5.4 million) in fiscal 2011 and negative fund balance in fiscal 2010. Year-end cash balances also rose substantially for the fourth consecutive year, from just \$14,000 in fiscal 2010 to \$30.8 million in fiscal 2014. As such, the ratio of cash to liabilities, less deferred revenue, stood at over 3.0x.

Unaudited fiscal 2015 results are similarly positive, with a surplus equal to 5.1% of spending increasing the unrestricted fund balance to 23.7% of spending. Year-end cash increased to \$41 million.

The county's strong performance follows substantial expenditure reductions over the past several years, primarily through workforce and payroll reductions. Workforce reductions eliminated approximately one-fourth of the county's full-time employees after the recession, while remaining employees experienced permanent wage cuts of 10% to 12.5%. Most of the most recent two-year labor contracts through fiscal 2017 have 2% - 3% annual compensation increases. In addition, the county eliminated other post-employment benefits (OPEB) for current and retired employees.

Management projects further, albeit smaller, additions to fund balance going forward, which Fitch considers reasonable given prior year expenditure reductions and revenue improvements through mid-year.

LIMITED ECONOMY

The county continues to face a long-term economic contraction that dates from the late 1990s. Population growth has been very slow over this period and employment levels dropped steadily before increasing modestly the past few years. Tourism and wine production have provided some opportunities for growth, but overall employment and labor force levels have not recovered to prerecession levels.

Unemployment rates for the county, which have generally been slightly higher than statewide averages, declined to 5.0% as of October 2015. Income and wealth indicators are weak at 71% and 80% of state and national averages, respectively.

Taxable assessed valuation (TAV) was relatively unaffected by the national housing boom and has been insulated from subsequent declines. TAV dropped by just 2.2% between 2010 and 2013 after many years of steady increases, and resumed growth in fiscals 2014 and 2015 (cumulative 3.3% increase).

POSITIVE MANAGEMENT REFORMS

The county has made notable progress the past few years in addressing management weaknesses cited in prior rating reviews. The county adopted a general fund reserve policy in 2012 that increased targets for its stabilization, counter-cyclical and emergency reserves from a cumulative 2% to 6.35% of general fund expenditures, or a minimum of \$10 million. The policy also provided a mechanism for incremental additions to reserves until targeted levels are reached, which occurred in fiscal 2015.

The county also made substantial revisions to its investment practices in 2012, diversifying investment categories, increasing credit quality, and reducing maturities in general. These actions appear likely to improve the county's ability to meet its chief investment goal of principal protection, and to better serve its cash management needs.

The county adopted and last updated in May 2014 a five-year capital plan (fiscals 2014 - 2018) after having been without one since 2006; it is also planning a 2016 update. The general fund CIP totals \$15.5 million and includes county roof replacements at \$6 million and ongoing facilities maintenance at \$2.3 million and will be funded on a pay-as-you-go basis. The largest cost facing the county long-term is a remodel or replacement of the county jail at \$21 million. The county's application for a \$20 million state grant was denied and it plans to apply for future grants, as management estimates the facility has sufficient capacity for the next five to ten years.

MODERATE DEBT; ELEVATED PENSION COSTS

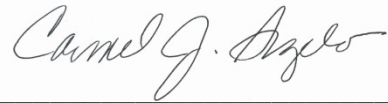
Overall debt levels are moderate at \$3,398 per capita or 2.9% of TAV. Amortization of direct debt is average with 67% of outstanding principle retired in 10 years. Management has no current plans for debt issuance. In addition, fiscal 2016 is the third consecutive year it did not require short-term cash flow borrowing, due to its improved financial position.

As of June 30, 2014, the Mendocino County Employees' Retirement Association had a funded ratio of 69.3%, or 67.4% under Fitch's alternate investment assumption of 7% returns. County contributions have increased by 64% over the past five years, largely due to lower than expected investment results.

Total pension costs, including POB debt service and pension contributions, have accounted for a growing share of governmental spending in recent years. Pension costs represented 4.5% of governmental expenditures in fiscal 2010 rising to 8.3% in 2014. As overall governmental spending has declined (due largely to workforce and payroll reductions), such fixed costs have increased as a share of remaining expenditures.

Total carrying costs for pensions, other post-employment benefits (OPEBs), and debt service were a moderate 14.1% of governmental expenditures in fiscal 2014. The county began a phased elimination of OPEBs in 2010, which was effective Dec. 31, 2013.

For more information, please contact the Mendocino County Executive Office at (707) 463-4441.



Released by: _____

Carmel J. Angelo
Chief Executive Officer