

for the 112th Congress

TOTAL CUTS: \$148 BILLION

he time has come for Congress to begin a serious discussion about how it is going to correct the current budgetary path into deeper and deeper debt. Many members of the 112th Congress campaigned on a promise to cut government spending and reduce the federal deficit. Numerous proposals have been put forth, and now Congress needs to get to work. Taxpayers for Common Sense offers this list of cuts worth \$148 billion over the next five years. Just six of these cuts would trim more than \$100 billion in federal liabilities over the next five years. We believe the government programs listed here — whether funded through appropriations or the tax code — can be safely eliminated from the budget because they are an inefficient, ineffective, or wasteful use of taxpayer money.

SELECTED CUTS	
Volumetric Ethanol Excise Tax Credit (VEETC)	\$25 billion
Commodity Crop Subsidies	\$26 billion
Reduce Nuclear Weapons Delivery Platforms	\$35 billion
Intangible Drilling Costs (Expensing of Exploration and Development Costs)	\$8.9 billion
Upper Mississippi River Navigation Lock Expansion	\$2.1 billion
I-710 Tunnel Project	\$11.8 billion

Note: In most cases calculations are based on savings over a five-year window or over the life of the project. Due to the difficulty of collecting comprehensive and detailed cost breakouts for many of the suggested cuts, these numbers are representations of final savings. The estimate for the I-710 tunnel project is the entire project cost, as the level of federal investment is not yet known. Escalation of infrastructure costs over time and private and local government investments could make this figure higher or lower in the future.

AGRICULTURE

Total Cuts: \$52 billion

utdated and ineffective farm policies waste billions of federal funds each year, jeopardize fragile lands and waters and no longer reflect the realities of 21st century agriculture. Essentially unchanged since being created in the 1930s as temporary assistance measures during the Great Depression, current farm policies do not address the needs of the majority of America's farmers, rural communities, consumers, or taxpayers and harm our environment. Billions of dollars are funneled each year to an increasingly small number of large farming operations, while the majority of farmers and rural residents receive almost no assistance. The cuts below, along with a reformed sustainable agriculture policy that more effectively and efficiently allocates federal resources, will save taxpayers billions and help restore environmental balance to our farmlands.

Volumetric Ethanol Excise Tax Credit (VEETC)

Cut (over five years): \$25 billion

VEETC is the largest direct subsidy to corn ethanol. The tax credit was created more than 30 years ago in response to U.S. oil shortages. VEETC exempts the ethanol portion of gasoline blends from gasoline excise taxes and establishes a tax credit for ethanol use. This massive subsidy does not go to family corn farmers or even agro-businesses or ethanol producers. Instead, the benefits go almost entirely to oil

companies, such as Shell Oil, that blend the ethanol with traditional fuel. Currently worth 45 cents per gallon of ethanol blended with gasoline, eliminating VEETC could save the U.S. Treasury as much as \$5 billion in 2011.

Market Access Program (MAP)

Cut: \$1 billion

The Market Access Program should be cut entirely. Since its inception more than two decades ago, the Market Access Program has spent \$3.4 billion of tax-payer money subsidizing ad campaigns for corporations like McDonalds, Nabisco, Fruit of the Loom, and Mars.

Commodity Crops

Cut (over five years if subsidies reduced by 50%): \$26 billion

A handful of commodity crops receive the majority of government subsidies, and the majority of these subsidies flow to corporate farms. Corn, cotton, wheat, rice, and soybeans rack up 90 percent of the commodity crop subsidies, while fruit, vegetable and nut producers are left with the scraps. Instead of supporting a struggling family farm or promoting rural development, these subsidies end up as windfall profits for the wealthiest and largest agro-corporations and crowd out funding for agriculture related conservation programs.

Note: Figures from USDA Commodity Estimates Book, FY2011 President's Budget, U.S. Energy Information Administration.

