



green scissors 2012

Cutting Wasteful and
Environmentally Harmful
Spending





TABLE of CONTENTS

INTRODUCTION	2
Acknowledgements	2
Report Partners	3
Methodology	5
ENERGY	7
Loan Guarantees	7
Fossil Fuels	7
Nuclear Energy	9
Alternative Fuels	10
AGRICULTURE	11
Commodity Crops	11
Market Access Program	12
Biomass Electricity	12
Crop Insurance	12
TRANSPORTATION	13
Highway Trust Fund	13
Essential Air Service	14
Charlottesville Bypass	14
INSURANCE	15
Flood Insurance.	15
Crop Insurance	15
Energy Insurance.	16
PUBLIC LANDS & WATER	17
Timber Subsidies	17
Hardrock Mining.	18
Army Corps of Engineers	18
Bureau of Reclamation.	21
RECENT VICTORIES	23



INTRODUCTION

For more than 18 years the Green Scissors campaign has been a collaboration between budget and environmental groups aimed at eliminating wasteful spending that is harmful to the environment. This year's report is a collaboration between environmental organization Friends of the Earth, budget watchdog Taxpayers for Common Sense, and free-market think tank R Street. While each group comes to the Green Scissors project with a unique mission, a diverse constituency, and different opinions on the role of government, we join together around one shared goal: exposing and eliminating wasteful and environmentally harmful spending.

Green Scissors is a consensus document; all of our groups believe making the cuts contained in this report would be beneficial, although we see them as only part of the solution. Making the cuts highlighted in *Green Scissors 2012* would be an important first step to ending environmentally harmful spending, but even more could and should be done.

In mid-2012, as this report goes to press, its message is particularly urgent. Before the end of the year, enormous annual deficits, a giant federal debt, automatic budget cuts and the expiration of many tax cuts will require Congress to make difficult decisions on taxes and spending. And all sides concede that spending in some areas must be cut. Although certain constituencies will obviously be worse off after any set of cuts, the partners on this report all strongly believe that the cuts in this report will make the country as a whole better off. As such, they should be considered the low-hanging fruit for policymakers looking to pull the United States back from the brink of a fiscal precipice.

This year's report details nearly \$700 billion in cuts from five different areas: energy, federal insurance, agriculture, transportation, and public lands and water.

Wasteful and environmentally harmful government spending comes in many different forms, including discretionary programs, mandatory programs such as commodity crop payments, tax expenditures, below-market giveaways of public resources, preferential government financing such as loan guarantees, and risk reduction through government

insurance and liability caps. What these subsidies all have in common is that they damage the environment while providing a benefit to one class not available to others.

ACKNOWLEDGEMENTS

LEAD AUTHORS

Autumn Hanna

Taxpayers for Common Sense
651 Pennsylvania Avenue S.E.
Washington, D.C. 20003
(202) 546-8500 | WWW.TAXPAYER.NET
autumn@taxpayer.net

Benjamin Schreiber

Friends of the Earth
1100 15th Street N.W., 11th Floor
Washington, D.C. 20005
(202) 222-0752 | WWW.FOE.ORG
bschreiber@foe.org

Eli Lehrer

R Street
1728 Connecticut Avenue N.W., 2nd Floor
Washington, D.C. 20009
(202) 525-5719 | WWW.RSTREET.ORG
elehrer@rstreet.org

ADDITIONAL AUTHORS: Deborah Bailin, Katrina Hoch, Justin Theal, Cody Clarke, Steve Ellis, Josh Sewell, Sheila Karpf, and Erich Zimmermann
DESIGN AND LAYOUT: Karin Stack, karinstack.com
PRINTING: Doyle Printing, Hyattsville, MD

The authors would like to extend their sincere thanks to the foundations and individuals whose financial support made the *Green Scissors 2012* report possible. Thanks also to colleagues and advocates across the country working to end wasteful and environmentally harmful spending.

This report is available online at www.greenscissors.com. *Green Scissors 2012* was updated on August 7, 2012, with revised figures where necessary and a fuller description of the methodology.

Green Scissors is a registered trademark of Friends of the Earth.

INTRODUCTION



For more than 40 years, Friends of the Earth's mission has been to ensure a more healthy and just world. Dealing with large societal problems like global warming requires coordination and resource mobilization only governments can bring to bear, making government intervention essential if we are to succeed in protecting the environment and public health. Government regulation is one necessary tool to tackle today's most pressing environmental problems, and laws like the Clean Air Act and the Clean Water Act have been hugely successful. In addition, properly-targeted, well-designed government investments can help us move towards a clean, sustainable energy future by spurring the development of technologies to transition us away from dirty energy.

However, while the government is necessary for environmental protection, not every government action is good for the environment. Too often government is captured by the wealthiest and most established industries, which are oftentimes the dirtiest. When this happens, government actions which

should promote public health end up harming it. But the solution cannot be a knee-jerk denunciation of all government that leaves profit-driven corporations as the protectors of the public good. Instead, we need to separate the good from the bad, keeping government programs that help us build a more healthy and just world and eliminating programs that do the opposite.

Friends of the Earth co-founded the Green Scissors project back in 1994 because we believe that respectfully working with those concerned about the budget to end subsidies for activities contributing to environmental destruction is an important first step in protecting the environment and public health. Over 18 years later, Green Scissors remains an important opportunity to make real change. We are proud to work with groups espousing different views in order to advance our agenda of protecting people and the environment. While we may disagree with our Green Scissors partners on many things, we can agree that the programs in this report are both wasteful and environmentally harmful. By working together, we have a better chance of getting them eliminated. If groups as different as those in the Green Scissors coalition can agree these programs should end, then we feel it must make sense.



Since 1995, Taxpayers for Common Sense (TCS) has been a leader of the Green Scissors Coalition. A cornerstone of our natural resource work, Green Scissors targets federal spending, tax expenditures, and other subsidies that cost taxpayers both upfront and over the long-term with their environmental liabilities.

TCS is a non-partisan budget watchdog dedicated to cutting wasteful spending and subsidies in order

to achieve a responsible and efficient government that operates within its means. TCS believes the federal budget is about more than just dollars; it is about what we want to accomplish as a country.

Our 17 years of energy, transportation, water, public lands, and farm policy expertise leads us to approach subsidies included in the Green Scissors report from a fiscal perspective. Subsidies are federal expenditures that shift the costs of business from industry to the taxpayer and take different forms: preferential treatment to one industry over another in the tax code; direct payments from the government; market-distorting public financing; limitations of liability that shift corporate risks to the taxpayer; and giving away taxpayer assets below market value.

INTRODUCTION

TCS believes government waste costs more than just money. Misguided government subsidies often cause effects counter to other policy goals: they can damage resources, endanger public health, aggravate economic problems, and undermine true national security. At a time of record deficits, these subsidies are driving the government further into debt and threatening the nation's economic stability. We fight for a smart government that lives within its means. We believe the decisions on how to spend our tax dollars should be transparent. And we believe we have a right—and a duty—to demand excellence and accountability from our government.

TCS works to transcend partisanship and attract the widest possible audience to build something Americans can believe in: a government that costs less, makes more sense, and inspires trust.

Green Scissors offers an opportunity to bring together diverse constituencies with different missions, visions, and priorities around one goal: eliminating spending that is both wasteful and environmentally harmful. While there is far more spending and subsidies TCS would seek to eliminate, this report deals with these issues in a manner consistent with how TCS tracks and eliminates wasteful spending across the board.



R Street is a national educational and research institution—a think tank—dedicated to free markets and real solutions. It takes its name from Washington, D.C.'s R Street, the dividing line between the District's lobbying center in the K Street corridor and the residential neighborhoods to the north. And that's where R Street, the organization, wants to be: straddling the divide between public policy and everyday life.

R Street is non-partisan, non-profit, and non-political. Ideologically, it can fairly be considered a part of the political Right. Its founders see Friedrich Hayek, Milton Friedman, and John Stuart Mill as guides to good public policy. It is devoted to free markets, limited government, and responsible environmental stewardship. And the Green Scissors campaign does as much as anything else to forward all parts of this mission.

