GOVERNMENT
# Waste Watch

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GOVERNMENT WASTE

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## CAGW
## *PRIME CUTS 2015*

The November 2014 elections gave the Republican Party control of the Senate and a larger majority in the House. Congress now has a clear mandate to reduce spending by eliminating waste, fraud, abuse, and mismanagement. Hanging over Capitol Hill during this shift in power is the nation's record $18.2 trillion national debt, which is a constant reminder of profligate spending in Washington.

As Congress attempted to pass the fiscal year (FY) 2016 budget in April 2015, Citizens Against Government Waste (CAGW) released *Prime Cuts 2015*. CAGW has been publishing the document since 1993. This year's version contains 601 recommendations that would save taxpayers $639 billion in the first year and $2.6 trillion over five years. Since the organization's inception in 1984, the implementation of CAGW's recommendations has helped save taxpayers $1.4 trillion.

*Prime Cuts 2015* can serve as a valuable resource for paring down a bloated federal budget. No area of government spending is spared. For example, the report proposes eliminating the

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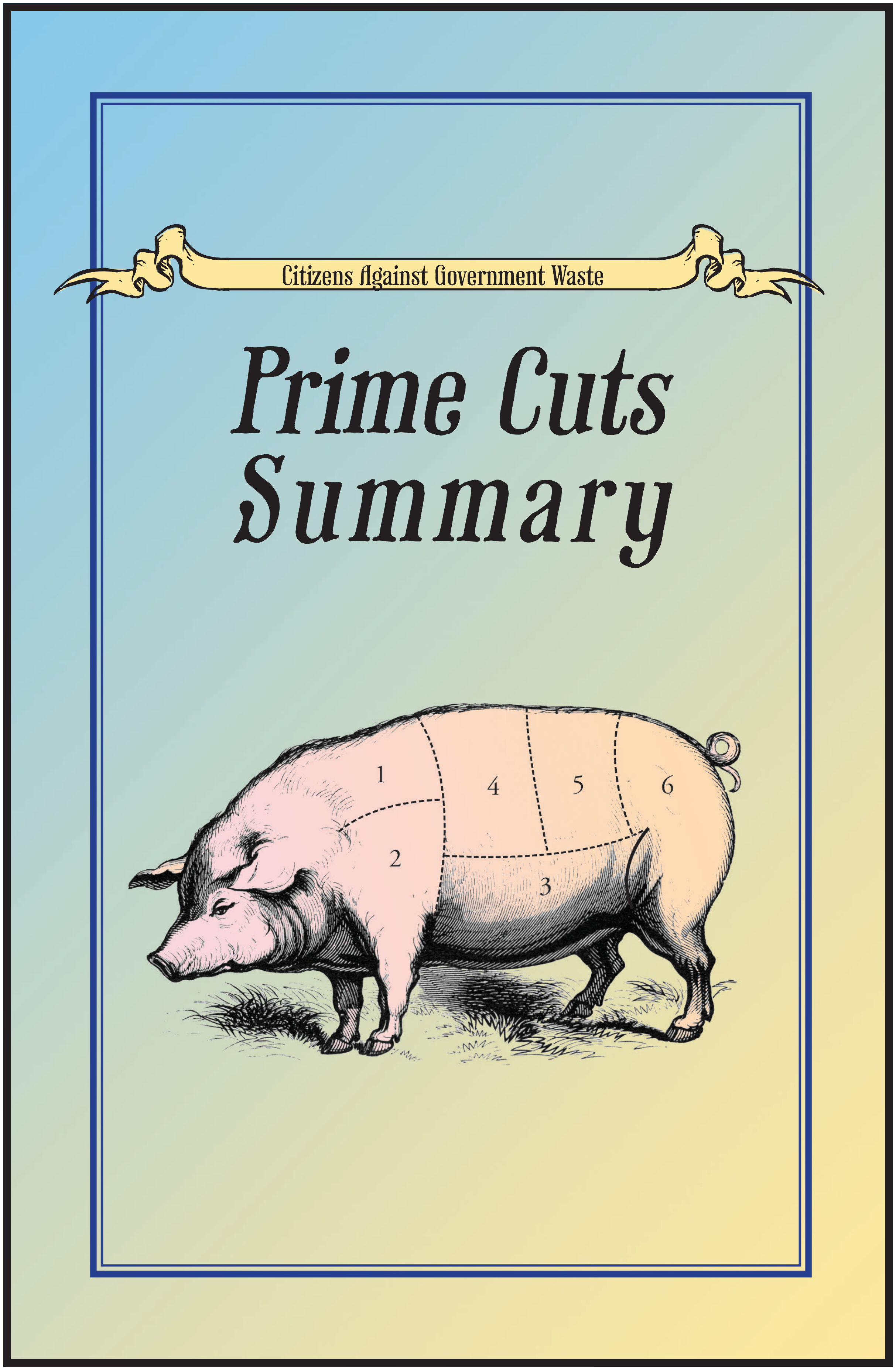

# Message
FROM THE
# President

## CCAGW Ratings of Presidential Candidates Revealed

*By Thomas A. Schatz*

On August 5, 2015, the day before the first Presidential debate, the Council for Citizens Against Government Waste (CCAGW) released the lifetime ratings of each declared 2016 Presidential candidate who served in Congress, based on their most recent elected office. The ratings, which have been issued annually since 1990, identify which members of Congress voted to protect taxpayers and which voted against their interests on spending and taxes.

The average rating of the declared Democratic candidates (excluding Lincoln Chafee, who was an elected Republican senator but is running as a Democrat) is 9 percent. The average rating of the declared Republican candidates is 88 percent. These figures track closely to the CCAGW *2014 Congressional Ratings* averages of all Senate Republicans and Democrats, which are 85 percent and 5 percent, respectively, as well as House Republicans and Democrats, which are 84 percent and 9 percent, respectively.

The candidates' ratings reiterate the substantial gap between Republicans and Democrats on spending and taxes. Under CCAGW's rating categories, every Democratic candidate is "hostile," and all Republicans, except Bobby Jindal, are "taxpayer heroes." The highest ratings belong to the three most recently-elected senators running for President: Ted Cruz at 99 percent, and Rand Paul and Marco Rubio at 95 percent.

The ratings also show that Hillary Clinton's voting record is closer to that of Sen. Bernie Sanders, the only avowed socialist in Congress, than many people might believe. At the same time she is being portrayed as a potential "third term" of President Obama, his lifetime rating, albeit for a shorter time in the Senate than her or Sen. Sanders, was higher. And while her husband did not have a congressional vote rating, most observers would agree that he was not as liberal as President Obama.

