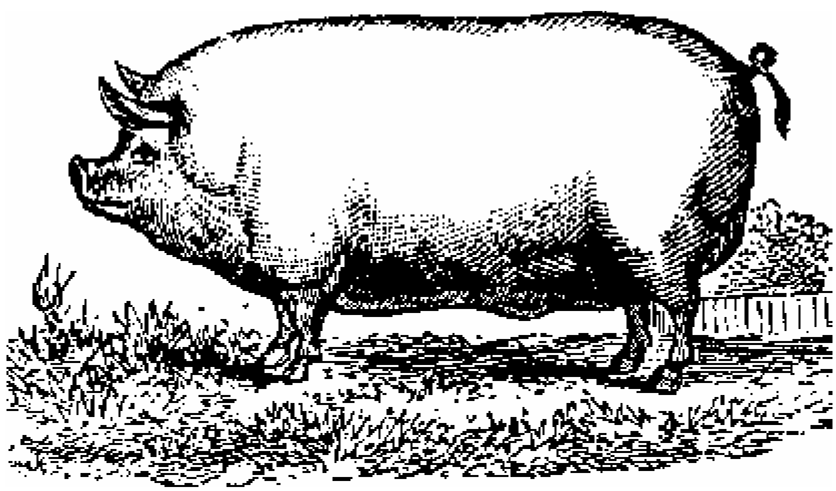
Citizens Against Government Waste
and
The Howard Jarvis Taxpayers Foundation



2003 CALIFORNIA PIGLET BOOK

"The Book Sacramento Doesn't Want You to Read"

CITIZENS AGAINST GOVERNMENT WASTE

Citizens Against Government Waste (CAGW) is a private, nonprofit, nonpartisan organization dedicated to educating the American public about waste, mismanagement, and inefficiency in the federal government.

CAGW was founded in 1984 by J. Peter Grace and nationally-syndicated columnist Jack Anderson to build support for implementation of the Grace Commission recommendations and other waste-cutting proposals. Since its inception, CAGW has been at the forefront of the fight for efficiency, economy, and accountability in government.

CAGW has one million members and supporters nationwide. Since 1986, CAGW and its members have helped save taxpayers more than $686 billion.

CAGW publishes a quarterly newsletter, *Government Waste Watch*, and produces special reports, monographs, and television documentaries examining government waste and what citizens can do to stop it.

CAGW is classified as a Section 501(c)(3) organization under the Internal Revenue Code of 1954 and is recognized as a publicly-supported organization described in Section 509(a)(1) and 170(b)(A)(vi) of the code. Individuals, corporations, companies, associations, and foundations are eligible to support the work of CAGW through tax-deductible gifts.

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THE HOWARD JARVIS TAXPAYERS FOUNDATION

The Howard Jarvis Taxpayers Foundation (HJTF) is the affiliated Foundation of the Howard Jarvis Taxpayers Association (HJTA). Both HJTF and HJTA are dedicated to the protection of Proposition 13 and fighting for taxpayer rights in the State of California. The organizations are named for the father of the modern tax revolt movement who, along with his wife Estelle, worked tirelessly to preserve homeownership for millions of Californians who were being threatened by steep increases in property taxes. Today, with over 200,000 members, HJTA maintains offices in both Los Angeles and Sacramento conducting its lobbying activities, litigation efforts and, of course, proposing new citizen sponsored initiatives to keep government taxation and spending in check

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INTRODUCTION

When he was governor of California, Ronald Reagan established a private sector commission to make recommendations on how to eliminate wasteful spending and make state government more efficient. In 1978, Howard Jarvis led the effort to pass Proposition 13, which reduced property taxes by approximately 57 percent in the state of California.

While these two initiatives helped California's economic growth, along with the technology boom of the 1990s, today the state is facing its greatest budget crisis in history. While the size of the deficit – $38 billion – is staggering, what is even more astonishing are the reasons California is in fiscal distress. There is $2.5 billion in waste, fraud, abuse, and mismanagement in the Medi-Cal program, or 10 percent of its $25 billion budget; $200 million in overpayments in the food stamp program; $127 million in fraud in the unemployment insurance program; $62 million in marketing expenses for the University of California, which rejects half of its freshman applicants; $3,121 being paid by the Department of Health Services for wheelchairs that should cost $622; and $1,560 fitness bonuses given to police officers for not taking a fitness test.

Fortunately for Californians, there are ways to reduce the budget deficit without raising taxes, simply by building on the precedents set by Ronald Reagan and Howard Jarvis.

Upon entering the White House in 1980, President Reagan, inspired by his successful waste-fighting commission in California, empanelled a team of 161 senior business executives and more than 2,000 private sector volunteers to undertake a comprehensive review of the federal government. The report of the President's Private Sector Survey on Cost Control, better known as the Grace Commission after the panel's chairman, the late J. Peter Grace, made 2,478 recommendations to eliminate waste, mismanagement, and inefficiency in Washington, with three-year savings of $424.4 billion.

More importantly, Peter Grace joined with syndicated columnist and Pulitzer Prize winner Jack Anderson to form Citizens Against Government Waste (CAGW) to promote implementation of Grace Commission recommendations and promulgate similar proposals at every level of government. Since 1984, CAGW and its one million members and supporters have helped taxpayers save more than $700 billion.

