# GOVERNMENT SPENDING: HOW CAN WE BEST ADDRESS THE BILLIONS OF DOLLARS WASTED EVERY YEAR?

## HEARING

BEFORE THE

## COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

## HOUSE OF REPRESENTATIVES

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# GOVERNMENT SPENDING: HOW CAN WE BEST ADDRESS THE BILLIONS OF DOLLARS WASTED EVERY YEAR?

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**Tuesday, February 5, 2013**

HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
*Washington, D.C.*

The committee met, pursuant to call, at 12:59 p.m., in Room 2154, Rayburn House Office Building, Hon. Darrell E. Issa [chairman of the committee] presiding.

Present: Representatives Issa, Mica, Turner, Duncan, Jordan, Chaffetz, Lankford, Amash, Gosar, DesJarlais, Farenthold, Lummis, Massie, Collins, Meadows, Bentivolio, DeSantis, Cummings, Maloney, Norton, Tierney, Cooper, Connolly, Speier, Cartwright, Pocan, Duckworth, Davis, Cardenas, Horsford, and Lujan Grisham.

Staff Present: Ali Ahmad, Majority Communications Advisor; Robert Borden, Majority General Counsel; Molly Boyl, Majority Parliamentarian; Joseph A. Brazauskas, Majority Counsel; Caitlin Carroll, Majority Deputy Press Secretary; Sharon Casey, Majority Senior Assistant Clerk; Steve Castor, Majority Chief Counsel, Investigations; John Cuaderes, Majority Deputy Staff Director; Adam P. Fromm, Majority Director of Member Services and Committee Operations; Linda Good, Majority Chief Clerk; Ryan M. Hambleton, Majority Professional Staff Member; Jennifer Hemingway, Majority Senior Professional Staff Member; Mark D. Marin, Majority Director of Oversight; Scott Schmidt, Majority Deputy Director of Digital Strategy; Matthew Tallmer, Majority Investigator; Peter Warren, Majority Legislative Policy Director; Rebecca Watkins, Majority Deputy Director of Communications; Meghan Berroya, Minority Counsel; Jaron Bourke, Minority Director of Administration; Krista Boyd, Minority Deputy Director of Legislation/Counsel; Ashley Etienne, Minority Director of Communications; Devon Hill, Minority Research Assistant; Carla Hultberg, Minority Chief Clerk; Elisa LaNier, Minority Deputy Clerk; Dave Rapallo, Minority Staff Director; and Mark Stephenson, Minority Director of Legislation.

Chairman ISSA. The committee will come to order one minute early.

The Oversight Committee exists to secure two fundamental principles: first, Americans have a right to know that the money Washington takes from them is well spent and, second, Americans deserve an efficient, effective government that works for them. Our duty on the Oversight and Government Reform Committee is to protect these rights. Our solemn responsibility is to hold government accountable to taxpayers, because taxpayers have a right to know what they get from their government. It is our job to work tirelessly in partnership with citizen watchdogs to deliver the facts to the American people and bring genuine reform to Federal bureaucracy.

Today we continue that mission. For months we have been engaged in a national discussion about how government takes and spends money from hardworking taxpayers. As this debate has unfolded, a lot of attention centers on which taxpayers should be paying more so that government could keep spending more. The question that hasn't been asked enough, although it has been asked, whether or not Washington should be taking more.

I come from a business background, and the only way you can make more is to deliver a better product. You need to be transparent and you need your services to be delivered efficiently. Understanding we are not questioning that services need to be delivered here today but, rather, ensuring that the delivery of services be done in the most cost-effective possible way. Too often the distinction between needed services and wasteful government gets blurred. Perhaps it is for political purposes on occasion; perhaps it is simply because attacking waste in government often looks like you are attacking the underlying program.

We are not an authorization committee, for the most part. We do not authorize most major spending programs. So I believe we can be an honest broker. We will end no programs, but we will work, and are working in our hearing today, at finding places to find out if in fact these financial realities need to be fixed and that they are clearly broken. Ignoring the problem is no longer an option. We are running out of time because, when government doesn't function properly, American people lose access to important government services.

In any other enterprise producing nearly a $1 trillion deficit for the foreseeable future every year would in fact be shut down. Last year the government reported a total of $108 billion in improper payments. It would have taken us down by one-tenth of our problem. In 2011, the inspector general community identified potential savings produced from government reform totaling another $100 billion.

The General Accountability Office has published report after report identifying dozens and dozens of government agencies that do duplicate and overlapping and cost-inefficient projects that hardworking Americans pay tens of billions of dollars a year for.

We need, and have, a blueprint to change that. What we need is the political will, from both parties and the President, to do so; and we have never had a better reason. Ultimately, as the debate in other committees is on tax increases or simply cutting programs to spend less money, we are the committee that needs to be part of a fix that is a win-win: a win for the taxpayer because he doesn't have to pay more; a win for the service recipient because, in fact, services can be delivered for less. That is our challenge; it is what we are here today to talk about.

I don't believe it falls anywhere from the far left to the far right of the ideological spectrum to reform government. Just the opposite; I believe it is in the interest of all of us, no matter where you are in the spectrum, to spend less doing what we have agreed or disagreed to do so that, in fact, the American people have a smaller burden than they do today. I believe today's hearing will take us a long way in that direction. We have a distinguished panel here to tell us about it.

With that, I would like to recognize the ranking member for his opening statement.

Mr. CUMMINGS. I want to thank you very much, Mr. Chairman, for holding this hearing. It is very encouraging that the first two committee hearings of this committee have been bipartisan and focused on the core jurisdiction of this committee. Your staff did an exemplary job leading up to this hearing in sharing information and making the planning of this hearing a bipartisan effort.

The title of this hearing gets right to the heart of the issues we are examining today. The title is Government Spending: How Can We Best Address the Billions of Dollars Wasted Every Year?

We in Congress talk all the time about cutting waste and making the government more efficient. It is time to go from talking to acting. I am looking forward to hearing from the witnesses testifying today about concrete actions the Administration and Congress can take to save taxpayers money.

The Department of Defense is responsible for an appalling amount of wasteful spending each year through its contracts. DOD obligated $365 billion for contracts in fiscal year 2012 and the Department has had significant problems with contract management and oversight.

The Congressional Research Service recently reported that DOD acquisition programs have experienced "poor performance against the backdrop of war in Afghanistan, spiraling contract costs, and decline in the size of the defense acquisition workforce."

In testimony before this committee last month, a witness from the Government Accountability Office said that several DOD IT investments "experienced significant performance problems and were indeed high-risk." One of the specific examples the chairman and GAO pointed out in that hearing was a contract that the Air Force canceled last December, after having spent $1 billion. The Expeditionary Combat Support System was plagued by delays and cost overruns.

Representative Speier highlighted this issue in a letter to us in December, Mr. Chairman, and I agree that it makes sense for the committee to adopt her proposal to investigate this contract further.

Another example is the $750 million in overpayments by DOD to the contractor that provides food supplies to United States troops in Afghanistan. This is an issue that has been highlighted by the ranking member of the National Security Subcommittee, John Tierney, and the subcommittee's chairman, Mr. Chaffetz. Ranking Member Tierney has also been a leader in exposing problems with DOD's F–35 Joint Strike Fighter, the largest weapons procurement program in history, which has had substantial cost overruns and repeated schedule delays. Full production of the Joint Strike Fighter Program has been delayed by six years and the cost per unit have doubled.

We are better than that. We can do much, much better.

Another area of significant Federal spending is crop insurance. I ask unanimous consent to enter into the record a New York Times article from January 15, 2013, titled "Record Taxpayer Cost Is Seen for Crop Insurance."

Chairman ISSA. Without objection, so ordered.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Mr. CUMMINGS. According to this article, the government pays $1.3 billion, $1.3 billion each year to 15 insurance companies. The article states "government documents show the taxpayers have paid nearly $7 billion so far to subsidize premiums for 2012. The documents also show that taxpayers could pay another $7 billion to underwrite losses by the insurance companies and other costs."

These are just a few examples of government waste. There are many, many more. And I hope the committee will conduct vigorous oversight to expose these and other sources of wasteful spending and ensure that necessary actions are taken to address the root problems. As I have said many times, and I said just here today, that taxpayers want to make sure that their tax dollars are spent effectively and efficiently; and, Mr. Chairman, we are committed to work with you in a bipartisan way to not only see where that waste is taking place, but then to come up with meaningful solutions to try to address them.

With that, Mr. Chairman, I yield back.

Chairman ISSA. I thank the gentleman, and we will.

We now recognize our distinguished panel of witnesses.

Mr. Tom Schatz is president of Citizens Against Government Waste; Ms. Ryan Alexander is the president of Taxpayers for Common Sense; the Honorable Dan Blair is president and CEO of the National Academy of Public Administration; and Mr. Jon Kamensky is a senior fellow at the IBM Center for The Business of Government.

Lady and gentlemen, pursuant to the committee rules, would you please rise to take an oath and be sworn? And raise your right hands.

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

[Witnesses respond in the affirmative.]

Chairman ISSA. Please be seated.

Let the record indicate all witnesses answered in the affirmative.

Before I recognize Mr. Schatz, I just want to thank you all for being here. Often we talk about individuals coming before us as witnesses. Ultimately, you are all partners in the process of understanding and exposing waste in government, so I am particularly pleased to start off this oversight hearing with this panel.

With that, you all are experienced; you know the five minutes, you know the red, green, black, blue, the whole bit, so I know you will finish up pretty close to that five minutes. With that, I recognize Mr. Schatz.

## WITNESSES STATEMENTS

### STATEMENT OF THOMAS A. SCHATZ

Mr. SCHATZ. Thank you very much, Mr. Chairman. I ask that my full testimony be submitted for the record.

Chairman ISSA. Without objection, all testimonies will be entered in the record.

Mr. SCHATZ. My name is Thomas Schatz. I am the president of Citizens Against Government Waste, a nonprofit organization with more than one million members and supporters nationwide.

It is no secret that government waste is present throughout every agency and all functions could be performed more effectively and efficiently. Recommendations to eliminate waste, fraud, abuse, and mismanagement are regularly provided by GAO, CBO, the President's budget, and congressional committees. Outside of Congress, think tanks, advocacy groups, and private sector companies also provide information on government expenditures.

For example, since 1993, CAGW has released Prime Cuts, a compendium of recommendations that emanate from both public and private sources. The most recent edition of Prime Cuts identified 691 recommendations that would save taxpayers $391.9 billion in the first year and $1.8 trillion over five years.

Over the years, there have really only been two large comprehensive studies of government spending, the Hoover Commission under President Truman and the Grace Commission under President Reagan. The Hoover Commission inspired many States to establish similar entities, especially the Little Hoover Commission in California, which has been operating continuously since 1962. However, there is no similar permanent entity at the Federal level.

Now, any evaluation of government programs should both determine whether or not the expenditures are complying with statutory requirements and how the programs could and should function in today's world. In addition to thinking about how programs relate to current needs, there should also be a mechanism in place to prevent the establishment of new programs when current programs already serve a particular need.

Indeed, an underlying reason for government waste and mismanagement is Congress's tendency to create a program to solve a problem. Unfortunately, neither the House nor Senate has adopted proposed rule changes that would require committee reports to contain an analysis by CRS on whether or not the bill creates a new Federal program that would duplicate or overlap any existing program. The reporting committee would also be required to explain why the creation of the new program would be necessary if a similar program already existed.

On the other hand, Congress could act at any time to terminate or consolidate duplicative and overlapping programs, and particular findings that were produced by GAO in two annual reports published in 2011 and 2012. For example, in 2012, GAO recommended consolidating Federal offices, selling excess uranium at the Department of Energy, and cutting improper payments by Medicare and Medicaid.

The 2012 report cited 209 Science, Technology, Engineering, and Math programs costing $3.1 billion spread across 13 agencies in fiscal year 2010. More than one-third of those programs were adopted and first funded between fiscal years 2005 and 2010, yet the United States still does not have enough future workers in STEM fields and U.S. students are still behind in math and science, compared to other highly technological nations.

GAO found 47 job training programs in nine agencies that cost $18 billion in 2009. Only five have had an impact study completed since 2004 to determine whether or not participants secured a job as a result of the program, rather than a separate cause.

Finally, and most absurdly, there are more than 50 programs across 20 agencies to promote financial literacy. There is no reliable data on the total cost of those programs, and a government that itself is going broke has no business trying to teach the American people how to balance their checkbooks.

My written testimony contains several specific proposals to cut wasteful spending and improve efficiency, including replacing the one dollar bill with the one dollar coin, eliminating the Medium Extended Air Defense System, reducing identity theft at the IRS, increasing the use of Recovery Audit Contractors, and reducing or eliminating farm subsidies, particularly the sugar program and the proposed dairy market stabilization program.

In regard to information technology, we commend the efforts by this committee to address wasteful spending in this area. Agencies should also be increasing the use of cloud services and, at the same time, reducing the number of unnecessary or excessive IT software licenses.

Finally, we urge the committee to adopt structural reforms of the U.S. Postal Service, while avoiding a taxpayer bailout.

While programs can be consolidated, reformed, or terminated by Congress at any time, such actions have been few and far between. In addition to taking action on specific proposals to cut wasteful spending, Congress should also consider establishing a new commission to provide recommendations to reorganize Federal agencies, as well as a sunset commission.

I appreciate the opportunity to testify before the committee today and would be glad to answer any questions.

[Prepared statement of Mr. Schatz follows:]

Testimony of

Thomas A. Schatz

President, Citizens Against Government Waste

Before the House Committee on Oversight and Government Reform

February 5, 2013

My name is Thomas A. Schatz, and I am president of Citizens Against Government Waste (CAGW). CAGW was founded in 1984 by the late industrialist J. Peter Grace and nationally-syndicated columnist Jack Anderson to build support for implementation of President Ronald Reagan's Grace Commission recommendations and other waste-cutting proposals. Since its inception, CAGW has been at the forefront of the fight for efficiency, economy, and accountability in government. CAGW has more than one million members and supporters nationwide, and, over the past 28 years, it has helped save taxpayers $1.2 trillion through the implementation of Grace Commission findings and other recommendations.

CAGW does not accept government funds. The organization's mission reflects the interests of taxpayers. All citizens benefit when government programs work cost-effectively, when deficit spending is eliminated, and when government is held accountable. Not only will representative government benefit from the pursuit of these interests, but the country will prosper economically because government mismanagement, fiscal profligacy, and chronic deficits soak up private savings and crowd out the private investment necessary for long-term growth.

It is no secret that wasteful spending is present throughout the federal government and that every agency could perform its functions more effectively and efficiently. Recommendations to eliminate waste, fraud, abuse, and mismanagement are regularly provided by the Government Accountability Office (GAO), the Congressional Budget Office (CBO), the President's Budget, and congressional authorizing and appropriations committees. Outside of the government, think tanks, advocacy groups, and private-sector companies also provide ongoing analysis of government expenditures. For example, since 1993, CAGW has released *Prime Cuts*, a compendium of recommendations that emanate from both public and private sources; some still date back to the Grace Commission. The most recent edition of *Prime Cuts* identified 691 recommendations that would save taxpayers $391.9 billion in the first year and $1.8 trillion over five years. *Prime Cuts* can serve as a blueprint to cut government spending and put the nation on a path toward fiscal stability.

The first modern comprehensive effort to reform government and/or eliminate wasteful spending occurred through the Commission on Reorganization of the Federal Government, which was established by Congress in 1947 under President Harry Truman and became known as the Hoover Commission, as it was led by former President Herbert Hoover. The commission met from 1947-1949 and again from 1953-1955. More than 70 percent of the recommendations were implemented by executive and legislation action, including the establishment of the Department of Health, Education and Welfare as well as the General Services Administration.

The next comprehensive study of the federal government occurred under President Reagan, who created the President's Private Sector on Cost Control in the Federal Government in 1982, which became better known as the Grace Commission. The commission issued its final report in 1984, and made 2,478 recommendations that would have saved $424.4 billion in the first three years after full implementation of the recommendations. Through executive orders, President Reagan helped saved $100 billion. The administration's annual reports on management of the federal government tracked the implementation of Grace Commission recommendations as well as provided a list of initiatives that were included in the budget submission.

The Hoover Commission inspired many states to establish similar entities. California created the Little Hoover Commission on State Government Organization and Economy in 1962, and that operation continues today. In turn, President Reagan referred to the Little Hoover Commission as one of the reasons for his desire to establish a similar entity at the federal level.

According to the Little Hoover Commission's website, its mission is to provide reports, recommendations and legislative proposals to promote efficiency and economy in government. The commission is composed of five citizen members appointed by the governor, and four citizen members appointed by the legislature, two senators, and two assembly members. The website states that the commission's "role differs in three distinct ways from other state and private-sector bodies that analyze state programs." First, the commission examines how programs "could and should function in today's world" rather than just determining whether programs "comply with existing requirements." Second, the commission produces reports that "serve as a factual basis for crafting effective reform legislation." Third, the commission follows through with legislative proposals to "implement its recommendations, build coalitions, testifying at hearings and providing technical support to policy makers."

There is no comprehensive list of state-based, permanent entities that function like the Little Hoover Commission. Some states have more specific operations such as the Sunset

Advisory Commission in Texas, which was established in 1977 and is charged with reviewing all state programs every 12 years on a rotating basis.

The commission's mandate covers approximately 150 state government agencies. Since its inception, 78 agencies have been abolished or consolidated; 37 agencies were completely abolished and 41 had some functions transferred to existing or newly created agencies. The Texas Sunset Commission's website notes that every dollar spent on the sunset process earns the state of Texas $29 in return.

There have never been permanent operations similar to the Little Hoover Commission or the Texas Sunset Commission at the federal level.

While the Hoover and Grace Commissions reviewed operations at virtually every federal agency, there have been both legislative and executive branch efforts to review specific agencies or programs, including task forces, boards, and formal reviews. For example, the Packard Commission in 1981 and the Clinger-Cohen Act of 1996 focused primarily on management functionality at the Department of Defense (DOD). The National Performance Review under Vice President Al Gore was an interagency task force intended to reform and streamline government to be more efficient and less expensive.

The Office of Management and Budget (OMB) under President George W. Bush created the Performance Assessment Rating Tool, which disappeared at the end of the Bush administration. President Obama has initiated numerous efforts to eliminate wasteful spending, including a June 2011 executive order entitled, "Delivering an Efficient, Effective, and Accountable Government," which created the Government Accountability and Transparency

Board, and a presidential memorandum sent to the heads of all executive departments and agencies instructing them to dispose of all unneeded federal real estate.

Congressional attempts to improve the management of the federal government included enacting the Grace Commission's recommendation to establish chief financial officers, which occurred in 1989 (begging the question as to why it took 215 years to provide a financial officer in federal agencies). The Office of Federal Financial Management was created at OMB in 1990 (begging the same question). The Government Performance and Results Act was passed in 1993, and the Government Performance and Results Modernization Act was signed into law in 2010.

While these initiatives were long overdue and helped improve the management of federal agencies, the next step would be to adopt the Grace Commission recommendation to reorganize OMB into the Office of Federal Management, which would help change the focus of both OMB and Congress from spending to managing.

Despite the best intentions of presidents and legislators to address wasteful spending and improve government efficiency, the size and scope of government continues to grow. The president's budget includes a list of program terminations and consolidations, and, as a result, a few programs are eliminated or consolidated every year, usually saving less than $15 billion. On the other hand, the creation of new programs and the expansion of existing programs overwhelm those efforts.

An underlying reason for this consistent failure to improve government efficiency and eliminate waste, fraud, and abuse is Congress's tendency to create a program to solve a problem. Rather than spending the time to examine an issue in depth, including whether or not an existing program can address the subject matter, members are usually more likely to move forward with a new program.

In an effort to help prevent the creation of new, duplicative programs, Sen. Tom Coburn (R-Okla.) introduced S. Res. 427 in the 112th Congress, the Preventing Duplicative and Overlapping Government Programs Resolution. The resolution would require the report accompanying any bill reported by a congressional committee to contain analysis by the Congressional Research Service (CRS) on whether the bill created a new federal program that would duplicate or overlap any existing federal entity, program, or initiative. S. Res. 427 would also require the reporting committee of a bill to explain why the creation of each new program or office would be necessary if a similar program, office, or initiative already existed.

A companion measure, H. Res. 623, was introduced in the House. Both resolutions would amend the rules of each body of Congress. As such, the Coburn resolution required 67 votes. On June 29, 2011, the Senate voted 63-34 in favor of Sen. Coburn's amendment, which contained the language of his preventing duplication and overlap resolution. That was four votes short of the 67 needed to amend Senate rules.

Despite other efforts to restrain government spending in the House, there has never been a vote on a similar rules change.

The failure of both the House and Senate to agree on this reasonable rules change to prevent the creation of duplicative and overlapping programs makes it clear that without such restrictions, the size and scope of government will continue to expand. Even the most obvious duplication has not been addressed.

For example, Congress would be well-served to act on its own watchdog's voluminous reports. The GAO has issued two annual reports, in 2011 and 2012, with a third on the way in the next two months, regarding duplicative and wasteful federal programs. The 2012 report, "Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue," identifies 51 areas of government "where programs may be able to achieve greater efficiencies or become more effective in providing government services."

Among those programs are hundreds of agencies, offices, and initiatives that provide similar or identical services to the same populations, including 53 programs across four departments that focus on supporting entrepreneurs and 14 programs across three departments for the administration of grants and loans to reduce diesel emissions.

GAO also recommended 18 cost-saving measures that could save taxpayers billions, including consolidating federal offices, selling excess uranium at the Department of Energy, replacing the $1 bill with a $1 coin, and cutting improper payments by Medicare and Medicaid, which totaled an estimated $65 billion in fiscal year 2011.

The 2012 report also cited 209 STEM programs costing $3.1 billion spread across 13 agencies in fiscal year (FY) 2010. More than one-third of these programs were first funded between FYs 2005 and 2010, yet the U.S. still does not have enough future workers in STEM fields and U.S. students "continue to lag behind students in other highly technological nations in mathematics and science achievement."

GAO stated that 173 or 83 percent of the 209 programs "overlapped … with at least 1 other program in that they offered similar services to similar target groups in similar STEM fields to achieve similar objectives." This complicated and fragmented system was a result of efforts to "both create and expand programs across many agencies in an effort to improve STEM education and increase the number of students going into STEM fields." The proliferation of new programs in a short period of time "contributed to overlap and, ultimately, to inefficiencies in how STEM programs across the federal government are focused and delivered."

GAO reported that there are 82 teacher quality programs in 10 agencies that cost $10 billion in FY 2009. "The proliferation of programs" and "fragmentation" has limited "the ability to determine which programs are most cost-effective, and ultimately increase program costs."

There are 47 job training programs in nine agencies that cost $18 billion in FY 2009. Program analysis is virtually non-existent. Only five had an impact study completed since 2004 to determine whether or not participants secured a job as a result of the program itself rather than a separate cause, and about half have not had a single performance review since 2004. Therefore, "little is known about the effectiveness of most programs."

Finally, and most absurdly, there 56 programs across 20 agencies to promote financial literacy, which are intended to improve the fiscal acumen of the American people. While it would be funny if it wasn't so sad, there is no reliable financial data on the total cost of the financial literacy programs, and a government that itself is going broke is trying to teach others how to balance their checkbooks.

Congress cannot claim ignorance of these duplicative, bloated programs. The GAO has long published annual accounts of improvident spending, and many of its most recent recommendations were part of both the original Grace Commission report, which led to CAGW's founding 28 years ago, and GAO's two annual reports on duplication and overlap. Obviously, despite reminders from all sides that wasteful spending is rampant and endemic to government, many of these glaringly wasteful programs have been allowed to continue and even grow. While the GAO's 2012 duplication report acknowledged that Congress has "taken actions to address" some of its 2011 recommendations, many of those steps amount to little more than empty rhetoric.

In 1994, long before he became a U.S. Senator and now Governor of Kansas, Sam Brownback began the process of proposing an effort to reform government operations, much like the Base Realignment and Closure Commission (BRAC). Sen. Brownback called BRAC "one process that has been successful in the realm of program-elimination and prioritization of spending."

In 2003, Sen. Brownback pointed out that the base closing process "originated in the 1960s under President Kennedy as the DOD had to realign its base structure after World War II and the Korean War. At that time the DOD was able to close bases without congressional interference, and 60 bases were closed in the 1960s. Naturally, Congress was upset with the political and economic ramifications back home, but their efforts to kill BRAC failed until 1977 when President Carter signed legislation allowing the Congress to micro-manage base closings. As a result no major military bases were closed in the 1980s. In the late 1980s, under Congressman Dick Armey's leadership, BRAC was revived in its present form, with the BRAC commission submitting its recommendations to Congress for the realignment and closure of military bases, with the Congress taking an up-or-down vote to accept or reject the plan as a whole."

Senator Brownback further observed that, "BRAC has been our one successful model for eliminating government programs—in this case military bases—and with this in mind, I specifically modeled the Commission on the Accountability and Review of Federal Agencies (CARFA) Act (S. 1668) after BRAC. Whereas the BRAC Commission examined military bases and the Department of Defense, CARFA would review federal agencies and programs within agencies."

CARFA was envisioned to use a narrow set of criteria, designed to produce significant results. The three areas of review are:

> Duplicative. Where two or more agencies or programs are performing the same essential function and the function can be consolidated or streamlined into a single agency or program, the commission would recommend that the agency or program be realigned.
>
> Wasteful or Inefficient. Where the commission finds an agency or program to have wasted federal funds by egregious spending, mismanagement of resources or personnel, or use of federal funds for personal benefit or for the benefit of a special interest group, it would recommend that such agency or program be realigned or eliminated.
>
> Outdated, Irrelevant, or Failed. Where the commission finds that an agency or program has completed its intended purpose, become irrelevant, or failed to meet its objectives, it would recommend the elimination of such agency or program.

After completing its evaluation, the commission would submit to Congress both a plan with recommendations of the agencies and programs that should be realigned or eliminated and proposed legislation to implement this plan. As with the successful BRAC model, the Congress would consider this legislation on an expedited basis with a comment period from the committees of jurisdiction. Within the expedited time frame, the Congress would take an up-or-down vote on the legislation as a whole without amendment. If CARFA's recommendations are enacted, significant savings would likely result. If CARFA's recommendations are rejected, congressional authorizers would still have a useful guide for identifying areas in need of scrutiny.

In 2004, then-Rep. Todd Tiahrt (R-Kan.) introduced a House version of CARFA. He asserted that "a first step toward a stable financial future for this country currently can be found in H.R. 3213, which is also known as the Commission on the Accountability and Review of Federal Agencies Act (CARFA)... H.R. 3213 will 'establish a commission to conduct a comprehensive review of federal agencies and programs and to recommend the elimination or realignment of duplicative, wasteful, or outdated functions...' Congress will have to simply vote up-or-down on the commission's recommendations in their entirety. The congressional log-rolling that normally bogs down the process will be short-circuited. In this way, real reform can emerge, and the deficit and debt problems can be brought under control. H.R.3213 offers Congress and the Administration a unique opportunity: rather than simply re-fund and increase funding for every federal program, CARFA will eliminate unproductive, duplicative and outdated programs.

"CARFA's main focus would be to make our government smarter and more efficient, and also to ensure that taxpayer dollars are not used to support programs such as the 'Federal Tea-taster,' who until 1995 headed the 'Board of Tea Experts' which was created by the Imported Tea Act of 1897. Until this program's elimination just 8 short years ago, the federal government was spending $120,000 in salary and operating expenses per year to taste tea. Obviously this is only one example of the type of programs that CARFA would target, but I am convinced that our federal government is replete with programs such as this that make a mockery out of the hard-earned tax dollars that Congress provides. ... The examples of inefficient and wasteful government practices that CARFA could target are far too numerous to cite in this short amount of time. However, it is clear to me that the need for CARFA is very real.

"The strict time limits governing the Commission, which would expire shortly after submitting its findings, would ensure that its costs are kept to a minimum. I believe that the savings that would occur as a result of the Commission's findings will more than justify the minimal expenses that the study might incur. In addition, it is worth noting that CARFA requires that ALL funds saved by the implementation of this plan can ONLY be used for supporting other domestic programs or paying down the national debt."

Needless to say, nothing was done about CARFA by the House or the Senate, and no similar legislation has been introduced since Sen. Brownback and Rep. Tiarht left Congress.

Of course, given CAGW's own origins, emanating from the Grace Commission, the organization has long supported another idea whose time has come (again); the establishment of a "New Grace Commission." President Obama should call for a comprehensive bi-partisan examination of government waste, fraud, abuse and mismanagement: in effect, a private sector survey on cost control or Grace Commission by a new name. The new commission could do the following: conduct in-depth reviews of the operations of federal agencies and evaluate improvements in agency operations; look for increased efficiency and reduced costs that can be realized by executive action or legislation; provide additional information and data relating to government expenditures, indebtedness and personnel management; and seek opportunities for increased managerial accountability and improvements.

Robert Freer, Jr., chairman of the Free Enterprise Foundation and a member of the original Grace Commission, wrote in 2010 that, "More than two decades have passed with only partial adoption of its suggestions, and we are in even deeper soup just as it suggested we would be if we did not follow through. In fact, we are several leagues beyond anything the Commission even conceived of in fiscal jeopardy due to our own profligacy. Any rational society would have long ago reigned in its appetites, re-examined its approach to social services, and sharpened its management pencils. It is unclear whether the more than 100 new agencies of government to be created to carry out the new health care initiative will ever be funded, but even the existing governmental structures are woefully in need of a sharp management knife to prune waste, inefficiency, and fraud from their administration. While lamenting the total irresponsibility in growth of government, in calling for a new Grace Commission, we can still hope that government does what it can to carry out its ill conceived programs in a manner as devoid of waste, inefficiency and fraud as possible. A new Grace Commission would help."

In September 2010, shortly before he was elected to the United States Senate to the seat once held by President Obama, then-Congressman Mark Kirk wrote in *The Hill*, "Congress and the president should establish a new Grace Commission, ... After a two-year study at no taxpayer expense, the panel made 2,478 recommendations, which it estimated would save $1.9 trillion by the year 2000. A 21st century Grace Commission should also be given the powers of the Base Realignment and Closure Commission, with its recommendations facing certain up or down votes in both chambers."

In a June 15, 2011 editorial, the *Las Vegas Review-Journal* opined on President Obama's contemporaneous announcement of a new effort to eliminate government waste – the "Campaign to Cut Waste," with Vice President Biden to chair the oversight board of federal departments and agencies. The op-ed concluded as follows: "If Vice President Biden's new commission is really interested in eliminating waste and redundancy, the first thing they do should also be the last thing they do: Order new copies of the Grace Commission report printed up and handed out to the president and each member of Congress, and then set a good example by voting themselves out of existence."

In addition to the foregoing recommendations, there are several other areas of high priority for CAGW in its mission to eliminate wasteful spending.

Although it is viewed by many as sacrosanct, the DOD is rife with waste, fraud, and abuse. I will focus on just one example here today. The Medium Extended Air Defense System (MEADS) – the intended replacement of the Patriot missile defense system – is one area, in particular, where taxpayer money is being spent recklessly.

For several years, DOD officials have stated that cancelling MEADS would be cost-prohibitive without agreement from the United States' partners, Germany and Italy, because of high unilateral termination costs. In their view, MEADS, despite glaring cost overruns and extensive delays, must be continued because of the cost of cancellation.

However, a confidential DOD report to the Senate Armed Services Committee (SASC), dated April 2012 and obtained by CAGW, concluded that the U.S. can withdraw from the contract without committing additional money or paying termination fees. Undeterred by this finding, still others have argued that discontinuing funding for MEADS would irrevocably alter defense procurement cooperation between the U.S. and Europe. But this seems unlikely given the skepticism with which Germany and Italy view MEADS, coupled with the close partnership that we enjoy with European nations on other defense projects. Indeed, even the Obama Administration has advocated for the program's cancellation.

MEADS' troubles have been well-documented by CAGW. The program has been plagued with cost overruns of nearly $2 billion, and it is ten years behind schedule. A *Washington Post* report (March 9, 2010) quoted an internal U.S. Army memo asserting that the program "will not meet U.S. requirements or address the current and emerging threat without extensive and costly modifications." Then, in March 2011, a CBO report recommended terminating MEADS in favor of continuing production of the Patriot missile defense system. Eliminating MEADS would serve as a fine example of a judicious approach to trimming DOD waste.

Taxpayers – and many members of Congress – have been surprised to learn that the federal government pays the cost of certain federal post-retirement benefits, including pensions and healthcare. In April 2011, the GAO issued a report recommending that the Department of Energy (DOE) comprehensively review how it manages contractor post-retirement benefit costs. The GAO report noted that "DOE's costs for reimbursing contractor pension and other post-retirement benefits have grown since 2000 and are projected to increase in coming years." Over the past 10 years, DOE's annual costs have ranged from $43 million in 2001 to $750 million in 2009. They have increased by an average of 8 percent annually and are on track to increase by 9 percent annually over the next five years.

Another major area of waste is identity theft, particularly through tax return fraud. The typical scheme involves a fraudster who acquires someone else's social security number and address, files early for a return, and has the return direct deposited to a bank account or debit card or sent to a mailbox belonging to the thief. In the vast majority of cases, IRS issues the return, only to refuse the legitimate, would-be recipient when he or she later attempts to collect his or her rightful refund.

For taxpayers, the costs are diffuse but growing at an alarming rate. A November 2012 GAO report stated that, as of September 30, 2012, the IRS had identified 641,690 known cases of tax fraud identity theft in 2012 alone. That represents a rise of 165 percent from 2011, when there were just 242,142 such cases, and it is more than 13 times the amount reported in 2008.

Another area of concern is information technology (IT). Federal IT has grown by 76 percent, from $46 billion in 2001 to $81 billion in 2012. Unfortunately, according to Chairman Darrell Issa's (R-Calif.) opening statement at a January 22, 2013 Oversight and Government Reform Committee hearing on wasteful IT spending, federal managers estimate as much as $20 billion of taxpayer money is squandered n IT every year.

Taxpayer dollars are spent to maintain obsolete and deficient IT resources and support failing projects, such as a one-billion-dollar Air Force logistics system that was shut down last month with nothing to show for it. At the United States Department of Agriculture, $94 million has been spent on a project to develop supply-chain management systems for food distribution, with no measurable results after four years.

Another area of IT spending where the federal government can save money is by reducing the number of unnecessary or excessive IT software licenses, bought in part because the government is unable to keep track of what 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 of their software assets in their reports.

This is an area where the federal government can learn from the private sector. The procurement and utilization of software licenses is routinely and systematically managed by the private sector through the use of software asset management (SAM) tools. There are several

SAM auditing systems available that offer software licensing auditing tools. These same tools could be applied to government systems to ensure that chief information officers (CIOs) and purchasing agents are aware of existing software licenses and can document actual usage in order to make smarter purchasing decisions.

A proactive federal IT initiative that could produce billions of savings is increasing the usage of cloud computing tools. According to a survey (dated April 25, 2012) by MeriTalk Cloud Computing Exchange, approximately $5.5 billion has already been saved annually from the adoption of cloud computing tools. However, had federal agencies more broadly adopted cloud services, the government could have saved some $12 billion per year. In September 2012, MeriTalk followed with a second survey targeting federal IT managers: those managers anticipated savings of up to $16 billion annually through the use of cloud computing tools. These figures are far greater than the $5 billion in annual savings estimated by former federal CIO Vivek Kundra when he first discussed the administration's cloud-first initiative.

For those who are serious about eliminating waste and inefficiency from one of the most visible entitlement programs, Medicare, Recovery Audit Contractors (RAC) have been very effective. The Tax Relief and Health Care Act of 2006 directed the Centers for Medicare and Medicaid Services (CMS) to implement a national recovery audit program for the Medicare Fee for Service (Parts A & B) program. Under the program, CMS competitively contracted four RACs – one in each of four regions, with each region covering about a quarter of the United States. The RACs are responsible for identifying overpayments and underpayments in Parts A and B and bringing those improper payments to the attention of the Medicare program for correction.

Improper payments occur as a result of incorrect coding for medical procedures or claims for services that are medically unnecessary. When providers submit claims for reimbursement of Part A and B services, those claims are processed by the fiscal intermediaries that work for CMS: the Medicare Administrative Contractors (MACs). A MAC will typically review claims for basic accuracy and sufficiency; however, because they have a legal obligation to process and pay claims under relatively short deadlines, they have neither the time nor the resources to ensure payment accuracy. RACs then conduct post-payment review of a small subset of claims to identify improper payments and bring those improper payments to the attention of the MACs for corrective action.

Moreover, RACs are paid on a commission basis for all underpayments and overpayments that they identify. The federal government bears none of the risk of investing in the systems and personnel to conduct the program.

As of December 31, 2012, RACs had corrected more than $4.2 billion in improper payments, approximately 93 percent ($3.9 billion) of which were overpayments collected from providers, over the four-year period beginning with FY 2010 (October 2009) through the first quarter of FY 2013 (December 2012). In short, the program works well and should be continued.

Since its inception, CAGW has been closely following spending at the United States Department of Agriculture (USDA), particularly during consideration of the Farm Bill by Congress. That legislation is a rare situation in which the headwinds to eliminating waste are more regional in nature than partisan. This should offer some hope for bipartisan collaboration in the 113th Congress.

Among the areas in dire need of reform, the USDA's Direct Payments program delivers $5 billion annually to farms based on historical production totals. From this distribution, $1.3 billion, over a quarter of the subsidies allotted under this program, goes to recipients living on what once was farmland, but who no longer farm. That massive giveaway has rightly come under fire in recent years from lawmakers and policy groups on both ends of the political spectrum, and, as a result, it was eliminated in both the House and Senate versions of the Farm Bill during the 112th Congress. The permanent termination of direct payments should be a mutually agreeable starting point when negotiations on the Farm Bill resume in 2013.

In a January 6, 2013 op-ed, titled "If we can't kill farm subsidies, what can we kill?" the renowned economics reporter and columnist Robert J. Samuelson wrote that direct subsidies to farmers cannot be justified, while government support for agricultural research and safety would be appropriate. He noted that if "subsidies ended tomorrow, wheat would still be grown in Kansas. Subsidies qualify as 'low hanging fruit' in cutting federal spending. What's instructive is that no one is doing it."

Samuelson added, "Farm subsidies are a metaphor for our larger predicament. We no longer have the luxury – as we did for decades – of carrying marginal, ineffectual or wasteful programs. We can no longer afford subsidies for those who don't need them... If we can't eliminate the least valuable spending, then we will be condemned to perpetually large deficits, huge tax increases or indiscriminate cuts in many federal programs, the good as well as the bad... Even with a full economic recovery, current policies imply annual deficits over the next decade averaging 5 percent of the economy (gross domestic product); by 2022, federal debt to GDP would hit 90 percent (the 2007 figure: 36 percent). Balancing the budget in 2020 would require $1 trillion of spending cuts or tax increases. Government needs reappraisal. Programs shouldn't be immortal in the face of changing economic and social conditions. What's no longer justified should be discarded."

In particular, the sugar and dairy programs distort the free market and keep prices much higher than necessary for consumers and taxpayers. The U.S. sugar program could accurately be described as an outdated, Soviet-style command-and-control program that uses price supports, tariffs, import quotas, loans, and marketing allotments to artificially inflate the price of sugar. This federal intervention has led to American consumers paying nearly twice the world price of sugar for the better part of the last 30 years. The program is often justified as providing assistance to small farmers; however, 60 percent of all sugar program benefits go to the wealthiest one percent of farmers.

A new and supposedly "improved" dairy program lurks in the House and Senate versions of the Farm Bill. The Dairy Market Stabilization Program (DMSP), despite being called "reform" by supporters, continues the failed command-and-control policies for milk that have existed for decades. DMSP will limit the supply of milk and, as a result, increase the price Americans pay at the grocery counter for milk and other dairy products, like cheese, yogurt, and ice cream. DMSP will also impose a new layer of job-killing regulations on American companies that manufacture dairy products.

As the CRS reported on September 18, 2012, "DMSP is described most commonly as a supply management program; however, it is perhaps more accurately described as a production disincentive program." DMSP is contrary to the goals of limited government and economic growth. A new federal program that will directly intervene in markets and increase milk prices for everyone is unnecessary. CRS, while more neutral on the subject, nonetheless concluded the "concept behind the DMSP program is that payment reductions are intended to have one or both of two basic effects, *either of which is expected to result in a higher future farm price for milk* (emphasis added)." DMSP attempts to both limit the supply of milk and increase the demand for dairy products. Moreover, low-income families, who spend a larger percentage of their income on food than other consumers, will be hit hardest.

Another USDA program that should eliminated, not just reformed, is the indefensible Market Access Program (MAP), a corporate-welfare stalwart that delivers advertising subsidies to successful agricultural firms, like Butterball, Tyson, and Sunkist Growers, Inc. to market their goods abroad. Over the past decade, MAP has provided nearly $2 billion in taxpayer money to agriculture trade associations and farmer cooperatives. According to *Prime Cuts*, the elimination of MAP would save taxpayers $200 million in the first year and $1 billion over 5 years.