DEFENSE

Total Cuts: \$52 billion

or too long, the defense budget was considered d untouchable by fiscal disciplinarians. Despite the fact that the base budget alone (not including war funds) has more than doubled over the past decade and now constitutes more than 55 percent of our discretionary spending, lawmakers from either side of the aisle were loathe to touch the Department of Defense (DOD) budget. Republicans considered it sacred, Democrats didn't want to seem soft on defense, and neither side wanted to give up the money the bill sends to nearly every Congressional district. But this rapid buildup of funds did not encourage fiscal prudence: "What little discipline existed in the Defense Department when it came to spending has gone completely out the window," Defense Secretary Robert Gates admits. But our economic crisis is forcing political leadership to put every option on the table when deciding how to trim government spending, and a consensus is emerging among voters that all government agencies must do their part to restore the country to fiscal stability. After all, Joint Chiefs of Staff Chairman Mike Mullen has identified the nation's debt as its greatest national security threat.

Cancel Expeditionary Fighting Vehicle (EFV)

Cut: \$4 billion

The EFV was developed years ago to replace the Marines' current amphibious assault vehicle. The problem is that we haven't stormed a beach in nearly half a century. Another problem is that the EFV unit cost has more than doubled to \$24 million, while the prototype still breaks down every eight hours on average and is more than 10 years behind schedule for delivery.

Freeze development of the Ground-Based Missile Defense (GMD) System

Cut: \$4 billion

Missile Defense is DOD's most expensive program in history and yet several of its technologies remain unproven or tested under only highly managed conditions. The Congressional Budget Office has suggested eliminating phases of the GMD program that would expand missile interceptors in Alaska and establish new ones in Europe until current systems are proven. This would still permit development of interceptors to protect the U.S. against missiles from Iran and North Korea, the main concern of the GMD program.

Reduce Nuclear Weapons Delivery Platforms

Cut: \$35 billion

As the recent passage of the START treaty demonstrates, a political consensus exists that the U.S. can and should reduce its nuclear weapons arsenal. A significant reduction in the arsenal can produce savings by allowing a corresponding reduction in delivery systems such as missiles, submarines and bombers. Studies show that reducing the arsenal to 1,000 warheads will accrue major savings by cutting down on delivery systems and their operations and maintenance.

Freeze Development of Military Space Programs

Cut: \$4 billion

Military space programs have a poor record of endemic cost and schedule overruns. The Space-Based Infrared Systems (SBIRS), intended to provide initial warning of a ballistic missile attack, is a classic example. Experts agree that space development needs to adopt a "distributed architecture" approach that

fields many smaller, cheaper satellites instead of huge mega-satellites like SBIRS. For that reason, the program should be truncated for a savings of \$2.1 billion. DOD has already stopped its involvement in another huge satellite system, the National Polar-Orbiting Environmental Space system (NPOESS), allowing DOD to eliminate the C-1 spacecraft platform used for the system's afternoon orbit for a savings of \$1.7 billion.

Delay Procurement of KC-X Aerial Refueling Tanker

Cut: \$5 billion

Problems choosing a contractor for a new Air Force refueling tanker have delayed purchases for so many years that the current models being considered are already in danger of becoming obsolete. The Congressional Budget Office in 2009 suggested delaying procurement by five full years until new designs come on line. This would save the government money in the long run via lower operating costs and larger production runs. Existing KC-135Es can be refurbished and used in the meantime.

Note: Figures from the Congressional Budget Office's annual budget options analyses, studies by the Center for Strategic and Budgetary Assessments, reports by the Government Accountability Office and Congressional Research Service, or agency annual budget justification documents.

ENERGY

Total Cuts: \$22 billion

axpayers have been subsidizing the same mature, polluting energy technologies for decades. Many projects and outdated programs still exist on the books and should be cut, but tackling them is difficult because they are often entrenched in our existing energy policies and connected to the big energy industries. Eliminating these programs and policies could save billions of taxpayer dollars by cutting subsidies to well-established energy sources including coal, oil, and gas.

Ultra-deepwater and Unconventional Natural Gas and other Petroleum Resources R&D

Cut: \$200 million

This program was meant to encourage the development of technology to tap hard to reach oil reserves far off the coast. However, spending was encouraged by a handful of politicians and has been directed toward a select few oil and gas companies. Title IX, Subtitle J of the Energy Policy Act of 2005 creates a program in the Department of Energy for "research, development, demonstration, and commercial application of technologies for ultra-deepwater and unconventional natural gas and other petroleum resource exploration and production." The program is funded through 2017. According to the National Energy Technology Laboratory (NETL), 32.5% of the funding is spent on unconventional oil and gas exploration, 35% is spent on ultra-deepwater architecture, 25% is spent on complimentary research, and 7.5% is spent addressing technology challenges of small producers.

