



**HOWARD JARVIS TAXPAYERS FOUNDATION**

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**Where does our money go?**

# **Follow the Money**

## **2014**

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## Where does our money go?

*Many California policymakers continue to tell citizens that the state government needs more money in order to competently provide the services people care about. At the same time though, polls consistently show that a large number of citizens believe the government wastes their money. Who is right? Does the government really need more money or have they simply failed to spend the money they already receive wisely?*

The next two years promise to bring new proposals to raise taxes and new conversations on old tax increase proposals. Extensions of the Proposition 30 tax hikes, which were first passed in 2012 and are currently set to expire in 2016, a repeal of Proposition 13 protections for businesses, and new taxes on oil and tobacco all have been proposed by elected officials and interest groups involved in the political process.

The primary argument in favor of tax increases is that our government is underfunded. The state's roads are ranked 45th of 50 in the country, where 50th is worst<sup>1</sup>; the US Department of Education rates California student performance among the worst in the nation<sup>2</sup>; industrial energy costs are 80% above the national average<sup>3</sup>; gas is the most expensive in the continental US<sup>4</sup>; poverty is the highest in the country<sup>5</sup>; joblessness is among the top five worst in the nation<sup>6</sup>; and companies keep leaving to do business elsewhere. Is all of this the result of taxes that are too low?

Compared with other states though, California's taxes are among the highest and still produce terrible outcomes. Our state has the nation's highest income tax and highest sales tax. Our corporate tax is the highest in the West, our gas tax is the nation's second highest, and even with Prop. 13, our property tax ranks 19th nationally.<sup>7,8</sup>

In light of California's failure to achieve good results with the significant funds provided, it is critical that we examine where our tax dollars actually go. *Follow the Money 2014* offers examples of government waste reported publicly in the last year. When one adds together the amount of waste, fraud and abuse by government in California, these examples add up to billions of dollars.

***Follow the Money 2014* is divided into some general categories which follow: bureaucracy, education, environmental, health, infrastructure and technology.**

## Bureaucracy

Does California suffer from an inept bureaucracy that wastes money? Although many public servants are ethical people who take pride in their work, the examples below show bureaucratic incompetence wastes millions of taxpayer dollars a year. And these examples do not even count the cost of regulations imposed on small businesses by the bureaucracy which themselves carry major compliance costs and can result in costly lawsuits. Nobel Prize winning economist Milton Friedman explained a basic problem with a government bureaucracy in the following way:

*“There are four ways in which you can spend money. You can spend your own money on yourself. When you do that, why then you really watch out what you’re doing, and you try to get the most for your money. Then you can spend your own money on somebody else. For example, I buy a birthday present for someone. Well, then I’m not so careful about the content of the present, but I’m very careful about the cost. Then, I can spend somebody else’s money on myself. And if I spend somebody else’s money on myself, then I’m sure going to have a good lunch! Finally, I can spend somebody else’s money on somebody else. And if I spend somebody else’s money on somebody else, I’m not concerned about how much it is, and I’m not concerned about what I get. And that’s government.”*<sup>9</sup>



### **Report finds CalWORKs program has \$848 million outstanding overpayments.**

Over the past decade, only 40% of all the identified overpayments have been recovered.<sup>10</sup>

### **Bureaucrats at the Employment Development Department pass up opportunity to recover \$500 million.**

A Federal program launched in 2011 offered the EDD the opportunity to recover up to \$500 million in overpayments. Although the EDD estimated participating in this program would have cost only \$323,000 in staff time, the agency still declined the offer. The EDD reconsidered its decision in 2014 and finally decided to take advantage of the assistance offered.<sup>11</sup>

### **Toxics agency has \$194 million in uncollected bills**

The state Auditor found California’s Department of Toxic Substances Control has failed to collect \$194 million for pollution cleanup as a result of “inadequate procedures, incomplete documentation, and miscalculation of certain sites in its database.”<sup>12</sup>

### **\$80 million in illegal money transfers**

The *Sacramento Bee* reports legislators from both political parties are expressing concern over a recently uncovered scheme that may allow bureaucrats to illegally transfer up to \$80 million into their departments annually by repeatedly transferring employees to

retain on the books, job positions that do not exist. However, despite their expressions of outrage, many question whether lawmakers have the determination to end this corrupt practice.<sup>13</sup>

### **Cal Fire fined \$30 million for “egregious and reprehensible conduct”**

A judge ruled that Cal Fire failed to competently address a massive northern California forest fire that burned 65,000 acres over the course of 22 days. Following the fire, Cal Fire was found to have wrongly blamed a forestry company for the blaze, exacting huge penalties on the company and stonewalling when faced with requests for documents relevant to the agency’s conduct.<sup>14</sup>

