



HOWARD JARVIS TAXPAYERS FOUNDATION

Is our government spending our tax dollars responsibly?

Follow the Money

2013

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Is our government spending our tax dollars responsibly?

Californians pay some of the nation's highest taxes but our leaders have still failed to competently provide basic services such as education, roads and public safety. This begs the question: "where does our money go?"

P olicymakers are currently in the process of considering proposals to raise taxes through the repeal of portions of Proposition 13 and through tax increases on consumers and businesses. Because tax proponents say higher taxes are necessary to fund important services, now is the time to ask whether our government is spending its existing revenue wisely.

A generation ago, California boasted low taxes and some of the nation's best roads, best schools and a thriving economy fueled by abundant, affordable and reliable energy. Over the last 40 years, tax revenues have doubled on a per capita, adjusted for inflation basis¹ while the quality of services provided has sharply declined. The state's roads are now ranked worst in the country², one of the nation's worst high school graduation rates³, one of the highest unemployment rates⁴, industrial energy costs that are 50% above the national average⁵, and the highest poverty rate in America according to a comprehensive measurement by the US Census Bureau⁶.

The mismanagement of California through waste, fraud and abuse costs taxpayers billions of dollars a year that could be better spent on priorities that people actually care about. Follow the Money 2013, like the "Piglet Book" previously produced by the Howard Jarvis Taxpayers Foundation, exposes numerous examples of this mismanagement.

However, it is important to note that the examples shared here have been the subject of investigations and then publicly exposed – these are examples that citizens know about. How much additional waste, fraud and abuse continues in the dark yet to be uncovered?

Follow the Money 2013 is divided into some general categories which follow: education, employment, energy, health, technology, transportation and finally a conclusions section.

Education

California's education system currently spends \$9,139 per pupil according to the US Census Bureau, more than neighboring Arizona and Nevada and almost 50% more than Utah⁷. Since 1970, spending per pupil has doubled on an inflation adjusted basis⁸. So if the problem is not money, why aren't our schools better?



LAUSD iPad debacle

CBS reported the Los Angeles Unified School District spent \$1 billion buying iPads for their students, then took the devices back when the kids figured out how to jailbreak them⁹. Making matters worse, the *Los Angeles Times* later reported the iPad software licenses expire in three years, and renewing the licenses could cost \$50 to \$100 per iPad, or about \$60 million annually, despite earlier statements that the district would own the software permanently¹⁰.

Don't go to work – get paid anyway!

The *Sacramento Bee* reported Sacramento school board members were paid even for meetings they missed, in violation of state law¹¹. Board members receive a monthly stipend of \$787.50. However, this payment is supposed to be reduced in proportion to meetings missed.

Want a job that comes with a mansion? Consider a position as UC President

Proposition 30, a \$50 billion tax increase passed in 2012, was promoted on the basis of preventing college tuition increases and providing classes. However, some question whether the money truly is going to students or if it will benefit university brass. For her new position as University of California President, Janet Napolitano will get a base salary of \$570,000, a one-time relocation fee of \$142,500 and an annual auto allowance of \$8,916¹².

The *Los Angeles Times* later reported the UC Regents approved the first \$620,000 of spending renovating a 13,000 square foot mansion for Janet Napolitano¹³. The full project could cost up to \$6 million.

Stealing money from poor children is never okay

An investigation by the Senate Oversight Office found California school districts were stealing millions of dollars intended to help feed poor children¹⁴.

CSU staffer racks up over \$150,000 in fraudulent travel expenses

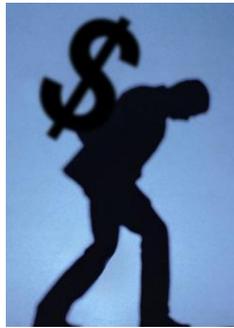
The *Long Beach Post* reported the California State University's Chief Financial Officer resigned after an employee he oversaw was found to have charged over \$150,000 in fraudulent travel expenses to the college system¹⁵.

