

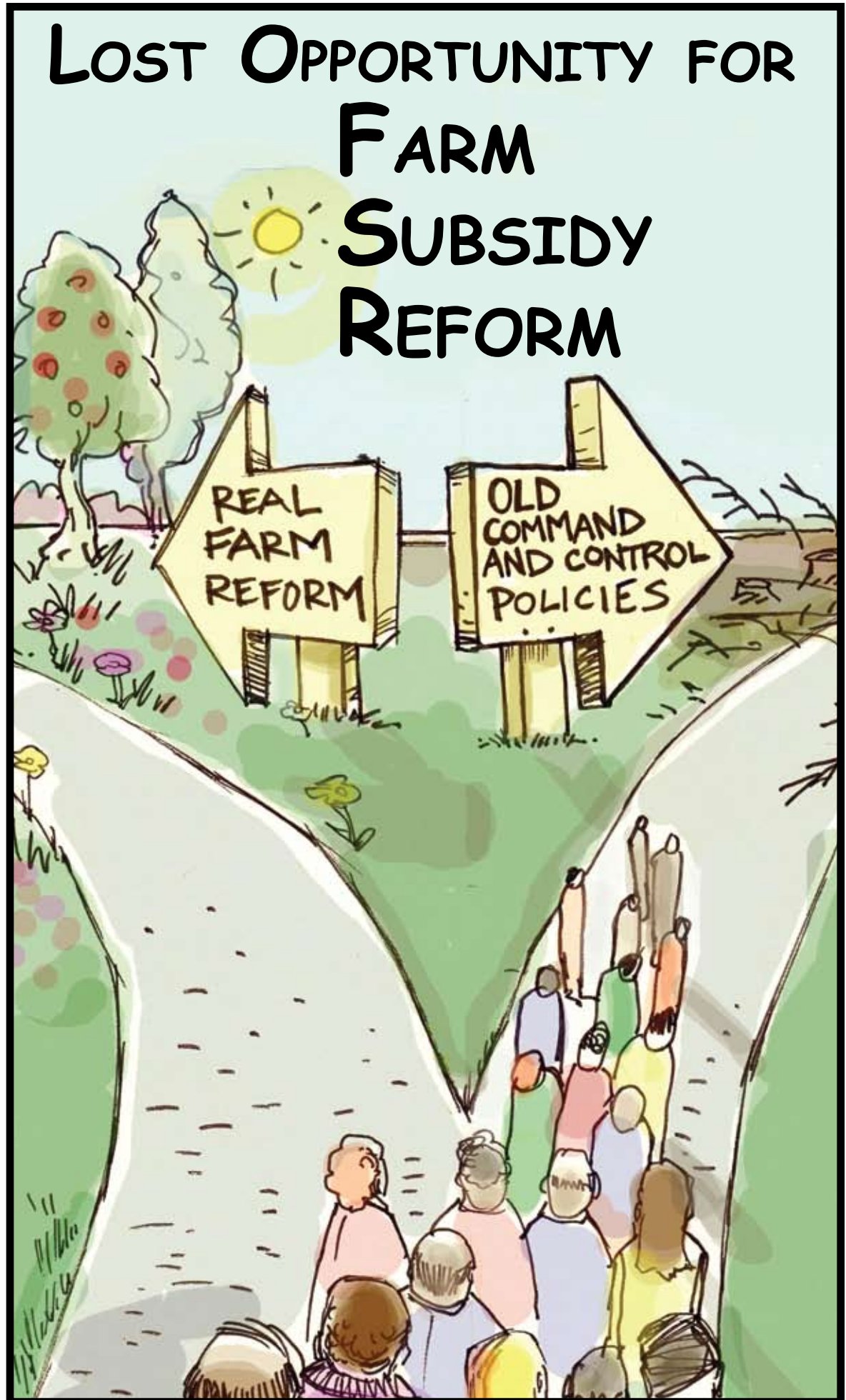
GOVERNMENT

# Waste Watch

THE OFFICIAL NEWSPAPER OF  
CITIZENS AGAINST GOVERNMENT WASTE  
&  
THE COUNCIL FOR CITIZENS AGAINST  
GOVERNMENT WASTE  
Winter 2007

*John Frydenlund*  
*Director of Food and Agriculture Policy*

When it comes to reforming antiquated farm programs, 2007 may go down in history as the year that could have been. Although the counterproductive farm policies that have plagued this country since the Great Depression cried out for significant change



Farm Subsidy Reform (continued on page 12)

# Letters

TO THE

# Editor

To the Editor:

The basic problem with wasteful government spending is that we have completely forgotten our nation's ruling document, the U.S. Constitution. In particular, since the turn of the 20th century, the American federal government has grown steadily in violation of the Tenth Amendment, usurping powers and functions which the Constitution does not grant to it.

In the summer 2007 edition of *Government WasteWatch*, there appeared an article by Jay Borelli concerning the hurricane Katrina disaster. The truth is, the federal government should never have gotten involved with the disaster in the first place. Constitutionally speaking, this was strictly a state and local government matter for the people of the Gulf states area to deal with.

Nationwide compassion is, of course, a praiseworthy virtue. However, the federal government is not the only channel through which compassion may be manifested. If the American people are so compassionately concerned about their fellow Americans in other regions of the nation, there are hundreds of private charity organizations through which compassion may be channeled.

There is place for compassion in America, but the federal government is not it!

Lawrence K. Marsh  
Gaithersburg, Maryland



To the Editor,

My Arizona Senator, John McCain and all the other candidates running for the office of President have failed in their respective duties to the citizens of their states by being absent from the House and the Senate floors during very important voting on proposed legislation affecting those very citizens which they are supposed to represent.

It is my opinion that in choosing to run for this office they have decided that winning the nomination for themselves is more important than serving their constituents. Therefore, since they have chosen to absent themselves from the duty for which they were elected, then they should not receive compensation for time not served in fulfilling their basic obligations.

If this were made law, we probably would not see as many candidates competing for the coveted office of President. Also, maybe the idea should be expanded to include time away from the job by all elected officials.

David Eisenberg  
Tucson, Arizona

To the Editor:

This may be a small amount of waste in our Medicare system, but every dollar counts. Something our legislators have forgotten, except when it comes to their non-participating pensions.

I go to the general family doctor every three months, since I am 76, but still going strong. When I go to my family practice doctor and my cardiologist they will then schedule a blood test, which is good preventive medicine. However, here is the kicker: when talking to the doctor I have no complaints or

issues. Then, he receives the test results and they also show no problems. But they schedule a follow-up visit, for which I again pay a \$25.00 co-pay, and he also bills Medicare for what amount, I do not know. If I have no complaints and the blood test show no concerns, why am I asked to come in for a follow-up visit, sit for an hour, spend ten minutes with the doctor just to have him say everything is OK and again pay a \$25.00 co-pay. Waste of government money and a waste of my money.

A doctor should be required to fill out a form that requires that he state that there are medical concerns requiring a follow-up visit, or that I (the patient) have asked for a follow-up visit. I would guess it would save Medicare millions of dollars, if not more.

Philip Rotchford  
Melbourne, Florida

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**Thomas A. Schatz**  
Editor

*Citizens Against Government Waste*  
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# Message

FROM THE

# President

By Thomas A. Schatz



## 2007 Victories in the War on Waste

As the year came to a close, the 110th Congress faced a slate of unfinished business. From major pieces of legislation shaping energy and farm policy for years to come to a “patch” for the Alternative Minimum Tax to keep it from hitting a record 23 million Americans to the fiscal 2008 spending bills that fund government operations, the new Democratic congressional leadership struggled to get the job done.

During the week of December 11, there were rumors that in order to meet the President’s budget request, which would require a reduction of \$23 billion from the fiscal 2008 budget passed by Congress, all earmarks would be stripped from the omnibus spending act that covered the remaining 11 appropriations bills that had not been signed into law. In the end, the Democratic leadership kept the earmarks in the bill and cut other programs, instead, to reach the President’s level.

