



HOWARD JARVIS TAXPAYERS FOUNDATION

Where does our money go?

Follow the Money 2015

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Why is more never enough?

As a result of a recovering economy, California leaders are reporting revenue surpluses. The most recent proposed budget represents a \$20 billion spending increase over the last three years. In spite of record revenues, new tax increases are being proposed to cover such a large spending increase. Meanwhile, special interests are planning additional billions in tax increases for the November, 2016 ballot. Why does it seem no amount of money is enough for Sacramento, and why are they unable to competently provide the services people care about no matter how much they spend?

Californians are fortunate to live in a state with beautiful scenery and some of the world's most pleasant weather. Unfortunately, along with the great weather and scenery and the tremendous wealth found in Hollywood and Silicon Valley, California also suffers the nation's highest poverty rate¹ and one of the country's highest rates of joblessness². Roads are ranked among the nation's worst³ and schools are ranked near the bottom in educational outcome⁴ despite the highest per student spending in the Southwest.⁵

This state of affairs is offered as a justification for tax increases. Politicians argue that with such terrible problems more money should be spent in order to bring about improvements,

But Californians already pay the nation's highest personal income tax, highest sales tax, highest effective gas tax and the highest corporate income tax in the West.⁶ So then isn't it reasonable for taxpayers to ask where all of this money went? Why do they always need more and why should they be trusted with more when they have so little to show for their previous efforts?

Follow the Money 2015 answers some of these questions. While people can disagree on matters of policy, all Californians should be able to agree that waste, fraud and abuse committed by government with people's hard-earned tax dollars is unacceptable. Money lost to waste, fraud and abuse is money that can't be spent on services people care about such as education and public safety.

In the pages ahead you will find examples of waste, fraud and abuse in the California state bureaucracy, in our schools, in our green programs, in our healthcare systems and in the area of transportation. Altogether, these instances of waste add up to billions of dollars.

Bureaucracy

Government lacks the same incentive to operate effectively as private businesses. If a government agency squanders the money it's given, it's possible nobody will notice. And, even if it is exposed, rarely are there consequences imposed on the responsible individuals. While businesses have to answer to shareholders who demand a return on their investment, most regular citizens are far too busy to track down where their tax dollars actually go. Nonetheless, recent polling suggests that citizens believe that a large portion of their tax money is wasted.⁷

State workers' abuse of vacation time costs taxpayers \$477 million. California government employee vacation time is officially capped at 80 days, but an investigation has revealed many state workers have ignored the cap and amassed vacation time in excess of the limit. In the most extreme examples, some employees have amassed nearly two years in unused time. Failure to enforce the vacation time cap will cost taxpayers \$477 million.⁸

Did you know the government lobbies itself? \$110 million spent by local government makes them biggest spending special interest. Business and labor interests are often portrayed as major power brokers in Sacramento. However, while these interests do spend tens of millions on lobbying, none spends as much as local governments. Local governments consider the millions they spend on lobbying to be an investment in obtaining generous grants from the state.⁹



Phantom state workers. State law requires agencies to return money to the General Fund not spent on positions vacant more than six months. However, an audit by the Department of Finance found 9 out of 10 departments examined were not in compliance with the rules. Agencies regularly transfer employees between positions to make vacant spots appear filled. While the audit did not reveal any evidence that funds for these vacant position was pocketed or squandered, auditors could not determine where the money actually went.¹⁰

Deadbeats in the California state government?

The *Sacramento Bee* reported since 2004, the state has had to pay over \$37 million in late fees for failing to pay their bills on time, or an average of \$3.9 million a year. Late fees were often incurred when legislators failed to pass budgets on time or when revenue shortfalls occurred.¹¹

\$11 million intended for foster youth embezzled in LA County
County audits found between 2000 and 2010, Los Angeles County foster youth nonprofits misappropriated \$11 million in county funds and spent it on vacations, luxury cars, fine china and salaries for nonexistent employees¹².