Employment

Despite some improvement in California's job market, the state still suffers one of the highest unemployment rates in America. The official unemployment rate of 8.7%, which does not count people who have simply given up on finding a job, is higher than all but four other states according to Bureau of Labor Statistics data⁴. High taxes and a hyper regulatory business climate discourage entrepreneurs from contributing to the economy.

Elected officials get bonuses for being reelected

An El Dorado County Supervisor questioned the appropriateness of local officials receiving generous bonuses simply for being reelected¹⁶. Two taxpayer groups have called for an end to this practice, which costs taxpayers \$100,000 annually.



California \$10 billion in debt because of unemployment benefits

California is one of 17 states that rely on loans from the Federal government to pay for unemployment benefits. Lack of access to jobs has resulted in large numbers of Californians who do not contribute tax revenue but instead receive generous benefits at the expense of taxpayers. This situation, which could have been prevented with smarter economic policies, has put the state \$10 billion in debt to the Feds¹⁷.

\$516 million in bonus pay for CA state employees

The *San Jose Mercury News* reported bureaucrats get extra money for hundreds of things including driving the office carpool, having to meet deadlines and riding a motorcycle (which actually sounds kind of fun)¹⁸.

Farewell to fuzzy math: Pension debt doubles with more accurate accounting method

California State Teachers' Retirement System (CalSTRS) pension liability doubled to \$166.9 billion under new accounting rules designed for more accurate estimates¹⁹.

One for the price of two

The *Sacramento Bee* reported the California Public Employees' Retirement System (CalPERS) was giving managers extra positions at the agency as a sneaky way of paying them more²⁰. Because managers are not eligible for overtime, CalPERS got around this problem by simply signing them up for second jobs.

Maybe they thought they were making an investment?

An investigation by CBS 2 found that \$1.5 million in Los Angeles County welfare payments ended up in Las Vegas with EBT withdrawals uncovered in such locations as casinos, bars and tattoo parlors²¹. Perhaps the hostile business climate has made a casino jackpot look like the only hope of achieving prosperity.

Making \$1,100 an hour must be nice

An analysis of compensation paid by over 200 Bay Area special districts found elected officials were receiving as much as \$1,100 an hour when compensation was compared against actual hours worked²². A lack of oversight has also allowed many officials to serve while having conflicts of interest with the agencies over which they preside. In many other states, these commissions are volunteer positions.

Energy

California's leadership has enthusiastically embraced the green agenda, with the nation's most far-reaching climate change law, AB 32; the nation's strictest emissions requirements on diesel engines; and a program aiming for 33% of fuels to be renewable by 2020. Note that according to the state's definition of "renewable," hydroelectric energy does not count despite having no carbon emissions and no harmful byproducts²³.

All of this has resulted in industrial energy costs 50% above the national average⁵ and the loss of over 600,000 manufacturing jobs since 2001²⁴. These jobs represented one third of the state's industrial base and once provided a pathway to a middle class life. Although green advocates have promised these jobs would be replaced by a prosperous new "green economy," in actuality California ranks below average in green jobs per capita, behind even Texas which embraces a free market "all of the above" energy strategy²⁵.



Another green company goes bust

San-Francisco based Ecotality, an electric car charger company declared bankruptcy after receiving and spending \$100 million in taxpayer funds²⁶.

\$60,000 rebate for an electric van? Yep.

CARB approved \$60,000 rebates toward the purchase of electric vans²⁷. The size of the taxpayer-funded rebate even surprised CARB's strongest supporters.

Negative energy? Audit reveals energy regulators mishandled hundreds of millions of dollars

The California State Assembly held a hearing after auditors reported mismanagement of ratepayer money at the California Public Utilities Commission²⁸. Auditors found lax oversight with one \$275 million expenditure simply not recorded, revenue estimates off by \$189 million and some expenses off by \$212 million.

