The Fiscal Roadmap
How to Pay for Gulf Coast Reconstruction

By Evan Berger, Steve Ellis, and Keith Ashdown

Rebuilding the Gulf and restoring the lives of those who live there will cost the federal government $200 billion when all is said and done. As a nation, we have a responsibility to help our friends and neighbors in their time of need, and to partner with them in rebuilding their communities. We must vigorously monitor the reconstruction process, and ensure that we leave the Gulf Coast and New Orleans less exposed to future storms.

And we have to do it in a fiscally responsible manner. On August 15, two weeks before Katrina hit, the Congressional Budget Office (CBO) estimated that this year's budget deficit would be $331 billion. Today, our fiscal situation is much bleaker. A vital part of our response is ensuring that this natural disaster is not followed by a fiscal one. The "whatever it costs" blank check approach to rebuilding the Gulf will lead the nation to budgetary ruin. We must proceed with a smart, aggressive plan for reconstruction, and we need to have a clear sense of how we are going to pay for it.

To facilitate this effort, Taxpayers for Common Sense has compiled a list of spending and revenue offsets that Congress and the President should consider to help fill this enormous budgetary crater. This list, which is compiled from earlier analysis by TCS and other NGOs, the CBO, Government Accountability Office, and the President's budget requests, provides a menu of reasonable, achievable offsets that would help the federal government pay for the reconstruction efforts.

In recent years, Congress has lost its stomach to cut. Lawmakers have resorted to gimmicks and clever budgetary tricks to make their spending look less fiscally irresponsible, but they have never found a special interest that they didn't like.

Lawmakers have two choices. They can either come up with a fiscally responsible plan to pay for helping those afflicted in the Gulf, or they can force our children and grandchildren to pay for this for decades to come through deficit spending and interest payments. Every item in the federal budget has to be on the table – both spending and taxes. This list is one of many sources of information that Congress will be able to rely on for offsetting the cost of Katrina. However, we agree with Sen. Tom Coburn that if Congress doesn't act to cut costs, it will have to cancel its tax cuts.

Congress should formalize its plan to offset its spending in the next emergency supplemental appropriations bill. Further, Taxpayers for Common Sense urges the President to veto any emergency supplemental appropriations bill that is not completely offset over the next five years.

<u>Proposed Offsets (all estimates over five years):</u>

Spending Offsets:
Army Corps of Engineers: $900 million
Department of Agriculture: $4.601 billion
Department of Commerce: $1.8 billion
Department of Defense: $42.6 billion
Department of Energy: $8.4 billion
Department of Health and Human Services: $32.8 billion
Department of Transportation: $17.16 billion
Legislative Branch: $14 million
NASA: $3.295 billion
General Budget: $32.616 billion

<u>Revenue Offsets: +$57.755 billion</u>

Total Offsets: $201.94 billion

Spending Offsets (all estimates over five years)

<u>Army Corps of Engineers</u>

Cancel funding for the Environmental Infrastructure Program: $400 million

> Opposed by both the Clinton and Bush administrations, the Environmental Infrastructure Program constructs, predominantly at federal expense, water supply and wastewater treatment projects. These are typically local projects and are the subject of an EPA subsidized loan program. The program has been shown to be driven by politics and the funds are not even directed to certain projects, but rather to local jurisdictions for their use.

End funding to Upper Mississippi River Locks project: $500 million (estimated)

> This controversial project, which would cost a total of $1.8 billion, has never been found to be economically justified by the National Academy of Sciences and the U.S. Army Inspector General. It is being driven largely by pork-barrel politics.

Total Army Corps Cost Savings: $900 million

<u>Department of Agriculture</u>

Enact the President's proposed changes to the commodity program: $2.8 billion

> The President's budget proposed a suite of changes to the commodity program. These proposals include reducing payment limitations from $360,000 per individual to a total of $250,000 per farm annually, minimizing the cost of the dairy price support program, reducing all commodity payments to farmers by 5 percent, and applying a 1.2 percent marketing assessment on sugar processors. These cost-saving reforms should be enacted.

Reform the Crop Insurance Program: $700 million

> The Administration's 2006 request included a proposal to compel producers to purchase more adequate coverage by tying the receipt of direct payments or any

other Federal payment for crops to the purchase of crop insurance. This should be enacted.