While CAGW opposes the USDA's MAP, there is another MAP that should be read by this committee: Rep. Kevin Brady's (R-Texas) "Maximizing America's Prosperity" (MAP) Act. One of the key provisions of Rep. Brady's bill is a "sunset" process, to provide periodic, systematic review of needlessly duplicative programs or agencies that have outlived their usefulness.

This bill would establish a bipartisan Federal Agency Sunset Commission, inspired by the Texas Sunset Commission, with which Rep. Brady was familiar when he served in the Texas State Legislature prior to being elected to Congress. Each federal agency must justify its existence or face elimination. The commission will consider, among other criteria: the agencies' efficiency of operations; purpose of the agency; whether the agency has operated outside its scope of authority; whether there are better alternatives for achieving the agency's mission;

promptness in processing complaints; extent of the inclusion and encouragement of public participation; and the effects of abolishment on the state and local levels. The commission will submit to Congress each year a report containing an analysis for each agency up for Sunset review that year consisting of recommendations as to whether the agency should be abolished, reorganized or substantively changed, recommendations for funding the agency as well as legislative action with respect to each agency. Congress will then draft legislation to carry out the recommendations.

Another painless way to save billions of dollars is to phase out the $1 note and transition to the $1 coin. The GAO has issued six separate reports over 22 years stating that billions could be saved from eliminating the $1 note. In its most recent report released in February 2012, the GAO estimated that switching to the $1 coin would save at least $4.4 billion over 30 years, or $146 million per year.

The Currency Optimization, Innovation, and National Savings (COINS) Act, introduced during the 112th Congress as H.R. 2977 in the House by Rep. David Schweikert (R-Ariz.) and as S. 2049 in the Senate by Sens. Tom Harkin (R-Iowa) and John McCain (R-Ariz.), would require Federal Reserve Banks to stop issuing the $1 note four years after enactment of the legislation or when circulation of $1 coins exceeds 600 million annually, whichever comes first.

Another long-standing are of concern for CAGW has been the financially-beleaguered U.S. Postal Service. The time has never been better to enact bold, forward-looking structural reform of Postal Service. These improvements should permit the postal service to meet its universal obligations, right-size its workforce to meet the demands of an evolving postal industry, and most importantly avoid a taxpayer bailout.

While specific programs can be reformed, consolidated, or terminated by Congress at any time, such actions have been few and far between. Even when the president suggests spending cuts, an average of approximately $15 billion annually has been agreed to by Congress, which represents less than one-half of one percent of federal spending.

While some may disagree that a commission is needed to force Congress to do cut spending sufficiently to slow the rate of growth in government spending and reduce the record debt, the evidence proves otherwise. A new Grace Commission, CARFA, a sunset commission, or some other action is needed to prod Congress and energize taxpayers to reform and reorganize government to serve taxpayers more efficiently and effectively.

I appreciate the opportunity to testify before the committee today, and would be glad to answer any questions.

Mr. MICA. [Presiding.] Well, thank you so much, Mr. Schatz, for your testimony. We will withhold questions until we have heard from all of the witnesses, but appreciate your testimony.

Let me now recognize Ryan Alexander, president of Taxpayers for Common Cause. You are welcome and recognized.

**STATEMENT OF RYAN ALEXANDER**

Ms. ALEXANDER. Thank you. Thank you for inviting me to testify this afternoon. I am president of Taxpayers for Common Sense, a national nonprofit budget watchdog.

I sat before this committee nearly two years ago testifying on GAO's high-risk and duplicative program reports. I want to recognize one positive change since then: the wasteful volumetric ethanol excise tax credit expired in 2011. So there is some good news, but there is much more work to be done.

Almost every major piece of legislation of the 112th Congress, from the Budget Control Act to the transportation bill to the fiscal cliff deal, highlighted the need to reduce waste without really reducing waste.

The Department of Defense is the world's largest bureaucracy and extremely vulnerable to waste and duplication. The cost of TRICARE has more than doubled in the last decade and in fiscal year 2012 will exceed more than $50 billion due to unchanged premiums. We can modernize the program and maintain the promise of health care coverage for the men and women who have served our Country.

Significant savings can also be found through acquisition and contracting reform. The Pentagon is the government's largest buyer, and many contractors rely on the government for the vast majority of their business. We are concerned that the 2.0 version of DOD's Better Buying Power turns away from fixed price contracts. Contracts are not one size fits all, but this factor of losing billions of taxpayer dollars should be sufficient incentive for a company to control costs.

The National Nuclear Security Administration's nuclear weapon laboratories and production plants are operated and managed by private corporations. These government-owned contractor-operated contracts have in some cases actually increased NNSA's persistent problems with inflated overhead costs, security breaches, and construction cost overruns.

On the positive side, lawmakers appear ready to uphold the funding freeze on the CMRR project at Los Alamos National Laboratory. A similar fate should meet the Mixed-Oxide Fuel Program.

Acquisition is a major challenge across Federal agencies, as evidenced by the failures of Future Combat Systems, SBInet, US–VISIT, Deepwater, and others. A common thread among these programs is the use of Lead System Integrators, where the government relies on the contractor to define and meet its needs. As then Senator Truman observed, I have never yet found a contractor who, if not watched, would not leave the government holding the bag.

Public lands are taxpayer assets and should be managed in ways that preserve their value and ensure a fair return for taxpayers. Securing a fair return for the hundreds of newly proposed wind and solar projects on Federal lands is vital. Similarly, taxpayers are shortchanged by coal leases which allow companies to pay royalties based on domestic prices, not their actual export prices.

Finally, the General Mining Law of 1872 collects no royalty from hard rock mining on Federal lands. Taxpayers cannot continue to simply give gold away.

The Title XVII Loan Guarantee program jeopardizes billions of dollars if project loans default. Solyndra's $535 million default brought the program under increased scrutiny, but the $2 billion loan guarantee for the nearly bankrupt USEC and the $8.3 billion loan guarantee for the Southern Company carry much greater potential losses.

Ineffective and duplicative agriculture policies waste billions of dollars. Direct payments must end immediately. The highly subsidized crop insurance program, which cost taxpayers a record $14 billion in fiscal year 2012, must be reined in and efforts to create shallow loss programs that crowd out private sector risk management options must be rejected.

Congress consolidated programs and included performance measurements in MAP–21, but failed to address the underlying issue of demand for transportation projects exceeding revenue generated to cover their costs. In just five years, Congress transferred more than 50 billion to backfill the Highway Trust Fund.

The Essential Air Service, which subsidizes flights between rural communities and regional hub airports, costing up to $1,000 per flight, should be eliminated except in Alaska, saving $1 billion. Many communities can maintain transportation links through intercity bus service with little or no subsidy.

Tens of billions of dollars are lost to waste and fraud in Medicare and Medicaid. Last Congress, Senators Carper and Coburn introduced the Medicare and Medicaid Fighting Fraud and Abuse to Save Taxpayer Dollars Act and Representative Roskam introduced a companion. More needs to be done, but this represents a start.

More than $1 trillion in Federal revenue is foregone each year due to nearly 200 tax expenditures, spending channel through the tax system that lacks oversight. Some tax expenditures Congress should look at for 10-year savings include prohibiting last in, first out accounting, any deferral on foreign earnings, and converting the mortgage interest deduction to tax credit and limiting it to one home totaling $500,000.

The Army Corps of Engineers needs a prioritization system with explicit criteria from Congress. Up until the earmark moratorium, prioritization and guidance came in the form of project-by-project funding in annual appropriations. The Sandy supplemental and regular Energy and Water appropriations have pots of funding without enough guidance. Congress needs to increase the strings and direction without resorting to earmarks.

We always like to point out that the Corps motto should be: we may take twice as long, but we cost twice as much.

Superstorm Sandy brought into relief problems surrounding our approach to disasters. The current ad hoc, scattershot approach to disaster funding creates an opportunity for waste, fraud, and abuse. Worse, sometimes the money actually puts people and infrastructure back in harm's way. The number and cost of major disaster declarations has increased in recent decades due to an increase of major weather events, but also because our Nation's programs are more generous responding to disasters than pre-sponding to them.

Through both the National Flood Insurance Program and the U.S. Army Corps of Engineers flood and storm damage reduction programs we encourage development in an unsustainable manner.

Furthermore, research indicates that every dollar spent on mitigation saves four or more dollars in recovery. We should be helping people, communities, and States prepare for disaster and respond to disaster in a way that protects taxpayers and reduces future risks and costs.

Thank you for the opportunity to testify today. My written testimony and reports we submitted contain much greater detail, and Taxpayers for Common Sense would be happy to work with the committee to identify other ways to ensure that our tax dollars are spent wisely and effectively. Sorry for the overrun.

[Prepared statement of Ms. Alexander follows:]

TAXPAYERS FOR COMMON SENSE
MAKING GOVERNMENT WORK

Testimony of Ryan Alexander
President, Taxpayers for Common Sense

House Oversight and Government Reform Committee
hearing on
"Government Spending: How Can We Best Address the Billions of Dollars Wasted Every Year"

February 5, 2013

Good afternoon, Chairman Issa, Ranking Member Cummings, members of the committee. Thank you for inviting me here to testify at this hearing about government spending, waste, and what can be done about it. I am Ryan Alexander, president of Taxpayers for Common Sense, a national non-partisan budget watchdog.

I sat before you almost exactly two years ago testifying on the Government Accountability Office's (GAO) high risk and duplicative programs reports talking about ways to save tax dollars, enhance revenue, and reduce our deficit and debt. Sadly, there hasn't been a lot of progress, but this Committee's ability to highlight these issues is one of the best ways to bring about change. The transportation bill came and went and did little to deal with the problems funding our roads and rails. Congress slightly altered the byzantine tax code in the fiscal cliff deal at the end of last year, including resurrecting the mostly expired tax extenders package of breaks.

But, I do want to recognize one positive change since I last testified: Congress let the duplicative and wasteful ethanol subsidy – VEETC – end in 2011.

Beyond today, I want to assure each and every one of you that Taxpayers for Common Sense is ready, willing, and able to work with you to eliminate waste and inefficiency and give taxpayers a government that works.

***Defense***

Considering Pentagon spending takes up more than half of the discretionary budget, it seems appropriate to begin there. The Department of Defense (DOD) is the world's largest bureaucracy, employs more people than the world's largest corporation, and is centered at the world's largest office building - the Pentagon. So it should be no surprise DOD is extremely vulnerable to waste and duplication. This is particularly true for the process of purchasing more than $400 billion of goods and services it buys every year. DOD released last November the 2.0

version of its "Better Buying Power" contracting reforms, which took on many valuable targets such as lack of competition, requirements creep, and weak enforcement of cost constraints. However, the 2.0 reforms turned away from the emphasis on fixed-price contracts that the previous reforms adopted in reaction to contract cost overruns. The Pentagon is the federal government's largest buyer, and most of its largest contractors are reliant on the government for the vast majority of their business. Yes, contracts are not one-size-fits-all, but is anyone really worried that billions of taxpayer dollars aren't sufficient incentive for a company to control costs? A much tougher line must be taken in order to rein in the department's chronic spending problems.

The same holds true for DOD's glacial progress toward auditability. Though two lawmakers introduced bills in an attempt to impart real consequences for failing to reach the fiscal accountability standards required by law, the only news produced by DOD on the matter was the cancellation of the Expeditionary Combat Support System (ECSS), a modified off-the-shelf computer program that was supposed to consolidate the Air Force's accounting and logistics systems in order to meet the 2017 audit requirements. Instead, after seven years and more than $1 billion, the Air Force pulled the plug because it was going to cost another $1 billion to get a product that delivered only a quarter of what it was supposed to do originally. The ECSS had a laudable goal - DOD still runs on too many redundant, out-of-date accounting systems that only obscure how taxpayers' dollars are spent – but terrible execution.

Any budget watcher knows the defense budget has more than doubled since the Sept. 11, 2001 attacks. Aside from rampant waste, fraud, and abuse in our overseas military operations, a result of this spending explosion was the migration of functions from other parts of government into DOD. At the policy level, this "mission creep" means important functions such as diplomacy and foreign aid are increasingly being carried out by the military. Duplication – or worse competition – between defense and state departments in stabilization, reconstruction, and humanitarian assistance, flagged in the last GAO report, continues to be a problem. A major contributor is the lack of transparency in DOD foreign assistance accounts. Unfortunately, a recent bill that enjoyed wide bipartisan support (the Foreign Aid Transparency and Accountability Act) was recently obstructed in the Senate by one lawmaker. Passage of this bill by the current Congress would make major strides toward rectifying this problem.
DOD also has numerous programs and accounts that are almost wholly duplicative of activities in other agencies.

Ironically, several of DOD's attempts to rein in costs and reduce duplication have been stymied by Congress. Exhibit A is TRICARE, DOD's health care system. The cost of TRICARE has more than doubled in the last decade and in FY12 will exceed more than $50 billion. Because premiums haven't increased since the program's inception almost two decades ago, many working age military retirees who are fully employed and have employer-provided health insurance available still opt for TRICARE, which amounts to a government subsidy for employers. There are ways to modernize the program while keeping faith with the promise of health care coverage for the men and women and their families who have served this country so well. Unfortunately, Congress has prevented attempts to halt the soaring spending trajectory. The FY13 Defense Authorization bill did include what conferees called a "modest" increase in pharmacy co-pays capped by cost-of-living allowances (COLAs), as well as incentives for some members to buy drugs through mail order. But these are only small initial steps toward reform. The subsidies still induce too many people to rely on TRICARE when other options are open to them.

There is also the issue of unneeded weapons, some of which would be retired, but for intervention by Congress, including C-17 and C-130J cargo planes stationed at Air National Guard bases across the country and the M-1 Abrams tank. The National Nuclear Security Administration (NNSA) has been on the GAO's High Risk list for years, yet change never seems anywhere in sight. The Department of Energy (DOE) is the largest federal contracting client outside of the Defense Department: Nearly 90 percent of its $26 billion annual budget goes to contractors. NNSA accounts for nearly 40 percent of DOE's budget, and the laboratories and production plants that comprise the national nuclear weapons "complex" are actually operated and managed by private corporations. The arrangements these corporations work under, known as "Government-Owned, Contractor Operated" contracts or "GOCOs," have done nothing to lessen NNSA's persistent problems of inflated overhead costs, security breaches, and construction cost overruns, and in some cases actually increased them.

On the positive side, we are gratified that lawmakers appear ready to uphold the funding freeze on the Chemistry and Metallurgy Research Replacement project (CMRR), a plutonium processing facility at Los Alamos National Laboratory in New Mexico that has racked up substantial cost and schedule overruns while failing to justify its size and expense. Another project that should meet a similar fate is the Mixed-Oxide Fuel Program (MOX). Based at the Savannah River Site in South Carolina, MOX has been troubled since its inception in the early 2000's. Yet despite a continuously ballooning price tag, incessant construction delays, and a total absence of demand for its future product, MOX's every failure has been rewarded with increased funding.

Along with the Project on Government Oversight, Taxpayers for Common Sense has outlined nearly $800 billion in Pentagon savings in our report, Spending Even Less, Spending Even Smarter. I would like to submit that for the record.

***General Government***

As detailed with DOD and DOE, acquisition is a major challenge for federal agencies. In the last decade there has been a litany of high profile acquisition failures, including: Future Combat System, SBInet, US-VISIT, Deepwater, and others. A common thread of these acquisitions was the use of LSIs or Lead System Integrators, where the government doesn't know exactly how to meet their needs and relies on the contractor for that instead. When shutting down Deepwater last year (though not the recapitalization), Admiral Korn who is in charge of Coast Guard acquisition observed, "In the end, the general consensus is that we ceded too much responsibility to the contractor, including some functions that should have been reserved for government employees." While we admire his candor, the sad truth is that has often been the case, whether through spiral contracting or LSIs or other acquisition model euphemisms. The only people who are going to look out for the government- and by extension the taxpayer- interests are going to be government employees. As then-Senator Truman observed while leading his famous committee that rooted out waste in WWII contracting, "I have never yet found a contractor who, if not watched, would not leave the government holding the bag. We are doing him a favor if we do not watch him."[i]

***Natural Resource Management***

Natural resources derived from federal lands and waters can and do provide great benefit to the entire country. Public lands are taxpayer assets and should be managed in a way that preserves their value, ensures a fair return from private interests using them for profit, and avoids future taxpayer liabilities. To this end, federal lands and waters must be mined, drilled, or otherwise developed in a manner that protects taxpayers' interest. Appropriate fees, rents, and royalties must be applied and collected and long-term liabilities such as potential clean-up or mitigation costs must be shouldered by the industries.

<u>Oil and Gas Royalty Relief</u>
As we all know oil companies continue their decade long trend of raking in billions in profits. Even at the height of the recession, profits for the top five oil and gas companies continued to soar. And while the profits flowed in, the federal government continued to provide generous subsidies, many of which have been on the books for nearly a century, to the oil and gas industry. One of the largest giveaways to the oil and gas industry is the mismanagement and under collection of royalties which has been highlighted by the GAO in several reports and recently added to their high risk list in 2011.

It is the federal government's responsibility to protect taxpayers' resources and ensure they are adequately compensated for their sale. Unfortunately mismanagement and cozy relationships led to the oil and gas industry shortchanging taxpayers for decades by either underpaying or even not paying royalties at all. I know you've been a leader on this issue, Mr. Chairman, but in the Gulf of Mexico, the federal government provided royalty "relief" to oil and gas companies for offshore drilling in the mid 1990s. The 1995 Deep Water Royalty Relief Act (DWRRA) awarded royalty "relief" for leases sold from 1996-2000. At the time the law was passed, oil and gas prices were only $18/barrel and royalty "relief" might have seemed like a small incentive for drilling, but DWRRA has since become one of the biggest subsidies the oil and gas industries receive— the total cost to taxpayers could total up to $53 billion in the next 25 years.

<u>Fair Market Value for Renewable Development on Federal Lands</u>
Although wind and solar development do not extract finite resources from federal lands, this commercial development does take benefit from public resources, and taxpayers should be appropriately compensated. The Department of Interior (DOI) has received hundreds of applications to construct wind and solar projects on federal land. In the Energy Policy Act of 2005, Congress set a goal of developing 10,000 megawatts of non-hydropower renewable energy on public lands by 2015. Securing a fair return for taxpayers from this new commercial

development is vitally important, especially in these times of fiscal constraints. Revenues should be collected accurately and diligently from resource development on public lands – including renewable resources.

Fair Market Value for Coal Leases

Recent attention has been drawn to coal companies underpaying royalties because coal's value is much lower domestically than at its final export destination. An analysis by Reuters found in some cases companies were receiving ten times more for coal sold to China than they would receive for the same coal in the United States, but they were paying royalties on the domestic price, not what they got overseas. With numbers like this, coal exports are sure to increase in the next decade. Congress should work with the Department of Interior to ensure coal companies pay a fair royalty based on the actual price they receive for their coal. Previous court rulings have upheld this interpretation. While private interests that develop on public lands may expect to profit, they should not do so at the expense of the public. Coal extraction from taxpayer lands should benefit the public – either in the form of increased domestic energy production or increased public revenues.

1872 Mining Law Reform

For nearly two decades, TCS has advocated for reform of the General Mining Law of 1872 for one simple reason: this anachronistic law is a clear taxpayer giveaway.

In 1872, the goal was to entice individuals to settle the west. Unfortunately, what was an enticement 140 years ago is now a massive subsidy that has allowed companies to remove billions of dollars of gold, uranium, silver, and copper from public lands each year without a dime going to taxpayers.

Unlike other extractive industries, companies that mine for these precious metals do not have to pay a fee when operating on federal land, essentially allowing these valuable minerals to be given away for free. Hardrock mining must pay a royalty on taxpayer lands just as they do when extracting resources from any other landowner in the world.

In addition to allowing royalty-free extraction, the law also allows the "patenting" or sale of federal lands at 19th century prices. While a temporary moratorium on patenting has been in place since 1994, under the law, federal lands are sold for no more than $5 an acre - considerably below today's market value. This should be permanently fixed.

Finally, in part because of inadequate bonding requirements, the General Mining Law of 1872 has allowed for the abandonment of contaminated lands. Any meaningful reform effort will address the three primary ongoing injuries to taxpayers under the 1872 law: the giveaway of federal lands; the extraction of federal mineral assets without taxpayer compensation; and the creation of taxpayer liability by allowing the abandonment of contaminated mine lands.

The United States' commitment to participate in the extractive industries' transparency initiative (EITI) also highlights the need to reform the governance of hard rock mining reform on public lands. Currently, the government does not track the volume of hard rock minerals from public lands because we collect no royalty. If we proceed with the EITI process, we must ensure that we track and make public the volume and value of hard rock minerals rather than memorializing this absence of transparency in the name of meeting international standards.

**Energy**

Department of Energy Loan Guarantees

Initially intended to fund the construction of nuclear reactors, the Title XVII Loan Guarantee program grew to include coal, biofuels, transmission, energy efficiency and renewable projects to ensure its passage through Congress in 2005. After getting beefed up in several appropriations bills and finally the 2009 stimulus, it now provides loan guarantees for "emerging" energy technologies, and for a short time, commercially deployed renewable technologies (expired September 30, 2011).

The program carries extremely high taxpayer risk, potentially jeopardizing billions of taxpayer dollars if energy project loans default. Over the course of the program's six year life, the few taxpayer protections originally provided have not increased but been slowly eaten away. In October 2007, DOE issued a final rule detailing the processes and parameters of the program. Originally DOE proposed guarantees covering 90 percent of the value of the loan but at the behest of industry and lawmaker pressure DOE increased the coverage to 100 percent of the value of the loan.

Then in August 2009, DOE proposed changing the final rule to help industry again. The terms for taxpayers' recoupment of assets in the event of project default were altered to benefit industry. The rule change stripped taxpayers their right of first lien and allowed other lesser creditors to recoup repayment of their debt before or on equal footing with the federal government, even when DOE is the majority debt holder of the project. This change was squarely against the original law, which required taxpayers' right of first lien.

Through most of its life the program has stayed below the radar. But the high profile default on Solyndra's $535 million loan guarantee brought the program and its potential losses under increased scrutiny, and we hope this Congress can stop the entire flawed program from issuing any more loan guarantees. Two loan guarantees sit in waiting that carry a much heftier price tag than Solyndra. One is a $2 billion loan guarantee for the near bankrupt United States Enrichment Corporation, and the other is $8.3 billion for Southern Company and its partners for a nuclear reactor project in Georgia. Southern Company has had a conditional commitment for more than 2 years, and the lack of transparency surrounding the application and its terms suggests to us that taxpayers are being short-changed in this never-ending negotiation. DOE continues to offer extensions to Southern Co., rather than pulling the plug on this bad deal. Considering the overarching Title 17 program falls dramatically short of protecting taxpayers, entering into the $8 billion deal is just plain fiscally reckless.

Renewable Fuel Standard (RFS) and Other Subsidies for Corn Ethanol

As if a lucrative tax credit wasn't enough, the government mandated the purchase of corn ethanol in 2007. Under the Renewable Fuel Standard (RFS) passed in the 2007 energy bill, the U.S. is required to blend 36 billion gallons of biofuels with gasoline by 2022, up to 15 billion gallons of which can come from conventional corn ethanol. The ethanol industry has already received federal subsidies of one form or another over thirty years, including the Volumetric Ethanol Excise Tax Credit (VEETC) and a tariff on ethanol imports into the U.S. While VEETC and the ethanol tariff ended in 2011, the industry still benefits from a myriad of other subsidies, grants, loan guarantees, and other supports in the federal tax code and farm bill. Just a few examples of duplicative supports for corn ethanol include the Alternative Fuel Vehicle Refueling Property Credit and Rural Energy for America Program which both cover the cost of corn ethanol infrastructure projects, like installing blender pumps. Subsidies for corn ethanol must stop. And since the Renewable Fuel Standard has failed to meet its objectives and has caused major unintended consequences, it must be reformed.

Energy Liabilities

Federal programs also protect energy producers against paying the full costs of their own actions leaving the liability to taxpayers.

The oil and gas industry passes liabilities to taxpayers through the Oil Pollution Act of 1990, which ironically reacted to the Exxon Valdez spill by placing a $75 million cap on private damages that can be collected from energy producers that cause oil spills. To date, large oil companies that cause spills have ended up paying much more than the nominal cap for the largest and most public spills, but the existence of the statutory cap gives oil companies significant leverage when negotiating how much they will pay. The oil liability cap is a type of free insurance for oil companies funded by taxpayers. The fund also currently exempts synthetic crudes like tar sands from the eight cents per barrel tax despite paying for their costly clean-ups.

For the nuclear industry, the Price-Anderson Act makes the federal government responsible in the case of a nuclear accident that does more than $2 billion in damage at any nuclear reactor. Damages from any serious nuclear accident are likely to be well above $2 billion—some estimates for the costs of the nuclear tragedy in Fukushima, Japan, already top $200 billion. While it is hard to know the exact value of Price-Anderson to the nuclear industry, it clearly could be worth billions of dollars.

**Agriculture**

Outdated, ineffective, and duplicative agricultural policies waste billions of dollars each year to the detriment of taxpayers, consumers, and agriculture as a sector by making it less competitive, resilient, and accountable for its impacts. Perhaps no subsidy is more absurd than direct payments—which send more than $5 billion a year to owners of farm land simply because that land used to produce subsidized crops. While the House and Senate Agriculture Committees have finally acknowledged the need to end this egregious entitlement, they propose squandering most of the savings creating other unnecessary subsidies, namely expanded crop insurance and duplicative "shallow loss" programs that are designed to crowd out private sector risk management options and shift even more risk onto taxpayers.

The highly subsidized crop insurance program, which cost taxpayers a record $14 billion in FY12, should be reined in, not expanded. And unnecessary and risky shallow loss programs should be rejected. Billions more in savings can be achieved and future liabilities limited by eliminating other outdated subsidies like government-set counter-cyclical payments, permanent and ad hoc disaster assistance, and other special-interest carve-outs. A more cost-effective, accountable, transparent, and responsive agricultural safety net should be implemented to better align our nation's policies with today's modern agricultural practices and ensure subsidies are not unnecessarily shifting routine business risks onto taxpayers.

**Transportation**

In just five years, Congress has transferred more than $50 billion from the Treasury to backfill the nation's Highway Trust Fund. The federal gasoline tax – used to pay for our roads, bridges, and transit systems – falls far short of raising adequate revenue to meet the nation's transportation demands. One of the primary reasons for this is that the gasoline user fee has remained static for two decades decreasing its purchasing power. There is little public support, however, for an increase in the gas tax, in part because of the perception that the program lacks direction and accountability. Congress attempted to resolve some of these issues in the most recent transportation bill – MAP-21 – by consolidating programs and including performance measurement to increase efficiency. We still believe, however, that too much funding is directed to new construction instead of repair.

The Essential Air Service (EAS) program is a relic of the 1970s and airline deregulation. EAS provides subsidies to air carriers to maintain scheduled flights between rural communities and regional hub airports. These trips cost taxpayers as much as $1,000 per flight, and often the small planes that service the routes run empty or nearly empty. In addition, there are many instances where the subsidized airport is close enough to a hub airport that driving is not unreasonable. Finally, TCS has uncovered numerous examples of communities that could maintain transportation links to nearby hubs with intercity-bus service that could be run with little or no subsidy at all. I would like to submit for the record the report we conducted with the American Bus Association, Reason Foundation, and Natural Resources Defense Council on the issue. The simple fact is that this policy relic needs to be reformed, and in most if not all cases could be eliminated in all states but Alaska, saving taxpayers more than $1 billion over the next decade. Though Congress made changes to the program in last year's Federal Aviation Administration reauthorization bill, this program still costs taxpayers nearly $200 million. A further restructuring of the program could eliminate most of this spending with minimal impact on small communities.

**Medicare/Medicaid**

Tens of billions of dollars are lost to waste and fraud in Medicare and Medicaid. Last Congress, along with 35 of their colleagues, Sens. Carper (D-DE) and Coburn (R-OK) introduced the Medicare and Medicaid Fighting Fraud and Abuse to Save Taxpayers Dollars Act (FAST Act). Rep. Roskam (R-IL) introduced a companion in the House.

TCS and other organizations endorsed this because the FAST Act includes stronger penalties for Medicare fraud and attempts to curb improper payments. It also includes provisions to tackle the issue of theft of physician identities to exploit for fraud; help states identify and prevent Medicaid overpayments; improve the sharing of fraud data across agencies and programs; and deploy cutting-edge technology to better identify and prevent fraud.

Clearly more needs to be done, but this represents a good start.

**Tax Expenditures and Loopholes**

More than $1 trillion in federal revenue is forgone each year due to tax expenditures – which are analogous to spending channeled through the tax system. The nearly 200 tax expenditures are similar to spending programs and can be the same magnitude or larger than related federal spending for some mission areas, except without the oversight. In their last report on the issue GAO stated that tax expenditures:

- can contribute to mission fragmentation and program overlap, creating the potential for duplication;
- may be ineffective at achieving their social or economic purposes;
- are effectively funded before discretionary spending is considered;
- may or may not be subject to congressional reauthorization.

Virtually every major recent analysis of the nation's tax system has recommended eliminating virtually all income tax expenditures and using the revenue to lower tax rates and reduce deficits. Simpson-Bowles called for the elimination of more than 75 special subsidies for different industries in order to "create an even playing field for all businesses instead of artificially picking winners and losers." Ways and Means Committee Chairman Camp and Budget Committee Chairman Ryan have made similar suggestions. In its previous report, GAO says, "reductions in revenue losses from eliminating ineffective or redundant tax expenditures could be substantial ... GAO believes that tax expenditure performance is an area that would benefit from enhanced congressional scrutiny as Congress considers ways to address the nation's long-term fiscal imbalance."

We believe this is a unique opportunity for this committee to make a tremendous contribution to deficit reduction efforts by taking on the long-standing problem of tax expenditures. We hope for a tax reform process that will result in a simpler, fairer tax code by eliminating the maze of breaks and loopholes currently in the code. Rather than nibbling around the edges like the approach the Senate Finance Committee took to the so-called tax extenders package last fall, eliminate them all with a goal of simplicity and reduced rates and force advocates to justify their inclusion by quantifying the public return on investment for each expenditure with hard facts. We recommend, at a minimum, a review of all tax expenditures, and preferably, the elimination of many individual and corporate tax expenditures coupled with an effort to lower overall tax rates and broaden the tax base. We would go so far that just like zero based budgeting, we should have a zero based approach to tax expenditures.

In particular, we have advocated for elimination of tax expenditures and other tax loopholes that are not only redundant, but that also benefit some of the most profitable companies in the world for making investments they would make anyway. For example, the GAO has recommended that Congress "modify the Research Tax Credit to reduce windfalls to taxpayers for research spending they would have done anyway." There are other policies where it isn't clear if they actually stimulate activity, or subsidize actions that would have otherwise occurred, like in the case of the New Markets tax credit, and tax exempt status of government bonds.

Other tax expenditures Congress should look at closely include:

- **Deduction of State and Local General Sales Taxes**, which will cost roughly $23.4 billion over the next ten years. This was recently reinstated after being eliminated in the 1986 tax reform. The principal beneficiaries are the residents of states that don't pay state income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.

- **Last-in, first-out (LIFO) accounting** enables companies to move the most expensive inventory off of their balance sheets, and thereby reduce their taxable income, even though the actual movement of inventory occurs on a first-in, first-out (FIFO) basis in many industries. LIFO is already prohibited by International Financial Reporting Standards. The repeal of LIFO, if applied to all industries, would save $66.9 billion over the next ten years. Oil and gas companies account for roughly half of the cost of LIFO.

- **Mortgage Interest Deduction** could be modified to only apply to one home mortgage totaling $500,000 and be converted to a tax credit, which would achieve the purported goals of making homeownership more affordable while benefitting far more homeowners. This policy change would still save $645 billion over ten years.

- **Ending tax deferral on foreign earnings**, which simply encourages corporations and individuals to use tax avoidance as a business strategy. This policy change could save $600 billion over ten years.

**U.S. Army Corps of Engineers**

The Corps of Engineers Civil Works program suffers from a lack of prioritization for its funding. Up until the earmark moratorium the prioritization and guidance came from the project-by-project funding in the annual appropriations. Earmarks of course were a political prioritization process rather than a merit-based one. Taxpayers for Common Sense strongly supports the earmark moratorium and urges Congress to substitute merit or competitive or formula processes for allocating federal funds that have transparent and accountable metrics and criteria. This will reduce the justification and perceived need for earmarks to prevent future backsliding.

The Corps of Engineers in particular needs a prioritization system with explicit criteria from Congress. The Sandy supplemental and regular Energy and Water appropriations have pots of funding without enough direction. Congress needs to increase the strings and direction without resorting to earmarks.

In FY10 (the last year for earmarks) the Corps civil works budget included 1,738 different projects worth roughly $4.6 billion. That represented a slight increase from the President's budget request of $4.5 billion, but a major growth in earmarks. Congress stuffed in 629 earmarked projects worth more than $500 million, by cutting and shaving budgeted projects, while increasing the total tab by $100 million. The problem with this is that they diluted priorities and spread the money further and thinner which increases project cost and delays completion.

Fast forward to the earmark moratorium. Congress can't add 629 earmarks. So in the FY12 spending bills they created 26 different "slush-y" funds worth $500 million in various areas of the Corps' budget. The Corps would decide what projects to fund, but some of these funds were micro-targeted to ensure certain types of projects would fare well. Congress provided some squishy criteria, but it was little more than pabulum. When all was said and done, 168 new projects received funding. We think for many of the projects, the fix was in. We know that some lawmakers were lobbying the Corps for their pet projects (we have a Freedom of Information Act request in to find out just how many). In fact, the Corps released their weak document describing how they selected projects days after they released the list of projects. Nothing like working the equation backwards.

For FY13, the House took a different approach. In fact, they chewed out the Corps for their "completely unacceptable" documentation of the process, demanding "considerable improvement in the quality and detail of information... regarding the allocation of ...funds." In their FY13 bill, the House directs the Corps to develop a ratings system with full explanations that would evaluate all projects that have received funding during the last three years. The Corps has discretion over what to fund, but if they select a "loser" over a "winner," it will be obvious. They also whittled down the number of the general funding categories to five worth $324 million. Unfortunately the Senate followed the FY12 model. Obviously we don't know which way it will go since we are still under a Continuing Resolution, but this is an area that needs resolution.

There are many wasteful Corps of Engineers projects and policies that I would happy to detail for you in writing. We always like to point out that Corps' motto should be: we may take twice as long, but we cost twice as much.

**FEMA and Disasters**

Recent concerns of Superstorm Sandy related emergency spending brought into bright relief the issues around the nation's approach to disasters. The desire to provide robust funding after a major event is understandable, but the ad hoc, scattershot approach creates an opportunity for waste, fraud, and abuse. Worse, in too many cases the money doesn't actually alleviate the risk of future disaster spending, but actually puts people and infrastructure back in harm's way. We have seen an increase in the number and cost of major disaster declarations in recent decades. This is both due to an increase of major weather events, but also because our nation's programs are more generous responding to disasters than pre-sponding to them. In addition, the generous federal funding and political attractiveness of a major disaster declaration encourages governors to ask for them and the federal government to comply.

The Stafford Act, which guides much of the nation's disaster programs, needs to be reformed to provide incentives for communities and states to plan for the inevitable disasters and to adopt building codes and programs that lessen their impact. Right now, disaster assistance is provided with a 75 percent federal cost-share. We would propose that in order to get the maximum level of assistance, states should be required to plan and mitigate before the disasters or at a minimum make those commitments as a condition of assistance.

Through both the National Flood Insurance Program (NFIP) and the U.S. Army Corps of Engineers flood and storm damage reduction programs we encourage development in an unsustainable manner. The policy orientation of NFIP (no mandatory purchase requirement in areas with less than one percent chance of flooding in a given year) encourages low and medium level flood protection from the Corps of Engineers. This induces more and more intense development in areas which exposes people, property, and infrastructure to greater losses when large events occur. Some reforms were included in the Flood Insurance Reform Act last summer, but more should be done to charge more actuarially sound rates so people are both aware of the risks and not dependent on taxpayers to bear the brunt of those risks.

Furthermore, research indicates that every dollar spent on mitigation saves four or more dollars in recovery. We should be helping people, communities, and states prepare for disaster and respond to disaster in a way that protects taxpayers, but also reduces future risks and costs.

**Conclusion**

I appreciate the opportunity to testify before you. We have detailed more than $1.2 trillion in deficit reduction in our Sliding Past Sequestration report that I would like to submit for the record. Today I just wanted to highlight several areas that I would encourage the committee to explore as we work together to ensure that our precious tax dollars are being spent wisely and effectively. Thank you.

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[i] Wilson, Theodore. "The Truman Committee: 1941." Congress Investigates: A Documented History 1792-1974, pp 3115-3135.

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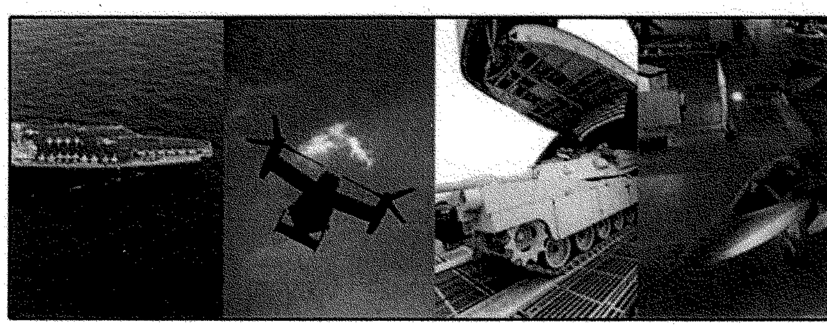
# SPENDING LESS, SPENDING SMARTER

## Recommendations for National Security Savings, FY 2013 to FY 2022
## Deficit Reduction: $688 Billion



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Project On Government Oversight
1100 G St NW, Suite 500
Washington, DC 20005
www.pogo.org
info@pogo.org
202-347-1122

Taxpayers for Common Sense
651 Pennsylvania Ave SE
Washington, DC 20003
www.taxpayer.net
info@taxpayer.net
202-546-8500

Americans are tightening their belts, and it's time for the U.S. government to do the same. In light of the Budget Control Act of 2011 and the subsequent failure of the "Super Committee," Congress is still desperately seeking ways to reduce spending. To this end, the Project On Government Oversight and Taxpayers for Common Sense have closely examined the proposed national security budget[1] and found plenty of wasteful spending. Adjusted for inflation, U.S. national security spending is higher than at any point during the Cold War and accounts for more than half of all discretionary spending.[2] However, the U.S. faces no existential threats as it did then, and U.S. defense needs are changing as the military draws down its presence in Iraq and Afghanistan.

Still, military spending at the Department of Defense (DoD) has increased by an astounding 95 percent from FY 2001 to the FY 2013 estimate, adjusted for inflation.[3] Nuclear weapons spending at the Department of Energy (DOE) is projected to grow by billions of dollars over the next decade.[4] And the federal government's reliance on contractors, most of whom work on national security-related work and cost on average nearly twice as much as the federal workers who do the same job, is also driving budgets through the roof.[5] It's clear that any serious proposal to shrink the U.S. deficit must include cuts to the national security budget.

The following list updates our recommendations from 2011[6] and details nearly $700 billion in savings over the next ten years, including cuts to wasteful weapons systems as well as limits on out-of-control contract spending. We found programs for which there are cheaper yet equally effective alternatives, and programs that can be cancelled or delayed without putting America's security at risk.

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[1] For the purposes of our analysis, the national security budget includes items from the Department of Defense and from the Department of Energy's semiautonomous National Nuclear Security Administration. Our calculation of service contractors includes budget items from other defense-related departments and agencies, including the Department of Homeland Security, State Department, U.S. Agency for International Development, Millennium Challenge Corporation, Central Intelligence Agency, Intelligence Community Staff, National Counterintelligence Center, and Defense Nuclear Facilities Safety Board.

[2] White House, Office of Management and Budget "Table 5.5—Budget Authority by Agency: 1976-2017" and "Table 9.4—National Defense Outlays for Major Public Direct Physical Capitol Investment: 1940-2013," *Historical Tables*. http://www.whitehouse.gov/omb/budget/Historicals (Downloaded May 7, 2012)

[3] White House, Office of Management and Budget "Table 5.2—Budget Authority by Agency: 1976-2017," *Historical Tables*. http://www.whitehouse.gov/omb/budget/Historicals (Downloaded May 7, 2012)

[4] Department of Energy, National Nuclear Security Administration, Office of Chief Financial Officer, *FY 2013 Congressional Budget Request: Office of the Administrator, Weapons Activities, Defense Nuclear Nonproliferation, Naval Reactors*, Vol. 1 (DOE/CF-0071), February 2012. http://www.cfo.doe.gov/budget/13budget/content/volume1.pdf (Downloaded May 7, 2012) (Hereinafter *Congressional Budget Request: Office of the Administrator, Weapons Activities*)

[5] Project On Government Oversight, *Bad Business: Billions of Taxpayer Dollars Wasted on Hiring Contractors*, September 13, 2011. http://www.pogo.org/pogo-files/reports/contract-oversight/bad-business/co-gp-20110913.html (Downloaded May 7, 2012) (Hereinafter *Bad Business*)

[6] Project On Government Oversight and Taxpayers for Common Sense, *Spending Less, Spending Smarter: Recommendations for National Security Savings FY 2012 to FY 2021*, October 19, 2011. http://www.pogo.org/pogo-files/reports/national-security/spending-less-spending-smarter-ns-wds-20110721.html (Downloaded May 7, 2012) (Hereinafter *Spending Less, Spending Smarter*)

The Project On Government Oversight is a nonpartisan independent watchdog that champions good government reforms. POGO's investigations into corruption, misconduct, and conflicts of interest achieve a more effective, accountable, open, and ethical federal government. Taxpayers for Common Sense is a nonpartisan budget watchdog serving as an independent voice for American taxpayers. Its mission is to achieve a government that spends taxpayer dollars responsibly and operates within its means. TCS works with individuals, policymakers, and the media to increase transparency, expose and eliminate wasteful and corrupt subsidies, earmarks, and corporate welfare, and hold decision makers accountable.