The CPUC was found to have failed to file reports on how ratepayer money was spent since 1977, and while the agency says no funds were actually misspent, investigators say at this point it is impossible to verify exactly where the money went.

Aren't fires also bad for global warming?

Truckers have long argued CARB's costly diesel filters made their trucks break down in addition to causing a fire hazard. In a major vindication that raises some still-unanswered questions, CARB's favored filter manufacturer, Cleaire, has shut down after being linked to two fires, including a major forest fire²⁹. Top officials at Cleaire had been recipients of CARB's most prestigious award.

LA DWP not sure where \$40 million went

The *Los Angeles Times* reported two nonprofits received payments of up to \$4 million a year from the Los Angeles Department of Water and Power³⁰. The payments to the Joint Training Institute and Joint Safety Institute were meant to improve relations with the agency's workers. However, the agency reports it has little specific data on exactly what the money was used for.

Health

Californians rank high in making some important lifestyle decisions with respect to their health. They are less likely to smoke or be obese than people in most other states³. However, the healthcare system is heavily regulated and bureaucratized with a large share of valuable resources spent on regulatory compliance and avoidance of costly lawsuits^{31,32}.

Policymakers have so far failed to stem the tide of frivolous lawsuits which subject patients to higher costs and complications from delays and confusing forms that only exist to protect somebody from being sued. The introduction of the Affordable Care Act, or Obamacare, introduces yet more regulations into this hyper regulatory medical environment.



Covered California throws a party, only 10 people sign up

Covered California, which is California's Obamacare health exchange, rented out the Sacramento Convention Center for a giant well-publicized party to promote the exchange³³. 1500 people showed up and 300 workers were present to sign people up for healthcare. However, by the end of the event, only 10 people had completed applications.

Doctor doctor, here's \$6 billion worth of bad news

Lieutenant Governor Gavin Newsom met with former US Secretary of Health and Human Services Tommy Thompson to explore ways to reduce health care fraud, which currently costs California \$6 billion annually, or 10-30% of every healthcare dollar spent³⁴.

Cancer research money going to terrorists instead

KCRA investigatory reporter Mike Luery found tobacco smuggling is currently costing California \$300 million a year in lost revenues, including money that had been intended for cancer research³⁵. Cigarette smuggling, which currently accounts for nearly one in five cigarettes sold in the state, has been linked to financing terrorism.

Spending like crazy – Billions in Prop. 63 money spent without oversight

The California State Auditor blasted the Department of Mental Health for spending billions in Prop. 63 money with no serious oversight or evaluation of whether the money was spent effectively³⁶.

Were they high when they made the bogus bills?

CNN and the Center for Investigative Reporting found Drug Medi-Cal paid out \$94 million in the past two fiscal years to rehab clinics in Southern California that have

shown signs of deception or questionable billing practices, representing half of all public funding to the program³⁷.

Wait ... our tax check wasn't meant as a political donation

Investor's Business Daily reported Democratic Party allies including the SEIU, the Los Angeles County Federation of Labor AFL-CIO and California NAACP are receiving millions in taxpayer-funded grants to help promote Obamacare³⁸.

Technology

California is home to Silicon Valley and some of the world's top technology companies. Apple, Google and Facebook all have their headquarters' in Silicon Valley. The technological skills of the private sector do not seem to have manifested themselves in California's government bureaucracies however.

State agencies have been attempting to upgrade their computer systems but have so bungled these efforts that they have thrown up their hands and given up after spending hundreds of millions of dollars. These technology disasters were among California's highest profile boondoggles of 2013.



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A \$188 million upgrade to the Employment Development Department's computer system resulted in the delay of jobless benefits for nearly 150,000 unemployed Californians³⁹. The delay caused by this supposed upgrade triggered a deluge of calls and emails to the agency that it was not able to handle.

The verdict is in: Court system's computer upgrade is a \$500 million disaster

The effort to build a \$2 billion computer system linking the state's 58 county courts has proven to be one of the biggest boondoggles in state history. The failed program had run so amok by the time the plug was pulled that one of the subcontracts had 102 change orders, pushing one bill alone from \$33 million to \$310 million⁴⁰.