Quite simply, the United States government employs more people, spends more money, and uses more energy than any other entity. Because government has powers that are not—and should not be—granted to any private entity, it can do many things no private entity ever could. And these things have consequences for every American. While some govern-

ment programs can help the environment, enormous numbers of them do harm. The Green Scissors agenda documents this harm in every place we could find it.

As an organization devoted to shrinking the size and scope of government, many programs R Street would like to see eliminated are not mentioned in this report. This isn't because R Street supports them; it's simply because they are not necessarily bad for the environment. For example, R Street believes subsidies for wind power, solar power, and, indeed, all other forms of energy should be eliminated in addition to the subsidies for fossil and alternative fuels targeted in the Green Scissors report. But not all of these subsidies have negative consequences for the environment. In some cases, likewise, R Street stands against subsidies that may be helpful to the environment in some respects. For example, R Street thinks nuclear power is a very promising source of clean, reliable, energy but nonetheless opposes nuclear subsidies. R Street takes this position because of concerns about the potential environmental dangers of nuclear power but, just as importantly, because it believes the nuclear industry should also stand on its own.

More than anything else, R Street is proud to be a part of the Green Scissors campaign because it shows how practical, limited government solutions can bring real benefits to the nation and to humankind's common home in the natural environment.



REPORT METHODOLOGY

The numbers in *Green Scissors 2012* represent the potential cost to taxpayers, not necessarily the expected cost to taxpayers, over a ten-year period. This distinction is especially important in the case of loan guarantees because the potential risk to taxpayers can be significantly higher than the cost estimate the Congressional Budget Office (CBO) allocates against the budget. The one place where the potential risk is not used is for insurance guarantees. We do not use potential taxpayer risk there because the insurance liability on a massive project like a nuclear reactor is almost impossible to calculate and almost infinite. We have used different methodologies for different insurance programs depending on the available sources, all of which are explained below.

Whenever possible *Green Scissors 2012* relies on the most recent government sources available, primarily the Joint Committee on Taxation (JCT), the Government Accountability Office (GAO), and the Office of Management and Budget (OMB) for the value of sub-

sidies. In a very few instances where no governmental numbers are available, we have used peer-reviewed academic publications. These instances are all footnoted in the report.

In the past, *Green Scissors* has used five-year projections because five-year totals are standard for the Joint Committee on Taxation. However, the ongoing debate about the budget and spending priorities has focused on ten-year numbers. In response, instead of using the five-year estimates we have traditionally used, this year's *Green Scissors* report calculated the potential savings for a ten-year window or over the life of a project if that is less than ten years. To get ten year numbers, we averaged the numbers available and used the average for years without data. This sacrifices a level of accuracy, but the numbers remain illustrative of the savings that could be achieved.

Obviously, it is impossible to know what the government will do ten years into the future and so several assumptions have to be made.



INTRODUCTION

For all programs funded through yearly appropriations, we assumed spending for the program would continue at the same levels as were actually appropriated in fiscal year 2012.

Many tax expenditures, including some listed in this report, include sunset provisions. Past experience has shown that, once enacted, tax breaks are rarely allowed to expire on schedule. For the purposes of this report, we assume expiring tax provisions will be extended for the entire ten years.

The true cost of loan guarantees is particularly difficult to calculate. The Congressional Budget Office has said the government's laws do not provide "full accounting of what federal credit programs actually cost the government." For this reason, we are again including the entire amount the federal government is guaranteeing when calculating the potential cost of loan guarantee programs. This represents the amount of money that could be lost by taxpayers, not necessarily the amount we estimate to be lost by taxpayers.

Insurance programs and liability caps also present unique challenges. Only one insurance program—crop insurance—is "on budget" and receives funding directly from the United States Treasury. Other insurance programs, however, are costly to taxpayers because of their implicit guarantees (contingent liabilities) or the ability to borrow money from the Treasury they will never be able to pay back. To arrive at values for these insurance programs, we use academic estimates of the value of guarantees attached to the Price-Anderson Act and the value of loans unlikely to be paid back associated with the National Flood Insurance Program.

Commodity payments and the federal crop insurance program cost estimates are from the Congressional Budget Office's (CBO) most recent baseline (March 2012). Historically, CBO and the United States Department of Agriculture have both under-

and overestimated the actual cost of these programs since most are tied to fluctuating crop prices. Costs for other energy, forestry, and biomass programs are actual or projected costs from the President's FY2013 Budget or the U.S. Department of Agriculture Farm Service Agency's Commodity Estimates Book.

Cost estimates for transportation projects, especially larger projects, are notoriously unreliable. The total cost is often vastly underestimated. The price listed for individual projects is the expected federal contribution where a reliable estimate is available. When a reliable estimate is not available, the complete cost of the project is included, with the understanding that the federal cost will be some portion of that amount. Though this approach will overestimate the federal cost on some projects (where the full project cost is used), it will underestimate it in others (where the estimated federal cost is used and proves to be too low).

As with transportation, cost estimates for water projects are also unreliable. In most cases, the cost listed for individual projects is the most recent estimated or authorized cost of the project. The Inland Waterway Trust Fund bailout is the increased general treasury spending called for in the Inland Waterway Users Board (IWUB) proposal. The savings from shuttering the IWUB is the FY13 budget request plus the annual cost of continuing this program as stated. Though this approach will overestimate the federal cost on some projects (where the full project cost is used), it will underestimate it in others (where the estimated federal cost is used and proves to be too low).

Finally, some programs appear in more than one place in the report. For example, all of the programs in the insurance section also appear in the other relevant sections of the report. When calculating total savings, we count programs only once.

For more than a century, the federal government has been subsidizing the energy sector. Fossil fuels like coal, oil, and natural gas were the recipients of these initial subsidies and these industries remain on the federal dole. Every part of the nuclear fuel chain has been heavily subsidized for more than 60 years. More recently, alternative fuels are being subsidized in the quest for an amorphous goal of “energy security” or for their reported environmental benefits. Unfortunately, many of these technologies are damaging to the environment—some even more so than conventional energy sources. The energy section of the report details billions of dollars in potential cuts to three major energy sectors: fossil fuels, nuclear, and alternative fuels. Energy subsidies now cost taxpayers tens of billions of dollars each and every year.

Subsidies for energy take many forms including funding for research and development, tax preferences, direct subsidies, foregone revenue, loan guarantees, and more. Years of political wrangling have resulted in a large, intricate web of energy subsidies. Digging into this complicated system, Green Scissors identifies billions of taxpayer dollars that could be saved by cutting subsidies both environmentally harmful and fiscally wasteful.

This year’s Green Scissors report offers more than \$275 billion in total energy cuts over ten years.

LOAN GUARANTEES

The latest scandal over energy subsidies has centered on the Department of Energy’s Title 17 Loan Guarantee Program. Created in the Energy Policy Act of 2005, Title 17 was billed as a way to get a small number of innovative, low-emission technologies off the ground but in reality the program has always been little more than a taxpayer handout for mature and environmentally harmful technologies that cannot compete on the open market. Well before the first loan guarantee failed, the Green Scissors coalition warned about the dangers this program posed and called for Congress to eliminate it. Currently, Congress has given DOE the authority to put taxpayers

DEPARTMENT OF ENERGY'S TITLE 17 LOAN GUARANTEE PROGRAM	CURRENT AUTHORITY (in millions)
Nuclear Power Facilities	\$18,500
Carbon Capture and Sequestration	\$6,000
Renewable Energy, Efficiency, and Transmission	\$4,500
Uranium Enrichment	\$4,000
Advanced Coal Gasification	\$2,000
Unallocated	\$2,000
TOTAL	\$37,000

on the hook for roughly \$37 billion in new loan guarantees: \$18.5 billion for nuclear reactors, \$4 billion for uranium enrichment, \$6 billion for carbon capture and sequestration (mostly for coal fired power projects), \$2 billion for advanced coal, \$4.5 billion for renewable energy, efficiency and transmission, and \$2 billion that can be used at DOE’s discretion. Congress should stop DOE from risking taxpayer money on this flawed program.