### **Waste via ridiculous lawsuit**

A lawsuit filed by Los Angeles trash collectors for not being allowed to take naps in their trucks has resulted in a \$27 million payout to the city employees.<sup>15</sup>

### **Audit: State government errors give employees \$6.3 million in unearned leave**

State agencies mistakenly paid employees 200,000 hours of unearned leave credits at a cost to taxpayers of \$6.3 million, some of which the state will never be able to get back. One office accidentally gave their employees double what they were owed. The overpayments, which spanned 79 agencies, have prompted officials to promise they will improve their accounting systems.<sup>16</sup>

### **Maybe the 1% work for the government?**

While the State Governor is paid \$173,987, a new government transparency database at [TransparentCalifornia.com](http://TransparentCalifornia.com) revealed hundreds of government employees are paid over \$400,000 a year. Two University of California directors even make over \$900,000.<sup>17</sup>

## Education

On a population and inflation-adjusted basis, California's education spending has nearly doubled since 1970 and currently amounts to \$9,183 per student, according to the US Census Bureau. Current per pupil education spending is higher than any other state in the southwestern region, including Arizona, Nevada, Utah, Colorado, New Mexico, Texas and Oklahoma.<sup>18</sup> And despite tuition increases in the last decade, California still offers by far the nation's most affordable community college tuition, according to official College Board data.<sup>19</sup> However, in terms of effectiveness for these dollars spent, we are ranked among the worst.<sup>20</sup>

### **University of California officials offended by requirement that they disclose their spending**

Governor Brown signed a law in 2013 requiring UC officials to break down how they spend money. So far, university officials have refused to comply and have reacted with offense at the suggestion they disclose their expenditures.<sup>21</sup>

UC President Janet Napolitano, who herself makes \$570,000<sup>22</sup> and is preparing to move into a 13,000 square foot university-owned mansion<sup>23</sup>, said the university system and the Governor have "different visions," and that running colleges is not "just a budget exercise," implying they are somehow above disclosure. The Governor meanwhile has said, "I've got a whole book showing how the university is spending money it doesn't have to ... certain kinds of research, sports, gardeners, a lot of things."<sup>24</sup>



### **Party like you're a college administrator?**

When they supported the Proposition 30 tax increase two years ago, they said it was because they needed more money for the colleges. Now, CSU administrators have been exposed for spending hundreds of thousands of donated money on parties and alcohol.<sup>25</sup>

### **Maybe they didn't check his credit report**

Los Angeles County's Centinela Valley Union High School District gave its Superintendent a \$910,000 loan with \$0 down and 2% interest even though he'd declared bankruptcy twice. Even worse, at the

same time they gave the Superintendent the huge loan, they were laying off teachers and cutting programs.<sup>26</sup>

### **UC Davis researcher needs to do some research into ethics**

A UC Davis researcher came under investigation by Federal authorities for allegedly receiving over \$1 million in grant funds from two agencies for the same work. The university paid a settlement of nearly \$500,000, which authorities hope will serve as a warning to others.<sup>27</sup>

**Actually coffee is not an investment**

The Castro Valley Unified School District spent \$14,000 on an espresso machine, and called the purchase “an investment,” outraging local taxpayers. Some citizens also noted serving espresso is not particularly healthy at a time when health and fitness are being emphasized.<sup>28</sup>



## Environmental

California has aggressively embraced a far-reaching green program, including cap and trade energy taxes intended to fight global warming and the nation's most extreme mandates for unreliable solar and wind power.<sup>29</sup> Many analysts blame this "environmental leadership" for contributing to the state's persistently high unemployment rate, high energy costs and declining industrial base.

With these negative consequences and such high-profile failures as the half billion dollars of taxpayer subsidies provided to solar panel manufacturer Solyndra, one would think it would be wise to exercise caution in adopting additional green regulations. However, the Governor has instead decided to go full speed ahead with proposals that, if actually implemented, could make the already-bad situation much worse. The Governor's expanded green program aims to incorporate a 50% renewable energy mandate by 2030 and a 50% reduction in gas and diesel fuel use.<sup>30</sup>

### **\$2.2 Billion Bird-Scorching Solar Project**

Massive new solar field in the Mojave Desert turns out to be a bird killing machine. \$1.6 billion in taxpayer dollars was given to this project.<sup>31</sup> This plant, which is considered the world's largest solar plant, also only produces a quarter of the power they'd expected. Despite the \$1.6 billion subsidy involved in building the project, because of the plant's failure to produce energy at the level expected, operators now want a \$539 million bailout.<sup>32</sup>