Bureaucratic boondoggle robs charities of \$10 million
Some donations California taxpayers designated to charity on their taxes never actually reached their intended recipients, according to a recent investigation by the Associated Press. CBS 13 of Sacramento reported that due to bureaucracy, of \$35 million collected for charity over a ten year period, only \$25 million actually reached their designated organizations.¹³

\$84,000 on rigged study

The purpose of a study is to examine various aspects of a problem and develop conclusions based on objective research. However, in California studies are often commissioned with a predetermined outcome. Such was the case with \$84,000 the City of Los Angeles spent on a study examining the benefits of a minimum wage increase and conducted by a think tank established by labor interests.¹⁴

DMV bribery scandal associated with up to 23 accidents

An *Associated Press* investigation found the DMV revoked or cancelled 602 commercial licenses that could be linked to fraud. DMV employees were found to have created records falsely showing drivers had passed written and behind the wheel tests. Drivers paid bribes up to \$5,000 for the fraudulent licenses.¹⁵

Education

Education is a top priority for many in our society, and politicians constantly promise they will improve education. Without a doubt, education is very important because a well-trained and qualified workforce is essential to the future prosperity of our state. We must have an education system that prepares young people for the economy of tomorrow so that they can take advantage of the opportunities available to them.



Because education is something people care about, it's also invoked often in the political dialogue and sometimes for politicians' self-serving ends. Tax-raisers have claimed schools lack the funds they need because of Prop. 13.

However, the fact is that California's per pupil spending – adjusted for inflation – is substantially *higher* than even pre-Prop 13 levels¹⁶. Moreover, California teachers are among the highest paid in the

country¹⁷ and we spend more per pupil than any other Southwestern state.⁵

In fact, the poor state of California's education outcomes has more to do with the political power and influence of big-spending teachers unions. The California Teachers Association (CTA) has spend hundreds of millions to influence politics¹⁸ and has blocked many important reform proposals that could have helped empower students and parents. In fact, tenure policies that block bad teachers from being fired were recently ruled unconstitutional in a major lawsuit that could have far-reaching implications.¹⁹

16 of the country's 25 most wasteful school districts are in California. WalletHub, an online financial resource, calculated where school districts spent their dollars most efficiently and where they were the most wasteful. WalletHub examined per pupil spending and test scores and adjusted the data for socioeconomic factors such as poverty and English language proficiency. The 10 best performing school districts were scattered around the country, but none were in California.²⁰

Rialto school accountant sentenced for embezzling \$1.8 million in lunch money

A Rialto school accountant was sentenced to five years in jail for embezzling \$1.8 million to pay for a lavish lifestyle. Altogether, the school district suspected the accountant embezzled \$3 million. After her release from prison, the accountant will be expected to pay the money back at a rate of \$150 a month, which works out to 800 years before the debt is paid off.²¹

Former UC President received over half a million dollars to "prepare to re-enter teaching."

When he was replaced by Janet Napolitano as University of California President, Mark Yudof received \$546,000 to "prepare to reenter teaching" as an instructor at UC Berkeley Law School. There, Yudof co-instructed one class which met for three hours a week before retiring. For teaching this class, Yudof received an additional \$315,000.²²

Environmental

California's beautiful scenery and pleasant weather attracted many of the people who currently call the state home and also helps attract millions of tourists a year. Almost everyone agrees protecting our environment for future generations should be a priority.

However, not every proposal that promises to be "for the environment" is actually a good policy and some green programs might even harm and not help the planet. For example, when regulations become so extreme that companies are driven out only to reestablish themselves in locations where environmental regulations are nearly nonexistent. This is bad for the planet. And then there are situations where political cronies of the powerful use "green" as an excuse to shake down taxpayers and secure money from the government for bad ventures that failed to secure the backing of private investors.



Green billionaire gets \$4.9 billion in subsidies

For most of us starting a business depends on whether we have a good idea and are willing to work hard. But for green billionaire Elon Musk it doesn't matter that his companies are unprofitable because his friends in government bankroll his projects.²³

Hundreds of millions in new taxes fail to create "green jobs"

In 2012, California voters approved a tax increase on businesses that they were told would fund the creation of 11,000 green jobs a year. Three years later, an *Associated Press* investigation revealed only 1,700 green jobs were created, or about 1/20 of the jobs promised. The investigation also found the program's oversight board had never met.²⁴

Welfare program for people who buy \$100,000 cars

California grants rebates up to \$2500 to electric car buyers regardless of how wealthy they are or how much the cars cost. This has allowed wealthy people purchasing cars costing over \$100,000, such as high end Teslas, to receive subsidies financed by taxpayers in general. Most people don't even make \$100,000, let alone have \$100,000 to spend on a car! Legislation was introduced to reform this program by limiting subsidies to electric cars costing less than \$40,000. This legislation was defeated so the electric car subsidies for the rich will continue.²⁵

Bird deaths linked to green cronyism?