FOSSIL FUELS

With gas prices hitting pocketbooks hard, massive budget deficits, and oil company revenues reaching new highs, subsidies provided to the fossil fuel industry are again attracting enormous attention. As pressure mounts for fundamental reform of the tax code, the time is ripe to eliminate subsidies for fossil fuels. To achieve this, the nation will need to get beyond partisan rancor. Unfortunately, virtually all we have seen up to this point is a flurry of intense political rhetoric; partisan votes on subsidy reform have deepened the divide between the parties. Despite the increased focus on cutting subsidies, these often century-old giveaways remain on the books.

The detailed chart estimates the ten-year price tag for many of the subsidies the fossil fuel sector receives. It includes cuts to subsidies for the traditional oil, gas, and coal industries, which are major polluters.

FOSSIL FUEL	TOTAL 2013–2022 (millions)
Last In, First Out Method of Accounting for Inventories*	\$70,729
Domestic Manufacturing Tax Deduction for Oil and Gas Companies	\$16,820
Percentage Depletion Allowance for Oil and Gas Wells	\$12,099
Oil Royalty Relief	\$11,439
Deductions for Foreign Tax — Dual Capacity*	\$9,571
Intangible Drilling Costs	\$9,529
Fossil Energy Loan Guarantee Authority	\$8,000
Fossil Energy Research and Development Program	\$5,340
Domestic Manufacturing Deduction for Coal and Other Hard Mineral Fossil Fuels	\$2,412
Credit for Investment in Clean Coal Facilities	\$2,000
Gas Royalty Relief — Deep and Shallow Water Gas	\$1,995
Expansion of Amortization for Certain Pollution Control Facilities	\$1,680
Industrial CO ₂ Capture and Sequestration Tax Credit	\$1,510
Percentage Depletion Allowance for Coal and Hard Mineral Fossil Fuels	\$1,310
FutureGen 2.0	\$1,300
Natural Gas Distribution Lines	\$1,200
Amortization of Geological and Geophysical Expenditures	\$957
Capital Gains Treatment for Royalties from Coal	\$610
World Bank Capital Increase	\$587
Expensing of Exploration and Development for Minerals	\$279
Indian Coal Production Credit	\$200
Refined Coal Production Credit	\$200
Ultra-Deepwater & Unconventional Natural Gas & Other Petroleum Research Fund	\$185
Liberalize the Definition of Independent Producer	\$170
Exemption from Bond Arbitrage Rules	\$90
Passive Loss Exemption	\$86
Certain Income & Gains Relating to Industrial Source CO ₂ Treated as Qualifying Income for Publicly Traded Partnerships	\$67
Expensing of Tertiary Injectants	\$55
Natural Gas Gathering Lines	\$10
Liability Limitations for Offshore Drilling**	—
TOTAL	\$160,430

* This number represents the full elimination for all industries.

** Current statute—the Oil Spill Liability Act of 1990—places a limit of \$75 million in damages plus cleanup costs on oil producers. In theory, this limit significantly limits the need for oil producers to purchase insurance or otherwise guard against private sector damage claims resulting from oil spills. In practice, however, political pressure has forced oil companies to pay for damages in excess of the cap following most major spills. While the mere existence of the cap is of some financial value of oil producers, however, the strong precedent that companies must pay at least some damages in excess of the cap means that it's impossible to produce a credible estimate as to the financial value of the cap.

NUCLEAR

The environmentally risky nuclear industry receives enormous federal subsidies. Since the 1950s it has benefited from federal supports for insurance, research and development, production tax credits, and borrowing. These subsidies and others remain on the books.

The latest attempt to give new subsidies for nuclear power is President Obama's proposal to spend \$452 million of taxpayer money over five years to pay for the design and licensing costs of the country's first two small modular reactors. This would put taxpayers on the hook for roughly half the cost of designing

and licensing these environmentally and financially risky investments. Congress has already appropriated \$67 million for this initiative and the Department of Energy has already moved forward with a Funding Opportunity Announcement. These are costs that should be borne by industry, not taxpayers.

Today, perhaps the largest and most egregious subsidy for the nuclear industry is federally-backed loan guarantees. Provided through the Department of Energy, the loan guarantee program currently has \$18.5 billion in congressionally directed budget authority for nuclear reactors and another \$2 billion for uranium enrichment facilities. In addition, DOE

has stated it intends to give \$2 billion more for uranium enrichment. Two conditional loan guarantee commitments have been issued for nuclear projects: Southern Company's Vogtle reactor in Georgia and Areva's Eagle Rock Uranium Enrichment Facility; several other applicants are pending.

Most of these applicants or pending commitments are blatantly bad investments for taxpayers. One project that continues to remain on the DOE loan guarantee docket is the United States Enrichment Corporation's Advanced Centrifuge Project in Piketon, Ohio. For years the project has received tens of millions of dollars in federal support and kept its place in line for a loan guarantee, despite a dire financial outlook for the company. As of June 13, stock prices were trading at \$.94 per share and the NYSE had threatened to delist the company altogether. In order to prop the company up the House included a \$150 million authorization in the National Defense Authorization Act in May 2012. Taxpayer money should not be funneled into this flawed private company.

The chart summarizes current nuclear industry subsidies.

NUCLEAR	TOTAL 2013–2022 (millions)
Loan Guarantees for Nuclear and Uranium Enrichment	\$22,500
Nuclear Waste Fund Liability Payments ¹	\$17,200
Price-Anderson Act ²	\$8,000
Mixed Oxide — Fissile Materials Dispositions — Construction	\$6,854
Inertial Confinement Fusion Ignition and High Yield Campaign	\$4,748
Non-Defense Environmental Cleanup	\$2,353
Stand-by Support	\$2,000
Fuel Cycle R&D	\$1,863
Reactor Concepts Research and Development	\$1,149
Credit for Production of Advanced Nuclear	\$930
Modification to Special Rules for Nuclear Decommissioning Costs	\$900
Nuclear Energy Enabling Technologies	\$747
Small Modular Reactor Program	\$452
Treatment of Certain Income of Electric Cooperatives	\$391
TOTAL	\$70,086

1 This number is the Blue Ribbon Commission's estimate of liabilities that the federal government will owe if nuclear waste is not accepted in the next ten years.

2 For Price-Anderson we used the low end of the range of \$800 million to billions per year that Doug Koplow found in *Nuclear Power: Still Not Viable without Subsidies*.

ALTERNATIVE FUELS

High prices at the pump and concern about energy security have once again resulted in a push for alternatives to oil. Ideas include new energy sources that don't yet exist commercially, like cellulosic biofuels, and novel ways of using existing sources such as liquefying coal. Alternative fuel sources often require many years and significant subsidies before becoming viable, if they become viable at all. While drilling and burning oil has significant environmental and public health impacts, many alternative fuels, including some touted as environmentally friendly, would be even more harmful.

Corn ethanol could be the poster child for alternative fuels gone astray. Until just last year, the federal government supported the use of corn ethanol with tax incentives, infrastructure investment, and a mandate. While the tax credit and import tariff have

expired, other subsidies remain even though we now know corn ethanol negatively impacts air and water quality and availability and has increased the price of food around the globe. Still, the corn lobby is using high gasoline prices to try to justify continued subsidies, as well as new ones.

There is a real danger that high gasoline prices will be used to justify new subsidies for alternative fuels. This spring the Senate voted on including the NATGAS Act as part of the transportation reauthorization bill. It would provide significant subsidies for natural gas at all levels from manufacturing and infrastructure to consumer tax credits. While this initial attempt failed, there are bound to be more attempts to subsidize alternative transportation fuels as Congress tries to signal they are doing something to combat gas prices heading into the elections. Other potential threats include additional infrastructure investment for corn ethanol and a Department of Energy loan guarantee for the Medicine-Bow liquid coal facility highlighted in Green Scissors 2011. Congress should refrain from wasting taxpayer money on cynical policies that won't actually have any impact on prices at the pump in the short term but which will irreparably damage the environment.