While Citizens Against Government Waste (CAGW) objected to the earmarks, we did fight hard to get the spending down to the total requested by the president and consider the final legislation a victory for taxpayers. Significantly, the cost of pork-barrel projects was reduced by 30-40 percent, depending on the

individual appropriations acts contained in the omnibus. At the beginning of 2007, the Democratic leadership had promised a 50 percent cut, but the final 30-40 percent cut is far better than the Republicans achieved while they were controlling Congress. There are plenty of candidates for the *2008 Congressional Pig Book*, but it will be smaller than in 2006, when \$29 billion in pork was identified by CAGW.

In addition to successfully leading the effort to hold the line on spending and cut the cost of earmarks, CAGW also helped to stop Congress’s planned expansion of the State Children’s Health Insurance Program (CHIP), which would have more than doubled spending on the program from \$25 billion to \$60 billion over five years and shifted the financial burden for 2.8 million children’s health insurance from the private sector onto taxpayers. The bill would cover families making as much as \$61,000. Our efforts generated more than 10,000 letters and e-mails from Council for Citizens Against Government Waste (CCAGW) members and proved instrumental in winning and sustaining President Bush’s veto of the bill.

We celebrated a big win for CAGW and all taxpayers when the Federal Railroad Administration (FRA) denied the Dakota, Minnesota, and Eastern Railroad’s (DM&E) \$2.3 billion loan request. Instigated by Sen. John Thune (R-S.D.), a former six-figure lobbyist for DM&E, this record federal loan would have required an annual service payment exceeding DM&E’s current yearly revenue, putting taxpayers on the hook for literally billions of dollars. In rejecting the loan, the FRA concurred with us that it posed an “unacceptably high risk” to federal taxpayers.

CAGW’s multi-year grassroots campaign to mobilize and educate taxpayers about the excessive cost and threats to privacy posed by radio frequency identification (RFID) technology paid off when the Department of Homeland Security (DHS) released proposed regulations rejecting the use of RFID chips in state-issued driver’s licenses. CAGW members generated more than 10,000 letters to DHS Secretary Michael Chertoff in opposition to RFID chips in licenses.

We also won significant reforms of the Coast Guard’s troubled \$24 billion Deepwater program. Congress allowed two private con-

tractors to both develop and manufacture new ships and other equipment for the Coast Guard, while also allowing the contractors to supervise their own acquisition program. That management and oversight responsibility is now being moved to the Coast Guard.

In another victory to stop the waste of our defense dollars, CAGW’s public criticism prodded the Air Force into reopening bidding for a \$35 billion search-and-rescue helicopter contract after we helped to expose improprieties in awarding the original contract.

Our lobbying efforts through CCAGW succeeded in pushing through a seven-year extension of the Internet tax moratorium just before it was set to expire on November 1. The extension stopped the attempt to open up the Internet to taxation at the federal, state, and local levels.

In addition to our victories, CAGW staff was seen on television a record number of times in 2007. Including my weekly appearance on CNBC’s “Squawk Box,” which is usually at 6:50 a.m. EST on Tuesdays, our message to cut wasteful spending and taxes was seen more than 150 times. In just the past month alone, I have appeared on CNN’s “Glenn Beck Program” and MSNBC’s “Tucker.” Our work has also been cited in newspapers and newsmagazines from coast-to-coast, including *The Baltimore Sun*, *The Boston Globe*, *The New York Times*, *San Francisco Chronicle*, *USA Today*, *The Wall Street Journal*, and *The Washington Post*.

In 2008, CAGW and CCAGW will be pushing hard for additional spending cuts and further earmark reductions, while engaging in an all-out battle to extend the Bush tax cuts beyond their expiration dates in 2010 and 2011 and stop Congress from raising other taxes.

I hope you and your family have an enjoyable holiday season, and thanks to all of our CAGW members who have contributed to our success in 2007.

# Guest Column

## This New Year, Let's Resolve to Kick an Old Habit

By Claire McCaskill  
U. S. Senator (D-Missouri)



Amid all the joys of the holiday season, there's always that nagging feeling that soon, with the arrival of the new year, we'll have to turn a new leaf, break those bad habits and finally stop ignoring the unhealthy practices that have somehow become routine in our daily lives.

At this time of year, that extra piece of pie or glass of eggnog leaves us feeling weighted down come January 1. So, after a month of ignoring our better judgment in order to enjoy our favorite holiday treats, many of us resolve to do better.

In recent years, billions of federal dollars went to fund local pet-projects at the request of members of Congress. The result: federal spending that becomes more bloated than ever before and the problem just seems to get bigger and bigger each year.

As we look to 2008, it's clear there are plenty of problems Congress should resolve to address, but fighting waste in government spending remains at the top of my list.

Fiscal responsibility has become a slogan in politics that is all too rarely backed up by Congressional action. In the end, everybody still wants a piece of the pie to take home to their district.

It's clear that Congress needs to go on a diet by making a serious adjustment in the way we approach federal spending.

We shouldn't be afraid to invest in our local communities and the future of our country, but Congress needs to do it in a way that ensures that federal funds aren't distributed based on who you know, but rather based on the merit of a project.

The appropriations process is far from perfect, but continuing to increase transparency of earmarked projects, while also ensuring that they are not added without an opportunity for floor debate, would go a long way toward protecting Americans from using federal tax dollars to pay for unnecessary projects.

Improved transparency will serve as an automatic cleaning mechanism because the public, and the media, will have an opportunity to scrutinize the projects. And if a project isn't worthy of public scrutiny, it's not worthy of being funded by public tax dollars.

But unfortunately, elements of the current process remain infused with secrecy. Our system still allows billions to be added without inspection.

Earlier this year, I was disappointed to learn that we still do not require the projects requested by individual members be disclosed during the committee mark-up process. I had the opportunity to change this when the Senate Armed Services Committee was working on the bill authorizing spending for the enormous Department of Defense. Sen. John McCain (R-AZ) and I offered an amendment that required the names of sponsors and the location of

the project to be made public so that at the very least, transparency can diminish the chances of serious abuse of federal dollars.

Unfortunately, my amendment is just a one-time solution to a much bigger problem. With the ethics reform legislation, we are making big strides towards cleaning up Washington, but we need to be mindful that it isn't a perfect fix and that there is always room for improvement when it comes to creating a government that is open and accountable to its citizens.

The truth is, we won't make much serious progress in fighting wasteful spending until we force Congress to go on a serious diet and resolves to change its bad habits. The health and well-being of our nation are at stake.

### Council for Citizens Against Government Waste

The Council for Citizens Against Government Waste (CCAGW) is the lobbying arm of Citizens Against Government Waste (CAGW), a private, nonpartisan, nonprofit organization representing more than one million members and supporters nationwide dedicated to eliminating waste, mismanagement, and inefficiency in government. Founded in 1984 by the late industrialist J. Peter Grace and syndicated columnist Jack Anderson, CAGW is the legacy of the President's Private Sector Survey on Cost Control, also known as the Grace Commission. CCAGW tabulates its annual *Congressional Ratings* to measure the willingness of each member of Congress to fight government waste and reduce the national debt.

# Watch Dogs



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## Fake FEMA Press Conference Promotions

*By Ben Giovine, Research Associate*

On October 23, 2007, Federal Emergency Management Agency (FEMA) conducted a fake news conference regarding the response to the California wildfires. The “reporters” at the press conference were FEMA employees and the softball questions lobbed at FEMA officials would make even Larry King blush. The news of FEMA’s fake press conference spread like the wildfires themselves and raised questions about the leadership of this embattled agency. Homeland Security Secretary Michael Chertoff called it “one of the dumbest and most inappropriate things I’ve seen since I’ve been in government.”

About one month after the October 23 FEMA faux-news conference, the agency announced that two of the staffers posing as journalists are not receiving a pink slip and were instead promoted. Cindy Taylor, Deputy Director of Public Affairs, was to become head of a new private sector office, and Mike Widomski would move up to replace Taylor as Deputy Director of Public Affairs. If FEMA can’t manage its staff, no wonder there are ongoing questions about the agency’s ability to manage emergencies. Unfortunately, that news was real, not false.