Expensing of Exploration and Development Costs

Cut: \$200 million

At a time when energy companies are making significant profits, they don't need incentives to look for more opportunities – they already have all the incentive they need. Coal companies can expense 70% of their costs from surface strip mining exploration and development and amortize the remaining 30% over five years. Expensing of mine development was established in 1951 and expensing of mine exploration in 1966.

Percentage Depletion Allowance (Gas & Oil) (Excess of percentage of cost depletion)

Cut: \$4.3 billion

Enacted in 1926, the Percentage Depletion Allowance permits 27.5% of revenue to be deducted for the cost of the depletion of the mineral deposit. The percentage depletion allowance is a tax break given to independent oil and gas producers and can exceed capital costs. When such producers are raking in billions in profit on a yearly basis, there's no need to continue this ridiculous credit.

Percentage Depletion Allowance (Coal)

Cut: \$400 million

Often dubbed a "reverse royalty," PDA deductions typically *exceed* capital investment, which means the federal government essentially *pays* hardrock companies to mine on public lands. Meant to encourage mining, the percentage depletion allowance allows companies to recoup the costs of investment by offering a tax credit for as long as the site generates

income. The percentage depletion allowance permits a company to deduct a fixed percentage from gross income according to the mineral extracted, ranging from 22% for uranium to 15% for silver and other hardrock minerals.

Capital Gains Treatment for Royalties on Coal

Cut: \$250 million

Established by the 1951 Revenue Act, this modification to the tax code allows coal companies to declare income received from royalties as capital gains, allowing them to pay lower tax rates. In a year when top coal companies are making billions in profits, taxpayers shouldn't be giving them even more money. (It is not possible to take advantage of both this provision and the percentage depletion allowance.)

Domestic Manufacturing Deduction for Hard Mineral Fossil Fuels

Cut: \$850 million

Established by the American Jobs Creation Act of 2004, coal companies are currently able to deduct up to 9% of the cost of domestic manufacturing activities from income taxes. By cutting this item, it puts a stop to continued subsidization of hugely profitable energy companies.

Intangible Drilling Costs (Expensing of exploration and development costs)

Cut: \$8.9 billion

The expensing of exploration and development costs means billions of dollars for oil and gas companies that are making huge profits on the backs of taxpayers. Created in 1916, intangible drilling costs (IDCs) include all expenditures made for wages, fuel, repairs,

hauling, supplies, etc that are incident to the drilling of wells and the preparation of wells for the production of oil and gas. While most costs that bring future benefits must be capitalized according to the Internal Revenue Code, IDCs are an exception that can be expensed in the period the costs are incurred. Special rules are provided for intangible drilling and development costs so that these costs can either be expensed (current deduction) or capitalized (current law). When the decision is made to "expense" the IDCs, the taxpayer deducts the amount of the IDCs as an expense in the taxable year the cost is paid or incurred. If the IDCs are capitalized, they are generally recovered through either depreciation or depletion. Both alternatives lead to substantial tax benefits for the oil and gas industries.

Manufacturing Tax Deduction for Oil and Gas Companies (IRC Sec 199)

Cut: \$6.2 billion

This subsidy to Big Oil was targeted for elimination in the President's FY2011 budget and its repeal would save taxpayers billions. The domestic production deduction benefits oil and gas companies to the extent that their products are "manufactured, produced, or

extracted in whole or in significant part in the United States." The deduction was 3% of income for 2006, rising to 6% between 2007 and 2009, and 9% thereafter; it is subject to a limit of 50% of the wages paid that are allocable to domestic production during the taxable year. This was enacted under the American Jobs Creation Act of 2004 and is now part of IRC Section 199. The JCT estimates that this tax deduction cost \$1.09 billion from 2007-2009 and \$928 million in 2010.