Similarly, to ensure that Proposition 13 remained the law of the land in California, and that subsequent efforts to limit taxes and the growth of state government would also be approved by taxpayers and the legislature, the Howard Jarvis Taxpayers Foundation (HJTF) was established in California in 1979.

Since 1979, the Howard Jarvis Taxpayers Association, and its affiliated Foundation, HJTF, have been instrumental in many tax battles in Washington, D.C. and California, including: delivering more than one million petitions to Washington supporting President Reagan's 25 percent cut in federal income taxes; passing Proposition 7, which prevents state income taxes from being raised by inflation and helped save an estimated $82 billion over the past 25 years; waging several campaigns – including a current fight – seeking to protect the two-thirds vote requirement as a condition for raising taxes; filing – and winning – numerous lawsuits on behalf of taxpayers against wasteful spending; and bringing to the voters additional initiative measures to protect taxpayer rights. In short, HJTF is the premier organization in California working day in and day out on behalf of the taxpayers.

Today, CAGW and HJTF are combining forces to produce the *California Piglet Book*. This compilation of wasteful, unnecessary, and duplicative expenditures is intended to educate the public, the media, and state assemblymen and senators about the available options to balanced California's budget without raising taxes. It is also intended to both raise the visibility of government waste in the recall/campaign for governor and be a guide to cutting waste for the new state chief executive and state legislators.

The *Piglet Book* is modeled on CAGW's two most well-known publications, the *Congressional Pig Book* and *Prime Cuts*. It also follows the publication in 2002 of the Arizona and Oregon *Piglet Books*. Since 1991, CAGW has published its *Pig Book*, an annual expose of pork-barrel spending in the 13 federal appropriations bills. After 11 years of documenting pork, CAGW has compiled a database of 41,803 projects costing federal taxpayers $162 billion. The list of federal pork includes everything from building a canoe in Hawaii to trace the path that the Polynesians took to those islands to mapping the genome of the trout in West Virginia. The *2003 Pig Book* cites $22.5 billion in pork and 9,362 projects, both record numbers.

CAGW's *Prime Cuts* is a comprehensive look at the depth and breadth of waste throughout the federal government. Issues ranging from eliminating corporate welfare to unneeded defense systems are listed as potential cost savings. *Prime Cuts 2002* identified $179 billion in potential one-year savings and $1.2 trillion in five-year savings. Considering that the federal deficit is projected to be at least $480 billion in fiscal 2004, *Prime Cuts* alone could go a long way toward balancing the budget.

While the *California Piglet Book* would be an appropriate publication under any budgetary circumstances, it is particularly timely given California's $38 billion budget deficit and the raging debate over how to resolve this unprecedented crisis. California's state budget deficit is larger than the budget deficits of every other state combined. It is the result of politicians overspending tax dollars, creating unnecessarily large increases in the size of government and government programs, and their lack of concern to taxpayers.

The response to this budget deficit has ranged from a proposal to raise taxes by $8 billion and cut spending by $4 billion in Lieutenant Governor Cruz Bustamante's Tough Love plan, to promises not to raise taxes by gubernatorial candidates Arnold Schwarzenegger and State Sen. Tom McClintock. This is in stark contrast to Larry Flint, who has proposed legalizing prostitution, granting amnesty to illegal immigrants already in California, and expanding the gaming industry before taxing casino revenues to wipe out the budget deficit; as well as watermelon-smashing comedian Gallagher's platform of utilizing military-style heavy-lift helicopters to clear accident vehicles immediately and mandate the singing of a Spanish version of the Star Spangled Banner at 50 percent of all state sporting events since 50 percent of the state population is Hispanic.

The people of California have had enough of legislators, elected and appointed officials misusing and abusing their hard earned dollars. Mismanagement, waste and fraud have become so rampant that the only alternative many Californians see is recalling the governor on the single stated grounds of "gross fiscal mismanagement."

In fact, Governor Davis's fiscal ineptitude has earned him the very first California Golden Fleece Award from the Pacific Research Institute. According to the Institute's website, "the *California Golden Fleece Awards* are given for spending programs or regulations that violate common-sense principles of responsible government, would be considered wasteful by people of varying political philosophies, and are well documented."

As the *California Piglet Book* shows, Governor Davis has clearly earned such notoriety. However, a state does not allow a $12 billion surplus to be squandered away into an unprecedented $38 billion deficit only by the work of a governor. This report will reveal numerous examples of how politicians and bureaucrats, whose increasing wages are financed by the same taxpayers that pay for the programs they are supposedly running, have wasted billions of taxpayers' dollars over the last year, as well as provide a road map to recovery from the budget crisis.

FISCAL HEALTH IMPROVEMENTS

One of the biggest issues facing all Americans is the future of healthcare. Just as federal health programs hemorrhage tax dollars, so do the states.

On December 26, 2002, the *Los Angeles Times* reported that through the $25 billion Medi-Cal program, "Doctors, dentists, pharmacists, and others in the health care industry have been stealing huge sums [of money]." The article cites a number of experts who have said that amounts to $2.5 billion a year, or 10 percent of the Medi-Cal budget.

