MENDOCINO COUNTY EXECUTIVE OFFICE

NEWS RELEASE

CONTACT: Human Resources Department 234-6600

TO: MENDOCINO COUNTY NEWS MEDIA

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Ukiah, California… ***October 2, 2013***

Standard & Poor's Upgrades Mendocino County Credit Rating; Upgrade to AA- Reinforces Board's Direction on Fiscal Recovery

Standard & Poor's (S&P), one of the three premier credit ratings agencies in the United States, announced a major upgrade of Mendocino County's credit rating from BBB to AA-. S&P conducts an annual evaluation of local governments on behalf of bondholders and other investors using the County's publicly available audit documents.

S&P cited several positive developments that it has been monitoring:

- Marked improvement in county operations and fund balance
- Reduced debt levels in Teeter Plan
- Increased budgetary flexibility
- No plans to issue additional debt
- Very strong budgetary performance

S&P's report was generally positive on the County's outlook, saying that the "County's recent history of general fund imbalances [is] offset by projections of improvements [in the coming years]." S&P cited Mendocino County's "adequate" economy as an additional plus, despite noting the 9.7% unemployment level. S&P went on to further state that they expect no changes to the rating over the next two years as they anticipate "the County will maintain its strong budgetary flexibility with balanced operations."

"This is an affirmation of the Board of Supervisors' policies and direction and determination to reform and improve the County's financial systems and trajectory," stated Kyle Knopp, Assistant CEO. Knopp went on to cite a series of difficult decisions the Board made over the last three years pertaining to employee compensation, layoffs, administrative restructuring, and consolidation of work spaces and departments. "It was action on multiple fronts that brings us this credit upgrade in 2013."

"This improved credit rating is also the result of the sacrifice and hard work of our employees" stated Board Chairman, Dan Hamburg. "The County's improved financial stability is a big step forward in being able to reinvest in our workforce in a sustainable manner."

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STANDARD
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RATINGS SERVICES

RatingsDirect®

Summary:

Mendocino County, California; Appropriations; General Obligation

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Summary:

Mendocino County, California; Appropriations; General Obligation

Credit Profile		
Mendocino Cnty rfdg certs of part ser (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Mendocino Cnty rfdg certs of part ser 2011A due 06/01/2029		
Long Term Rating	A+/Stable	Upgraded
Mendocino Cnty ICR		
Long Term Rating	AA-/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its issuer credit rating (ICR) on Mendocino County, Calif. to 'AA-' from 'BBB'. At the same time, Standard & Poor's raised its rating and underlying rating (SPUR) on the county's certificates of participation (COPs) outstanding to 'A+' from 'BBB-' based on our recently released local GO criteria and the marked improvement in county operations and fund balance. The outlook is stable.

The Mendocino County Public Facilities Corporation, a nonprofit public benefit corporation, and the county have entered into lease agreements whereby the county leases various assets to the corporation, and the corporation leases the property back to the county. The county's base rental payments to the corporation, as lessor, secure the COPs and are payable from any lawfully available funds of the county. The county covenants to annually budget and make annual appropriations for as long as the leased property is in use and occupied. The county may abate lease payments in the event of damage to or the destruction of the project or in the event of eminent domain. To mitigate the risk of abatement in such a case, the county has covenanted to maintain at least 24 months of use and occupancy insurance.

The rating reflects our assessment of the following factors for the county:

- We consider Mendocino County's economy to be adequate, with its projected per capita effective buying income at 88.1% of the U.S. and per capita market value of $113,920. The county unemployment rate for calendar year 2012 was 9.7%.
- In our opinion the county's budgetary flexibility is currently strong, with reserves above 8% in fiscal 2012 and no plans to significantly spend them down. The fiscal 2012 audits shows an unassigned fund balance of $12.1 million and an assigned fund balance of $222,000, or a combined 10.5% of expenditures. The county had budgeted for a drawdown in fiscal 2013, but management reports that preliminary numbers show a surplus. In fiscal 2010 the county audit showed a negative $16.5 million balance, a large decrease that reflected a $10.3 million interfund liability that had been created in fiscal 2010. The liability consisted of a reclassification of a Teeter Fund liability (for many years the county had misallocated delinquent secured taxes in the general fund and not in the Teeter Fund). However, in fiscal 2011 auditors determined that the Teeter Fund liability was not a true interfund loan. In response,

the county instituted a plan in which it will repay the Teeter Fund. In fiscal 2012 the county repaid $2 million in tax delinquencies and reports that cash and receivables from property tax owners are in excess of the cash deficit, eliminating the general fund obligation. The county had expected that the balance would have been repaid in seven to eight years but improved collections and the economy have accelerated the repayment.

- The county's budgetary performance was very strong in fiscal 2012, in our view, with a surplus of 5.9% for the general fund and a surplus of 3.1% of total governmental funds. Budgeted numbers for fiscal years 2013 and 2014 project structural deterioration.
- Supporting the county's finances is liquidity we consider very strong, with total government available cash as a percent of total governmental fund expenditures at 22.5% and as a percent of debt service above 300%. We believe the county has strong access to external liquidity.
- We view the county's management conditions as adequate with standard financial practices.
- In our opinion, the county's debt and contingent liabilities profile is strong, with total governmental fund debt service as a percentage of total governmental fund expenditures at 7.5%, and with net direct debt as a percentage of total governmental fund revenue at 49.7%. The county has no plans to issue additional debt in the near term.
- The county has reduced its other postemployment liability to $2.1 million in 2012 from $6.2 million million at fiscal year-end 2009. Management reports that in August 2010 the county transitioned away from its previous benefit plan. Current retirees will receive a benefit through December 2013, which management reports is a change from a plan to fund benefits only until the funds from a health reserve are depleted in fiscal 2012. The change will cost the county an additional $600,000. After December 2013, all retirees will shoulder the full cost of their health coverage. The county operates the Mendocino County Employees' Retirement Association for pension benefits for county employees and two special districts. The plan was 73.6% funded as of June 30, 2011, and the county had an unfunded liability of $124.9 million. The county reports that it contributed 7% of expenditures, or 100% of its annual required contribution, in 2012.
- We consider the Institutional Framework score for California counties with a federal single audit requirement as strong. See Institutional Framework score for California.

Outlook

The stable outlook reflects our view of the county's recent history of general fund imbalances offset by projections of improvements in fiscal years 2012 and 2013. Further strengthening the rating is the county's adequate economy. We do not expect to change the ratings within our two-year outlook horizon due to our anticipation that the county will maintain its strong budgetary flexibility with balanced operations.

Related Criteria And Research

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- Institutional Framework Overview: California Local Governments

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.