### **Recycling program scammed out of \$100 million a year**

A 1986 initiative created a recycling program that pays people 5 cents per can they recycle. The program has \$1.1 billion in reserves, but the State Auditor found because of lax oversight out-of-state scammers are draining \$100 million a year by bringing in trash from other states and redeeming it in California.<sup>33</sup>

### **Over \$70 million to take cars off the road that weren't on the road in the first place**

Since 2010, California has spent \$120 million taking high emission vehicles off the road through its cash for clunkers program. However, an analysis found 60% of the vehicles "taken off the road" were unregistered suggesting most were not being driven in the first place. Furthermore, because the program lacks cost-effectiveness criteria, analysts estimated that the vehicle retirement aspect of the program will cost \$19,000 for every ton of pollution that it reduces. The replacement portion of the program is even more expensive, at \$43,000 per ton.<sup>34</sup>

### **Happy fish, sad people?**

California is in the midst of a serious drought, which is harming farmers and precipitating draconian conservation measures, including door to door "water police."

At the same time, officials are releasing thousands of acre feet of reservoir water into the ocean for the comfort of fish – 70,000 acre feet in April alone, or enough to meet the annual needs of a city of a half million people.

While the stated purpose of these “pulse flows” is to help baby salmon reach the sea, Congress has failed to implement less costly alternatives such as fish hatcheries and predator control.<sup>35</sup>

## Health

Many Californians are proud to maintain a healthy lifestyle and have a reputation for embracing all of the latest health trends. These individual decisions help earn California high rankings on key health metrics such as smoking and obesity rates.<sup>36</sup>



However, California's government-run programs aimed at keeping people healthy have not always been so healthy in terms of financial best practices. California's Obamacare exchange, Covered California, has come under criticism for conflicts of interest and the state's Medicare and Medi-Cal programs have paid hundreds of millions in reimbursements for fraudulent bills.

### **Medicare and Medi-Cal fraud costs state millions**

California's Medicare and Medi-Cal programs are designed to provide a safety net so that people who are poor or uninsured can have access to healthcare. Officials must separate legitimate applications from people who truly need care from con artists who are merely trying to bilk the system. The following scammers were caught in 2014, but only after receiving millions in payments for their fraudulent bills:

- California-based hospital chain was ordered to pay a \$37 million settlement for false claims submitted to Medicare and TRICARE on behalf of patients who were admitted unnecessarily.<sup>37</sup>
- San Fernando Valley woman sentenced to prison after submitting \$25 million in fraudulent bills for services and supplies that were medically unnecessary and sometimes never provided.<sup>38</sup>
- Glendale psychiatrist submits \$20 million in bogus claims for expensive anti-psychotic drugs.<sup>39</sup>
- Medical device company ordered to pay \$40.1 million settlement for promoting products for uses not approved by the Food and Drug Administration. The company paid \$11 million in kickbacks to one doctor.<sup>40</sup>
- Doctor sentenced to three years in prison and ordered to pay \$601,581 in restitution after regulators discovered his clinics, patients, bills and even medical charts were all fabricated to receive state money.<sup>41</sup>

### **\$184 million in Obamacare money awarded to insiders**

California's Obamacare exchange awards \$184 million in taxpayer dollars to insiders, skips transparency and accountability procedures.<sup>42</sup>

### **Crazy spending: 439 state psychiatrists make over \$200,000**

California's Governor makes just over \$200,000, but seven state psychiatrists earn more than half a million dollars a year, and 439 make over \$200,000.<sup>43</sup> Many of the psychiatrists employed by the state work in the prison system, but official statistics from the Department of Corrections and Rehabilitation show prisoners who have

received psychiatric treatment reoffend at higher rates than the general prison population.<sup>44</sup>

### **Maybe they're feeling depressed?**

The California prison system is preparing to build a psychiatric inpatient unit for death row inmates. Plans call for a 40 bed facility although a cost estimate was not available.<sup>45</sup>

### **\$12 million in “unanticipated operational issues” at prison healthcare facility**

After spending \$839 million building a new state of the art prison medical complex in Stockton, the Governor is now requesting an additional \$12 million to correct issues related to poor planning. These issues have included inadequate accommodations for disabled inmates and problems providing basic medical and personal hygiene products which have resulted in outbreaks of infection among patients.<sup>46</sup>

### **\$1 million for Richard Simmons Obamacare commercial**

Some people might argue Richard Simmons is not the most compelling endorsement. In fact, with many people simply uninterested in purchasing Obamacare, Covered California officials have more recently begun to shift their attention to threatening people with fines for not signing up.<sup>47,48</sup>

## Infrastructure and Technology

The ability to move people, goods and information quickly and efficiently is a fundamental requirement for economic growth. In fact, while not all citizens share the same preferences with respect to the size and scope of government, nearly everybody agrees maintaining a quality road system is one of our government's most important responsibilities.