Reiterating the waste, fraud and abuse in Medi-Cal, Daniel Weintraub of *The Sacramento Bee* (February 20, 2003) reported that "Medi-Cal, California's second-largest government program, is piling up cost overruns that are on pace to total nearly $1 billion," for the fiscal year 2002-2003. Since these overruns were not accounted for in the state budget passed in September, 2002 they are the "biggest single source of more than $3 billion in unexpected costs driving the state's general-fund spending to more than $80 billion in the current fiscal year."

There was a call for a state audit of Medi-Cal from the *Stockton Record* on March 18, 2003. Such an audit has been conducted in the Department of Health Services, and it will be released as State Audit Report 2003-112 in November. That audit should be immediately seized upon by the new governor and the legislature to eliminate the waste in Medi-Cal.

To give taxpayers one of their biggest headaches ever, California State Senator Sheila Kuehl (D–Los Angeles), wants to create a state-funded health care system. Her bill, Senate Bill 921, calls for the creation of a state funded (meaning more tax dollars) health care system. SB 921 would create a new California Health Care Agency, an elected Health Care Commissioner, a Health Policy Board, an Office of Consumer Advocacy, the Office of Medical Practice Standards, a Medical Practice Standards Advisory Board, and the Office of Inspector General for the California Health Care System. Senator Kuehl has not mentioned anywhere in her bill how all of this will be paid for. California should be putting its resources toward real healthcare, not "feel good" advisory boards and commissions or a centralized healthcare system that would be similar to Hillary Clinton's socialized medicine plan that she proposed when she was First Lady.

According to the *San Jose Mercury News* (March 15, 2003), another outrageous example of fraud, inefficiency, and outright waste in California government lies within the Department of Mental Health's "Rolls Royce of treatment plans." The *News* reported that the department signed a no-bid contract with Liberty Healthcare, in which the expenditure of "…$1 million to set up a program expected to keep one sexually violent predator fed, clothed, housed, and watched over in San Jose for the next year" was actually contemplated. Brian DeVries, a convicted serial child molester, would be the beneficiary of such treatment, all paid for by the taxpayers of California.

On January 26, 2003, Robert Salladay, a reporter with the *San Francisco Chronicle*, reported that the State Disability Insurance Program has overpaid "injured" people, who may have not been entitled to such benefits, between $124 million and $200.7 million from 1991 to 2001. The taxpayer dollars that fund this program are being abused as the program cheats people who genuinely qualify out of benefits while overpaying others who should not receive any money.

Following one of the most controversial medical expenditures in California's history, less than two years after a two-time felon received a heart transplant at the Stanford University Medical Center, state prison officials announced the 32-year old male's death on December 17, 2002. Spokesperson Russ Heimerich told the *Sacramento Bee* that the heart transplant and the care following the operation could "easily reach $2 million when it is all added in." With the average heart transplant procedure in America costing $200,000, it is absurd that the State Department of Corrections' Health Care Services Program paid ten times as much for treatment of a criminal at a prestigious medical facility at taxpayers' expense (Cal Tax: *Tax $$$: Fraud and Waste,* August 2003).

To illustrate the increasing burden that healthcare adds to a state budget, prison healthcare costs alone have skyrocketed from $96 million in 1998 to $263 million in

2003, or 174 percent, according to the *Inland Valley Daily Bulletin*. If other state programs are being cut, certainly the growth of prison healthcare can be handcuffed.

Healthcare waste does not end with direct expenditures on patients. The state Bureau of Audits' 2002-109 annual report on December 12, 2002 confirmed that millions of tax dollars have been wasted by ineffective management.

For example, the Department of Health Services (DHS) is required to survey the healthcare market every 60 days in order to update prices for supplies, and set a maximum allowable product cost based on the lowest market prices. The state audit found that the department has not updated these prices using survey techniques for an average of 15.5 years. As a result, the department "paid an average of $3,121 for wheelchairs with unlisted codes compared to $622 for wheelchairs with listed codes." In other words, "the department's cost-control procedures have not prevented significant spending increases for unlisted items — those with no established maximum allowable product costs (MAPCs)."

Another example of how the DHS could easily save money is by simple price negotiations. According to the December 12 audit, "the department hopes to save $9 million by negotiating lower prices with manufacturers for blood glucose test strips." With healthcare costs increasing faster than the rate of inflation, on top of California's other budget problems, these commonsense recommendations should be acted upon without delay.

DOES NOT COMPUTE

During the technology boom of the 1990s, California's economy soared along with the inflated values of high-flying companies. As the companies lost value, the state's revenues fell and deficits rose. Californians suffered a double loss, as investors and taxpayers. Even worse, the state government demonstrated its own technological ineptitude, wasting millions of dollars on failed projects and programs.

First, the state continues to do business with MCI/WorldCom, a company that has been suspended from federal government contracts, cut off from business by Indiana, and sued by Oklahoma, with similar actions pending in other states. While each state has its own rules for debarring companies from doing business, there is no reason for California to continue to let MCI/WorldCom profit from its fraudulent practices.

