TAXPAYERS FOR COMMON SENSE
MAKING GOVERNMENT WORK

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House Oversight and Government Reform Committee hearing on "Refuse of the Federal Spending Binge II: How U.S. Taxpayers are Paying Double for Failing Government Programs"

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Good morning, Chairman Issa, Ranking Member Cummings, members of the Committee. Thank you for inviting me here to testify about duplicative government programs and ways to save tax dollars and enhance revenue. I am Ryan Alexander, President of Taxpayers for Common Sense, a national non-partisan budget watchdog.

Our mission at Taxpayers for Common Sense (TCS) is to achieve a government that spends taxpayer dollars responsibly and operates within its means. All of our work reflects our core belief that no one, no matter where they fall on the political spectrum, wants to see their money wasted. To that end, TCS has worked with the left and the right to achieve victories on stopping the "Bridge to Nowhere," getting the earmark moratorium enacted, cutting funding for an alternate engine for the Joint Strike Fighter, and creating an Inspector General for the Iraq war.

We have testified before this committee several times with proven results for American taxpayers. We testified on cost overruns and problems with the F-22 Raptor and that program was stopped; we testified on crop insurance waste and that prompted the Agriculture Committee to take action. And we have also testified on both Army Corps of Engineers issues and worked with the committee regarding lost royalty revenues from off-shore oil and gas leases and both of them are in the Government Accountability Office (GAO) report, "Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue."

This represents a greatest hits of GAO investigations and reports, a veritable buffet of federal programs from Agriculture to Defense, Economic Development to Energy, Homeland Security to Income Security, International Affairs, Health, Training and the catchall general government. In our more than 15 year history, TCS has worked on many of these programs and issues highlighted in the GAO report. We hope the increased scrutiny generated by this report and the good work of this committee will lead to meaningful and overdue reform or elimination of many of these programs.

One challenge identified by the GAO was that in some cases it was difficult to determine the level of overlap, duplication or redundancy among various programs. In other cases, it was hard to determine how much populations served by similar programs actually overlapped. Regardless, Congressional and Executive action on reforms would dictate the final amount of savings. As a result, the GAO won't even come up with a total savings, but Sen. Coburn ventured a guess of $100 billion. Regardless of the bottom line number, government would be serving the public better if all programs had well-defined, clear, and measurable goals and priorities. Without these metrics, no one can tell you if programs are good investments or are even meeting the public's needs. This committee can play an important role in helping to identify programs that lack that clarity of mission and metrics.

Obviously, there is too much in this voluminous report to tackle in five minutes or even 50 minutes. I would like to highlight a few of the issues and areas.

Defense

Ferreting out waste, fraud, and abuse in the Department of Defense and elsewhere in the national security arena is one of the founding missions of TCS. While both parties steer clear of tackling security spending, we believe that wasteful defense spending can threaten both our wallets and our national security. Eliminating wasteful security spending is therefore of paramount importance, particularly as the nation fought two wars. Skyrocketing DOD budgets over the past decade have obscured opportunities to save billions. And wasteful duplication is particularly hazardous in an agency divided into four military services that are constantly competing for resources and protective of the ones they have. We see this pattern repeat from the highest echelons of Pentagon bureaucracy, which Defense Secretary Gates has begun to address with the closure of the Joint Forces Command in Virginia, to the myriad contracts for services—encompassing everything from catering to computer programming to battlefield security contractors—that now constitute the bulk of DOD's purchases. In addition to duplicating costs, this siloed approach to budgeting can prevent services from sharing information—for example in forming requirements for major weapons systems—that can produce future savings.

This incentive to create parallel functions for each service is clearly seen in the military personnel budget accounts. This part of the defense budget has seen disproportionate rates of growth and is projected to increase yet further in coming years. Of course, our men and women in uniform deserve our support, but experts ranging from the Congressional Budget Office to Secretary Gates himself have warned that increasing health and other benefits can bankrupt the Pentagon if not reformed. This duplication exists not only between the military services, as the GAO points out, but also between the public and private sectors. For example, too many younger military retirees rely on TRICARE as their main health care system despite full-time employment in the private sector because TRICARE premiums have not budged from their rock-bottom rates for over a decade. This kind of spending is unsustainable. There are also opportunities to coordinate between DOD and Veterans Affairs electronic health record systems and work together to control costs in areas such as drug purchasing.

Much of the duplication within defense spending goes unchecked because DOD can't reconcile its own bank accounts. Tracking cost data on major contracts through instruments such as performance-based logistics accounting is important and can potentially save money if implemented, but until DOD is able to certify the reliability of its cost data by making it auditable, such instruments will fall short. Unfortunately, as GAO has pointed out, DOD is years behind in putting systems in place to achieve this despite the fact that DOD is required by law to make its financial systems audit-ready by 2017. This failure not only makes DOD vulnerable to waste, fraud, abuse, and mismanagement but impacts its ability to anticipate future costs and measure performance, among other vital functions.

