



Testimony of Steve Ellis
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Federal Spending Oversight and Emergency Management Subcommittee of the
Senate Committee on Homeland Security and Government Affairs
hearing on

“Wasteful Spending in the Federal Government: An Outside Perspective”

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

I was asked to concentrate my testimony on non-defense discretionary spending outside of agriculture. I have also included wasteful policy that leads to failed resource management and future taxpayer liabilities as well as disaster spending issues. And 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 in all areas of government – including defense – and give taxpayers a government that works. I have a copy of our most recent cut list “Common Sense Cuts for the 114th Congress: Silencing Sequester Scaremongers with \$2 Trillion in Deficit Reduction” that I would like to enter into the record. This follows on other cut lists such as Common Sense Proposal to Rappel the Fiscal Cliff, Sliding Past Sequestration, and Super Cuts for the Super Committee.

Eliminate Wasteful Spending

Throughout government there are a variety of spending programs that are either wasteful, corporate welfare, or simply not a federal responsibility. Here are a few highlights in the areas I’ve been asked to cover.

Biofuels and Biomass Programs

Bioenergy subsidies are scattered throughout the Departments of Agriculture, Energy, Treasury, and the Environmental Protection Agency. The 2014 farm bill reauthorized numerous wasteful biofuels and biomass subsidy programs. Together, these mandatory/discretionary programs subsidize every portion of the biofuels/biomass production process:

- From research and development, promotion, and public education (through USDA's Biomass Research and Development Initiative, the Biobased Markets Program, and Biodiesel Fuel Education Program, respectively)
- Establishing and planting biomass crops, and then collecting, harvesting, and storing them (through the Biomass Crop Assistance Program),
- Converting heat and power sources at biofuels facilities to run on biomass (through the Repowering Assistance Program), and
- Finally, the actual production of biofuels or heat/power itself (through the Bioenergy Program for Advanced Biofuels and Biorefinery, Renewable Chemical, and Biobased Product Manufacturing Program).

From 2011 to 2014, the USDA Rural Energy for America Program (REAP) subsidized the installation of corn ethanol blender pumps even though a tax credit - the Alternative Fuel Vehicle Refueling Property Credit - already existed. While the 2014 farm bill prohibited REAP spending on blender pumps, USDA announced in May 2015 that it found \$100 million in new spending for these pumps.

Farm bill bioenergy programs, specifically REAP, also subsidize normal costs of doing business such as replacing agricultural producers' grain bin dryers, irrigation systems, and oxygen monitoring systems for catfish farms, not to mention other wasteful expenditures such as the installation of tobacco production equipment, replacement of "syrup evaporators," and the construction of confined feeding operations. And while certain programs were designed to support advanced biofuels, derived from non-food crops, USDA still finds ways to prop up the mature corn ethanol and soy biodiesel industries.

Energy

There are many subsidy programs at the Department of Energy including those for energy sources new and old. Subsidy programs, tax credits, and mandates such as the Renewable Fuel Standard create a crazy quilt of government support that often works at cross purposes. TCS maintains it would be better to simply eliminate all energy subsidies programs (both discretionary and tax expenditures) including the discretionary spending for research and development subsidy programs to start with a blank slate. Then policymakers can determine what basic research the U.S. should support. For example, a quick (but not exhaustive) list of programs receiving more than \$300 million in fiscal year 2015 includes: Fossil Energy Research and Development, Mixed Oxide – Fissile Materials Dispositions, and Fusion Energy Sciences.

Transportation

Over the last decade, Congress has transferred more than \$50 billion from the Treasury to backfill the nation's Highway Trust Fund. And the Congressional Budget Office estimates the gas tax shortfall could require as much as \$167 billion over the next ten years at the current rate of spending. While debates about revenue sources for the trust fund are for another time, the spending beyond the trust fund's means has to stop. In addition, too much spending is going to constructing new lane miles over repair. In a recent report with Smart Growth America, we found that between 2009 and 2011, states spent \$20.4 billion to add 8,822 lane-miles, which

makes up one percent of the system. During the same period \$16.5 billion was spent maintaining the other 99 percent of the system. By the end of that period the cost to bring all the roads in poor repair up to good condition increased to \$45.2 billion, nearly three times the amount states spend on repair. This preference for funding ribbon cuttings over repairs will add additional pressure on the bankrupt federal funding system.