In August, the *Oakland Tribune* reported that, "WorldCom has filed papers seeking exemption from regulatory approval of the consolidation of eight California subsidiaries that provide local phone service." This request was intended to help WorldCom emerge from bankruptcy. But rather than reward this company with a special privilege that will give it an unfair advantage over its competitors, it appears that the California attorney general may follow the lead of the Oklahoma attorney general and file criminal charges against MCI/WorldCom. Just contemplating that action should convince the state to deny the exemption and stop doing business altogether with

MCI/WorldCom. Thousands of Californians have lost millions of dollars on their investment in the company, and there is no reason for them to continue to be vulnerable to further losses as taxpayers.

The technological failures of California's government were also on display in the scandal surrounding Oracle's $100 million sweetheart contract with the Department of Information Technology, which cost taxpayers up to $41 million in unnecessary expenses. CAGW successfully advocated the elimination of this department, another example of overreaching by the state of California during the supposed tech boom.

In 2002, California's outgoing Controller Kathleen Connell announced that Californians will be able to file their income tax returns next year free of charge through the Franchise Tax Board's website. Taxpayers who currently file online must purchase tax preparation software that typically costs between $15 and $30. The state's aim is to cut out the middleman, by allowing lower-income Californians to file for free directly with the state.

Unfortunately, the agency is duplicating a private sector service already available to most citizens. It will damage technology companies, cost Californians millions of dollars, increase bureaucracy, and endanger taxpayers' security and privacy. This program will make the state the tax preparer, collector and auditor, while allowing bureaucrats to review every step that a taxpayer takes to determine which deductions and credits they are allowed as well as the calculations they make to finalize their tax returns.

A similar effort to allow the Internal Revenue Service to provide tax preparation was turned instead into a cooperative public-private arrangement that allows private companies to continue to provide tax preparation advice and support at a reduced rate or at no cost for low-income taxpayers. Unless California follows this model, it will be embarking on an ambitious proposal that will sap state resources at a time when California is facing a $38 billion budget deficit. This new service will not be "free;" it will be financed with tax dollars.

The three-member Franchise Tax Board estimates that the initial step of adding two new tax forms online will cost $200,000, but state officials have not yet tallied up the entire program's cost. The final price tag will likely be much higher, considering California's abysmal track record of information technology projects.

EDUCATION DOLLARS ARE A TERRIBLE THING TO WASTE

Every dollar wasted on mismanagement and fraud in education is one less dollar available to educate children. This is particularly true for states, which together with local governments provide 94 percent of all education spending.

According to a May 15, 2003 *Los Angeles Times* article, some professors at Cal Poly San Luis Obispo have lost self-control and are unable to keep their hands off their computers for non-academic purposes. Using state funded university computers; a number of professors are accessing pornographic material on a daily basis, and have no plans to give up this practice. The *Times* reported that, "An effort to stop Cal Poly professors from viewing Internet sex sites on state owned computers…" was stopped by "…the executive committee of the academic senate at Cal Poly San Luis Obispo…" because professors claimed that it "…would have infringed on academic freedom and their first amendment rights."

While the university does not seem to care about this abuse, law enforcement is paying attention. One former university department chair was convicted last year for a misdemeanor charge for "improperly using the computer at his Cal Poly office to download more than 13,000 adult pornographic images over a two-month period," according to an article in the *San Luis Obispo Tribune* (May 14, 2003). This equals 325 pornographic images a day, or 41 images an hour at the rate of 8 hours a day, 5 days a week, for a two-month period. That doesn't leave much time to teach the students well.

Speaking of students, the *San Luis Obispo Tribune* (May 14, 2003), also reported that another former department chair from Cal Poly is being investigated by the FBI for allegedly viewing "child pornography on multiple university-owned computers." These activities are obscene in every way possible.

Higher education apparently means higher spending in other areas as well. The University of California has its own $62 million marketing budget to convince students to apply to the nine most prestigious campuses. Yet, the UC campuses are so full that they do not even have room to accept the tens of thousands of students they are attracting. In 2003, the UC system received approximately 100,000 applications. Just more than 50 percent, or 50,291 freshman students, were offered fall admission for the 2003-2004 school year.

To make matters even worse, Assemblyman John Campbell (R–Irvine) wrote in the *Orange County Register* (April 9, 2003) that "according to one analysis, the program spends at least $50,000 per student it actually enrolls." There is surely a better way to spend $62 million in education money than on a marketing program that has no purpose.

There is additional waste in personnel throughout the UC system. The *San Francisco Chronicle* (March 10, 2003) reported that UC Merced already has a $7.8 million payroll with more than 100 employees, although the campus does not yet exist. The first course offering will apparently be "How to Put the Cart Before the Horse." This is all occurring while the state has required the UC and the California State University systems to cut student services, drastically raise tuition, and freeze hiring.

The Sacramento Bee (March 18, 2003), reported that California plans to spend $9 million next year for the sole purpose of recruiting more teachers. That must be disturbing to the 10,000 teachers across California who have received provisional pink slips warning them they may lose their jobs due to budget cuts. Instead of wasting money to lure new teachers, the state should use the $9 million to keep the teachers whose jobs are being threatened.

