

Government Profiting Off the Poor and the Need for Modern Government Reform

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Thousands of people are homeless, right now, because of “good graft” – the noble intentions of government gone awry. Some of them are right here in Phoenix. These aren’t abstract numbers, they are men, women, and children who could right now be living in decent, affordable housing, but who have been cheated (along with taxpayers) out of the promises we have made. And they represent only one of the many casualties of modern government

Year after year local municipalities are seeing expanded growth and, at the same time, face unending fiscal deficits. Cities by and large address these crises with revenue based policies extending debt, raising sales or property taxes, and increasing fees - rather than look at outcome based policies that focus on citizen need. Worse, while these short term patches address current deficits, long-term they increase the growing imbalance between government obligations and revenues by increasing the size and scope of the bureaucratic empire, making each and every future crisis that much more difficult to solve.

Revenue based policies lead to waste and inefficiency. But why? There are lots of examples of this, but few people understand the cause, the reasons why politicians go along with revenue based policies, and the solution for stopping it.

Revenue-based policies create a structural deficit that provides less and less services to citizens and require more money every year to sustain. This paper focuses on a case study of the City of Phoenix. Phoenix is seeing the highest city revenue in city history, diversified work force, expanded growth and at the same time faces a year after year budget crisis. More money coming

in and less services provided to its citizens and in particular, those citizens that are in critical need of help.

This paper also looks at how revenue based policies actually allow governments to profit off the poor and how ‘good graft’ is a result of revenue based policies

First, we need to let go of the stereotypes we hold about government.

The truth is a ruse as old as civilization: Take a noble cause, like helping the poor or building a school, and turn that noble cause into a corrupt type of “good graft” benefiting the insiders who profit off the good will of the public. Modern corruption is rooted in the doling out of government contracts to a select chosen few, often the friends and family of local politicians.

The story of the good graft is as follows:

There was a city hall that was aging and needed a new roof. So the city's Board of Aldermen voted to have a new roof installed and designated one of its members, Alderman Smith, to be in charge. Naturally, one presumes it is a good and noble cause to replace an aging roof.

Now comes the graft, or what most consider corruption. Alderman Smith had a contract put out to replace the roof. The contract went to his brother-in-law, who just happened to own a roofing company, and they set the price over dinner one Sunday at the Alderman’s sister’s house. So the new roof was installed, but it then needed to be inspected. The Alderman’s son just happened to own a building inspection service, so he inspected the roof his uncle installed and deemed it satisfactory. The city hall got a new roof and everyone seemed to be happy. So what’s the catch?

Well, the roof cost twice as much as it should have, the materials used might have been marginally substandard (so that a new roof will be needed in fifteen years instead of twenty), the roofing company employed too many men to do the job, the son’s inspection company employed

too many men to inspect the job and besides, his father the Alderman is a secret owner of the son's company, and the inspection fee was higher than you might expect.

Where did the extra money go? It was used to keep the Alderman and his family in a lifestyle to which they had grown accustomed, to support a group of men who work on the Alderman's political campaigns and those of his political allies, and some of the money wound up in a special fund that paid for the Alderman's very pleasant retirement yet a few years away.

Across America this pattern of so called "good graft" – meaning there weren't any kickbacks and bribes like in the Crédit Mobilier scandals that rocked the construction of the Union Pacific Railroad,¹ just overcharges and excess spending on needed work – was repeated over and over, by school districts building new schools, cities building and maintaining roads, buildings and bridges, and legislatures taking care of the business of the state.

It used to be that governments were simply contractors or managers of services. In those times, people stole from the government to get rich. Today, the government has learned to steal from the people and profit off their hard earned tax dollars. The government learned wisely from the abuses of politicians and learned how to capitalize on the good will of the public. They kicked out the corrupt contractors but in doing so, placed themselves in the role.