While Mrs. Clinton's lifetime CCAGW vote rating was 8 percent (including two years at zero percent) when President Obama left the Senate, his CCAGW lifetime rating was 15 percent. The current CCAGW lifetime rating for Sen. Sanders is 3 percent. In other words, if Hillary Clinton governed as she voted in the Senate, she would be almost twice as liberal as President Obama and closer to Sen. Sanders.

The lifetime scores of Mrs. Clinton, President Obama, and Sen. Sanders by other national conservative groups also show that her voting record is more liberal than President Obama and similar to Sen. Sanders. Mrs. Clinton's American Conservative Union lifetime rating of 8.1 percent places her exactly in between President Obama's 10 percent and Sen. Sanders' 6.2 percent. On votes rated by Americans for Prosperity, Mrs. Clinton had a lifetime rating of 4 percent, just one point higher than Sen. Sanders' 3 percent, compared to President Obama's lifetime rating of 17 percent.

On the other end of the spectrum, Mrs. Clinton is also closer to Sen. Sanders than to President Obama. Her lifetime average rating from Americans for Democratic Action was 89 percent, while President Obama's average was 79 percent and Sen. Sanders' is 95 percent.

In other words, on top of her other problems in her campaign for President, Hillary Clinton really is an ultra-liberal advocate of costly, intrusive big government and higher taxes whose policies are more similar to Sen. Sanders than like either the current or most recent prior Democratic President.

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Market Access Program (MAP), which aims to help agricultural producers promote U.S. products overseas. However, MAP is a really a corporate welfare program that funnels millions of dollars to large, profitable corporations and trade associations that can well afford to pay for their own ads. Eliminating MAP would save taxpayers $1 billion over five years.

The recommendations also include long-standing proposals to eliminate the sugar, dairy and peanut programs; reduce Medicare improper payments by 50 percent; replace the $1 bill with the $1 coin; and increase the use of software asset management tools.

Finally, numerous cuts could be made to the Department of Defense (DOD) without jeopardizing national security, including eliminating congressional add-ons for the M1 Abrams tank retrofit program. In 2011, Army Chief of Staff General Ray Odierno told Congress that the Army had a sufficient number of tanks; the Pentagon proposed suspending production until 2017, saving $3 billion. However, due to the tank's many suppliers spread across numerous congressional districts, legislators have continually added earmarks for the program, including one worth $120 million in FY 2015.

While some in Congress consider DOD spending to be sacrosanct, U.S. military brass is on board with cost savings at the Pentagon. In August 2013, Navy Vice Admiral David Dunaway stated, "In the face of decreasing budgets, rapidly evolving threats, and a shift in national defense strategy that demands more than ever from our naval forces, it's imperative that every dollar spent increase warfighting capability."

By following the blueprint provided by CAGW's *Prime Cuts 2015*, wasteful government spending can be cut and the nation can start on a path toward fiscal sanity. *Prime Cuts 2015* is essential reading for taxpayers, the media, and legislators. (The following recommendations appear in CAGW's *Prime Cuts Summary*. The full version of the *Summary*, as well as the accompanying database featuring 601 recommendations, can be viewed at www.cagw.org).

## AGRICULTURE

### ELIMINATE THE SUGAR SUBSIDY

***1-Year Savings: $1.2 billion***
***5-Year Savings: $6 billion***

The U.S. sugar program is an outdated, Soviet-style command-and-control program that uses import quotas, loans, marketing allotments, price supports, and tariffs to artificially inflate the price of sugar. The federal government establishes a minimum price for sugar in the U.S., which averages roughly double the world price. The government also imposes marketing controls, limiting how much sugar processors are allowed to sell. These allotments are enforced and administered by a small cartel of sugar processors.

Consumers are paying about $3.5 billion more each year in artificially inflated prices for commodities that use sugar, including baked goods, beverages, candy, cereal, dairy products, snack foods, and hundreds of other products. The program has been costly to the economy as well. Between 1997 and 2011, nearly 127,000 jobs were lost in sugar-using industries. For every sugar growing job that is protected under the program, about three manufacturing jobs are lost.

Few examples exist of more conspicuous public regulation for the benefit of entrenched special interests at the expense of taxpayers than the U.S. sugar program.

The sweet deal for sugar leaves a sour taste for consumers and taxpayers. The program should be replaced with market-oriented reforms in order to help consumers, food manufacturers, taxpayers, producers, and the environment.

### ELIMINATE THE DAIRY SUBSIDY

***1-Year Savings: $1.1 billion***
***5-Year Savings: $5.7 billion***

The U.S. dairy market is a complex tangle of subsidies and price supports. Through a series of federal Milk Marketing Orders, which are based historically on the distance from Eau Claire, Wisconsin, to where the milk is produced, the government sets minimum prices that producers must pay for Grade A milk. These vary from region to region, and milk producers are forbidden to sell their product in another region.

While taxpayers dodged a bullet when the 2014 Farm Bill did not include the proposed Dairy Market Stabilization Program, the conference agreement instead created a new Dairy Product Donation Program, which allows the purchase of dairy products at market prices "for donation to public and private nonprofit organizations that provide nutrition assistance to low-income populations." The program, which was never considered in the House or Senate, would require the Department of Agriculture (USDA) to buy dairy goods when market prices drop below a certain threshold and continue these purchases until market prices resurface above the established threshold.

The best solution for taxpayers and consumers is for milk markets to be deregulated and made to resemble other competitive industries.

### ELIMINATE THE MARKET ACCESS PROGRAM (MAP)

***1-Year Savings: $200 million***
***5-Year Savings: $1 billion***

Formerly known as the Market Promotion Program, MAP is one of the federal government's most blatant examples of corporate welfare. Over the past decade, MAP has provided nearly $2 billion in taxpayer money to help agriculture trade associations, farmer cooperatives, and individual companies advertise their products overseas. Previous beneficiaries have included successful companies such Blue Diamond, Sunkist, Tyson, and Welch Foods.

President Obama's FY 2012 budget proposed a 20 percent cut in MAP, but an amendment to achieve even that limited objective was struck down in the Senate.

A June 2012 report on MAP by former Sen. Tom Coburn (R-Okla.) disclosed that some of the $20 million that was given to the Cotton Council

***(continued on page 4)***

International (CCI) in 2011 was used to create an Indian reality TV show in which designers create clothing made from cotton. The show was intended to promote the use of cotton generally, not necessarily cotton from the U.S. Indeed, India does not have any need for U.S. cotton, as it is a net exporter of the product, producing twice the amount of U.S. cotton growers. MAP has provided more than $169 million to CCI over 10 years.

It is long past time to eliminate MAP.

