Follow the Money 2020

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Introduction

2020 will long be remembered as the year our lives were upended by the COVID-19 pandemic. California has had a problem with waste and corruption for years, but COVID-19 made the problem worse with Governor Gavin Newsom’s suspension of the Legislature’s usual operation.

Chief among the instances of waste, fraud and abuse associated with the pandemic were payments of $11 billion to as much as $30 billion made to unemployment scammers. While Californians legitimately unemployed due to virus shutdowns have been unable to reach the state’s Employment Development Department, thousands of scammers have received payments, including 20,000 inmates in jail or prison and even death row inmates, including convicted double murderer Scott Peterson.

Other examples of problematic pandemic-related spending include questionable mask deals, about which the Newsom Administration has refused to answer conflict-of-interest questions, and a $35 million get-out-the-vote contract awarded to a partisan consulting firm associated with the Biden campaign.

Apart from the pandemic, the state’s usual waste, fraud, and abuse have also continued unabated—from $1 billion in solar fraud associated with nonexistent...
generators to $300 million spent in Los Angeles County on a voting system that
doesn’t work as promised.

Such malfeasance is not just an academic matter but has real-life implications for
regular Californians. Even as billions are squandered, the California Legislature is
considering an additional $22 billion in “wealth taxes.”

The exodus of overtaxed Californians is accelerating, with major businesses moving
to Texas and other more welcoming states, and Governor Newsom now facing a
recall. It’s important that policymakers address our state’s rampant waste because
taxpayers certainly deserve better.

**Bureaucracy & Corruption**

“Mr. Clean”? Not so much ...

1/28/20

In a story that could only come from the most left city on
the left coast, the public servant tasked with overseeing San
Francisco’s “poop patrol,” and who went by the nickname of
“Mr. Clean,” was implemented in a web of scandals
including bribery, wire fraud and misuse of public funds.
Among the alleged scams in which Mr. Clean was involved
were spending over $400,000 commissioning a PR agency
to develop a fake study claiming the city was spotless, when
in fact human-waste incidents had increased by 200
percent, and suspicious dealings with a Chinese
development company. Also uncovered was a past affair
with and a $5,600 loan to San Francisco mayor London
Breed, possibly explaining why Mr. Clean, whose real name is Mohammed Nuru,
was not relieved of his job earlier.¹²
CalPERS loses $69 billion after blow from COVID
3/23/20

Coronavirus trauma to the stock market early in 2020 caused $69 billion in losses to the California Public Employees' Retirement System (CalPERS), which has faced intensifying solvency challenges and questions about whether it can meet its obligations. These challenges have been largely ignored by California's political establishment in spite of rising mandatory payments having already caused bankruptcies and budget strains to communities around the state.³

Voting system cost $300 million but doesn’t work as promised
4/10/20

Los Angeles County spent $300 million on new voting technology. Officials had promised that the new system would use paper ballots that would provide the means for citizens to verify election results. But when a Long Beach sales tax narrowly passed, opponents were told accessing the ballots would be so complicated and labor intensive that they would need to pay up to $200,000 for the privilege.⁴

Please stop managing – here’s a half million dollars
4/23/20

The city of Anaheim unexpectedly announced the resignation of its city manager and paid him a $475,000 severance package, far more than his contract required if he was terminated. In the previous five years, Anaheim “parted ways” with three city managers, three city attorneys and a police chief. Severance pay and legal settlements totaled more than $2.5 million.⁵,⁶
$800,000 bribery scheme, a giant skyscraper, and an expensive sexual harassment coverup
6/23/20

Los Angeles City Councilman Jose Huizar was charged with receiving over $800,000 in bribes and gifts from a Chinese developer in connection with a plan to win approval to build the highest skyscraper west of the Mississippi River. The developer provided $600,000 to settle a sexual harassment suit against Huizar, who is now no longer in office.7

“Balanced”? 
7/14/20

California’s political leaders have enthusiastically patted themselves on the back for producing a “balanced” budget. However, a closer look at the 2020-2021 budget reveals the budget actually spends $20 billion more than projected revenues. Even worse, this budget sets up taxpayers to be on the hook if the economy fails to achieve politicians’ rosy projections—and with so many productive enterprises currently being driven from the state, these projections really deserve serious skepticism.8

