State workers call it "use it or lose it," a practice in which departments try to spend every last penny rather than save for the good of the overall California budget.

It is a "perverse" dynamic of government spending, the state's Little Hoover Commission observed more than a decade ago. Department directors fear that Capitol budget writers see leftover funds as proof that too much money was authorized in the first place, possibly resulting in future cuts.

To avoid that outcome, departments spend on anything from extra paper clips to new computers before the fiscal year ends each June.

"It's clearly part of the culture and part of the tension that exists between the Department of Finance and agencies," said James P. Mayer, who serves as executive director of California Forward and previously examined the issue with the Little Hoover Commission.

At the state Department of Parks and Recreation, fourth-quarter pressure to exhaust general fund dollars led administrators to pursue an unauthorized buyout of vacation time and draw up last-minute "dummy" documents for a computer purchase, according to transcripts released last week from an internal investigation. That occurred even as Gov. Jerry Brown threatened to close 70 parks.

"With what we've seen from the parks scandal, when you have a use-it-or-lose-it philosophy, it tends to encourage efforts to hide money or spend everything on things you might not necessarily need," said Sen. Lois Wolk, D–Davis. "It's not a very good way of encouraging efficiency or innovation."

Employees interviewed for the state inquiry, as well as other state workers who contacted the Bee afterward, said they believe the use-it-or-lose-it practice exists well beyond parks.

"I think that's probably a thing in most state departments," Elsie Brenneman, budget officer at the parks department, said in a March interview with state attorneys. "If they have general fund, it's spend it or you're going to lose it."
Neither the Department of Finance nor the state controller's office tracks department general fund spending by month, making it difficult to know how extensive the practice is. Departments self-report information each year to fiscal offices and lawmakers.

Department of General Services purchase records reflect a spike in contracts initiated each June dating back at least to 2008. But the information is clouded by the fact that departments report contract data differently, said General Services spokesman Eric Lamoureux.

State lawmakers are responsible in the annual budget process for authorizing how much money each department receives, relying heavily on data and recommendations from the Department of Finance. If departments have money left over, they are supposed to return it to the general fund, said Finance Department spokesman H.D. Palmer.

State departments returned less money to the general fund as they faced across-the-board reductions in recent years, according to finance officials. In 2008-09, state departments returned a combined $150 million in a $90.9 billion general fund budget. That total fell to $64 million in 2009-10, followed by $10 million in 2010-11, years in which they faced overhead and employee cuts.

**June expenses may not be waste**

State budget experts say they believe departments have long attempted to spend all of their money by year's end. But they suggested it was not necessarily a sign of waste.

"A lot of it is going to be in the eye of the beholder," said Legislative Analyst Mac Taylor.

He said what occurred in the parks department "obviously shouldn't have happened." But he observed that another department might cut costs all year and responsibly buy new computers or copiers only if enough money remains at the end.

"Some may interpret that as, 'Oh, you're buying a copier on June 20 just to spend money,' whereas others may see it as an intended scheduled expense," Taylor said.

Michael Genest, who was finance director for former Gov. Arnold Schwarzenegger and previously served as a budget administrator in state departments, said budget managers face the threat of penalties, including personal liability, if they spend more than authorized by lawmakers and the governor. They create a financial buffer throughout the year to avoid overspending, he said.

When Genest worked at the Department of Health Services more than a decade ago, scientists complained they had outdated laboratory equipment, he said. Genest compiled a list of items that were needed, and then his department bought them at the end of the year if enough money remained.

"It's a perfectly legitimate way to run your business," Genest said.
Still, Mayer said the pervasiveness caught him off guard when he was executive director of the Little Hoover Commission, a watchdog agency that has a budget below $1 million annually. He ended one year with tens of thousands of dollars left.

"Staff came in and said, 'How do you want to spend it?'' Mayer recalled. "I said, 'Why would we do that?' They said because our budget would be reduced if we give it back."

The commission ultimately returned the money. "The bottom line was, we just weren't going to jam the closet with paper clips," he said.

**2-year budget cycle suggested**

Finance officials say they take a holistic review of spending habits and consider whether a department had legitimate reasons for saving money one year.

Still, Mayer said, "there's kind of a spy vs. spy relationship between the line departments and the Department of Finance." He said one way to stop the practice would be to let departments retain what they save.

Mayer's California Forward organization has sponsored Proposition 31. Among other changes, it would create a two-year budget cycle, which he believes would allow more spending flexibility.

Palmer said the Department of Finance has directed budget managers to spend only on critical services and avoid new or expanded programs. Besides his office, he said department auditors, lawmakers, the Bureau of State Audits and the Legislative Analyst's Office serve as watchdogs of how departments spend.

Brown vetoed Wolk's "performance-based" budgeting bill last year requiring departments to show how their funding leads to specific outcomes, a change she believes would discourage the "use-it-or-lose-it" approach. That differs from the current budgeting practice of providing departments money based largely on what they previously received with adjustments for growth.

The governor has asked his departments to use outcome-based budgeting on a case-by-case basis, such as Caltrans' Mass Transportation Program, where 44 positions were deemed unnecessary, finance officials said.

Sen. Jean Fuller, R-Bakersfield, said the parks situation shows departments still have too much financial control.

"We have a lot of delegated authority for expenditures," she said, "yet we don't have a strong central oversight over how much they have in their accounts. They don't have to say why an expenditure makes sense."

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