Geological and Geophysical Amortization

Cut: \$700 million

There's no need to continue to have the taxpayer subsidize energy companies to look for oil and gas deposits when these companies can use their own massive profits to look for themselves. Included in the 2005 Energy bill and modified in the Tax Increase Prevention and Reconciliation Act of 2005, this tax credit allows oil and gas companies to deduct these costs over several years.

Note: Figures from the Joint Committee on Taxation estimates, FY2011 Budget of the U.S. Government.

INFRASTRUCTURE

Total Cuts: \$3.8 billion

Tor nearly two centuries, the Army Corps of ers to bring government-funded construction projects back to their home district. The agency constructs water infrastructure projects dealing with navigation, flood and storm damage reduction, and environmental restoration. In many cases, however, the projects the Corps pursues are undertaken not because they serve the national interest, but because of a lawmaker's political power. Many Corps projects are economically wasteful. By focusing on structural solutions like dams and levees, the Corps often ignores alternatives that are just as effective but less costly for taxpayers. Over the last several years, Corps projects have been criticized by the National Academy of Science, Government Accountability Office (GAO), and even the U.S. Army Inspector General. While there are many questionable Corps projects, some deserve special attention because they are solely the product of political calculations in Congress, and are especially wasteful of taxpayer dollars.

St. Johns Bayou Basin/New Madrid Floodway Project – Missouri

Cut: \$80 million*

The St. Johns Bayou Basin/New Madrid Floodway Project is a flood control project in Southeast Missouri that will open up tens of thousands of acres of river bottomlands for agricultural development, primarily taxpayer subsidized soybeans, under the guise of protecting the rural communities of East Prairie and Pinhook from seasonal flooding. This project consists of two features originally estimated to cost roughly \$53.5 million each: the closure of an inten-

tional 1500-foot gap in the frontline levee abutting the Mississippi River (MRL Closure Feature) and construction of two huge pumping stations and other flood control features in the New Madrid floodway and St. Johns Bayou basin (St. Johns Feature). Closing the intentional levee gap will actually increase the risk of major flooding in upstream areas, such as Cairo, Illinois, by closing one of the last natural flood relief valves on this part of the Mississippi river. Construction of a storm water management system in East Prairie and elevation of a small bridge near Pinhook would help protect these communities from the damages and isolation caused by seasonal flooding.

*Cut number is the balance necessary to complete the St. John's Feature and the full cost of the MRL Closure Feature.

Inner Harbor Navigation Canal (Industrial Canal) Lock Replacement Project – Louisiana

Cut: \$1.1 billion

The Industrial Canal is a manmade waterway running through New Orleans that connects the Mississippi River and the Gulf Intracoastal Waterway. For years Congressional representatives from Louisiana have earmarked federal funds to continue the Army Corps of Engineers' efforts to replace the existing lock with a longer, deeper lock suitable for ocean-going vessels. This in spite of the fact that increased barge traffic and traffic delays predicted by the Corps have not only failed to materialize, but traffic has actually decreased. In addition the original Corps economic analysis found the deep draft lock was not the most economically beneficial project for the lock, but recommended it be constructed because of the willingness of the Port of New Orleans to shoulder a higher share of the costs. The Port has since pulled out of this agreement, leaving federal taxpayers holding the bill.

Upper Mississippi River-Illinois Waterway Navigation Expansion Project

Cut: \$2.1 billion

Despite continued decreases in barge traffic, costoverruns, and a history of wildly exaggerated economic assumptions, the Army Corps of Engineers seeks to spend billions constructing new and enlarged navigation locks on the Upper Mississippi River-Illinois Waterway. The Upper Mississippi River-Illinois Waterway Navigation Expansion Project is mainly just a fix for occasional barge transportation delays that occur at river locks during high traffic times. The Corps of Engineers claims that seven brand new, longer locks, at the low, low price of more than \$2 billion, will solve our rush hour problem and also prepare for a ridiculously optimistic increase in barge transportation on these waterways. In 2000, the U.S. Army Inspector General found that Corps economists were ordered to exaggerate the demand for future barge traffic, and several Corps officials were slapped on the wrist. In addition, the National Academy of Sciences has consistently criticized the Corps' plans to build the new locks, saying that the Corps should pursue cheaper measures like scheduling, tradable lockage fees, and helper boats, before even contemplating spending money on new or expanded locks. By implementing these alternative solutions taxpayers could get improved efficiency of the Upper Mississippi River-Illinois Waterway at a fraction of the cost.