## COMMERCE

### ELIMINATE THE HOLLINGS MANUFACTURING EXTENSION PARTNERSHIP

***1-Year Savings: $143 million***
***5-Year Savings: $715 million***

Started at the behest of Senator Ernest "Fritz" Hollings (D-S.C.) in 1988, the Hollings Manufacturing Extension Partnership (HMEP) was designed to increase the efficiency and profitability of American manufacturing firms. Fees from clients were supposed to make the program self-sufficient, but historically have covered a third of its costs. In practice, the HMEP amounts to corporate welfare for advisors and consultants.

The CBO 2009 "Budget Options" report stated that "about half of the partnership's clients believe the services they obtained from HMEP are available other places, although at a higher cost." But there is no such thing as a free lunch. HMEP services cost less because taxpayers are charged for the difference. Non-manufacturing industries get by without this special favor from the government. Manufacturing should do the same.

## DEFENSE

### ELIMINATE UNREQUESTED FUNDING FOR RETROFIT OF M1 ABRAMS TANK TO THE M12A SEP VARIANT

***1-Year Savings: $120 million***
***5-Year Savings: $3 billion***

Over the objections of senior DOD officials, members of Congress have for many years been earmarking funds for the M1 Abrams tank retrofit program. In testimony before the House Armed Services Committee (HASC) on February 17, 2012, Army Chief of Staff General Raymond Odierno told Congress that the U.S. possesses more than enough tanks to meet the country's needs. In fact, the Army has so many M1 tanks that 2,000 of them are parked in a California desert.

The army intended to retrofit the remainder of the 2,384 M1 tanks it needed by the end of 2013, after which it would delay the upgrade program until 2017, saving taxpayers $3 billion. During this timeframe, the DOD would focus on designing the next generation of tanks, which would be better equipped for the changing nature of warfare. Intended to take on other tanks, the M1 Abrams proved susceptible to asymmetric tactics such as improvised explosive devices employed by insurgents in Iraq and Afghanistan. General Odierno stated that warfare has changed: "we don't believe we will ever see a straight conventional conflict again in the future."

Unfortunately, members of Congress have different ideas. On April 20, 2012, a bipartisan letter insisting on the continuation of the program from 173 representatives reached the desk of Secretary of Defense Leon Panetta. Although the main tank plant is located in Lima, Ohio, suppliers are spread across the country, which helps to explain the extensive support.

The FY 2015 DOD Appropriations Act contained a $120 million earmark for the program, and hinted at a parochial incentive for continuing the program, stating that the funding will be used to "maintain [the] critical industrial base." There's nothing like a good old-fashioned jobs program disguised as national security. Since FY 1994, there have been 38 earmarks for the M1 Abrams program, requested by at least 13 members of Congress, costing taxpayers $906.6 million. As Congress continues to ignore the DOD, taxpayers will continue to foot the bill for modifications to what Gen. Odierno described as "280 tanks that we simply do not need."

## ENERGY

### SELL THE SOUTHEASTERN POWER ADMINISTRATION AND RELATED POWER-GENERATING ASSETS

***1-Year Savings: $0***
***5-Year Savings: $1.2 billion***

The Department of Energy owns and operates four Power Marketing Administrations (PMAs). The largest is the Southeastern Power Administration, which consists of 23 hydroelectric projects in Alabama, Florida, Georgia, southern Illinois, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia. The PMAs sell energy at low, subsidized rates, but these rates are not targeted to low-income areas or disadvantaged consumers. In fact, according to a 2009 CBO "Budget Options" report, the communities that receive PMA service "are similar to neighboring communities that do not," and they "meet only a small share of the total power needs of households in the regions served."

Selling Southeastern would allow it to operate in the private sector, where it should have been all along. The sale would be an important step in reducing the size and scope of the Department of Energy, which has expanded well beyond its original mission, and would be relatively painless for customers served by Southeastern. A 1999 GAO report stated that users "would see their monthly electricity bill increase by less than $1, while the maximum increase in their electricity bill would range in most states between $1 and $8."

Selling the Southeastern Power Administration makes fiscal sense, as there is precedent for unloading PMAs: the Alaska Power Administration was privatized in 1996.

## ENVIRONMENTAL PROTECTION AGENCY

### ELIMINATE TARGETED WATER INFRASTRUCTURE GRANTS

***1-Year Savings: $157 million***
***5-Year Savings: $785 million***

In his FY 2012 budget, President Obama proposed eliminating targeted water infrastructure grants because they "are duplicative of funding available for such projects through the Clean Water and Drinking Water State Revolving Funds (SRFs), but are not subject to the State priority-setting process for these programs, which typically funds cost-effective and higher priority activities first." In other words, the grants are another example of the hundreds of redundant federal programs that should be eliminated. Since FY 1996, 1,823 earmarks costing taxpayers $1.1 billion have gone toward water infrastructure.

## HEALTH AND HUMAN SERVICES

### REDUCE MEDICARE IMPROPER PAYMENTS BY 50 PERCENT OVER FIVE YEARS

***1-Year Savings: $0***
***5-Year Savings: $24 billion***

Medicare is plagued with the highest reported amount of improper payments of any federal program. According to the Centers for Medicare and Medicaid Services' (CMS) fiscal year (FY) 2014 Comprehensive Error Rate Testing Report, the improper payment rate was 12.7 percent and the improper payment amount was $46 billion. Because of its chronic vulnerability to fraud, waste, abuse, and mismanagement, the Government Accountability Office has for 20 years designated the Medicare program as "high risk."

In a bipartisan effort to reduce improper payments and help stave off the impending bankruptcy of the Medicare Trust Fund, Congress first implemented a Recovery Audit Contractor (RAC) demonstration project for Medicare Parts A and B that ran from 2005 to 2008 and recovered more than $900 million in overpayments to providers. Congress enacted legislation to expand the program nationwide and make it permanent, a process that began in early 2009 and was fully implemented by September 2010.

In 2010, Congress further expanded the scope of RACs to include auditing for Medicare Parts C and D in the Affordable Care Act. The legislation also required states and territories to establish RAC programs for Medicaid, noting that the RAC program was a proven, valuable tool in reducing improper payments.

Since the beginning of the RAC program, $9.7 billion has been returned to the Medicare Trust Fund. In FY 2013 alone, RACs collected $3.65 billion, according to the Medicare Trustees' report to Congress on the program. Only $57.6 million of that amount, or 1.6 percent, was overturned at the first level of appeal. In addition, only 9.3 percent of all claims that reached the top level of appeal to administrative law judges were overturned in FY 2013.

RACs have an average accuracy rate of 96 percent, which makes them far and away the most successful tool Congress has ever implemented to protect taxpayers and Medicare beneficiaries from rampant improper payments. The Trustees' report called the RAC program "an important initiative in CMS's goal to reduce improper payments and pay claims accurately."