Property taxes for thee but not for me? 
8/03/20

Governor Newsom has supported property tax increases on California taxpayers, but records show he hasn’t always paid the property taxes due on his own property in Sacramento and Marin, worth more than $6 million.9
“Free” trip to Hawaii!!
11/16/20

Over half a dozen legislators accepted a free all-expenses-paid trip to Hawaii with accommodations at the luxurious Fairmont Kea Lani Hotel in Wailea. At this annual event, legislators have a chance to play on the beach with the same special-interest lobbyists whose business they vote on every day. If that weren’t inappropriate enough, this also came at a time when regular Californians were locked down due to COVID.10

Spending tax dollars to campaign for ... more tax dollars?
11/5/20

Government agencies are routinely being caught using tax dollars to campaign for yet more tax increases. The problem has gotten so bad that the chairman of the Fair Political Practices Commission wrote an op-ed on the problem urging citizens to contact authorities if they observe this type of activity in their own community. Needless to say this raises an obvious question. If a tax increase were such a good idea, why can't the pro-tax crowd rely on their plans’ merit to win donations, volunteers, and votes? That’s how campaigns work for everyone else. The Howard Jarvis Taxpayers’ Foundation has established the Public Integrity Project to hold local government entities accountable for improperly spending public money on campaigns.11

CalPERS Has a Fix for Its Huge Pension Shortfall: Borrow More
6/19/20

California's government-funded pensions have become increasingly more insolvent. Politicians have blamed the stock market in general and have failed to recognize their own role in causing the situation through their decisions to make overly generous promises. The dire situation has been partially concealed with rosy
projections of anticipated returns that experts say are unrealistic, even as politicians tie the hands of investment managers with politically dictated investment decisions that limit returns. Now, they are making a desperate attempt to drive up returns by borrowing money to invest. This is not tremendously different than pawning your watch to cover your bets in Vegas.\textsuperscript{12}

**Education**

A losing bet

2/29/20

California’s lottery was once promoted as a way to provide more funding for schools. However, a report by the State Auditor found the lottery shortchanged the schools by $36 million. The Auditor’s investigation also turned up other problems at the lottery showing a pattern of unrestrained spending including $300,000 in inappropriate spending for food, travel, and accommodations; $720,000 in agreements that were not properly vetted; and $5.7 million awarded in eight contracts that failed to meet bidding requirements.\textsuperscript{13}

School district gives raises they can’t afford, leading to layoffs

6/23/20

An audit of San Diego’s Sweetwater Union High School District found instances of “fraud, misappropriation of funds or assets, or other illegal fiscal practices” that preceded the district’s decision to secure bond funds and give teachers a raise. Ultimately as the bills came due, 200 district employees were laid off. This situation is much like a family lying about their income on their home loan application only to be foreclosed on when they can’t make the payments.\textsuperscript{14}
Environment

Fun-loving solar scammers rack up almost $1 billion; spend it on Nascar sponsorship, private Pitbull concert, cars and private jets

1/24/20

The owners of California-based DC Solar were convicted of running a $912 million Ponzi scheme, forging documents, and covering up the fact that many of their ostensible solar generators didn't actually exist. Investors were attracted by tax credit programs meant to stimulate green energy investments, making this another in a long list of examples of taxpayers paying the bill for scams sold with a promise of saving the planet.\textsuperscript{15}

Are climate policies helping our economy? The state doesn’t know

8/23/20

California’s cap-and-trade program was adopted with promises that the law would benefit the state’s economy through the creation of green jobs. Further environmental regulations building upon this program have also been accompanied by promises of economic benefits. Critics however have argued such policies harm the economy by raising the cost of doing business, thus raising prices and accelerating the flow of businesses out of California. Policymakers continue to consider further such laws, but there is currently no requirement that the state analyze whether past measures have lived up to their promises.\textsuperscript{16}

You’re manuring me

12/17/20

California utilities would seem to have some serious challenges that demand their attention, ranging from high costs to consumers as compared to other states,
increasingly frequent brownouts and blackouts, and outdated equipment. Now however, a major Southern California utility is offering customers the option of receiving energy derived from cow manure, for an added charge. Most Californians probably consider power from manure low on their wish list.¹⁷