Essential Air Service

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. . Annually, this program costs taxpayers roughly \$250 million. The simple fact is EAS could be eliminated in all states but Alaska, saving taxpayers more than \$1 billion over the next decade, with minimal impact on small communities.

Maritime Administration

The Maritime Administration was created in 1950 and has served as little more than a cheerleader for the maritime industry. The agency could be eliminated with funding remaining for the U.S. Merchant Marine Academy and support for state maritime academies. The responsibility for the Ready Reserve Force and National Defense Reserve Fleet can be returned to the Department of Defense.

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. This inevitably led to waste as lower priority projects were funded over more critical ones. Taxpayers for Common Sense 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.

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 and project benefits.

Fast forward to the earmark moratorium. Congress can't add 629 earmarks. So as they have done in recent years, the FY16 spending bills include 24 “slush-y” funds (in the Senate, 18 in the House) to fund 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. In fiscal year 2015, Congress provided an additional \$450 million in slush-y funds and in the March 2015 work plan, the Corps still hadn’t figured out how to spend \$131 million of it. That’s half-way through the fiscal year.

There are many wasteful Corps of Engineers projects and policies that I would be happy to detail for you in writing. For instance the duplicative and wasteful environmental infrastructure program or reducing beach replenishment subsidies. The inland waterway industry should contribute fifty percent of the cost of maintaining inland waterways, currently they contribute nothing. Low use or no use waterways should be removed from the federal system. Also, the Inland Waterway Users Board can be eliminated entirely, there is no analog for any other trust fund. We always like to point out that Corps’ motto should be: we may take twice as long, but we cost twice as much.

Coast Guard Bridge Program

When a bridge is determined to be an impediment to navigation, the Coast Guard has a program to cost-share the alterations to the bridge with the owner (often a railroad). This is something that should be paid for entirely by the bridge owner and possibly the navigation industry. Federal taxpayers shouldn’t be involved.

U.S. In-Kind Food Aid

The U.S. provides a wide variety to foreign assistance, including food aid. In-Kind Food Aid is where the food aid is bagged in the U.S. and shipped on U.S. vessels to the affected region. This is more about supporting U.S. agriculture and shipping interests than it is about delivering aid quickly and efficiently through either monetary assistance or purchases in the region. In addition, there is a program of monetization where assisting organizations sell the food to fund development projects in the affected region. Both in-kind and the monetization programs should be eliminated.

Failed Resource Management

As long they exist, 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. Revenues should be collected accurately and diligently from resource development on public lands – including renewable resources. Failed revenue management run the gambit from inadequate royalty collection for everything from solar development to coal extraction, to money losing timber sales, to below market water rates through the Bureau of Reclamation.

Oil and Gas Royalty Relief

The mismanagement and under-collection of oil and gas royalties has been highlighted by the GAO in several reports and featured in their “High Risk” series since 2011. 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 industry receives— it’s projected to cost taxpayers roughly \$19.6 billion over the next 10 years.

Grazing

Federal grazing rules are outdated, too generous, and don’t even come close to covering the costs taxpayers bear in maintaining federal grazing lands. Private land owners charge grazing fees of roughly \$18 per Animal Unit Month (AUM represents the amount of forage a cow and her calf need for a month). States’ fees range but Nevada, for example, charges \$15 per AUM. As of Jan. 2015, the BLM charges \$1.69. Even taking into account varying quality of lands, that’s far too low. In fact, the fee has only gone up 46 cents since 1966. The GAO estimated that grazing fees covered roughly 13 percent of the overall program cost in fiscal year 2004.

Fair Market Value for Renewable Development on Federal Lands

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 Bureau of Land Management (BLM) has implemented wind and solar programs through the issuance of right-of-way (ROW) authorizations, which have traditionally not been offered via competitive bidding, raising questions about the current practice’s ability to ensure a fair return for wind and solar development rights. BLM has recently proposed a competitive process for the issuance of solar and wind energy ROWs on public lands, a critical step toward fulfilling the fair market value mandate set forth in the Federal Land Policy and Management Act (FLPMA). BLM has also proposed the creation of a megawatt capacity fee. While inferior to a royalty, this would still represent a critical component of any comprehensive development plan for renewable energy development.