## **Wasteful Spending in the Department of Defense Budget**

### Cancel the Lockheed Martin variant of the Littoral Combat Ship (LCS)
### Minimum Savings: $187.2 million

The Navy plans to procure 55 littoral combat ships (LCS) over the life of the program to engage in mine sweeping, counter submarine warfare, and as a surface combatant.[7] There are two variants of the LCS: one built by a team led by General Dynamics (GD) and Austal USA, which costs $345.8 million per ship; and the other built by a team led by Lockheed Martin, which costs $12 million more per ship, coming in at $357.5 million each.[8] However, according to the DoD's testing office's FY 2011 Annual Report, both variants are "not expected to be survivable in a hostile combat environment."[9] In addition, a POGO investigation found that the Lockheed Martin variant has been beset by cracks, corrosion, and equipment failures.[10]

*The Armed Forces Journal* has noted that, "With dozens of different systems on each design, sailors qualified to serve on one LCS or the other are no more qualified to serve on the other LCS class than an amphibious sailor."[11] This will ultimately increase personnel costs and decrease military readiness. If the 31 LCS scheduled to be purchased from FY 2013 to

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[7] Congressional Research Service, Ronald O'Rourke, *Navy Littoral Combat Ship (LCS) Program: Background, Issues, and Options for Congress*, April 6, 2012, p. 1. http://www.fas.org/sgp/crs/weapons/RL33741.pdf (Downloaded May 7, 2012)

[8] The contract with General Dynamics specifies that $691,599,014 was added for the construction of two ships, $345.8 million per ship, and the contract with Lockheed Martin specifies that $715,000,351 was added for the construction of two ships, $357.5 million per ship. The Naval Sea Systems Command, "Navy Funds FY 12 Littoral Combat Ships," *Military.com*, March 19, 2012. http://www.military.com/news/article/navy-news/navy-funds-fy12-littoral-combat-ships.html (Downloaded May 7, 2012)

[9] Director, Operational Test and Evaluation, *FY 2011 Annual Report*, Department of Defense, p. 141. https://www.documentcloud.org/documents/283910-2011-dote-annual-report.html#document/p159/a44056 (Downloaded May 3, 2012)

[10] Letter from Project On Government Oversight to Chairmen and Ranking Members of the Senate and House Armed Services Committees about the Littoral Combat Ship, April 23, 2012. http://www.pogo.org/pogo-files/letters/national-security/ns-lcs-20120423-littoral-combat-ship-cracks.html (Downloaded May 7, 2012)

[11] Christopher Cavas, "Past Imperfect: Like First Carriers, Littoral Combat Ship Enters Age of Experimentation," *Armed Forces Journal*, April 29, 2011. http://www.armedforcesjournal.com/2011/04/5848053/ (Downloaded May 7, 2012)

FY 2022[12] were bought from GD/Austal, taxpayers could save $187.2 million in procurement costs,[13] and untold more in operating and support costs.

**Eliminate unrequested funding for the M1 tank**
**Savings: $230 million**

In 2011, in an effort to keep the Abrams M1A2 SEP (System Enhancement Package) tank line "hot," the House appropriated $272 million beyond the DoD's request for these new tanks.[14] Now, for the FY 2013 budget, Congress is yet again forcing the Army to procure more tanks than the Army says it needs.[15] The tanks, 33 in total,[16] will cost taxpayers approximately $230 million.[17] The Army already has more than 500 of the tanks[18] and has not indicated a need for increased production. This pork should be cut from the budget.

**Freeze development of unproven Ground-based Midcourse Defense system**
**Savings: $6 billion**

The Ground-based Midcourse Defense (GMD) system consists of 30 interceptors designed to destroy ballistic missiles in midflight.[19] This Missile Defense Agency program has been plagued by cost increases, test failures, and delays, according to a recent Government Accountability Office (GAO) report.[20] And as the Congressional Budget Office (CBO) noted, critics argue that

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[12] Congressional Research Service, Ronald O'Rourke, *Navy Force Structure and Shipbuilding Plans: Background and Issues for Congress*, April 24, 2012, p. 7. http://www.fas.org/sgp/crs/weapons/RL32665.pdf (Downloaded May 7, 2012)

[13] Assuming the GD/Austal variants remain $11.7 million cheaper than the Lockheed variants and that 16 Lockheed variants would be replaced by GD/Austal variants, the Navy would pay $187.2 million less than if it procured 16 LCS from Lockheed and 15 LCS from GD/Austal.

[14] Committee on Appropriations, "Report on Department of Defense Appropriations Bill, 2012," July 11, 2011, p. 4. https://www.documentcloud.org/documents/215103-2012-defense-approps-full-committee-report.html#document/p14/a26428 (Downloaded May 7, 2012)

[15] Kate Brannen, "U.S. Army to Congress: No New Tanks, Please," *DefenseNews.com,* March 7, 2012. http://www.defensenews.com/article/20120307/DEFREG02/303070011/U-S-Army-Congress-No-New-Tanks-Please (Downloaded May 7, 2012). The Army did request $74.4 million, but that was for "system technical support." Department of Defense, *Program Acquisition Costs by Weapon System*, February 2012, p. 4. https://www.documentcloud.org/documents/291938-fy13-program-acq-costs-by-weapon-system.html#document/p4/a44597 (Downloaded May 7, 2012)

[16] Robert P. Casey Jr., "Casey Pushes for Continued Production of Tank that Maintains national Security and Supports Over 40 PA Businesses." http://www.casey.senate.gov/newsroom/press/release/?id=b2c1d56e-9938-4353-80d2-babcd7a8c44f (Downloaded May 7, 2012)

[17] The $230 million cost is arrived at by multiplying the 33 upgraded tanks by the cost of each in last year's budget—$6.925 million. Department of the Army, *Fiscal Year (FY) 2013 President's Budget Submission*, February 2012, p. 115. http://www.saffm.hq.af.mil/shared/media/document/AFD-120207-047.pdf (Downloaded May 7, 2012) (Hereinafter *Fiscal Year (FY) 2013 President's Budget Submission*)

[18] GlobalSecurity.org, "M1 Abrams Main Battle Tank." http://www.globalsecurity.org/military/systems/ground/m1-specs.htm (Downloaded May 7, 2012)

[19] Department of Defense, Missile Defense Agency, "Elements: Ground-based Midcourse Defense (GMD)," http://www.mda.mil/system/gmd.html (Downloaded May 7, 2012)

[20] Government Accountability Office, *Missile Defense: Opportunity Exists to Strengthen Acquisitions by Reducing Concurrency*, April 2012. http://gao.gov/assets/600/590277.pdf (Downloaded May 7, 2012)

"testing of the system to date has been insufficient to verify that it will function as intended."[21] CBO suggested eliminating phases of the GMD program that would expand missile interceptors in Alaska and establish new ones in Europe until current systems are proven.[22] This would still permit development of interceptors to provide defense for the U.S. against missiles from such countries as Iran and North Korea, the current concern of the GMD program. Freezing funding would save more than $4.5 billion that the Missile Defense Agency estimates will be spent on GMD from FY 2013 to FY 2017.[23]

The Precision Tracking Space System (PTSS) is a related missile defense project that has drawn scrutiny from Congress because of its possible similarity to other, less expensive missile defense systems.[24] The DoD should freeze the $1.5 billion it plans to spend on PTSS from FY 2013 to FY 2017[25] while analysis of alternative programs is conducted.

**Cancel future satellites of the Space-Based Infrared System**
**Savings: $6 billion**

Military space programs have a record of cost and schedule overruns.[26] The $18 billion Space-Based Infrared System (SBIRS), intended to provide initial warning of a ballistic missile attack,[27] is a classic example, according to a 2012 GAO report that called it "one of the most troubled" military space programs.[28] The system finally launched the first of six planned satellites in 2011, after nearly a decade of delays and a cost increase of 231 percent.[29] The DoD is locked into procuring four of these satellites, and the two remaining satellites[30] are estimated

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[21] Congressional Budget Office, *Options for Deploying Missile Defenses in Europe,* February 2009, p. ix. http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/100xx/doc10013/02-27-missiledefense.pdf (Downloaded May 7, 2012)
[22] Congressional Budget Office, *Budget Options Volume 2,* August 2009, p. 20. http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/102xx/doc10294/08-06-budgetoptions.pdf (Downloaded May 7, 2012)
[23] Department of Defense, Missile Defense Agency, *Missile Defense Agency (MDA) Fiscal Year 2013 Budget Outline*, p. 6. http://www.mda.mil/global/documents/pdf/budgetfy13.pdf (Downloaded May 7, 2012) (Hereinafter *Missile Defense Agency FY 2013 Budget Outline*)
[24] U.S. Congress, "FY13 National Defense Authorization Bill" (H.R. 4310), Introduced March 29, 2012, by Representative Howard P. McKeon, pp. 11-12. http://armedservices.house.gov/index.cfm/files/serve?File_id=584b7120-a5d9-472c-8eaa-5d8a3fcd59d2 (Downloaded May 3, 2012)
[25] *Missile Defense Agency FY 2013 Budget Outline*, p. 6.
[26] Taxpayers for Common Sense, *Loss in Space: Space Security Spending 2009*, March 29, 2009. http://www.taxpayer.net/user_uploads/file/NationalSecurity/2009/Space/TCSLoss_in_Space.pdf (Downloaded May 7, 2012)
[27] U.S. Air Force, Air Force Space Command, "Space Based Infrared Systems," April 27, 2011. http://www.afspc.af.mil/library/factsheets/factsheet.asp?id=3675 (Downloaded May 7, 2012)
[28] Testimony of Christina T. Chaplain, Director of Acquisition and Sourcing Management, Government Accountability Office, before the Subcommittee on Strategic Forces, Committee on Armed Services, U.S. Senate on "DOD Faces Challenges in Fully Realizing Benefits of Satellite Acquisition Improvements," March 21, 2012, p. 2. http://www.gao.gov/assets/590/589487.pdf (Downloaded May 7, 2012) (Hereinafter Testimony of Christina T. Chaplain)
[29] Testimony of Christina T. Chaplain, pp. 2-3
[30] Government Accountability Office, *Defense Acquisitions: Assessments of Selected Weapons Programs,* March 2012, pp. 125-126. http://www.gao.gov/assets/590/589695.pdf (Downloaded May 7, 2012)

to cost $3 billion each.[31] There is little justification for procuring two more mega satellites when the DoD has alternatives to explore.[32]

**Defer development of Next-Generation Bomber**
**Savings: $6.3 billion**

The DoD plans to build between 80 and 100 "next-generation" Long-Range Strike Bombers to augment the Air Force's fleet of B-52, B-1B, and B-2 planes,[33] which drop both nuclear and conventional bombs.[34] The program is projected to cost $6.3 billion[35] between FY 2013 and FY 2017 alone, and will likely cost billions more over the life of the program. The Administration initially cancelled the program in FY 2010 as there was "no urgent need" for a new bomber because "current aircraft will be able to meet the threats expected in the foreseeable future."[36] The B-1B and B-2 are undergoing upgrades,[37] and the Air Force expects the B-52 will be operational until at least 2045.[38] Deferring development of costly and unnecessary next-generation systems saves money and is low-risk because of robust U.S. nuclear- and conventional-bomb delivery capabilities that will be available for decades.

**Replace the V-22 Osprey with MH-60 and CH-53 helicopters**
**Savings: $17.1 billion**

The V-22 Osprey is a tilt-rotor aircraft that can take off and land like a helicopter, but can fly like a plane. Unfortunately, its cost has more than doubled since initial estimates[39] and, according to the GAO, it had a full mission capability (FMC) rate of just 6 percent while operating in Iraq

[31] Testimony of Christina T. Chaplain, p. 2
[32] We do not have a cost estimate for smaller satellites, but we encourage the Department of Defense to price an alternative to costly mega satellites. Sustainable Defense Task Force, *Debt, Deficits, & Defense: A Way Forward,* June 11, 2010, p. 16. http://www.comw.org/pda/fulltext/1006SDTFreport.pdf (Downloaded May 7, 2012) (Hereinafter *Debt, Deficits, & Defense: A Way Forward*)
[33] Senate Subcommittee of the Committee on Appropriations, *Department of Defense Appropriations for Fiscal Year 2012,* March 30, 2011, p. 28. http://www.gpo.gov/fdsys/pkg/CHRG-112shrg99104431/pdf/CHRG-112shrg99104431.pdf (Downloaded May 7, 2012)
[34] Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2010 Terminations, Reductions, and Savings*, 2009, p. 44. http://www.gpo.gov/fdsys/pkg/BUDGET-2010-TRS/pdf/BUDGET-2010-TRS.pdf (Downloaded May 7, 2012) (Hereinafter *FY 2010 Budget, Terminations, Reductions, and Savings*)
[35] The cost for FY 2013 is $291 million, FY 2014 is $550 million, FY 2015 is $1,045 million, FY 2016 is $1,727 million, and FY 2017 is $2,707 million. Department of Defense, *Fiscal Year 2013 President's Budget Submission: Research, Development, Test & Evaluation, Air Force,* Vol. 2, February 2012, p. 193. http://www.saffm.hq.af.mil/shared/media/document/AFD-120207-047.pdf (Downloaded May 7, 2012)
[36] *FY 2010 Budget, Terminations, Reductions, and Savings*, p. 44.
[37] Airman Charles Rivezzo, "B-1B Lancer upgrade will triple payload," U.S. Air Force Website, April 11, 2011. http://www.af.mil/news/story.asp?id=123250639; United States Air Force, "Air Force not being stealthy about upgrading B-2 fleet," U.S. Air Force Website, January 2, 2007. http://www.af.mil/news/story.asp?id=123036531 (Downloaded May 7, 2012)
[38] Tinker Air Force Base, "B-52 Stratofortress." http://www.tinker-af.org/b52.htm (Downloaded May 7, 2012)
[39] Department of Defense, *Selected Acquisition Report (SAR): V-22,* December 31, 2011, p. 42. http://www.dod.gov/pubs/foi/logistics_material_readiness/acq_bud_fin/SARs/DEC%202011%20SAR/V-22%20-%20SAR%20-%2031%20DEC%202011.pdf (Downloaded May 7, 2012) (Hereinafter *Selected Acquisition Report (SAR): V-22*)

between October 2007 and June 2008.[40] The V-22 is simply neither cost- nor operationally effective. The Sustainable Defense Task Force (SDTF) has noted that the overpriced, underperforming V-22 Osprey can be replaced by helicopters.[41] Specifically, the SDTF recommends a high/low lift combination of MH-60 and CH-53 helicopters. Based on the latest DoD figures for the procurement and operating costs of these aircraft,[42] replacing the 170 Ospreys scheduled to be built between FY 2013 and FY 2019 with MH-60 and CH-53 helicopters would save more than $17.1 billion from FY 2013 to FY 2022.[43]

**Cut four submarines from next-generation fleet**
**Savings: $18 billion**

The Navy plans to replace its fleet of 14 Ohio-class nuclear-powered ballistic missile submarines (SSBNs) with 12 new submarines, called the SSBN(X) fleet.[44] The SSBN(X) program is estimated to cost a staggering $347 billion over the life of the submarines.[45] The CBO estimates that the first SSBN(X) sub will cost about $13.3 billion,[46] and that each subsequent sub will cost $7.2 billion.[47] The SSBN(X) fleet can be reduced to eight while still maintaining a robust deterrent. Under the New START agreement, the U.S. can deploy a little over 1,000 warheads on submarines,[48] and each of the eight SSBN(X) subs would carry 16 missiles for a total of 1,024

[40] Testimony of Michael J. Sullivan, Director of Acquisition and Sourcing Management, Government Accountability Office, before the Committee on Oversight and Government Reform, U.S. House of Representatives on "V-22 Osprey Aircraft: Assessment Needed to Address Operational and Cost Concerns to Define Future Investments," June 23, 2009, p. 7. http://www.gao.gov/new.items/d09692t.pdf (Downloaded May 7, 2012)
[41] *Debt, Deficits, & Defense: A Way Forward*, p. 23.
[42] *Selected Acquisition Report (SAR): V-22*; Department of Defense, *Selected Acquisition Report (SAR): MH-60S*, December 31, 2011.
http://www.dod.gov/pubs/foi/logistics_material_readiness/acq_bud_fin/SARs/DEC%202011%20SAR/MH-60S%20-%20SAR%20-%2031%20DEC%202011.pdf (Downloaded May 7, 2012); Department of Defense, *Selected Acquisition Report (SAR): CH-53K*, December 31, 2011.
http://www.dod.gov/pubs/foi/logistics_material_readiness/acq_bud_fin/SARs/DEC%202011%20SAR/CH-53K%20-%20SAR%20-%2031%20DEC%202011.pdf (Downloaded May 7, 2012)
[43] This calculation is based on replacing V-22s with 27 CH-53s already set to be procured from FY 2016 to FY 2019, and the remaining V-22s with MH-60s. The calculation also accounts for savings resulting from the lower operating costs of these helicopters compared to the Osprey. All calculations utilize acquisition unit cost and operation and support cost estimates from the latest Selected Acquisition Report for each aircraft.
[44] Congressional Research Service, Ronald O'Rourke, *Navy Ohio Replacement (SSBN[X]) Ballistic Missile Submarine Program: Background and Issues for Congress*, April 5, 2012, p. 1.
http://www.fas.org/sgp/crs/weapons/R41129.pdf (Downloaded May 7, 2012)
[45] Christopher J. Castelli, "DOD: New Nuclear Subs Will Cost $347 Billion To Acquire, Operate," *InsideDefense.com*, February 17, 2011.
http://defensenewsstand.com/NewsStand-General/The-INSIDER-Free-Article/dod-new-nuclear-subs-will-cost-347-billion-to-acquire-operate/menu-id-720.html (Downloaded May 7, 2012)
[46] Congressional Budget Office, *An Analysis of the Navy's Fiscal Year 2012 Shipbuilding Plan,* June 2011, p. 16.
http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/122xx/doc12237/06-23-navyshipbuilding.pdf (Downloaded May 7, 2012) (Hereinafter *An Analysis of the Navy's Fiscal Year 2012 Shipbuilding Plan*)
[47] *An Analysis of the Navy's Fiscal Year 2012 Shipbuilding Plan*, p. 15.
[48] "Treaty Between the United States of America and the Russian Federation on Measures for the Further Reduction and Limitation of Strategic Offensive Arms," April 8, 2010, *Treaties and Other International Acts Series*, no. 111-5. 2010. http://www.state.gov/documents/organization/140035.pdf (Downloaded May 7, 2012) (Hereinafter "Treaty Between the United States of America and the Russian Federation")

warheads.[49] Eliminating four submarines from the fleet would save at least $18 billion in operations, maintenance, research, and procurement costs over ten years, and up to $122 billion over the 50-year lifecycle of the ballistic missile submarine program.[50]

**Cut aircraft carriers from 11 to 10 and Navy wings from 10 to 9**
**Savings: $18.4 billion**

The Navy currently has as many aircraft carriers as the rest of the world combined.[51] According to the CBO, the Navy could utilize 10 carriers instead of 11 because: "Recent experience suggests that the Navy mobilizes 5 to 7 carriers to fight a major war, and the 10 carriers remaining in the fleet under this option would still provide a force of at least 5 or 6 carriers within 90 days to fight such a war."[52]

The CBO estimates that about $7 billion can be saved by retiring the USS *George Washington* in 2016, prior to it going through the costly refueling and complex overhaul process, and accordingly reducing Navy force size by 5,600 sailors.[53] According to the CBO, this option also eliminates the administrative structure of the air wing associated with the carrier, but keeps the planes and redeploys the other ships in the carrier strike group to support other missions. For even further savings beyond the $7 billion, these ships and planes could be retired out of service.

The USS *Nimitz*, the oldest of the Nimitz class carriers, was commissioned in 1975[54] and has a 50-year service life.[55] It can thus remain operational into the mid 2020's when the Navy expects delivery of CVN-80, the third Ford-class aircraft carrier.[56] However, the USS *John F. Kennedy* (CVN-79), the second of the Ford-class aircraft carriers, is scheduled to be procured prior to this.[57] Decommissioning the *Nimitz* early simply to make room for USS *John F. Kennedy* or having both carriers in the fleet simultaneously offers little additional security at considerable cost. If the Navy foregoes procurement of USS *John F. Kennedy*, taxpayers will save $11.4 billion in procurement costs alone.[58] Altogether, taxpayers can save at least $18.4 billion while still maintaining a formidable 10-carrier fleet.

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[49] Arms Control Association, "Nuclear Weapons Budget Fact Sheet," April 9, 2012, p. 2. http://www.armscontrol.org/files/Nuke-Budget-Fact-Sheets-DOD-04-10-2012.pdf (Downloaded May 7, 2012) (Hereinafter "Nuclear Weapons Budget Fact Sheet")
[50] "Nuclear Weapons Budget Fact Sheet," p. 2
[51] Globalfirepower.com, "Total Aircraft Carrier Strength by Country," http://www.globalfirepower.com/navy-aircraft-carriers.asp (Downloaded May 7, 2012)
[52] Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options*, http://www.cbo.gov/publication/22043 (Downloaded May 7, 2012) (Hereinafter *Reducing the Deficit: Spending and Revenue Options*)
[53] *Reducing the Deficit: Spending and Revenue Options*
[54] Naval Vessel Register. "USS Nimitz," http://www.nvr.navy.mil/nvrships/details/CVN68.htm (Downloaded May 7, 2012)
[55] Navy.mil, "The US Navy-Fact File: Aircraft Carriers-CVN," http://www.navy.mil/navydata/fact_display.asp?cid=4200&tid=200&ct=4 (Downloaded May 7, 2012)
[56] Congressional Research Service, Ronald O'Rourke, *Navy Ford (CVN-78) Class Aircraft Carrier Program: Background and Issues for Congress*, April 4, 2012, p. 5. http://www.fas.org/sgp/crs/weapons/RS20643.pdf (Downloaded May 7, 2012) (Hereinafter *Navy Ford (CVN-78) Class Aircraft Carrier Program*)
[57] *Navy Ford (CVN-78) Class Aircraft Carrier Program*, p. 4.
[58] *Navy Ford (CVN-78) Class Aircraft Carrier Program*, p. 4.

**Withdraw 40,000 troops from Europe**
**Savings: $32 billion**

There are currently more than 80,000 U.S. troops stationed in Europe.[59] Decreasing this U.S. subsidy of Europe's national security will save taxpayers billions through reduced personnel and operations & maintenance (O&M) costs, such as military housing and transport.[60] The U.S. has built a unique capacity to deploy rapidly from offshore bases as needed, an approach that has both financial and strategic advantages. Additionally, taxpayer enthusiasm for subsidizing European countries' defense is eroding. In fact, 47% of Americans support pulling *all* U.S. troops out of Europe.[61] Removing just half of our troops in Europe—40,000 troops—and reducing force structure accordingly would save at least $32 billion over the next ten years, based on the DoD's average cost per soldier.[62]

**Replace the B and C models of the F-35 with the F/A-18E/F**
**Savings: $61.7 billion**

The B and C models of the F-35—the military's newest fighter plane—are the most expensive variants of the most expensive DoD procurement ever. Both of these variants have been plagued by cost overruns and schedule delays,[63] and are now estimated to cost just under $200 million each.[64] The F/A-18E/F Super Hornet has many capabilities that rival the F-35[65] and costs far less, with a price of around $65 million each.[66] Additionally, each of the B and C models of the

[59] Department of Defense, *Active Duty Military Personnel Strengths by Regional Area and by Country (309A)*, December 31, 2011, p. 1. http://siadapp.dmdc.osd.mil/personnel/MILITARY/history/hst1112.pdf (Downloaded May 7, 2012)
[60] *Debt, Deficits, & Defense: A Way Forward*, pp. 16-18.
[61] Rasmussen Reports, "47% Support Pulling U.S. Troops Out of Europe." http://www.rasmussenreports.com/public_content/politics/general_politics/january_2012/47_support_pulling_u_s_troops_out_of_europe (Downloaded May 7, 2012)
[62] The DoD's average cost per active-duty personnel per year is approximately $80,000. Multiplied by 40,000, this equals $3.2 billion per year in savings. $3.2 billion per year for ten years equals $32 billion. This savings is based solely on the direct costs of troops and does not include indirect savings that would be realized (e.g. European base closures, equipment transport, military construction in Europe). Average cost per active-duty personnel was obtained by dividing total direct active-duty personnel costs in FY 2012 ($130 billion) by the total number of active duty troops at the beginning of FY 2012 (1,626,513). Department of Defense, *Military Personnel Programs (M-1): Department of Defense Budget Fiscal Year 2013*, February 2012, p. 16. http://comptroller.defense.gov/defbudget/fy2013/fy2013_m1.pdf (Downloaded May 7, 2012); Department of Defense, *Active Duty Military Personnel Strengths by Regional Area and by Country (309A)*, September 30, 2011, p. 4. http://siadapp.dmdc.osd.mil/personnel/MILITARY/history/hst1109.pdf (Downloaded May 7, 2012)
[63] Department of Defense, *Selected Acquisition Report (SAR): F-35*, December 31, 2011. http://www.defense-aerospace.com/dae/articles/communiques/F-35Dec11FinalSAR-3-29-2012.pdf (Downloaded May 7, 2012) (Hereinafter *Selected Acquisition Report (SAR): F-35*)
[64] *Fiscal Year (FY) 2013 President's Budget Submission*, pp. 129, 143.
[65] The F/A-18E/F Super Hornets do, however, lack the F-35's stealth and the F-35B's short takeoff and vertical landing capabilities. Defensetech.org, "The Super Hornet as a Stealth Killer?" http://defensetech.org/2011/12/30/the-super-hornet-as-a-stealth-killer/ (Downloaded May 7, 2012); Eric Palmer blog, "Define 'theoretical.'" http://elpdefensenews.blogspot.com/2012/04/define-theoretical.html (Downloaded May 7, 2012)
[66] *Fiscal Year (FY) 2013 President's Budget Submission*, pp. 115.

F-35 costs more than $11 million (in 2012 dollars) per year to fly,[67] while each Super Hornet costs $5.7 million (in 2012 dollars) per year to fly.[68]

From FY 2013 to FY 2022, a total of 328 B and C models are scheduled to be procured.[69] Replacing these with F/A-18E/F's would save $54 billion in procurement costs, and the lower flight-hour costs of the F/A-18E/F would save another $7.7 billion.[70]

**Reform TRICARE**
**Savings: $76.5 billion**

The cost of TRICARE, DoD's health care system, has more than doubled in the last decade and in FY 2012 will exceed more than $50 billion.[71] Many military retirees who are fully employed and have health insurance available still opt for TRICARE,[72] which amounts to a government subsidy for employers. Congress has prevented attempts to halt this spending trajectory in the past,[73] but last year lawmakers voted to allow TRICARE fees to rise[74] for the first time since the system's creation nearly 20 years ago.[75]

[67] The B and C models cost $38,400 and $36,300 per hour to fly, respectively. Colin Clark, "F-35 Total Costs Soaring to $1.5 Trillion; Lockheed Defends Program," *AOLDefense.com*, March 30, 2012. http://defense.aol.com/2012/03/30/f-35-total-costs-soar-to-1-5-trillion-lockheed-defends-program (Downloaded May 7, 2012) According to the F-35 Selected Acquisition Report as of December 31, 2011, each of the B and C models are expected to fly 302 and 316 hours per year, respectively. Multiplying these hours per year by cost per hour shows that each of the B model will cost $11.6 million per year to fly, and each of the C model will cost nearly $11.5 million. *Selected Acquisition Report (SAR): F-35*, p. 84.
[68] This figure comes from taking the $4.3 million (in 2000 dollars) operating cost figure from the Super Hornet Selected Acquisition Report and calculating the value of this amount in 2012 using the inflation calculator at the Bureau of Labor Statistics. Department of Defense, *Selected Acquisition Report (SAR): F/A-18E/F,* December 31, 2011, p. 32. http://www.dod.gov/pubs/foi/logistics_material_readiness/acq_bud_fin/SARs/DEC%202010%20SAR/FA-18E%20F%20-%20SAR%20-%2025%20DEC%202010.pdf (Downloaded May 7, 2012). Each Super Hornet costs $4.3 million per year to fly in 2000 dollars. 2012 cost obtained by calculating for inflation. Bureau of Labor Statistics, "Inflation Calculator," http://www.bls.gov/data/inflation_calculator.htm (Downloaded May 7, 2012)
[69] *Selected Acquisition Report (SAR): F-35*, p. 36.
[70] *Selected Acquisition Report (SAR): F-35.*
[71] Department of Defense, *Overview—FY 2013 Defense Budget,* February 2012, pp. 5-2. http://comptroller.defense.gov/defbudget/fy2013/FY2013_Budget_Request_Overview_Book.pdf (Downloaded May 7, 2012) (Hereinafter *Overview—FY 2013 Defense Budget*)
[72] *Debt, Deficits, & Defense: A Way Forward*, p. 26.
[73] Rick Maze, "Congress plans to block Tricare fee increases," *ArmyTimes.com,* October 7, 2009. http://www.armytimes.com/news/2009/10/military_tricarefees_blocked_100709w (Downloaded May 7, 2012)
[74] U.S. Congress, "National Defense Authorization Act for Fiscal Year 2012" (H.R. 1540), Introduced April 14, 2011, by Representative Howard P. McKeon, p. 172. http://www.gpo.gov/fdsys/pkg/BILLS-112hr1540enr/pdf/BILLS-112hr1540enr.pdf (Downloaded May 7, 2012)
[75] Tom Philpott, "TRICARE fee increases OK'd," *DailyPress.com*, June 27, 2011. (Subscription required) http://articles.dailypress.com/2011-06-27/news/dp-nws-milupdate-0627-20110627_1_fees-for-working-age-retirees-fee-increases-tricare-prime-enrollment-fees (Downloaded May 3, 2011)

The resulting changes incorporated some recommendations of the Quadrennial Review of Military Compensation[76] as we called for.[77] This year, the DoD is seeking additional reforms including modest increases in co-pays and enrollment fees,[78] as well as pharmacy co-pay changes to encourage use of mail-order and military pharmacies, which will save $16.5 billion over the next ten years.[79] These small reforms of taking military retirees off TRICARE when they have health insurance available through their employer will save taxpayers $76.5 billion. The DoD also proposed to tie future increases to an index that tracks medical inflation, which would save up to an additional $6 billion per year,[80] or $60 billion over the next ten years.

## Wasteful Spending on Nuclear Weapons Programs

### Make NATO members share the burden of B61 nuclear bomb in Europe<br>Savings: $2.1 billion

As part of NATO's defense, the United States deploys an estimated 150 to 200 B61 non-strategic nuclear bombs at six bases in five European countries: Belgium, Germany, Italy, Turkey, and the Netherlands.[81] However, since NATO's inception, the United States has borne the lion's share of military costs. U.S. taxpayers will be expected to reach into their pockets to entirely cover the $2.1-billion cost of modernizing these B61s through a life extension program (LEP).[82] Furthermore, established security vulnerabilities at European bases raise concerns about the level of risk the United States must assume to secure these weapons.[83] If U.S. and European leaders want to continue maintaining these weapons in Europe, then European NATO members must step up and share the burden by paying to modernize them.

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[76] Department of Defense, *Report of the Tenth Quadrennial Review of Military Compensation: Volume II Deferred and Noncash Compensation*, July 2008, p. 56. http://www.defense.gov/news/QRMCreport.pdf (Downloaded May 3, 2012)

[77] *Spending Less, Spending Smarter*

[78] *Overview—FY 2013 Defense Budget*, pp. 5-4.

[79] $10.6 billion from increasing the pharmacy benefit co-payments, $5.9 billion from increasing premiums for TRICARE life enrollment. White House, Office of Management and Budget, *Fiscal Year 2013 Budget of the U.S. Government*, February 13, 2012, p. 233. http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/budget.pdf (Downloaded May 7, 2012)

[80] Center for American Progress, Lawrence J. Korb, Alex Rothman and Max Hoffman, *Reforming Military Compensation: Addressing Runaway Personnel Costs Is a National Imperative*, May 7, 2012, p. 23. http://www.americanprogress.org/issues/2012/05/military_compensation.html (Downloaded May 8, 2012)

[81] Robert S. Norris and Hans M. Kristensen, "U.S. tactical nuclear weapons in Europe, 2011," *Bulletin of the Atomic Scientists*, Vol. 67, No.1, January/February 2011, pp. 64-73. http://bos.sagepub.com/content/67/1/64.full.pdf+html (Downloaded May 7, 2012)

[82] Letter from Danielle Brian, Executive Director of Project On Government Oversight, to the Honorable Leon E. Panetta, Secretary, Department of Defense, about European NATO members bearing increased share of costs of B61s in Europe, February 1, 2012. http://www.pogo.org/pogo-files/letters/nuclear-security-safety/nss-dod-20110201-pogo-panetta-taxpayers-shouldnt-bear-cost-of-b61-bombs-europe.html (Downloaded May 7, 2012)

[83] Major General Polly A. Peyer, Air Force, *Air Force Blue Ribbon Review of Nuclear Weapons Policies and Procedures*, February 8, 2008, pp. 51-52. http://www.fas.org/nuke/guide/usa/doctrine/usaf/BRR-2008.pdf (Downloaded May 7, 2012)

**Cancel the CMRR-Nuclear Facility at Los Alamos National Laboratory**
**Savings: $3.7 billion to $5.9 billion**

After over a decade of planning, the Chemistry and Metallurgy Research Replacement-Nuclear Facility (CMRR-NF) is estimated to cost a staggering $3.7 billion to $5.9 billion,[84] at least ten times more than its initial cost estimate of $375 million.[85] The proposed New Mexico facility would increase the United States' production of plutonium pits, a primary component of nuclear weapons. However, as POGO has argued,[86] a growing body of scientific evidence and expert testimony shows that increased plutonium pit production is not necessary to national security and is actually counter to a U.S. agreement to reduce deployed nuclear weapons until at least 2021.[87] In early 2012, the Administration made a move in the right direction and proposed putting CMRR-NF on hold for at least five years.[88] According to the Office of Management and Budget, the National Nuclear Security Administration (NNSA) has found "existing infrastructure in the nuclear complex" that "has the inherent capacity to provide adequate support"[89] to nuclear weapons and science missions—without CMRR-NF. The House Appropriations Committee rightly zeroed out funding for CMRR-NF in April 2012, but the House Armed Services Committee's chairman's mark of the National Defense Authorization Act for FY 2013, made public on May 6, included funding for it. In light of NNSA's own conclusion, it makes no sense to resurrect this costly facility-without-a-cause.

**Halt construction of the MOX Fuel Fabrication Facility at the Savannah River Site**
**Savings: $4.9 billion**

The Mixed Oxide (MOX) Fuel Fabrication Facility in South Carolina has gradually grown more expensive and less justifiable since its inception. The cost to construct the DOE facility has more than tripled since 2004 from an estimated $1.6 billion to the FY 2013 budget estimate of $4.9 billion.[90] The DOE estimates that the cost of the facility will only increase as the project experiences high personnel turnover and great difficulty finding experienced engineering and technical staff.[91] The DOE has justified the MOX facility as a way to turn weapons-grade

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[84] Department of Energy, National Nuclear Security Administration, *FY 2012 Stockpile Stewardship and Management Plan: Report to Congress*, April 15, 2011, p. 65. http://www.fas.org/programs/ssp/nukes/nuclearweapons/SSMP-FY2012.pdf (Downloaded May 7, 2012)
[85] Los Alamos Study Group, *LANL Master Project List*, February 9, 2001, p. 1. http://lasg.org/CMRR/Litigation/LANL_Master_Project_List-FY2001.pdf (Downloaded May 7, 2012)
[86] Project On Government Oversight, *U.S. Nuclear Weapons Complex: Energy Department Plans to Waste Billions of Dollars on Unneeded Los Alamos Lab Facility*, January 18, 2012. http://www.pogo.org/pogo-files/reports/nuclear-security-safety/energy-department-plans-to-waste-billions/nss-nwc-20120118-us-nuclear-weapons-complex.html (Downloaded May 7, 2012)
[87] "Treaty Between the United States of America and the Russian Federation"
[88] Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2013 Cuts, Consolidations, and Savings*, p. 18. http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/ccs.pdf (Downloaded May 7, 2012) (Hereinafter *Fiscal Year 2013 Cuts, Consolidations, and Savings*)
[89] *Fiscal Year 2013 Cuts, Consolidations, and Savings*, p. 18.
[90] Letter from Project On Government Oversight et al. to the Honorable Rodney P. Frelinghuysen, Chairman, and the Honorable Peter J. Visclosky, Ranking Member, of the Appropriations Subcommittee on Energy and Water Development, about cutting MOX program, March 19, 2012. http://www.pogo.org/pogo-files/letters/nuclear-security-safety/nss-np-20120319-congress-mox-plutonium-fuel.html (Downloaded May 7, 2012)
[91] *Congressional Budget Request: Office of the Administrator, Weapons Activities*, p. 451

plutonium into mixed oxide fuel that can be used in nuclear power plants; however, it has struggled to find customers for MOX fuel among nuclear reactor operators.[92] As the House Appropriations Committee noted in 2011, the Japanese disaster at the Fukushima Daiichi reactors raises questions about the safety of MOX fuel in certain reactor designs and has made potential buyers of the fuel concerned.[93] Unless construction of this project is stopped, taxpayers will end up spending billions of dollars on a useless facility.

**Cancel the Uranium Processing Facility at the Y-12 National Security Complex**
**Savings: $6.5 billion**

While estimates from the DOE put the cost of the proposed Uranium Processing Facility (UPF) in Tennessee at $6.5 billion—up from $3.5 billion in 2011[94]—an independent review by the Army Corps of Engineers found that the facility could cost as much as $7.5 billion.[95] Furthermore, despite a recent Y-12 Performance Evaluation Report (PER) that found "an unacceptable level of cost and schedule risk"[96] associated with UPF, the Administration is pushing for accelerated funding for this new facility,[97] which would replace enriched uranium operations at Y-12's existing Building 9212. Y-12 officials reported in 2007 that it could upgrade "mission critical" facilities, such as Building 9212, to accommodate modern needs for $121 million.[98] And the Y-12 PER found that, as Building 9212 moved forward with upgrades, all recent improvements to the facility "were completed satisfactorily and ahead of schedule."[99] Given the option of upgrading an existing facility at a fraction of the cost of new construction, moving forward with UPF is completely unjustified.

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[92] Rob Pavey, "Buyers sought for MOX product," *The Augusta Chronicle*, August 11, 2010. http://chronicle.augusta.com/news/government/2010-08-11/buyers-sought-mox-product (Downloaded May 7, 2012)
[93] 112th Congress, House of Representatives, Energy and Water Development Appropriations Bill Report, 2012, June 24, 2011, p. 138. http://www.gpo.gov/fdsys/pkg/CRPT-112hrpt118/pdf/CRPT-112hrpt118.pdf (Downloaded May 7, 2012)
[94] *Congressional Budget Request: Office of the Administrator, Weapons Activities*, p. 244.
[95] Frank Munger, "Report: UPF could cost up to $7.5 billion," *Knoxville News Sentinel*, July 7, 2011. http://blogs.knoxnews.com/munger/2011/07/report-upf-could-cost-up-to-75.html (Downloaded May 7, 2012)
[96] National Nuclear Security Administration, *Performance Evaluation Report for Babcock and Wilcox Y-12 Technical Services, LLC, Contract Number DE-AC05-00OR22800*, Evaluation Period: October 1, 2010 through September 30, 2011, p. 30. http://www.nukewatch.org/importantdocs/resources/BW_Y-12_PER.pdf (Downloaded May 7, 2012) (Hereinafter *Performance Evaluation Report for Babcock and Wilcox Y-12 Technical Services*)
[97] *Congressional Budget Request: Office of the Administrator, Weapons Activities*, p. 243
[98] Y-12 National Security Complex, *Y-12 Ten-Year Plan*, March 2007, p. 61 http://nnsa.energy.gov/sites/default/files/nnsa/foiareadingroom/RR00389.pdf (Downloaded May 7, 2012)
[99] *Performance Evaluation Report for Babcock and Wilcox Y-12 Technical Services*, p. 33.