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## Bike Lockers

*By Ben Giovine, Research Associate*

The Air Transport Association (ATA), a trade organization representing leading U.S. passenger and cargo airlines, called on Congress to reassess its proposal to increase airport taxes in September. While airport delays are reaching record levels, the ATA says the Federal Aviation Agency needs to modernize the air traffic control system and create a fairer funding structure. In a press release, ATA President and CEO James C. May said that if Congress acted responsibly, “We can address today’s airport delay problems and do it much more cost-effectively for passengers...”

Instead of focusing on the delay issues at hand, Congress continues to fund the Airport and Airway Trust Fund (AATF). Currently, passengers pay 92 percent of the AATF but drive only 66 percent of costs. The remaining \$2 billion is federally subsidized. Furthermore, Congress’s proposal to raise the airport tax by 56 percent from \$4.50 to \$7.00, is only throwing money at a situation that cannot fix itself. The proceeds from this tax are being directed toward programs including airport bicycle lockers, and hot dog stands. Clearly, Congress should not peddle this problem to the American public.

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## CFC Charity Fraud

*By Ben Giovine, Research Associate*

When the government tries to play Santa Claus, bad things happen. The Combined Federal Campaign (CFC) allows certain charitable organizations exclusive access to federal workplaces to solicit contributions from employees. In 2006, federal workers gave more than \$271 million to more than 20,000 charities. However, some of that money went to tax-delinquent charities.

Administered by the Office of Personnel Management, the CFC has given money to 1,280 organizations who collectively owe \$36 million in back taxes, some dating back to 1988. Some of the charities also receive substantial federal grants: government agencies awarded \$1.6 billion in federal grants to at least 170 of the tax-delinquent charities in 2005.

A July 2006 report by the Government Accountability Office (GAO) said of one charity, “Rather than fulfill their role as trustees ...

the directors and senior officers diverted the money for charity-related expenses, including their own salaries, some of which were in excess of \$100,000.” Another charity purchased an exclusive boat for the board of directors. The GAO targeted 15 charities for full investigation and found every organization to be involved in “abusive and potentially criminal activity.”

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## CAGW Launches New Blog: [www.swineline.org](http://www.swineline.org)

*By Ben Giovine, Research Associate*

Citizens Against Government Waste (CAGW) has launched its new blog, [www.swineline.org](http://www.swineline.org). The blog will be another tool for taxpayers who want to join the citizen army of “tireless bloodhounds” envisioned by President Ronald Reagan when he established the Grace Commission back in 1984, rooting out government waste, fraud, and mismanagement. CAGW co-founders J. Peter Grace and syndicated columnist Jack Anderson witnessed the dawn of the Internet age and certainly had an inkling of the powerful juggernaut it has become today.

With the addition of [www.swineline.org](http://www.swineline.org), CAGW provides another platform for dialogue with taxpayers around the country on wasteful and egregious spending issues in their local areas, as well as a meeting place to share information and strategies for restoring accountability and transparency to all levels of government.

Swineline.org will be updated frequently with biting commentary; up-to-the-minute data on the progress of spending bills and other relevant legislation; links to primary sources on government waste, fraud and abuse; tax issues; earmarks and pork-barrel projects. The blog will also be leavened with entertaining videos, photos, cartoons, and links to other national and state-based taxpayer watchdog groups that track and expose wasteful spending projects.

For its inaugural post, [www.swineline.org](http://www.swineline.org) featured an impromptu run-and-gun video of actor Kiefer Sutherland, known around the globe as the indomitable “Jack Bauer” on Fox Television’s blockbuster series “24.” Sutherland, in D.C. shooting an episode for the series, caught sight of CAGW’s mascot Porky, asked for a photo, and proceeded to “ham it up” with him.

# Guest Column

## No Bailouts for Borrowers

*By Andy Laperriere  
Wall Street Journal Online  
December 4, 2007*

As the housing market continues to deteriorate, the pressure to respond is growing in Washington. A Treasury Department plan—to work with mortgage servicers to streamline the process for modifying loans for subprime borrowers who can't afford higher monthly payments—has been in the news the past few days. On December 3, Hillary Clinton announced a plan for a 90-day moratorium on foreclosures and a five-year freeze on mortgage payments for subprime borrowers. It won't be long before demands are made—including from Wall Street—for a taxpayer bailout of homeowners facing foreclosure.

A taxpayer bailout of distressed homeowners would be expensive and unfair to the vast majority of homeowners and renters who have made prudent financial decisions, and it would set a troubling precedent that would invite reckless behavior in the future. What's more, a bailout will not stop the inevitable correction in home prices, and is unlikely to prevent the associated economic repercussions.

The primary argument for a taxpayer bailout is based on a myth—that subprime borrowers are falling behind on their mortgages because interest rates on their adjustable rate mortgages have spiked, making their monthly payments unaffordable. In fact, the vast majority of delinquent subprime borrowers are still paying introductory teaser rates (about 8% on average, a below-market rate for borrowers with checkered credit histories). In other words, for most of these borrowers, their monthly payments have not yet gone up.

It is true that many subprime borrowers were sold a toxic mortgage by unscrupulous mortgage brokers. However, the primary reason for the spike in subprime delinquencies so far is that many subprime borrowers have taken

on more debt than they can pay back using any reasonable interest rate.

According to Credit Suisse, the typical subprime mortgage starts at 45% of pre-tax income—before the rate resets. After the first reset, the mortgage payment generally increases to about 55% of gross income (and can go up from there). Many of these loans can't be restructured or modified; the only way the most distressed subprime borrowers will be able to stay in their homes is if the lender or the taxpayers forgive a significant amount of their mortgage debt.

Since so many borrowers—and not just subprime borrowers—would need to receive substantial debt forgiveness to make their mortgages affordable, a bailout fund would be expensive, likely costing taxpayers hundreds of billions of dollars. At a time when Congress should be trying to confront the trillions of dollars in unfunded Social Security and Medicare obligations, a mortgage bailout would be fiscally irresponsible.

An important factor that would magnify the cost of a bailout is that it's difficult to know in advance who will default on their loans, and therefore to whom the aid should be targeted. By what standard would the government distribute this aid? What would qualify a homeowner as financially distressed? Should a bailout be limited to subprime borrowers, people who, by and large, have a history of not paying their bills on time? Why not extend the taxpayer's largesse to prime borrowers, many of whom also face large payment increases associated with rate resets?

A majority of subprime loans during the past few years have been cash-out refinance loans. Many subprime borrowers have extracted, through cash-out refinancing, much more than they ever put into the house in the form of a down payment. Would they be eligible for a bailout? How about people who chose a "stated income" option, so they didn't have to document their income and lied on their loan applications?

Would a bailout fund be limited to those with certain incomes or home values? Would there be an asset test, or would people with two

brand new cars in the driveway or six-figure stock portfolios qualify? What kind of asset test?

It is self-evident that any bailout fund will be complex to administer, as well as arbitrary and unfair. While the plight of many who were caught up in the housing mania is tragic, a bailout package would almost certainly reward the least deserving. Those facing the greatest risk of foreclosure—and presumably those who would get most of the taxpayer aid—are those who bought a much more expensive house than they could afford, spent the equity of their once-affordable home, or lied about their income to qualify for a loan they otherwise would not have received.

Ironically, if passed into law, a bailout would come at a time when many investors are urging Federal Reserve Chairman Ben Bernanke to exercise restraint in responding to recent financial market turmoil. They argue that one important reason investors have taken on excessive risk (say, buying risky subprime mortgages with leveraged funds) was the perception that the Fed would step in and cut the fed-funds rate if asset prices fell, as it has done repeatedly during the past two decades. Economists call this moral hazard. Obviously, the federal government would set a troubling precedent and encourage irresponsible behavior in the future by bailing out homeowners (and, indirectly, lenders and investors).

Some say the government did exactly that during the S&L bailout of the 1980s, but that is not true. The bailout was for innocent depositors who were guaranteed protection of their funds under federal law. The managements and investors of the savings and loans that became insolvent were not bailed out. They lost their jobs and their investments.

The argument will be made that, despite the high cost, inherent unfairness, and moral hazard associated with a bailout, allowing a spike in foreclosures will push home prices down and possibly send the economy into a recession. Therefore, Congress should create a taxpayer bailout fund to soften the economic blow from the housing bust.