Cut the Foreign Market Development Program: $160 million

This program, also known as the "Cooperator Program," promotes the export of basic U.S. agricultural products. It is an unnecessary program whose effectiveness has never been demonstrated.

Cut funding for the Market Access Program: $231 million

This program is designed to boost U.S. exports of produce. It gives money to trade groups and firms directly for the promotion of U.S. goods. Private industry, not government, should be covering these costs.

Eliminate timber sales in national forests with bad fiscal records: $710 million

Every year taxpayers spend hundreds of millions of dollars subsidizing the timber industry's logging activities on National Forest lands, and every year the Forest Service fails to show a profit on the timber hauled away. According to the latest CBO estimates, eliminating timber sales in the four National Forest regions in which expenditures were more than twice the revenue generated would save $710 million.

Total USDA Cost Savings: $4.601 billion

<u>Department of Commerce</u>

Eliminate the Advanced Technology Program: $700 million

The Advanced Technology Program provides subsidies to corporations to help them turn existing basic research into new products. Past recipients of this aid include corporate giants such as Caterpillar and General Electric.

Eliminate the International Trade Administration: $1.1 billion

This agency manages export promotion programs and provides assistance to companies engaging in foreign trade, including placing trade officers on the ground in foreign nations to ease trade.

Total Department of Commerce Cost Savings: $1.8 billion

<u>Department of Defense</u>

Stop Production of the F/A-22 Raptor: $9.146 billion

The Raptor has been in development since 1986, but after more than $41 billion in federal spending, the Air Force has little to show for it. Producing a single F/A-22 will cost more than three times what an F-16 does, and more than twice what modern F-15s do.

Cancel the V-22 Osprey: $7.794 billion

The V-22 Osprey has limped along on broken wings for years, drawing some high-level critics, including then-Secretary of Defense Dick Cheney in 1989.

There are a number of tried and true helicopter types that could reasonably replace the Osprey's capabilities. This program, which has cost billions of dollars and led to the death of 30 marines, should be ended.

Delay Fielding of the Lead DD(X) Destroyer: $1.40 billion

DD(X) development needs to be slowed to allow for the core technologies to mature. The House of Representatives recently passed legislation that would cap the DD(X)'s cost at $1.7 billion, but as one congressional aide said, "That ship is totally non-buildable at $1.7 billion." TCS recommends moving procurement of the lead ship to FY 2008 and reducing procurement of DD(X) destroyers by one.

Cancel the Airborne Laser: $1.820 billion

The Airborne Laser (ABL) is a modified Boeing 747 with a high-power and long-range laser attached to the nose. It has been dogged by cost and schedule problems. The value of the primary contract has more than tripled, from $1 to $3.6 billion, and there are serious concerns about its effectiveness, even after the kinks are worked out. The Airborne Laser should be cancelled immediately. The program's usefulness is increasingly suspect, and while capabilities have decreased, costs have spun out of control.

Slow Development of Ground Based Missile Defense: $7.04 billion

Ground-Based Midcourse Missile Defense has endured a discouraging string of tests that make the recent deployment of interceptors in Fort Greeley, Alaska seem premature. The three most recent tests of the system all failed to even launch due to system glitches. Further development should be halted for FY2006 and reevaluated each year pending further evaluation of the system.

Delay fielding of Future Combat Systems: $7.539 billion

The Future Combat Systems (FCS) program is a massive procurement project with extremely ambitious goals – the Army wants to implement this technology by 2011. As of 2005, the Government Accountability Office reported that just one of more than 50 critical technologies for the FCS was mature. The fielding of FCS should be moved back to 2015 to allow for maturation of FCS's core technologies.

Reduce Acquisition of Joint Strike Fighter: $4.20 billion

The Joint Strike Fighter (JSF) program is intended to produce a fighter aircraft with greater capability than current F-16 fighters. However, problems with the aircraft design have increased development cost estimates over 80%. Rising costs have forced the DOD to make moderate decreases in planned procurement of the JSF. The U.S. should further reduce acquisitions of the JSF, and instead rely more on the F-16. The F-16 remains one of the most capable fighters in the world, and it gives the Air Force by far the most bang for its buck. A modern F-16 costs less than $40 million.