**Downblend more highly enriched uranium and sell it as low enriched uranium**
**Revenue: $23 billion**

The United States possesses an estimated 400 metric tons of highly enriched uranium (HEU), a fissile material used in nuclear weapons.[100] In 2010, POGO found that up to 300 metric tons of U.S. HEU was in excess of security needs and could be downblended into low enriched uranium (LEU)—which is unusable in nuclear weapons and therefore less of a terrorist target—and sold to nuclear power facilities.[101] While there is an initial cost associated with increased downblending, it is a small investment compared to the amount the U.S. currently spends keeping this excess material secure. With just a shoebox-full of HEU, a terrorist could create a blast as powerful as that created by the bomb dropped on Hiroshima. The U.S. currently downblends only 2 to 3 metric tons of HEU per year, but downblending more into LEU would reduce security risks, cut government spending, create jobs, and raise up to $23 billion in revenue for the Treasury.[102]

## Service Contracts

**Reduce spending on non-DoD national security federal service contracts by 15 percent**
**Savings: $33 billion**

In FY 2011, non-DoD national security federal service contracts cost taxpayers more than $22 billion.[103] Last year, the White House proposed a government-wide 15 percent reduction in management service contracts.[104] We agreed with that proposal because POGO's *Bad Business* report found that the average annual contractor billable rate was nearly twice as much as the average annual full compensation for federal employees performing comparable services.[105]

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[100] Project On Government Oversight, *U.S. Nuclear Weapons Complex: How the Country Can Profit and Become More Secure by Getting Rid of Its Surplus Weapons-Grade Uranium*, September 14, 2010, p. 3. http://www.pogo.org/pogo-files/reports/nuclear-security-safety/downblending-heu/nss-nwc-20100914.html (Downloaded May 7, 2012) (Hereinafter *How the Country Can Profit and Become More Secure*)
[101] *How the Country Can Profit and Become More Secure*, p. 3.
[102] *How the Country Can Profit and Become More Secure*, p. 3.
[103] The non-DoD national security agencies we are examining are the Department of Homeland Security, State Department, U.S. Agency for International Development, Millennium Challenge Corporation, Central Intelligence Agency, Intelligence Community Staff, National Counterintelligence Center, and the Defense Nuclear Facilities Safety Board. There are, however, service contractors doing national security-related work in other agencies (e.g. nuclear scientists working with nuclear weapons for the Department of Energy), but because national security is not the primary mission of these agencies we did not include them in our estimates. Thus, the savings from reducing spending on non-DoD national security federal service contractors presented here are conservative estimates. USAspending.gov, "Prime Award Spending Data," http://1.usa.gov/KK1V1c (Downloaded May 7, 2012)
[104] Memorandum from Danny Werfel, Controller, and Daniel I. Gordon, Administrator for Federal Procurement Policy, to Chief Financial Officers, Chief Acquisitions Officers, and Senior Procurement Executives, regarding reduced contract spending for management support services, November 7, 2011, p. 1. http://www.whitehouse.gov/sites/default/files/omb/procurement/memo/reduced-contract-spending-for-management-support-services.pdf (Downloaded May 7, 2012)
[105] *Bad Business*, pp. 1-44.

Additionally, egregious waste, fraud, and abuse has been found in State Department[106] and Homeland Security service contracts.[107] Mandating a 15 percent reduction in non-DoD national security agency spending on all service contracts would help ensure these agencies take steps toward eliminating waste and finding more effective fiscal efficiencies. This reduction would still leave service contract spending at these agencies at a higher level than it was in 2007. This 15 percent reduction would save taxpayers $33 billion over the next ten years.[108]

**Reduce spending on DoD service contracts by 15 percent**
**Savings: $372 billion**

Reducing reliance on service contractors in the DoD was a priority championed by former Secretary of Defense Robert Gates.[109] The annual cost of DoD service contracts has nearly tripled since 2000,[110] and there is evidence that many service contractors are performing inherently governmental functions.[111]

In its latest budget, the DoD Comptroller's office claims a number of savings related to service contracts.[112] Specifically, they claim that strategic sourcing, better buying practices, and streamlining installation support will result in a total savings of $12.8 billion in FY 2013. But this is tiny compared to what the DoD spends yearly: According to the Comptroller, the DoD spent $248 billion on service contracts in FY 2010—more than it spent on all uniformed and civilian military personnel combined.[113]

Last year's defense budget temporarily froze Pentagon spending on contract services for FY 2012 and FY 2013, and was a step in the right direction—but more needs to be done. Reducing DoD spending on service contracts by 15 percent over the next ten years would still

[106] The Department of State and the Broadcasting Board of Governors Office of Inspector General, *The Bureau of Diplomatic Security Kabul Embassy Security Force: Performance Evaluation*, September 2011. http://oig.state.gov/documents/organization/150316.pdf (Downloaded May 7, 2012)
[107] Robert O'Harrow Jr., "Homeland Security contracts under fire," *The Washington Post*, October 13, 2011. http://www.washingtonpost.com/business/economy/congress-probes-alleged-kickback-scheme-on-dhs-contracts-with-alaskas-eyaktek/2011/10/13/gIQAmKeUiL_story.html (Downloaded May 7, 2012)
[108] $3.3 billion per year times ten years. Based on the exponential rise in service contracting costs over the last decade, this is a very conservative estimate of the cost savings. It effectively assumes that service contracting costs would otherwise stay at FY 2011 levels. However, in the last decade, non-DoD national security service contract costs have risen almost every year.
[109] Jim Garamone, "Gates Puts Meat on Bones of Department Efficiencies Initiative," *Defense.gov*, August 9, 2010. http://www.defense.gov/news/newsarticle.aspx?id=60348 (Downloaded May 7, 2012)
[110] All DoD service contractor calculations based on data from Department of Defense, American Society of Military Comptrollers, "Service Support Contractors: One of the FY 2012 Budget Efficiencies," October 2011 http://www.asmconline.org/wp-content/uploads/2011/10/ASMCBreakfastServiceSupportContractors.pptx (Downloaded May 7, 2012) (Hereinafter "Service Support Contractors: One of the FY 2012 Budget Efficiencies,")
[111] Department of Defense, *Report to the Congressional Defense Committees on the Department of Defense's FY 2010 In-sourcing Actions*, September 2011, p. 5. http://www.pogo.org/resources/contract-oversight/co-gp-20110913.html (Downloaded May 7, 2012)
[112] Department of Defense, *Fiscal Year 2013 Budget Request*, February 2012, p. 6. http://comptroller.defense.gov/defbudget/fy2013/FY2013_Budget_Request.pdf (Downloaded May 7, 2012)
[113] "Service Support Contractors: One of the FY 2012 Budget Efficiencies," slide number 6.

leave contract spending at approximately the level it was in 2007,[114] when the U.S. was fighting in Iraq and Afghanistan. Even with this reduction, service contract spending would still be roughly on par with what the DoD spends on all uniformed and civilian personnel combined.[115] This 15 percent cut over the next ten years would save, at a minimum, $37.2 billion per year and result in a total savings of approximately $372 billion.[116]

## Conclusion

As Congress searches for ways to cut spending, it only makes sense that it seeks savings in unproven, unnecessary, and wasteful national security programs. The savings and revenue identified by the Project On Government Oversight and Taxpayers for Common Sense for FY 2013 to FY 2022 include:

- $187.2 million by canceling the Lockheed Martin variant of the Littoral Combat Ship;
- $230 million by eliminating unrequested funding for the M1 tank;
- $6 billion by freezing development of unproven Ground-based Midcourse Defense system;
- $6 billion by canceling future satellites of the Space-Based Infrared System;
- $6.3 billion by deferring the next-generation bomber;
- $17.1 billion by replacing the V-22 Osprey with less expensive, more reliable alternative helicopters;
- $18 billion by cutting four submarines from the next-generation fleet;
- $18.4 billion by cutting aircraft carriers from 11 to 10 and Navy wings from 10 to 9;
- $32 billion by withdrawing 40,000 troops from Europe;
- $61.7 billion by replacing two of the three F-35 variants with the F/A-18 E/Fs, which are less expensive and have comparable capabilities;
- $76.5 billion through reforms to the DoD's TRICARE health care system;
- $2.1 billion by making NATO members share the burden of the B61 nuclear bombs in Europe;
- $3.7 to $5.9 billion by eliminating the Chemistry and Metallurgy Research Replacement-Nuclear Facility at Los Alamos National Laboratory;
- $4.9 billion by halting the construction of the MOX Fuel Fabrication Facility;
- $6.5 billion by canceling the Uranium Processing Facility at the Y-12 National Security Complex;
- $23 billion by downblending more highly enriched uranium and selling it as low enriched uranium;
- $33 billion by reducing spending on non-Department of Defense (DoD) national security federal service contracts by 15 percent; and
- $372 billion by reducing DoD service contracts by 15 percent.

**Deficit Reduction: $688 billion**

[114] "Service Support Contractors: One of the FY 2012 Budget Efficiencies," slide number 6.
[115] "Service Support Contractors: One of the FY 2012 Budget Efficiencies," slide number 6.
[116] $37.2 billion per year times ten years. Based on the exponential rise in service contracting costs over the last decade, this is a very conservative estimate of the cost savings.

Mr. MICA. Thank you for your testimony, and we will include your entire testimony and additional comments for the record.

We will now recognize and welcome Dan Blair. Mr. Blair is president of the National Academy of Public Administration.

Welcome, sir, and you are recognized.

**STATEMENT OF THE HONORABLE DAN G. BLAIR**

Mr. BLAIR. Thank you, Mr. Mica. It is good to see you, Mr. Cummings. I appreciate this opportunity to testify today and thank the committee members.

I am Dan Blair, president and CEO with the National Academy of Public Administration. The Academy is a nationally recognized, nonpartisan, not-for-profit chartered by Congress to address and advise all levels of government on pressing issues of public administration. We are comprised of almost 750 fellows who are selected by our membership for their significant contributions in the field of public administration. I ask consent that my entire written statement be accepted for the record, and I am pleased to summarize.

Mr. MICA. Without objection.

Mr. BLAIR. Your hearing today is timely and helps key up many important management issues that Congress and the Administration could tackle to solve some of the most pressing problems in government. Government has become increasingly complex, and actions on the Federal level resonate at the State and local level. We have, today, an opportunity to begin to find common ground to address long-term structural fiscal and governance problems before they potentially overwhelm our budget.

Collaboration between Federal, State, local, and private sector stakeholders is critical for improving program delivery and minimizing waste, fraud, and abuse. To that end, the Academy began work with the Office of Management and Budget in October 2011 to involve stakeholders nationwide in developing pilot projects that test innovations in how States administer federally funded programs.

Funded through the Partnership Fund for Program Integrity Innovation, the Collaborative Forum network has increased more than 750 in-person and online participants who share best practices and lessons learned for how to improve payment accuracy, improve service delivery and administrative efficiency, and reduce barriers to program access. To date, this work has resulted in the funding of nine pilot projects, with more expected to come.

In addition to collaboration, evidence-based decision-making can aid in identifying those programs worthy of continued government support. One use of this approach can be found in what is called Pay for Success. This approach utilizes a financing organization where private investors provide up-front funding to help achieve a specific result and the government only pays if the agreed-upon goal is achieved. Using this third-party approach enables government to partner with private and nonprofit entities who already have demonstrated their ability to produce high returns on investments. The approach also maximizes flexibility and allows the government to piggyback on already existing infrastructures and networks, and, importantly, the risk if borne by the third party for producing the results.

Another example of evidence-based decision-making involves a Washington State model. This model provides State administrators with tools to identify which programs are working and worthy of continued funding. This allows cuts in funding to be targeted to those programs which are not working.

Apart from identifying ways of identifying government investment, challenges remain for agencies in identifying prospects for waste, fraud, and abuse. Such tools include greater use of data and analytics to strengthen financial management controls and facilitate improved mechanisms for preventing and detecting improper payments.

My written statement identifies additional opportunities to streamline programs across the Federal Government. As Mr. Schatz noted, the 2012 and 2011 GAO reports on duplication overlap identified many areas for review. While a belts-and-suspenders approach for some programs may be desirable, this overlap in duplication is often an unintended consequence of the proliferation in government programs.

One way to address this is through the consolidation of programs within a department. Another way is through a virtual reorganization and the establishment of interagency councils. Broader structural reorganizations can compensate for deficiencies of current ones, but can be challenging in practice.

In conclusion, Congress and the executive branch have an opportunity to work together to reduce waste, fraud, and abuse; invest in effective evidence-based programs; and create a results-oriented culture inside the Federal Government. The Memos to Leaders project my testimony highlights addresses issues in nine critical government management areas that are ripe for reform. Key areas include the nominations process, budget process reform, civil service reform, managing large public-private partnerships, rationalizing the intergovernmental system, and IT transparency.

The Academy possesses a unique set of fellows who stand ready to assist in these critical management challenges. Thank you for the opportunity to testify this afternoon. I would be pleased to answer questions.

[Prepared statement of Mr. Blair follows:]

NATIONAL ACADEMY OF PUBLIC ADMINISTRATION
900 7th Street, N.W., Suite 600
Washington, DC 20001-3888
TEL (202) 347-3190 FAX (202) 393-0993
INTERNET: www.napawash.org

**Testimony**

**of**

**The Honorable Dan G. Blair**

**President and Chief Executive Officer**

**National Academy of Public Administration**

**Before the**

**Committee on Oversight and Government Reform**

**U. S. House of Representatives**

**February 5, 2013**

Mr. Chairman and members of the Committee, I appreciate the opportunity to testify today. I have been a Fellow of the National Academy of Public Administration (the Academy) since 2008 and have served as its President and Chief Executive Officer since July 2011. Established in 1967 and chartered by Congress, the Academy is an independent, non-profit, and non-partisan organization dedicated to helping leaders address today's most critical and complex challenges. The Academy has a strong organizational assessment capacity; a thorough grasp of cutting-edge needs and solutions across the federal government; and unmatched independence, credibility, and expertise. Our organization consists of nearly 800 Fellows—including former cabinet officers, Members of Congress, governors, mayors, and state legislators, as well as distinguished scholars, business executives, and public administrators. The Academy has a proven record of improving the quality, performance, and accountability of government at all levels.

I appreciate this opportunity to offer my perspective on effective ways that the federal government can address waste, fraud, and abuse through specific agency and programmatic actions, as well as through broader structural and reorganization efforts. Our Congressional charter precludes the organization itself from taking an official position on legislation, and my testimony does not represent an official position of the Academy.

My testimony today will elaborate on the following major points:

1) Congress is holding this hearing at an opportune time given the federal government's long-term governance and fiscal challenges;
2) Collaboration between federal, state, local, and private sector stakeholders is key to improving program delivery and minimizing waste, fraud, and abuse;
3) In these tough fiscal times, evidence-based public policy should be a guiding principle for Congress and the Executive Branch. While working to reduce expenditures as a way to address fiscal challenges, the federal government needs to remain focused on identifying investments in programs that work;
4) Opportunities exist to reduce waste, fraud, and abuse in federal programs;
5) Opportunities exist to streamline programs across the federal government in order to save money and improve services, but this must be carefully considered, planned, and implemented. Consolidation is likely to work best if it takes place within an existing department or agency; and
6) Congress and the Executive Branch should work together to reduce waste, fraud, and abuse; invest in effective, evidence-based programs; appoint and confirm appointees in a timely manner; and create a results-oriented performance culture inside the federal government.

**THE NATION'S LONG-TERM GOVERNANCE AND FISCAL CHALLENGES**

As we all know, the federal government faces long-term fiscal challenges. Our revenues and expenditures are fundamentally out of balance both now and into the future. In 2008, my organization and the National Academy of Sciences established the Commission on the Fiscal Future of the United States. This Commission's report, *Choosing the Nation's Fiscal Future*, presented a number of feasible ways to address the long-term imbalance. The federal government has been running a sizeable deficit for several years, and these deficits cannot continue forever. We have a window of opportunity to begin to stabilize matters before structural fiscal stresses increase even more in the 2020s, when the baby boomers begin to draw more heavily on Social Security and Medicare. Given the nation's long-term fiscal challenges, as well as the looming sequestration, the federal government must improve service delivery while reducing costs.

Governing in the 21st century has become increasingly complex. This complexity has been compounded by the challenges of not only delivering on current government programs, but also managing the new responsibilities that the federal government has assumed for health care and financial regulation.

The Academy and the American Society for Public Administration (ASPA) launched a joint "Memos to National Leaders" project last year to develop memos to national leaders on how to address the most challenging policy and management challenges facing the nation: [1]

- Strengthening the Federal Budget Process;
- Rationalizing the Intergovernmental System;
- Administrative Leadership;
- Strengthening the Federal Workforce;
- Reorganization of Government;
- Information Technology and Transparency;
- Managing Big Initiatives;
- Next Steps in Improving Performance; and
- Managing Large Task Public-Private Partnerships.

The memos were developed with both a Presidential and Congressional focus, reflecting the joint ownership of problems and solutions for these major challenges. I will draw upon a number of the ideas contained in these memos in my testimony today.

**THE POWER OF STAKEHOLDER COLLABORATION**

**Collaboration between federal, state, local, and private sector stakeholders is key to improving program delivery and minimizing waste, fraud, and abuse.** In October 2011, the Academy became the administrator of the Office of Management and Budget (OMB)'s Collaborative Forum, which consists of stakeholders nationwide who work to develop pilot projects that test innovations in how states administer federally funded programs. These innovations are intended to support one or more of the goals of OMB's Partnership Fund for Program Integrity Innovation: (1) improve payment accuracy, (2) improve service delivery, (3) improve administrative efficiency, and (4) reduce barriers to program access.

Solving these complex problems requires the collaborative effort of all parties potentially affected. Learning from the work done by the Collaborative Forum—both a virtual and in-person mechanism for collective problem solving—we have witnessed the value of bringing all invested stakeholders to the table. As the program administrator for the Collaborative Forum, the Academy team facilitates engagements to share best practices and lessons learned. Ideas are generated to address issues of program integrity and to explore innovation. While work groups

[1] These memos are the opinions and views of their respective authors, and are not the opinions of the Academy or ASPA. They can be accessed at http://www.memostoleaders.org/memos-national-leaders.

facilitated the development of pilot projects to test innovative approaches to improving performance, the group of over 750 members has also addressed issues of measuring impact, maximizing resources, and identifying outcome-based solutions to program integrity.

To date, nine funded pilots have resulted from the collaboration of federal, state, local, academic, non-profit, and association organizations:

1) "Do Right by Youth: A Comprehensive Strategy for Juvenile Justice Reform and Reinvestment"—Department of Justice;
2) "Identifying State Innovations for Improving Temporary Assistance for Needy Families"—Department of Health and Human Services pilot with at least three states;
3) "Interoperability Innovation Grants"—Department of Health and Human Services pilot with up to four states;
4) "Automating the Provider Enrollment Process for Risk Assessment and Comparative Analysis"—Centers for Medicare and Medicaid Services;
5) "Improving Medicaid Provider Program Integrity through State Shared Services—Centers for Medicare and Medicaid Services;
6) "State Debt Recovery via the Treasury Offset Program"—Department of Treasury pilot;
7) "Accessing Financial Institutions' Data for Employment Detection"—Department of Labor;
8) "National Accuracy Clearinghouse"—Department of Agriculture; and
9) "Assessing State Data for Validating Earned Income Tax Credit (EITC) Eligibility"—Department of the Treasury.

The EITC project assesses the quality, completeness, and overall usefulness of state-administered benefits data, as well as state benefits screening processes, to help validate eligibility for the EITC. The pilot addresses whether state data can identify both ineligible individuals who receive improper EITC payments and eligible individuals who are not claiming the EITC. The diverse perspective of the federal, state, local, nonprofit, and private partners resulted in an innovative and multi-faceted approach to eligibility determination. Working solely with the Department of Treasury, or solely with state program administrators, would most likely not have yielded the same innovative approach to reducing improper payments. These collaborative efforts strive to develop replicable solutions that possess both specificity of objective and broad utility to be applied across programs and levels of government to reduce duplicative activities and will support a common objective of reducing waste, fraud, and abuse.[2] Additionally, the collaborative process has illustrated the inherent value of fostering innovation and intergovernmental cooperation in order to achieve common goals of improved service delivery and responsible stewardship of the taxpayers' dollars – often identifying actions requiring administrative flexibility and coordination as opposed to simply requiring financial support. Stakeholders within the Collaborative Forum are tackling the challenge of doing more with less with an arsenal of perspective and experience.

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[2] For more information on the Collaborative Forum and the other pilot projects developed to improve program integrity, visit the website at www.collaborativeforumonline.com.

Another example of stakeholder participation in solution development includes the *National Dialogue on Innovative Tools to Prevent and Detect Fraud, Waste, and Abuse* (the Dialogue). The Dialogue was part of the Recovery Board's continuing commitment to identifying and using state-of-the-art tools to enhance accountability, and improve oversight of Recovery Act funding. The Dialogue reached out to technologists, thought leaders, and other interested parties and sought to engage them in a discussion about the most promising advances in the fight against fraud, waste, and mismanagement. The Academy hosted the public, week-long Dialogue, where participants used the opportunity to share their expertise and knowledge to submit ideas that were then supplemented by additional interviews, and research to ultimately identify recommendations warranting further exploration by the Recovery Board and for potential government-wide follow-up. The recommendations focused on technology innovation that would allow for enhanced accountability, and improved oversight of Recovery Act funding – a critical component being the management of data.

## EVIDENCE-BASED PUBLIC POLICY

**In these tough fiscal times, evidence-based public policy should be a guiding principle for Congress and the Executive Branch.** While working to reduce expenditures as a way to address fiscal challenges, the federal government needs to remain focused on identifying investments in programs that work. Agencies have been encouraged to demonstrate the use of evidence in their 2014 budget submissions and the Administration has emphasized the need to use evidence and rigorous evaluation in budget management decisions to make government work more efficiently. Some of the ways that federal, state, and local governments have addressed evidence-based decision making include using administrative data or technology to conduct low cost evaluations, incorporating waivers and administrative flexibility, and using comparative cost-effectiveness data to allocate resources.

A key evidence-based approach to improving spending decisions is Pay for Success. At a time when all levels of government are facing cutbacks, Pay for Success offers a new way to invest in critical services for vulnerable populations by leveraging private sector investment and targeting dollars to programs that achieve positive, measurable impact. Under a Pay for Success bond, the federal, state, or local government enters into a contract with a financing organization that specifies the population to be served, the outcomes to be achieved, the measurement methodology to be used, and the schedule of payments to be made. The financing organization works with philanthropic and other investors to invest in innovative, data-driven service providers that can achieve results. Current Department of Justice and the Department of Labor grant opportunities are focusing on reducing recidivism and improving workforce development.[3] The structure of the model allows for payment when objectives are achieved and prevents wasteful payment for undelivered services, conserving critical government resources.

Another important resource in identifying evidence-based decision-making opportunities is the innovative approaches that states are taking to determine the effectiveness of programs and to make difficult budget decisions. Through the Academy's work with the OMB Collaborative Forum, we have recognized the value of the Washington State Institute for Public Policy (WSIPP) as a promising evidence-based model. The Results First Initiative at the Pew Center on

[3] The Obama Administration: New Flexibility for State and Local Governments; http://www.whitehouse.gov/sites/default/files/docs/nga_state_flexibility_report_2.pdf ;

the States is currently adapting this model for implementing cost-benefit analysis tools in over a dozen states. The intent is to provide the best outcomes for citizens while remaining vigilant about a state's fiscal health. The WSIPP model uses sophisticated analysis of multiple data sources as well as rigorous national studies to calculate potential program return on investment and to enable state policy makers to make sound investments in outcome-driven programs. For example, the cost-benefit tools enabled decision makers in Washington State to invest in crime-prevention and treatment programs that have resulted in lower -than- national- average juvenile arrest and incarceration rates, which in turn led to savings of $1.3 billion in a budget, closing a juvenile detention center as well as an adult prison and eliminating the need to build additional facilities.[4] The evidence derived from this model also allows for targeted cuts of ineffective programs, reducing duplicative and ineffective programs as opposed to "across-the-board" budgets cuts that allow wasteful spending to continue, at the expense of effective initiatives.

**OPPORTUNITIES TO REDUCE WASTE, FRAUD, AND ABUSE**

**Opportunities exist to reduce waste, fraud, and abuse in federal programs.** The current environment of wasteful and redundant spending has led to depletion of funds and the lack of available resources has created near-crisis scenarios. For example, Department of Defense (DoD) civilian workers are facing one-day-a-week work furloughs. With reported estimates of improper payments government-wide steadily increasing over the past decade from about $20 billion in 2000 to about $125 billion in 2010,[5] resources are not being applied to citizens most in need.

In 2011, the Academy conducted a national dialogue for the Recovery Accountability and Transparency Board (RATB) to identify innovative tools for preventing and detecting waste, fraud, and abuse. Our independent Panel issued key recommendations for RATB and government-wide consideration:

1) Increase emphasis on predictive analysis, particularly to prevent and detect contract/grant fraud;
2) Increase use of sophisticated textual analysis tools to mine the abundance of narrative information that is unstructured;
3) Increase data sources, particularly state and local governmental data and proprietary business data, to improve data validation;
4) Work across government to establish and publicize more consistent performance metrics for fund recipients and increase transparency of outcomes for tax dollars spent;
5) Consider establishing a permanent, centralized portal for data to enhance federal data management and analysis;
6) Evaluate ways to expedite the sharing of aggregated federal data to enhance federal predictive modeling;
7) Consider establishing a uniform system for identifying federal contracts and grants to improve tracking of federal payments to recipients; and

[4] For more information on the Results First initiative, visit http://www.pewstates.org/projects/results-first-328069
[5] *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue,* Government Accountability Office, March 2011.

8) Explore regulatory changes to require applicants for federal funding to sign a waiver allowing access to their tax records.[6]

Departments and agencies across the federal government could choose to adopt the first four recommendations. The remaining four would require statutory and/or regulatory change and would need to be adopted government-wide.

The federal government should utilize the most advanced tools and techniques to collect and analyze a wide array of data in order to ensure that tax dollars are used as intended. By strengthening financial management controls and facilitating improved mechanisms for preventing and detecting improper payments, the government can better ensure that taxpayer dollars are spent wisely and efficiently. Dialogue participants emphasized that federal agencies should engage individuals in the fight against waste, fraud, and abuse by explaining the associated costs and getting buy-in on prevention mechanisms. As one dialogue participant noted, "[t]he risks must be presented in a factual, credible way that is related to an individual's domain and clearly identifies the risk for exposure."

**STREAMLINING FEDERAL PROGRAMS**

**Opportunities exist to streamline programs across the federal government in order to save money and improve services, but this must be carefully considered, planned, and implemented.** In the short term, consolidation is likely to work best if it takes place within an existing department or agency. Because it can be so challenging to fundamentally restructure departments and agencies, or to create new ones, the use of interagency councils can help achieve a "virtual reorganization" of overlapping programs that cut across existing departmental boundaries.

The Government Accountability Office's (GAO) 2012 annual report on overlap and duplication identified 32 areas in which duplication, overlap, or fragmentation among federal programs exists. According to GAO:

> [A]gencies can often realize a range of benefits, such as improved customer service, decreased administrative burdens, and cost savings from addressing the issues we raise in this report. Cost savings related to reducing or eliminating duplication, overlap, and fragmentation can be difficult to estimate in some cases because the portion of agency budgets devoted to certain programs or activities is often not clear. In addition, the implementation costs that might be associated with consolidating programs, establishing collaboration mechanisms, or reducing activities, facilities, or personnel, among other variables, are difficult to estimate, or needed information on program performance or costs is not readily available. As the "Actions Needed" presented in this report show, addressing our varied findings will require careful deliberation and tailored, well-crafted solutions ... Collectively, this report shows that, if actions are taken to address the issues raised herein, as well as those from our 2011 report, the government could

[6] A Report by a Panel of the National Academy of Public Administration for the Recovery Accountability and Transparency Board, *The National Dialogue on Innovative Tools to Prevent and Detect Fraud, Waste, and Abuse*, December 2011

potentially save tens of billions of dollars annually, depending on the extent of actions taken.

The GAO report demonstrates how many national issues are addressed by multiple agencies and programs with responsibility for just one narrowly defined slice of the topic. For example, GAO found that 10 agencies administer 82 teacher quality programs; 4 agencies administer 80 economic development programs; 20 agencies administer 56 financial literacy programs; and 3 agencies administer 47 employment and training programs. The highlights of the GAO report are shown in Table 1.

**Table 1. GAO Reported Areas of Federal Overlap, Duplication, and Fragmentation**

| Federal Mission | Areas of Overlap, Duplication, and Fragmentation |
|---|---|
| *Agriculture* | – Protection of food and agriculture |
| *Defense* | – Electronic warfare<br>– Unmanned aircraft systems<br>– Counter-Improvised explosive device efforts<br>– Defense language and culture training<br>– Stabilization, reconstruction, and humanitarian assistance |
| *Economic Development* | – Support for entrepreneurs<br>– Surface freight transportation |
| *Energy* | – Department of Energy contractor support costs<br>– Nuclear nonproliferation |
| *General Government* | – Personnel background investigations<br>– Cybersecurity human capital<br>– Spectrum management |
| *Health* | – Health research funding<br>– Military and veterans healthcare |
| *Homeland Security and Law Enforcement* | – Department of Justice grants<br>– Homeland Security grants<br>– Federal facility risk assessments |
| *Information Technology* | – Information technology investment management |
| *International Affairs* | – Overseas administrative services<br>– Training to identify fraudulent travel documents |
| *Science and the Environment* | – Coordination of space systems organizations<br>– Space launch contract costs<br>– Diesel emissions<br>– Environmental laboratories<br>– Green building |
| *Social Services* | – Social Security benefit coordination<br>– Housing assistance |
| *Training, Employment, and Education* | – Early learning and child care<br>– Employment for people with disabilities<br>– Science, technology, engineering, and math education<br>– Financial literacy |

*Source: Government Accountability Office, Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue (2012 Report)*

In an enterprise as large as the federal government, a certain amount of overlap and fragmentation is unavoidable. And some programs may appear duplicative, but, on closer examination, are best administered separately because of their unique characteristics. Once a set of programs have been determined to have unnecessary overlap, duplication, or fragmentation, this problem can be addressed in a number of ways—from incremental to fundamental. More incremental options include consolidating programs *within their existing departments or agencies* and/or performing a "virtual reorganization" by developing interagency councils to coordinate cross-cutting programs. More fundamentally, unnecessary overlap and duplication can be dealt with by structurally reorganizing programs to consolidate those that cut across departmental and agency boundaries.[7]

Consolidation of programs within a department has the advantage of achieving programmatic efficiencies without the turmoil of interagency reorganization. When paired with the development of interagency councils—"virtual" reorganizations—these reforms offer a reasonable middle ground. The establishment of interagency councils focused on broad national goals can be an important mechanism for bringing overlapping, duplicative, and fragmented programs together under a specific framework. These councils can use the 2010 Government Performance and Results Act's requirement for the development and implementation of cross-cutting federal priority goals as a tool to help identify and reduce program overlap, duplication, and fragmentation and improve coordination across similar programs. The creation of interagency councils focused on broad national goals may not be sufficient. Additional tools such as the development and implementation of broad national strategies may be necessary to adequately implement virtual reorganizations.

Broader structural reorganizations—that is, reorganizing programs that cut across the boundaries of multiple federal agencies—requires careful consideration. It is tempting to seek to restructure departments or agencies, or even to create large new organizations to compensate for the deficiencies of current ones. These large reorganizations make sense in theory, but can be very challenging in practice. Unfortunately, such reorganizations can take years before the reorganization's intent is realized, as we have seen with the creation of the Department of Homeland Security (DHS). GAO put DHS on its high-risk list the year it was established, in 2003, because of the monumental task of transforming 22 agencies into one department. DHS remains on the high-risk list to this day. As this example shows, it can take a long time for new organizations to gel; they cost money up front; they create a lot of employee anxiety; and the initial phases of implementation planning and implementing reorganizations may cause a temporary decrease in program effectiveness.[8]

Both the President and Congress must provide support and expend political capital for broad structural reorganizations to be successful, and the case needs to be clear that they will, in fact, improve the efficiency and effectiveness of the agencies and their programs over time. To be most successful, reorganizations should not focus solely on structure, but consider changing

[7] For more information on this topic, see Allen Lomax's "Reorganizing the Federal Government" [available at: http://www.memostoleaders.org/sites/default/files/LomaxReorganization.pdf].

[8] GAO's last update of the high-risk list was February 28, 2012.

processes to expand interagency coordination mechanisms and increase incentives for employees to work across organizational boundaries.

**THE PATH FORWARD**

**Congress and the Executive Branch should work together on a new agenda to:**

- **Reduce waste, fraud, and abuse;**
- **Invest in effective, evidence-based programs;**
- **Ensure that individuals are nominated and voted upon in a timely manner; and**
- **Create a results-oriented performance culture inside the federal government.**

These are not partisan issues. They are a prime opportunity for both parties to show the American people that they are willing to work across the aisle to strengthen services and reduce unnecessary expenditures.

Federal programs do not appear out of nowhere. They are created by Congress, and the structure of the legislative branch often reflects the executive branch's structure. Much like the overlapping, duplicative, and fragmented programs, Congress and its current committee structure reflects the nature of these programs. These multiple committees and subcommittees request thousands of reports and hold hundreds of hearings a year regarding the agencies and their programs under their jurisdiction. Many of these reports and hearings provide fragmented information on many broad national issues, and it is difficult for Congress to obtain a complete understanding on the results of agencies' programs and to adequately identify the best Congressional solutions.

Voters frequently demand the expansion of federal programs without agreeing on how these should be funded, and political polarization makes it more difficult for the federal government to operate effectively. In moving forward, we must ensure that programs are designed and administered in a way that accords fair and equal access for public benefits. Further, we need our political leaders to demonstrate the necessary political courage and leadership to make tough decisions to address our rising debt as well as identifying resources to fund demands, for investments in infrastructure, social programs and other emerging needs.

Both the President and Congress should consider concrete steps to improve performance across the federal government and reduce waste, fraud, and abuse in federal programs.[9]

The President and the Executive Branch should consider taking the following actions:

- The President should nominate candidates in a timely manner;
- Appointees should improve performance by increasing the use of performance data;
- Appointees should be responsible for building the skills and capabilities to foster better performance;
- Appointees should use administrative flexibilities whenever possible to reduce burdens on state and local governments and encourage innovations;

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[9] For more information on this topic, see Don Moynihan's "Creating a Performance-Drive Federal Government" [available at: http://www.memostoleaders.org/sites/default/files/MoynihanPerformance.pdf].

- OMB should proactively consult with Congress early in the goal-setting process, and demonstrate a willingness to reflect Congressional priorities;
- Departments and agencies should make performance information more useful to Congress;
- The OMB Deputy Director for Management and Chief Operating Officers should invest effort in developing mechanisms and strategies to improve collaboration across agencies;
- The OMB Deputy Director for Management and Chief Operating Officers should make data-driven reviews a signature management initiative;
- Agency leaders and Chief Operating Officers should demonstrate leadership commitment to performance; and
- The OMB Deputy Director for Management and Chief Operating Officers to should strengthen and integrate analytical capacity across the government.

Congress and its committees should consider taking the following actions:

- The Senate should hold confirmation hearings and up-or-down votes on nominees in a timely manner;
- The Congressional leadership should make a public commitment to use performance information as it carries out legislative responsibilities;
- Authorization committees should look across the federal government's major mission areas and take actions to streamline programs with unnecessary overlap, duplication, and fragmentation; and
- Relevant committees should proactively meet with agencies and be responsive when they reach out to discuss their goals, and also review the goals agencies set in their annual performance plans, raising questions if they need additional information about the proposed goals and planned agency actions in accordance with the Government Performance and Results Modernization Act (GPRMA) of 2010.

Other promising practices moving forward include:

- Congress and the Executive Branch can use the principles of "Smart Lean Government" to optimize the delivery of core public services by peeling away unnecessary layers that exist between government and those it serves to achieve more cost effective and responsive services;
- Federal departments and agencies can make better use of their existing human capital flexibilities to recruit and retain the diverse high-performing workforce required by agencies;
- Federal departments and agencies can use so-called "big data"—large datasets that typical database software tools have difficulty capturing, storing, managing, and analyzing—to increase transparency, enable experimentation, promote customization for specific populations, automate decisions, and modernize business models;[10]
- OMB and Congress can link budgets with program performance in a much tighter way by making greater use of performance-based budgeting; and

[10] McKinsey Global Institute (May 2011), "Big Data: The Next Frontier for Innovation, Competition, and Productivity."

- Federal departments and agencies can harness the power of technology in new and better ways to improve citizen engagement, reduce costs, and improve performance.

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Mr. Chairman, the federal government performs critical duties for the American people each and every day. The Departments of Defense and State meet our nation's national security and foreign policy commitments in far flung places throughout the world, while the Department of Homeland Security has protected us from another large-scale attack on American soil. The Social Security Administration provides benefits (retirement, survivors, disability, and supplemental security income) to over 55 million Americans. Federal investments in medical research have saved countless lives and improved the quality of life for all of us, and federal investment made the information revolution possible.

Much has been accomplished, but much remains to be done. Given the nation's long-term fiscal challenges, the federal government must work to improve its effectiveness and efficiency if it is going to be successful in meeting the 21st Century demands of the American public. I believe that the approaches outlined above can ensure that the federal government works better for all of us. Congress and the President have the opportunity to improve performance dramatically while reducing waste, fraud, and abuse in federal programs. The National Academy of Public Administration stands ready to assist in these efforts.

Mr. Chairman, that concludes my written statement, and I would be pleased to answer any questions you or the Committee members may have.

Mr. MICA. Well, thank you, and we will, as I said, withhold questions.

We will hear our last witness next, and that is Mr. Jonathan Kamensky, and he is a senior fellow with the IBM Center for The Business of Government.

Welcome, sir, and you are recognized.

**STATEMENT OF JONATHAN M. KAMENSKY**

Mr. KAMENSKY. Thank you very much, Mr. Chairman.

I am pleased to have the opportunity to testify before you on strategies to reduce cost and improve performance in the Federal Government's mission-support functions. I think this gets at your win-win criteria that you mentioned earlier.

I am a senior fellow with the IBM Center for The Business of Government. The IBM Center connects public sector research with practice by sponsoring independent research by top minds in both academia and the nonprofit sector.

Two years ago the IBM Center produced a report, summarized here, identifying seven leading commercial strategies that could contribute up to $1 trillion in reduced cost of Federal operations over a 10-year period, while improving performance. I would like to share these with you today, but, first, why do we think this magnitude of savings is possible?

The mission-support costs in the Federal Government, for cross-government activities such as personnel processing, contracting, supply chain management, historically average about 30 percent of total operating costs, compared to about 15 percent in the private sector. While the precise numbers may not compare well, they do suggest that changing the way mission-support functions are operated to reflect leading practices in the private sector may provide opportunities for cost savings.

I would like to highlight four of the seven strategies outlined in our report. All seven are in my written statement.

Strategy 1: Consolidate information technology infrastructure to the extent possible. The government's cost of operating its IT infrastructure are high when compared to the private sector. In addition, according to GAO, only about one-third of the government's IT investment in fiscal year 2011 was actually spent on direct mission-related IT, such as air traffic control systems or the veterans benefit determination system. The Gartner Group reports that by reducing IT overhead management costs, consolidating data centers, eliminating redundant networks, and standardizing applications could lead to savings of 20 to 30 percent.

Strategy 2: Streamline government supply chains to be more efficient and effective. The government annually procures about $550 billion in goods and services. These are purchased largely through independent procurement processes and individual agencies. In contrast, large corporations have transformed their procurement and supply chain systems by integrating them across the enterprise.

Now, there have been efforts to do this in the Federal Government. For example, starting in 2005, OMB launched a strategic sourcing initiative to leverage the purchasing scale of the Federal Government. Progress to date has resulted in savings, but these savings have been less than one-half of one percent of the Federal Government's procurement spending. In contrast, private sector companies report savings of 10 percent or more. GAO, last year, concludes that if the government could achieve a 10 percent savings level, that could be savings of up to about $50 billion.

Strategy 3: Apply advanced business analytics to reduce improper payments. The Administration is moving aggressively to reduce improper payments with strong congressional support. However, GAO says more could be done, and industry experience suggests that this is a valid conclusion. Industry experts believe that expanding the use of recovery audits and advanced business analytics could increase the identification rate of improper payments to about 40 percent. This could potentially generate an additional $200 billion over the next decade.

Strategy 4: Move to a greater reliance on electronic self-service and reduce the government's field operations footprint. Most government agencies have citizen-facing services that rely on largely manual, paper-based business processes. The government could both reduce cost and improve citizens' experiences by moving as many touch points to electronic platforms as possible and rethink the footprint of its field operations.

Other countries have done this by creating a one-stop approach to social services. For example, Service Canada is an agency that delivers 70 services on behalf of 13 other agencies online, in person, and on the phone. This has allowed the Canadian Government to reduce the number of field offices, reduce costs, and improve service delivery at the same time.

In conclusion, Mr. Chairman, it is important to emphasize that leadership and governance are key to implementation. The seven strategies outlined in my testimony are being addressed by the Administration, but with different levels of intensity. One approach to create concerted action might be for the OMB director to appoint a steering committee led by the deputy director for the management at OMB and a subset of departmental secretaries.