POLITICAL PATRONAGE AND PAYOFFS

Political patronage and payoffs are long-time traditions. But politicians who grant these favors waste money and undercut the credibility of the government in California.

According to the *Sacramento Bee* (March 9, 2003) and the *San Francisco Chronicle* (March 10, 2002 and February 2, 2003), California's governor and legislators keep friends and political allies on the public payroll by appointing them to high-paying commissions. In particular, three obscure commissions have been used as a depository for associates of the very powerful at a cost of at least $2 million annually: the California Medical Assistance Commission, the Integrated Waste Management Board, and the Unemployment Insurance Appeals Board.

California Medical Assistance Commission

With an annual salary of up to $99,000 per person, plus bonuses, this commission meets twice a month in Sacramento for a few hours to go over staff recommendations. A few of the members are listed below along with information regarding their appointment:

- John Burton is a current state senator and former congressman and state assemblyman. Then-Assembly Speaker Willie Brown appointed him during the early 1980s.

- Kamala Harris was appointed in 1994 and was a girlfriend of Assembly Speaker Willie Brown at the time of her appointment.

- After he lost the Los Angeles mayoral race in 2001, Antonio Villaraigosa, the Assembly Speaker from 1998-2000, was appointed by his successor Speaker Robert Hertzberg.

- Tom Calderon, a former Assemblyman who lost his bid to become state insurance commissioner in March 2002, was appointed by Assembly Speaker Herb Wesson.

Integrated Waste Management Board

This panel oversees programs related to state and local recycling, landfill, and garbage. The board meets once or twice a month, with members earning $117,000 a year plus the added perk of hiring a personal assistant. A few of the members past and present are listed below along with information regarding their appointment:

- Jose Medina, a former San Francisco Supervisor, was appointed in 2001 by Governor Davis. All of this occurred while Medina was under scrutiny for his job performance as head of the California Department of Transportation.

- Kathy Neal, the wife of then-Assemblyman Elihu Harris, was appointed in 1990 by then-Assembly Speaker Willie Brown. Two years following the appointment, she also became ownership partners of radio station KDIA with both Harris and Brown. According to the *San Francisco Chronicle* (March 10, 2002), when "asked what her qualifications for the commission were, Brown's spokesman said: '(Waste Management) has been a hobby of hers for years.'"

Unemployment Insurance Appeals Board

Members of this board receive $114,180 a year for conducting weekly reviews of 75 to 100 appeals made by workers or employers. A few of the members past and present are listed below along information regarding their appointment:

- Richard Alatorre was appointed in 1999 by the Senator Burton-led Rules Committee, even while he was the target of a federal corruption investigation as a Los Angeles City Councilman. According to the *San Francisco Chronicle* (March 10, 2002), "In April 2001, Alatorre pleaded guilty to felony tax evasion for not reporting bribes, but served on the appeals board four more months, earning over $35,000."

- Former Oakland Mayor Elihu Harris once served with Gray Davis in the state assembly. After Harris was defeated in his attempt to win back his Assembly seat, he was appointed to the Unemployment Insurance Appeals Board in 2000 by Davis.

These three commissions are full of individuals who have political connections but lack expertise. Considering California's fiscal health, it is an insult to taxpayers to spend $2 million a year on three boards whose members meet basically once or twice a month, yet earn thousands of dollars simply because of who they know.

The *Chronicle* (March 10, 2002) reported that some "legislators…have admitted that their appointments were no more than holding positions until they moved on in their political careers. These commissions are often referred to by other legislators as "transitional spots," "pay backs," or even "political musical chairs" for political soldiers wounded from the latest election.

In addition, most members have full-time jobs outside of the commissions and many have spotty attendance. As Assemblyman Tony Strickland (R-Moorpark) told the *Chronicle* (February 2, 2003), "When you have a public safety worker who has to show up for work every day and put his life on the line, and then you have someone showing up twice a month and earning $100,000, something is wrong."

Furthermore, according to Assemblyman John Campbell's article in the *Orange County Register* (April 9, 2003), at least four former legislators have been placed on the state payroll as consultants with approximate salaries of $100,000 per year. Their consulting contracts came just after they had to cast critical votes on bills "the speaker wanted passed."

During the first few months of 2003, when the state budget crisis was grabbing the public's attention, a series of town hall meetings with forums were scheduled by California Assembly Speaker Herb Wesson (D-Los Angeles), in order to solicit ideas from the public. However, according to the *Los Angeles Times* (March 31, 2003), an internal Democratic Party memo suggested that the real purpose of these meetings was to rally support for the governor's proposed tax increases, and that the audiences would be "deliberately stacked with like-minded Democrats."

Furthermore, the *Times* reports that the memo called for handpicked witnesses who will "most effectively convey the desired message," of the party; i.e., tax increases. To add fuel to the fire, the tax-increase message of these supposed nonpartisan forums were financed with taxpayer dollars.

GRAY DAVIS AND THE RED INK DIARIES

California State Senator Ross Johnson (R–Irvine) has put together a number of articles titled "Gray Davis and the Red Ink Diaries," outlining numerous examples of Davis's dealing with "massive waste, inefficiency, and outright fraud" in the government he works with on a daily basis. Below is a sample of Johnson's diaries dating from February 5, 2003 – July 15, 2003:

- Outright fraud in the amount of $127 million in the unemployment insurance program has been acknowledged by the California Employment Development Department according to a KCBS-TV news report on January 23, 2003 (Gray Davis and the Red Ink Diaries #2).