Ironically, the Trustees' FY 2013 RAC report came out one month after CMS suspended certain audits. As a result of hospital pressure, CMS has extended the moratorium on RAC reviews of inpatient admissions through December 31, 2015. In other words, since October 2013, about $1 billion per quarter in erroneous hospital claims is not being collected for the Medicare Trust Fund. The benching of the RAC program has given hospitals an extended "oversight holiday" for claims related to short inpatient stays, which constituted the vast majority of the claims that RACs were auditing.

All of these attempts to gut the RAC program contravene CMS's own data that the RAC program led to a reduction in the error rate of Medicare improper payments. After they dropped from 10.8 percent in fiscal year (FY) 2009 to 8.5 percent in FY 2012, the rate of improper payments rose, as previously noted, to 12.7 percent in FY 2014.

Criticism of the RACs by hospitals and other providers have been a significant factor in pushing both CMS and Congress into suspending audits. These complaints are both overblown and inaccurate. RACs only audit 2 percent of claims and must receive pre-approval of audits by CMS. Each audit is overseen by a medical professional.

The suspension of the RAC program is a subversion of the will, if not the letter, of the law. Members of Congress should not only stop giving in to pressure to gut the RAC program, they should reinstate and safeguard the RACs. Otherwise, Medicare will have little chance of dropping down from its current – and growing – position as number one in improper payments.

## HOUSING AND URBAN DEVELOPMENT

### ELIMINATE COMMUNITY DEVELOPMENT BLOCK GRANTS (CDBGS)

***1-Year Savings: $4 billion***
***5-Year Savings: $20 billion***

In the 1970s, many American cities suffered from destitution and blight.

For a variety of reasons, including rent control and inept local governance, America's urban centers looked very different than they do today. During the 1974 World Series, swathes of New York's South Bronx burned to the ground as Howard Cosell narrated on national television. Before the end of that year, Congress created CDBGs in an effort to revitalize low-income areas in cities across the country.

The money was intended for infrastructure investments, housing rehabilitation, job creation, and public services in metropolitan cities and urban counties. The program was intended to be flexible, but more than $100 billion given away to local governments over the last 35 years has fallen short on both accountability and results. Buffalo, New York, has received more than $500 million in CDBGs over the last 30 years, with little to show for it, and Los Angeles handed out $24 million to a dairy that went bust 18 months later.

The CDBG formula for eligibility does not take a community's average income into account. As a result, several very wealthy cities with robust tax bases, such as Greenwich, Connecticut, have received CDBG dollars. A September 2012 GAO report found that "some cities with higher unemployment rates received less funding per unemployed person than other cities with lower unemployment rates." Even President Obama has recommended reducing CDBG funding because "the demonstration of outcomes [is] difficult to measure and evaluate."

## INTERIOR

### SUSPEND FEDERAL LAND PURCHASES

***1-Year Savings: $466 million***
***5-Year Savings: $2.3 billion***

The federal government currently owns roughly one-third of all U.S. land, including more than 80 percent of Alaska and Nevada and more than half of Idaho, Oregon, and Utah. A March 2000 CBO report stated that the National Park Service (NPS), the Forest Service, and the Bureau of Land Management might better meet "environmental objectives such as habitat protection and access to recreation … by improving management in currently held areas rather than providing minimal management over a larger domain." In 2003, the GAO reported that the NPS's maintenance backlog was more than $5 billion. Since then, federal land acquisitions have accelerated, placing even greater burdens on an obviously inefficient and overstrained system.

## JUSTICE

### TERMINATE COMMUNITY ORIENTED POLICING SERVICES (COPS)

***1-Year Savings: $829.1 million***
***5-Year Savings: $4.1 billion***

A signature plan of the Clinton administration, COPS was intended to reduce rising crime rates in the early 1990s by providing federal grant money for the hiring of 100,000 police officers to patrol American streets. Nineteen years later, the program has failed to reach its stated goals and has fallen victim to hundreds of millions of dollars in waste, fraud, and abuse.

On top of the waste and mismanagement, COPS requires that recipient cities keep the program running on their own dime for at least one year after the grant money runs out, which creates another unfunded mandate for local governments already strapped for cash.

A July 2012 GAO report found substantial overlap among DOJ's grant programs, which in many instances perform the same function. The GAO suggested that DOJ perform an assessment of the programs to find "where a consolidation of programs may be more efficient." COPS would be a great place to start. A September 2010 CRS report found that the costs of the program outweighed the benefits by more than $1 billion.

COPS has also long been a prime repository for pork; since FY 1998, members of Congress have crammed 2,872 earmarks costing taxpayers $1.8 billion into the Commerce, Justice, Science, and Related Agencies Appropriations bills.

## LABOR

### REPEAL THE DAVIS-BACON ACT

***1-Year Savings: $512 million***
***5-Year Savings: $6.3 billion***

The Davis-Bacon Act, passed in 1931, requires that contractors pay their employees the "prevailing wage" on federal projects costing more than $2,000. The mandate raises the cost of government projects by 15 percent and costs taxpayers $512 million annually. Davis-Bacon has been touted by labor unions and politicians as essential to ensuring fair compensation on government jobs. In reality, the "prevailing wage" tends to correspond to union wages, especially in urban areas. This effect is no accident. Davis-Bacon was passed as part of an effort by high-skilled, high-wage, mostly white workers to keep out lower-paid, non-union, minority competition. In 1931, Rep. Miles Allgood (D-Ala.), arguing for the act's passage, complained of "that contractor [who] has cheap colored labor which he transports … and it is labor of that sort that is in competition with white labor throughout the country."

Davis-Bacon supporters have argued that hiring low-wage workers would result in shoddy work. But the federal government is aware that this is not accurate. Davis-Bacon was suspended in the aftermath of Hurricanes Andrew and Katrina to facilitate reconstruction, and the GAO reported in September 2009 that many stimulus projects were delayed for months because of onerous Davis-Bacon requirements. A January 27, 2010, Heritage Foundation study found that suspension of Davis-Bacon under the stimulus "would allow the government to build more and hire 160,000 new workers without increasing the deficit."

The U.S. Chamber of Commerce also supports repealing Davis-Bacon. Its elimination would "spur local economic growth by making it easier for state and local governments to fund federally subsidized projects such as school construction and improvements to the transportation infrastructure," and "create an estimated 31,000 new construction jobs and remove a barrier that keeps many smaller and minority owned construction firms from bidding on federally funded construction projects."

## TRANSPORTATION

### ELIMINATE FEDERAL SUBSIDIES FOR AMTRAK

***1-Year Savings: $1.4 billion***
***5-Year Savings: $7.1 billion***

On May 1, 2011, Amtrak kicked off its 40th anniversary celebration. The festivities did not mention the fact that over that period of time Amtrak had cost taxpayers $37 billion, a figure that has now exceeds $40 billion. The railroad was supposed to earn a profit when it was created by the government in 1971, but the money never materialized. In fact, a 2009 study found that taxpayers paid $32 in subsidies per Amtrak passenger in 2008. By booking a month in advance, it is possible to buy a round-trip plane ticket from New Orleans to Los Angeles and back for less than the $437.82 that Amtrak loses per passenger on a one-way trip between those same locations. To make matters worse, *The New York Times* reported in August, 2012, that Amtrak lost $834 million on food service alone since 2002, largely due to employee theft.