The chart summarizes current alternative fuel subsidies.

ALTERNATIVE FUELS	TOTAL 2013–2022 (millions)
Volumetric Biodiesel Excise Tax Credit and Renewable Biodiesel Tax Credit	\$17,245
Election to Expense 50 Percent of Qualified Property Used to Refine Liquid Fuels	\$5,333
Tax Credit and Deduction for Clean-Fuel Burning Vehicles	\$4,220
Production Tax Credit for Cellulosic Ethanol	\$4,121
Biorefinery Assistance Program	\$2,850
Department of Energy Biomass and Biorefinery R&D	\$1,993
Excess of Percentage Over Cost Depletion, Other Fuels	\$1,600
Bioenergy Program for Advanced Biofuels	\$1,050
Expensing of Exploration and Development Costs, Other Fuels	\$1,000
Credit for Alternative Fuel Mixtures	\$551
DOE Fuel Technologies	\$179
Biodiesel Fuel Education Program	\$10
Alternative Fuel Vehicle Refueling Property	\$4
TOTAL	\$40,156

Washington wastes billions of taxpayer dollars annually on misguided agricultural policies. Instead of providing a safety net for America's family farmers—the reason many political leaders say they support the programs—federal agricultural policy increasingly showers subsidies on favored crops and large-scale agricultural business that can thrive without governmental support, while everyone else is left picking up the scraps.

As Congress and the president scour the budget for savings, federal agricultural policy must be sustainable and ensure taxpayer dollars are providing an appropriate safety net, rather than distorting the market to the benefit of favored and powerful interest groups.

COMMODITY CROPS

From direct payments based on a farm's past production, disaster payments, ethanol mandates, marketing assistance, and on and on, billions of tax dollars are spent every year supporting American agriculture. Little of what is seen in the produce aisle, however, benefits from federal agriculture subsidies. The bulk of these, nearly 90 percent, are given to only a handful of producers growing corn, cotton, wheat, rice, and soybeans. The vast majority of these commodity crops create pesticide and fertilizer pollution that can harm our water resources and ecosystems. And these taxpayer dollars often simply pad the profits of already successful producers. Perhaps the most egregious are for direct commodity payments.

The program was created in 1996 as a temporary measure that has since not been allowed to expire. It pays owners of land that historically grew certain commodities, whether or not that crop is still grown. Direct payments have helped lead to quickly escalating farmland prices that make it difficult for younger farmers to gain a hold. Other commodity supports distort the business decisions of farmers and provide an incentive for producers to grow crops on marginal and highly erodible land. Eliminating select commodity supports, including direct payments, would save taxpayers more than \$52 billion.

AGRICULTURE	TOTAL 2013–2022 (millions)
Major Commodity Crops	
Corn	\$22,179
Wheat and Wheat Products	\$11,134
Soybeans	\$7,617
Upland Cotton	\$6,843
Rice	\$4,336
Crop Insurance Disaster Aid	\$89,816
CAFOs — Environmental Quality Incentives Program	\$16,046
Biological and Environmental Research — Biological Systems Science	\$3,115
Open Loop Biomass	\$2,669
Market Access Program	\$2,100
Biomass Crop Assistance Program	\$1,960
Foreign Market Development Program	\$345
Re-Powering Assistance	\$341
Biomass Research and Development	\$328
Municipal Solid Waste	\$200
Forest Biomass for Energy Program	\$150
Community Wood Energy Program	\$50
TOTAL	\$169,229



MARKET ACCESS PROGRAM

The Market Access Program (MAP) should be eliminated. For more than two decades, taxpayers have spent billions subsidizing overseas ad campaigns to the benefit of profitable multinational corporations like McDonalds, Nabisco, Fruit of the Loom, and Mars. Cutting this wasteful program could save taxpayers more than \$2 billion over ten years.

BIOMASS ELECTRICITY

Biomass energy—produced by burning trees and other plant mass—has often been touted as green energy. Yet, burning materials to make electricity is inherently polluting, and burning biomass is no exception. Burning biomass (including wood, grasses, garbage, manure, and other materials) for electricity causes significant air pollution, including greenhouse gas emissions, particulate matter, volatile organic compounds, carbon monoxide, sulfur dioxide, nitrogen oxides, and lead. Emissions of some of these pollutants from biomass can be even higher than from coal combustion and are harmful to local populations because they can cause respiratory impairment, cancer, and other negative health effects. Despite these negative environmental impacts, there are a series of subsidies for biomass energy in place. Producers of electricity from biomass can receive a production tax credit and the federal government has a loan guarantee program to help finance biorefineries and a program to incentivize the growth of biomass crops. Taxpayers are subsidizing every stage of this dirty energy source, from growing the plants to putting the electricity on the lines.

CROP INSURANCE

Taxpayer-subsidized crop insurance is now the largest federal support for agriculture, costing taxpayers more than \$11 billion in 2011. Please see our section on insurance (page 15) for more details on this subsidy.

TRANSPORTATION

The nation's transportation system is at a crossroads. The nation's airports, highways, and rail lines suffer from wasteful and environmentally harmful projects, ineffective programs, a growing list of maintenance needs, and lack of sustainable funding.

HIGHWAY TRUST FUND

By 2013, the Highway Trust Fund, the nation's road and transit account, will be insolvent as the federal gasoline taxes supporting it no longer provide enough revenue to cover current spending levels. Meanwhile, increasingly scarce transportation dollars continue to fund wasteful pet projects, many of which promote sprawl and damage the environment, instead of fixing crumbling bridges and worn-out roads. Unfortunately, recent proposals from Congress and the president are little more than budget gimmicks that would backfill the Highway Trust Fund with

unrelated funding mechanisms and deficit spending. Most of these proposals would take years to generate funds or amount to little more than transfers from the Treasury, and they undermine the user-pays principal requiring drivers to pay for the transportation system's costs.

Though the nation's air system has fared better than surface transportation, it is not without its problems. The recent adoption of a four-year reauthorization continues to pour taxpayer dollars into little-used general aviation airports and wasteful, environmentally harmful air subsidy programs. Furthermore, the Federal Aviation Administration continues to receive general funds for operations, unfairly subsidizing air travelers at the expense of all taxpayers.

With the national debt growing by the minute, we should eliminate wasteful and environmentally harmful spending while prioritizing scarce federal spending on the projects and programs that matter most.

TRANSPORTATION	TOTAL 2013-2022 (millions)
General Revenue Transfers to Highway Trust Fund	\$125,800
General Revenue Transfers to the Airway and Airport Trust Fund	\$50,000
Airport Improvement Program Grants to General Aviation-Dominated Airports	\$22,000
DesertXpress Project (NV)	\$6,500
I-73 Project (SC)	\$2,400
Essential Air Service Program (excludes Alaska)	\$1,650
Knik Arm Crossing (AK)	\$1,500
Outer Bridge Portion of Ohio River Bridges Project (IN & KY)	\$1,300
Columbia River Crossing	\$1,180
St. Croix River Crossing Project/Stillwater Bridge (MN & WI)	\$650
Juneau Access Road (AK)	\$500
Gravina Island Access (AK)	\$300
Charlottesville Bypass (VA)	\$244
TOTAL	\$214,024

ESSENTIAL AIR SERVICE

As part of the Airline Deregulation Act of 1978, Congress created the Essential Air Service (EAS) to address concerns that unprofitable air service to smaller, less patronized airports would be cut as a result of airline deregulation. Though intended to be a transitional program, EAS continues today and provides a subsidy to air carriers serving qualifying airports at least 70 miles from a large or medium hub airport and transporting at least ten passengers per day; beyond 175 miles, the per day passenger minimum is lifted.