- According to the *San Jose Mercury News* (July 9, 2002), Governor Davis's Secretary of Business, Transportation, and Housing, Maria Contreras-Sweet, "uses sworn California Highway Patrol officers as personal chauffeurs at a cost of $75,000" (Gray Davis and the Red Ink Diaries #3).

- Federal law requires each state to develop a system that can track and collect overdue child support payments. According to the *Contra Costa Times* (December 18, 2002), the automated child support collection system has still not been implemented in California, and as a result, the federal government will "fine California $1.3 billion" because of this failure. Furthermore, California is one of only two states in the nation which faces these fines (Gray Davis and the Red Ink Diaries #4).

- The *Sacramento Bee* (August 4, 2002) reported that the U.S. Department of Agriculture found "California's food stamp program [to be] the worst in the nation and announced a $114 million fine against the state for having too many errors." The report went on to state that this program overpays recipients by $200 million, and underpays those who truly need food stamps by $75 million (Gray Davis and the Red Ink Diaries #6).

- Dan Walters reported in the *Sacramento Bee* on August 31, 2001 that Elwood "Woody" Allshouse, California's chief deputy director of the Department of Forestry and Fire Protection, has obtained a "very expensive, very fast, executive style aircraft…unsuited to any serious firefighting role." This aircraft is a supercharged Raytheon King Air B200 and is known as "Woody's plane" because it appears to be "the personal play thing" of director Allshouse, according to Walters. The plane must be one the state's most expensive "toys." Walters reported that "The King Air is costing the state, CDF sources say, $600,000 a year in lease payments plus maintenance and operational expenses, and the 12-year lease alone could total more than $7 million" (Gray Davis and the Red Ink Diaries #9).

- The *Bakersfield Californian* (March 27, 2003) reported that a state audit found that "… the Department of Motor Vehicles ordered $125,000 worth of teddy bears as inducements to get people to fill out their census forms." And, incredibly, the DMV purchased the stuffed animals on an emergency basis rather than go through regular state purchasing requirements. According to the *Californian,* "DMV officials cited a tight deadline as the emergency justifying a no-bid contract." Apparently, the once every decade census caught DMV officials by surprise (Gray Davis and the Red Ink Diaries #21).

- The *San Jose Mercury News* reported on March 12, 2003: "Amid the state's worst budget crisis, the California State University system is spending $662 million on a centralized computer system of questionable value whose costs far exceeds original projections, the state auditor concluded Tuesday." That same day, the *Oakland Tribune* reported that the state audit, "…said the university didn't do a thorough enough analysis to prove the system is even necessary." (Gray Davis and the Red Ink Diaries #23).

GOING TO WORK ON THE TAXPAYERS

Employee practices at all levels of government have long been in need of reform. California is no exception, but given the state's fiscal crisis, the hiring abuses and employee fraud are particularly acute.

On February 12, 2003, the *San Francisco Chronicle* reported that through "budgetary sleight-of-hand that amounts to millions of dollars, 112 state employees who work directly for Davis aren't on the governor's payroll." With a total of 198 employees, Gray Davis is therefore hiding 57 percent of his personal staff and the salaries in the payroll of other state departments or agencies.

These employees' annual salaries total $7.7 million, and they are supposedly responsible for everything from running the lottery to guarding prisoners. That $7.7 million is simply the governor's slush fund to siphon off employees from other agencies, and it allows him to increase the $5.9 million budget of the Office of the Governor by

131 percent. As the *San Francisco Chronicle* (February 12, 2003) reports, "37 different state departments and agencies are supplying personnel to the governor out of their budgets."

For example, one of Davis's top policy advisers, Nancy McFadden, works in the Governor's office in the Capitol with an annual salary of $121,992 that is paid by the Department of Industrial Relations. The purpose of this department is "promoting, protecting and improving the health, safety and economic well-being of wage earners in California." It is clear that hiding employees in the governor's office has nothing to do with the department's mission and adversely affects the economic well-being of the state's workers.

Another employee who is trading places is Linda Adams, Governor Davis's chief deputy legislative secretary, who lobbies the Senate and Assembly for bills Davis wants passed. Her salary of $112,320 does not come from the governor's office; it flows from the Department of Water Resources' payroll.

In March 2002, Governor Davis ordered a hiring freeze for state and local government. Yet, as of March 2003, the state had hired 37,000 employees, despite the state's record budget deficit. In fact, since the freeze was ordered, the governor's office itself hired six new people.

In addition to hiring abuses, salary increases have been awarded during the budget crisis. Last year, legislators generously boosted salaries for their aides, with some salaries now reaching into the six-figure range. In fact, David Drucker of the Associated Press (April 7, 2003), reported that "1,700 state employees gained pay hikes amid the hiring freeze."