A small central support team could be created, operating out of OMB or the President's Management Council, not unlike the Recovery Act implementation team, to ensure action. For each of the seven areas, a cross-agency sub-team could be created and work under the direction of a departmental deputy secretary who is charged with action.

So I would like to conclude at this point and thank you again for the opportunity to speak before you, and I would be pleased to answer any of your questions.

[Prepared statement of Mr. Kamensky follows:]

**Statement of**
**John M. Kamensky**
**Senior Fellow**
**IBM Center for The Business of Government**

**before the**

**Committee on Oversight and Government Reform**
**U.S. House of Representatives**

**February 5, 2013**

*Hearing on Government Spending:*
*How Can We Best Address the Billions of Dollars Wasted Every Year?*

Good afternoon, Mr. Chairman and Members of the Committee:

I am pleased to have the opportunity to testify before the Committee on ways to make the federal government more cost-effective through specific agency and programmatic actions and broader structural and organizational efforts.

I would like to thank the Committee for its leadership on these efforts over the years. My past work experience at the Government Accountability Office, the Office of Management and Budget, and the Clinton Administration's National Partnership for Reinventing Government intersected closely with the efforts of this Committee and found its leadership to be most valuable.

I am currently a senior fellow at the IBM Center for The Business of Government. The IBM Center connects public management research with practice. Since 1998, we have helped public sector executives improve the effectiveness of government with practical ideas and original thinking. We sponsor independent research by top minds in academe and the nonprofit sector, and host a weekly radio show "The Business of Government Hour" which presents in-depth stories on government executives and public managers who are changing the way government does its business.

Two years ago, the IBM Center produced a report, *Strategies to Cut Costs and Improve Performance*, identifying leading commercial practices that, if applied in the federal government, could contribute to up to $1 trillion in reduced costs of federal operations over a ten-year period; these findings were echoed in a related report from the Technology CEO Council *One Trillion Reasons.* The IBM Center has also done additional in depth efforts around some of the strategies outlined in that report. I would like to share these with you today.

**Overarching Premises**

There are two overarching premises underlying these strategies to cut costs and improve performance. First, mission-support costs in government – for enterprise activities such as personnel, contracting, and supply chain management – historically average about 30 percent of total operating costs. In the private sector, these costs typically average about 15 percent. While the precise numbers may not compare well, they do suggest that changing the way mission-support functions are operated to reflect best practices in the private sector may provide opportunities for cost savings.

And second, a key element of commercial business strategies for reducing costs and improving performance is rooted in the premise that reducing the amount of time spent in any administrative process will increase value to customers and reduce costs incurred by both the customers and the commercial business. The IBM Center has examined this premise and applied it to government operations. We think it translates well, and we will soon release a new report based on this premise and will call this approach: "Fast Government."

I will focus on those elements of our research that are largely within this Committee's jurisdiction.

**Strategy 1: Consolidate Information Technology Infrastructure.**

The government's cost of operating its IT infrastructure are higher than they need to be when compared to the private sector – sometimes by more than a factor of two.

According to a 2011 GAO report, the federal government spent about $79 billion in FY 2011 to support widely-dispersed infrastructure investments. Of this amount, about 12 percent was spent on back office operations and 45 percent on IT management costs, such as planning, controls, oversight, development, and integration. Only about 34 percent was spent on direct mission-related IT, such as air traffic control or the veterans benefit determination system. The Gartner Group reports that reducing IT management costs, consolidating data centers, eliminating redundant networks, and standardizing applications could lead to savings of about 20 -30 percent.

In a case study prepared for the IBM Center in 2009 by Jonathan Walters, he describes how the Department of Veterans Affairs launched an ambitious overhaul of its IT systems which resulted in the consolidation of computer and communication technologies spread across the department's more than 1,000 medical centers, clinics, nursing homes, and veterans' centers. The transformation took several years but led to a single IT leadership authority and an enterprise-wide view of the department's technology assets. This in turn allowed the department's chief information officer in 2009 to launch a review of all the department's IT investments via a Project Management Accountability System. This resulted in the termination or restructuring of errant projects and sped the delivery of others. VA's IT consolidation has continued to demonstrate strong positive results for the agency over the past several years.

The Administration has an agenda to expand efforts to consolidate IT infrastructure and it is being implemented aggressively in most agencies. The Administration has reported good progress, but as the Government Accountability Office noted before your committee in testimony last month, more sustained attention is needed. The Administration has a point person and a governance structure, led by the Federal CIO in OMB, in place to conduct this follow through; more focus on aggressively transforming business processes could lead to further savings and more effective operations.

For example, in the commercial sector, efforts have been placed on transforming transactional operating processes, such as payments, inventory management, commodity purchasing, and report filing. Another area for transformation would be to increase initiatives related to data analytics and decision making processes. Developing a strategy around these kinds of efforts in the federal government could foster significant efficiencies in agency back office operations.

**Strategy 2: Streamline Government Supply Chains.**

The federal government procures about $550 billion in goods and services each year. These are purchased largely within agencies, each with independent procurement processes. The commercial world has aggressively transformed how it manages its procurement and supply chain systems. For example, while federal agencies are making some progress in strategic sourcing, commercial experience shows there could be significantly more cost savings. The same is true of its transportation and distribution systems.

In 2005, OMB announced a "strategic sourcing initiative" to leverage the purchasing scale of the government by pooling the purchasing of commodity items. The Administration is making progress. For example, it reports achieving $388 million in savings in FY 2012 through the expanded use of the governmentwide Federal Strategic Sourcing Initiative (FSSI) operated by the General Services Administration. This comprises savings of less than one-half of one percent of the federal government's procurement spending. Private sector companies report savings of 10 percent or more, according to supply chain experts Robert Luby and Thomas Glisson, in a forthcoming IBM Center report on ways to make government operate faster. GAO reported in September 2012 that "FSSI contracts have low rates of use and the program has not yet targeted the products and services on which the government spends the most." It concluded that if the government could achieve 10 percent savings by moving more aggressively toward the use of strategic sourcing, that it could save up to $50 billion.

This potential level of savings is reflected in IBM's own experience. Over the past decade, IBM internally consolidated 30 different supply chains and restructured its supplier network. Doing so, it was able to eliminate $25 billion in costs and improve supplier performance. Given the company's scale – 33,000 suppliers, 45, 000 business partners, and 78,000 products – IBM can serve as a reasonable point of comparison to size the opportunities for savings available to the federal government if it were to take on a similar effort. This is an area of potentially significant savings and if the Administration were to undertake a concerted effort, as it has in IT, it could squeeze additional savings out of the system.

In the area of transportation and distribution systems, the commercial world is increasingly working with third party logistics providers – shippers, carriers, and other partners – to create world-class transportation and distribution networks. According to Luby and Glisson, the Defense Department's TRANSCOM has begun to participate in such networks and was able to leverage the existing volume of the transportation provider with its large freight volumes, thereby achieving $158 million in cost avoidance. Expanding such approaches across Defense and in other federal agencies could result in additional cost avoidances.

**Strategy 3: Reduce Energy Use.**

The federal government is the country's largest energy and water consumer. Federal efforts to cut its use of energy and water has taken many paths and is leading to savings. Federal law requires a 30-percent reduction in the energy intensity of federal buildings between FY 2003 and FY 2015, as well as a 20-percent reduction in vehicle petroleum use between FY 2005 and FY 2015. In addition, the Administration has set goals to reduce federal contributions to greenhouse gases 28 percent by 2020. OMB reports progress being made, with an 8.3 percent reduction between 2008 and 2011.

IBM's experience rationalizing and consolidating its facilities has reduced IT-related energy costs by 25 percent by, for example, consolidating call centers. New building management technologies and leveraging new business models for "on demand" space utilization could reduce energy consumption for the 3.1 billion square feet of space occupied by the federal government. In addition, advanced fleet management could reduce the size of the federal fleet and reduce energy consumption by 10-20 percent.

A 2011 IBM Center report by Dr. Daniel Fiorino found that federal agencies could draw upon the experiences of private firms and other levels of government. For instance, he noted: "Two examples of private-sector practices offering lessons are the development of a system for interagency emissions trading and the creation of a central investment fund. An interagency GHG [green house gas] trading program, for example, could allow for greater reductions at less cost to the government by shifting more cuts to organizations and operations with lower marginal control costs."

**Strategy 4: Move to Shared Services for Mission-Support Activities.**

Every dollar spent on back office support activities and overhead is a dollar that could be spent on mission, or saved. Why should every agency have its own IT, finance, legal, human resources, or procurement operations? When the federal government consolidated its 26 payroll operations into four, the Environmental Protection Agency reduced its payroll processing costs from $270 to $90 per employee, saving $3.2 million a year. The Office of Personnel Management's human resources shared services initiative – also called the HR Line of Business – is projected to save, or avoid costs, of up to $1.6 billion by FY 2015 because of increased efficiencies in operations for the participating agencies.

The Federal Chief Information Officers Council has undertaken a shared services initiative, as well. Announced in May 2012, it outlined a plan of action and timetable for action. It has also created a governance structure that is developing guidance on interagency service sharing strategies and services, and the identification of best practices. The IBM Center in a 2008 report by Drs. Timothy Burns and Kathryn Yeaton, identified key success factors for implementing shared services in government and these are reflected in the work currently done by agencies and through the Federal CIO Council.

There are similar opportunities to be had in other lines of business across the government, but leadership and support from Congress are needed to make them real.

Similar efforts in the British government led to savings of 20 to 30 percent in their overall back office support services.

**Strategy 5: Apply Advanced Business Analytics to Reduce Improper Payments.**

The Administration is moving aggressively in reducing improper payments, with strong congressional support. The "Do Not Pay" list and significant recoveries from Medicare fraud are resulting in billions of savings. GAO says more could be done and industry experience suggests this is a valid conclusion. Industry experts believe that expanding the use of recovery audits and advanced business analytics could increase the identification rate of improper payments to 40 percent, which could double the current anticipated savings rate and potentially generate an incremental additional $200 billion over the next decade.

Approaches pioneered by the Administration's Recovery Board, in preventing rather than recovering improper payments, show the value in applying a concerted effort on this issue. For example, its creation of a cross-agency operations center allowed it to monitor the $840 billion in stimulus funding. Analysts used a variety of new technology tools to mine more than 25 government and open-source data bases to look for indicators of potential fraud or waste. When instances arose, analysts provided alerts to agencies and law enforcement officials, oftentimes before the funds had been handed out.

The use of analytics can be extended beyond improper payments. In a pair of reports for the IBM Center by the non-profit Partnership for Public Service, we learned that many agencies are beginning to systematically apply the use of analytics to their mission work, resulting in savings. For example, the Internal Revenue Service created an Office of Compliance Analytics to identify patterns and predict future problems with tax return accuracy. In the 2012 tax season, a pilot project identified tax preparers who were making errors, early in the tax season, and intervened to correct the problem so subsequent filings were more accurate. This pilot resulted in savings of over $100 million in bad credit claims that did not have to be processed.

Other examples exist at the state level, where agencies are partnering with IBM to use analytics in achieving significant savings:

In New York State, the state's Department of Taxation and Finance is applying advanced analytics to their operations. The state developed analytical applications to identify questionable refund claims which since 2004 have resulted in savings over $2 billion. The solution uses a unique combination of big data analytics and other models to create action plans for each tax case. The plan prioritizes the order of activities agents will take in order to maximize the total amount of debts collected while taking in to account the case load, personnel resources, and the anticipated effectiveness of the suggested actions.

In North Carolina's Medicaid program, the state is one of the first to take matters into its own hands with a focus on Medicaid fraud more locally. In 2010, the state of North Carolina announced a program to run Medicaid claims through big data software that can spot suspicious activity and fraud among the nearly two million Medicaid patients and 60,000 Medicaid providers in the state. North Carolina has already identified nearly $191 million in suspicious claims from the initial 200-plus providers they targeted. The results are a major eye opener for the state which is in the process of moving these cases forward to the justice system.

**Strategy 6: Reduce Field Operations Footprint and Move to Electronic Self-Service.**

Most departments have citizen-facing services that rely on largely manual, paper-based business processes. By moving as many touch-points to electronic platforms as possible, and rethinking the footprint of government's field operations, the government could both reduce costs and improve citizens' experiences. To date, there has not been a concerted effort to do so. Initiatives such as the Administration's *Digital Government* strategy, which promotes the creation and use of digital services in the federal government, are steps in the right direction, but implementation is still in the early stages.

Other countries have done this by creating a "one stop" approach to social services. For example, Service Canada is an agency that delivers 70 services on behalf of 13 other agencies – online, in person, and on the phone. New York City has begun to pioneer a similar approach, called NYC ACCESS. And the Commonwealth of Virginia recently launched an ambitious program to standardize all citizen-facing data. Doing this will eventually make it possible to create one entry point for citizens in Virginia to determine eligibility for programs, allow them to enroll in the programs, and manage their participation.

Reducing the citizen-facing field operations of the federal government, and automating more than 10,000 forms in 173 different agencies, could potentially generate billions in savings over the next decade. Doing this in a federal system will be complicated and require concerted leadership in the executive branch, the Congress, and the states. For example, there are technical challenges, such as multiple levels of government agreeing on a consistent technology architecture. These kinds of challenges have been successfully met in other countries with a federal system, such as Australia and Canada. But there are also political challenges, such as agreeing on a common identity management framework and allowing currently-restricted data to be shared between programs. The Administration has initiatives underway that address identity management through the National Strategy for Trusted Identities in Cyberspace and data sharing as part of the National Strategy on Information Sharing. A focus on implementation should come next.

**Strategy 7: Monetize the Government's Assets.**

The federal government has a large inventory of assets that could be producing revenue. The Administration has inventoried its existing facilities and found 14,000 excess buildings and 55,000 underused buildings. It has developed a strategy for selling them in order to bring in revenue but also to eliminate the costs of maintenance. It reports progress towards its $3 billion goal of sales of excess or underused real property.

In addition, the federal government has historically had fee-generating programs that did not always recover their costs, such as the Forest Service's logging program, which in the 1990s did not recover the costs of building timber roads for lumber companies, according to past GAO reports. Another example is the General Mining Act of 1872, which permits claims by private entities to extract resources from federal lands in exchange for fees that are below market value. Programs such as these should be reassessed to ensure they at least recover fair market costs.

Furthermore, there are some programs that could become fee-based. For example, other countries have corporatized their air traffic control operations and made them fee-based. By examining the government's balance sheet aggressively and corporatizing certain federal operations, the federal government could earn billions over the next decade by operating in a more businesslike manner.

**Conclusion: Leadership and Governance Are Key to Implementation.**

The seven strategies outlined in my testimony are being addressed by the Administration, but with different levels of attention. The initiatives being led by the federal chief information officer are good examples of strong leadership in the IT-focused elements of the strategy. One approach to expand this model might be that the OMB director appoint a steering committee led by the deputy director for management at OMB and a subset of departmental secretaries. A small central support team could be created, operating out of OMB or the President's Management Council, much like the Recovery Act implementation team, to ensure action. It could report its progress periodically and identify barriers to progress that are hindering their work. For each of the seven areas, a cross-agency sub-team could be created and work under the direction of a departmental deputy secretary charged with action.

I would again like to thank you for the opportunity to speak before you today and would be pleased to respond to your questions.

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Mr. MICA. Well, thank you.

We will now turn to some questions. I want to thank all of the panelists for their contribution today. It is interesting to have you all suggest these potential areas in which we can cut and save and be on that side of the aisle sometimes from a practical position. It is much more difficult on our side, again, of the witness table.

But I recognize myself for five minutes, and then we will turn to other Members for questions.

First of all, I think we are facing the prospect of sequestration. It is coming down the road and I my guess right now, I didn't think this before the holidays, but I think after the holidays I think it is going to go into effect, and that is going to, of course, impact dramatically probably Defense has the biggest cut, and some other programs. Most of the sort of core programs are protected.

This is an opportunity to save some money, to institute some savings.

Mr. Schatz, you cited a number of past studies and commissions, etcetera, several major commissions. Maybe another commission is necessary, but it still ends up coming back to Congress. Here we are in a situation where these cuts are going to come. I think the cuts could go beyond, and some of you described other potential areas of savings. Maybe we could go down and get your take on what you would do, again, with sequestration looming, to make cuts. You have talked about some things, but maybe some specifics you might suggest to Congress, since that looks like it is pretty imminent.

Mr. Schatz, first.

Mr. SCHATZ. Thank you, Mr. Mica. Sequestration, if it does go into effect, may push Congress to look at spending across the board because there is a large part of government expenditures that are simply not included in sequestration. Certainly, we have been very critical of excessive Defense spending. We led the effort to eliminate the alternate engine for the Joint Strike Fighter. Certainly TCS and other taxpayer groups were very helpful in that effort. And, yes, you can find specific examples, but across-the-board cuts eliminate both wasteful spending and what might be essential spending at the same time.

Mr. MICA. But that could be targeted, could it not?

Mr. SCHATZ. Well, my understanding of sequestration is that, at least the way it is set up now, it is across the board.

Mr. MICA. But, again, sequestration will probably go into effect, and then what will happen is Congress will say——

Mr. SCHATZ. Maybe they will wake up and say let's do this the right thing, or a better way.

Mr. MICA. Exactly. Well, I am asking you, and you have a couple minutes here. Maybe we could impose something that redirects the cuts. Go beyond, of course, the big gouge for Defense. People talked about Defense contracting being out of control and IT across-the-board solutions that can save billions of dollars. You all gave lots of areas we could save. Here we have an opportunity, with sequestration coming up, and if it goes into effect there are going to be a lot of people who are going to run around with their hair on fire. But we have an opportunity to redirect that. How would you do that?

Mr. SCHATZ. Well, again, I would look at everything.

Mr. MICA. Okay, everything is on the table. There is probably not an agency, you would agree, that couldn't stand some trimming efficiencies, et cetera.

Mr. SCHATZ. Oh, absolutely. Any organization can cut between 10 and 15 percent of its expenditures.

Mr. MICA. Well, that is well within the range of what we are talking.

Ms. Alexander?

Ms. ALEXANDER. We released a report last fall with $1.2 trillion in deficit reduction called Sliding Past Sequestration, so one thing is people could just adopt all our recommendations, although I wouldn't expect that.

Mr. MICA. Okay, we will look at those.

Ms. ALEXANDER. That was submitted with our testimony as part of the record, which we would like to be submitted into the record.

I think a couple points, just to point out, I do think within the context of Defense spending, looking at service contracts as a particular area where there could be reductions in spending without necessarily affecting core function, I think that this committee in particular has a huge opportunity to help reshape how we do disaster spending. We waste a huge amount of money through disaster spending and both the recent disaster funds. There is just an opportunity to look at a better way.

Mr. MICA. Well, we put in some of those things, although they got pretty hoggy at the end and funded projects.

Ms. ALEXANDER. And we made some reforms to the flood insurance program.

Mr. MICA. Well, maybe the chairman gets a little bit of discretion here, or acting chairman. But you slammed transportation and the MAP program. The problem is sometimes you don't get the support from the groups. I remember FAA, on the twentieth extension, when I said this can't go on, this madness, because that cost millions of dollars, those extensions, leaving our programs at bay.

So I sent out one extension, just cutting out airline ticket subsidies of $1,000 or more, and we closed down the FAA partially for two weeks; all hell broke loose. Where were you then, Ms. Alexander, when I was getting my brains beat out?

Ms. ALEXANDER. Well, A, I am pretty sure I can find a press release where we thanked you for doing that.

Mr. MICA. I want to see that. We will make it part of the record.

Mr. Blair and Mr. Kamensky, would you answer the sequestration and how we target? What would you do, again, in our shoes?

Mr. BLAIR. I think that Congress will have a blueprint before it when GAO comes out with its new overlap and duplication list. I think that is going to give you an idea of areas in which efficiencies can be achieved that shows that multiple agencies or multiple departments are trying to deliver to the same constituency group on similar, non-duplicative programs, and that is a start.

Mr. MICA. And I might say that I think in the Republican rules we put in the reports have to now show if it is duplicative, in addition to constitutionality.

Mr. Kamensky, real quickly?

Mr. KAMENSKY. Thank you, Mr. Chairman. Sequestration does not allow tradeoffs.

Mr. MICA. We write the law. It will be the revised, come what may after sequestration A.

Mr. KAMENSKY. But just plus or minus dollars will not solve the challenge. What will need to happen is changing the way government does business. For example, in energy efficiency, in order to be able to have much more energy efficient operations, sometimes it requires an investment up front for longer term savings. If you look only at the how do we cut dollars next month, sequestration will do that, but it may not actually improve operations very well.

Mr. MICA. Look at long-term, too. Thank you.

Ms. Norton?

Ms. NORTON. Thank you, Mr. Chairman. I am grateful to this panel for all of your very specific testimony and ideas. It brings to mind the words waste, fraud, and abuse. That is always thrown out when people can't think of what should be cut or how to preserve. I found your testimony edifying, indeed.

I would like to ask Mr. Kamensky a question, because he pointed to a specific example that was, in part, under my own jurisdiction in another committee; it was your discussion of improper payments. Mr. Mica is aware of this because he was on the same committee, it was the committee that had jurisdiction over a great many of the Recovery Act funds, and my particular subcommittee, the subcommittee which I chaired, had jurisdiction over more than $5 billion of those funds, which were to go to each and every State, District of Columbia, and every territory, and we had to deliver the funds swiftly because of the recession. The whole point was to stimulate the economy and create jobs. So I was intrigued.

I am now going to your testimony. I am intrigued by your discussion of the Administration's recovery board, apparently the first time anything of the sort had been used, and you say in preventing, rather than recovering, improper payments. And you say this shows the value of a concerted effort essentially up front and across agencies. Now, you point out that the Recovery Act was dealing with upwards of more than 25 agencies and we had nothing in place in those agencies beforehand to carry that out.

So my question goes to how did this pilot, I will call it, effort prevent these overpayments through this special board? I don't know if this board still exists or whether you think we could apply this to other circumstances, because there are many instances where essentially you are distributing funds through many agencies or to all the States. I want to know how did they, given the speed with which this money had to go out, how did they prevent, rather than catch after the fact, these improper payments?

Mr. KAMENSKY. Well, the Congress, as part of the legislation, required quarterly reporting, which actually turned into much more frequent reporting internally, within the agencies, and all the spending data were shared through this recovery operation center that Mr. Earl Devaney, who was the chair of the board, set up; and that way they were able to look at data from a number of different agencies at the same time and look for patterns that were suspicious.

So, for example, when you notice funds from three or four different Recovery Act programs going to a yacht in the harbor of Miami, which is one of the examples that we gave, he said let's go look there and see whether this is a legitimate operation. So it is an ability to quickly find where things were being requested or being spent, and then moving in quickly.

Ms. NORTON. Well, now, I don't know if you know if the board exists or if you think this board would be useful in other circumstances. That was a very special circumstance. Recovery Act building is still going on; money is all out. Are there circumstances within the government today, in the usual course of business, where you think something similar, or would we be accused of establishing another "bureaucracy"?

Mr. KAMENSKY. The Recovery Act Transparency Board I believe is authorized through the end of this fiscal year. There is a Government Accountability Transparency Board that was administratively developed by President Obama, which is looking at ways of taking some of the lessons from the Recovery Board and extending them administratively, at least, and potentially even legislatively.

Agencies such as the Center for Medicare and Medicaid Services have something like this for payments that they make. They make like one billion payments or transactions a year, so they have a mini version of it. But oftentimes it is when you are able to compare funding flows across agencies that you are able to detect patterns that are sort of anomalies. So something equivalent to that may be one of the lessons that comes out of the Recovery Act legislation.

Ms. NORTON. Well, the chairman of our full committee has shown an interest in institutionalizing some of that lessons learned. Thank you very much.

Mr. MICA. I thank the gentlelady.

The gentleman from Oklahoma, Mr. Lankford.

Mr. LANKFORD. Thank you, Mr. Chairman. This is an area that we can have bipartisan agreement on. I go back to President Obama's inauguration speech, where he identified some Federal programs as outworn and inadequate. I would agree that we have some Federal programs that do need to be sunset, and we need to be able to identify and be able to work together, Republicans and Democrats, identify those programs and let's sunset them. Let's deal with that.

But I do have a series of questions and one piece of good news for you, Mr. Schatz. I noticed in your testimony you referred to a Senate action to try to put into the Senate rules a duplication requirement, that that failed in the Senate last time. That is something I personally worked on and is in the House rules for this year, to be able to identify duplicative programs before they go into effect. So I need to get you a copy of the latest House rules so you get a chance to identify that, because that is a very important thing to us.

There are two ways to deal with duplication: one is to get it out once it is there and one is to prevent it from starting. And our focus in the House is to try to find ways to prevent duplicative programs from beginning so we can take those on.

In the middle of all your testimony, though, you also mentioned the RAC Audit process. You called it an effective process. There are billions of dollars that have been recovered in the RAC Audit process, still in Medicare and Medicaid, and how they are not doing pay-and-chase anymore; they are trying to identify some of those things. We do have some issues on that and I wanted to be able to just have some conversation about it as well.

They are pulling about 30 percent of the files from these hospitals and now from doctors' offices for certain payments for just a normal doctor's visit; identifying those, not paying them for any length of time. It becomes a hostile exchange back and forth because 30 percent of their cash flow gets pulled. It is pulling honest physicians, their files, the same as it is for fraudsters and their files, and it can go back as far as they want it to.

As of September of last year, if they want to go back to 10 years ago and pull on a doctor or pull on a hospital and say we are going to pull this file and we are going to check it as well, they can. Since they are paid a commission, basically, somewhere between 9 and 12 percent per whatever fraud that they find, or wrong coding, they have great incentive to go back and search and go as far as they want to go.

How do we identify fraud and waste, and not create a hostile relationship with good doctors and good physicians and hospitals that are doing the right job? How do you strike a balance on that?

Mr. SCHATZ. Well, I think anybody who is asked questions about payments is going to have concerns about whether or not they were legitimate, and also be concerned about how they are conducting their business, but improper payments, as you know, constitute about $29 billion out of the $108 billion that was mentioned earlier, so it is a large amount, about a third of what is out there now.

Mr. LANKFORD. A lot of those are paperwork; they miscoded. They go back and check them; they are not really fraud, they are just, in all the checks and everything that is going on. There is a tremendous amount of fraud as well, but just trying to narrow down what was just coded wrong and what is actually fraud. And that is what we want to go after initially.

Mr. SCHATZ. Well, I think it is different. I think the RAC process is to look more at the waste, rather than the fraud. In terms of fraud, you have to have prosecution, and contractors can't prosecute somebody who is committing fraud; they can report it, of course. But our understanding is that they can only look at about 2 percent of the billings over a three-month period. Now, in some cases it may require some more paperwork; in others it may not.

And everything can always be improved. There was a big objection to RAC when it first started, particularly from some of the Members of the California delegation. When it spread across the Country, clearly, as it moves ahead, there are going to be issues that can be addressed. But we think the process works well. They have saved billions of dollars for taxpayers so far, and when that $29 billion goes down further, that frees up more money for Medicare beneficiaries, and I think that is the ultimate goal, is to help the people that truly need help, and not keep the money out there that shouldn't be paid.

Mr. LANKFORD. I completely agree. We have to be able to make those payments, but we have to find a way that doesn't trash the relationship. The Federal Government doesn't have a great relationship with several contractors anyway. Those that are doing a good job, we want to maintain we have a good relationship in the process.

This is for any of you, as well. Quick story. Last weekend my MasterCard is stopped; I get a phone call immediately saying I no longer can use it until I call in. I do a quick call-in in automation; within 10 minutes it is back active again, as they have identified something.

Is there anything comparable to that in the Federal program for identifying any of the anomalies that may come up, to say we are going to stop this and then can correct it in a 10-minute turnaround?

Mr. SCHATZ. Not that I know of. That would be nice to have. But that also is a function of incompatible accounting systems, financial systems that have been abysmal for years. One of the original Grace Commission findings, and I think it is still true, there are hundreds of incompatible systems across government. It makes it difficult to find out how the money is being spent.

Mr. LANKFORD. Do we have any agency that is trying to implement something within payments close to that that we can raise up as an example and be able to encourage other agencies to look at? Yes, sir.

Mr. KAMENSKY. There is a database that has been created by the Administration called the Do Not Pay List, and it is an integration of seven or eight different databases from different agencies to ensure that somebody that has been disbarred by one agency for improper dealings won't be given a contract in another agency.

Mr. LANKFORD. Right, the suspension and debarment list. Okay, thank you.

I yield back.

Mr. MICA. The gentleman from Virginia I think is next, Mr. Connolly.

Mr. CONNOLLY. Thank you, Mr. Chairman.

Welcome to our panel. Let me ask Mr. Blair, first. When we look at something like improper payments, one of the subcommittees, formerly, of this full committee looked at improperly payments and the estimate was something like $125 billion a year. Maybe 50 of it is fraud, and Medicare fraud particularly. A lot of it is, as Mr. Lankford was saying, just bad coding, getting it wrong in terms of who is eligible and not eligible, and the like.

If we are going to get our arms around $125 billion a year, that is not raising anyone's taxes, it is not cutting any strategic investment, it is just managing more efficiently, what would we have to do?

Mr. BLAIR. I think you need to better engage stakeholders into what exactly the improper payment is. Also keep in mind that improper payments are not just overpayments or underpayments, as well. So you need to keep in mind that, as government goes about doing its business and putting out money, it needs to keep an accurate check as to what it is expending and what it is authorized to pay for.

I think one of the ways that you can look at this is to look at what is going on in the States and localities, as well, and one of the things that we have been involved with at the National Academy is what is called a Collaborative Forum in which we brought in stakeholders from State, local, nonprofits, the cities in order to identify best practices and also lessons learned in trying to identify how to stop these kinds of improper payments and what more can be done to improve the administration of these programs.

Mr. CONNOLLY. Mr. Kamensky, I was kind of hoping Mr. Blair would include, however, in his answer the better deployment of technology. Maybe you could address that.

Mr. KAMENSKY. Thank you very much, Mr. Connolly.

Mr. CONNOLLY. By the way, has anyone ever told you, if we close our eyes, you sound exactly like Harry Reid?

[Laughter.]

Mr. CONNOLLY. And that is a compliment on this side of the aisle.

[Laughter.]

Mr. KAMENSKY. Thank you, sir. There are concrete examples of this happening. For example, IBM has worked with the New York Department of Taxation and Finance, and developed analytic applications which has saved over $2 billion. Its optimizer software uses a combination of data analytics and models that increase the efficiency of field agents so that they know which audits to go follow.

In 2010 there was an overall increase in collections by 12 percent as a result of better targeting which returns to go check out. The average age of a case decreased by about 10 percent, so they were able to get quicker turnaround. So the use of analytics in figuring out where the risks are and where the potential returns are help place the agents where they need to be.

The U.S. IRS recently created an Office of Compliance Analytics and they were able to identify, last year, during the tax season, where tax preparers were making consistent mistakes. They were able to send out notices to those people saying here is what you need to do to change it, and they managed to prevent over $100 million of money going out improperly during the course of the year so they wouldn't have to go back and recover it.

Mr. CONNOLLY. Right. I just point out the chairman rightfully pointed out sequestration. Sequestration, we are all worried about, is $1.2 trillion over 10 years. Improper payments are $1.25 trillion over 10 years. Getting our arms around that would be a really good downpayment in terms of the problem.

One more question. GAO found that the Department of Defense relies heavily on contractors and then concluded, however, that the lack of an adequate number of trained acquisition and contract oversight personnel contribute to unmet expectations and placed the Department at risk of potentially paying more than necessary. An understatement if there ever was one.

I would like your feedback in terms of how much does the lack of adequate training, adequate skilled procurement and contract personnel, perhaps, contribute to the problem of government waste.

Mr. BLAIR. I think the backbone of attacking this problem is making sure you have the right people with the right people with the right skills in the right jobs to get this done. If you don't have the proper training or the proper skill sets, it is just pouring good money after bad. One of the things that sequestration and also across-the-board cuts do is puts in jeopardy and effectively negates any further efforts at training, because that is among the first monies that goes when you have these kind of cuts.

So I think that Congress is going to have to be mindful that in the future. Our Federal workforce is at a crossroads, and has been over the last two decades, in terms of the changeover from people retiring, bringing in new people, recruitment and retention; and training is an integral part of that and you need to make sure that that money doesn't go when the budgets are cut for the departments and agencies, especially across the board.

Mr. CONNOLLY. Thank you.

Chairman ISSA. [Presiding.] I thank the gentleman.

We now go to the gentleman from Arizona, Mr. Gosar.

Mr. GOSAR. Thank you, Mr. Chairman.

I think you highlight a good starting point, but I also think that we have to start with a culture of accountability, and that starts with secretary heads, it starts with agency heads, and you have a whole mantra. I am from the private sector, so you are constantly reviewing our your workforce; you hold people accountable for that process.

And I think there is also you can label this in we tend to be politically correct. A lot of this is theft, point blank theft. We had a hearing here. We actually had a large State in regards to Medicaid fraud, which was perpetrated within the State bureaucracy. I don't care how you slice it and dice it, it is theft, and we need to hold people accountable for it.

The private sector is held to a different standard than public service. I mean, here you just get rotating chairs, and I think there is where we also have to have that accountability process. You have to be able to fire people. You have to have them, when they do intentional wrong, be held accountable for those services and restitution, as well as losing benefits. I think then you will have many eyes on the prize.

I have a couple questions. As a practicing dentist, we have seen some of the problems within the Medicaid programs and Medicare programs. For Mr. Blair, in your testimony you mentioned that the OMB's Collaborative Forum has improved HHS grants, Medicare and Medicaid. What were those improvements?

Mr. BLAIR. Those improvements were due to the fact that you could bring in State and local health care officials and the types of people who actually are the beneficiary of these programs to look at better ways of accounting for the money and for better ways of obtaining those results that they are trying to do. What the beauty of the Forum does is that it brings together multiple parties from Federal, State, and local sectors, the nonprofit sector, to talk about these types of things in an environment which encourages collaboration, best practices sharing, and also looking at problems and the common solution.

It is an ongoing process, but to date we have brought in more than 750 local people, 750 participants, which include local, as well as State officials, and the beauty of this is that it recognizes that not all wisdom resides here in Washington, whether it is going back to the State and the locals in order to look at these problems and look at it not from a top-down solution, but from a bottom-up.

Mr. GOSAR. Interesting. So you would do that on like micro targeting, or would you have a bigger forum? How would you put those pieces together?

Mr. BLAIR. Well, what we have done so far is we have targeted a few pilot projects. One was with the earned income tax credit, which was done through the Department of the Treasury, and the second one is looking at health care through the Washington State model, which uses analytics looking at what programs are actually working and what will continue to be funded.

One of the other promising areas to look at in terms of this is what is called Pay for Success, in which a government grant is administered through a third party, and that grant is not given to that third party until certain results are achieved by way of the program.

For instance, if you were doing health care or justice programs and you are looking at recidivism, you could say that the third party could agree with the State or local who is going to receive this money that you are going to reduce recidivism by X percent. And if it is not achieved and that third party doesn't get paid and the government is not at risk, it shifts the risk to these third-party payers.

So what you are doing with this is you are giving up a little bit of control, but in fact you are actually enhancing accountability and responsibility by saying that the government is not at risk in these types of grant programs.

Mr. GOSAR. But I think in some of those that are patient-specific, you are also dependent upon the patient base to be compliant as well, so you are going to have to be very careful with your metrics and how you measure that, because you could also skew it in an inappropriate way.

Mr. BLAIR. The beauty of this, though, is that it is done through a third-party such as a philanthropic organization, a nonprofit, a local investor; and that way you don't have the Federal Government at risk. Most of these grants that the Federal Government does now with State and local governments is that they just pass the check through and you hope for results. This way money is not paid by the Federal Government until results are achieved.

Mr. GOSAR. But wouldn't you also want to have some risk to the Federal Government because they have skin in the game? You don't want to advocate that.

Mr. BLAIR. You want skin in the game on all parties in order for something like this to be successful.

Mr. GOSAR. Absolutely. Okay. Thank you very much.

I yield back.

Chairman ISSA. I thank the gentleman.

We now go to the gentleman from Pennsylvania, Mr. Cartwright.

Mr. CARTWRIGHT. Thank you, Mr. Chairman.

My questions are for you, Mr. Kamensky. Thank you for coming here today, sir. What I am going to ask you to do is elaborate on your testimony a little bit regarding the efforts of the Federal Government to reduce its energy use. And in your comments I hope you will include the Department of Defense.

We freshman in Congress were treated to a CRS seminar some weeks ago, where they informed us, some panel members there, that as much as one-third of the DOD budget goes to energy consumption. In fact, you heard here today Ranking Member Cummings quoting CRS and its evaluation of DOD's overall efficiency as being poor performance.

As you note in your testimony, the Federal Government is the Country's largest consumer of both energy and water. The Federal Government can lead by example in increasing energy efficiency, reducing greenhouse gas emissions, conserving water, and preventing pollution. And your organization has written about the ambitious efforts that the Administration has undertaken to make this a reality.

Mr. Kamensky, tell us a little bit more about the Executive order President Obama issued that was aimed at making government operations more sustainable. What do you believe will be the short- and long-term impacts of that Executive order?

Mr. KAMENSKY. Thank you, Mr. Cartwright. The Executive order draws upon a number of other Executive orders and statutes, and it sets a target of reducing greenhouse gas and increasing the reliance on alternative energy sources other than coal base.

One of the things that we had a report that was done on the implementation of this Executive order by a Dr. Fiorino, who used to be, actually, at the Environmental Protection Agency and is now at American University, and he had a number of findings. He said there was mismatch between the expectations in the Executive order versus what can actually be done in terms of action by the agencies, in part because there is not an investment or a set of incentives. And one of the things that he was suggesting, much like in the private sector, is to allow sort of trading of energy costs between agencies, and the other is allow an investment fund so that agencies can borrow money, but have to then pay it back once there is energy savings that have been incurred. So this becomes something that takes place over a period of years.

The Department of Defense has something similar to that where private industry will come in, they will put something in place, and then they will get paid back out of the energy savings that come out of that program, and that has been used in a number of military bases. I don't believe it is a widespread initiative across the Department, but it does show that there is a return on investment that comes from energy savings.

Mr. CARTWRIGHT. And I know it has only been two years since that Executive order was issued, but how do you think the Administration has done so far in terms of implementing it?

Mr. KAMENSKY. The Administration sent energy savings as a cross-agency priority goal. There are 14 in the Government Performance and Results Act modernization law earlier this year, or earlier last year. One of the 14 cross-cutting goals was around energy savings and it said that it would reduce greenhouse gas emissions by 28 percent by 2020 and indirect greenhouse gases by 13 percent from a 2008 baseline.

So they have real measures. And they are reporting every quarter on the progress against their goals in a report that is posted on the Web. They are looking at the impact on 500,000 buildings that the Federal Government manages, and in 2011 they reduced emissions by 8.3 percent from the 2008 fiscal year baseline. So there is progress being made against the targets that were set, in part because the Executive order helped put these things into motion.

Mr. CARTWRIGHT. Thank you. Finally, where do you see a need for improvement in the Administration's implementation efforts?

Mr. KAMENSKY. Well, one of the things, as Dr. Fiorino mentioned, is this ability to create incentives, much like in the private sector, of allowing tradeoffs between agencies, and the other is creating an investment fund so that agencies can go in with an ROI where they are going to recover the cost and therefore make longer term investments.

Mr. CARTWRIGHT. Thank you very much.

Chairman ISSA. Would the gentleman yield for a question?

Mr. CARTWRIGHT. Yield.

Chairman ISSA. Mr. Cartwright, I enjoyed this exchange. I think it was very good for us to hear it, but at the beginning, when you mentioned that as much as a third of DOD's budget went for energy, is it a little bit more minute than that? No one on our side seems to be able to find a third. In other words, when you get past labor, which is so much, there isn't a third left that we could find after labor and outsource contracting. Could you elaborate on what the nuance of that one-third is?

Mr. CARTWRIGHT. That is why I raised it, Mr. Chairman. I was shocked when I heard that number. It was from one of the panelists presented by the CRS. I think that merits further investigation.

Chairman ISSA. Excellent. I would ask that you try to get the details of that. We will include it in the record, because I think that is an extremely important point and I was glad you made it.

Mr. CARTWRIGHT. Thank you, sir.

Chairman ISSA. Thank you.

I will now recognize myself for a round of questions.

Ms. Alexander, you have the best title in Washington: Taxpayers for Common Sense. Now, next week we are going to have our annual high-risk list coming out, the 2013 list, and it is no surprise to you or Mr. Schatz, or any of you, that that list will include DOD, Medicare, Medicaid, the Post Office has managed to get on that. For the most part, the people that are on it are always on it and they never get off it, isn't that basically the truism?

Ms. ALEXANDER. Absolutely. I mean, they narrow or broaden or alter, but it seems like it is much more static of a list than we would like to see.

Chairman ISSA. Well, let me ask you a detailed question, but I will make it a little bit long. There is that expression about Albert Einstein saying if you keep doing the same thing over and over again, expecting a different result, that is the definition of insanity. We keep doing the same thing over and over again.

