Opinion: Rampant fiscal irresponsibility

By Larry Weitzman

“Bullet train Brown” has a brilliant idea recently reported on by Bay Area reporter Daniel Borenstein. It’s Brown’s idea that we borrow money from ourselves. That’s right, take $6 billion out of the state’s bank accounts and replace it with a low interest note, say 1.3 percent and then give the $6 billion cash to CalPERS which hopefully would return investment earnings of 7.5 percent or even 6.2 percent and the state would make hundreds of millions in what gamblers call the “vig” or vigorish which is the bookie’s 10 percent cut of every bet made, no matter who wins.

In more sophisticated investment circles other than a bookie’s, it is called hypothecation, where you borrow by pledging assets at a low rate to invest at a higher rate. Your profit is akin to the “vig.” That is exactly what happened with the real estate debacle of 2008 with the leveraging of mortgage backed securities and credit default swaps. The city of Oakland tried borrowing and reinvesting and lost hundreds of millions of dollars.

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But now it’s “Bullet train Brown” who wants to roll the dice or try the red or the black. The problem is that he will come up with “00.” Maybe we should call him “Bullet Brained Brown?”

And this all has to do with our failing state and local pensions where there are hundreds of billions in unfunded liability because of CalPERS to either earn the money it said it would and/or optimistic projections of future earnings, sometimes called the discount rate which has finally been nominally lowered from 7.5 to 7 percent (still thought to be too optimistic by CalPERS own consultants who have mentioned 6.2 percent).

Pension issues are going to have a huge negative effect on El Dorado County. Our CAO, Don Ashton, referred to the problem recently in regards to the challenges the county faces, especially in light of the growing salary and benefit (read pension) issues.

Ashton cited two of the major problems, roads and pensions. With respect to roads he said money from the new state gasoline tax should average about $6.9 million, which will still leave a shortfall of as much as $3 million annually. But what he didn’t mention was that EDC residents will pay about three times that amount as a result of the new gasoline taxes or about $21 million just to get the $6.9 million. If EDC were to recover the entire $21 million, our fiscal problems would be almost alleviated. As to the other $14.1 million difference, see “Bullet train Brown” above.

However, when roads are compared to the pension shortfall, it becomes the mole hill compared to Everest. At the last board meeting, item 25 was a presentation by the consulting group Bartel who laid out to the board the monster with the most voracious appetite ever created, CalPERS. Thank you, Gray Davis.

Even according to Bartel, the problem is beyond daunting. My column from November 2016 said that our pension obligation will add $63 million to our pension contributions over the next six years at current employment and salary levels with a possibility of that $63 million number reaching $100 million.

Bartel said that over the next five years our percentage of contributions for public safety could rise to 50 percent of salary paid and as much as 25 percent for miscellaneous employees meaning an increase for each of about 25 percent for each category. On top of that, our unfunded liability portion of EDC’s pension obligation continues to expand. The unfunded portion was already at $282 million in June 2015. Bartel shows that number to be $349 million in June 2016 and projects the growth of this massive liability at about $366 million by June 2017.

This issue is not new by any means. Our county auditor-controller sent a letter on Nov. 29, 2005, to the board that our unfunded CalPERS liability totaled $64 million, a $10 million increase from the prior year and our unfunded retirees’ health care totaled $36 million. On Feb. 15, 2012, our county auditor wrote the board that as of June 30, 2010, EDC’s unfunded pension liability was now $244 million. At that time, the auditor-controller warned that we need a two-tiered retirement system and more as these amounts are “unaffordable and insurmountable unfunded obligations.”

The underlying reason for the falling discount rate and lowering rate of return for CalPERS is the growth of the national debt from $10 trillion in 2008 to $20 trillion by the end of 2016. Because we pay rent for the use of that money called interest, a 1 percent rise in interest rates would cost taxpayers $200 billion annually, it is unlikely that interest rates will rise precipitously in the near future. And the rest of the world governments are deeply in debt as well, so there is great pressure to keep interest rates artificially low to keep the cost of the debt low. There is no free lunch. In fact, for seniors who live on interest bearing investments, this situation is raising the cost of their lunches as their income dwindles.

The results of these artificially low interest rates are creating tremendous pressure on governments paying for the pensions they promised. I don’t mean to scare our wonderful residents, especially our seniors of which I am one, but services in El Dorado County may eventually get limited to public safety and roads. There will be no money for senior programs and certainly less for public health. Libraries will be on line and counter service will be a thing of the past.

But there are other solutions. First, a complete reform of the pension system. Vesting rules will need to change and the benefits promised need to be lowered. Employee contributions will have to increase or perhaps public pensions will have to be combined with social security which might be a good thing as it will add more contributors to the system (more current workers per retiree).

The bottom line is that public servants in general are overpaid for the “public service” provided. However, there are a few categories of underpay, but not many. It used to be that the private sector was the place to make money, but job security was less and performance was how you got ahead. Retirement was an individual proposition. Now the best jobs are in government where the earnings are good, the job security is almost a guarantee and the pensions are phenomenal. Public servants now covet and own the public trough. The world has become upside down. Righting it might be an impossible task.

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