What exactly about this program constitutes as “essential” is a mystery; many of the cities served are an hour or less away from airports with flights requiring no subsidy. For example, the one-hour flight from Hot Springs, Arkansas, to Memphis, Tennessee, receives a subsidy of \$1,613 per passenger even though it is only a one-hour drive to a large, unsubsidized airport, Little Rock National Airport.

The Essential Air Service is a policy relic, created in the aftermath of airline deregulation and prior to a \$15 trillion debt. Subsidizing costly flights serving only a handful of passengers, using millions of gallons of fuel, and emitting a range of harmful pollutants makes no sense for taxpayers or the environment. Eliminating this program from the FAA’s budget could save up to \$1.65 billion over the next ten years.

CHARLOTTESVILLE BYPASS

Long in the crosshairs of budget groups and environmental advocates, the Charlottesville bypass, a 6.2-mile, four-lane limited access highway, would create an alternate route around a busy commercial corridor. How much this project will relieve congestion remains unknown; state transportation officials found none of the bypass alternatives would have any impact on the extreme congestion on the existing U.S. 29 corridor since a vast majority of the motorists are driving to destinations along the existing corridor. The potential for congestion relief is further reduced since new housing and retail developments have been constructed in the vicinity of the proposed bypass, which didn’t exist when the project was conceived in the 1980s. Local environmental groups, meanwhile, have opposed the project because it would destroy the landscape, exacerbate sprawl, and increase pollution.

Far less costly solutions than the \$40 million per mile bypass (such as overpasses and design improvements to the existing U.S. 29 corridor) could achieve desired congestion relief without the excessive cost, loss of undeveloped land, and local opposition associated with the current proposal.



The federal government maintains a host of insurance programs that harm the environment by subsidizing dangerous and destructive behavior. These programs are mentioned throughout the report and summarized in the chart below. In addition to their environmental impacts, the insurance programs listed in this section cost taxpayers billions of dollars and displace productive private industries. These programs provide incentives for insured parties (quite often large, profit-making businesses) to behave less carefully than they otherwise would by saving businesses from paying the true cost of their risk. Broadly, the insurance programs can be divided into three categories: flood insurance, crop insurance, and energy insurance.

FLOOD INSURANCE

The National Flood Insurance Program (NFIP), a federally managed program run through the Federal Emergency Management Agency, almost certainly has the highest public profile of the federally run insurance programs. Created in 1968 and modified to something resembling its current form in 1973, NFIP involves the federal government taking on almost all liability for flooding in the United States. The program is intended to promote conservation and break even for taxpayers but, in the end, does neither.

On the surface, NFIP seems to include strong protections for the environment. In order to participate in flood insurance, a community has to adopt building and zoning codes that, in theory, discourage construction in the most flood-prone areas and protect wetlands. Communities can receive discounted flood insurance rates for adopting more stringent zoning codes and making themselves safer against flood. Despite these apparent safeguards, the program has, on balance, encouraged at least as much construction in flood-prone areas as it has discouraged. In large part because FEMA has never done high quality flood maps of the entire nation (an effort to do so is ongoing), many areas identified as reasonably “safe” are anything but. As a result, construction takes place in flood-sensitive areas anyway. Likewise, the pro-

gram has made little progress in encouraging people to move out of the most flood-prone areas.

The program has also failed to meet its creators’ promises to break even in the long run. In fact, the program is a model of mismanagement. On one hand, it pays large fees to agents and insurers for “servicing” policies under the “Write Your Own” program which lets these private interests collect commissions and fees from the program without taking on any real insurance risk for flooding. On the other, it has run up significant debts—more than \$17 billion as of the spring of 2012—and has no practical way to ever pay them back. These debts, which Congress eventually will have to forgive, mean flood insurance costs taxpayers roughly \$400 million a year.¹

CROP INSURANCE

In recent years, taxpayer-subsidized crop insurance has become the largest single federal support for agriculture. In 2011 alone, it cost taxpayers more than \$11 billion. In reality, the program functions as more of a payment program to farmers than “insurance,” and it damages the environment and provides significant assistance to many who do not need it.

Although it has some things in common with conventional insurance, and indeed is sold through 15 competing insurers (all of which charge the same federally set price for the same coverage), crop insurance does far more than protect farmers against things like wind and hail. In fact, most of the payments made under the program reimburse farmers for unexpected market fluctuations in the price of their crops rather than actual losses of them. And, on average, taxpayers pick up more than 60 percent of farmers’ monthly premiums while simultaneously reimbursing the program for its catastrophic losses.

All of this harms the environment. Just four crops—cotton, corn, wheat, and soybeans—receive 80 percent of the subsidies. More importantly, since

¹ The number is derived by dividing the total (unpayable) debt that NFIP has run up by the number of years it has been in existence. For information about the NFIP’s current indebtedness see, e.g.: Federal Emergency Management Agency. “Rethinking the NFIP,” November, 2011, http://www.fema.gov/business/nfip/nfip_reform.shtm



INSURANCE

federal crop insurance does not require producers to adhere to common-sense, environmentally friendly farming practices in exchange for participation, as private insurance would, premium subsidies induce cultivation of highly erodible or other poorly producing land, including wetlands and grasslands that have never been cultivated before.

The largest and most destructive farms get the lion’s share of the benefits. Crop insurance subsidies are handed out regardless of farmers’ incomes. Thus, in 2011, fewer than 4 percent of producers received more than 32 percent of the premium subsidies, including fifty-three producers who each received subsidies exceeding \$500,000.²

The Congressional Budget Office predicts federally subsidized crop insurance will cost taxpayers an annual average of \$8.9 billion over the next ten years. Continuing excessive taxpayer subsidies for a program where damage claims have exceeded producer-paid premiums every year since 1994 is something taxpayers cannot afford. Many farming interests, nonetheless, have proposed expanding the program by adding new, heavily subsidized “shallow loss” coverage to protect farmers against small declines in crop prices. This is a bad idea Congress should reject. Instead, we should implement a reformed, sustainable agriculture policy that more effectively and efficiently allocates federal resources, saving taxpayers billions and helping restore environmental balance to our farmlands.

ENERGY INSURANCE

Federal programs also protect energy producers against paying the full costs of their own actions. The Oil Pollution Act of 1990 places 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

INSURANCE SUBSIDIES	TOTAL 2013-2022 (millions)
Crop Insurance	\$89,816
Price-Anderson Nuclear Liability Insurance*	\$8,000
Flood Insurance	\$4,000
TOTAL	\$101,816

* For Price-Anderson we used the low end of the range of \$800 million to billions per year that Doug Koplow found in *Nuclear Power: Still Not Viable without Subsidies*.

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 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, estimates have placed it at \$8 billion a decade or more. In addition, it discourages nuclear power operators from upgrading reactor infrastructure and deploying new, potentially safer technology.

Governmental assumption of risk—be it through subsidized insurance, liability caps, or some hybrid of the two—is a subsidy to the fossil fuel and nuclear industries. It’s wasteful and it hurts the environment. The private sector, not taxpayers, should assume responsibility for losses and environmental damages.

² U.S. Government Accountability Office. “Crop Insurance: Savings Would Result From Program Changes and Greater Use of Data Mining.” March 2012. http://www.taxpayer.net/user_uploads/file/Agri-culture/2012/GAO_April2012_CropInsurance.pdf



PUBLIC LANDS & WATER

Our nation's waterways and publicly owned lands provide valuable resources for the nation to enjoy. But billions of dollars in revenue is lost to undervalued, publicly owned resources, and profitable extractive industries benefit from outdated and unnecessary subsidies.

TIMBER SUBSIDIES

One particularly egregious program is money-losing timber sales. Every year the federal government conducts timber sales where it actually pays more money for the costs associated with preparing the area for loggers than it receives in receipts from the sale of the timber. This practice has been going on for decades. A series of reports from the Government Accountability Office highlights the shortcomings of Forest Service accounting practices, finding they are inadequate to allow forest managers to properly manage their properties or to even know which timber sales are losing money. Despite these reports the Forest Service has not changed its practices. Given our current fiscal crisis, now is the perfect time to stop paying companies to take valuable timber off our federal lands.