Duplication exists not only in the way we buy national security programs but in what we buy. The Joint Improvised Explosive Device Defeat Organization (JIEDDO) was pointed out by the GAO is but one example of how throwing money at problems can result in wasteful redundancy. Another is the issues between Army and Marine Corps approaches to purchasing Tactical Wheeled Vehicles. As our budgets continue to tighten, we must continually reassess our defense goals and what we need to achieve them.

General Government

Acquisition problems have increased duplication and driven up costs across government, though the Departments of Defense and Homeland Security are particularly at risk. Reform measures such as finally implementing a comprehensive contractor performance database to prevent the government from rewarding bad performers could save billions in unjustified award fees. Encouraging competition and interagency contracting can help drive down costs – as much as $500 billion by GAO's estimate. But when the acquisition and oversight workforce in agencies such as DHS are so under-resourced that they must turn to the private sector to design, implement, and oversee complex contracts—as in the case of the recently canceled SBInet system—even these measures are destined to fail. We must continue to invest in our oversight bodies to ensure compliance with best practices and new reforms.

Another area prime for consolidation is data centers. While the government's Chief Information Officer has launched a consolidation initiative that could eventually yield hundreds of millions in dividends, the scale of the problem is staggering. In a little over a decade the number of data centers more than quadrupled to more than 2,000 across 24 agencies. The large number of data centers increases energy use and personnel costs, introduces error, and makes it more difficult to compare data sets. Closing even 800 of these data centers could save nearly $500 million.

Real property management by GSA has enormous possible savings, both from disposing of billions of dollars worth of unnecessary federal property, better vehicle fleet management, and better cost analysis of purchasing and leasing decisions.

Economic Development/Transportation

The nation's surface transportation program is especially troubling. The federal gasoline tax used to pay for our roads, bridges, and transit systems falls far short of raising enough revenue to meet the transportation demands of the nation. Yet the public has little interest in a gas tax increase because they sense that the program severely lacks direction and accountability. Congress's parochial and earmark approach spread funds to more than 100 programs in the last reauthorization bill, resulting in a fractured, inefficient approach.

The Essential Air Service program is a relic of the 1970s and airline deregulation. The program's structure and eligibility requirements are outdated, and this program could be overhauled to save taxpayer dollars with little impact on small communities.

Right now the Corps of Engineers has their own federally funded piggy bank. Unlike most federal appropriations, the Corps receives "no year" money. That means that project funding that goes unspent in one fiscal year is available for expenditure in future years. But the Corps doesn't make this information available to Congress which could lead to more efficient allocation of resources. The Corps is also an agency that will benefit from the move away from earmarks and to a merit-based, prioritization method in spending taxpayer dollars.

Using the Catalog of Federal Domestic Assistance, the GAO found more than 80 programs spanning USDA, Commerce, HUD, Small Business Administration all dealing with a variety of economic development initiatives. In some cases there were legislative barriers to greater coordination, in others TCS suspects heavily earmarked accounts prevented merit-based and coordinated approaches. Regardless, this is an area that Congress and the Executive have to closely evaluate the proper federal role and potentially scale back and increase integrated activities.

Federal Emergency Management Agency

FEMA needs to better manage its grant programs designed to aid states and local governments prepare for emergencies. Currently these 17 programs are not coordinated to prevent multiple requests for the same projects or to ensure only the most needed projects are funded. This problem derives substantially from earmarking, so we hope the moratoriums will create an opportunity for improvement. For example FEMA's pre-disaster mitigation program, a competitively awarded program containing a 70 page document of requirements, was funded at $100 million in FY2007 and contained no earmarks. Yet in FY2008 the program's merit-based process was subverted when $52 million of its $114 million budget was allocated through earmarks, some of this funding going to projects that did not even qualify under the FEMA guidelines. By consolidating and coordinating these programs into a coherent merit-based system, in which only the most beneficial projects are supported, FEMA can achieve significant savings, in tax dollars, property damage, and lives.

Improper Payments

While not necessarily duplicative, improper payments could cost taxpayers more than $100 billion each year. Medicaid and Medicare are both areas where improved management could reap enormous dividends. Health and Human Services estimated that nearly 10 percent of Medicaid payments in fiscal year 2010 were improper, totaling $22.5 billion. Also in the Medicare fee-for-service program more than $30 billion in payments went out that lacked adequate documentation. Medicare Advantage, Unemployment Insurance, and the Earned Income Tax Credit were also areas tagged by GAO for inadequate oversight and documentation.