Theoretically, a timely and well-designed bailout might slow the descent of home prices and mitigate the associated economic

fallout—but one ought to be deeply skeptical of the effectiveness of a proposal that, at root, is designed to repeal the laws of supply and demand. Home prices were driven to unsustainable levels during the housing boom because imprudent loans created artificial demand for housing. It is inevitable that home prices will fall as that artificial demand is withdrawn.

Congress and the Bush administration are in the process of taking measured steps, such as expanding eligibility for FHA loans and working with industry to streamline the process to modify loans, to help distressed borrowers where they can. To be sure, these proposals will have only a modest impact. But policies designed to suspend the laws of economics inevitably produce unintended consequences. Today's housing bust is itself the unintended consequence of an easy Federal Reserve monetary policy designed to cushion the economy from the fallout of the bursting of the tech bubble. Congress should reject a taxpayer bailout.

*Mr. Laperriere is a managing director in the Washington office of ISI Group.*

# Light Utility Helicopters: Grounded

*By Ben Giovine  
Research Associate*

After the Comanche Helicopter Program was cancelled in February, 2004, the United States Army initiated two separate acquisition programs to fill its needs. One was the Light Utility Helicopter (LUH), to be used primarily for firefighting, disaster response, MEDEVAC and search and rescue missions, and the other was the Armed Reconnaissance Helicopter. The Army intends on purchasing 322 LUHs over eight years to replace Vietnam-era helicopters as well as to free up Army Black Hawk helicopters currently serving several roles within the United States, which could then be shifted overseas. The bid for the \$2.6 billion LUH program was won by Eurocopter over its competitors because the Army decided that its Lakota helicopter was the least costly of the options that satisfied mission requirements.

Unfortunately, the program has faced many difficulties, as the helicopter fails to meet all of the Army's stated requirements. A July 2007 report released by the Pentagon's Director of Operational Test and Evaluation (OT&E) was critical of the helicopter, as it revealed a number of issues related to the Lakota's inability to perform the LUH mission. One of the most disconcerting problems relates to MEDEVAC. The OT&E report said, "There is not sufficient room for the medic to provide immediate medical care to the patients," and "There is no dedicated provision for cabin ceiling rails to hang IVs, infusion hooks, or to store and secure medical equipment." Furthermore, the helicopter does not have an air-conditioning unit,

which the report said will "limit crew endurance and affect passengers and medical casualties." Hmm . . . seems like an important mission to ignore, one that could have an impact on the Army's ability to save a life, or many lives in the event of a mass casualty situation.

Furthermore, the report stated, "The LUH aircraft [Lakota] is not operationally suitable due to excessive heat in the aircraft cockpit and cabin from the sun, heat generated by aircraft avionics, and inadequate ventilation." While other helicopters, including the CH-53 and the CH-46, were used in the recent California wildfires, the Lakota was not, as it could not carry the buckets of water employed by the other helicopters. There goes any chance of a firefighting mission.

*The Hill* newspaper reported on November 20, 2007, that the Army continues to defend the LUH before Congress. Despite calls from Rep. Duncan Hunter (R-Calif.), the ranking member of the House Armed Services Committee, to purchase Black Hawks he says are more reliable for such missions, Brigadier General Stephen Mundt, the director of the Army's Aviation Task Force, said the Army is standing by its decision. The other helicopter acquisition program, the armed reconnaissance helicopter, is also drawing heavy criticism from members of Congress.

The Army is choosing to "fix" the Lakota by spending an additional \$14 million to resolve the overheating issues. Despite the need for efficient tactical machinery, it appears the Pentagon will continue to place this burden on the taxpayer. The Army's mantra appears to be, "We made a mistake and we're sticking to it."

# Capitol



# Watch

By Elizabeth Wright  
V. P. of Government Affairs

## Update on Healthcare Issues

**A**lthough several healthcare issues stalled in the first session of the 110<sup>th</sup> Congress, healthcare continues to be the major domestic concern in Washington, D.C. The subject has already begun to drive the presidential campaign, especially among Democratic primary contenders. From re-authorization of the State Children's Health Insurance Plan (SCHIP) to continued efforts to open the borders to drug importation (often erroneously labeled "re-importation") to designing a pathway for a Food and Drug Administration (FDA) approval process for generic biologics to developing a universal healthcare system, Washington politicians and presidential candidates will be hotly debating these matters.

SCHIP, created in the 1997 Balanced Budget Act, was due to be renewed in 2007. Designed as a federal-state partnership, its original purpose was to provide health insurance to uninsured children in low-income families whose incomes were too high to qualify for Medicaid. Big-government fans, always looking for an opportunity to herd more people into taxpayer-funded healthcare systems, wanted to find a way to expand the program to middle-class families. The House and Senate approved H.R. 976, which increased the cost to \$60 billion over five years and attempted to fund it with a 61-cent per pack increase in cigarette taxes.

But President Bush vetoed the bill and his veto has been sustained. Negotiations and serious arm-twisting began in an attempt to change the legislation just enough to pick up the 2/3 majority of voting members to override the president's veto. Congress sent up a second bill, but that too was vetoed. In an unusual move, the House voted to delay a vote on a veto override until January, perhaps in an effort to gain time to mount a campaign against some Republicans and force them to vote in favor of the legislation. In the meantime, CAGW expects a simple extension of SCHIP to be passed to fund the program into next year. Expect another scorching debate over healthcare in Congress and on the campaign trail.

Drug importation continues to rear its head. There is always a significant chance that a drug importation bill could be attached to legislation that is moving through Congress. Many Americans have accepted the myth that legalizing drug importation means that individuals simply get to "re-import" cheaper American-made drugs from other countries, such as Canada. This is a dangerous assumption. Studies have shown that if importation is legalized and consumers or commercial outlets, such as pharmacies, are allowed to purchase medicine outside the current U.S.-regulated system, it is highly likely consumers will receive counterfeit, expired, or adulterated drugs.

The Food and Drug Administration (FDA) and U.S. Customs and Border Protection found that 88 percent of imported drugs that entered the country were unapproved medications. Europe has tried a similar system, called parallel trade, which is rife with adulterated drugs. EU customs officials seized more than 560,000 packets of fake medicines in 2006, twice what was taken in 2004. For now, it appears that well-publicized scandals involving tainted Chinese imports, as well as a significantly devalued dollar, have put a damper on this misguided initiative.

There was great hope at the beginning of 2007 that Congress would pass legislation that would establish a pathway to produce generic versions of biotech drugs. Biotech drugs are made from biological substances derived from living organisms. Some well-known biologics are Epogen®, which stimulates bone

marrow to produce red blood cells or Pulmozyme®, which is used to treat cystic fibrosis.

Advocates for creating that pathway had hoped to include language in an FDA reform bill, but Congress, particularly in the House, could not reach a consensus on the issue, making it highly unlikely to pass this year. Unfortunately, many biotech drugs are coming off of patent protection, which means longer delays before physicians and consumers will be able to access these less expensive, safe biogeneric drugs.

Universal, single-payer, or national health insurance—whatever it is called—means government-run healthcare. This continues to be an intense topic, particularly within the Democratic presidential primary debates. But Republicans are also offering solutions to getting all Americans insured, as well.

The political environment will be different this year, compared to the early 1990s, when HillaryCare was on the front burner. Because of ever-increasing costs, many businesses are looking to dump the costs of providing health benefits, and the government looks like the likely dumping ground.

Washington politicians, always eager for a quick fix, are all too eager to accommodate them, for example, by expanding SCHIP. Don't be fooled by the siren call of "free" healthcare. Costs must be borne by someone, either through higher taxes for a government-run plan, smaller salaries in the private sector in exchange for an insurance benefit, or spread among consumers in the marketplace. An equally important matter is whether politicians and bureaucrats, employers, or patients will be in charge of the decision-making process.

# Pork is Alive and Well

By Senator Tom Coburn (R-Okla.)  
and  
Tom Schatz  
President, Citizens Against Government Waste

The new fiscal year dawned on October 1 without a federal budget and the Congress graciously granted itself another six weeks to complete its constitutional mandate to pass all 12 appropriations bills. If it feels like déjà vu, that's because it is.

