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## California's Financials Come in So Late They Reflect Bygone Era.

- **Audited statements just filed for year ending June 2019**
- **It's the last state to file, thanks to botched tech rollout**

On Friday, California's bondholders finally got the most up-to-date look at the government's audited financial statements, revealing how things looked when the economy was in the midst of a record-long expansion, nobody had Covid-19 and the state's savings account was rapidly growing.

California's certified annual financial report for the 2019 fiscal year — which ended 16 months ago — is later than any other state's, a dubious distinction in a corner of the bond market known for the slow pace of such disclosures.

California had blamed the delay on the difficulty multiple agencies had with rolling out a new accounting system called the Financial Information System for California (FI\$Cal), a \$1.06 billion modernization project that has ballooned in cost since original estimates. The coronavirus pandemic subsequently complicated the task.

Many other states were far more timely, closing the books on their years within six months. Big companies do it even faster: Securities and Exchange Commission rules require them to file their annual reports within 60 days.

While California does provide regular updates on budgets and debt, the so-called CAFR includes other information such as pension liabilities that are integral to rating-company decisions. The document filed Friday showed the state's sum of liabilities, deferred inflows and net position had grown to \$329 billion from \$310 billion the previous year.

State Controller Betty Yee had pushed back her estimates several times for when the 2019 report would come out because of the difficulties the state's departments had in using the new technology to produce their statements that go into it. Even Illinois, on the brink of being the first U.S. state to fall to junk status, filed its 2019 audit in April, or about 10 months after the end of its fiscal year.

To be sure, investors are more concerned about the state's response to closing the deficits triggered by the pandemic than about a document that lays out its fiscal position before the onset of the worst recession of modern times.

But the outdated statements illustrate a long-running gripe about the loose disclosure rules in the \$3.9 trillion municipal market. They also leave taxpayers unaware of long-term expenses like workers' pensions, said David Crane, an adviser to former Governor Arnold Schwarzenegger and president of Govern For California, which funds state lawmakers' campaigns.

The costs of these obligations aren't necessarily disclosed in annual budgets but get "spread out over time," Crane said before the 2019 filing came out.

“It’s all created without voter approval or knowledge. That’s what the CAFR discloses,” he said.  
“And that’s how you find out the truth about an enterprise.”

## **Bloomberg Economics**

By Romy Varghese

October 30, 2020, 12:17 PM PDT

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