Is it time, and I think it is, but is it time that we seriously look at our inspectors general at the act and the power to not just make suggestions, not just tell people that there is huge waste, but in fact take a more active role, an enforcement role in insisting those changes occur? Isn't it essentially at the GAO and the IG that we have recognized repeatedly these hundreds of billions, and through both Republican and Democratic administrations we have seen them come back saying they are going to do it, and then we see the exact same things or more on the list the next year? Either of you.

Ms. ALEXANDER. I absolutely think that there needs to be increased powers for GAO and the IGS in terms of enforcement. I know this committee has been looking at legislation to make that possible, and that is something we support. I think there are some agencies where we would be particularly happy to see that happen; of course, DOD because of the scale. Taxpayers for Common Sense has talked at length about the concerns about the Army Corps of Engineers. I think the Department of Interior, just, again, because of the sheer scale of what they manage in both revenue and programs. So we definitely would support efforts to give the IGS and GAO more authority and power to get information and enforce issues.

Chairman ISSA. Mr. Schatz?

Mr. SCHATZ. Well, I agree generally with that point, but if there were no consequences for wasting money, money will continue to be wasted; and those consequences either come in the form of changing a program, eliminating a program, or sending someone to jail, though the last time I remember probably was the Boeing tank release, the original tank release debacle.

Chairman ISSA. The so-called lease.

Mr. SCHATZ. The so-called lease, yes. So I am not suggesting that there are people out there that should be incarcerated, but either there should be an incentive for performing your job at a certain level; there have been suggestions that agencies retain some of the money they get back if they recover it; and there should also be a disincentive for performing your job incorrectly, and that really, rarely happens.

Congress doesn't have the power to hire and fire people; neither does the President. You can do it by reducing budgets or cutting staff in an appropriations bill, but that is pretty rare.

Chairman ISSA. Well, let me ask you a question, a very tight question here. Currently, if you are an IG, you can talk about debarment, but you are not able to do it. Is that an example of something where actually bringing a debarment action by the IGS as a regular part of enforcing against contractors, and then perhaps other motions that could be brought where the IG would have direct standing even when it was not criminal.

For example, the GSA scandal. All of you got to see them sitting here. You got to see the former administrator telling all us, to our amazement, that the reason that the individual in the bathtub got his bonus was because he was entitled to it. That is an example that the question is should we change the dynamic so that somebody other than the next person up the chain has input into whether you either deny somebody's ability to continue doing business with the government or at least, in the case if they are employees of the government, deny some of their ups and adds, affect their promotions, affect their pay grade increases, and certainly affect their bonuses.

Mr. SCHATZ. You would probably have to change the Civil Service Act to address misconduct, for one, because I am sure there are rules that prevent that from happening.

Chairman ISSA. Well, bonuses are currently, by law, discretionary. It doesn't appear that way when you look at the performance versus the bonuses. And I will say that in a report that I recently reviewed of ours, what I noticed was that there are agencies that have very small bonuses and there are agencies that have huge percentage bonuses. And I can't say that as a bonus goes up as a percentage, that those agencies are the ones that you would be pleased with.

Ms. ALEXANDER. I mean, I certainly think that increasing the ability of IGs and kind of independent actors to do something would be positive, and I also think it may also have an effect on Congress' ability to respond to some of the waste they see, because we, all the time, criticize things that happen, but we know that it is difficult to find real agreement across party lines and across committee lines when you are trying to make a change. So I think if there is more action within the agency. And I think the question on bonuses, I mean, for debarment, for bonus payments on contracts, those legal issues are different than they are for government employees, but they are probably solvable without a statutory change, I would think.

Chairman ISSA. Okay, any other comments, Mr. Blair, Mr. Kamensky?

Mr. BLAIR. I found really curious that statement about the bonuses being entitled, too, because, as you point out, they are not. Bonuses are supposed to be awarded for exceptional achievement, and it seems to be an abuse of that system when it is viewed as an entitlement and as part of your everyday salary.

One of the questions that I would have about debarment and giving more authority to the IGs is is there a way that we can use this not after the fact, but before the fact, because we see a lot of these scandals occur and we are always looking at them after the money has already gone out the door, after the bad acting has occurred, and oftentimes after the bad actors may be out of government.

Chairman ISSA. And that is a great question for another hearing, and we will be picking up where you left off.

With that, I am going to announce that we are going to go to the gentlemen from Wisconsin for five minutes, but we will then recess until immediately following the second vote. The gentleman is recognized.

Mr. POCAN. Well, thank you, Mr. Chair, and thank you to the panel. I had a chance to read your reports last night and they were very comprehensive and very thoughtful, and some might even say fearless in some of the areas that you decided to point out to us. As a local government official, when I was on a county board I used to co-chair a reinventing government committee, where we looked at efficiencies and savings, and as a State legislator I served on Governor Scott Walker's waste, fraud, and abuse commission, where we did, again, the same thing at the State level. So I really appreciate this conversation, especially when we look at the thoughtful ways to do it.

I guess one of the concerns I have, and when Mr. Mica was chairing he brought up sequestration. I have to admit, being one of the freshman and being new, there seems to be a Washington way of doing things and then a way the rest of the Country operates, especially those of us in the Midwest; I think we like to think we are a little more commonsense. If the car is about to run out of oil, we put oil in the tank rather than let it completely grind to a grinding halt and then try to fix it later.

And sequestration is one of those issues that is coming up, as was talked about, it is in a few weeks. We can always come back and try to fix something later, but it just doesn't necessarily make sense.

Ms. Alexander, I appreciated reading your report, Sliding Past Sequestration, and I notice you have a little bit of that midwestern common sense. You went to school in Wisconsin. Congratulations. And you have a line in here that says specifically sequestration is bad; it would cut the good along with the bad, the effective and the wasteful. It is irresponsible.

Again, coming in new, not being from Washington or around when this happened, I would kind of concur with your thoughts on that, but I also have fears, as I talk to a lot of constituents about what is going to happen in the next few weeks, rather than trying to fix it after the fact.

I was just wondering if you could maybe address, just for some of us who are new, although everyone is kind of running off to a vote right now, but some of the areas if we do the sequestration. You have done a great job in, and I think very fearless, covering a lot of different areas of cuts. What are some of the areas that, if sequestration happens, are some of those effective and some of those good that are going to potentially be hurt?

Ms. ALEXANDER. Well, I am midwestern, so I appreciate the midwestern kind of practicalness, and I think that is part of the reason why I do what I do. Coming from Wisconsin and Illinois, I have always looked for solutions.

I think that if you look across the board, I mean, everybody agrees that we have a need for a strong national defense. Everybody agrees we need the Pentagon to operate at a very high level of efficiency, and there are good programs within the Pentagon. But that kind of conviction and consensus that we need a strong national defense has been exactly what has allowed the waste that exists at the Pentagon to thrive and grow.

So I think there is kind of no way other than doing the very hard work of looking at things program by program, dollar by dollar, to say, actually, you know what, a return on investment for this is really good; we are reducing risk or we are getting something for it.

I am trying to think of kind of within the context of the Pentagon. We are in the business of we are kind of naysayers a lot of the time, so I am much quicker with what not to do than with what to do. But I think that, again, I was thinking about what is our approach to reducing waste, our approach to reducing waste is just to do it. So you really just have to look program by program, because every program started for a reason, because somebody thought it was a good idea. There is going to be somebody to defend it.

So you just have to make sure you are looking through and saying this has delivered on the promise that we said would be there, so, okay, let's give it a little more money or tweak it this way, and look at other things. Mr. Schatz and I have both worked on kind of the strike fighter and other programs, the alternate engine program, where it is just like we are just throwing good money after bad and we just have to stop.

Mr. SCHATZ. If I could throw in one thing quickly. We did talk about these GAO reports a few times. Senators Coburn and Sessions estimate that the information shows about $400 billion in annual waste, duplication. Let's just call it duplication and overlap; it may not all be waste. But you have 209 of these stem programs. No one knows which one works. The GAO says the duplication is causing ineffectiveness. So if we are trying to improve something and get higher science and math achievement, get rid of the programs that don't work. And that is really where all of this should start.

Mr. POCAN. And, Mr. Chair, again, I want to thank the panel. I really thought you went into a lot of areas of sacred cows, like we talked about, that are a little difficult sometimes for people to talk about, and I really appreciated the suggestions.

With that, I would yield back time.

Chairman ISSA. I thank the gentleman, and, as promised, we will stand in recess until immediately following the second vote.

[Recess.]

Chairman ISSA. The committee will come to order.

I am going to yield to the first person that walks in the room, but you do understand the advantage of being the chair and back here first.

We were talking, a little bit earlier, about IG empowerment, but the GAO, which is a part of this branch of government, does all this work again and again and again, but, Mr. Kamensky, maybe looking at it a little more from the IBM and the private enterprise standpoint, recognizing we have limitations in our branches and our separation, is there a fundamental problem in that administration after administration doesn't have, if you will, the continuity of government to really go after some of the deep problems and fix them?

Well, Congress doesn't take an active role in oversight, meaning the GAO is almost the controller, the honest ombudsman and yet it has no authority, Congress, for the most part, and you saw it earlier in the discussion on CMS, for 20 years ignoring a law as to how much you could reimburse and 35 times giving reimbursement amounts greater than the law allowed, without recourse.

Do any of you have institutional changes, in other words, major government reform changes that you believe structurally would help us and our successors do a better job here in this body for the benefit of the executive branch?

Mr. KAMENSKY. If you are looking at specifically IT.

Chairman ISSA. Well, we could look at IT. The Data Act that we are trying to get out of the House again and get the Senate to live up to creates more transparency, an easier recognizing of the problems. Ms. Norton, I understand, while I was out over at judiciary, talked in terms of the RAC board and how they were able to look through and identify misspending better than in the past. Those would be examples of structural change where you actually have a process change that makes accountability easier.

Mr. KAMENSKY. Well, there are several broad conceptual frameworks, and part of it is how do you create incentives to do the right thing, to do the win-win that you mentioned earlier. And one of these is disclosing hidden costs, and these are the costs that are buried into programs that are just accepted unless somebody asks a question about them.

But you can't ask a question about them unless you can see them. Some of them in State and local governments are using budget capital charging. In other countries there was a very interesting initiative in New Zealand, probably about 20 years ago, that they had to budget explicitly for all capital costs in the agency and had to pay like interest to the government if you had capital that you had, and if you didn't use it, if you didn't want to be paying this interest charge on it——

Chairman ISSA. So it was sort of define your cap X, define your ROI, and pay on it.

Mr. KAMENSKY. Well, that was for the agencies that actually had the ability to do some sort of revenue charging. For example, the forest service in New Zealand, they were given a target of 6 percent return to the government for whatever their activities were, with exceptions for like you can't chop down Yosemite Park type things.

Chairman ISSA. I knew a politician who once said it was a renewable resource, and he didn't win that election.

Mr. KAMENSKY. But what was interesting was by creating this incentive for people to look at excess capital costs, because they were being charged for owning them, they would get rid of, automatically, things that were excess buildings. The New Zealand Embassy here sent a painting of Queen Elizabeth back, saying we don't need it, we will deal with a print. We don't want to have to pay the capital costs.

Chairman ISSA. Okay. That certainly would be a game-changer.

Let me ask a question. Many decades ago, before John Dingle was in Congress, there was a Hoover Commission, and my understanding is it is the poster child for the one time reorganization worked. Is it, in your opinions, time to do that again, to have that kind of a continuity of big thinking, reorganization at all levels, and then a continuity of doing it through multiple administrations?

Mr. Blair?

Mr. BLAIR. Mr. Chairman, I think it is time for that kind of big thinking. I think you need to look at what government does. I think one of the things that you can look at, you have a menu of options available to you, from looking within the departments and agencies themselves, and looking at overlap and duplication. But I would urge you to look at government from a unitary or a corporate perspective and saying what are we actually trying to do.

In my testimony I built off the GAO list of overlap and duplicative programs, and some of those are intentionally duplicative. As I said in my testimony, you wants belts and suspenders on some programs because you want to avoid program failure or you want to avoid the risks associated with program failure.

Chairman ISSA. But is that the reason we do breast cancer research at DOD?

Mr. BLAIR. Well, that is exactly the question.

Chairman ISSA. Or is it just because we can stick a little funding there?

Mr. BLAIR. Do you need NIH and DOD? And now you fund breast cancer research through the Postal Service. So you can look at these kinds of things.

Chairman ISSA. But they deliver.

Mr. BLAIR. That is right, they do, six days a week.

Chairman ISSA. Five very soon.

Mr. BLAIR. That is right.

[Laughter.]

Mr. BLAIR. So what you can do, and one of the efforts that we have been involved with, it is called Smart Lean Government, and it takes a look at these programs and says what is the most effective way of delivering on these programs? That you don't need multiple agencies or departments doing the same thing with similar programs and similar mandates in order to accomplish the delivery of the service to the constituency group.

If you eliminate that duplication and overlap, you can achieve savings while avoiding cutting the actual benefit. For instance, veterans health care. How many agencies are involved in something like that? Do you need that many agencies in order to get that final benefit down to the veteran?

Chairman ISSA. Well, I want to thank you.

And I promised to yield as soon as someone came in, so I will get to you, Mr. Schatz.

Mr. Collins, I will go to you in a second.

I just wanted you to know the question was, is it time for a Hoover commission again, and the answer seemed to be yes. And, Mr. Schatz, if you could be brief.

Mr. SCHATZ. Yes, Mr. Chairman. I appreciate that.

I agree with Mr. Blair that this is something that should be done. It has been a long time. Of course, the Grace Commission, from which CAGW arose and was kind of the predecessor to our work, looked at more waste than reorganization, although there was certainly some reorganization. And also looking at a sunset commission, which has been very successful in the State of Texas, where, for every dollar that has been spent on the sunset process, taxpayers have saved $29. They have abolished 78 agencies; 37 completely abolished, 41 transferred or moved into new agencies or existing agencies. That is another way that programs can be evaluated and agencies can be evaluated over time.

Chairman ISSA. Great idea; second only to closing law offices.

Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman. I appreciate the opportunity.

I thank you for being here. This is, I think, going to be one of the big topics as we go on government spending, and I have several questions.

I will start with Ms. Alexander. In your prepared testimony you stated that loan guarantees for two nuclear reactors at Plant Vogtle in Georgia are now loans given to Solyndra. However, there is a major difference in the two situations. Solyndra was a startup company based on unproven technology with no history and assets to protect taxpayers; in the case of Plant Vogtle, in my home State of Georgia, the loans are backed by a 100-year-old A-rated investment company with $25 billion or more in assets.

In the case of Plant Vogtle, taxpayers also have first lien to recover taxpayer money. Expansion of nuclear power will not only help lessen our dependency on foreign oil, but it provides a steady cost-effective source of power for customers.

Having dealt with this in different ways in Georgia, based on these facts, is it not comparing apples and oranges when you are looking at these types of loan guarantees?

Ms. ALEXANDER. I don't think that it is comparing apples and oranges. I should just be clear for the record that our organization opposed the Title XVII Loan Guarantee program in 2005. We opposed it all the way along the way. We think that the taxpayer protections in the program are just inadequate across the board. Our concerns specifically about the Vogtle loan guarantee really go to the fact that it has been a conditional loan guarantee where there is renegotiation after renegotiation without real transparency for the taxpayers, and it is a lot of money. It is just a lot of money.

Mr. COLLINS. I don't disagree, but in the word of hyperbole, which is thrown around these halls very quickly, comparing a startup company with absolutely no history to a company that has been around forever, that is publicly traded, that is publicly regulated and others, I get the prospect. We are okay with where we are at. I think the Title XVII needs some issues, but are we not being a little hyperbolic when we state that and we put it in with Solyndra?

Ms. ALEXANDER. We didn't put it in with Solyndra.

Mr. COLLINS. You did. You did in your testimony.

Ms. ALEXANDER. I did in my testimony and I will again, I am sure, but I don't want to back off on my statement.

Mr. COLLINS. Okay, well, is that not apples and oranges?

Ms. ALEXANDER. But I am just saying the Title XVII Loan Guarantee program was created and expanded to include lots of different kinds of technology. It is the Title XVII Loan Guarantee program that we believe puts taxpayers at risk. There is not a single project in the pipeline that we don't have concerns about because we think the program does not adequately protect taxpayers. And time and again the protections we have seen for taxpayers we think have been eroded.

Mr. COLLINS. Okay. I get your point. I think my concern is, especially in this situation here with a lot of transparency, what has been going on back where there is protection that has been made for this, especially in the two companies, my concern is you are just simply over-generalizing to make a point, and that is my concern there.

I agree with you on the need for better consolidation, better treatment of that; it just struck me as very odd when you started comparing a very political favored industry such as Solyndra, which there was a lot of bad issues there, as compared to say you or I, when we were 17 and a loan given to us then when we had nothing, to now, when we probably have a decent backing. So I just wanted to state that for the record. I believe it to be apples and oranges.

Mr. Schatz, I have a question for you. As a State representative in Georgia, I had authored a bill that consolidated State agencies as one of the things. For the first time in history as a Republican, we actually were able to follow through on what we believed, and that is a limited government, smaller government, and we were able to do that.

On this committee we have discussed ways in which taxpayer funds can be saved through IT reform. Maybe a bigger question here. Redundant services, redundant services. I know this has been discussed some more, but I would like to hear your thoughts. Do you see potential cost savings through consolidated services or maybe even I'll go on and say entire agencies?

Mr. SCHATZ. I think that every program should be examined to determine how it should function in today's world, which is what the Little Hoover Commission has been doing in California; also similar to, I imagine, the sunset process in Texas and other States.

But in software, for example, agencies have hundreds of software assets that are unnecessary or excessive, particularly in licensing. GAO issued a report in July of 2011 noting that 15 agencies did not list all of their software assets in their reports. Software is expensive, of course, and certainly if it is unnecessary, it shouldn't be purchased.

The IT budget is $80 billion and this committee had a hearing a week or two ago identifying almost $20 billion in annual waste. We favor investment and modernization of information technology, but not when it is not managed properly; and that is true of how the money is spent in all agencies.

The problem is listing all of the duplication and overlap, as GAO has done, is helpful, but without an evaluation of which of those programs are effective, Congress just keeps adding new programs.

Mr. COLLINS. One last little follow-up. And that is why I am looking at it. Let's put a bill out there and let's let them fight over it, let's decide which is best; which one needs to be run and which one doesn't. And I believe in the end if one proves better than the other, then that is the one that wins, but if they both prove to be inadequate, then we may have a situation where we get rid of the entire program.

So I appreciate your comments there and I think that is something we can definitely look at. It is something I am going to be looking at greatly.

Chairman ISSA. Mr. Collins, could you yield for a second?

Mr. COLLINS. Definitely, Chairman.

Chairman ISSA. Ms. Alexander, I want to follow up on his question and ask it a little differently, his first question. Regardless of the challenges and the safeguards of Title XVII, if in fact a company has substantial skin in the game, very substantial, doesn't it, in general, reduce that risk? In other words, with Solyndra, they were operating to a great extent on our money, and some of the other entities even started with their money and then got a loan or a grant and substituted Federal money for the money that in fact they had.

Isn't the gentleman's question valid, that if in fact any program the government does with the private sector, the private sector has a large percentage of skin in the game, that reduces the risk of failure simply because those companies are at least going to invest their money, generally, more wisely?

Ms. ALEXANDER. I mean, I don't mean to gloss over the fact that there are operational differences between the Solyndra loan, where the credit subsidy cost was covered by an appropriation, and Vogtle, which will have to cover the credit subsidy cost. We have concerns about the calculation of the credit subsidy cost. We have concern about whether or not their skin in the game is sufficient. If it is 90 percent or 100 percent of the loan, we are very concerned about the credit subsidy cost calculation.

So, yes, there is a difference between whether or not you have zero skin in the game. That is worse, I agree. But we still think this is not good.

Chairman ISSA. I appreciate that and I appreciate the clarification.

Mr. Horsford, welcome to a committee that asks these kinds of questions a lot.

Mr. HORSFORD. Thank you.

Chairman ISSA. The gentleman is recognized.

Mr. HORSFORD. Thank you very much, Mr. Chairman, and it is an honor to be on this committee, particularly at a time when we are trying to find every way to responsibly balance the budget, while protecting the most essential parts of services that are provided. And as a former State legislator in Nevada, that is what we had to do over the last four years, with 30 percent less revenue, was to basically comb through the budget and find areas that we had to cut back on.

And I look at all of these issues and say that everything really needs to be on the table for consideration and discussion, so specifically I would like to ask that during these challenging economic times there have been certain companies, I will use oil and gas companies in this example, who have remained highly profitable. Taxpayers for Common Sense issued a report in May of 2011, I believe, that described these record profits, and in the report it said, "In 2008, Exxon posted the largest annual corporate profit in U.S. history. Chevron became the second most profitable company in the United States. Shell, Exxon, Total S.A., BP, and Chevron together made a total of almost $150 billion."

So even with these profits, oil and gas companies continue to receive tax breaks and other corporate entitlements. The Office of Management and Budget estimates that taxpayers could save more than $43 billion over the next 10 years if these corporate entitlements were repealed.

So my question to Ms. Alexander is do you believe that the oil and gas companies should be getting these tax breaks and corporate entitlements? And if not, how should Congress deal with that?

Ms. ALEXANDER. We have been on the record for a long time against oil and gas subsidies, whether through the direct spending or through the tax code. We have always treated subsidies through the tax code the same as financing mechanisms and spending mechanisms, or at least on equal footing in terms of analysis. So we would say the last in, first out accounting, prohibiting the use of that in U.S. tax returns is something that we think should be prohibited for all businesses, but is a particular benefit for oil and gas. The intangible drilling cost tax deduction is something that we would also support appealing.

All of the subsidies that are listed in our 2011 report are things that we would be very happy to see Congress appeal. I will note that VEETC, which did go to oil companies, but also to the benefit of corn growers, has been eliminated, so that is awesome.

I think that this is one of those very difficult issues because we work on energy subsidies and we work with Members from both sides of the aisle. There is kind of a starting point of when we say we think tax breaks that are targeted towards individual industries or significantly benefit individual agencies or subsidies, a lot of times we talk to people who just don't agree with that statement. We think that. We have been doing this for 17 years; we think that.

So we think that is something you should look at, at kind of how are we picking winners and losers through the tax code, how are we picking winners and losers through spending. So we look at energy subsidies across the board, and for industries that have been profitable for so long and that have been around for so long. These are mature industries.

It is hard to understand why we need to continue to give them the kind of tax preferences that they have received for 100 years.

Mr. HORSFORD. As a follow-up, Mr. Chairman, if I may, can you give any specific recommendations for ways that the Department of Interior can improve its oversight on the royalties that are provided to oil and gas companies?

Ms. ALEXANDER. I would be happy to follow up on the record with kind of longer detailed responses to that because that is something we have given a lot of thought to. I think certainly in the reorganization of the Department of Interior, since the Deepwater Horizon spill, we have seen some movement towards improvement in terms of making sure we hope we are getting better enforcement and collection of royalties from both offshore and onshore drilling.

I think that the terms of leases need to be very carefully examined to make sure that we are getting a fair return on any kind of development, on public lands. But we would be happy to kind of give you the kind of specific recommendations that we have advanced over the years and work with you further on that.

Mr. HORSFORD. Thank you.

Mr. JORDAN. [Presiding.] I recognize the gentleman from Tennessee, Mr. Duncan.

Mr. DUNCAN. Well, thank you very much, Mr. Chairman. This is my 25th year here, and I can tell you that when I first came our national debt was, I think, $2.8 trillion, $2.9 trillion, and I thought that was too much. I was voting to reduce spending even then. Now it is $16,400,000,000,000, and they tell us under the most optimistic scenario it is going to go to $20 trillion, probably, more realistically, $22 trillion in the next four years; and we just passed major legislation that the CBO says is going to add another $4 trillion to our debt over the next 10 years. I mean, it is just incomprehensible, and I think that is the problem.

But I remember Edward Rendell, when he was mayor of Philadelphia and, of course, later became governor of Pennsylvania, he was having trouble with city unions when he was mayor, and he testified, I think, in front of one of our committees and he said government does not work because it was not designed to. He said there is no incentive for people to work hard, so many do not. There is no incentive for people to save money, so much of it is squandered.

I have always remembered that, and I think the problem and the reason there is so much waste, people are spending money that is not coming out of their own pockets and there is just not the incentives to save money. There are not the same incentives or pressures that there are in the private sector. And I am wondering, I would like to ask all of the witnesses, do you know of ways that we could create more incentives for Federal employees to save money? I mean, we hear these stories. For years we have all heard stories about how agencies use 60 percent of their budget the first 11 months and then scramble around the last month to try to spend it so they won't be cut the next year. Can we come up with a program to give Federal employees bonuses if they hold down or save money within their particular agencies or programs?

Mr. Schatz? How long have you been here?

Mr. SCHATZ. I have been at Citizens Against Government Waste since 1986, and we certainly appreciate your voting record, because most people who come to Washington end up voting for more spending over time.

Mr. DUNCAN. So you have been here slightly longer than I have.

Mr. SCHATZ. Slightly longer, yes. Even before that; worked on the Hill before that.

But I mentioned earlier the idea of having some kind of remuneration for either individuals or agencies that go out and either save money or collect money. Unfortunately, we probably need that kind of incentive to do a better job of managing our money. So that is something we have always supported.

Mr. DUNCAN. Anybody else? Yes.

Mr. KAMENSKY. Mr. Duncan, I have been in Washington, first with GAO, since 1977, so I have seen a lot of changes over time, and when I was given the opportunity to work for Vice President Gore, his deputy for reinventing government, this very issue was something that he raised, and there were pilots, gain-sharing programs in some agencies that were used that if they were able to save money, they were allowed, administratively, to give that money either back to the employees or to invest it in, for example, an upgrade in their technology in the office, or to paint the office. So it was done as a team rather than as individuals.

Another thing that was done, and this was in the 1990s, is the Vice President said that a lot of employees are more than willing to do something if there is some recognition. So he created something called the Hammer Award, which was given to teams of employees that were able to put customers first, cut red tape, or to cut costs; and that award was given to about 1400 teams. And as we were doing this over a period of years, we said that there are some savings associated, and we asked agency budget officers to calculate, behind each team's award, what kinds of savings were accruing or cost avoidances, and it totaled about $50 billion.

And this wasn't something that came from Congress, it wasn't an IG report, it wasn't GAO, it wasn't OMB; it was the employees themselves.

Mr. DUNCAN. And you said $50 billion with a B?

Mr. KAMENSKY. Billion dollars. So, in part, I think employees, if given the inspiration or the incentive, are more than willing to do something. I had the opportunity to actually deliver some of these awards in ceremonies around the Country, and there were people in tears saying, I worked for 30 or 40 years for the Federal Government and no one has ever told me thank you.

Mr. DUNCAN. Well, we have to do more in this way because this debt problem gets worse and worse, and I can tell you many cities around the Country have had to come in and cut their pensions. Well, the Congress won't come in and cut Social Security, but we will just print more money and more money and more money, and pretty soon these veterans pensions and Social Security won't be able to buy anything.

Mr. Blair, you want to say something?

Mr. BLAIR. I do, Mr. Duncan. I think you bring up a good point, and you can look at it from more of a micro level of look at the Federal compensation system. It rewards longevity, not performance. There are ways of changing that, and it is difficult. There are a lot of employee groups and unions that oppose that, but at the end of the day compensation is the single largest tool you have in order to spur performance, so it needs to be more performance-oriented.

It is interesting. I have heard this expression several times this afternoon, skin in the game. I think you need to give some agencies some skin in the game to reward them if they are doing a good job in managing and functioning well. You have this high-risk list that is coming out.

Well, you have been here since 1986. I started in 1985 on the predecessor to this committee and I have seen a lot of this, and it seems like every year, every time the high-risk list comes out, Congress brings the agencies up, fusses at them, and then nothing really happens; Congress throws some money at them to correct the problem.

But you have to have some real consequences, and I think that that, at the end of the day, is the largest issue in government, is you have to hold people accountable. And this diffusion of accountability by saying, well, if an agency head doesn't do this, let's give authority to this person. You have to hold the individual accountable.

So I think that you can look at it on multiple levels, but at the end of the day it is about accountability and holding agency heads accountable and making sure they are answerable to Congress and holding Congress accountable as well. I mean, look at the budget process; it has been in shambles for years now, and I think that is just one of the things that can be done to strengthen that accountability.

Mr. DUNCAN. Well, I appreciate your testimony. I know my time is up, but I will say, since it is a veteran panel, that when I am telling some of the newer Members that I have been here this long, they look at me; it sort of boggles their minds. But I will tell you they will be amazed at how fast the time passes.

Thank you, Mr. Chairman.

Mr. JORDAN. Thank you, Mr. Duncan.

Let me just pick up real quickly and then I will turn to Mr. DeSantis.

So you can incentivize, as the panel talked about and as Mr. Duncan talked about. It seems to me you can also penalize. One of the things I am reading that our Majority staff put together is GSA sets a benchmark for what Federal agencies can spend at their conferences. The benchmark is $3,000 per attendee per conference, $6,000 per attendee per day.

One hundred and eighty-three times the Federal Government, the various agencies, went above the benchmark. In fact, 64 conferences the Department of Defense held they went above the benchmark; Social Security, 22 times at 22 different conferences; Department of Energy, 21 times. And, of course, GSA, which set the benchmark, went above the benchmark when they had their big shindig in Las Vegas.

So it seems to me you can incentivize, but, frankly, we should penalize them. One simple piece of legislation, just after reading this here a few minutes ago, that I would be looking at doing is if you go above the benchmark and you spend more per conference, next year your budget gets cut by that exact amount. That is an incentive to do the right thing. That is the way everyone operates; you do something wrong, you should get penalized.

So it seems to me we can do both of those as we are looking to save some dollars to deal with the $16.5 trillion debt that we now face.

That is just me rambling; you don't have to answer that.

We will go next to the gentleman from Florida.

Mr. DESANTIS. Good afternoon. Over here. Over here. Out in left field.

Mr. JORDAN. Hang on. I messed up. I didn't see the gentlelady from California. We have to go back and forth. She gets to go, then we will go to you and I won't interject next time.

Mr. DESANTIS. No problem, Mr. Chairman.

Ms. SPEIER. Thank you, Mr. Jordan. I will join you in that amendment, if you want to offer it on the floor, because unless we start, as a committee, requiring accountability in these various departments, nothing is going to happen.

And I am thrilled that each of you are here today to testify. If we spent the next year just implementing the recommendations that are in these great people's testimony today, we will have done something for the American people. The problem is is that we know what the problems are; we just never effectuate the changes that need to take place. The inspector general, the GAO constantly tell us where we should be making cuts, where we should be making reevaluations, and we just never act on it.

So we, as a Congress, have got to take some blame for what is going on; and I think this committee is poised to do the right thing, and we are poised to do it in a bipartisan fashion. If we just take the recommendations that were presented here today, we will have done our work on behalf of the American people this year. So I hope that we can work together on that moving forward, and you can count me in on any of your efforts on that behalf.

Let me just go back to something that is truly troubling, and any of you that have any perspective, I would appreciate it.

The fact that the Air Force wasted $1 billion on the Expeditionary Combat Support System, that it came before us as a Congress a number of times, I believe the GAO had made recommendations, and we kept allowing it to continue to foment, and then finally it only got pulled after the Air Force said, hey, this isn't working. But we had already spent $1 billion.

And then on top of it we ended up paying $8.2 billion as a parting gift to CSC for terminating the contract? Is that true? Or is it $8.2 million? Actually, this is a typo. It is $8.2 million in contract termination fees. So they screw up, we spend $1 billion of taxpayer money on a system that doesn't work; finally the Air Force says it is not going to work; we terminate the contract and we pay them another $8.2 million.

Does anyone have any perspective of why it got as bad as it did, went on for as long as it did without someone pulling the plug?

Mr. SCHATZ. Unfortunately, it is not the first time, although we hope it is one of the last times, because there have been many other examples of projects, programs, not just in information technology, but elsewhere, that go over budget and, unfortunately, since there are really no consequences for spending more money by Congress to hope the program works eventually, that is one of the reasons why they keep going. It is not just the agencies that continue to come in and say we need more; it is Congress that doesn't put their foot down and say no.

Ms. SPEIER. Exactly.

Mr. SCHATZ. So ultimately, not to lecture the committee or the Congress, but it is their responsibility as a body to say this should just stop. Let's do something different or let's just not do it at all. And, unfortunately, it doesn't happen often enough.

Ms. ALEXANDER. I would say the one other thing I would add is I think that it is just incredibly important, and all we talk about in contract and acquisition reform is to have very clear consequences for failure to deliver what you say you are going to deliver. The cost of the termination fee was less than continuing the program, so that is the good news, but they didn't deliver what they said they were going to deliver which, ironically, was to help the Air Force meet its audit requirements. Of course, they still haven't done.

So I think we just need to hold, make sure that in DOD, in particular just because it is so large, but across the government that when a contract is let to whatever service provider, that we have clear consequences; that we don't have to pay when they don't deliver. I think that is something that anybody who has been in business, if you enter into a contract with somebody, you know, there are some areas of gray, did you give me exactly what you I contract for, but there are some areas that are not gray, where it is pretty clear. We didn't get what we paid for, so we shouldn't have to pay for the rest of it.

Ms. SPEIER. Mr. Chairman, I believe I only have 20 seconds, but if I could, any kind of discussion that we could have, a rational discussion on TRICARE would be greatly appreciated, because right now TRICARE is costing us an extraordinary amount of money and over time is going to eclipse what we pay in Defense expenditures for, I believe, other personnel costs. And TRICARE is being paid for individuals who have retired from the military, but are working in employment settings where they could get health insurance through their employer, and I want to know if you have any number as to how much that would save us.

Ms. ALEXANDER. We have done a little analysis, and we can follow up and send you some numbers on the record. But I think that this committee has a huge opportunity to play a role in that, somewhat difficult conversation about reforming TRICARE. It shouldn't be that difficult because we of course we are going to take care of the people who have served the Country so well, but we are subsidizing employers who have great employees who got trained by the U.S. Government, and we should think about that before we continue to spend money on it.

I think that it is just worth noting that Congress has actually blocked some efforts by the Pentagon to put in cost reforms to TRICARE, so it is important that this committee lead the way.

Ms. SPEIER. It is important to remember that, up until the year 2000, those who retired from the military were in the Social Security system, and TRICARE is actually a fairly new incarnation.

Mr. JORDAN. I thank the lady.

The gentleman from Florida is recognized.

Mr. DESANTIS. Thank you, Mr. Chairman.

Thank you for your testimony. The material that you provided is great.

After he got elected in 2008, the President, then President-Elect, said that he thought it was important to go through the budget page by page, line by line, to eliminate unnecessary programs and operate existing programs in a cost-effective way. As individuals who study this, has the Administration ever put forward a list of these programs that needed to be eliminated? Have they actually eliminated any programs? Have they introduced some legislation in Congress to make good on this promise four years later?

Mr. SCHATZ. Not to defend everything they have done, but there are certainly some education programs that appeared in the President's budget: National Institute for Literacy, Even Start, Leveraging Educational Assistance Partnership. Others have been eliminated by Congress, but in that case maybe a few hundred million dollars in savings.

So every President produces a list of terminations. Unfortunately, Congress only adopts about usually less than $15 billion, often under $10 billion, less than one-half of one percent of Federal spending. But there are lists. Many of them have programs that have been around for, unfortunately, 10, 20, 30 years; and overall it is a small percentage, but the answer is yes, there are lists that President Obama and others have put forward. They are just not large enough.

Mr. DESANTIS. And they haven't been actually enacted into law, by and large?

Mr. SCHATZ. Some have, yes. There are some changes that have.

Mr. DESANTIS. But it is in the hundreds of millions, not billions, of dollars?

Mr. SCHATZ. Well, again, just in the information we have on education programs, because that was the easiest to find, it is a few hundred million. But overall anywhere between $10 billion and $15 billion a year, I would say, gets adopted by Congress from the President's budget.

Mr. DESANTIS. Okay.

Yes, sir.

Mr. KAMENSKY. Mr. Congressman, the line-by-line review of a budget doesn't capture a lot of the costs that could be saved. There are system costs that are just hidden in the procurement system, in the personnel systems, etcetera. But there is also cost or savings potential by looking at tax expenditures, which is an alternative way of buying things for the Federal Government, and that is almost $1 trillion, about the equivalent of the general discretionary spending each year; and there is also money that is hidden through regulatory costs that are in the hundreds of billions of dollars, that you are shifting cost to the private sector that do things.

There are also laws that are just hidden programs. For example, the General Mining Act of 1872 allows the miners to extract resources from Federal lands at costs far below the market value of the minerals that they are mining.

So if you just restrict the look or the view only to what is in the discretionary budget, you wind up missing something that may be two or three times as large.

Mr. DESANTIS. I totally agree with that. I appreciate that. I was just trying to isolate what has been done; where do we stand four years out; what more can we do.

My second question is we talk about individual items that can be cut, we talk about different things that can be done to save the Federal Government money, but I am wondering, in your judgments, what is the capacity of this body in the Congress to actually follow through on some of these things. And I guess my point is if you look at the last several decades, it seems that the incentive is always to spend more. And I am wondering if you think that we need an external pressure, constraint, such as a balanced budget amendment to the Constitution, to finally get us on a path to fiscal solvency.

Mr. SCHATZ. Well, we have always supported a balanced budget amendment, but, again, all of this could be done. It is a political will issue. A good example of one project that was eliminated after 2010, that was kept in 2009, is the alternate engine to the joint strike fighter, which, before the change in the control of the House, I believe it was about 230 Members voted to keep it going. The Senate, by the way, always rejected it. In 2009 that vote took place, excuse me, 2010, prior to the election. In 2011 the vote was reversed.

So perhaps, one by one, some of these wasteful programs can be eliminated. The House has done a much better job of voting to reduce wasteful spending; it simply has gotten stuck over in the Senate. But I think it is all a matter of finding 218 votes in the House and 60 or so in the Senate that agree that these changes should be made.

Mr. DESANTIS. My final question is I look through some of the materials about a lot of the improper payments. This is billions and billions of dollars, so it is a lot of good stuff that would be great to save. But I am wondering to what extent is that something that you can just isolate and fix, or to what extent is that just simply inherent in the nature of a big bureaucracy, so that the answer isn't that we can simply identify this $10 billion in improper payments and snap our fingers, but we actually may need to simply reduce the size and scope of the bureaucracy as the best way to be able to save money.

Mr. BLAIR. I think there are ways of isolating certain of those improper payments. For example, paying dead Federal employees their retirement annuities. I think that was highlighted in one of the recent reports that came out a couple years ago, that we continue to pay these retirement annuities to people who died a year, two, or three years ago. I think that if you go through each of these you can identify areas where you can actually make a difference now.

But you are, with a government as large and as broad as what we have, addressing waste, fraud, and abuse, you have to look in terms of the sheer volume, but you also have to look at it as part as a holistic part of government and something that we are going to have to live with. We just have to make sure that we have the processes in place that are stringent enough to keep it at a minimum, and that is what we don't have in place right now.

Our government has grown up over the past 225 years to a point that, if we were reorganizing government today, it wouldn't look at all what we have in place now; it would be a totally different function. But we have, through the years, departments and agencies reform to respond to specific constituencies and to specific programs, and it is time to take a look at how governments administer and how governments organize in order to cut down the systemic waste that we have seen over the past few years.

Mr. DESANTIS. Thank you.

Mr. JORDAN. I thank the gentleman.

Let me go back to where I just was. Mr. Schatz had said something earlier, before we went for votes: if there is no consequence for wasting money, money will continue to be wasted. The one example that jumped out to me was the one I gave just a few minutes ago, where we have this benchmark and 183 times various Federal agencies exceeded the benchmark. Ms. Speier and I are going to do legislation on that specific thing.

But I just wanted to know if there are no consequences, you are going to see money continue to be wasted. What other specific things, specific, would you point to that we can get at where there are consequences for wasting taxpayer money? We can just go down the line.

Mr. SCHATZ. Well, one consequence would be to, again, penalize Members of Congress who vote to waste money in some manner.

Mr. JORDAN. Well, that happens on election day. I get that.

Mr. SCHATZ. Well, that would help. Because, again, the Congress cannot fire people who overspend; they can change how the budget process works.

What seems to happen, however, is when something is either not working or something is trying to be achieved, the STEM programs really strike me as the best example because a third of those 209 STEM programs were added between 2005 and 2010, which means that both sides of the aisle were responsible. Somebody sees a science and math failure; we need to achieve more, we will spend more.

Spending money does not solve problems. So this is a fundamental change in the approach to spending. That is one of the reasons that one of the Grace Commission recommendations was to change the Office of Management and Budget to the Office of Federal Management.

So management comes first; the spending comes later, because the planning here is totally different than it is outside of Congress, where someone looks at a problem, says can we solve it, how do we solve it, and then how do we either raise the money to resolve it or can we afford to do this, or is there something else that exists that already achieves this; all the questions that really don't get asked. So I am happy to see that there now is this rule that identifies duplicative programs, because at least that information is there. It doesn't mean Congress won't vote to create a new program, but at least there will be more transparency on that, and that may help, in and of itself.

Mr. JORDAN. Anyone else?

Ms. ALEXANDER. I think in the context of contract reforms, I think looking at kind of when contractors are entitled to termination fees.