Healthcare

Nursing board covered up failure to investigate complaints
6/30/20

A scathing State Auditor's report in 2016 found the state's Board of Registered Nursing failed to promptly investigate complaints and directed the agency to clear its backlog. However, in a fraud that also put lives in danger, instead of clearing the backlog, the board falsified reports to cover up their lack of progress. A later audit of the ongoing situation stated: “The executives' obstruction violated state law and constituted gross misconduct.”¹⁸

$1.6 million fraud targeted immigrant women
9/24/20

Fraudsters ran Facebook ads offering insurance to pregnant immigrant women in the country on tourist and work visas. In fact, while the women paid thousands of dollars to them, the insurance didn’t exist. Instead the fraudsters falsified application forms to illegally enroll the women in the taxpayer funded MediCal program.¹⁹

Extreme case of profits before patients nets private equity firm $400 million
9/30/20

A Los Angeles private equity firm bought a California hospital chain that, according to the hospital company, receives 80% of its revenues from Medicare and Medicaid reimbursements. The investment firm drew $400 million in dividends from the hospital company. Meanwhile the hospitals faced overcrowding, deferred
maintenance and such a lack of funds that they couldn't afford medicine or gas for ambulances.\textsuperscript{20}

16 pharmacies hit with $60 million penalty for fraud ring that scammed veterans
12/11/20

Three individuals and 16 pharmacies conspired to sell expensive nutritional shakes to veterans considering bariatric surgeries. The scammers furthermore falsified records of co-pays that patients never made, allowing them to fraudulently collect insurance money.\textsuperscript{21}

\textbf{Infrastructure}

$600,000+ condos for the homeless in Los Angeles
1/7/20

A new 72-unit apartment complex for the homeless in Los Angeles clocked in at a $600,000 to $700,000 per unit cost to taxpayers. The spiffy new homes, located in a trendy part of town, range from studios to 3 bedroom units and are more expensive than the median home price in Los Angeles County. That means many taxpayers paid to give the homeless more expensive homes than they themselves reside in.\textsuperscript{22}

Another $1 billion increase to estimated high-speed rail cost
2/12/20

State high-speed rail officials released a revised estimate of the project's total cost, blaming a $1.3 billion increase on inflation and “better cost projections.” However, this news is not an isolated incident but just the most recent instance of taxpayers being told the project will cost more than its original
voter-approved $40 billion price tag. The official total has already doubled and taxpayers suspect the costs will continue to rise if the project continues.\textsuperscript{23}

**High-speed rail employees pressured to hide bad news**

3/09/20
Employees for California’s lead high-speed rail consultant reported they were pressured to cover up delays and cost overruns or face termination. Multiple employees in the company’s Fresno office have corroborated the account, which was filed in an ethics complaint.\textsuperscript{24}

**$1.2 billion for new digs for legislators and their staffs**

5/14/20
The Governor and members of the State Legislature currently have their offices in a portion of the Capitol known as the “East Annex,” an addition to the Capitol building constructed in the late 1960’s. However, they’ve approved a plan to spend over $1 billion to knock down and rebuild this structure to accommodate the politicians, political staff members, and armies of lobbyists in a manner in which they see fit.

Now, COVID-19 economic troubles combined with concerns about uprooting nearby trees have prompted questions on whether it is an appropriate time for this project. With so many Californians homeless or unemployed and the government in massive debt from unfunded employee benefit liabilities, perhaps the real question should be whether this project was ever an appropriate idea at all.\textsuperscript{25}

**Failure to develop plan results in expiration of $2.7 billion in affordable housing bond funds**

11/19/20
A report from the State Auditor revealed that an agency under the State Treasurer’s office allowed $2.7 billion in authorized bond capacity for affordable housing to expire, unused, between 2015 and 2017. During that time, homelessness in San Francisco alone increased by 17%. The auditor’s report said California has four agencies that handle housing, “but there is no sound, well-coordinated strategy or
plan” to effectively spend the money allocated to them for affordable housing projects.\textsuperscript{26}

\textbf{California motorists get among America’s worst bang for the buck on our gas tax dollars}