Unfortunately, the waste and abuse does not end with food sales. The Amtrak Office of the Inspector General (OIG) has issued several reports detailing inadequate supervision, including a September 2012 report that investigated two employees who received fraudulent pay for hours they never worked. One employee was paid $5,600 in regular and overtime pay "when he was actually off Amtrak property officiating at high school sporting events." Another employee was observed for 84 days, and it was discovered that "$16,500 of the $27,000, or 61 percent of the overtime wages he was paid were fraudulent." The OIG concluded that since it is likely that this employee had a history of fraudulent overtime pay, the amount of fraudulent pay "would be approximately $143,300 of the $234,928 that he was paid."

Amtrak boasts that ridership continues to increase by 3.5 percent a year, with the majority of this increase coming through Amtrak's Northeast corridor routes. According to an October 2009 Pew report, 41 of the 44 lines Amtrak operated in 2008 lost money, leading to a $32 loss per passenger. Moreover, in Amtrak's FY 2013 budget, the rail line revealed that only five of the 46 lines it operates would turn a profit, all of them located in the Northeast corridor. None of the long distance, lesser-used routes were projected to turn a profit. In fact, Amtrak stated that these lines cost the most to operate and bring in the least amount of revenue. Given this information, any well-managed privately owned business would have shut down these lines years ago.

Even previous supporters of Amtrak have voiced skepticism. Former Amtrak spokesman and rail expert Joseph Vranich asserted that "Amtrak is a massive failure because it's wedded to a failed paradigm. It runs trains that serve political purposes as opposed to being responsive to the marketplace. America needs passenger trains in selected areas, but it doesn't need Amtrak's antiquated route system, poor service and unreasonable operating deficits." Even the so-called "Father of Amtrak," Anthony Haswell, regrets his involvement, stating, "I feel personally embarrassed over what I helped to create."

### END THE ESSENTIAL AIR SERVICE (EAS)

***1-Year Savings: $150 million***
***5-Year Savings: $750 million***

The EAS was created in the 1970s after airline deregulation in an effort to retain air service in smaller communities. Today, it provides subsidies to 153 rural communities in 35 states and Puerto Rico. Unfortunately, what was intended to be a temporary program has morphed into a funnel for subsidies to support largely empty flights that otherwise would never leave the ground.

According to a September 19, 2009, article in *The Los Angeles Times*, EAS "spends as much as thousands per passenger in remote areas" and "provides service to areas with fewer than 30 passengers a day." Among the most absurd recipients of EAS subsidies is an airport in Johnstown, Pennsylvania, tirelessly defended by the late Rep. John Murtha (D-Pa.), from which just 18 flights leave each week. Johnstown is only two hours east of Pittsburgh International Airport by car.

A May 2012 investigation by Scripps Media "exposed one flight between Baltimore and Hagerstown, Maryland – just about 75 miles apart – [that] was so sparse the captain allowed the only other passenger who wasn't our producer to sit in the co-pilot's seat," and cited two other flights on the same route with just one passenger each. The investigative team found that "A 19-seat plane from Cleveland to Dubois, Pennsylvania, about 180 miles east, had just one passenger as well."

Fortunately, the Federal Aviation Administration funding bill that passed in February 2012 limited EAS funding recipients to airports that are more than 175 miles from a major hub and that move more than 10 passengers a day. Limits are insufficient; the EAS needs to be grounded.

## TREASURY

### REPLACE THE $1 BILL WITH A $1 COIN

***1-Year Savings: $146 million***
***5-Year Savings: $730 million***

The advantages of using a $1 coin instead of a $1 bill are substantial and well-documented. The Bureau of Engraving and Printing produces approximately 3.4 billion $1 bills each year, each of which costs 4.2 cents to manufacture. Each bill has a lifespan of approximately 21 months. By comparison, the $1 coin costs between 12 and 20 cents but has a lifespan of 30 years or more.

Other benefits of the conversion to $1 coins include savings on the processing of money by banks and businesses. Coins cost 30 cents per thousand pieces to process at Federal Reserve Banks, compared to 75 cents per thousand for $1 notes. Large-scale, private-sector users would experience even more savings. Processing bills costs more than 500 percent more than processing coins. Coins are also much more difficult to counterfeit.

A November 2012 GAO report noted that the GAO has concluded six different times that switching to the $1 coin "would result in net financial benefits to the government of hundreds of millions of dollars annually," and added that the GAO "continue[s] to believe that replacing the note with a coin is likely to provide a financial benefit to the government." The same report pointed out that many countries around the world have switched to coins from low denomination notes in the interest of cost savings. For example, the Canadian government "saved $450 million (Canadian) over 5 years by converting to the $1 coin."

A potentially negative public reaction has often been cited as a reason to avoid switching to dollar coins. However, the GAO report found that "stopping production of the note combined with stakeholder outreach and public education were important to overcome public resistance, which dissipated within a few years after transitioning to the low denomination coins." Indeed, Americans already are behind the idea of switching to the dollar coin. A January 2011 poll conducted by the Tarrance Group and Hart Research found that when Americans are informed of the potential cost savings, 65 percent support replacing the $1 bill with the $1 coin.

## OTHER RECOMMENDATIONS

### ELIMINATE THE NATIONAL ENDOWMENT FOR THE HUMANITIES (NEH) AND THE NATIONAL ENDOWMENT FOR THE ARTS (NEA)

***1-Year Savings: $335 million***
***5-Year Savings: $1.7 billion***

Created in 1965, the NEA and NEH have become examples of dabbling in fields that should be entirely free from government intervention. As lawmakers look to downsize the federal budget, NEA and NEH should be easy cuts. But getting them on the chopping block will be difficult, because special interest groups and their political allies fight for every drop of funding.

For example, Senate Majority Leader Harry Reid (D-Nev.) helped defeat H.R. 1, the Full-Year CR for Fiscal Year 2011, which, among other spending reductions, defunded the NEA and the NEH. On March 8, 2011, Sen. Reid described the proposed termination in a Senate floor speech as "mean-spirited," stating that were it not for the NEH's federal money, the Cowboy Poetry Festival and "the tens of thousands of people who come there every year, would not exist." This earned Sen. Reid CAGW's "Porker of the Month" in March 2011.