Oil and Gas Royalties

As we all know Big Oil continues its decade long trend of raking in billions in profits. Even at the height of the recession when the economy was shedding hundreds of thousands of jobs, profits for the top 5 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 royalty management and collection system which has been highlighted by the GAO numerous times and recently added to their high risk list this year.

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 with the oil and gas industry has led to the oil and gas industry shortchanging taxpayers for decades by either underpaying or even not paying royalties at all. 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.

Education

The GAO found more than ten agencies spent over $4 billion to operate 82 teacher quality programs to improve math, technology, engineering, and sciences education. While not at cross-purposes, many of these programs overlap without much coordination even within agencies. Similarly, there are 44 programs spending more than $18 billion on training and employment efforts. Again, there needs to be greater coordination and consolidation of these programs which would yield efficiency savings.

Agriculture – Reducing Some Farm Payments

Outdated and ineffective farm policies waste billions of dollars each year. The GAO report mentioned nearly $5 billion in potential annual savings from changing one type of payment, direct payments, which are calculated based on a farm's history of crop production, rather than current factors such as a farm's income. Even greater savings can be achieved by broadening the scope to include changes to other unnecessary or ineffective policies. With direct payments, counter-cyclical payments, the Renewable Fuels Standard, VEETC, subsidized crop insurance, permanent and ad hoc disaster assistance, as well as a host of other supports and subsidies, our nation's agriculture policy is fertile ground for reform.

Ethanol Subsidies

Corn ethanol is a mature industry that has enjoyed more than $40 billion in subsidies. The Volumetric Ethanol Excise Tax Credit (VEETC) is the largest subsidy to corn ethanol, the most common biofuel in the U.S. The tax credit is worth 45 cents per gallon of ethanol blended with gasoline, costing U.S. taxpayers $5.16 billion in 2009. Congress began subsidizing ethanol during a fuel shortage in the late 1970s by exempting gasoline blended with ethanol from gasoline excise taxes and establishing a tax credit for ethanol use. In 2004, the American Jobs Creation Act implemented the VEETC to replace these two historical subsidies as a combined excise tax exemption and tax credit which was extended this past December for a year.

Despite its significant financial and environmental drawbacks, in addition to the VEETC, the government mandated the purchase of corn ethanol in 2007, creating a guaranteed market making the VEETC completely unnecessary. Under the Renewable Fuels Standard (RFS), 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.

Ethanol producers and blenders already benefit from government mandates and small producer credits; the VEETC only adds to the layers of subsidies for corn ethanol. The VEETC must end.

IRS Efficiencies

A variety of technology improvements could make the revenue collection process, while not more pleasant for taxpayers, at least more efficient and consistent. Efforts to increase electronic filing would cut agency costs while better targeted enforcement actions and collection management would also responsibly increase revenue. Another important area is improving compliance through tracking available data sources such as unreported business sales data and improving mortgage interest data collection. For our tax system to work, everyone must feel that all taxpayers are paying their fair share and not gaming the system.

Tax Expenditures

The GAO report notes that almost $1 trillion in federal revenue was forgone in fiscal year 2009 due to tax expenditures - revenue that is viewed by many as spending channeled through the tax system. The 173 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. GAO states 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.

The final report of the National Commission on Fiscal Responsibility and Reform recommended eliminating virtually all income tax expenditures and using the revenue to lower tax rates and reduce deficits. It 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." In its recent 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 agree with the Deficit Commission and the GAO. 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. 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. Last year, for example, GAO recommended that Congress "modify the Research Tax Credit to reduce windfalls to taxpayers for research spending they would have done anyway." In this report, changes to the New Markets tax credit, and tax exempt status of government bonds are also recommended for review.

Other tax expenditures Congress should look at closely include:

- **Deduction of State and Local General Sales Taxes**, which will cost roughly $14 billion over the next five years. 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** $22.9 billion 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 $22.9 billion over the next five years. Oil and gas companies account for roughly half of the cost of LIFO.

- **Mortgage Interest Deduction** will cost the US Treasury $64.3 billion over the next five years. The Congressional Budget Office has detailed an alternative that would convert this to a tax credit for interest paid, which would better help achieve the purported goals of the existing deduction – making home ownership more affordable.

Conclusion

Clearly, the GAO has given Congress much to think about. But staring down the barrel of a $1.65 trillion budget deficit we have to make hard decisions about where the federal government should invest our tax dollars. Eliminating duplication and waste in government and responsibly enhancing revenue are key areas that would help the country step back from the fiscal abyss.