Unfortunately, even with the second highest gas taxes in the nation<sup>7</sup>, California's roads rank among the nation's worst.<sup>1</sup> While existing infrastructure crumbles, policymakers have chosen not to focus on maintenance and needed expansion of our highway system – they have instead chosen to turn their attention to a high speed rail boondoggle, which has been plagued by delays, exploding costs, and the failure of planned federal and private funds to materialize.

### **3,500 surplus jobs at Caltrans cost taxpayers \$500 million**

The Legislative Analysts' Office has concluded Caltrans' has not reduced its staff to reflect a declining workload. This overstaffing has resulted in \$500 million in unnecessary expenditures that could have been devoted to pressing needs such as reducing highway congestion and improving pavement.<sup>49</sup>

### **Sometimes changing your mind can be costly**

State officials changed their plans on a major IT project, titled Fi\$Cal, resulting in \$56 million in additional costs. The \$56 million is over the project's original budget of \$616.8 million.<sup>50</sup>

### **Ruptured Los Angeles pipe gushes 20 million gallons of water**



A 30 inch ruptured pipe created a giant 30 foot geyser and 25 by 30 foot sinkhole in Los Angeles' famed Sunset Boulevard. The 20 million gallons of water lost in the incident is equivalent to the annual consumption of 135 families. Los Angeles has one million feet of pipes that are over a century old, and officials say they do not have enough money to upgrade this aging infrastructure.

However, last year the city discovered that \$40 million had been had been diverted to two trusts jointly controlled by the union and utility managers. Furthermore, in 2008 the DWP spent \$162 million on a flawed electronic billing system that overcharged more than 60,000 rate payers and resulted in bank overdraft fees. These are funds that could have been invested in new pipes.<sup>51</sup>

### **City brought to brink of bankruptcy while one guy profits**

A public works director in the Orange County city of Placentia recommended himself for a \$450,000 a year position managing a proposed \$650 million rail project that nearly bankrupted the city.

To finance the project, which would have lowered a segment of railroad tracks into a five mile tunnel, the city depleted reserve accounts, cut programs, sold parkland, issued bonds and even considered eliminating the police force. The project was never actually built due to financial difficulties and a judge has threatened the public works director with jail time if he doesn't pay back some of the money he made.<sup>52</sup>

### **Yet another major defect found on Bay Bridge**

A Bay Area bridge was completed in 2013, a decade late and \$5 billion over budget. In the latest complication for the project, 423 steel rods that are supposed to anchor the bridge's eastern portion have been found to be sitting in potentially corrosive water. The defect is a result of failure to pump enough grout into protective sleeves meant to keep the rods dry. The 25 foot rods are essential for maintaining the bridge's seismic stability.<sup>53</sup>

## Conclusions

Californians have some legitimate disagreements over the proper size and scope of government. Some debates are framed around the pre-conceived and false notion that the more we spend, the more we get, or that spending less would necessarily involve a reduction in the quality of services we care about.

However, we all should be able to agree that losing billions of dollars a year to instances of waste, fraud and abuse is unacceptable. This is money that could be used to improve our roads, make our communities safer and improve education for our children without raising taxes. Furthermore, while this report lists numerous examples, these are only instances which are widely known about at this time due to their exposure by media, whistleblowers and law enforcement agencies. There could be much more still yet to be discovered.

If a family realizes they spend more than they can afford every month, before going into debt, it is wise to look at where the money is going. Maybe they are automatically-renewing subscriptions that were forgotten about or paying for a gym membership that is not being used, or they are buying expensive brand name clothes when cheaper good quality alternatives are available?

Likewise, before Californians consider tax increases, which come with an economic cost of lost jobs and increased hardship on us all, why not more fully examine where money is currently going and try to do more with the funds that taxpayers already provide at great sacrifice?

**About the Author:** *Eric Eisenhammer serves as Director of Grassroots Operations at Howard Jarvis Taxpayers Foundation, a nonprofit 501(c)3 organization dedicated to research, education and litigation on behalf of taxpayer rights. He earned his Master of Public Policy Administration from Sacramento State University and baccalaureate in Business Administration with an emphasis in Finance from California State University, Northridge. He served as a California State Senate Fellow and is also a small business owner. He can be reached at [eric@hjta.org](mailto:eric@hjta.org).*

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