The Congressional Research Service (CRS) reports that from 1997 through 2006 "neither chamber has passed all the regular appropriations bills each year. For four of the past ten years, the House did not pass all the bills and, for seven of the past ten years, the Senate did not pass all of them."

On the same day it passed the resolution to keep the government running at last year's funding levels, Congress further reinforced its richly-deserved image as both dilatory and profligate by increasing the national debt ceiling, thus enabling the U.S. Treasury to borrow even more money to fund the increasingly bloated appropriations bills they can't seem to finish. So, what exactly is Congress doing with its time and the taxpayers' money?

The Democratic leadership has been feverishly focused on how to continue to stuff tens of millions of dollars in pork-barrel projects into legislation, in contravention of its own newly-minted earmark disclosure and transparency rules. In the House, Democratic leadership will not certify that all earmarks in tax and authorization bills will be publicly exposed and subject to challenge on the floor. Republican leaders have filed a discharge petition for H. Res. 479, which would create such a guarantee. House leaders are also trying to sell the snake oil that earmarks have been cut in half, when not a single conference report has been com-

pleted and no one knows what the final outcome will be.

Long known as being "porkier" than the House, Senate leadership is also parsing words to ensure that certain earmarks in conference reports cannot be challenged. The staff of Senate Majority Leader Harry Reid (D-Nev.) told the parliamentarian that his interpretation of the new rule permitting senators to raise a point of order for spending items added in conference does not apply to tax or authorization bills. The Senate Rules Committee staff director contradicted that opinion, noting that the point of order was intended to apply to all bills. The language being contested by Senator Reid was signed into law by President Bush on September 14 as part of S. 1, the Honest Leadership and Open Government Act.

This dramatic reversal of fortune for earmark transparency became crystal clear when Sen. Jim DeMint (R-S.C.) attempted to challenge \$2 billion worth of earmarks that were added in conference to the 2008 Water Resources Development Act (WRDA). That bill, which had had \$14 billion and \$15 billion price tags in their respective Senate and House versions, emerged from the conference phase with 450 earmarks and a whopping \$23 billion dollar final price tag attached to it!

Sen. DeMint's challenge was rebuffed because Sen. Reid's interpretation of the new rules permits senators to add pork with impunity to authorization bills such as WRDA and the 2005 highway bill, SAFTEA-LU, which had more than 6,300 earmarks worth \$24 billion, including the infamous "Bridge to Nowhere" in Alaska. If another unnecessary and wasteful bridge to anywhere was added in the conference phase of any future authorization bill, it could not be objected to on the floor of the Senate, according to Leader Reid's decision.

Probably the strangest case of non-appropriations earmarking occurred in the State Children's Health Insurance Program (SCHIP) reauthorization. According to *The New York Times*, the House of Representatives "quietly funneled hundreds of millions of dollars to specific hospitals and health care providers under a bill passed this month to help low-income children. Instead of naming the hospitals, the bill describes them in cryptic terms, so that identifying a beneficiary is like solving a riddle. Most of the provisions were added to the bill at the request of Democratic lawmakers." Some hospitals were magically "relocated" from rural areas to a major city, such as New York, in order to obtain higher Medicare payments than those for which the facility would normally qualify.

It is premature to believe that the scourge of congressional earmarking has been restrained, let alone eradicated. On the contrary, the new majority is already surreptitiously dismantling the very rules that it enacted in order to expose rampant pork-barrel practices, while cynically promoting themselves as champions of the taxpayers. Their attempt at real earmark reform is a sham that will allow the pork to flow for many years to come.

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# Energy Woes

By Elizabeth Wright  
V.P. of Government Affairs

Anyone who drove in the 1970s will not fondly remember skyrocketing gas prices and gas lines due to the Arab oil embargo, the Organization of the Petroleum Exporting Countries (OPEC) increasing the world price for a barrel of oil, and an Islamic revolution in Iran. Politicians in Washington and around the nation tried to “fix” the problem with several initiatives, such as price controls, windfall profit taxes, rationing, and regulation. In 1975, the U.S. imported 37 percent of its petroleum. Yet even with all the government incentives to wean the nation from foreign energy sources since those heady days, the country now imports more than 66 percent of its petroleum.

Even as the economy and consumers need more energy, not less, politicians are once again meddling in areas they should leave alone. Some of the so-called solutions to the nation’s energy woes that have been proposed in various pieces of legislation sitting before Congress will, if implemented, make the 1970s look like a cakewalk. Drivers who were not around in that decade may get to experience the sheer joy of sitting in a gas line for hours, being told what day of the week to purchase gas (if there is any to be had), and see their overall purchasing power diminish.

Although energy issues have been at the forefront of our national debate for the past several years, much of the current angst occurred right after Hurricanes Katrina and Rita slammed into the Gulf Coast, where about 25 percent of U.S. domestic oil production occurs, 20 percent of natural gas production is located, and more than 40 percent of the nation’s oil refining facilities are in operation. The storms severely interrupted vital energy supplies, driving up costs for gasoline and oil. It wasn’t long before the press reported on stories of rogue gas stations charging as much as \$6.00 per gallon in the Gulf Coast area and consumers nationwide saw the price of gas increase to more than \$3.00 per gallon for regular grade.

Prices eventually stabilized, as clean-up and repairs began in the Gulf Coast region, but Americans face another reality that continues to this day. The fast-growing economies of China and India, among others, are consuming more oil and other energy sources, keeping demand and prices high. Add to this mix a presidential campaign and the “Chicken Little” reaction to global warming and it is a perfect storm for some real mischief by big-government advocates in Congress.

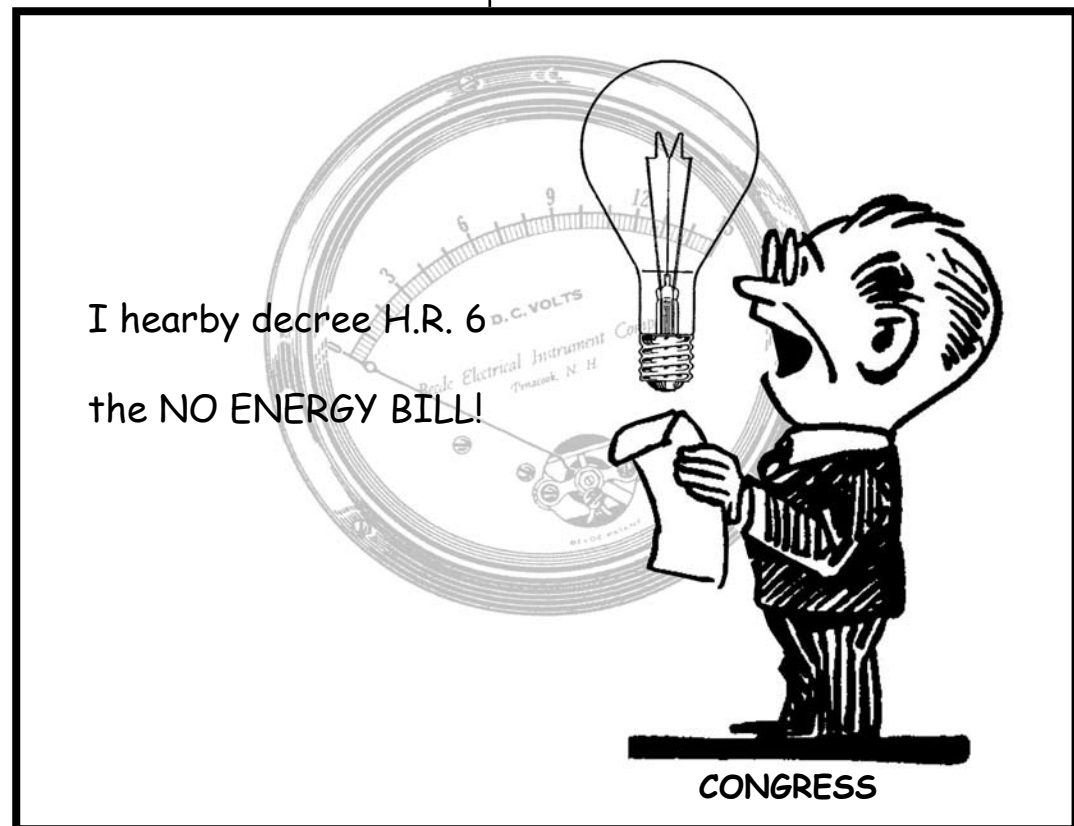
There were several bills passed in Congress in 2007 with onerous provisions, such as huge tax increases on energy companies, mandates on energy production and use, price-gouging provisions, and increased corporate average fuel economy (CAFE) standards for automobiles and trucks. The House and Senate committees responsible for writing a consensus bill were unable to reach agreement, so the Democratic leadership essentially took over. With little or no bipartisan involvement, a series of proposals and bills were eventually cobbled together into one piece of legislation, H.R. 6, the Energy Independence and Security Act of

2007. Unfortunately, it provides the nation with neither independence nor security while repeating past mistakes, such as allowing Congress to pick winners and losers in energy policy.