12/28/20

The Reason Foundation’s 25th annual ranking of America’s highways ranked California among the worst in terms of the condition of our roads, and also in the value that taxpayers receive for the tax dollars we invest in transportation. On average, California has one of the highest rates of spending per highway mile at $600,000 per mile. California also ranks among the highest in terms of administrative spending per highway mile. Meanwhile, commuters won’t be surprised to know Californians also experience some of the country’s worst traffic, sitting in traffic delays for an average of 62.5 hours annually.\textsuperscript{27}

\textbf{COVID-related}

\textbf{Secret mask deals}

5/28/20

A series of mask deals by the Newsom administration have raised concerns about conflicts of interest, but the Administration has refused to answer questions from legislators and members of the media. A troubled $1.4 billion deal with Chinese bus manufacturer BYD, whose masks have failed a series of safety tests, was preceded by an abruptly cancelled payment of nearly $500 million to a company that had been formed several days prior by a group of political consultants.\textsuperscript{28}
$69 million fraudulently billed for fake COVID-19 tests
6/9/20

A Northern California company marketing a bogus allergy test seized the apparent opportunity presented by the pandemic to launch a bogus COVID-19 test. Investigators said the company exploited patients interested in an alternative to the standard blood test and then used bribes and kickbacks to defraud Medicare before they were busted. The fraudulent tests seem to have been modeled on the high-profile Theranos fraud, which appealed to people queasy about blood tests with the false promise of an accurate test from just a finger prick.29

Los Angeles pays high profile firm $1.9 million for “communications support”
6/10/20

Although Los Angeles has 49 public information officers on staff, a Fox 11 investigation found the county paid $1.9 million to a prominent outside PR firm to promote awareness of the pandemic.30

State government buys hotels and apartments in fire sale ... that they caused?
9/05/20

Governor Newsom touted the purchase of $600 million in hotel and apartment buildings meant for COVID-19 related homeless housing. The state bought these buildings for prices lower than they estimated, raising the question of whether their policies (shutdowns of tourist activities and tenant rent suspensions) decimated these businesses, thus paving the way for their purchase at bargain prices. If this is not illegal, there is certainly a legitimate question of whether this is an abuse of government power.31

$35 million get-out-the-vote deal with DC firm linked to Biden campaign
9/30/20

Citing coronavirus-related concerns, California’s then-Secretary of State Alex Padilla awarded a $35 million no-bid contract for voter outreach to Washington, D.C.-based
SKDKnickerbocker, a public relations company associated with the Biden campaign. Padilla, a Democrat, had endorsed Biden. The deal bypassed the state’s usual vendor procurement procedures and furthermore violated state law prohibiting the use of public money for get-out-the-vote services in the first place.\textsuperscript{32}

**Up to $30 billion in unemployment fraud: 20,000 prisoners receive unemployment money**

11/24/20
While legitimate victims of pandemic-related unemployment have faced long delays to their requests for benefits, scammers have received a windfall. Among those who’ve fraudulently accessed payments are convicted killers including Scott Peterson and other death row inmates. All in all, unemployment fraud has resulted in between $11 billion and $30 billion in improper payments to scammers.\textsuperscript{33}

**Conclusion**

In reading through these examples of tens of billions of dollars of waste, fraud, and abuse one can’t help but ask how this state of affairs came to be and what can be done about it?

Some point out that California's one-party political dominance has diminished the checks and balances created when both major parties are competitive. “Absolute power corrupts absolutely,” as late 1800s British politician Lord Acton famously stated.

Others note our state’s massive size makes it unwieldy and difficult to govern. With roughly 40 million people, California is the most populous state in the nation. The frequent proposals to split the state highlight the large number of people who feel their political leaders have failed to adequately represent them.
In some cases, such as where the Howard Jarvis Taxpayers Foundation attorneys sue on behalf of taxpayers, accountability must be achieved in the courtroom with the descent of a judge’s gavel.

Finally, accountability is not only the job of politicians but of every citizen. Our representatives are not our rulers but work for us. That’s why it’s incumbent on you, the citizen taxpayer, to know the names of your representatives and to hold them accountable. Check the government meeting agendas on the websites of your city council and county board of supervisors to find out what’s taking place in your community and the plans that are being considered or implemented. Make yourself heard both in the policymaking process and on Election Day.

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