Grand Prairie Area Demonstration Project – Arkansas

Cut: \$100 million

The Grand Prairie Area Demonstration Project is a subsidized pump to provide subsidized water to grow subsidized crops and would be a first-step by the Corps of Engineers into the agriculture irrigation business. A century of unsustainable irrigation for rice farming in eastern Arkansas has left the area's main irrigation

aquifer severely depleted and is now threatening the region's deeper drinking water aquifer. Rather than promoting proven efficiency and conservation techniques on the area's farms, the Corps of Engineers proposes building a pumping station and 650-mile long canal and pipeline system to draw water from the White River.

Delaware River Deepening Project - New Jersey and Delaware

Cut: \$200 million

Despite opposition from the states of Delaware and New Jersey, the Army Corps of Engineers continues to pursue the uneconomical deepening of the Delaware River's main channel. The project, which would increase the Delaware River's depth to 45 feet from 40 feet for 105 miles, is intended to attract deeper draft cargo ships. In reality the ships aren't going to come and the reduced transportation costs for a handful of oil refineries does not offset the heavy price tag of the project. The Government Accountability Office (GAO) has repeatedly criticized the Corps' economic assumptions underlying this project.

Fort Worth Central City Project - Texas

Cut: \$100 million

The Central City project is just one portion of a larger project know as the Trinity River Vision, the total cost of which has increased to nearly \$1 billion. The Central City Project is an Army Corps of Engineers flood control effort to reroute the Trinity River in Fort Worth, Texas through construction of a new dam, a 1.5 mile long bypass channel, and numerous flood gates in order to create an urban waterfront community. The Army Corps of Engineers is slated to pick up \$110 million of the \$435 million Central City tab, with other federal and local taxpayer sources making up the rest. The Corps should better utilize its flood control dollars, rather than spending millions on speculative development.

Dallas Floodway Extension – Texas

Cut: \$150 million

The Dallas Floodway Extension is an Army Corps of Engineers flood protection project to extend existing levees in Dallas, Texas, 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 Dallas area, with dramatically less impact to the floodplain.

Note: Figures are the balance needed to complete the projects after FY2010 and are derived from resources produced by U.S. Army Corps of Engineers – Head-quarters, U.S. Army Corps of Engineers – Memphis District, U.S. Army Corps of Engineers – Fort Worth District, U.S. Army Corps of Engineers – Philadelphia District, U.S. Army Corps of Engineers – New Orleans District, Nicollet Island Coalition.

TRANSPORTATION

Total Cut: \$18.5 billion

The nation's transportation system is broken, as the gasoline tax that each of us pays at the pump to keep the system moving falls far short of the amount needed to maintain the nation's road and transit systems. In just the past two years, Congress has transferred some \$34 billion in general tax revenues to the Highway Trust Fund to keep it solvent and reversed an \$8.7 billion rescission mandated at the expiration of the last highway bill so that states and local governments can continue to spend on transportation projects. Yet all that spending does nothing to fix the fund's underlying problems. One way to solve future shortfalls is to make the transportation program more efficient, and there are a number of proposed projects and programs that Congress should cut to take us in that direction.

Surface Transportation Priorities

Cut (over five years): \$1.5 billion

The President's FY2011 budget proposed to cut the \$293 million Surface Transportation Priorities Program. This program is funded entirely by Congressional earmarks and supersedes merit-based state and local decision making.

Rescind Unused Transportation Earmarks

Cut: \$700 million

During the last Congress, an earmark rescission was attached to both the House and Senate version of the Federal Aviation Administration authorization bill, but no final bill was passed, so the rescission failed to pass as well, which would have rescinded unused earmarks that were approved ten or more years ago.

Rail Line Relocation Program

Cut (over five years): \$150 million

In the President's FY2011 budget, he proposed cutting the Rail Line Relocation Program (which received \$34 million in FY2010) because a merit-based program exists that accomplishes the same end and allows states to decide how the money should be spent.