PUBLIC LANDS & WATER	TOTAL 2013–2022 (millions)
Special Tax Treatment for Timber Gain	\$4,500
Forest Products	\$3,355
Expensing of Timber Growing Costs	\$2,400
Amortization & Expensing of Reforestation Expenditures	\$2,200
Upper Mississippi River Navigation Locks Project	\$2,095
Increased Inland Waterway Subsidy (over 5 years)	\$2,000
1872 Mining Law Reform	\$1,529
Inner Harbor Navigation Canal Project (Industrial Canal) Lock Replacement (LA)	\$1,300
Percentage Depletion, Non-Fuel Minerals	\$800
Stop Federal Beach Replenishment	\$700
Livestock Protection Program	\$620
Expensing and Exploration, Non-Fuel Minerals	\$600
Money Losing Timber Sales	\$565
Dallas Floodway Extension, Trinity River Project	\$459
Grand Prairie Area Demonstration Project (AR)	\$450
Fort Worth Central City Project	\$435
Special Rules for Mining Reclamation Reserves	\$400
Delaware River Deepening Project (PA, NJ, DE)	\$334
Forest Service Salvage Fund	\$210
Fair Value Grazing Fees	\$191
St. Johns Bayou Basin/New Madrid Floodway Project (MO)	\$159
BLM Public Domain Forestry	\$97
Timber Purchaser Election Road Construction	\$10
Eliminate the Inland Waterways Users Board	\$8
TOTAL	\$25,317



HARDROCK MINING: STRIKING GOLD

Thanks to the 1872 General Mining Law, companies that mine for gold on public lands are hitting it big once again. The price of gold is at all-time highs: over \$1,600 an ounce as of April 2012. And while the mining industry is busy filling its coffers, taxpayers are getting next to nothing. That's because the 1872 law allows hard rock mining companies, which extract some of the world's most valuable resources, to pay no royalties to the federal government for the right to profit from precious metals mined from public lands such as copper, gold, and silver. Unlike the coal, oil, and natural gas industries that pay royalties for the resources they extract from public lands, hard rock mining operations are not required to pay any royalties. Moreover, hard rock mining can be enormously destructive, leading to impacts such as habitat loss, water pollution, and chemical contamination.

For more than a century, the 1872 mining law has remained unchanged. The law originally intended as an incentive for westward expansion has long outlived its useful life and is grossly in need of reform. In the face of record deficits, allowing these valuable resources to be removed for almost nothing is outlandish.

Throughout the country, many waterway and floodplain projects produce few (if any) real economic benefits while creating significant, long term economic and environmental losses. Reforming these programs with smart cuts and policy shifts would save taxpayers billions and protect the country's natural resources.

ARMY CORPS OF ENGINEERS

For over two centuries, lawmakers have used the U.S. Army Corps of Engineers to bring money to their home districts. The agency constructs water resource projects dealing with navigation, flooding and storm damage reduction, and environmental restoration. Yet in many cases Corps projects provide (at best) purely local benefits, are not economically justified, and have serious negative environmental impacts.

Some particularly problematic projects follow:

UPPER MISSISSIPPI RIVER NAVIGATION LOCKS PROJECT: **\$2.095 BILLION**

Despite continued decreases in barge traffic, cost overruns, and a history of wildly exaggerated economic assumptions, the Corps seeks to spend billions constructing new and enlarged navigation locks as part of the Mississippi River-Illinois Waterway Navigation Expansion Project. Located on the Upper Mis-

issippi and Illinois rivers, the project is mainly just a fix for occasional barge transportation delays that occur at river locks during high traffic times. Cheaper and less environmentally harmful alternatives such as scheduling, tradable lockage fees, and helper boats should be pursued at a fraction of the project's current cost.

INDUSTRIAL CANAL LOCK REPLACEMENT: **\$1.3 BILLION**

Ignoring a history of reduced barge traffic and the recent closure of a deep-draft canal used in justifying the project, the Corps seeks to spend \$1.3 billion constructing a new longer, wider, and deeper lock on the Inner Harbor Navigation Canal (Industrial Canal) in New Orleans, all while ignoring pressing storm damage reduction needs in the surrounding community.

GRAND PRAIRIE AREA DEMONSTRATION PROJECT: **\$450 MILLION**

In a move that will provide more taxpayer support to already highly subsidized rice plantations, the Corps is undertaking the Grand Prairie Irrigation Project in Arkansas. With more effective alternatives for water management available, the \$450 million total price tag is too steep for severely depleting the White River for the benefit of corporate agriculture.



DELAWARE RIVER DEEPENING: \$335 MILLION

The Delaware River Deepening project is an economic and environmental boondoggle. Costing nearly \$350 million, the project's justification depends entirely on speculative cost savings from importing cheaper goods. The purported imports have shifted over the years, from oil to fresh produce. Despite major criticism from the GAO and other independent analysts, including analysis that the project will only return ten cents for every taxpayer dollar, the Corps continues to pursue this project that threatens major ecological harm to the Delaware River and Bay.

ST. JOHNS BAYOU/NEW MADRID FLOODWAY: \$159 MILLION

Despite the Corps operation of the St. Johns/New Madrid Floodway in June 2011 to reduce flood heights and protect Cairo, Illinois, agricultural interests are pursuing this project to cut off the floodway from the Mississippi River. Closing one of the last remaining natural floodways will increase flooding risks and cost taxpayers millions more in damages when the floodway is once again operated.

FORT WORTH CENTRAL CITY PROJECT: \$435 MILLION

The Fort Worth-Central City project is just one portion of a larger project known as the Trinity River Vision, the total cost of which has increased to nearly \$1 billion. The project is a Corps 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 to the tune of \$435 million—a wastefully speculative development. The Corps should better utilize its flood control dollars.

DALLAS FLOODWAY EXTENSION, TRINITY RIVER PROJECT: \$422 MILLION

Neighboring the Fort-Worth Central City project, the Dallas Floodway Extension, Trinity River Project is another 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 on the floodplain.

FEDERAL BEACH REPLENISHMENT: \$700 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 and protect property from storms. However, many experts con-





cede this process only provides a temporary solution to maintaining the width of a beach and promotes more intensive development in high-risk, environmentally sensitive areas. Taxpayers thus pay millions every year to pump sand onto beaches that inevitably and almost immediately washes back out to sea.

INLAND WATERWAYS NAVIGATION: A RIVERBOAT RIPOFF

While the rest of the country is confronting our federal financial crisis by focusing on doing more with less, some of the nation's largest users of inland waterways are trying to shift more of their business costs onto taxpayers. Even though taxpayers already cover 90 percent of the cost to build and maintain the inland navigation system, for commercial barge operators and some members of Congress, this is not enough. Consequently, these special interests are pushing to effectively eliminate a more than 30-years old cost-share arrangement and require taxpayers to annually spend millions more propping up the effectively bankrupt Inland Waterways Trust Fund (IWTF).

The IWTF was created to get users to cover some of the costs to construct and rehabilitate commercially navigable waterways. Under the IWTF, commercial users of waterways contribute to the trust fund through a modest tax (currently \$0.20 per gallon) on fuel they use on 27 segments of natural and man-made waterways. The fund is then tapped to cover 50 percent of the costs for construction of new dams and navigation locks as well as major rehabilitation of existing facilities. The other 50 percent of project costs as well as all annual costs—roughly \$600 million a year—for operating the system are covered by taxpayers. Years of overspending and decreased commercial traffic on the nation's locks and rivers, however, has left the IWTF effectively bankrupt. Rather than propose viable solutions to shore up funding, special interests are seeking to increase taxpayer subsidies for inland waterway navigation to a level far exceeding all other forms of transportation, includ-

ing highways, rail, and air travel. These special interests have cynically proposed increasing, for the first time since 1996, the tax they pay by a mere six cents while eliminating cost sharing in a wide variety of areas that could easily increase taxpayer costs by \$200 million per year.

