Dan Walters: State has used Enron-style accounting tricks to cover its deficits

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The allegations against former Enron Corp. chairman Kenneth Lay and others involved in corporate scandals, such as WorldCom, generally revolve about creative accounting - hiding liabilities, inflating revenues and assets, etc.

One specific charge in the Enron trial now under way in Houston, for example, is that it cooked the books one year to add a penny to the company's per-share earnings and thus meet Wall Street analysts' expectations.

What's striking about the allegedly illegal corporate accounting is its similarity to the gimmicks that California politicians have employed in two state budget crises over the past 15 years. Indeed, it would be fair to say that were California a corporation, its leadership - including all three most recent governors - would have long ago faced federal investigations.

Here's a short list of some of the more egregious stunts:

* Republican Gov. Pete Wilson faced a multibillion-dollar deficit when he became governor in 1991, and his first budget transferred $1.6 billion in public employees pension fund earnings to the general fund. Wilson's advisers knew the transfer was illegal, but reasoned that by the time the courts voided it, the state could afford to repay it, thus making it an off-the-books loan. And that's exactly what happened.

* The budget deficit was still plaguing Wilson in 1994, so his budget that year assumed that the federal government would cough up an additional $3.1 billion in aid - even though everyone knew it was phantom "revenue." The federal bucks never appeared, but the gimmick was repeated the following year at $1 billion.

* Democratic Gov. Gray Davis faced his own budget crisis in 2002 and his budget that year included "revenue" from a two-year suspension of tax write-offs for business losses. But the bookkeeping gimmick reinstated the write-offs at a higher level after two years, which meant it was a very short-term, very high-interest loan from corporate California to the state, not truly revenue.

* Republican Gov. Arnold Schwarzenegger came into office promising to fix the state's chronic deficits but has employed trickery of his own, including an assumption in the 2004-05 budget that the state would get $450 million from seizing 75 percent of the punitive damage awards in civil cases, even though those involved in civil litigation universally agreed that it wouldn't work. In fact, it resulted in no revenue.

This is, as noted earlier, only a short list. It would take a book - a very big book - to catalog all of the Enron-like stunts that California officials have used to make income and outgo balance on paper.

The state still has a massive budget deficit and the Schwarzenegger administration projects that it will become even bigger later in the decade, which means that more hide-the-pea accounting may be coming. And as it worsens, another corporate-style crisis looms - the costs of financing pensions and health care for public workers.

Pensions are already a major drag on the state's budget and those of local governments, thanks to some sleight-of-hand by the California Public Employees' Retirement System, the massive trust fund that handles state employees' pensions and those of many local governments. The union-dominated CalPERS board gave state and local officials blithe assurances in the late 1990s that benefits could be increased sharply without cost to the taxpayers due to investment earnings, but when returns soured instead of soared, CalPERS demanded billions more from already strapped budgets.

Last week, the Legislature's budget office - virtually the only source of unbiased data about the state's fiscal condition - warned that providing health care to retired state employees and their dependents now costs $1 billion a year, but the state faces an unfunded health care liability in the $40 billion-$70 billion range and would have to boost its health care spending to $6 billion a year to cover those costs.

The state, in other words, has exactly the same pension-health care problem that's afflicting General Motors, United Airlines and other major corporations and the honest response would be to own up to the liabilities and begin setting aside money to cover them. Given the state's history of gimmickry, don't hold your breath.