California state employees have also used their positions for personal gain. The Bureau of State Audits investigated improper activities by state employees and state departments in the past year. The following examples are from the California State Auditor/Bureau of State Audits Report 2003-1 (April 2003):

- At the Health and Human Services Agency Data Center, a manager "influenced a $345,600 contract between the Health and Human Services Agency Data Center and a private company with whom he was negotiating future employment while he was still employed at the data center."

- At the Department of Industrial Relations, an official "improperly received reimbursements for relocation, commuting expenses, lodging, and meals," that totaled $17,539.

- A Department of Fish and Game manager "engaged in contracting improprieties involving a business owner who also worked part-time for the Department of Fish and Game. The employee's companies billed $62,000 in invoices, which regional staff split into smaller purchase orders in order to circumvent bidding requirements." Through acts such as these, the Bureau of State Audits has reported that the company's owner was in clear violation of incompatible-activity laws. Also, the audit found that the manager "subjected subordinates to inappropriate treatment, conduct that the department concluded was inexcusable and a discredit to the State." On top of that, this same manager claimed 479 hours of sick leave to which he was not entitled.

- The Atascadero State Hospital "awarded 21 projects totaling more than $75,000 to three businesses owned by relatives of an employee, and the hospital employees responsible for sending the jobs out to bid failed to follow the hospital's bidding procedures."

- In Potterville, California, the Department of Developmental Services "illegally appointed two individuals to psychologist positions," who were not qualified for the job in any event.

- San Jose State University employed an individual who frequently used state computers to access adult chat rooms while on the job. Even after being instructed to stop these activities, the employee continued to do so, and eventually resigned when even more evidence of wrongdoing was presented.

- A Department of Forestry and Fire Protection employee used "state equipment to make long-distance calls and to send personal e-mails during work hours. In addition, the employee used a state-paid shipping account to send packages to a friend." The total amounted to $456, composed of $219 in shipping charges and $237 in phone calls, which he was required to pay back.

- The California State University, Northridge, "failed to monitor its telecommuting employees adequately," the state audit found. In fact, one employee in particular "failed to report to campus for more than one year." Talk about job flexibility.

- The Department of Mental Health employed an administrator who "improperly used his state-owned cellular phone to make $327 in personal phone calls."

In addition, the *Los Angeles Daily News* reported in January 1999 that Los Angeles county employees have made inappropriate and costly phone calls while at work. These abuses included making calls to sex lines, psychic hotlines, dating services, and other 900 numbers according to a county audit. The county would save $500,000 a year if calls such as these did not take place. In addition, employees also have accepted prohibited collect calls and third-party calls. While the county allows some collect calls, the abuses of that privilege cost taxpayers $85,000 a month.

ODDS AND ENDS

According to a March 14, 2002 *Los Angeles Times* article by Patrick McGreevy**,** the ratepayers of the Department of Water and Power in Los Angeles almost paid for a number of events that have nothing to do with the services they receive. First, they were given a $100,000 bill to cover the costs of a black-tie dinner in celebration of the reopening of Los Angeles City Hall. Second, they were faced with a $75,000 bill that provides the agency with VIP tickets to USC basketball games, ice shows, and the circus. These costs are among the $601,293 in Department of Water and Power bills that City Controller Laura Chick refused to pay because of the department's "vague policies that allow extravagant spending."

The Trade and Commerce Agency is wasting millions of tax dollars and misleading many Californians through its smoke and mirrors act. On May 25, 2003 the *Orange County Register* reported that the offices in the Trade and Commerce Agency, which were created to boost the economy in California by increasing exports and investments in California, "cost millions in tax dollars" and that of the "millions of dollars in benefits they list – at least $44.2 million … were false or overblown in the most recent annual report." These offices do not even come close to the 2-1 returns on investment they are supposed to deliver. The most shocking case was the agency's office for South Africa, which "eked out $920 in tax revenue," last year, yet "costs about $440,000 a year to run." That's a return of two-tenths of a cent for every dollar spent.

On March 19, 2003, the *Orange County Register* reported that for $30 million, "Caltrans is moving forward with a program to add numbers to 23,000 freeway exit signs," even though the funding of critical transportation projects is being cut due to the state's budget crisis. As the *Register* appropriately commented in a follow up article on March 20, 2003, "Caltrans needs to get its priorities in the right lane."

The *San Jose Mercury News* reported on February 8, 2003 that San Jose City Auditor Gerald Silva found the city spending millions of dollars on new cars, even though older models were still functioning. Silva also uncovered a practice of giving vehicles to employees who did not need them. The good news is that Mayor Ron Gonzalez ordered a freeze on all new vehicle purchases once the report came out, and the city has eliminated $11 million in waste as a result.

A California Highway Patrol (CHiP) officer used to receive a "fitness bonus" of $1,560 a year if he or she passed the department's fitness test. But the CHiP no longer requires the officers to take, much less pass, the fitness test. Each officer is simply given the $1,560 "fitness bonus." If the officers deserve more pay, then call it a pay increase, instead of demonstrating that the CHiP is fiscally unfit.

Jim Miller, a reporter with *The Press-Enterprise* in Sacramento, reported in March of 2003 that the highest paying groups for government lobbyists are closer to home than many may think.