Fair Market Value for Coal Leases

For years coal companies have been underpaying royalties because coal’s value is much lower domestically than it is abroad. In our report, *Federal Coal Leasing: Fair Market Value and a Fair Return for the American Taxpayer*, we [found](#) that the federal coal leasing program has consistently failed to obtain fair market value for taxpayers. The controversial Lease By Application (LBA) system improperly skews the valuation of lease tracts, garners significantly reduced bids, and shrouds crucial information in secrecy. It fails to account for the growing export markets for federal coal, and seldom generates competitive bids, resulting in revenue losses from 1983 to date as high as almost \$29 billion. Congress should work with the Department of Interior on upcoming rule changes 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.

1872 Mining Law Reform

In 1872, Congress enacted a General Mining Law to entice people to settle the American West. Largely unchanged more than 140 years later, this 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. 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 through a royalty; and the creation of taxpayer liability by allowing the abandonment of contaminated mine lands.

Liabilities

To date, the federal government has more than \$3 trillion in loans and loan guarantees on the books. The bulk of these are for housing and students, but there are loan programs for ships and fishing vessels, rural broadband and rail lines, energy projects and biorefineries, just to name a few. Many of these programs should simply be eliminated, but I will highlight just one of them.

Department of Energy Loan Guarantees

Created in 2005, the Title XVII Loan Guarantee program backs nuclear, coal, biofuels, transmission, energy efficiency and renewable projects. After getting beefed up in several appropriations bills and finally again in the 2009 stimulus, the Loan Guarantee program now provides loan guarantees for emerging energy technologies. For the first several years, this program stayed below the radar. The high profile default in 2011 on Solyndra's \$535 million loan guarantee brought the program and its potential losses under increased scrutiny, and we urge Congress to stop the entire flawed program from issuing any more loan guarantees.

A more recent example of waste are the loan guarantees to the Vogtle project, which was more than 16 months behind schedule and \$1.5 billion over budget when DOE issued two loan guarantees worth \$6.5 billion to its owners in February 2014. Since then, the schedule for the project has been pushed back an additional 18 months, raising its cost another \$1.5 billion. Putting taxpayers on the hook for billions for the project was mistaken, but by failing to acknowledge the project's risk, DOE has compromised its ability to recoup any potential losses. The program's history of poor decision making is deeply troubling for taxpayers as DOE continues negotiating a \$1.5 billion guarantee for a third Vogtle partner and evaluates applications under three broad new solicitations it finalized last year offering \$23 billion for Energy Efficient, Fossil Energy, and Advanced Nuclear Energy projects.

Energy Liabilities

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—estimates for the costs of the nuclear tragedy in Fukushima, Japan top \$100 billion. While it is hard to know the value of Price-Anderson subsidy it is clearly a liability to taxpayers.

FEMA and Disaster Spending

Disaster

While not part of regular discretionary spending, emergency federal disaster spending and policies regarding it should be examined. 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 harm or spending, but actually puts people and infrastructure back in harm's way. An analysis by the Wharton Risk Management and Decision Processes Center found that the federal share of disaster costs has steadily increased from less than 30 percent in the wake of Hurricane Hugo in 1989 to more than 75 percent after Superstorm Sandy in 2012.

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. In addition, states and communities should be required to explore and possibly purchase insurance for public infrastructure rather than expecting Uncle Sam to self-insure the public infrastructure for the entire country. For example, New York City's Metropolitan Transportation Authority has the world's largest catastrophe bond in case of disaster. It is a parametric bond that will automatically pay out if tides reach a certain designated level.

National Flood Insurance Program

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 (mandatory purchase requirement only 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. Reforms intended to move toward more risk-based rates in the Flood Insurance Reform Act were rolled back last Congress. We understand that there are legitimate affordability issues, but those should be addressed in a targeted, responsible manner. Charging closer to actuarial rates will enable the private market – as is the case in most developed countries – to remove some of the burden on taxpayers. The flood insurance program – which takes in about \$3.5 billion in premium revenue each year – is \$24 billion in debt to taxpayers. It is not sustainable.

On the other side of the ledger, 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. And I as said at the beginning, Taxpayers for Common Sense is ready to work with you to root out waste and ensure that our precious tax dollars are being spent wisely and effectively. Thank you and I'd be happy to answer questions you have on the testimony or any other area of discretionary spending.