Mr. JORDAN. Okay. That is a specific.

Ms. ALEXANDER. And going back into the context of fixed price contracts particularly for goods, where kind of having the government as a client should be a pretty good incentive to keep your costs down. So looking at kind of the very specific things to make sure that contractors have adequate skin in the game, to use the phrase of the day, but also just adequate controls so that we don't have to pay people who aren't doing what we want them to do.

Mr. JORDAN. Okay.

Mr. BLAIR. We talked about, earlier, a more accountable pay system for Federal employees and also a reorganized government, but one of the things I would urge you to take just a brief look at is a project that the Academy worked on with the American Society for Public Administration called Memos to National Leaders. It was intended to be addressed to both Congress and the Administration over the next four years in identifying the toughest management areas in government. And some of the things to look at is better use of technology. We talked about realtime technology, more analytics to identify waste, fraud, and abuse; better use of social media to inform constituency groups. FEMA has used this in the past, but how about other agencies as well?

One of the things that our memos talked about was strengthening the intergovernmental system. I say in my testimony that actions at the Federal level reverberate on both the State and local level, and we don't seem to have, here in Washington, as firm a grip on this as we need, because we still haven't funded mandates that trickle down to the State and local level.

We need to do a better job of recognizing the budget constraints that they have at the State and local level and really strengthen that Federal system so that, while recognizing the independence that our States and localities have, the Federal Government should be a unified approach at least with some of the programs, and there are ways of doing that; better collaboration, bringing stakeholders together through online dialogues and other technological innovations.

But the bottom line is that we really need to do a better job of communicating and highlighting the transparency and accountability of government.

Mr. JORDAN. Mr. Kamensky, do you want to comment?

Mr. KAMENSKY. Thank you. The emphasis on greater transparency is a good one. The overall goal should be trying to create some sort of incentive to save money. One of the things that has been interesting is a barrier for some of the savings that I mentioned that were around the back-off as administrative costs is because many of those savings are not scoreable; and because it is not scoreable, neither OMB, nor the Congress, seem to want to pay attention to them, even though there will be savings that result from them.

There are processes to make things like that scoreable, but it takes a lot of effort. So the transparency, by creating more scoreable savings figures, can be a strategy that would help.

Mr. JORDAN. One last thing. Maybe what you have suggested is part of the inspectors generals' reports. But we have 73 different inspectors generals who, in 2011, their reports, when you total it up, is almost $94 billion that the government save. It seems to me these are sharp people; they make good salary; they have a staff. I think the average salary of an inspector general is $165,000; sharp people working identifying things.

Do you agree with the inspectors generals' report, the compilation of all that, that there is that kind of savings achievable? And, if so, what do we need to do to make sure that happens? Obviously, we need to pass a law or whatever, but give me your thoughts on that real quick. And I apologize if you talked about it before I was here, but let's just, real quick, do that, then I will let you all go.

Mr. BLAIR. Well, one of the things I would look at in that inspector general report, and I am not that familiar with it, is I recall what I think is something like $75 billion in that was achieved through the savings of the Postal Service IG looking at the pension system.

Mr. JORDAN. Okay. I have not looked at it that closely.

Mr. BLAIR. And correct me if I am wrong on this, but if you take that off the table, you look at the other instances of potential waste, fraud, and abuse, I think it is important to say that a lot of that is potential; and I think more work needs to be done in addressing and highlighting exactly what can be done, because I think that would give Congress a good blueprint from which to start.

I would also urge you, in addition to the IG report, to look at this upcoming GAO list of duplicative programs, because I think that that gives you the starting point from which to ask why are we continuing to do that.

Mr. JORDAN. Oh, we can do that anywhere. I just haven't done a little bit of work in the welfare reform area. We have, I think, 73 different means tested social welfare programs, job training, education, nutrition, health care, scattered all over the various agencies in government. We might help families a little better if we didn't have 73.

Mr. BLAIR. And you might get that money to the families who need it a little quicker.

Mr. JORDAN. Exactly. No, that is the whole point.

Mr. BLAIR. Rather than going through 73 different agencies.

Mr. JORDAN. Save money and help more people. Imagine that. Imagine that.

Mr. Schatz.

Mr. SCHATZ. Well, I think that is also an approach that should be taken in discussing what to do about duplication and waste, because whenever someone talks about it, and we have all seen this over the years, well, we are going to "eliminate, terminate," someone thinks they are not going to get something that they may or may not deserve, but certainly expect. But to show how more people will be helped through the consolidation of programs, through better management of programs, through more information about programs is something that needs to be better communicated, I think.

Mr. JORDAN. We are actually having a subcommittee hearing on that very subject next week.

Mr. SCHATZ. Right. Because it will enable Members of Congress to feel a little better about talking about how these things are going to work and how people will be helped.

Ms. ALEXANDER. I just think the one other thing I would say that I think this committee is in a position to do is factor in the duplication within the congressional process, because sometimes there is a lot of duplication in programs because there are multiple committees of jurisdiction; and this committee is in a unique position to do oversight over multiple programs that have jurisdiction of other committees.

Mr. JORDAN. That will win us a lot of friends with our colleagues.

Ms. ALEXANDER. Win friends and influence people, I know, but it is something that this committee can do.

Mr. JORDAN. I understand. No, good idea.

I had one other thing and it has escaped me. Oh, I am just curious. And I should know this, and our staff will work on finding this out. Is the scheduled sequester, the $85 billion in reductions and spending scheduled to happen in twenty-some days, would that be one of the largest cuts government has ever implemented since, I would assume, World War II, in the modern times? Do you know? Mr. Schatz said you have been here twenty-some years, since 1986. I am just curious.

Mr. SCHATZ. Well, again, remember, it is reduction of an increase, so it is not necessarily a cut. It may be a cut for some areas, but maybe under Gramm-Rudman. I don't recall what that number was.

Mr. KAMENSKY. That was in 1986.

Mr. SCHATZ. A hundred billion, maybe? I think. I am trying to remember.

Mr. KAMENSKY. But it didn't last.

Mr. SCHATZ. Right.

Mr. JORDAN. We know they don't. They never last.

Mr. SCHATZ. Right.

Mr. JORDAN. We are trying to make some of them last.

Mr. BLAIR. I think it was for a period of a few years.

Mr. SCHATZ. I think Gramm-Rudman might have been larger, but not by much.

Mr. JORDAN. Okay.

Mr. BLAIR. Gramm-Rudman was only for a few days, wasn't it? Didn't Congress act that sequester? I can't recall.

Mr. SCHATZ. We remember a lot more about how much they spend.

Mr. JORDAN. You are highlighting the problem. You are highlighting the problem.

I want to thank you all for being here. I know it has been a while and you had to break in the middle. We appreciate the good work you are doing and the work you have helped with the committee.

We are adjourned.

[Whereupon, at 3:38 p.m., the committee was adjourned.]

Cummings for record 2/5/13

The New York Times

January 15, 2013

# Record Taxpayer Cost Is Seen for Crop Insurance

By RON NIXON

WASHINGTON — The worst drought in 50 years could leave taxpayers with a record bill of nearly $16 billion in crop insurance costs because of poor yields.

The staggering cost of the program has drawn renewed attention, as the Obama administration and Congressional Republicans wrangle over ways to cut the deficit. Last month, Treasury Secretary Timothy F. Geithner said that reducing farm subsidies was one way that the administration could cut government spending. But Congress has resisted.

The Agriculture Department, which runs the program, said that the total losses from crops harvested last year would not be known for weeks, but that costs from the program were estimated to be $15.8 billion, up from $9.4 billion in 2011.

Separately, a record $11.4 billion in indemnities for crop losses has been paid out to farmers, and officials say that number could balloon to as much as $20 billion. In 2011, a then-record $10.8 billion was paid out in indemnities.

The crop insurance program has drawn criticism from a wide range of groups, including the Environmental Working Group and the conservative Heritage Foundation, two Washington research groups, which say that the costs need to be reduced and that the program mainly benefits insurance companies and large farmers. Farmers' net income for 2012 is expected to be $114 billion, down 3 percent from 2011 but still the second highest in 30 years.

Thomas P. Zacharias, the president of National Crop Insurance Services, an industry trade group, defended the program, saying that the record crop losses last year showed the need for insurance.

"This year, most farmers will be able to rebound from historic drought, thanks to crop insurance," Mr. Zacharias said.

The federal crop insurance program dates to the Dust Bowl era of the 1930s, when Congress created the taxpayer-subsidized insurance to protect farmers against crop losses. Today, the government pays about 62 percent of the insurance premiums. The policies are sold by 15 private insurance companies that receive about $1.3 billion annually from the government.

The government also backs the companies against losses.

Government documents show that taxpayers have paid nearly $7 billion so far to subsidize premiums for 2012. The documents also show that taxpayers could pay another $7 billion to underwrite losses by the insurance companies and other costs.

"Essentially, taxpayers are hit twice by the cost of the program," said Bruce A. Babcock, an agriculture economist at Iowa State University.

President Obama has proposed cutting crop insurance subsidies and reducing the amount paid to insurance companies, saving $4 billion over 10 years.

But Congress has balked at making such cuts, and has even proposed expanding the program. Last year, lawmakers on the House and Senate Agriculture Committees passed legislation that would eliminate $5 billion a year in direct payments to farmers and farmland owners who receive government checks regardless of whether they grow crops. But the legislation would use the savings to expand crop insurance.

Crop insurance subsidies are set to cost more than $94 billion over the next 10 years.

Steve Ellis, the vice president of Taxpayers for Common Sense, said farmers and insurance companies should assume more of the risks of farming.

"Given the trillions of dollars of debt, the government could scale back the scope of the premiums subsidy and other costs," he said. "We can have significant savings without changing the scope of the program."

ONE HUNDRED THIRTEENTH CONGRESS

# Congress of the United States

## House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

2157 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6143

MAJORITY (202) 225-5074
FACSIMILE (202) 225-3974
MINORITY (202) 225-5051

http://oversight.house.gov



**Opening Statement**
**Rep. Elijah E. Cummings, Ranking Member**

**Hearing on "Government Spending: How Can We Best Address the Billions of Dollars Wasted Every Year?"**

**February 5, 2013**

Thank you, Mr. Chairman, for holding this hearing. It is very encouraging that the first two Committee hearings this Congress have been bipartisan and focused on the core jurisdiction of this Committee. Your staff did an exemplary job leading up to this hearing in sharing information and making the planning of this hearing a bipartisan effort.

The title of this hearing gets right to the heart of the issues we are examining today. The title is "Government Spending: How Can We Best Address the Billions of Dollars Wasted Every Year?" We in Congress talk all the time about cutting waste and making the government more efficient. It's time to go from talking to acting. I am looking forward to hearing from the witnesses testifying today about concrete actions the Administration and Congress can take to save taxpayers money.

The Department of Defense is responsible for an appalling amount of wasteful spending each year through its contracts. DOD obligated $365 billion for contracts in Fiscal Year 2012, and the Department has had significant problems with contract management and oversight. The Congressional Research Service recently reported that DOD acquisition programs have experienced "poor performance against the backdrop of war in Afghanistan, spiraling contract costs, and decline in the size of the defense acquisition workforce."

In testimony before this Committee last month, a witness from the Government Accountability Office said that several DOD IT investments "experienced significant performance problems and were indeed high risk." One of the specific examples the Chairman and GAO pointed out in that hearing was a contract that the Air Force cancelled last December after having spent $1 billion. The Expeditionary Combat Support System was plagued by delays and cost overruns.

Representative Speier highlighted this issue in a letter to us in December, Mr. Chairman, and I agree that it makes sense for the Committee to adopt her proposal to investigate this contract further.

Another example is $750 million in overpayments by DOD to the contractor that provides food supplies to U.S. troops in Afghanistan. This is an issue that has been highlighted by the Ranking Member of the National Security Subcommittee, John Tierney, and the Subcommittee's Chairman, Mr. Chaffetz. Ranking Member Tierney has also been a leader in exposing problems with DOD's F-35 Joint Strike Fighter, the largest weapons procurement program in history, which has had substantial cost overruns and repeated scheduling delays. Full production of the Joint Strike Fighter program has been delayed by six years and the costs per unit have doubled.

Another area of significant federal spending is crop insurance. I ask unanimous consent to enter into the record a *New York Times* article from January 15, 2013, titled "Record Taxpayer Cost is Seen for Crop Insurance." According to this article, the government pays $1.3 billion each year to 15 private insurance companies. The article states:

> Government documents show that taxpayers have paid nearly $7 billion so far to subsidize premiums for 2012. The documents also show that taxpayers could pay another $7 billion to underwrite losses by the insurance companies and other costs.

These are just a few examples of government waste. There are many, many more. I hope the Committee will conduct vigorous oversight to expose these and other sources of wasteful spending and ensure that necessary actions are taken to address the root problems.

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Contact: Ashley Etienne, Communications Director, (202) 226-5181.

NATIONAL ACADEMY OF PUBLIC ADMINISTRATION
900 7th Street, N.W., Suite 600
Washington, DC 20001-3888
TEL (202) 347-3190 FAX (202) 393-0993
INTERNET: www.napawash.org

**Responses for the Record**
**Dan G. Blair**
**For Hearing entitled "Government Spending: How Can We Best Address the Billions of Dollars Wasted Every Year?"**
**February 5, 2013**

1. **Can you elaborate more on the pay for success model used in grants? How do you ensure that each party has skin in the game? Focusing especially on the government?**

   One example of the Pay for Success (PFS) concept being coordinated into the grant process is the Department of Labor's Workforce Innovation Grants. Grant recipients are expected to develop and expand strategies to help Americans return to work by delivering services more efficiently, facilitating cooperation across programs and funding streams, and focusing on partnerships with specific employers or industry sectors to develop programs that reflect current and future skill needs. In the second round of Workforce Innovation Funding, the Labor Department also is highlighting the availability of up to \$20 million—expected to be announced in spring 2013—to pilot the "Pay for Success" model. According to the Labor Department, this Pay for Success Model will "help governments target limited dollars to achieve a positive, measurable outcome" because it only compensates private investors if the desired results are achieved within a given financial outcome. This model shifts the burden of investment risk from the government to private investors, effectively creating a social investment market where the government only pays for results.

   The Pay for Success model is constructed to ensure that all parties have "skin in the game" with clear expectations about when government payments will be made:

   - There is a contractual arrangement (sometimes referred to as a Pay for Success agreement) between the state/local government, the intermediary, and private investors.
   - Agreements specify clear outcomes, metrics, possible payment amounts for different levels of results, and a methodology to determine results.
   - The government, the intermediary, and the investors have an interest in establishing an evaluation methodology that cannot be gamed.
   - An independent evaluator conducts the evaluation—using the methodology specified in the agreement—to determine whether (or to what extent) results were achieved and payments should be made.
   - Some agreements may identify intermediate results and associated payment points that can occur during the life of a Pay for Success project.

2. **How does shifting the risk to the third party payer reduce money wasted every year? How can you ensure that by giving up control you gain accountability?**

   Shifting the risk to a third party payer places the third party, rather than the government, at risk. The government only pays the third party if the agreed-upon outcome or result occurs. Taxpayers are protected if results do not occur; however, obtaining those results are part of a contractual agreement among the stakeholders, thereby ensuring accountability.

One example of this approach is through the utilization of Social Impact Bonds. Social Impact Bonds (SIBs) are not bonds in the conventional sense. While they operate over a fixed period of time, they do not offer a fixed rate of return. Repayment to investors is contingent upon specified outcomes being achieved. The concept behind SIBs is intended to address the dilemma that investing in prevention of social and health problems saves the public sector money, but that budget constrains make it difficult for governments to find the funds and incentives to do so.

The stakeholders in SIBs commit to funding activities and take on the associated risk with stringent levels of accountability for outcomes. The increased accountability and collective agreement on performance parameters allows all parties to assess risk appropriately and to make effective funding and programmatic decisions. Accountability is assured because:

- The intermediary, the service providers, and the investors have the strongest possible incentives—and enough flexibility—to deliver services effectively and efficiently to maximize their return on investment;
- A data and evaluation infrastructure must be built into the project design, which provides both government and the providers with real-time information about performance that can enable adjustments and continuous improvement;
- The government does not pay if outcome targets are not met.

For example, the Manpower Development Research Corporation receives payment from the City of New York if agreed-upon recidivism rates rate for the 16-18 year old population detained at New York City's Rikers Island are achieved, and financial returns are delivered to the private investors, who assume the risk. Focusing on personal responsibility education, training, and counseling, this SIB initiative allows experts to test innovative approaches and looks to Goldman Sachs to provide upfront financing and Bloomberg Philanthropies to provide grant support and guarantee for the effort.

This model represents a fundamental change from standard funding arrangements for social programs, in which agencies often commit to funding activities without a reliable level of accountability for outcomes.

# Sliding Past Sequestration

Two trillion in common sense cuts to avoid the fiscal cliff

## Sliding Past Sequestration

In the summer of 2011, Congress sent the President a bill that acknowledged failure. Instead of swallowing hard and coming up with trillions of dollars in deficit reductions, they punted the effort to a "Super Committee" of Republican and Democratic lawmakers from the House and Senate to figure it out. The specter of sequestration – across the board budget cuts hitting defense and non-defense equally – was supposed to be enough of a threat to force action.

It wasn't. The Super Committee flopped.

For seventeen years, Taxpayers for Common Sense (TCS) has mined the budget to highlight wasteful spending, exposing, naming, and killing earmarks like the "Bridge to Nowhere" as well as relentlessly going after wasteful spending in the tax code like the duplicative ethanol tax credit subsidy. Building on our earlier submissions to the Simpson-Bowles deficit commission, TCS offered $1.5 trillion worth of deficit reduction in our "Super Cuts for the Super Committee," $300 billion more than needed to avoid sequestration. But rather than making the hard choices, the Super Committee did nothing and failed to propose even a single dollar of deficit reduction.

With the January 2, 2013 start of sequestration looming, Taxpayers for Common Sense is back on the job. We believe the programs listed here – whether funded through appropriations or the tax code – can be safely eliminated from the budget because they are an inefficient, ineffective, or wasteful use of taxpayer dollars. We have gathered more than $2.0 trillion in deficit reduction that reflect the values of effectiveness and efficiency in managing taxpayer dollars. **By simply adopting these common sense recommendations, Washington will be $800 billion beyond its statutory requirement.**

**Instead of being fiscal cliff jumpers, Congress can dive into the hard work of cutting spending, finding revenue, and reforming entitlements to turn the country's fiscal situation around. All these common sense cuts are possible if Congress and the President choose to put the country ahead of partisanship or parochial pandering.**

**Sequestration is bad. It would cut the good along with the bad, the effective and the wasteful. It is irresponsible. But it is clear who is responsible for it – Congress and the President. Not one, not the other, but both. And that's who is going to have to be responsible for defusing the ticking budget time bomb that would cut $1.2 trillion indiscriminately.**

Under sequestration, $109.3 billion would be cut in the first year (2013), half from defense and nondefense each. In an effort to help forestall sequestration and give Congress the time to pursue a "grand bargain" of spending, entitlement, and tax reform, TCS has also calculated the one year savings associated with the cuts, in addition to the ten-year score normally used. Congress should take this time of great public interest and attention to not only put the budget on sounder fiscal footing going forward, but to also reform the tax code so that it is simpler, flatter, and fairer.

*Methodology*

In most cases the **calculations are based on savings over a ten-year window**. Based on knowledge and previous history, TCS determined the likelihood that a discretionary appropriation or expiring tax expenditure would continue through the ten-year period. Tax expenditures and programmatic spending estimates were taken from the Joint Committee on Taxation (JCT), Congressional Budget Office (CBO), or federal budget documents. In the Appendix, TCS lists references next to each recommended cut. If ten-year estimates were not available, TCS extrapolated the ten-year estimate from an average of available years. In the case of discrete project spending, TCS used the stated remaining construction costs to calculate savings. When estimating the 10-year cost of some tax credits or other supports that are tied to production levels, we multiplied U.S. Energy Information Administration (EIA) projections by the effective subsidy rate. For instance, the taxpayer cost of the cellulosic ethanol tax credit is based on future production levels, as estimated by EIA.

Using the same sources as the ten year numbers, TCS also estimated the first year deficit reduction from each of the cuts. In some cases the proposal would be phased in, or would only have an impact in the outlying years and no deficit reduction was calculated in the first year numbers. In others the impact was more immediate.

In all cases TCS erred on the conservative side and limited the value of deficit reduction measures.

*Baseline*: In order to calculate the deficit and deficit reduction, TCS considered what would be in the ten-year budget baseline, which is the predicted amount of spending and revenue for the next ten years and the resulting deficit. This assumes that what is current law will come to pass. Under current law, many tax cuts and programs are going to expire in the next ten years and others are subject to annual appropriations. Realistically, some of the spending will continue as certain programs are going to be funded each year, Medicare payment cuts to physicians aren't going to materialize, certain expiring tax cuts are going to be extended, and legislated savings from efficiency and targeting waste, fraud, and abuse are more vapor than substance. The CBO recognizes this and often comes up with alternative budget scenarios that take these various outcomes into effect. TCS measured the deficit reduction predictions against this likely baseline.

*Section I: Sliding Past Sequestration Savings* contains spending and tax expenditures that TCS believes would result in deficit reduction according to a likely CBO baseline.

*Section II: More Common Sense Cuts* contains cuts that may not be in the likely baseline budget, meaning CBO may not count them toward the deficit reduction target. For example, other items include liabilities for taxpayers that could add to the debt in catastrophic scenarios, projects authorized by Congress but that may or may not receive funding in the future, and other cuts whose costs against the baseline are uncertain. Despite that baseline consideration, we recommend that Congress protect the fiscal health of the nation by adopting these reforms as well.

In addition, some budget options will not produce scorable savings in the first year of implementation and so no figures are provided in those cases.

**The following report is not an exhaustive list of deficit reduction measures. Absence from this list does not imply TCS support of a particular policy or program.**

## Section I. Sliding Past Sequestration Savings

| | Cut: 10-Year \| In 2013 |
|---|---|
| Agriculture | **$ 126.6 billion** \| $11.8 billion |
| Energy | **$ 129.9 billion** \| $12.8 billion |
| General Government | **$ 0.6 billion** \| $0.06 billion |
| Infrastructure | **$ 5.3 billion** \| $ 0.5 billion |
| National Security | **$ 672.5 billion** \| $64.2 billion |
| Public Lands | **$ 18.3 billion** \| $ 1.7 billion |
| Tax Expenditures | **$ 946.0 billion** \| $60.2 billion |
| Transportation | **$ 187.5 billion** \| $11.4 billion |
| **Savings total** | **$ 2.09 trillion** \| $ 162 billion |

## Section II. More Common Sense Cuts

| | |
|---|---|
| Energy | **$ 4.1 billion** |
| Infrastructure | **$ 4.2 billion** |
| National Security | **$ 3.7 billion** |
| Public Lands | **$ 2.6 billion** |
| Transportation | **$ 13.2 billion** |
| **More cuts total** | **$ 27.8 billion** |

## SECTION I: SLIDING PAST SEQUESTRATION SAVINGS

### Agriculture

Ten-Year Cut: $126.6 billion
One-Year Cut: $ 11.8 billion

| | Cut: 10-Year \| In 2013 |
|---|---|
| **Commodity Crop Subsidies** | **Cut: $56.5 billion** \| $5.1 billion |

Rather than subsidizing growers of the bulk of foods commonly seen on grocery shelves, a majority of government agricultural subsidies are provided to a handful of commodity crops, and the majority of these subsidies flow to the largest farms. Corn, cotton, wheat, rice, and soybeans rack up 90 percent of the commodity crop subsidies, while fruit, vegetable, and nut producers are left picking the scraps. These subsidies often end up as windfall profits for the wealthiest and largest agro-corporations, crowd out funding for agriculture-related conservation programs, and do little for rural development or the struggling family farm. Because of high commodity prices the "counter-cyclical" payments – intended to support farmers when prices are low – are virtually non-existent. The vast majority of current subsidies are for so-called direct payments, where taxpayers cut checks to owners of farmland that historically grew a certain crop. These payments are made regardless of current crop prices, and there's not even a requirement that these crops actually be grown on the land receiving payments. Both the current Senate-passed and House Agriculture Committee-adopted farm bills bow to political reality and eliminate a number of outdated or unwise commodity subsidies, including direct payments. Unfortunately lawmakers propose to replace them with other market-distorting programs. Eliminating commodity crop subsidies and not replacing them with other costly entitlements could save taxpayers up to $56.5 billion over the next ten years.

| | |
|---|---|
| **Reform Federal Crop Insurance Program** | **Cut: $50.2 billion** \| $4.7 billion |

Taxpayer-subsidized crop insurance is now the largest federal support for agriculture, costing taxpayers more than $11 billion in 2011. Though called "insurance," it does not operate like any form of insurance most Americans purchase. Instead of insuring agricultural businesses against a potential loss of crops, nearly 80 percent of all insured acres are covered by revenue policies, that allow businesses to lock in an expected amount of revenue (crops X expected price). Thus even in a year with no crop losses, a business could receive an insurance payout if prices dip below expectations. In most places, federal taxpayers pay 100 percent of the premiums for the business's basic catastrophic coverage while providing subsidies for additional coverage resulting in an average of 60 percent of the premium cost for individual crop insurance policies being covered by taxpayers. So for every $1 of insurance premiums, farmers contribute 40 cents while taxpayers pay 60 cents. Since 1995, insurance payouts have exceeded farmer contributions by a ratio of nearly two to one, meaning farmers receive $2 in payments for every $1 they contribute toward their insurance premiums.

Unlike nearly all other federal agriculture programs, crop insurance covers marginal land—land that is highly erodible or subject to frequent flooding—without any conservation strings attached, so there is an incentive to plant where odds of success are slim, but the likelihood of environmental harm is great. And because 60 percent of the premium is covered by taxpayers, businesses often eschew less costly alternatives for managing their risk and buy more insurance than they would if using their own dollars.

In a time of record deficits and near record commodity prices, taxpayers can ill afford yet another program that privatizes profits while socializing risks. This recommendation would eliminate subsidies paid to crop insurance corporations to sell policies, require those companies to cover more of the risk of losses, and reduce premium subsidies in half, while retaining the program as an interim step to developing a rational farm safety net taxpayers can afford.

**Environmental Quality Incentives Program – CAFO** **Cut: $17.5 billion** | $1.75 billion

The Environmental Quality Incentives Program (EQIP) is a conservation program managed by the USDA's Natural Resources Conservation Service. The program provides technical assistance, cost-share payments, and incentive payments to assist crop and livestock producers with environmental and conservation improvements on land used for agricultural production. The 2008 Farm Bill, however, removed the limitation on the number of animals a producer could have and still qualify for EQIP, enabling many large-scale producers of Concentrated Animal Feeding Operations (CAFOs) to receive taxpayer subsidies for cleaning up the waste that inevitably collects because of their operations. Taxpayers should not be shoveling subsidies to large agribusinesses to help them comply with the inevitable costs of doing their business. EQIP should be eliminated and a program that better manages taxpayer dollars to meet its original conservation goals should take its place.

**Market Access Program** **Cut: $2 billion** | $200 million

The Market Access Program (MAP) should be cut entirely. Since its inception more than two decades ago, MAP has spent $3.4 billion of taxpayer money subsidizing ad campaigns for corporations like McDonalds, Nabisco, Fruit of the Loom, and Mars.

**Foreign Market Development Program** **Cut: $350 million** | $35 million

The Foreign Market Development Program, or "Cooperator Program," is a USDA Foreign Agriculture Service initiative that promotes export of agricultural products. The "cooperators" in this program include agricultural trade associations and commodity groups. The program should be eliminated because these organizations can and should fund their own foreign trade promotions.

**Energy** | **Ten-Year Cut: $129.9 billion**
**One-Year Cut: $ 12.8 billion**

### *Alternative Energy*

Oil produced from tar sands, electricity produced from solid waste, coal turned into liquid fuel, alternative vehicle fuels, and other alternative forms of energy all benefit from a web of tax subsidies, thanks to an army of lobbyists pushing Congress to support the "next big thing." But many of these technologies aren't market-ready, may not perform better than existing technologies, or simply act as a new way to funnel taxpayer money to old, established energy interests. This is especially true for subsidies that help fund new fossil technologies. These alternative energies should not be supported with taxpayer dollars, but rather by the companies that will benefit off of their success.

| | Cut: 10-Year \| In 2013 |
|---|---|
| **Election to expense 50 percent of qualified property used to refine liquid fuels (oil shale and tar sands refineries)** | Cut: **$6.0 billion** \| $600 million |
| **Tax Credit and Deduction for Clean-Fuel Burning Vehicles** | Cut: **$5.5 billion** \| $180 million |
| **Credit for Alternative Fuel Mixtures** | Cut: **$2.2 billion** \| $220 million |
| **Credit for Investment in Clean Coal Facilities** | Cut: **$2.0 billion** \| $200 million |
| **Excess of Percentage Over Cost Depletion, Other Fuels** | Cut: **$1.6 billion** \| $160 million |
| **FutureGen 2.0** | Cut: **$1.0 billion** \| $1.0 billion |
| **Industrial CO2 Capture and Sequestration Tax Credit** | Cut: **$1.0 billion** \| $234 million |
| **Expensing of Exploration and Development Costs, Other Fuels** | Cut: **$1.0 billion** \| $100 million |
| **Alternative Fuel Vehicle Refueling Property Credit** | Cut: **$220 million** \| $22 million |
| **DOE Fuel Technologies Program** | Cut: **$210 million** \| $18 million |
| **Municipal Solid Waste** | Cut: **$200 million** \| $20 million |

### *Biofuels and Biomass*

The biofuels industry has received government support for over thirty years. Corn ethanol has benefited from the trifecta of government support: tariffs to protect foreign competition, mandates to use ethanol, and subsidies to support its production. This mature industry is now producing tens of billions of gallons of ethanol every year so it's time for taxpayer support to stop. While the ethanol tariff and tax credit expired at the end of 2011, corn ethanol, other biofuels, and biomass used to produce electricity are still benefiting from other wasteful subsidies.

| | Cut: 10-Year \| In 2013 |
|---|---|
| **Volumetric Biodiesel Excise Tax Credit and Renewable Biodiesel Tax Credit** | **Cut: $16.2 billion** \| $1.1 billion |
| **Open Loop Biomass** | **Cut: $2.2 billion** \| $300 million |
| **Rural Energy for America Program** | **Cut: $590 million** \| $26 million |
| **Bioenergy Program for Advanced Biofuels** | **Cut: $502 million** \| $38 million |
| **Biomass Crop Assistance Program** | **Cut: $400 million** \| $25 million |
| **Biodiesel Fuel Education Program** | **Cut: $10 million** \| $1 million |

### *Coal*

Coal, the driver of the industrial revolution and the most mature energy source around, still gets special taxpayer-funded subsidies. Whether the government is subsidizing their domestic manufacturing activities or allowing coal companies to treat royalties as capital gains (meaning they benefit from paying a lower tax rate) this hugely profitable industry costs taxpayers billions. Congress should end tax subsidies now for an energy source that's had literally hundreds of years to develop.

| | Cut: 10-Year \| In 2013 |
|---|---|
| **Domestic Manufacturing Deduction for Hard Mineral Fossil Fuels** | **Cut: $2.5 billion** \| $189 million |
| **Expansion of Amortization for Certain Pollution Control Facilities** | **Cut: $1.5 billion** \| $187 million |
| **Percentage Depletion Allowance (Coal)** | **Cut: $1.3 billion** \| $74 million |
| **Capital Gains Treatment for Royalties on Coal** | **Cut: $610 million** \| $13 million |
| **Expensing of Exploration and Development Costs** | **Cut: $280 million** \| $86 million |

| | |
|---|---|
| **Certain Income and Gains Relating to Industrial Source Carbon Dioxide Treated as Qualifying Income for Publicly Traded Partnerships** | **Cut: $92 million** \| $2 million |

### *Nuclear Energy*

The government provides cradle-to-grave support to the nuclear industry, an extremely mature and well understood technology that deserves to stand on its own two feet. Taxpayers help pay for basic nuclear energy research, new plant financing, production incentives, and nuclear waste management. And, thanks to the Price-Anderson Act, taxpayers are the ones to foot what could be untold billions in the case of a catastrophic nuclear reactor event. It's time for nuclear power to pay for the cost of doing business and stop spending billions of taxpayer dollars.

| | **Cut: 10-Year \| In 2013** |
|---|---|
| **Mixed Oxide - Fissile Materials Disposition Construction** | **Cut: $5.1 billion** \| $453 million |
| **Fusion Energy** | **Cut: $4.6 billion** \| $475 million |
| **Non-Defense Environmental Cleanup** | **Cut: $2.4 billion** \| $235 million |
| **Modification to Special Rules for Nuclear Decommissioning Costs** | **Cut: $851 million** \| $97 million |
| **Nuclear Energy Enabling Technologies** | **Cut: $660 million** \| $75 million |
| **Treatment of Certain Income of Electric Cooperatives** | **Cut: $412 million** \| $37 million |

### *Oil and Natural Gas*

There are a couple of basic truths about oil and gas companies today: they are highly profitable, heavily subsidized, and well-connected in Washington. While this scenario makes for a very lucrative business model, it continues to needlessly cost taxpayers billions. Subsidies for the oil and gas industry are outdated. Whether it's the oil industry benefiting from billions in mismanaged, royalty-free leases in the late 90s, special tax subsidies for "tertiary injectants" to get the most viscous oil out of a reservoir, or the "intangible drilling costs" provision which effectively allows oil companies to deduct the cost of doing business, these subsidies must end.

| | **Cut: 10-Year \| In 2013** |
|---|---|
| **Manufacturing Tax Deduction for Oil and Gas Companies (IRC Sec 199)** | **Cut: $17.2 billion** \| $1.37 billion |

*Note: This represents only the oil and gas portion of the Section 199 Manufacturing Tax Deduction. TCS opposes the entire deduction.*

| | |
|---|---|
| **Percentage Depletion Allowance (Gas & Oil) (Excess of percentage of cost depletion)** | **Cut: $12.1 billion** \| $727 million |

| | |
|---|---|
| **Ending Royalty Relief (Oil)** | **Cut: $11.4 billion** \| $1.35 billion |
| **Intangible Drilling Costs (Expensing of exploration and development costs)** | **Cut: $9.5 billion** \| $1.3 billion |
| **Ending Royalty Relief (Natural Gas)** | **Cut: $2 billion** \| $203 Million |
| **Natural Gas Distribution Lines** | **Cut: $1.2 billion** \| $120 million |
| **Geological and Geophysical Amortization** | **Cut: $957 million** \| $44 million |
| **Ultra-deepwater and Unconventional Natural Gas and Other Petroleum Resources Research and Development** | **Cut: $200 million** \| $50 million |
| **Liberalize the Definition of Independent Producer** | **Cut: $177 million** \| $16 million |
| **Exemption from Bond Arbitrage Rules for Natural Gas** | **Cut: $97 million** \| $8 million |
| **Passive Loss Exemption** | **Cut: $86 million** \| $4 million |
| **Expensing for Tertiary Injectants** | **Cut: $55 million** \| $8 million |
| **Natural Gas Gathering Lines** | **Cut: $10 million** \| $1 million |

### *Research and Development*

The government spends billions every year doing research that should be done by private industry. Oil and gas companies have every financial incentive to explore new drilling techniques. Nuclear companies are well established and can fund their own research. Biofuels companies have benefited from thirty years of government support and can fund their own research into the next phase of biofuels. Taxpayers should and do pay for basic research into the most nascent and least understood energy technologies, but these mature industries should pay for the research from which they will ultimately benefit.

| | **Cut: 10-Year \| In 2013** |
|---|---|
| **Department of Energy Fossil Energy Research and Development** | **Cut: $6 billion** \| $534 million |
| **Biological and Environmental Research- Biological Systems Science** | **Cut: $3.1 billion** \| $311 million |
| **Department of Energy Biomass and Biorefinery R&D** | **Cut: $2.1 billion** \| $199 million |

**Fuel Cycle Research and Development** — **Cut: $1.6 billion** | $186 million

**Reactor Concepts Research and Development** — **Cut: $678 million** | $115 million

**Department of Agriculture**
**Biomass Research and Development** — **Cut: $346 million** | $40 million

## General Government

Ten-Year Cut: $580 million
One-Year Cut: $ 55 million

**Overseas Private Investment Corporation** — **Cut: $580 million | $55 million**

The Overseas Private Investment Corporation (OPIC) is a government-supported agency that subsidizes U.S. companies to invest in risky foreign markets by providing them direct and low-cost financing and insurance. While purported to help American small businesses compete in the global marketplace, OPIC actually provides subsidies to some of the largest multinational corporations in the world, including McDonald's, DuPont, Citicorp, and Coca-Cola, all of which are very capable of obtaining loans and risk insurance in the private sector. Under current OPIC practices, Fortune 500 corporations gain healthy profits from their foreign investments while U.S. taxpayers are held financially responsible for any potential losses.

## Infrastructure

Ten-Year Cut: $5.3 billion
One-Year Cut: $530 million

**50 percent Users Cost-Share for Operations and Maintenance on Inland Waterways** — **Cut: $3 billion** | $300 million

Taxpayers cover a majority of the costs for building and maintaining the nation's inland waterways. This includes 100 percent of annual operations and maintenance expenses for such things as navigation dams and locks, which costs taxpayers nearly $600 million per year.

Inland waterways users must begin shouldering more of the costs for constructing and operating the system that makes their business possible. This can be done by requiring users to cover 50 percent of the annual operations and maintenance costs. Because not all rivers require the same amount of maintenance or receive the same amount of traffic, a sliding scale that modifies cost sharing requirements based on the national interest the specific waterway serves could be enacted. A net 50 percent cost share of operations and maintenance expenses will save taxpayers nearly $3 billion over the next ten years.

**Army Corps of Engineers Environmental Infrastructure Program** — **Cut: $1.3 billion** | $130 million

The Army Corps of Engineers' Environmental Infrastructure program duplicates and undermines other more cost-effective and accountable governmental programs. Under this program, Congress designates a state, city, or county for environmental infrastructure funding, which includes municipal water supply, drinking water treatment, and wastewater treatment projects. Congress then earmarks grants for 65-75 percent of the costs for unspecified water projects in these areas with no strings attached. The necessity, value, and effectiveness of these projects is difficult to determine because the program is fully earmarked and the projects are not subject to standard economic analyses. The water projects funded under this program are not the legislated primary mission areas for the Corps (navigation, flood and storm damage reduction, and environmental restoration), but instead directly compete with those missions for limited funding. This program has never been included in any president's budget and it should not be included in any Congressional budget either.

**Army Corps of Engineers Beach Replenishment** — **Cut: $1 billion** | $92 million

Beach replenishment projects are one of the most egregious examples of public dollars subsidizing private benefits. Beach nourishment is intended to address the problem of beach erosion. Many experts concede, however, that this process does not actually prevent erosion, but only provides a temporary solution to maintaining the width of a beach. Taxpayers thus pay millions every year to pump sand onto beaches, sand that inevitably and almost immediately washes back out to sea. The Army Corps of Engineers needs to stop providing this local benefit and its budget should be cut a corresponding amount.

**Inland Waterways Users Board** — **Cut: $8.6 million** | $860,000

The Inland Waterways Users Board is a fully taxpayer-funded advisory board that works against the interests of taxpayers. The Board is charged with making recommendations on the priorities for federal spending on Inland Waterways. Consisting solely of representatives of barge industry companies and Corps of Engineers personnel, however, the Board fails to take into account the interests of any other non-barge industry users of the nation's waterways or general taxpayers. Recently the Board endorsed a proposal to spend more than $200 million a year bailing out commercial barge operators from paying most of their share for constructing the locks and dams that make navigation possible on much of the nation's waterways. The Board is an anachronistic entity that is no longer needed. Eliminating the Board will save more than $8.6 million in administrative costs over the next 10 years. Taxpayers will also avoid untold billions in future costs from not having a taxpayer-funded advocate for industry-wide bailouts and many wasteful, overly complicated, and unnecessary projects.

## National Security — Ten-Year Cut: $672.5 billion | One-Year Cut: $ 64.2 billion

### DoD Service Contractors — Cut: $372 billion | $37 billion

Reducing reliance on service contractors in the Department of Defense (DoD) was a priority championed by former Secretary of Defense Robert Gates. The annual cost of DoD service contracts has nearly tripled since 2000, and there is evidence that many service contractors are performing inherently governmental functions. In its latest budget, the DoD Comptroller's office claims a number of savings related to service contracts. Specifically, they claim that strategic sourcing, better buying practices, and streamlining installation support will result in a total savings of $12.8 billion in FY 2013. But this is tiny compared to what DoD spends yearly: According to the Comptroller, DoD spent $248 billion on service contracts in FY 2010—more than it spent on all uniformed and civilian military personnel combined. The 2011 defense budget temporarily froze Pentagon spending on contract services for FY 2012 and FY 2013, and was a step in the right direction—but more needs to be done. Reducing DoD spending on service contracts by 15 percent over the next ten years would still leave contract spending at approximately the level it was in 2007, when the U.S. was fighting in Iraq and Afghanistan. Even with this reduction, service contract spending would still be roughly on par with what DoD spends on all uniformed and civilian personnel combined. This 15 percent cut over the next ten years would save, at a minimum, $37.2 billion per year and result in a total savings of approximately $372 billion.