Cancel Enhanced Test Readiness: $122 million

The Enhanced Test Readiness program aims to reduce the time required for the testing of a nuclear weapon from 36 months to 18 months. There is no evidence that the program will allow us to reduce test times, and no reason for the U.S. to return to Cold War readiness levels.

Cancel the Robust Nuclear Earth Penetrator: $8 million

The Robust Nuclear Earth Penetrator – the "Bunker Buster" nuclear device – is a proposed missile intended to slam into rock or concrete and detonate a few meters below the earth's surface. Even Linton Brooks, head of the National Nuclear Security Administration, freely admits that this missile is neither as effective nor as precise as its proponents suggest. The U.S. has many nuclear weapons in its arsenal, and the Bunker Buster will do nothing to boost our deterrent threat.

Cancel the Modern Pit Facility: $126 million

The Modern Pit Facility (MPF) would churn out nuclear pits – the plutonium core of a nuclear weapon that triggers the explosion. The U.S. has no need for more pit production: the average age of pits in the current stockpile is 20 years, and pits have an average life of 45-90 years. This program has no value to our military.

Cancel the C-130J: $3.733 billion

C-130Js are already being delivered to the Air Force, but costs have increased and none of the aircraft delivered thus far have met Air Force specifications. This program has survived because of the power of its supporters in Congress, whose states and districts would suffer from its cancellation.

Delay SBIRS-High: $3.4 billion

Space-Based Infrared System-High (SBIRS-High) is a satellite-based missile defense system that the Pentagon has been working on since 1994, with no positive results. This program has been a headache for both the military and for defense contractors. It should be delayed for at least five years so that the DOD can reevaluate its value and its feasibility.

Total DOD Cost Savings: $42.6 billion

Department of Energy

Cut the Office of Nuclear Energy, Science, and Technology: $2.5 billion (estimated)

Nuclear power is a mature, thriving industry that has been operating in America for more than 50 years. It does not need federal support to survive. It's time to cut nuclear power loose.

Cut the nuclear physics program in the Office of Science: $2.0 billion (estimated)

End federal R&D on Coal: $1.75 billion (estimated)

The U.S. has a major oil and natural gas problem; but we do not have a serious coal problem. Coal is abundant and the industry is faring quite well; we do not need to spend taxpayer dollars on R&D that the industry should take on itself.

Eliminate FreedomCAR: $845 million

FreedomCAR, a public/private research partnership to create a hydrogen-powered automobile, is poorly designed with a dismal chance of success.

Restructure Power Marketing Administrations to charge higher rates: $880 million

Currently, the PMAs sell electricity at cost. This distorts market signals and encourages inefficient use of energy.

Increase the fee of the Nuclear Waste Fund: $428 million

Estimates of the cost of storing nuclear waste has risen dramatically since the Nuclear Waste Policy Act was passed in 1982, but the fee to nuclear waste producers remains the same. It should be indexed to inflation.

Total DOE Cost Savings: $8.4 billion (estimated)

Department of Health and Human Services

Delay Medicare Prescription Benefit by one year: $32.8 billion

This is a controversial plan to provide prescription drugs for (mostly) seniors. Critics argue there are several flaws in the plan, including equal benefit for all seniors (no means testing) and the lack of government price negotiation with pharmaceuticals companies for drugs in the formulary. Delaying implementation by one year would help save federal money in the short-term.

Total HHS Cost Savings: $32.8 billion

Department of Transportation

Give back highway bill earmarks: $9.8 billion

The 2005 transportation bill contained $24.2 billion in earmarks, the most ever for a single piece of legislation. $14.4 billion of those earmarks are factored into the state formulas, and those would be difficult to extricate. But the other $9.8 billion in earmarks can and should be cut immediately by Congress.

Eliminate Grants to Large and Medium-Sized Airports: $7.36 billion

The Federal Aviation Administration provides funding to airports to expand runways, improve safety, and make other capital investments. Over the last two decades about 40 percent of the program’s funding went to large and medium-sized hub airports. These sorts of airports have generally been able to finance improvements themselves through bonds and other revenue enhancers.