Inland waterways users are trolling for a bailout, plain and simple, and are being aided by taxpayer dollars in doing so. The plan to eviscerate cost share and increase taxpayer subsidies for navigation is endorsed by the Inland Waterways Users Board, a fully taxpayer-subsidized advisory board that works against the interests of taxpayers. The Users Board is charged with making recommendations on the priorities for federal spending on inland waterways. Consisting predominantly of representatives of barge industry companies and Corps personnel, however, the Users Board fails to prioritize environmental protection or take into account the interests of any other non-barge industry users of the nation's waterways or general taxpayers.

At a time when the federal government's financial resources are stretched to the limit, increasing an already excessive subsidy is something taxpayers cannot afford. Inland waterway users must begin shouldering more of the costs for constructing and operating the inland waterways system that make their business possible. Congress must oppose efforts to further weaken the inland waterway industry's cost-share requirement and immediately develop a new funding mechanism for construction and maintenance on our nation's inland waterways. Rolling back cost sharing will not only cost taxpayers more to construct the same project, it will also siphon off needed funds from other priorities and allow projects to go forward that do not have adequate justification.

Eliminating the Users Board will save more than \$8 million in administrative costs over the next ten years and untold billions in savings from not having a taxpayer-funded advocate for many wasteful and overly complicated projects.

BUREAU OF RECLAMATION

The U.S. Bureau of Reclamation (BuRec), within the Department of the Interior, is primarily a dam-building agency. It was established to encourage development and irrigated agriculture in the seventeen western states of the continental U.S., and has been used by western members of Congress to bring money to their home districts for the last century. The BuRec now constructs water resource projects that supply water for irrigation and urban use and generate hydropower. Its largest projects include the Hoover Dam on the Colorado River in Nevada and the Grand Coulee Dam on the Columbia River in Washington. It also constructed the Teton Dam in Idaho, which suffered a catastrophic failure in 1976. As a result of BuRec and Army Corps projects, today most of the major U.S. rivers are dammed, impacting fish resources and degrading river ecosystems.

Most of the BuRec dam projects have been justified solely to provide water for irrigation and provide substantial indirect subsidies to the irrigated agricultural community. They often serve little to no national interest, are not economically justified, have serious negative environmental impacts and are based more on political power than national priority.

There is no current economic justification for the depth and array of subsidies the BuRec program provides to irrigated agriculture. The recipients of irrigation water from most BuRec projects compete with neighboring irrigators who receive none of the federal subsidy supplied by the BuRec. In some cases, BuRec water is so cheap it leads to irrational choices like growing alfalfa in arid areas to supply food for dairy cattle.

The key subsidy incorporated into the BuRec program is the nominal repayment of project construction costs over 50 years at zero interest, meaning irrigators pay only a small fraction of the cost to construct the projects supplying their water. Reclamation law goes further, however, and provides an additional subsidy based on the BuRec's one-time calculation of the irrigators' "ability-to-pay" for each project. Project costs exceeding the "ability-to-pay" are cross-

subsidized, largely by hydroelectric power purchasers, effectively spreading the irrigators' costs across regional residents. A July 1996 GAO study revealed that irrigators were scheduled to repay less than half of the total project costs allocated to irrigation, while the rest would be cross-subsidized by other project beneficiaries.¹

The BuRec has built more than 600 dams over the last century and a recent BuRec study suggested nearly one hundred potential sites for new surface storage.² Too often BuRec projects are both economically and environmentally wasteful. While there are many questionable BuRec projects, a few new proposals deserve special attention. These projects are not the product of a system designed to identify the greatest national needs but instead political calculations by irrigators and Congress. Now is the time to end the BuRec's involvement in projects economically unjustified and environmentally harmful.

COLUMBIA BASIN IRRIGATION PROJECT: \$1 – \$4.6 BILLION

Located in central Washington State, the Columbia Basin Irrigation Project (CBIP) is the largest all-federal irrigation project managed by the BuRec.³ At Grand Coulee Dam, water is pumped uphill, and then through canals and reservoirs for use by agricultural interests. Water diverted from the Columbia River is thus made unavailable to generate hydropower, and support threatened salmon runs. In the 1980s independent economists and the GAO scrutinized the BuRec's proposals to expand the CBIP, found that taxpayers and ratepayers (not irrigators) would pay most of the costs, and prompted the BuRec to withdraw expansion proposals for a while.⁴

- 1 *United States Government Accountability Office*. "Information on Allocation of Repayment of Costs of Constructing Water Projects." July 3, 1996. <http://www.gao.gov/products/RCED-96-109>
- 2 U.S. House of Representatives Committee on Natural Resources. "Water Storage Vital to Rural Communities, Job Creation, Economic Growth." February 7, 2012. <http://naturalresources.house.gov/News/DocumentSingle.aspx?DocumentID=278395>
- 3 *Northwest Power and Conservation Council*. "Columbia Basin Project." <http://www.nwcouncil.org/history/columbiabasinproject.asp>
- 4 *United States Government Accountability Office*. "Issues Concerning Expanded Irrigation in the Columbia Basin Project." January 31, 1986. <http://www.gao.gov/products/RCED-86-82BR>; Norman K. Whittlesey, Walter R. Butcher, and Marion E. Marts. "Water Project

The BuRec and Washington Department of Ecology (Ecology) are again proposing to expand the CBIP. The proposals range in costs from \$1.2 billion to \$4.6 billion. The BuRec's own analysis shows that in none of the proposals do benefits outweigh costs.⁵ Beyond the BuRec analysis, independent economists have again challenged the BuRec's assumptions as not revealing the full costs to taxpayers and electricity ratepayers.⁶ Meanwhile a 2004 National Academy of Sciences report "Managing the Columbia River: Instream Flows, Water Withdrawals, and Salmon Survival" underscored the need to maintain flows in the Columbia River to prevent the extinction of salmon.⁷ Conservationists have also raised concerns about impacts on remnant shrub steppe habitat.⁸

YAKIMA RIVER BASIN WATER ENHANCEMENT PROJECT (WASHINGTON STATE): \$1.4 BILLION FOR NEW DAMS⁹

Despite identifying more than 170,000 acre feet of water conservation opportunities within Washington's Yakima River Basin,¹⁰ local irrigators have convinced the BuRec and Washington State Dept. of Ecology to support a plan including two (and perhaps up to four) new dams in the Yakima Basin. The

BuRec and Ecology issued a Final Programmatic EIS in March 2012.¹¹ A Bumping Lake Expansion involving a new dam below the current 33,000 acre feet impoundment would cost more than \$400 million and flood ancient forest area on the Okanogan-Wenatchee National Forest and endangered spotted owl and bull trout habitat.¹² A proposed Wymer dam between Ellensburg and Yakima, Washington, would flood sage grouse habitat and cost more than \$1 billion.¹³ In an earlier 2008 Final Planning Report/Environmental Impact Statement, the BuRec calculated that two variations of a Wymer dam project would have significant negative benefit/cost ratios (0.31 and 0.07), or returning 31 and 7 cents on the dollar, respectively.¹⁴ It could also lead to construction of two additional dams in Burbank Creek and Selah Creek.¹⁵ The proposed water storage is sought as "insurance" for junior irrigation district water rights holders during drought years. Meanwhile, up to 110,000 acre-feet of water may be available for inter-district water trades and up to 230,000 acre-feet of water may be available for intra-district trades.¹⁶

