Most of America's Largest Cities Can't Pay Their Bills, Says Truth in Accounting

The latest report from Truth in Accounting (TIA), a non-profit that peers behind the financial reports issued by the states and 75 of the largest cities in America, reveals that 63 of those cities don't have enough money to pay their bills. Even if they liquidated every asset on their balance sheets, taxpayers in those cities would still have to ante up the difference. In some cases, those differences are into six and seven figures.

TIA then rates those cities on the basis of just how much taxpayers would owe if they tried to pay all of their bills. Out of the 75 cities reviewed, only 12 have enough on hand to pay all their bills.

There's an interactive graph here to show the details, if one dares to know, behind TIA's conclusions.

TIA also grades each city from A to F depending upon that "taxpayer burden." There are no "A"s. There are only 12 "B"s. The rest are rated C to F.

TIA staffers really had to dig behind the public numbers in order to determine just how bad some of the financial conditions are. From the report:

> At the end of the FY 2017, 63 cities did not have enough money to pay all of their bills. This means that to balance the budget, elected officials have not included the true costs of the government in their budget calculations and have pushed costs onto future taxpayers.

Two cities, Newark and Jersey City, were so far out of compliance with Generally Accepted Accounting Principles (GAAP) in the reporting of their financial conditions that TIA was forced to add two other cities in their place to complete their study.

Added TIA:

> Cities in general do not have enough money to pay their bills. Based on our analysis, the total unfunded debt among the 75 most populous cities amounts to nearly $330 billion. Most of this debt comes from unfunded retiree benefit promises, such as pension and retiree healthcare debt.
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> This year, pension debt accounts for $189.1 billion, and other post-employment benefits — mainly retiree healthcare liabilities — totaled $139.2 billion.

Many of the cities hide the reality from the public in order to make their financials look better:

> One of the ways the cities help make their budgets look balanced is by shortchanging public pension funds….
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> Some elected officials have used portions of the money that is owed to pension funds to keep taxes low and pay for politically popular programs…. Instead of funding promised benefits now, they have been charged to future taxpayers.
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> Shifting the payment of employee benefits to future taxpayers allows the budget to appear

> balanced, while municipal debt is increasing.

TIA refers to those 12 cities with enough money to pay their bills as “Sunshine Cities” which, surprisingly, include two in California: Irvine and Fresno. On a per-taxpayer basis, Irvine has $4,400 surplus per taxpayer, while Fresno has a $2,500 surplus.

Not surprisingly, however, is that among the “Sinkhole Cities” where the taxpayer burden is overwhelming is California’s San Francisco, where that burden is $22,600.

TIA includes commentary on three of the worst “Sinkhole Cities”: San Francisco, Chicago, and, bringing up the rear, New York City.

> San Francisco:
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> San Francisco remains one of the Bottom 5 Sinkhole Cities with a Taxpayer Burden of $22,600. However, this burden decreased by $4,900 compared to the previous year as unfunded pension debt declined by $592 million thanks to income earned on pension plan assets.
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> Chicago:
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> Chicago’s finances seemingly improved, but the city continues to have the second worst financial condition among the 75 most populous U.S. cities. A recent law that requires Chicago to increase its contributions to municipal pension plans led actuaries to raise the percentage rate used to determine the current value of promised benefits, which reduced the unfunded pension debt calculation by $7.8 billion.

Note: This is called “cooking the books,” a non-accounting term for fraudulent manipulation of numbers on paper to make things look better than they are.

New York City ranks dead last:

> New York City again ranks last for fiscal health because of its massive and growing debts. The city’s finances continue to deteriorate as the amount of unfunded retiree health care promises balloons. NYC has set aside only $4.7 billion to fund the $100.6 billion of promised retiree health care benefits.

There are budgetary shenanigans even in Wyoming, which TIA rates as an “A” for the prudent handling of its finances. On the surface it shows a taxpayer “surplus” of $19,600, but in a footnote TIA writes, “The state is still hiding $564.3 million of its retiree health care debt. A new accounting standard will be implemented in the 2018 fiscal year which will require states to report this debt on the balance sheet.”

Caution is advised for those wanting to use TIA’s interactive map to learn how their city fares under TIA’s accounting microscope. Caution is also advised when considering Cory Booker’s announcement of his run for the presidency on Friday. He is the former mayor of Newark, New Jersey. Then again, if he wins, he’ll certainly feel right at home with how the federal government runs its own books.

Image: Mlenny via iStock / Getty Images Plus

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