Miller reported that local governments currently outspend every other industry in California in lobbying efforts. For example:

- San Bernardino County spent more than $1.4 million on paid advocates in Sacramento, state records show.

- Riverside County spent about $300,000 during the same period.

As Assemblyman Ray Haynes (R-Riverside) told the *Press-Enterprise*, "The fact that they're using tax dollars to maintain the flow of tax dollars is distasteful to me." Local governments in California have no problem reaching deeper and deeper into the pockets of the taxpayers.

Jason Gewirtz of the *Long Beach Press Telegram* (March 31, 2003) reported that "Long Beach's Fleet Services Bureau routinely charged $73 to wash city-owned cars driven by City Council members." The fleet bureau has also been known to charge more than $100 for gasoline and simple safety check procedures. Long Beach's 1,900 vehicle fleet and expensive perks don't account for the city's entire $90 million deficit, but it does shed some light on how taxpayers are being taken for a ride.

Earlier this year, California State Senator Don Perata (D-East Bay) introduced Senate Bill 204 to impose a tax on diapers. After the public got wind of this smelly idea, the bill was flushed down the toilet.

Assembly Speaker Herb Wesson pushed through the Vehicle License Fee bill, also referred to as the tripling of the car tax, earlier this year. The fee was later imposed by State Department of Finance Director Steve Peace. While the legality of this car tax is rightfully being questioned in court, some candidates for the governor's recall election are promising to reverse this controversial decision.

Earlier this year, State Finance Director Peace discussed the state budget with the City League Board of Directors in Oakland. The following quote from the League's own "Priority Focus" publication captures the attitude of legislators toward the taxpayers' money: John Russo, the Oakland City Attorney and League President said to Peace regarding the Vehicle License Fee and Davis's budget: "Take VLF off the table. The VLF is our (cities' and counties') money." With the cities bickering and fighting with the Governor over the VLF dollars, it seems appropriate to remind them all that the VLF is actually the taxpayers' money.

Beth Barrett reported on December 21, 2002 in the *Los Angeles Daily News* that the city of Los Angeles has had a revenue increase of $706 million since 1997, while payroll costs have increased $637 million from 1997 to 2003. That means 90 percent of the increased revenue has gone directly to personnel and not to services. There are a number of top-tier managers whose salaries will reach well into the six-figure range by 2004. The *News* reported that "Top-tier managers' average salaries are up nearly $19,000 to more than $102,400 a year – not counting general managers, 15 of whom will make more than $200,000 by 2004." As Assemblyman Keith Richman (R-Granada Hills) pointed out, "These pay raises are extraordinarily ill-timed, at a time when the city is having severe financial pressures, and the state has a projected deficit of more than $34 billion."

On March 5, 2002, the *Los Angeles Daily News* reported that salaries are booming in the Los Angeles Unified School District. With the top ten district officials earning a total of $1.9 million a year, superintendent Roy Romer tops the list with "…an annual salary of $250,000 – more than five times what the average family in Los Angeles County earns… In addition to his annual salary, Romer's contract includes a provision entitling him to a $100,000 performance bonus each year." It must be tough for teachers across California to hear this news when they pick up their provisional pink slips due to budget cuts this year.

In Governor Gray Davis's 2003-2004 state budget, there are many programs that have bloated increases in funding. One example is the Committee on Health and Safety and Workers' Compensation of the Department of Industrial Relations, which received a one-year increase of 84 percent in the 2003-2004 state budget. The increase is so large that reducing the proposed budget by $850,000 would still yield an annual increase of 25 percent for this program.

CONCLUSION

California's fiscal problems may be the biggest in the nation, but they are not unique. Other states, such as Arizona and Oregon are still struggling to recover from a slow economy. For those states, CAGW also produced *Piglet Books* in conjunction with statewide taxpayer organizations.

While initial solutions to budget deficits have been to raise taxes in many states, other states have chosen more sensible and taxpayer friendly options. For example, in Colorado, a 1993 constitutional amendment requires voter approval for any tax increases and limits increases in spending to the rate of inflation plus population growth. As a result, the budget is balanced, expenditures have grown by only 8 percent over the past four years, and the state has returned $3 billion to taxpayers since 1997.

The first step California should take to get its fiscal house in order is to implement the cost-cutting recommendations identified in this report. From $1 billion in cost overruns in the Medi-Cal healthcare program to employees using state equipment to make calls to psychic and sex lines, elected officials must take immediate action to ensure a strong fiscal future for all Californians.

Second, California needs to establish a state Grace Commission to analyze every nook and cranny of the California budget to cut waste. Just as President Reagan found in both California and Washington, D.C., such commissions can be successful. With private sector expertise and the help of nonprofit organizations like the Howard Jarvis Taxpayers Foundation, a new commission on government waste would scrutinize all expenditures to ensure that every tax dollar is accountable and follow up to make sure that the waste is eliminated. .

California's problems are not insurmountable. With the right leadership in Sacramento and the support of Californians, government waste, fraud, abuse, and mismanagement can be eliminated, leading to the provision of essential services at a reduced cost. The question remains whether the politicians will have the resolve to make these necessary reforms and sacrifice some of their goodies, or if the taxpayers of California will be asked to sacrifice more of their hard-earned money in order to balance the budget.