-
- Subsidies: How They Develop and Grow." *Illahee*. 1995. <http://www.waterplanet.ws/pdf/wpoa20061101.pdf>
- 5 *Bureau of Reclamation*. "Draft Environmental Impact Statement: Odessa Subarea Special Study: Columbia Basin Project." October 2010. http://www.usbr.gov/pn/programs/ucao_misc/odessa/draft-eis/draft-eis-odessa.pdf
 - 6 Norman K. Whittlesey and Walter R. Butcher. "Review of Economic Technical Report Odessa Subarea Special Study." December 5, 2010. *University of Idaho*. http://www.waterplanet.ws/pdf/Odessa_Whittlesey-Butcher_12-05-2010.pdf
 - 7 *National Academies of Science*. "Managing the Columbia River: Instream Flows, Water Withdrawals, and Salmon Survival." <http://www.waterplanet.ws/crabcreek/ccrhome/Science.html>
 - 8 Derek W. Stinson and Michael A. Schroeder. "Draft Washington State Recovery Plan for the Columbian Sharp-tailed Grouse." Washington Department of Fish and Wildlife. May 2010. <http://wdfw.wa.gov/publications/pub.php?id=00882>; Center for Environmental Law and Policy. "Odessa Subarea Special Study – DEIS: Comment Letter with Appendices." <http://www.columbia-institute.org/oss/documents.html>
 - 9 *Bureau of Reclamation*. "Yakima River Basin Integrated Water Resource Management Plan." October 2011. <http://www.usbr.gov/pn/programs/yrbwep/2011integratedplan/meetings/2011-10-12/4earlyimpre-rev.pdf>
 - 10 *Bureau of Reclamation*. "Yakima River Basin Integrated Water Resource Management Plan." March 2012. <http://www.usbr.gov/pn/programs/yrbwep/reports/FPEIS/fpeis.pdf> (Chapter 2, Pg. 36)

- 11 *Bureau of Reclamation*. "Yakima River Basin Integrated Water Resource Management Plan." March 2012. <http://www.usbr.gov/pn/programs/yrbwep/reports/FPEIS/fpeis.pdf>
- 12 *Bureau of Reclamation*. "Yakima River Basin Integrated Water Resource Management Plan." March 2012. <http://www.usbr.gov/pn/programs/yrbwep/reports/FPEIS/fpeis.pdf> (Chapter 5, Pg. 68)
- 13 *Bureau of Reclamation*. "Yakima River Basin Integrated Water Resource Management Plan." March 2012. <http://www.usbr.gov/pn/programs/yrbwep/reports/FPEIS/fpeis.pdf> (Chapter 5, Pg. 67-68)
- 14 *Bureau of Reclamation*. "Final Planning Report/Environmental Impact Statement: Yakima River Basin Water Storage Feasibility Study." December 2008. http://www.usbr.gov/pn/programs/storage_study/reports/eis/final/volume1.pdf (Chapter 2, Pg. 127)
- 15 *Bureau of Reclamation*. "Columbia River Direct Pump." <http://www.usbr.gov/pn/programs/yrbwep/2009workgroup/meetings/2009-11-09/10selahcreekpresentation.pdf>
- 16 *Bureau of Reclamation*. "Market-Based Reallocation of Water Resources." November 19, 2010. <http://www.usbr.gov/pn/programs/yrbwep/2010workgroup/meetings/2010-11-19/8yrb-mkreallocation.pdf>

Green Scissors is intended to serve as a resource for citizens and policymakers seeking to implement these cuts so that we can better protect our environment and do right by taxpayers. Since we started producing Green Scissors, many of the wasteful and environmentally harmful programs we have highlighted have been cut or allowed to expire. Looking back at the past 18 years, we are proud to have helped save U.S. taxpayers billions of dollars by directing attention to possible cuts groups across the political spectrum can agree on. We have also seen several Green Scissors victories in the past year and we look forward to many more. Our work is far from done, but with each small victory we continue the momentum towards creating an environmentally and fiscally healthy budget.

In recent years, despite deep divisions between the political parties, Congress has continued to cut programs and subsidies recommended for elimination by the Green Scissors report. At the end of 2009, Congress allowed tax subsidies for several environmentally harmful energy sources to expire and stopped funding the Yucca Mountain high-level radioactive waste repository, which had already cost taxpayers more than \$10 billion. The Obama Administration also halted the domestic portion of the Global Nuclear Energy Partnership, which some estimates have put at \$500 billion. Several wasteful and environmentally harmful programs have also been cut in the past year since the 2011 Green Scissors report was released.

DIRTY ENERGY TAX CREDITS ELIMINATED IN THE PAST YEAR

Tax credits for refined coal and liquid coal production were allowed to expire on December 31, 2011. Ending support for liquid coal, which has twice the life cycle greenhouse gas emissions of conventional gasoline as well as all of the environmental impacts of mining and burning coal, was a significant victory. Unfortunately, some in Congress are already looking for ways to reinstate these credits. This year Senator Stabenow (D-MI) included an extension of both these credits in an amendment to the transportation bill that also extended renewable energy tax incentives.

CORN ETHANOL TAX CREDIT

Congress allowed the Volumetric Ethanol Excise Tax Credit, which had been costing taxpayers \$6 billion per year, to expire on December 31, 2011. This lavish gift rewarded the oil industry for using corn ethanol, an environmentally harmful biofuel that increases global warming, soil erosion, air and water pollution, and global food prices.





RECENT VICTORIES

PROGRESS CONTINUES ON FLOOD INSURANCE

Although progress towards a reauthorization remained slow, Congress continued to make progress on a long-term reauthorization of the National Flood Insurance Program. Although far from perfect, bills that have passed both the House of Representatives and key Senate committees would cut the size of subsidies provided to coastal property owners, move parts of the program towards the private sector, and encourage conservation.

As this report goes to press, the Senate is voting on and debating the changes to the flood insurance program which, currently, expires at the end of July. The final passage of a Senate bill—which has few truly major differences from the bill the House has already passed—means that a fiscally and environmentally reauthorization of the program is possible. While no final bill will go as far as the Green Scissors partners would like, it appears quite likely that the program will take some strong and decisive steps in the right direction.

\$36 BILLION IN NEW NUCLEAR LOAN GUARANTEES STOPPED

After years of pressure to pull the plug on additional funds for the DOE Loan Guarantee Program, the President's annual push for \$36 billion in new nuclear loan guarantees has come to an end. For the last two years, the Administration's fiscal year budget request had included a massive increase for nuclear reactors, but this year's request did not ask for any additional funds. The DOE loan guarantee program already has \$18.5 billion in existing authority for nuclear reactors as well as \$4 billion for front end uranium enrichment. Already, \$8.3 billion has been conditionally committed to Southern Company's Vogtle plant in Georgia and \$2 billion for Areva's Eagle Rock uranium enrichment facility in Kentucky. While the program continues to support environmentally harmful projects, the additional budget authority would have put both taxpayers and the environment at far greater risk.

VOTE TO STOP LOAN GUARANTEES

In a rare show of bipartisanship Congress took a step forward in the fight to stop loan guarantees for nuclear reactors and fossil fuels this year, holding a vote on an amendment offered by Representatives Kucinich (D-OH) and McClintock (R-CA) to stop the flawed DOE loan guarantee program from handing out any new loans this year. Although most noted for its default to the solar company Solyndra, the Title 17 program has loan guarantees for a \$2 billion for a uranium enrichment facility, an \$8 billion nuclear reactor in Georgia, and a liquid coal facility in Medicine Bow, Wyoming, all waiting in the wings. Although this vote failed, it was a victory for bipartisanship and it puts lawmakers on notice that it is time this fiscally dangerous program that funds environmentally harmful projects hit the road.

OIL SHALE SUBSIDIES DEFEATED

Scoring a major victory in the battle to eliminate subsidies for environmentally harmful high carbon fuels, the House voted to eliminate \$25 million in oil shale subsidies provided in the fiscal year 2013 Energy and Water spending bill. For decades, oil shale has been showered with billions in tax credits, price guarantees, and loan guarantees. On top of that, public lands have been given to private companies for oil shale research and development without requiring the payment of rents, bonuses, or royalties. But even with continued government handouts, there remains no commercially viable method for producing oil shale today. Oil shale remains an expensive, inefficient, water-intensive, and ecologically damaging prospect.



Green Scissors 2012 is produced by Friends of the Earth, Taxpayers for Common Sense, and R Street to highlight and end wasteful and environmentally harmful federal spending. This diverse coalition of environmental, taxpayer and free-market groups has come together to show how the government can save billions of tax dollars and improve our environment.