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Time for New Local Government Accounting Rules

By Jon Coupal

'Tis the season and the ghosts of Christmas past, present, and future are about to visit themselves on local governments as retribution for their wastrel ways. For years, cities, counties, and school districts have provided public employees a perpetual "Christmas gift" consisting of lavish pension and health care benefits, but beginning this month, new guidelines by the Governmental Accounting Standards Board ("GASB") will require *full disclosure* of these unfunded government liabilities.

Since most California agencies operate on a fiscal year that begins in July, and they are not required to fully report until the end of the fiscal year, sticker shock will not actually hit the fan until 2008. Entities with small budgets will have an additional year, while those with the smallest budgets will have two years to comply. However, the tension in some administrative offices already is palpable. When taxpayers see what has been wrought by their elected representatives and face higher taxes or service reductions to pay for retirement benefits that are often vastly superior to their own, the backlash will be *severe*.

According to a study by Steve Frates of the Center for Government Analysis, annual health care costs in California for state and local government retirees are expected to total at least $4.5 Billion this year. This figure could swell to $31.5 Billion by 2019. In January, Frates will release the results of a study of the other major unfunded government liability, pensions.

The City of San Diego is the poster child for local elected officials' eagerness to give public employee unions everything they want — even if they have to bend the law — to advance their own political security. Unrealistic promises to San Diego employees have the city, that has become known to many as "Enron by the Sea," on the verge of financial collapse, and a criminal investigation of responsible officials is ongoing.

However, many other entities are also in trouble. Newly elected Orange County Supervisor, and former county treasurer, John Moorlach, warns that recent generous pension agreements are pushing the county toward its second bankruptcy in a dozen years.

How did governments get themselves and taxpayers into this bind? More than any other single group, public employee unions go all out to elect "their" candidates to office. This way, when it comes time to negotiate pay — the U.S. Census Bureau says California has the highest-paid public employees in the nation — and benefits, they have representatives on *both* sides of the table.

One of the very few drawbacks to term limits is that elected officials, who make these sweetheart deals with public employee unions, know they will not be around long enough to face the consequences. They can approve these irresponsible deals and lock in union gratitude as they attempt to prolong their careers by seeking higher office. Politicians come and go, but it is a sad certainty that *taxpayers* will end up holding the bag.

And the expense to taxpayers will be more than just the cost of benefits. Just wait until government entities try peddling bonds and the rating agencies ask for their GASB number estimated liability. With these mammoth unpaid liabilities, the interest that will have to be paid to lure bond buyers will be usurious, costing governments, and ultimately taxpayers, *billions* more.

Things are going to get *much worse* before they get better, but at least the new accounting rules will force our spendthrift representatives to confront fiscal reality and start working on solutions. Either that, or they will be tossed from office.

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