H.R. 6 included a \$21 billion tax increase on energy companies, which will be passed on to consumers, hurt investment, research and development, and cause unemployment. The nation’s energy companies directly and indirectly employ 6 million people on a full- or part-time basis, accounting for 3.5 percent of total employment nationwide. Millions of Americans’ pension and retirement funds are invested in these energy companies. Imposing onerous tax burdens on these energy companies will not solve the country’s energy needs and it will harm the economy.

H.R. 6 also mandated renewable portfolio standards on private utilities, requiring them to generate 15 percent of electricity from renewable sources, such as wind and solar by 2020. While this may sound proactive, many renewable technologies are not advanced enough to meet energy demands of the utilities and many of them are not available in many regions of the country, particularly in the South. This mandate will also raise costs to consumers.

The energy bill required that 36 billion gallons of ethanol and other biofuels be blended with gasoline by 2022, intensifying the prob-



lems created by the Energy Policy Act of 2005. That legislation required that 4 billion gallons of renewable fuel be added to the gasoline supply by 2006. This has raised the price of corn and increased the cost of food and transportation.

H.R. 6 also mandated an increase in the CAFE standard from a combined 25 miles per gallon for car and light trucks, such as SUVs, to 35 miles per gallon by 2020, stressing an already shaky U.S. auto manufacturing industry.

With barely a half day to digest the more than 1,000-page bill, the House leadership brought it up for a vote. It passed, 235-181, but without the vote margin needed to override a promised presidential veto.

From there, it went to the Senate, where it failed a cloture vote (essentially, a test to see if it could garner enough votes to avoid a filibuster). The Senate immediately began to rewrite the legislation to try to get the 60 votes needed to make it filibuster-proof.

The new version of H.R. 6 raised taxes by \$22 billion, but removed the requirement on private utilities to generate 15 percent of electricity from renewable sources by 2020. That, too, failed a cloture vote. The bill was rewritten again to remove the bulk of the tax increases and it finally passed the Senate on December 13. It ping-ponged back to the House, where it is expected to pass. The president has promised to sign this new version of the bill into law, but House Speaker Nancy Pelosi (D-Calif.) has promised that some of the other controversial measures (tax increases, the utilities' requirement, price-gouging initiatives, and restrictions on oil use) could come up again in some future legislation. Undoubtedly, the goal is to pass these proposals piece by piece.

The two areas where the president and Congress agree are for increase in CAFE standards and the imposition of a mandate for 36 billion gallons of ethanol and other biofuels to be blended into gasoline annually by 2022. These alternative fuels are fledging technologies and bring problems of their own. For example, according to an article in the July, 2007 *Rolling Stone* (no corporate mouthpiece), cellulosic ethanol (produced from woody plant matter such as trees, grass, and agricultural waste) faces daunting engineering hurdles. Even if those obstacles are overcome, the U.S. would have to use 13 percent of its land, seven times

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more than is used for corn production today, to reach the goal of replacing 50 percent of gasoline with cellulosic fuels. That will restrict growth of other farm products and further drive up the price of food supplies.

If the mandate for renewable fuels such as ethanol becomes law, the consequences are dramatic. *Rolling Stone* pointed out that current corn ethanol production is only 3.5 percent of gasoline production, but it gobbles up 25 percent of the total corn crop. Reaching the mandate contained in H.R. 6 will only replace seven percent of current domestic oil needs. Even if the entire corn crop was devoted to ethanol, only 12 percent of current gasoline use would be replaced.

In addition, for those concerned about greenhouse gases, a study published in the August "Atmospheric Chemistry and Physics Discussions" by P.J. Crutzen et al. pointed out that the release of nitrous oxide (N<sub>2</sub>O) in the production of biofuels could negate any savings realized from a reduction of fossil fuel CO<sub>2</sub> emissions.

Before requiring the increased production of ethanol, members of congress should read the October 2007 report "Leaping Before They Looked: Lessons from Europe's Experience with the 2003 Biofuels Directive" by the Clean Air Task Force, which details how a 2003 European Union mandate to increase and pro-

mote the use of biofuels "has exacerbated some of the very problems it was designed to solve, driving up food prices, leading to increased deforestation in tropical countries, worsening global warming, and increasing imports of bio-oils."

Establishing domestic exploration restrictions and raising taxes on the nation's energy companies will only make the U.S. more dependent on foreign sources for energy. According to data from the U.S. Geological Survey and the Minerals Management Service, some 69 percent of undiscovered oil resources and 51 percent of undiscovered gas resources are located on U.S. government lands. Domestic energy companies must gain access to these areas and the market must work without stifling regulations and political decrees. Real market forces will encourage private investment and research that will develop cleaner and more efficient energy for everyone.

## **Farm Subsidy Reform** *(continued from page 1)*

in the 2007 Farm Bill, the U.S. Congress completely failed to deliver any reform. Incredibly, it is even worse than the farm bill passed in 2002.

Advocates of change, including Citizens Against Government Waste (CAGW), thought that taxpayers deserved a break from the excessively high cost of farm subsidies, particularly over the last decade. No time was better for reform than now, when agricultural income is at record highs and farm commodity prices are soaring and taxpayers have been paying an average of \$20 billion annually since the mid-1990s for the most expensive farm subsidy payments in history.

These costs are particularly indefensible since the myths used to justify the continuation of farm subsidies—that they are needed to preserve small family farmers—are laughably far from the truth. The arguments that have been used to perpetuate these policies never held much water, but they are less valid now than they ever were.

The truth is that farm subsidies don't help small farmers, but instead help the wealthiest farmers get richer, enabling them to expand their operations and gobble up more farmland, and turning the small towns of rural America into ghost towns. Subsidies hurt poor people in America and poor farmers in developing nations, all at an exceedingly high cost to U.S. taxpayers.

Currently, 60 percent of farms either receive less than \$2,000 annually or no subsidies at all. In 2003, the top 10 percent of farm subsidy recipients collected 72 percent of total subsidies and the top 5 percent collected 55 percent of payments.

To make matters worse, the 2007 Farm Bill passed by Congress even increased subsidies for most crops, in addition to creating a costly permanent disaster assistance program. Efforts to reform the farm bill were thwarted in both the House and the Senate.

In the House, the major reform effort was led by Representatives Ron Kind (D-Wis.) and Jeff Flake (R-Ariz.). They offered an amendment that would have replaced depression-era price guarantees with a modern revenue-based safety net. This was the only reform amendment allowed to be offered under

the closed rule orchestrated by the Democratic leadership of the House, particularly Speaker Nancy Pelosi (D-Calif.).

In collusion with the chairman of the House Agriculture Committee, Representative Collin Peterson (D-Minn.), Speaker Pelosi rammed a farm bill through the House last summer that killed any prospects for reform. Misleadingly, at the same time she was pulling out all the stops to kill reform, she claimed that the House-passed farm bill represented the greatest reform in history.