The opportunities for "good graft" started with the President Eisenhower's Interstate Highway system as the US government began to spend enormous sums of money on infrastructure projects all around the country.² With the Cold War, the US government began pouring hundreds

¹ <http://www.history.com/topics/credit-mobilier>

² <https://www.fhwa.dot.gov/infrastructure/50interstate.cfm>

of millions of dollars into new military bases and other improvements that created millions of jobs and increased the flow of money into local communities.³

And with President Johnson's Great Society War on Poverty programs, hundreds of millions of more dollars were now being spent on programs to improve health care for the indigent, to help people find jobs, to provide adequate housing and to, in general, bring an end to the grinding poverty that plagued many of our cities.⁴

But those dollars were administered by the Federal government and local leaders and professional civic managers had little say in how the money was spent. Then, during the Nixon administration, that began to change.⁵ Programs were funded by the Federal Government but, in the name of state and local control, the administration of the programs was transferred to the cities and the states.⁵ Block grants were introduced that merely specified the objective of the funding, not the specifics of the funding.⁷ And every administration and Congress since, of both political parties, has increased the dollars spent while loosening the controls over how it is spent.⁶

Which now takes us to today. Today, our cities and states control most of how federal dollars are spent- federal dollars meant for the poor. But the real control over spending is in the hands of the "professional staff" that, through their closed door relationships with the politicians who hired them, have created a new model of "good graft" benefiting only themselves. Local elected officials that should be watching over these tax dollars and answering to the public, have now entered into

³ <http://www.cato.org/pubs/pas/pa114.html>

⁴ <http://www.aei.org/publication/tallying-the-costs-and-benefits-of-lbjs-great-society/>

⁵ <https://www.fas.org/sgp/crs/misc/R40486.pdf>

⁶ <https://www.mercatus.org/publication/high-levels-government-spending-become-status-quo>

a partnership with their own “professional staff” and have become complicit in the scheme. Some of this is because local officials must rely heavily on government staff to do their work and provide them with needed information. But, more likely, many local politicians lack the basic understanding of complex agreements used to move the hundreds of millions of federal dollars around in numerous funds until the trail disappears.

We see the symptoms of this broken system everywhere. Our pension system disaster did not happen overnight.⁷ It was developed by and promoted and sold to the politicians by the same governmental “professional staff” that are today profiting off the poor. Working class citizens are often forced to pay their last pennies to taxes that directly fund the benefits and pensions of local city staff. Imagine, many of these working tax payers cannot afford basic health insurance, let alone a pension, but their tax dollars are used to pay for those benefits for city staff.

These same city employees use the federal dollars pouring into their cities to grow their institutions and line their pockets with the most expensive benefits on the market- the best healthcare and the most expensive pensions available- hoping they've created a secure model that is now "too big to fail."

Let me give you a real-life example. In Phoenix, local politicians approved an affordable housing apartment project for the poor. A seemingly noble cause on property the city already owned. The housing, which should have cost \$150,000 per unit, ended up costing around \$281,000 per unit for a simple apartment unit.⁸ As a comparison, the median cost of a single family home in the Phoenix is \$195,000.⁹

⁷ http://reason.org/files/phoenix_pension_reform_initiative.pdf

⁸ <http://paradisevalleyindependent.com/opinions/city-of-phoenix-affordable-housing-profits-on-poor/>

⁹ <http://www.zillow.com/phoenix-az/home-values/>

To give you a better perspective, in one of the most expensive neighborhoods in Phoenix near the luxurious Biltmore Hotel, a luxury apartment complex built and owned by the private sector was sold at a price considered the highest ever in the City of Phoenix. It had every bell and whistle, all the top of the line amenities and features, such as a world class work out room, wood floors, granite counter tops and an amazing pool with an equally amazing club house. How much did this luxurious apartment complex sell for? \$277,000 a unit- about the same as the "affordable housing" apartment complex the taxpayers were forced to pay for in the example above.¹⁰

So what went wrong? The “good graft.” The City of Phoenix gave itself the ability to selfselect. This meant that even though there were multiple bids on the project from the private sector at about half the cost, Phoenix was able to select themselves as the developer of the project.