Plays, paintings, pageants, and scholarly articles, regardless of their merit or attraction, should not be forcibly financed by taxpayers. Actors, artists, and academics are no more deserving of subsidies than their counterparts in other fields; the federal government should refrain from funding all of them. Anything else is anathema to taxpayers.

## ELIMINATE THE DENALI COMMISSION

***1-Year Savings: $10 million***
***5-Year Savings: $50 million***

Congress created the Denali Commission in 1998 to build infrastructure in rural Alaska. President Obama targeted the commission's federal funding for elimination in his FY 2012 budget. The administration argued that Denali projects are not funded through a competitive or merit-based system. The White House also pointed out that at least 29 other federal programs could fulfill the commission's mandate. The commission's inspector general, Mike Marsh, stated in September 2013 that "I have concluded that [my agency] is a congressional experiment that hasn't worked out in practice. … I recommend that Congress put its money elsewhere."

A September 2014 GAO report found that the Denali Commission Office of Inspector General (OIG) provided extremely limited oversight of the commission's major programs during FYs 2011-2013. According to the report, "analysis of the 12 inspections completed by the OIG found that the OIG provided oversight for $150,000 of the $167 million in grant funds disbursed during fiscal years 2011 through 2013." The amount of funding inspected by the OIG added up to less than 1 percent of grants awarded by the Denali Commission over this period.

Regular readers of CAGW's *Congressional Pig Book* know that the program has long been heavily earmarked. Since FY 2000, 27 projects worth $335.1 million have been earmarked for the Denali Commission, including requests by Senate Energy and Water Appropriations Subcommittee member Lisa Murkowski (R-Alaska), Sen. Mark Begich (D-Alaska), Rep. Don Young (R-Alaska), and the late Sen. Ted Stevens (R-Alaska).

The commission's statutory authorization expired on October 1, 2009. It is time for the federal appropriation to disappear as well.

## PRIVATIZE FANNIE MAE AND FREDDIE MAC

***1-Year Savings: $1.5 billion***
***5-Year Savings: $6.7 billion***

When they were taken under government conservatorship in 2008, Fannie Mae and Freddie Mac were government-sponsored enterprises (GSEs) with special benefits not afforded to other firms in the secondary mortgage market, including lines of credit through the U.S. Treasury, exemption from income taxes, and some freedom from Securities and Exchange Commission oversight. Their biggest advantage was their implicit federal guarantee; in a crisis, Uncle Sam was assumed to be willing to step in to bail out the mortgage giants, which allowed Fannie and Freddie to borrow at lower rates than would otherwise have been possible.

By 2003, Fannie and Freddie had accrued more than $4 trillion in debt, but supporters in Congress were unfazed. Former Rep. Barney Frank (D-Mass.) stated that the two GSEs do what "the market in and of itself will not do," and added that he would like to "roll the dice a little bit more in this situation towards subsidized housing." On September 6, 2008, with their shares having lost 90 percent of their value, the GSEs were placed in conservatorship by the U.S. Treasury. Then-Treasury Secretary Henry Paulson attributed the need for the action "primarily to the inherent conflict and flawed business model embedded in the GSE structure." To date, Fannie and Freddie have cost taxpayers $187.5 billion.

On June 2, 2011, the CBO asserted that, in the end, the U.S. might need to provide up to $317 billion to cover losses at Fannie and Freddie, a figure that includes the $187.5 billion already spent. Given the bailout threat posed by the GSEs and their "too big to fail" status in America's mortgage market, these albatrosses must be jettisoned at the first possible opportunity.

## PRIVATIZE THE UNITED STATES POSTAL SERVICE (USPS)

***1-Year Savings: $0***
***5-Year Savings: $0***

"The stark reality is that USPS's business model is broken" comes from a September 2011 GAO report. Indeed, as many countries around the world have moved away from state-owned to private postal services, the USPS remains intransigent. Even worse, the agency wants to double down and enter into a series of new ventures that compete with existing private-sector businesses, rather than transition its core operations into private hands.

The "broken" business model includes massive financial and management failures. In fiscal year (FY) 2014, the USPS lost $5.5 billion, a 10 percent increase over the $5 billion loss in FY 2013. The FY 2015 loss is projected to be $6.1 billion. The cumulative annual losses have caused liabilities to exceed assets by approximately $45 billion, leaving the agency with 34 cents of assets to cover every dollar of liabilities. And even these numbers don't tell the whole story because they do not include approximately $46 billion in additional obligations for pensions and retiree health benefits. In addition, the USPS has reached its statutory borrowing limit of $15 billion.

The agency projects that total mail volume will decline by 2.2 billion pieces, or 1.4 percent, from FY 2014 to FY 2015. According to a September 22, 2014 Congressional Research Service report, since FY 2006, "…mail volume has dropped sharply — to 158.4 billion pieces in FY 2013. Mail volume, then, was 21.7 percent lower in FY 2013 than in FY 2003, and 25.7 percent below its FY 2006 peak." Volume is projected to continue the decline as a result of the ongoing migration of communications and transactions to overnight services and the Internet.

According to a November 2014 GAO report, USPS has a $72 billion operating budget and labor costs are $56 billion, or 78 percent of the total. According to GAO, between 2006 and 2013, the USPS winnowed it workforce from approximately 796,000 to 618,000 employees, or about 22 percent. Total work hours also decreased by approximately 24 percent, from 1.5 billion hours to 1.1 billion hours, during that timeframe. Yet, the agency's personnel expenses didn't decline concomitantly. Instead, increased cost-of-living allowances, richer benefit packages negotiated with its unions, and a steady rise in healthcare costs will cause the USPS to spend $2 billion more for personnel in FY 2015 than it did in FY 2014.

Reforming the USPS and moving its operations to the private sector will require restricting the agency to its statutory mail delivery mission; granting appropriate flexibility to downsize and reconfigure its workforce; modernizing its sclerotic, inefficient internal operations and work rules; and outsourcing more of its operations to cost-efficient private contractors. In addition, the agency's finances must be made far more transparent in order to assure that it adheres to the statutory prohibition against using funds from its monopoly operations to start new businesses.

Unfortunately, the agency's regulator, the Postal Regulatory Commission (PRC), seems more interested in allowed the Postal Service to engage in questionable ventures, such as the overnight delivery of groceries and other packaged goods than in fixing its core problems. The PRC approved the new delivery business in

October, 2014, despite the abject failure of a "Metro Post" service in New York and San Francisco that earned a meager $760 while incurring costs of $10,288 after delivering 95 packages over five months. Beyond these ventures, both the USPS inspector general and several members of Congress have suggested that the USPS expand its "financial" services from money order to non-banking financial services such as bill paying, check cashing, and payday loans.

The USPS has enough trouble doing what it is supposed to do – deliver the mail. It should not be trying to deliver anything else.