Before the farm bill began moving through the committee and onto the floor, the Speaker had indicated that the farm bill should provide payment limitations in order to mollify reform advocates on the House floor. The House-passed farm bill reduced the threshold from \$2.5 million to \$1 million in annual adjusted gross income (AGI) at which farmers would be barred from receiving subsidy payments and those earning between \$500,000 and \$1 million would lose eligibility if less than 67 percent of their income came from farming. It also purportedly eliminated the three-entity rule, which allows farmers to collect subsidies on up to three properties.

At the same time, however, the bill increased the cap on direct payments from \$40,000 to \$60,000 and eliminated the limits on marketing loan payments and loan deficiency payments. Without such limits, there is no need to create three entities. The \$1 million AGI limit will impact only one-tenth of 1 percent of subsidy recipients. Instead of being the greatest reform bill in history, it was the greatest sham in history.

Although consideration of the farm bill in the Senate was delayed for many months, when the bill hit the floor in December, reform efforts met with a similar fate. The most comprehensive reform amendment was offered by Senators Frank Lautenberg (D-N.J.) and Richard Lugar (R-Ind.). It would have replaced Depression-era farm subsidy programs with an insurance program that would enable farmers to mitigate weather and market risks. It would have provided a safety net for farmers when they need it instead of simply doling out excessive payments to the wealthiest farmers while saving taxpayers \$4 billion over 10 years. The amendment was defeated by vote of 37-58.

Other less-sweeping attempts to

reform farm subsidy programs were aimed at imposing some sort of “means-testing” and real limitation of excessive payments. The Bush administration had proposed that payments should be eliminated for those individuals with an AGI of greater than \$200,000. That proposal was not even considered by the Senate. An amendment was offered that would have set the AGI threshold at \$750,000. Also, an amendment was offered to establish an enforceable payment limit of \$250,000. Even if the Senate had accepted these payment limitation and means-testing reforms, a farm family making \$749,999 a year could still receive a \$250,000 handout from the taxpayers.

These amendments were expected to have significant support in the Senate, but Senator Blanche Lincoln (D-Ark.) threatened to filibuster the bill if any reform amendments were adopted. There are 26 farms in her state that received more than \$250,000 in payments in 2005. Because the Democratic leadership of the Senate did not want to be blamed for further delay of the farm bill, they orchestrated a change in the rules requiring 60 votes for those amendments, rather than a simple majority to pass. This rules change required the unanimous consent of the Senate. The Senate Republican leadership went along with this because they didn't want to take the blame for postponing passage of the farm bill either.

Had just one of the supposed reform advocates been willing to display the courage to object to this sham, at least some minimal reform would have been included in the farm bill. But, since no one stood up, while both amendments received the support of a majority of the Senators voting, they were defeated as they fell short of the manufactured 60-vote requirement.

There is only one hope left for taxpayers: the president has the backbone to veto the farm bill. If he did so, there is a chance that there would be enough votes in either the House or the Senate to sustain a veto, which would force Congress back to the drawing board. It is hard to believe that they could do worse the second time around. Unfortunately, there is virtually no reason to believe this lame duck president will have the courage to veto a farm bill, leaving taxpayers to face another six years of excessive costs and obsolete, ineffective programs.

# Medicare in Recovery

By Leslie K. Paige  
Director of Media

Since its inception in 1984, CAGW has been concerned about how the government spends and keeps track of the taxpayers' money. CAGW co-founder J. Peter Grace often noted that the government borrows money it cannot pay back, does not bother to keep track of where and how it is spent, and does little to get back the money that is wasted. As a result, CAGW has long been concerned with improper payments, which includes both overpayments and underpayments. The Office of Management and Budget estimates that there were \$55 billion in improper payments government-wide in fiscal year 2007.

In order to analyze where the money has gone and how to retrieve overpayments, the government has begun to rely more and more on private auditors. In 2003, the use of private sector companies to recover improper payments was established for Medicare under the Medicare Modernization Act (MMA). A pilot program using recovery auditing contractors (RACs) was created for California, Florida, and New York, the states with the largest Medicare expenditures. That program is to be extended nationwide in 2008.

Recovery auditing has been around for more than 35 years in the private sector, where businesses with a vested, bottom-line interest recognized the value in rooting out billing errors, duplicative payments, miscalculations in charges, payments for services not rendered and payments to ineligible beneficiaries. Recovery auditing firms build complex data-mining analysis programs to tease out the improper payments that were missed in previous audits.

The Center for Medicare and Medicaid Services (CMS) has the daunting task of

processing 1 billion fee-for-service medical claims every year. Under the MMA, beginning in 2005, CMS began using RACs to identify improper payments and recover as much of the money as possible. The numbers speak volumes. Since 1996, when improper payments were first measured, erroneous payments have declined from 14.2 percent to 3.9 percent. According to a November 16, 2007 statement by CMS Acting Director Kerry Weems, "During the past three years, recent error rate reductions have led to approximately \$11 billion less in improper payments."

In the three states participating in the demonstration project, CMS reported that in fiscal year 2006 the RACs identified \$299.5 million in improper payments overall (mostly overpayments). Any money recovered is pumped back into the Medicare Trust Fund. "The decline in improper payments reflects our emphasis on identifying and eliminating waste, fraud and abuse in all CMS programs. It is critical that we ensure every dollar is spent wisely so that the program is affordable for taxpayers and future generations of beneficiaries," Weems added. Congress mandated expansion of the RAC effort nationally in the Tax Relief and Health Care Act of 2006 and that rollout is expected to begin in March, 2008.

However, the success of the national program and perhaps the long-term viability of RACs are being threatened by H.R. 4105, which has been introduced by Reps. Lois Capps (D-Calif.) and Devin Nunes (R-Calif.). Their legislation calls for a one-year moratorium on further recovery auditing. They claim that the program is "deeply flawed," and has had an adverse impact on the financial viability of hospitals and patient care in California. The legislators are responding to pressure from the California Hospital Association (CHA), along with its parent

organization the American Hospital Association (AHA). It should come as no surprise that the program is receiving push-back from the California delegation since California hospitals have been forced to return tens of millions of dollars to Medicare as a result of improper overpayments exposed by recovery audits. According to a 2006 CMS report, the company had identified \$105 million in improper payments in California.

In California, one fertile area for overpayments turned out to be in-patient rehabilitation facilities (IRFs), step-down facilities for patients who have completed hospital treatments but are not well enough to return home. The company tasked with the audits in California, PRG-Schultz, chose to focus on patients moving to IRFs because the Government Accountability Office had looked at the problem in 2005 and noticed that most of the patients sent to IRFs could have received the required rehabilitation at less expensive outpatient facilities.

Initially, the hospitals' complaints to Reps. Capps and Nunes, as well as CMS officials focused on perceived methodological weaknesses in the conduct of the audits. Hospital officials claimed that PRG-Schultz was demanding too many hospital records; that it should employ a medical doctor to help auditors review questionable overpayments (most of which were denied as being medically unnecessary); that it was reviewing claims that were at least three years old; and that it was collecting its contingency fees before the appeals process had run its course. All of these complaints have been addressed by CMS and, according to the agency, a vast majority of the overpayments identified by PRG-Schultz have been upheld during the appeals process.

CMS officials argue that the hospitals in California may have misapplied or ignored the rules for many years. Melanie Combs, CMS' technical advisor for the program is quoted in a May 18 *Sacramento Bee* article as saying, "These rules have been on the books since 1985... Maybe it's possible some have been overlooking them. Maybe there have been consultants out there helping hospitals to, quote, maximize reimbursements. And maybe perhaps some of that has entailed looking the other way."

**Medicare in Recovery** (continued on page 15)

# Membership



By Martin Rundle  
Manager of Development Research

## Stocking Stuffers

The holiday season is a great time to help out your favorite charities. Many CAGW members make year-end contributions in the form of appreciated securities. Because CAGW is a tax-exempt organization, you pay

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**For more information about the J. Peter Legacy Society, please contact us at 1-800-USA-DEBT.**

## CAGW News Wire

**October 2** – CAGW's May Porker of the Month, Rep. John Murtha (D-Pa.), made national headlines for throwing yet another temper tantrum. According to *Congressional Quarterly Weekly*, Rep. Murtha's response to a reporter's inquiry regarding the difficulty of matching up earmark information in appropriations bills was: "So, you have to work. Tough [expletive]."