Total DOT Cost Savings: $17.16 billion

Legislative Branch

Congress should forgo pay raises until it balances the budget: $14 million (estimated)

Over the last sixteen years, members of Congress have seen their salaries increase by more than 75%, thanks to a generous cost-of-living-adjustment that Congress granted itself in 1989. We urge Congress to waive its annual pay raise until it balances the federal budget. This would save taxpayers an estimated $14 million over the next five years, according to figures by the National Taxpayers Union Foundation.

Total Leg Branch Cost Savings: $14 million (estimated)

NASA

Scrap DOE mission to Moon/Mars: $1 billion

Cancel Project Prometheus: $2.295 billion

Project Prometheus is a NASA program to develop a space qualified nuclear reactor. Launching a nuclear reactor into space at a time when shuttles have proved unstable is a horrible idea.

Total NASA Cost Savings: $3.295 billion

General Budget

Moratorium on pork for FY 2006 appropriations bills: $32 billion (estimated)

In the 13 appropriations bills of FY 2005, Congress passed a record $32 billion in pork projects. Pledging to forgo all pork in this year's appropriations process would save an estimated $32 billion over the next year.

Eliminate the Export-Import Bank and OPIC: $616 million

The Ex-Im Bank is the U.S.'s official credit foreign agency, and the Overseas Private Investment Corporation (OPIC) finances and insures American companies against foreign political risk. Both of these agencies take on responsibilities that the private industry should take on itself. The Ex-Im Bank, for example, is now trying to provide a massive loan to Westinghouse, a British government-owned company, so that it can do business with China.

Total General Budget Cost Savings: $32.616 billion (estimated)

Total Proposed Spending Offsets: $144.19 billion

Revenue Offsets (all estimates over five years)

Eliminate 51-cent ethanol tax incentive: $7.3 billion

The ethanol mandate, a part of the energy bill, means that the federal government is now giving ethanol producers a tax break for a product that consumers are already forced to use.

Eliminate the alternative fuel production credit: $4.0 billion

The alternative fuel production credit, better known as the Section 29 credit, was created in 1980 to deal with the oil crisis, but the credit quickly became used as a loophole used to shield companies' assets from taxation.

Repeal expensing of exploration costs for extracting industries: $17.1 billion

This includes oil, gas, and hard minerals. At a time when energy companies are making record profits on oil and gas, they don't need incentives to drill for more – they already have all the incentive they need.

Tax public electric power utilities' income: $3.6 billion

Unlike private or investor-owned utilities, public utilities are exempt from federal income tax on income earned from their facilities for generation, transmitting and distributing electricity. This tax expenditure can lead to increased consumption and inhibits competition in the marketplace with private power.

Eliminate the percentage depletion write-off: $3.0 billion

Percentage depletion allowance lets certain oil and gas producers claim a tax write-off when the value of their assets decline over time – that is to say, as their wells are depleted. The problem with percentage depletion is that it often allows firms to deduct in excess of their original investment on the well. There is no reason to give oil and gas companies a generous government write-off at a time of record prices.

Eliminate the SUV tax credit: $700 million

Under current tax policy, the U.S. government grants a $25,000 tax break for the business purchase of sports utility vehicles over 6,000 pounds. The SUV break has been reduced from 100,000 to $25,000, but it should be eliminated entirely. Expensing all business vehicles equally would save the federal treasury $700 million over five years.

Eliminate mortgage interest deduction for second homes: $20 billion (estimated)

Arguably the single most celebrated tax expenditure, the mortgage interest deduction allows taxpayers to deduct up to $1.1 million of the interest on the debt they accrued to buy, build, or improve their homes. But because it gives homeowners a deduction not only on their first home, but on their second, third, fourth, etc., as well, it encourages overdevelopment and sprawl. Indeed, a lot of second homes are built on the coast, causing the coastal environment to deteriorate and leaving those areas more susceptible to floods and hurricanes. The mortgage interest deduction will cost $434.2 billion over the next five years; by eliminating the deduction for second homes, the government would save an estimated $20 billion over that period.

Amend estate tax relief: $2.055 billion

This proposal would amend the current law governing the estate tax to increase the exclusion amount to $3 million in 2006 (currently at $2 million) and $3.5 million in 2009 and make that the permanent level (rather than full repeal in 2010 as envisioned in current law).

Total Proposed Revenue Offsets: $57.755 billion