## GOVERNMENT-WIDE AND MULTI-AGENCY RECOMMENDATIONS

### SELL EXCESS FEDERAL REAL PROPERTY AND REFORM LEASING PRACTICES

***1-Year Savings: $3 billion***
***5-Year Savings: $15 billion***

Due to a combination of negative incentives and unnecessary red tape, selling federal real estate is a long, costly process. Reforms are essential, because Uncle Sam owns more real property than any other entity in America: 900,000 buildings and structures covering 3.38 billion square feet. In June, 2010, then-OMB Director Peter Orszag estimated that 55,000 federally-owned properties are underutilized or entirely vacant, and that maintenance on those properties cost taxpayers $1.7 billion annually.

When the General Services Administration (GSA) Public Buildings Service reports a property as excess, that property must first be screened for use by other federal agencies. If another agency wants it, that agency gets it. If the property goes unclaimed by every eligible agency, according to Title 40 of the U.S. Code and the McKinney-Vento Homeless Assistance Act, it must be screened for use by providers of homeless shelters, who can use the property for free. If shelters are not interested, the property is screened for other public uses and sold for up to a 100 percent discount of market value. Finally, if no public use can be identified, the property is auctioned and sold. That process is upside down: the government should first try to sell the property and give it away only if there is no other alternative.

The government's current leasing practices are also problematic; they have been on the GAO's high risk list since January 1, 2003. A March 2014 GAO report reviewed case study projects from four agencies which rank in the top 10 in federal real property holdings. The GAO found that the federal government can end up spending more money on renovation costs and lease payments over the course of a long-term lease than it would if it just paid the initial contract price and bought the building outright.

The GSA also operates the Federal Buildings Fund (FBF), which is funded by rent received from other agencies. The balance of the FBF, which is used to fund alterations, repairs and construction projects, increased from $56 million in FY 2007 to $4.7 billion at the end of FY 2013, since Congress has provided less money than requested by the executive branch and generated by the FBF. The obligational authority for repairs and alterations has declined from $855 million in 2005 to $280 million in 2012 and, as a result, even though the agency has access to a large amount of money, it claims to be unable to provide sufficient resources to handle all needed alterations, repairs, and construction.

### INCREASE USE OF SOFTWARE ASSET MANAGEMENT (SAM)

***1-Year Savings: $0***
***5-Year Savings: $0***

The federal government can save money by reducing the number of unnecessary or excessive IT software licenses, many of which are bought because the government is unable to keep track of which licenses its agencies currently own or use. On July 19, 2011, the GAO issued a report criticizing government agencies' inventory management of data centers, noting that 15 federal agencies did not list all their software assets in their reports.

The procurement and utilization of software licenses should be routinely and systematically managed through the use of SAM tools. SAM auditing systems can ensure that chief information officers and purchasing agents are aware of existing software licenses and document usage in order to make smarter purchasing decisions. In other words, SAM can prevent agencies from buying products that they already possess and protect licensing agreements from being violated by ensuring that only authorized users are working with the software.

Provisions to improve SAM within the federal government were included in the House-passed version of H.R. 1232, the Federal Information Technology Acquisition Reform Act (FITARA). However, this provision was removed from the final version of FITARA that was included in the cromnibus appropriations bill that was signed into law on December 16, 2014.

**Message from the President** ***(continued from page 2)***

The ratings of the Presidential candidates who were members of Congress are as follows:

| Democratic Candidates | Office Held | CCAGW Lifetime Rating |
|---|---|---|
| Lincoln Chafee | Senator, Rhode Island, 1999-2007 | 55%** |
| Hillary Clinton | Senator, New York, 2001-2009 | 8% |
| Bernie Sanders | Senator, Vermont, 2007-present | 3% |
| Jim Webb | Senator, Virginia, 2007-2013 | 16% |

*** Lincoln Chafee served in the Senate as a Republican.*

| Republican Candidates | Office Held | CCAGW Lifetime Rating |
|---|---|---|
| Ted Cruz | Senator, Texas, 2013-present | 99% |
| Lindsey Graham | Senator, South Carolina, 2003-present | 85% |
| Bobby Jindal | Representative, Louisiana, 2005-2008 | 74% |
| John Kasich | Representative, Ohio, 1983-2001 | 89% |
| Rand Paul | Senator, Kentucky, 2011-present | 95% |
| Marco Rubio | Senator, Florida, 2011-present | 95% |
| Rick Santorum | Senator, Pennsylvania, 1995-2007 | 80% |

# Membership Review

*By: Martin Rundle*
*Director of Development*

## By the Books

As nonprofit organizations, CAGW and CCAGW are audited on an annual basis by an independent accounting firm. Our complete financial operations are reported each year in annual tax filings, as required by the IRS. Our accountants have confirmed that in FY 2014 CAGW's and CCAGW's research, public education, and advocacy activities accounted for 69 percent of total expenditures; fundraising accounted for 20 percent; and administrative expenses absorbed 11 percent.

CAGW and CCAGW accept no government funding and rely entirely on the private support of individuals, foundations, and corporations. We are indebted to the generous support of America's taxpayers and thank all that have joined us in the fight against government waste. Together we are making a difference!

## Taxpayer News Wire

**May 8** – The U.S. Postal Service released its second quarter FY 2015 financial report documenting a net loss of $1.5 billion. The agency has lost more than $50 billion in the last eight years.

**May 21** – Rep. Sam Graves (R-Mo.) is named CAGW's May Porker of the Month for his misguided and costly proposal to gut the Center for Medicare and Medicaid Services' Recovery Audit Contractor (RAC) program. Medicare improper payments have been a chronic fiscal scourge. In FY 2014 alone, $46 billion was lost in Medicare due to improper payments, the most of any federal program. Since Congress approved the nationwide adoption of the RAC program in January 2010, it has returned more than $9.7 billion to the Medicare Trust Fund with a 96 percent average accuracy rate.

**June 10** – CAGW President Tom Schatz testified before the U.S. Senate Subcommittee on Federal Spending Oversight and Emergency Management. The testimony highlighted the most pervasive examples of government waste in the federal bureaucracy, including the Market Access Program, Rural Utilities Service, and Delta Regional Authority.

**June 24** – Rep. Randy Forbes (R-Va.) is named CAGW's June Porker of the Month for his absurd attempt to submerge the $90 billion cost of a new submarine program by sponsored the National Sea-Based Deterrence Fund, which would keep the new subs off-budget.

**June 25** – CCAGW led a coalition of nine organizations in filing a complaint with the Senate Select Committee on Ethics, requesting an investigation into whether senators and/or staff members may have committed fraud and broken laws when they submitted applications to the Washington, D.C. Health Insurance Marketplace. By claiming senate offices as small businesses, congressional staff were able to qualify for taxpayer-funded subsidies for health insurance under the Affordable Care Act.