I-710 Tunnel Project - California

Cut: \$11.8 billion

The Interstate 710 tunnel outside of Los Angeles has been estimated to cost upwards of \$14 billion, though estimates vary so widely as to be essentially useless. The project claims to solve congestion on portions of LA's highway system, but those claims seem to be dubious at best. It is unclear for what portion of the project federal taxpayers will be asked to pay, but the potential for extreme cost overruns and the questionable transportation benefits make this a project that should be scrapped.

Knik Arm Crossing - Alaska

Cut: \$1.5 billion

The sister project of the now infamous "Bridge to Nowhere" recently received the blessing of the U.S. Department of Transportation, which approved the final environmental assessment required before any additional work could continue. The project would link Anchorage to the sparsely populated area around Point McKenzie in the Mat-Su Valley. The project can only be built with a public-private partnership, which would be paid for through the collection of a bridge toll. But estimates of the amount of traffic that will use the bridge appear overly optimistic, and therefore the expected toll revenue is almost sure to fall short of paying for the project for many years after it is built. This would likely leave federal taxpayers on the hook for untold millions of dollars to make up the shortfall.

St. Croix River Crossing Project/ Stillwater Bridge – Minnesota and Wisconsin

Cut: \$650 million

The historic, two-lane Stillwater Bridge spans the St. Croix River, connecting Stillwater, Minnesota and Houlton, Wisconsin, just east of Minneapolis-St. Paul. The Minnesota Department of Transportation (MnDOT) proposes to build a new four-lane, onemile bridge between Oak Park Heights, Minnesota and Houlton, Wisconsin, about one mile south of the existing bridge. A large, new bridge is unnecessary because an already expanded Interstate 94 bridge crosses the St. Croix just to the south; a smaller project with a more appropriate scale and lower cost should be considered instead. The National Park Service recently put a hold on the project, after finding that a new bridge and tearing down the old bridge would have adverse impacts on the St. Croix, which is listed as a national Wild and Scenic River, and the project will now require an act of Congress if it is to be built.

Juneau Access Road - Alaska

Cut: \$500 million

The Juneau Access project would consist of a new 50-mile road out of Juneau that would connect to a ferry terminal for the last 18-mile journey to connect to either Haines or Skagway, with driving access to the interior of the state. Due to the treacherous terrain, the road would be closed at least one month every year, and the journey would likely require several days of driving in each direction from most parts of Alaska. In addition, the challenging terrain makes the construction of this road a questionable proposition and raises significant questions about cost overruns and project feasibility. Most of the funding for this project has not yet been identified, but proponents assume that the vast majority will come from federal taxpayers.

Outer Bridge Portion of Ohio River Bridges Project – Indiana and Kentucky

Cut: \$1.5 billion

The outer, or eastern, bridge portion of this project would be a new interstate highway (I-265) and Ohio River bridge in the eastern suburban area of Louisville. It would connect the Gene Snyder Freeway in Kentucky (KY 841) to the Lee Hamilton Highway in Indiana (State Road 265). The project, which the Environmental Protection Agency calls "redundant", is a developer's dream. It would open up vast quantities of land in Indiana for development.

Gravina Island Access - Alaska

Cut: \$300 million

Yes, the "Bridge to Nowhere" lives on. Though the bridge project was cancelled by then-Governor Sarah Palin in late 2007, the state completed construction

of the \$26 million 3-mile Gravina Access Highway, which would have served as the bridge access if the bridge was built. To avoid having to pay back to the federal government the money it spent on this "highway", the state is conducting an assessment of the project to show how it will utilize the newly constructed road. The assessment is underway, but this charade should be stopped once and for all, and taxpayers assured that this monstrosity is killed for good.

Note: Figures from FY2011 Budget of the U.S. Government, U.S. Rep. Betsy Markey, U.S. Sen. Russ Feingold, Louisville Magazine, Regional Transportation Plan Workshop (I-710), Alaska DOT, Alaska Transportation Priorities Project, MN Star Tribune. Cost estimates are based on total project costs, not necessarily expected federal investment. Escalation of infrastructure costs over time and private and local government investments could make these figures higher or lower in the future.



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