**October 10** – CAGW released its latest report, *Telecommunications: Pulling the Plug on Government Interference*, which examines four critical telecommunications issues and urges the government to refrain from interfering with innovation and allowing the private sector to provide the best value and services for taxpayers and consumers. The publication addresses cable a la carte programming, the Internet tax moratorium, network neutrality, and spectrum sales. The report is available on CAGW's website – [www.cagw.org](http://www.cagw.org).

**October 18** – Sen. Richard Shelby (R-Ala.) was named the October Porker of the Month for an \$11 million Health Resources and Services Administration earmark to build a "70,000 square foot interdisciplinary health services building" at the University of Alabama. This is not the first largess Sen. Shelby has funneled to his alma mater – in 2004, Shelby Hall opened at the university after the senator steered \$35.5 million worth of federal funds to the facility.

**October 30** – CAGW celebrated All Hallows' Eve with its annual list of Taxpayer Tricks and Treats. Among those earning sweets were Rep. Jeff Flake (R-Ariz.) for his amendment to eliminate a \$129,000 congressional earmark slated to go to an economic development initiative in North Carolina called "The Home of the Perfect Christmas Tree," and Federal Railroad Administrator Joseph H. Boardman for concluding there was an "unacceptably high risk to taxpayers" in denying a \$2.3 billion federal loan to the Dakota, Minnesota, and Eastern Railroad.

**November 6** – The Council for Citizens Against Government Waste (CCAGW) unveiled its new Earmark Reform Pledge at a Capitol Hill press conference featuring Taxpayer Heroes Rep. John Campbell (R-Calif.), Rep. Jeff Flake (R-Ariz.), and Rep. John Shadegg (R-Ariz.), among others. To view all the signers of the pledge, visit [www.ccagw.org](http://www.ccagw.org).

**November 8** – CAGW launched its new blog, [www.SwineLine.org](http://www.SwineLine.org). For its inaugural post, SwineLine.org featured actor Kiefer Sutherland, known around the globe as the indomitable "Jack Bauer," on Fox Television's blockbuster series "24," hamming it up with CAGW mascot Porky.

**November 14** – In conjunction with the Howard Jarvis Taxpayers Foundation, CAGW released the fifth annual *California Piglet Book*, which identifies more than \$3 billion in waste, fraud and abuse in the state. The report is available on CAGW's website – [www.cagw.org](http://www.cagw.org).

**November 15** – Rep. James Clyburn (D-S.C.) was named the November Porker of the Month for airdropping a \$3 million earmark for the First Tee golf program into the fiscal 2008 Department of Defense Appropriations Act conference report. First Tee has received \$7.5 million in earmarks since 2003, even though the program has enough green to run ads during nationally televised professional golf events, has corporate sponsorships from Fortune 500 companies, and boasts some of the sport's heaviest hitting organizations as "Founding Partners."

**November 28** – CAGW praised the Federal Communications Commission's (FCC) postponement of a decision on whether the cable television industry has triggered the Cable Act of 1984's 70/70 rule. According to the rule, when 70 percent of U.S. households have access to cable and 70 percent of those with access subscribe, the FCC can step in and implement new regulations to ensure information source "diversity." If the FCC were to implement the 70/70 rule, it is likely the Commission would mandate "a la carte," the sale of individual channels, in the cable television industry. A la carte pricing would drastically change television advertising, ultimately making such a system more expensive than the current tiered system for consumers.

### **Medicare in Recovery** *(continued from page 13)*

Still, there appeared to be so much confusion, controversy, and resistance surrounding IRF claims denials that CMS agreed to review those claims. It found that there were inconsistencies in how payment and coverage decisions were interpreted in 40 percent of the cases they looked at. In September, CMS officials implemented a "pause" in the program to educate all parties on the correct application of those rules, and PRG-Schultz has been directed to re-review any contested claims.

In the end, though, California hospitals and their allies in Congress have continued to move the goalposts. As each of their concerns was resolved, it became clear that their issue appears to be that the auditors are paid on a contingency basis of between 25 and 30 percent, which critics call a "bounty." They argue that the contingency payment model drives the company to be over-zealous in its denial of claims.

In fact, contingency-based pricing for recovery auditing is non-controversial. Hospitals themselves often use outside contractors, working on contingency, to help them recover outstanding debts. Private companies which specialize in the practice are usually brought into the process after other conventional audits have failed to turn anything up. These companies bear significant financial risks by investing in expensive technical infrastructure and personnel, sometimes years in advance of reviewing the first claim and with no guarantee that they will recover their costs. All of the companies involved in RACs for CMS get paid on a contingency basis.

Government oversight over its own programs has always been notoriously poor because government bureaucrats have no incentive to follow the money, much less reach out to recover misappropriated money. The systems in which they operate are riddled with perverse incentives which reward program managers for shoveling billions out the door quickly, while putting no value on judging performance, outcomes, or to even accounting for money.

Hundreds of billions of taxpayer dollars have been leached out of the system because of mismanagement and fraud. Program integrity and trust in government has been shredded as a

result. Recovery auditing is shining much-needed light into the recesses of government spending, exposing the financial hemorrhaging that deeply flawed government accounting systems have failed to identify.

The Capps-Nunes legislation appears to be nothing more than a frantic and misguided attempt to shield hospitals in California from having to repay the piper after years of receiving too much money from the Medicare system. While the bill calls for a moratorium pending a study, the study could occur while the pilot program continues. The suspension of a program such as the recovery auditing is tantamount to killing it altogether. If companies who perform this specialized auditing have no chance to recover their substantial investments, there is a good chance they will be less willing to bid on the work at all.

If members of Congress, pressured by constituents, who see that the gravy train is slowing, can slow-walk or suspend this program or gut it for parochial interests, taxpayers may never see a dime of the money they've lost. A critical, cost-effective tool in uncovering waste and fraud would be lost not just in Medicare, but throughout entire federal government.

# CHIPPING AWAY AT TAXPAYERS

By Leslie K. Paige  
Director of Media

Citizens Against Government Waste is teed off at Rep. James Clyburn (D-S.C.). In fact, he was the recipient of our November "Porker of the Month" award for airdropping a \$3 million earmark for the First Tee golf program into the fiscal 2008 Department of Defense Appropriations Act conference report, which became law on November 13, 2007.

First Tee's mission, according to its website, is "To impact the lives of young people by providing learning facilities and educational programs that promote character development and life-enhancing values through the game of golf."

Even this pork-happy Congress initially rejected Rep. Clyburn's earmark. According to a November 10 McClatchy Newspapers report,

"Clyburn said...he had to add the money to the defense spending bill in the conference committee because 'it didn't make the cut' earlier."

Aside from its inappropriate placement in the defense bill, the First Tee funds were not competitively awarded and are certainly not need-based. The program has enough green to run ads during nationally-televised professional golf events, has corporate sponsorships from Fortune 500 companies, and boasts some of the sport's heaviest hitting organizations as "Founding Partners," Augusta National Golf Club, the Ladies Professional Golf Association, the Professional Golfers' Association (PGA) of America, the PGA Tour, and the United States Golf Association. First Tee has received \$7.5 million in earmarks since 2003, including \$1 million from the Department of Education's Fund for the Improvement of Education and its Character Education Program, added in conference and

another \$2 million from the Department of Justice's Office of Juvenile Justice Programs' Community Oriented Policing Services (COPS).

On November 8, 2007, Rep. Clyburn defended his wedge of pork on the House floor, "[T]his request was made by me, and my name is attached to it because I'm very, very proud of it." An earmark for golf isn't surprising given Rep. Clyburn's zeal for the sport. In August 2007, the City of Columbia Golf Center was renamed the James E. Clyburn Golf Center and a statue of him was erected outside the facility.

In a November 14 statement, Clyburn complained about the "wrongs" done to our troops by the Bush administration, alleging that the troops are not "fully equipped and trained for battle." One wonders if Rep. Clyburn would have been more willing to spend that \$3 million on the troops if the money had gone to purchase golf clubs for them.

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