### TRICARE — Cut: $76.5 billion | $15 billion

The cost of TRICARE, DoD's health care system, has more than doubled in the last decade to nearly $50 billion. Many military retirees who are fully employed and have health insurance available still opt for TRICARE, which amounts to a government subsidy for employers. Congress has prevented attempts to halt this spending trajectory in the past, but last year lawmakers voted to allow TRICARE fees to rise for the first time since the system's creation nearly 20 years ago.

### B and C Models of the F-35 — Cut: $61.7 billion | $4 billion

The B and C models of the F-35—the military's newest fighter plane—are the most expensive variants of the most expensive DoD procurement ever. Both of these variants have been plagued by cost overruns and schedule delays, and are now estimated to cost just under $200 million each.

The F/A-18E/F Super Hornet has many capabilities that rival the F-35 and costs far less, with a price of around $65 million each. Additionally, each of the B and C models of the F-35 costs more than $11 million (in 2012 dollars) per year to fly, while each Super Hornet costs $5.7 million (in 2012 dollars) per year to fly. From FY 2013 to FY 2022, a total of 328 B and C models are scheduled to be procured. Replacing these with F/A-18E/F's would save $54 billion in procurement costs, and the lower flight-hour costs of the F/A-18E/F would save another $7.7 billion.

## Non-DoD Federal Service Contractors — **Cut: $33 billion** | $3.3 billion

In FY 2011, non-DoD national security federal service contracts cost taxpayers more than $22 billion. Last year, the White House proposed a government-wide 15 percent reduction in management service contracts. We agreed with that proposal because POGO's Bad Business report found that the average annual contractor billable rate was nearly twice as much as the average annual full compensation for federal employees performing comparable services. Additionally, egregious waste, fraud, and abuse has been found in State Department and Homeland Security service contracts. Mandating a 15 percent reduction in non-DoD national security agency spending on all service contracts would help ensure these agencies take steps toward eliminating waste and finding more effective fiscal efficiencies. This reduction would still leave service contract spending at these agencies at a higher level than it was in 2007. This 15 percent reduction would save taxpayers $33 billion over the next ten years.

## U.S. Troops in Europe — **Cut: $32 billion** | $ N/A

Capping routine U.S. military presence in Europe at 40,000 troops and reducing force structure accordingly can save money through reduced personnel and operations & maintenance (O&M) costs such as military housing and transport. The U.S. has built a unique capacity to deploy rapidly from offshore bases as needed, an approach which has both financial and strategic advantages. And in light of the low risk of conflict in Western Europe, taxpayer enthusiasm for subsidizing European countries' defense is eroding. Our estimate is based on CBO estimates of savings resulting from rolling back the "Grow the Force" initiative. This estimate is very conservative since DoD tends to underestimate outyear O&M costs.

## Downblend More Highly Enriched Uranium and Sell as Low Enriched Uranium — **Cut: $23 billion** | $2.3 billion

The U.S. has an estimated 400 metric tons of excess highly enriched uranium (HEU). In 2010, the Project on Government Oversight (POGO) issued a report indicating that up to 300 metric tons of HEU was in excess of any possible security needs and could be downblended into low enriched uranium (LEU) and then sold to power nuclear facilities. This HEU is surplus material, not needed to maintain our weapons capability. The U.S. currently downblends only 2-3 metric tons per year. While there is a cost associated with increased downblending, it is a small investment compared to the amount we spend keeping this excess material secure. Both the jobs created by ramping up LEU production and the security risks associated with HEU are ample reason for downblending. With just a shoebox full of HEU, a terrorist could create an improvised nuclear device as powerful as the bomb dropped on Hiroshima. The POGO report estimates that if the U.S. downblended the 300 metric tons of HEU and sold the resultant LEU, it could make $23 billion in revenue.

## V-22 Osprey — **Cut: $17.1 billion** | $ N/A

The V-22 Osprey is a tilt-rotor aircraft that can take off and land like a helicopter, but can fly like a plane. Unfortunately, its cost has more than doubled since initial estimates and, according to the GAO, it had a full mission capability (FMC) rate of just 6 percent while operating in Iraq between October 2007 and June 2008. The V-22 is simply neither cost- nor operationally effective. The Sustainable Defense Task Force (SDTF) has noted that the overpriced, underperforming V-22

Osprey can be replaced by helicopters. Specifically, the SDTF recommends a high/low lift combination of MH-60 and CH-53 helicopters. Based on the latest DoD figures for the procurement and operating costs of these aircraft, replacing the Ospreys scheduled to be built between FY 2013 and FY 2019 with MH-60 and CH-53 helicopters would save more than $17.1 billion from FY 2013 to FY 2022.

**Uranium Processing Facility** — **Cut: $6.5 billion** | $160 million

DOE is also looking to build the Uranium Processing Facility (UPF) at the DOE's Y-12 National Security Complex in Oak Ridge, Tennessee. The arguments to build the facility have been dwindling, while the cost has been climbing. For example, one of the proposed missions for the facility are LEPs for various warheads, yet most if not all of the scheduled LEPs are expected to be completed before the UPF is even built. A recent Army Corps of Engineers' assessment indicates that the project will cost $6.5-$7.5 billion. Several outside groups have questioned the need for the UPF, and suggested an investment in modernizing existing facilities to meet modern safety and mission requirements. While the facility was initially touted as a major advancement in technological readiness levels (TRL), a majority of these technological advances won't be attained by the time construction begins, according to the GAO. Thus, "NNSA may need to revert to existing or alternate technologies, possibly resulting in changes to design plans and space requirements that could delay the project and increase costs." Several hundred million dollars have already been appropriated for the facility, but at least $6 billion in project costs can still be saved by cancelling the construction of this unnecessary facility. According to the Y-12 Ten Year Site Plan published in March 2009, a currently existing building, Building 9212, can safely accomplish the production mission intended for UPF for $100 million in upgrades.

**Next-Generation Bomber** — **Cut: $6.3 billion** | $300 million

The DoD plans to build between 80 and 100 "next-generation" Long-Range Strike Bombers to augment the Air Force's fleet of B-52, B-1B, and B-2 planes, which drop both nuclear and conventional bombs. The program is projected to cost $6.3 billion between FY 2013 and FY 2017 alone, and will likely cost billions more over the life of the program. The Administration initially cancelled the program in FY2010 as there was "no urgent need" for a new bomber because "current aircraft will be able to meet the threats expected in the foreseeable future." The B-1B and B-2 are undergoing upgrades, and the Air Force expects the B-52 will be operational until at least 2045. Deferring development of costly and unnecessary next generation systems saves money and is low-risk because of robust U.S. nuclear- and conventional-bomb delivery capabilities that will be available for decades.

**Cancel future satellites of the Space-Based Infrared System** — **Cut: $6 billion** | $950 million

Military space programs have a record of cost and schedule overruns. The $18 billion Space-Based Infrared System (SBIRS), intended to provide initial warning of a ballistic missile attack, is a classic example, according to a 2012 GAO report that called it "one of the most troubled" military space programs. The system finally launched the first of six planned satellites in 2011, after nearly a decade of delays and a cost increase of 231 percent. The DoD is locked into procuring four of these satellites, and the two remaining satellites are estimated to cost $3 billion each. There is little justification for procuring two more mega satellites when the DoD has alternatives to explore.

## Aircraft Carriers and Navy Wings — **Cut: $7 billion** | $ N/A

The CBO estimates that from FY 2012 to FY 2021, about $7 billion can be saved by retiring the USS George Washington in 2016 and accordingly reducing Navy force size by 5,600 sailors. This option also eliminates the administrative structure of the air wing associated with the carrier, but keeps the planes and redeploys the other ships in the carrier strike group to support other missions. For even further savings beyond the $7 billion, these ships and planes could be retired out of service. The rationale for utilizing 10 aircraft carriers rather than 11 is within an acceptable margin of risk, according to the CBO: "Recent experience suggests that the Navy mobilizes 5 to 7 carriers to fight a major war, and the 10 carriers remaining in the fleet under this option would still provide a force of at least 5 or 6 carriers within 90 days to fight such a war." The CBO indicates that with 10 carriers, it is still possible for a seventh carrier to be deployed to an area of operations within 90 days and certainly within more than 90 days.

## Ground-Based Missile Defense (GMD) — **Cut: $6 billion**| $600 million

The Ground-based Midcourse Defense (GMD) system consists of 30 interceptors designed to destroy ballistic missiles in midflight. This Missile Defense Agency program has been plagued by cost increases, test failures, and delays, according to a recent Government Accountability Office (GAO) report. And, as the Congressional Budget Office (CBO) noted, critics argue that "testing of the system to date has been insufficient to verify that it will function as intended." CBO suggested eliminating phases of the GMD program that would expand missile interceptors in Alaska and establish new ones in Europe until current systems are proven. This would still permit development of interceptors to provide defense for the U.S. against missiles from such countries as Iran and North Korea, the current concern of the GMD program. Freezing funding would save more than $4.5 billion that the Missile Defense Agency estimates will be spent on GMD from FY 2013 to FY 2017. The Precision Tracking Space System (PTSS) is a related missile defense project that has drawn scrutiny from Congress because of its possible similarity to other, less expensive missile defense systems. The DoD should freeze the $1.5 billion it plans to spend on PTSS from FY 2013 to FY 2017 while analysis of alternative programs is conducted.

## MOX Facility — **Cut: $4.9 billion** | $134 million

Another wasteful DOE project, the mixed oxide fuel (MOX) facility at the Savannah River Site, has gradually grown more expensive and less justifiable since its inception. The cost is now estimated to be $4.9 billion for the main and feedstock facilities, but is on the rise because of the high turnover of personnel. The facility is designed to recycle excess plutonium from dismantled weapons and turn it into MOX, which can be sold to fuel nuclear power plants. Unfortunately, the materials required to create MOX (disassembled plutonium pits) aren't readily available and the only current buyer for MOX dropped the contract. The crisis at the Fukushima Dai-ichi power plant (which used MOX in one of its reactors) looks to be scaring potential buyers, possibly making the half-built Savannah River facility the manufacturer of a useless product. There's also a possible proliferation hazard, because recycling the plutonium could indicate to other nations that the U.S. approves of separated plutonium fuel programs, or could even lead to a reversal of the MOX process, allowing MOX fuel to be turned into weapons-grade material. As of January, nearly $650 million had been spent on the facility. Eliminating further funding for this facility—which cannot make a product anyone will buy—could save taxpayers approximately $4 billion.

## B61 nuclear bombs in Europe — **Cut: $2.1 billion** | $223 million

The U.S. bases 200 B61 nuclear gravity bombs in 5 European NATO countries— Belgium, Germany, Italy, Turkey, and the Netherlands. All of the U.S.'s B61 bombs are scheduled to be put through the Life Extension Program (LEP), including the 200 in Europe, and the overall cost of the B61 LEP is estimated to be about $4.9 billion, according to the *Fiscal Year 2011 Stockpile Stewardship and Management Plan.* But, the U.S. is now in talks with NATO to remove all U.S. tactical nuclear weapons from Europe. Proceeding with removal of these bombs or having European NATO members fund the LEP program would save U.S. taxpayers approximately $2 billion. Should NATO decide that the B61 bombs need to stay in Europe, it would be reasonable to ask that other NATO members pony up the money for putting the European bombs through the LEP process, as the bombs do little to improve American security. Secretary of Defense Robert Gates, before leaving office, called upon other NATO members to shoulder more of the cost burden for their own security, criticizing "those who enjoy the benefits of NATO membership—be they security guarantees or headquarters billets—but don't want to share the risks and the costs."

## M1 tank — **Cut: $230 million** | $181 million

In 2011, in an effort to keep the Abrams M1A2 SEP (System Enhancement Package) tank line "hot," the House appropriated $272 million beyond the DoD's request for these new tanks. Now, for the FY 2013 budget, Congress is yet again forcing the Army to procure more tanks than the Army says it needs. The tanks, 33 in total, will cost taxpayers approximately $230 million. The Army already has more than 500 of the tanks and has not indicated a need for increased production. This pork should be cut from the budget.

## Littoral Combat Ship — **Cut: $187.2 million** | $11.7 million

The Navy has been pursuing two different designs for the Littoral Combat Ship. By simply purchasing only the cheaper design (at $345.8 million, saving $11.7 million per ship) of the two taxpayers would save $187.2 million over the period. This does not even include the savings by having only one design to manage, train, and outfit. As the Armed Forces Journal noted, "With dozens of different systems on each design, sailors qualified to serve on one LCS or the other are no more qualified to serve on the other LCS class than an amphibious sailor." Having one design will ultimately increase personnel costs and decrease military readiness.

## Cut Four Submarines from Next-Generation Fleet — **Cut: $18 billion** | $ N/A

The Navy plans to replace its fleet of 14 Ohio-class nuclear-powered ballistic missile submarines (SSBNs) with 12 new submarines, called the SSBN(X) fleet. The SSBN(X) program is estimated to cost a staggering $347 billion over the life of the submarines. The CBO estimates that the first SSBN(X) sub will cost about $13.3 billion, and that each subsequent sub will cost $7.2 billion. The SSBN(X) fleet can be reduced to eight while still maintaining a robust deterrent. Under the New START agreement, the U.S. can deploy a little over 1,000 warheads on submarines, and each of the eight SSBN(X) subs would carry 16 missiles for a total of 1,024 warheads. Eliminating four submarines from the fleet would save at least $18 billion in operations, maintenance, research, and procurement costs over ten years, and up to $122 billion over the 50-year lifecycle of the ballistic missile submarine program.

| Public Lands | Ten-Year Cut: $18.3 billion<br>One-Year Cut: $ 1.7 billion |
|---|---|

## Forests and Rangelands

| | |
|---|---|
| **Special Tax Treatment for Timber Gain** | **Cut: $4.9 billion** \| $400 million |
| **Forest Products (Within Integrated Resource Restoration)** | **Cut: $3.4 billion** \| $336 million |
| **Expensing of Timber Growing Costs** | **Cut: $2.4 billion** \| $240 million |
| **Amortization and Expensing of Reforestation Expenditures** | **Cut: $2.2 billion** \| $220 million |
| **Money Losing Timber Sales** | **Cut: $570 million** \| $56 million |
| **Special Rules for Mining Reclamation Reserves** | **Cut: $400 million** \| $40 million |
| **Forest Service Timber Salvage Fund** | **Cut: $260 million** \| $20 million |
| **Use State Formulas to Set Grazing Fees** | **Cut: $190 million** \| $5 million |
| **BLM Public Domain Forestry** | **Cut: $100 million** \| $10 million |
| **Wildlife Services (formerly the Livestock Protection Program)** | **Cut: $940 million** \| $91 million |
| **Timber Purchaser Election Road Construction** | **Cut: $30 million** \| $4 million |

## Mining

Under the nearly 140-year old Mining Law of 1872, valuable taxpayer lands are virtually given away to international mining conglomerates that then amass enormous profits from mining, or simply turn around and sell the once taxpayer-owned land to the highest bidder. Also, unlike mining on private lands, mining companies pay no royalties for any minerals – gold, copper, uranium, etc. – removed from federal lands.

To add further insult to injury, these same mine companies often abandon their mines once they are no longer profitable, or declare bankruptcy, sticking taxpayers with the costly tab for mine cleanup. Taxpayer assets should be managed to the benefit of all taxpayers and extractive industries should be required to pay a royalty on extracted minerals and cover their costs of doing business on public lands.

| 1872 Mining Law Reform (royalty payment 12 percent) | **Cut: $1.5 billion** \| $155 million |
|---|---|

| Percentage Depletion Nonfuel Minerals | **Cut: $800 million** \| $80 million |
|---|---|

| Expensing of Exploration and Development Costs, Nonfuel Minerals | **Cut: $600 million** \| $60 million |
|---|---|

## Tax Expenditures

**Ten-Year Cut: $946.0 billion**
**One-Year Cut: $ 60.2 billion**

| Mortgage Interest Deduction (Modification) | **Cut: $645 billion** \| $39.4 billion |
|---|---|

The mortgage interest deduction enables homeowners to effectively deduct interest from up to $1.1 million in debt used to buy, build, or improve their primary or second home. The purported goal of this policy is to make home ownership more affordable. Yet, because it is available for million-dollar mortgages and second-homes, the deduction has done more to promote over investment in housing as opposed to other sectors of the economy and to inflate the purchase price of homes, including vacation homes. At an estimated cost of $93 billion in 2012, it is one of the largest tax expenditures. Congress should modify the mortgage interest deduction to save taxpayers billions, while better helping achieve Congress' stated goal of making homeownership more affordable. The Congressional Budget Office has detailed a number of options including converting the deduction to a tax credit and applying it only to interest on mortgages below a more reasonable limit (for example $500,000). Congress should enact these common sense reforms with a goal of reducing the annual cost of the mortgage interest deduction by at least one-third.

| Foreign Tax Credit (FTC) | **Cut: $116.9 billion** \| $5.22 billion |
|---|---|

The Foreign Tax Credit was established to prevent U.S. businesses—and U.S. citizens living abroad—from being double-taxed on income earned in foreign countries. The FTC allows U.S. companies and individuals to count foreign income taxes as a credit on taxes owed in the U.S. Unfortunately, the FTC contains a loophole that allows companies to shift income abroad to maximize the break. Companies have also obtained credits on "income taxes" that appear to be de facto royalty payments to foreign governments which would not be eligible for dollar-for-dollar credit against U.S. tax payments. Requiring companies to pool and report on all of their foreign income would provide more transparency for what is being counted as income tax that is eligible for a tax credit. Reform would reclaim an estimated $59.8 billion in lost tax revenue from 2013-2022. Also, ending the practice of splitting foreign income and foreign taxes for accounting clarity would lead to $57.1 billion in taxpayer savings over the same period.

| Credit for Increasing Research Activities | **Cut: $87.6 billion** \| $8.76 billion |
|---|---|

Companies doing research and experimentation in the United States receive a lucrative tax credit from this provision in the tax code. Companies that have benefited from this provision include Microsoft Corp., Boeing Co., United Technologies Corp., Electronic Data Systems Corp., and Harley-Davidson Motor Co. Taxpayers should not be responsible for covering ordinary business costs.

**Last In First Out Accounting (LIFO)** — **Cut: $66.9 billion** | $4 billion

Last-in, first-out (LIFO) accounting enables companies to move the most expensive inventory off of their balance sheets, thereby reducing their taxable income, even though the actual movement of inventory occurs on a first-in, first-out (FIFO) basis in many industries. LIFO is already prohibited by International Financial Reporting Standards. The repeal of LIFO if applied to all industries would save $66.9 billion from FY2014-22, as estimated by the Joint Committee on Taxation's analysis of the President's FY2013 Budget. If implemented sooner, taxpayers could save billions more in FY2013. Oil and gas companies account for roughly half of the cost of LIFO.

**Deduction of State and Local General Sales Taxes** — **Cut: $23.38 billion** | $2.34 billion

This provision was eliminated from the tax code in the 1986 reforms, but was brought back to life in recent years. It enables taxpayers the option of deducting itemized state and local sales taxes from federal income tax, but only if they do not deduct state income tax. Therefore, the major beneficiaries are the residents of states that don't have state income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.

**Special Expensing Rules for U.S. Film and Television Productions** — **Cut: $2.25 billion** | $225 million

In an effort to keep film and television production in the United States, filmmakers have the option of immediately deducting significant costs for most film or television productions. Under this provision producers can elect to expense in the current year the first $15 million of production costs incurred in the U.S. ($20 million if the costs are incurred in economically depressed areas in the U.S.). This can be used if at least 75 percent of the costs are for services performed in the U.S., and is available for both blockbusters and those that go "directly to video cassette or any other format."

**Tax Credits for New Plug-in Electric Drive Motor Vehicles** — **Cut: $1.86 billion** | $39 million

The federal government provides several incentives to buyers and producers of electrical vehicles (EV) to encourage their production and purchase. One such incentive is an up to $7,500 income tax credit for the purchase of a new EV, depending on the capacity of the vehicle's internal battery. This tax credit was created in the American Recovery and Reinvestment Act of 2009 (stimulus). The Joint Committee on Taxation estimates the cost of this tax expenditure to be $1.86 billion between 2013 and 2019.

**Enhanced Charitable Deduction for Contributions of Food Inventory** — **Cut: $1.82 billion** | $182 million

Congress has routinely extended an enhanced deduction for the charitable contribution of food inventory. Under this provision, the food must be "apparently wholesome food." However, "wholesome" food isn't necessarily healthful or even edible and is defined as "food intended for human consumption that meets all quality and labeling standards imposed by Federal, State, and local laws and regulations even though the food may not be readily marketable due to appearance, age, freshness, grade, size, surplus, or other conditions."

**Seven Year Straight Line Cost Recovery Period for Motorsports Entertainment Complexes** — **Cut: $310 million** | $31 million

Undercutting IRS rulings to the contrary, owners of motorsports entertainment complexes (aka NASCAR tracks) are able to write off the cost of their facilities on their taxes over seven years—instead of the standard 39 years for nonresidential property and 15 years for "improvements" (such as fences and roads)—as long as the venue hosts an event within three years of its completion. Such an accelerated depreciation schedule increases the value of the yearly deduction for owners. Track owners have also gotten plenty of other tax breaks over the years from states and localities eager to get speedways. The provision encompasses all facilities including grandstands, parking lots, and concession stands.

## Transportation
Ten-Year Cut: $187.5 billion
One-Year Cut: $ 11.4 billion

**General Revenue Transfers to Highway Trust Fund** — **Cut: $109.6 billion** | N/A

In recent years, Highway Trust Fund (HTF) balances are increasingly unstable due to reduced growth in vehicle miles travelled and increased fuel economy of the nation's cars and trucks. In a series of short-term fixes since 2008, Congress made three transfers totaling $34.5 billion from the nation's general revenues to keep the HTF in the black, and the most recent reauthorization (MAP-21) relies on another almost $20 billion Treasury bailout. Even with these transfers, the Congressional Budget Office estimates that current spending levels will exceed gas tax revenues by $110 billion between 2014 (when MAP-21 expires) and 2022. This difference would have to be made up by additional transfers from the General Fund because federal law prohibits the HTF from incurring negative balances. Use of general revenues adds to the nation's trillion-dollar deficits, undermines the "user-fee" basis of the trust fund, and provides no incentive for the efficient building or maintaining of the transportation network. Congress should either locate new revenue sources to shore up the HTF or downsize the federal highway program so that spending matches revenues.

**General Revenue Transfers to Airport and Airway Trust Fund** — **Cut: $50.0 billion** | $5 billion

According to the Government Accountability Office, Airport and Airway Trust Fund revenues have fallen short of Federal Aviation Administration estimates in nine of the last 11 years. To make up the difference, Congress annually transfers approximately $5 billion each year to cover the shortfall instead of cutting spending or improving how revenue estimates are done. As a result, collections will fall short of spending by $50 billion over the next decade.

**Airport Improvement Program Grants to General Aviation-Dominated Airports** — **Cut: $22.0 billion** | $2.2 billion

The Federal Aviation Administration's (FAA) Airport Improvement Program (AIP) — supported largely by airline ticket taxes — provides planning and development grants for large and small airports. The program includes general aviation airports that serve only recreational, cargo, and corporate jets, not the airline passengers or airlines that ultimately pay the taxes. This cross-subsidy shifts money away from crowded commercial airports that struggle to expand under chronic congestion and outdated infrastructure. Congress should discontinue program grants for general aviation airports.

**Advanced Technology Vehicles Manufacturing Program** — **Cut: $4 billion** | $4 billion

The federal government provides several incentives to buyers and producers of electrical vehicles (EV) to encourage their production and purchase, including a $25 billion direct loan program for manufacturers of automobiles and automobile parts. According to the Congressional Budget Office, Congress appropriated $7.5 billion to cover the subsidy costs of loans made by the program, and of that amount approximately $4 billion still remains unspent. It should be noted that taxpayer savings from eliminating future loans from this program could end up being even higher, as any loan carries the risk that it will not be repaid. In that case, the taxpayer burden would be the subsidy cost plus the loan itself.

**Essential Air Service (EAS) Program** — **Cut: $1.86 billion** | $186 million

The Essential Air Service (EAS) program was launched as a temporary program in the late 1970s to ease the transition to airline deregulation by subsidizing commercial flights to the nation's rural airports. Many of the cities served by this program can be found within reasonable driving distance from airports with unsubsidized flights. For example, the 50 minute flight from Lebanon, New Hampshire to Boston, Massachusetts receives a subsidy of $287 per passenger when it's only a little over an hour drive to another large airport, Manchester-Boston Regional Airport. Other EAS flight subsidies can amount up to $1,000 per passenger. Eliminating this program from the FAA's budget has the potential to save $1.86 billion over a 10-year period.

## SECTION II: MORE COMMON SENSE CUTS

There are billions of additional dollars taxpayers can save if Congress implements cuts that may not technically qualify as cuts under Congressional budget rules. For example, liabilities for taxpayers that could add to the debt in catastrophic scenarios, projects authorized by Congress but that may or may not receive funding in the future, and other cuts whose costs against the baseline are uncertain. In addition, some budget options will not produce scorable savings in the first year of implementation. Despite these baseline considerations, we recommend that Congress protect the fiscal health of the nation by adopting these reforms as well.

### Energy

**Biorefinery Assistance** **Cut: ??**

Biorefinery Assistance is a loan guarantee program the helps develop new and emerging advanced biofuel technologies. The maximum loan guarantee for a single entity is $250 million and can go towards development, construction, or retrofitting of refineries. The total taxpayer liability for this program is calculated at $6.7 billion over the next decade.

**End Title XVII Loan Guarantee Program** **Cut: ??**

The Department of Energy (DOE) Loan Guarantee Program was created to provide loan guarantees for innovative emerging energy technologies, yet mature industries like coal and nuclear are eligible as well. More than $30 billion in taxpayer backed loan guarantee authority is available. There are several major taxpayer problems with the program: the massive scope and uncertain costs; high default rates and low recovery rates on capital intensive projects, like nuclear reactors; the weakening of taxpayer rights in the event of default; and the unclear administration of loans. In addition to the loan guarantee authority, the DOE also received $4 billion in appropriated funds to pay the credit subsidy costs for renewable energy, energy efficiency, and electric power transmission projects in the 2009 Stimulus.

**Price-Anderson Act** **Cut: ???**

Originally enacted by Congress in 1957 as a temporary shield to the nuclear industry as it struggled to get off the ground, the Price-Anderson Act has become a near-permanent fixture of the federal government's support of nuclear power. The Act requires nuclear operators to maintain only roughly $300 million in insurance and then requires taxpayers to bear any additional costs from a nuclear accident. If there were to be any problems at a nuclear reactor, taxpayers could be forced to pay tens of billions to cover cleanup and health impacts.

**Liability Limitations for Offshore Drilling** **Cut: ???**

Under the Oil Pollution Act of 1990, oil companies are responsible for all direct costs of containment and clean-up in case of an oil spill but are legally responsible for only $75 million in federal damages from the oil spill. Any additional costs would be borne by the injured parties, or by taxpayers. This liability limit significantly limits the need for oil producers to purchase insurance or otherwise guard against damages resulting from oil spills. The economic damages, including the loss of fishing and tourism dollars, could be tens of billions of dollars, as was demonstrated in the BP oil spill.

**Production Tax Credit for Cellulosic Ethanol** **Cut: $4.1 billion**

Cellulosic ethanol is a well-known advanced biofuel. The federal renewable fuels mandate requires 16 billion gallons of cellulosic ethanol to be produced by 2022. To qualify for the mandate, each gallon must reduce greenhouse gases by 60 percent. Cellulosic ethanol is produced from cellulosic matter in plants, including corn stover (the leaves and stalks of corn plants), switchgrass, wood chips, and other plant wastes. Companies receive $1.01 for every gallon of cellulosic ethanol produced. Though this tax credit expires at the end of 2012, the Senate Finance Committee has already voted to extend it through 2013, and Congress will likely extend it for future years. Taxpayers should not subsidize a technology that the Congressional Budget Office and National Academy of Sciences say isn't yet viable at a commercial scale and won't meet its production mandate by 2022. This cost assumes that the $1.01 credit continues through FY2022 and is tied to production estimates from the U.S. Energy Information Administration.

## General

**Congressional Pensions** **Cut: ???**

Congress benefits from an elaborate and lucrative pension system that is more generous than is available to government employees. While most Americans have a defined contribution system that they pay into like a 401(k) retirement plan, simply remaining in office is key to increasing the annual pension for lawmakers. Aside from the savings, shifting Congress from a defined benefit to defined contribution plan would more readily align lawmakers' interests with their working constituents.

## Infrastructure

**Upper Mississippi River Navigation Locks Project** **Cut: $ 2.4 billion**

Despite continued decreases in barge traffic, cost-overruns, and a history of wildly exaggerated economic assumptions, the Army Corps of Engineers seeks to spend billions constructing new and enlarged navigation locks on the Upper Mississippi River-Illinois Waterway. The Mississippi River-Illinois Waterway Navigation Expansion Project is mainly just a fix for occasional barge transportation delays that occur at river locks during high traffic times. The Corps claims that seven brand new longer locks, at the low, low price of more than $2 billion, will solve our rush hour problem and also prepare for a ridiculously optimistic increase in barge transportation on these waterways. In 2000, the U.S. Army Inspector General found that Corps economists were ordered to exaggerate the demand for future barge traffic, and several Corps officials were slapped on the wrist. In addition, the National Academy of Sciences has consistently criticized the Corps' plans to build the new locks, saying that the Corps should pursue cheaper measures like scheduling, tradable lockage fees, and helper boats, before even contemplating spending money on new or expanded locks. By implementing these alternative solutions taxpayers could get improved efficiency of the Upper Mississippi River-Illinois Waterway at a fraction of the cost.

## Inner Harbor Navigation Canal (Industrial Canal) Lock Replacement Project – New Orleans — Cut: $ 1.1 billion

The Industrial Canal is a manmade waterway running through New Orleans that connects the Mississippi River and the Gulf Intracoastal Waterway. For years Congressional representatives from Louisiana have earmarked federal funds to continue the Army Corps of Engineers' efforts to replace the existing lock with a longer, deeper lock suitable for ocean-going vessels. This in spite of the fact that increased barge traffic and traffic delays predicted by the Corps have not only failed to materialize, but traffic has actually decreased. In addition the original Corps economic analysis found the deep draft lock was not the most economically beneficial project for the lock, but recommended it be constructed because of the willingness of the Port of New Orleans to shoulder a higher share of the costs. The Port has since pulled out of this agreement, leaving federal taxpayers holding the bill. And recently a federal court ordered the Corps of Engineers to halt construction because the Corps failed to adequately consider whether a deep-draft lock would be viable.

## Delaware River Deepening Project New Jersey and Delaware — Cut: $173 million

Despite opposition from the states of Delaware and New Jersey, the Army Corps of Engineers continues to pursue the uneconomical deepening of the Delaware River's main channel. The project, which would increase the River's depth to 45 feet from 40 feet for 105 miles, is intended to attract deeper draft cargo ships. In reality the ships aren't going to come and the reduced transportation costs for a handful of oil refineries does not offset the heavy price tag of the project. The Government Accountability Office (GAO) has repeatedly criticized the Corps' economic assumptions underlying this project.

## Dallas Floodway Extension — Cut: $160 million

Neighboring the Fort-Worth Central City project (below), the *Dallas Floodway Extension, Trinity River Project* is a Corps flood control project on the Trinity River. Under this project the Corps seeks to extend existing levees while cutting a 600-foot wide swath (swale) through the Great Trinity Forest. The project's principal economic justification is increased flood control for downtown Dallas. Yet, most of these benefits could be obtained for a fraction of the project cost by simply raising one of the existing Dallas levees and conducting a voluntary buyout in flood prone neighborhoods. This would provide the most effective flood protection for the area, with dramatically less impact to the floodplain.

**St. Johns Bayou/New Madrid Floodway Project - Missouri** **Cut: $ 123 million**

Any notion that the *St. Johns Bayou/New Madrid Floodway* project was a good idea was washed away when the Corps responded to record flood heights threatening Cairo, Illinois by blasting the Birds Point levee on May 2, 2011, sending the Mississippi River cascading down the 130,000 acre natural floodway. The New Madrid Floodway is one of the last remaining natural floodways on the river, yet for years the Corps has sought to build levees and pumping stations to cut it off from the river. This flood protection project would actually increase flooding risks while inducing development in the floodway, costing taxpayers millions more in damages the next time the floodway is operated.

**Grand Prairie Area Demonstration Project - Arkansas** **Cut: $110 million**

The Grand Prairie Area Demonstration Project is a subsidized pump to provide subsidized water to grow subsidized crops and would be a first-step by the Corps of Engineers into the agriculture irrigation business. A century of unsustainable irrigation for rice farming in eastern Arkansas has left the area's main irrigation aquifer severely depleted and is now threatening the region's deeper drinking water aquifer. Rather than promoting proven efficiency and conservation techniques on the area's farms, the Corps of Engineers proposes building a pumping station and 650-mile long canal and pipeline system to draw water from the White River.

**Fort Worth Central City Project - Texas** **Cut: $81 million**

The Central City project is just one portion of a larger project know as the Trinity River Vision, the total cost of which has increased to nearly $1 billion. The Central City Project is an Army Corps of Engineers flood control effort to reroute the Trinity River in Fort Worth, Texas through construction of a new dam, a 1.5 mile long bypass channel, and numerous flood gates in order to create an urban waterfront community. The Army Corps of Engineers is slated to pick up $110 million of the $435 million Central City tab, with other federal and local taxpayer sources making up the rest. The Corps should better utilize its flood control dollars, rather than spending millions on speculative development.

## National Security

**CMRR Nuclear Facility at Los Alamos** **Cut: $3.7 billion**

The Chemistry and Metallurgical Research Replacement-Nuclear Facility (CMRR-NF) is a new palatial building the National Nuclear Security Administration (NNSA) wants to build at Los Alamos National Laboratory. The CMRR project includes both the already-built Radiological Laboratory/Utility/Office Building (RLUOB) as well as the planned CMRR-NF. The project will cost $3.7 to $5.8 billion—at least by current estimates—but the cost has increased ten-fold since the project's inception, and final estimates are not due until 2013. There are serious questions about the risks associated with the CMRR-NF, not the least of which are that it will be storing six metric tons of plutonium in an active seismic zone. Several hundred million dollars have already been appropriated and excavation has begun, despite the fact that the design is only 50 percent complete. Congress decided to put the project on hold in 2012, but intends to restart construction in 2017.

## Public Lands

### Columbia Basin Irrigation Project — Cut: $1.2 - $4.6 billion

The Department of the Interior's Bureau of Reclamation (BuRec) was established in 1902 to bring development and irrigation water to 17 Western states. Today, the agency builds dams, powerplants, and canals to supply hydropower to local communities and bring subsidized irrigation water to one out of every five Western farmers. The Columbia Basin Irrigation Project (CBIP), one of the largest all-federal irrigation projects managed by the BuRec, is located in central Washington. Water diverted from the Columbia River is delivered to nearby farms even though taxpayers and other users pay for most of the construction costs to build the infrastructure. The BuRec and Washington Department of Ecology are proposing to expand the CBIP at a cost ranging from $1.2 to $4.6 billion. However, the BuRec's own studies found that none of the proposals' privatized benefits would outweigh the public costs. In the 1980s, the Government Accountability Office's analysis of similar expansion proposals came to the same conclusion, resulting in the BuRec's withdrawal of the proposal.

### Yakima River Basin Water Enhancement Project — Cut: $1.4 billion

Also located in Washington, the Yakima River Basin Water Enhancement Project would result in the construction of at least two new dams in the Yakima Basin even though sufficient alternative water resources have been identified. Construction of one dam would cost more than $400 million and the other is expected to cost at least $1 billion. The BuRec is planning to move forward with the project(s) even though the agency's Final Planning Report and Environmental Impact Statement calculated a negative cost-benefit ratio. In other words, taxpayers should only expect to receive 7 to 31 cents back for every dollar spent on these local irrigation projects.

## Transportation

### XpressWest (formerly DesertXpress) High Speed Rail - Nevada and California — Cut: $6.5 billion

The XpressWest project would connect Victorville, CA (approximately 85 miles from Los Angeles) with Las Vegas, NV. The $6.9 billion project has asked for a $6.5 billion direct loan through the federal Railroad Rehabilitation and Improvement Financing (RRIF) program, which would be more than ten times the amount ever awarded through the program. Questions have also been raised regarding the ridership and revenue forecasts upon which the application is based. This project has taxpayer disaster written all over it, and the loan application should be rejected.

**I-73 Project – South Carolina** **Cut: $2.4 billion**

The $2.4 billion interstate — no more than 50 miles from an existing, high-capacity U.S. highway — will be the most expensive transportation project in South Carolina's history and is estimated to shorten current travel times to the Myrtle Beach region by no more than 15 minutes. Furthermore, simply upgrading the parallel highway would meet every goal being outlined by the interstate proponents yet cost only $150 million. With only 33 percent of South Carolina's existing roadways in "good" condition, taxpayers are left wondering why South Carolina is pushing to build this wasteful, federally funded interstate while neglecting long-needed repairs.

**Knik Arm Crossing – Alaska** **Cut: $1.5 billion**

The sister project of the now infamous "Bridge to Nowhere" would link Anchorage to the sparsely populated area around Point McKenzie in the Mat-Su Valley. The project can only be built with a public-private partnership, which would be paid for through the collection of a bridge toll, and a large loan guarantee from the federal Transportation Infrastructure Finance and Innovation Act (TIFIA) program. But traffic estimates appear overly optimistic, and therefore the expected toll revenue is almost sure to fall short of paying for the project for many years after it is built. This would likely leave federal taxpayers on the hook for untold millions of dollars to make up the shortfall.

**Columbia River Crossing – Oregon and Washington** **Cut: $1.25 billion**

This project would construct a highway-transit bridge over the Columbia River to ease Portland-bound commuter congestion. The $3.6 billion project is estimated to reduce morning commute times by only 60 seconds. Furthermore, state transportation departments are justifying the project with an estimated 45 percent increase in vehicle crossings by 2030, a percentage based on 2005 fuel prices. With substantial portions of the project to be paid for with tolling the new bridge facility, local leaders and stakeholder groups are sounding alarm over the project's faulty traffic projections. Federal taxpayers have already footed $110 million to make these flawed analyses. Congress should deny state requests for one-third of the project's billion dollar price tag and require more cost-effective alternatives.

**Outer Bridge Portion of Ohio River Bridges Project – Indiana and Kentucky** **Cut: $550 million**

The outer, or eastern, bridge portion of this project would be a new interstate highway (I-265) and Ohio River bridge in the eastern suburban area of Louisville. It would connect the Gene Snyder Freeway in Kentucky (KY 841) to the Lee Hamilton Highway in Indiana (State Road 265). The project, which the Environmental Protection Agency calls "redundant", is a developer's dream. It would open up vast quantities of land in Indiana for development. Ground was very recently broken on this project, meaning there is still time to stop it before it devours an enormous chunk of taxpayer dollars.

## Juneau Access Road – Alaska — Cut: $500 million

The Juneau Access project would consist of a new 50-mile road out of Juneau connecting to a ferry terminal for the last 18-mile journey to connect to either Haines or Skagway, with driving access to the interior of the state. Due to the treacherous terrain, the road would be closed at least one month every year, and the journey would likely require several days of driving in each direction from most parts of Alaska. In addition, the challenging terrain makes construction difficult at best and raises significant questions about cost overruns and project feasibility. Most of the funding for this project has not yet been identified, but proponents assume that the vast majority will come from federal taxpayers.

## Gravina Island Access – Alaska — Cut: $300 million

Yes, the "Bridge to Nowhere" lives on. Though the bridge project was cancelled by then-Governor Sarah Palin in late 2007, the state completed construction of the $26 million 3-mile Gravina Access Highway, which would have served as the bridge access if the bridge was built. To avoid having to pay back to the federal government the money it spent on this "highway", the state is conducting an assessment of the project to show how it will utilize the newly constructed road. The assessment is underway, but this charade should be stopped once and for all, and taxpayers assured that this monstrosity is killed for good.

## Charlottesville Bypass (VA) — Cut: $244 million

The proposed Charlottesville Bypass is a 6.2 mile, four lane limited access highway intended to act as a reliever route for the congested U.S. 29 corridor. This bypass is extremely expensive as compared to other similar projects and will cost almost $40 million per mile. Furthermore, state transportation officials found that none of the bypass alternatives would have much, if any, impact on the "F level of service" rating on the existing U.S. 29 corridor. More fiscally responsible alternatives such as overpass and design improvements to U.S. 29 have shown promise of achieving the same goals without the local opposition that has developed against the bypass. Congress should block any federal funding for this wasteful roadway.

TAXPAYERS FOR COMMON SENSE
MAKING GOVERNMENT WORK

*For more information:*
Ryan Alexander, *President*, ryan@taxpayer.net
Steve Ellis, *Vice President*, steve@taxpayer.net

651 Pennsylvania Avenue, SE, Washington, DC 20003
202-546-8500 • www.taxpayer.net