

## Ship of State Sails on Borrowed Time, Money

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**T**he recent discussion here about whether San Diego's Prop B pension reform measure would be enough to stave off municipal bankruptcy provoked a lot of feedback. One reader, in observing the perks his grandfather and uncles received as retired New York City and FBI employees, underscored the problem.

"While the private sector slept, there has been and remains pervasive corruption of public service ... with shallow elected officials from both parties having sold compensation packages which are not deliverable," the reader wrote.

How true. But the impact retirement benefits are having on future taxpayers pale in comparison to even greater abuses of local tax policies that are saddling today's and tomorrow's children with massive – if not insurmountable – debt.

Behold the capital appreciation bond. It's a financing mechanism being used by several school districts to defer paying for school bonds for decades to come. And, it's being used locally in at least a couple of cases.

### Bad Economics 101

Two years ago, the San Diego Unified School District borrowed \$164 million for school facilities, using a deferred payment scheme that raised little public attention at the time. It should have because the school district's future taxpayers will be on the hook for nearly \$1.1 billion.

Last August, the conservative and somewhat affluent Poway Unified School District followed suit, borrowing \$105 million for school construction projects under a deferred payment deal in which bond payments won't begin until 2033. Younger taxpayers today and those not yet born will pay \$982 million, including \$877 million in interest, for facilities that will be obsolete by the time the bonds are retired in 2051.

More than one person has described it as "kicking the can down the road," a tactic in which local school district politicians can run for re-election, claiming they delivered new facilities without raising property tax rates. How and when the bonds will be paid will be problems for others to try to solve decades from now. One editorial writer better described it as "...burying a drum of toxic waste in the back of the school." For those of us in real estate, it's a "sleeping" second (mortgage) on steroids.

But the problem extends far beyond the county line. It's a bloated example of what state legislators in Sacramento have been doing for years now to "balance" the budget by deferring expenses and using other accounting tricks.

California's debt load exceeds most countries. The California State Teachers' Retirement System alone has a \$54 billion shortfall. That doesn't take into account pension and other obligations for other public employees who work for thousands of large and small public agencies.

To no one's surprise, the trend for politicians to lay billions of dollars of debt on the shoulders of tomorrow's taxpayers is at its height at the national level where the decimal point moves several digits to the right when calculating the nation's debt. Our national "fiscal gap" that includes Social Security, Medicare, Medicaid, the medical and pension obligations for military and public employees totals \$222 trillion, up \$11 trillion from last year, according to Bloomberg economists.

### Greece Is the Word

Most calculators can't handle 15-digit sums, but it breaks down to \$740,000 for every man, woman and child in the U.S. And, it's growing. We may pity Greece's fiscal woes, but our fiscal gap, as a percentage of gross domestic

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product (GDP), is even greater than that country's shortfall. We are in a world of hurt that, left unchecked, will bankrupt us and, therefore, the rest of the Western world.

So, the question comes down to this: What's it going to take for taxpayers finally to hold their elected local, state and national representatives accountable – totally accountable – for fiscal integrity? When will voters finally realize it's up to them alone to read the fine print and rein in the suicidal rate of spending that will doom our local and world economies? It's going to take a political house cleaning in some public quarters, beginning with a school district or two that I can think of and a level of resolve on the part of savvy voters that we haven't seen for quite some time.

Not to do what's immediately necessary to right our fiscal ship of state is to make the words come true, spoken a generation ago by the cartoon possum, Pogo:

"Yep, son, we have met the enemy and he is us."

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