**July 27** – Rep. Stephen Fincher (R-Tenn.) is named CAGW's July Porker of the Month for his efforts to resurrect the wasteful Export-Import Bank, which expired on June 30, 2015. The bank provides taxpayer-backed direct loans, guarantees, and export credit insurance, which totaled $27.5 billion in FY 2014 and benefits companies such as Boeing, Caterpillar, Chevron, Dell, and Halliburton.

**August 5** – CCAGW released the lifetime ratings of each declared 2016 Presidential candidate who has served in Congress. Topping the list is Sen. Ted Cruz (R-Texas) who has a CCAGW lifetime rating of 99 percent. Sens. Hillary Clinton and Bernie Sanders proved to be "Hostile" to taxpayers with lifetime ratings of 8 percent and 3 percent, respectively.

**August 20** – Internal Revenue Service (IRS) Commissioner John Koskinen is named CAGW's August Porker of the Month for his long litany of incompetence and obstruction as head of the reviled agency, including stonewalling efforts to investigate the IRS' political motivated targeting of nonprofit groups, IRS officials hanging up on 8.8 million Americans who called the IRS help line during the 2014 tax filing season, and revelations that a cyber-attack on the agency exposed the tax return information of an estimated 610,000 Americans.

## *The J. Peter Grace Legacy Society*

***The J. Peter Grace Legacy Society is a living memorial to the late Grace Commission chairman and CAGW co-founder, J. Peter Grace – and to his vision of a fiscally responsible government that is accountable to taxpayers. Members of the society help preserve Peter's legacy by providing the financial underpinning for CAGW's work to ensure that the American taxpayer's interests win out over the special interests in Washington.***

***The legacy society accepts gifts from individuals and estates in the form of charitable remainder trusts and other planned giving vehicles. By adding a charitable component to conventional tax and estate planning, members of the society secure their own and their children's financial futures, reduce their income and estate taxes, and ensure a legacy of fiscal accountability and stability for future generations of American taxpayers.***

***For more information about the J. Peter Grace Legacy Society, please contact us at 1-800-USA-DEBT.***

# Changing the Culture of Wasteful Spending

*By: Dean W. Sinclair*

The U.S. Ambassador to an African nation asked his facility manager to order four flower pots for the embassy; nothing fancy, just four plastic flower pots. He came back and said, on second thought; order a truck load of them since there is a lot of money left in the facilities budget and it should all be spent. The facility manager ordered the pots, and when they arrived, four of them were placed where they were needed around the embassy compound. The rest were unloaded and placed out of sight behind a building, where they were left to slowly crumble in the blazing African sun.

This is a true story told to me by the facility manager who was required to buy the flower pots. Rather than being an anomaly or an isolated case, it is unfortunately the norm. When there is money left in a budget at the end of the year, all federal government managers actively seek ways to spend it. They would prefer to spend it on things they need, but they will spend it on anything. The Department of State is notorious for spending up to half of its budget in August and September, which are the last two months of the fiscal year.

Otherwise honest and dedicated federal workers consistently make these egregiously wasteful spending decisions. These are people who are committed to defending our nation, promoting our interests worldwide, and working tirelessly to manage the massive federal government. When given the decision to waste money at the end of the fiscal year or return it to the Treasury, these loyal Americans will always choose to waste the money. Many of them say they hate the process and they hate themselves for doing it. If this is the case, one must ask why these good people always make such decisions.

At the risk of making the solution to a complex problem sound too simple, the answer is all about incentives. Federal employees must spend their entire budgets or risk a severe negative impact on their careers. Their annual evaluation will reflect poor budget management if they have not spent every dime under their control. It does not matter if there are legitimate reasons why the budget allocation was not spent; it just must be spent. Not one member of the Senior Executive Service got there due to consistently completing the mission while returning excess money to the Treasury.

The system should be reformed to reward managers for exceeding expectations in their performance, and if there are any funds remaining at the end of the fiscal year, reward them again for returning it to the Treasury. These rewards could be in the form of positive annual employee evaluation reports, public recognition, and monetary bonuses. Every school of management in the developed world promotes these simple incentives, but the U.S. government continues to ignore them.

Concerns about such changes include:

1. Congress has not produced a budget in years. They make federal agencies live on continuing resolutions, which makes it nearly impossible to effectively manage their expenditures.
2. If agencies return money to the Treasury or fail to spend it on time, it is likely Congress will reduce future budgets, regardless of the agency's needs.
3. Managers might purposely underspend their budgets in an effort to enhance their careers or receive a monetary award.

None of these concerns override the need to spend the taxpayers' money with integrity. The failure of Congress to adopt a budget does not justify making wasteful spending decisions at the end of the fiscal year, nor does the chance that the next year's budget will be reduced. Universally-accepted incentives should not be withheld from an entire workforce simply because a few managers might attempt to abuse the system. The desired behavior should be rewarded and discipline should be imposed to minimize abuse.

Congress does not directly manage federal employees; that is done by the Office of Personnel Management (OPM), with a little help from the Office of Management and Budget. OPM develops policy on incentives, pay, and benefits for all federal employees, both civilian and defense. In my opinion, with a few strokes of the pen and a lot of leadership support, OPM could implement cost-cutting incentives for federal workers, improve morale of the entire federal workforce, enhance performance in every federal agency, and save the nation hundreds of billions of dollars per year.

*Dean Sinclair has a long history of leadership in the federal government as an employee and as a service contractor. He was the Executive Director of the Iraq Scientist Engagement Program for the Department of State in Baghdad, Iraq which he rescued when it was failing. Under his leadership, it became one of the most successful programs at the U.S. Embassy. He successfully completed over $166 million in reconstruction contracts in Iraq during major hostilities for the U.S. Army Corps of Engineers. Most of his career was spent implementing multimillion dollar contracts for the U.S. government throughout the United States. While he has deep respect for federal employees, his passion in life is to change the incentives that cause them to make wasteful spending decisions.*

*Dean received Meritorious Honor Awards from the U.S. Ambassador to Iraq and the Assistant Secretary of the Bureau of International Security and Nonproliferation in the U.S. Department of State. He has a Master of Public Administration degree and lives in Alexandria, Virginia.*


*CAGW's annual Pig Book press conference brought out Congress's anti-earmark contingent. (From left to right): Rep. Tom McClintock (R-Calif.), Sen. Joni Ernst (R-Iowa), CAGW President Tom Schatz, Sen. John McCain (R-Arizona, at podium), Sen. Pat Toomey (R-Penn.), CAGW Pig Book Mascot Pig Foot, and Sen. Jeff Flake (R-Ariz.).*

*Sen. John McCain (R-Ariz.) and Pig Foot reunited for a quick photo op.*

GOVERNMENT

# Waste Watch

## Cover Story

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