Wind farm operator donated tens of thousands to officials who exempted them from rules on eagle deaths. The company donated \$25,000 to supervisors who voted to allow them to continue to operate wind turbines that are estimated to be responsible

for over 4000 bird deaths a year, including endangered eagles.²⁶ These wind turbines have earned the nickname "Avian Cuisinarts."

EPA official flew home every weekend at a \$69,000 taxpayer expense

An audit revealed an EPA official who lived in Orange County but worked in San Francisco commuted home most weekends and improperly billed the agency for the expense. Since he worked for the EPA, we also should mention this is bad for the environment.²⁷

Green home improvements harm property values

50,000 California homeowners have signed up for a program that allows them to borrow money to install features such as solar panels and energy-efficient windows. This program, called Property Assessed Clean Energy (PACE), is part of the state's war on climate change and an example of the unintended consequences of the California Legislature's unbridled enthusiasm for all things green. PACE debt stays with the property after its sold so has discouraged prospective buyers and made it hard for homeowners to sell their homes.²⁸

Health

Decades ago, healthcare was primarily considered a private matter between patients and doctors. Now, our health is partly in the hands of big insurance companies and government.

Has this led to better care? While we spend more and more money on healthcare, our life expectancies are still about the same as societies where people spend less.



What would a free market approach to healthcare look like? Many medical practices spend so much processing insurance paperwork that they've found it to be better to opt out of the system entirely and provide care on a direct pay basis.²⁹

While they are the exception, a few areas of the healthcare market are mostly outside the realm of insurance and government. A couple of examples are laser eye surgery and cosmetic surgery. These areas stand out because they are among the only aspects of healthcare where costs have gone down while care has improved. And because doctors run their practices as a business, patients can often get evening appointments and communicate with their doctors outside of regular business hours.^{30, 31}

Insurance fraud costs millions

Widespread insurance fraud is an example of the costs of a mismanaged and bureaucratic system that the unethical manipulate for their own gain. Insurance fraud raises healthcare costs for everyone and impacts taxpayers since programs such as Medi-Cal and Medicare are funded by government.

- Former hospital CFO, two surgeons, charged in \$600 million healthcare billing fraud. The kickback and bribe scheme, which involved a major Long Beach hospital, defrauded workers compensation insurance, and was one of the largest such scams the state insurance department has seen.³²
- A San Diego laboratory chain agreed to pay \$256 million to the Federal government after whistleblowers brought forth evidence of a scheme by the lab that billed Medi-Cal, Medicare and other government programs for unnecessary urine and genetic tests.³³
- The manager of a Riverside psychiatric hospital was sentenced to jail and the repayment of \$53 million in connection with his role in a \$158 Medicare fraud scheme. Instead of receiving treatment, patients were parked in front of

televisions and many did not actually need treatment in the first place. "The former President of Houston's Riverside hospital, his son and their co-conspirators saw mentally ill, elderly and disabled Medicare beneficiaries as commodities to be turned into profit centers – not as vulnerable individuals in need of health care," said Assistant Attorney General Leslie R. Caldwell.³⁴

- In one of the largest-ever instances of medical malpractice, mayhem and insurance fraud, a Los Angeles doctor was charged in a \$150 million scam for offenses including allowing a physician's assistant who never attended medical school to perform surgery and billing for unnecessary procedures.³⁵
- Operators of an Orange County surgical center were found guilty of \$71 million in fraud for submitting bills for unnecessary procedures. The scam involved patients receiving the unnecessary procedures, for which union and PPO health plans were billed, in exchange for free or discounted cosmetic surgery.³⁶

Obamacare

Congresswoman Nancy Pelosi famously stated that we have to pass Obamacare to find out what's in it. We are now finding out what is in it, and the policy, formally known as the Affordable Care Act or ACA, is causing many problems.

Obamacare exchange sends 100,000 people the wrong form

California's Obamacare exchange, known as Covered California, mailed incorrect tax forms to 100,000 customers. The incorrect forms were sent as part of a larger mailing to 800,000 people (the other 700,000 did receive correct forms).