Failed payroll system upgrade costs \$254 million

Legislators searched for answers when they learned the 10-year effort to upgrade California's payroll system doesn't work and may not be salvageable⁴¹. With state employees divided into 160 agencies and 21 bargaining units, the State Controller's office said it may have just been too complicated for the program's developers to figure out.

Dead end road: \$208 million DMV system overhaul cancelled

Department of Motor Vehicles officials abandoned a \$208 million computer system overhaul intended to help motorists register their vehicles and renew their licenses online, after determining that little progress was being made⁴².

Transportation

Despite the highest gas taxes in the nation, money which is designated to transportation projects, and tens of billions in new debt issued by the Schwarzenegger administration for transportation, California suffers some of the worst roads in the nation². A generation ago, the state's highways were the envy of the nation. They served as a vital conduit to quickly, cheaply and efficiently move goods and people.



Whole new communities sprouted along brand new freeways, and people could have a house and a yard and streets where their kids could play safely for an affordable price. Today, gridlock prevails while policymakers try to cram more and more people into dense urban areas, in part for purposes of global warming mitigation⁴³.

High Speed Fail?

- **Consultants receive \$600 million, not a single mile of track laid**

In an accounting to lawmakers, the High Speed Rail Authority reported it had spent \$600 million on consultants for project management, public outreach, preliminary engineering and environmental assessment⁴⁴. The agency said it plans to spend nearly \$1 billion on consultants before beginning construction.

- **\$2 million consolation prizes**

To solicit bids for construction of the first phase of the project, the High Speed Rail Authority offered \$2 million just for submitting a proposal, even if the proposal was rejected⁴⁵. The Authority said the payout would result in better and cheaper bids although some might say the payouts show the agency is careless with money and would have the opposite effect.

- **It pays to be married to Diane Feinstein**

The High Speed Rail Authority awarded the \$1 billion contract for the first phase of the project, a line from Madera to Fresno, to a company controlled by US Senator Diane Feinstein's husband. In previous dealings, the company in question has had to pay hefty settlements amid accusations of fraud, racketeering and corruption and some former employees are currently in prison on similar charges⁴⁶.

Bridge over troubled waters

A Bay Area bridge was completed a decade later than promised and \$5 billion over budget⁴⁷. The project was plagued by construction difficulties, including faulty bike

path railings that cost nearly \$4 million to repair and a batch of massive bolts that snapped, delaying the opening and requiring a costly retrofit⁴⁸.

\$43 million found hidden at the LA Dept. of Transportation

After \$43 million was discovered hidden in the Los Angeles Department of Transportation, officials say they don't know how much more money could be hidden in other departments⁴⁹.

\$250 million LAX runway falling apart just six years later

While a commercial runway typically has a lifespan of 20-25 years, a \$250 million runway at LAX is riddled with cracks, deteriorating concrete and exposed steel reinforcing bars just six years after completion⁵⁰. The company that performed this faulty work, Tutor-Saliba, is now called Tutor-Perini and is the same company controlled by Diane Feinstein's husband that was awarded the high speed rail contract.

Conclusions

Citizens of different political persuasions do not always agree on matters of policy. However, everybody should be able to agree that taxpayer dollars should be spent in a way that is honest, ethical and effective.

Investigations into governmental mismanagement turn up data that is dismissed by some as isolated examples. However, taken together, it is clear that waste, fraud and abuse cost California billions of dollars a year. Perhaps that money could be invested in improving our transportation infrastructure, providing better education to our children, making our communities safer or simply returned to taxpayers as a means of lowering the state's heavy tax burden.

The state government in Sacramento can always be counted on to say that it does not have enough money and needs higher revenue through higher taxes. However, maybe they could accomplish more of the things they would like to do if they simply learned to use their existing resources wisely.

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