Covered California officials said they would notify those who received the wrong forms by email and send them a link to download the correct form. Considering that many people miss important emails for various reasons such as their email going to a spam folder or not recognizing the sender, it is reasonable to suspect many of these people never saw that email.³⁷

Covered California needs \$155 million more Federal dollars

The healthcare system was plagued by problems from the beginning, when preliminary tests conducted in 2013 predicted the website and call center were not ready to launch. Instead of heeding the warnings produced by these tests, officials launched anyway. The system then crashed due to much greater than anticipated volume. While investigators were unable to obtain a specific cost breakdown, costs associated with making the system operational may have played a role in the agency's request for \$155 million in additional Federal dollars. This request brought to over \$1 billion Federal dollars spent on Covered California.³⁸

Only 65 percent of Covered California's customers reenrolled in 2015

Covered California officials had hoped to increase enrollment by 500,000 in 2015, but instead reported growth of only 1 percent, one of the country's worst. Furthermore, 65 percent of the prior year's customers decided to drop their coverage, despite the fact they are required by law to have insurance. It says something about the program that people are required by law to purchase it and still don't.³⁸

Infrastructure

The ability to speedily transport people and goods is essential to our economy. People who live in the San Francisco Bay area and Los Angeles area, who endure some of our country's most miserable commutes, don't need a study to tell them our current transportation infrastructure is inadequate. Our crumbling and overburdened infrastructure has been cited by Governor Jerry Brown as a reason higher gas taxes are needed, even though Californians already pay some of the highest gas taxes in America.



However, there are other factors behind the horrible state of California roads which help answer the obvious question: "If gas taxes fund roads and California's are among the highest, how are our roads also among the worst?"

In fact, billions in gas tax money has been diverted to purposes other than transportation since 2010. Furthermore, reports of \$500 million in waste at the

California Department of Transportation (CalTrans), first exposed in 2014, remain unaddressed.³⁹

Rail officials fail to disclose likely cost overruns

A recent analysis conducted by the Los Angeles Times has concluded the state's high speed rail project, which is already behind schedule, will probably not complete its San Francisco to Los Angeles link by a 2022 deadline and will also exceed its \$68 billion budget. The current \$68 billion budget is itself twice the cost promised to voters when the project was approved in 2008. However, a 2013 analysis projecting even greater cost overruns was not disclosed to the public by rail officials.⁴⁰

Los Angeles subway link already \$130 million over budget before construction has even begun.

A 1.9 downtown mile subway line meant to connect three Los Angeles County rail lines is already projecting \$130 million in cost overruns before construction has even begun. The relocation of underground electricity and utility lines has proven to be more complicated than anticipated, leading to the current cost overruns. However, experts say problems this early on could indicate additional cost overruns above the project's \$1.4 billion planned cost.⁴¹

Super-human traffic sign painters?

An audit of the Los Angeles Traffic Department's Traffic Paint and Sign division discovered so much overtime that it reached "super-human" levels. Four employees in the division received over \$70,000 in overtime pay. One employee reported working 18-hour days on 10 occasions during a two week period, and at least 16 hours on four days.⁴²

Conclusions

Californians across the political spectrum no doubt have different views on the appropriate level of taxation and what services they want government to provide. However, almost all Californians should be able to agree the hard earned dollars we send to our government in taxes should be used responsibly and not lost to waste, fraud and abuse.

When reading the examples found in *Follow the Money*, it is important to remember this small sample of reported cases are only situations that have been discovered and exposed by official investigations and the media. How much more waste, fraud and abuse remains undiscovered is an important question for taxpayers, who are not only saddled with the bill but are being asked to dig even deeper to pay new taxes.

Over the past decade, the Howard Jarvis Taxpayers Foundation has released numerous annual reports documenting government waste. Before *Follow the Money*, the Foundation released a similar report titled the "Piglet Book." That there has never been an empty report indicates there are many more instances of waste still out there and many that will probably be discovered in the year ahead.

In November of 2016, California voters will consider proposals to increase taxes. At this time, numerous tax measures are circulating petitions and many may qualify for the ballot. Before voters agree to give Sacramento more money, we need to have a conversation about waste, fraud and abuse and consider whether taxpayers truly need to pay more or if there are ways government could simply do more with the money they already receive.

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