Phoenix could have doubled the number of affordable units for the poor by selecting one of the other bids, but instead awarded the bid to themselves. They saw the “good graft” model as an opportunity to steal from the poor. So why does a modest government project cost have such inflated costs? Where did the extra money go?

It went towards paying civil service workers to pad the budgets and increase the power of the civil service managers. It went to support salary increases for government employees to allow them to live a lifestyle to which they have become accustomed. It supported dramatic increases in the pensions of managers and civil service workers to cushion their retirement years. In other words, the “good graft” of the patronage era is alive and well, but it is no longer handed out to the families of politicians, but to the governmental “professionals staff” who were hired to end the very system of “good graft” that the patronage system enabled.

¹⁰ <http://paradisevalleyindependent.com/opinions/city-of-phoenix-affordable-housing-profits-on-poor/>

This is a systemic problem that transcends party lines. Whether you are Democrat or Republican, this problem of soft corruption distorts the goals and agendas of otherwise good, caring people who seek to serve their fellow citizens but instead whose actions and decisions are distorted by complicity among the elected, the at-will professionals hired to manage the civil service by the elected, and the civil servants themselves.

This is not just happening in Phoenix, but across the nation. The pilfering of federal dollars is just the start. This is not only happening with housing for the poor, but with road projects, water plants and any time government self-selects itself to do what others could do more efficiently and effectively.

It is a model where “professional staff” protect their interests above the poor and the taxpayers who fund government. It is a model that feeds the Ponzi scheme that government has become, needing more and more people in the system taking more money in order to protect the high pension costs of those who retire.

The City of Phoenix has over 13,000 employees¹¹ with an average cost of over \$110,000 per employee.¹² This cost per employee would be considered unsustainable in the private sector, but not unthinkable for “good graft” government. The current system needs more money each and every year to protect the retirement benefits and Cadillac health care benefits its employees now feel entitled to.

You only need to look at the top 50 City of Phoenix retirees to see a clear example of government excess. The top 50 Phoenix retirees will take out over \$173 million in benefits by the

¹¹ <https://www.phoenix.gov/employment>

¹² <https://apps-secure.phoenix.gov/PublicRecordsSearch/Home/RenderPDF/?id=mQT+DWmP8zL0vpEdC8BszvMbgr/HsGllbze8OrfhkLs=>

time they are 78 years old.¹³ We are not talking about 5,000 or 500 retired employees. We are talking about only 50 people who will take \$173 million out of the system. Imagine the impact of 13,000 current employees at retirement age.

Another example of benefits gone awry is the amount of days off a starting clerk receives in their first year on the job with the City of Phoenix. Phoenix employees are allowed to accumulate and carry over their days off year after year until retirement.¹⁴ A starting clerk will get 38.5 days off their first year as a City employee.¹⁵ Remember, the clerk position is one of the lowest paid positions at the City.¹⁶ That same clerk will accumulate an additional 10 hours per month until retirement.¹⁷ Then the clerk is allowed, sometimes encouraged, to cash in a portion of those days off at retirement, and the value for that time off will be calculated with their ending salary, not their pay rate when they accumulated those days off.¹⁸ Whatever is not paid off at retirement is then applied and added to their retirement.²¹

These costly city staff benefits were gained through decades of public union negotiations and are a clear conflict of the fiduciary duty city employees hold. City staff sitting across the table from union officials negotiating for more benefits and better pensions have no incentive to say no; those same city staffers will ultimately be the recipients of the better benefits, healthcare and

¹³ <https://www.phoenix.gov/district6site/Documents/Top%2050%20Pension%20Report.pdf>

¹⁴ <https://www.phoenix.gov/hr/city-benefits>

¹⁵ <https://www.phoenix.gov/district6site/Documents/City%20Employee%20Benefits.pdf>

¹⁶ <https://employee.phoenix.gov/Documents/schedii.pdf>

¹⁷ <https://www.phoenix.gov/district6site/Documents/City%20Employee%20Benefits.pdf>

¹⁸ <https://www.phoenix.gov/district6site/Documents/City%20Employee%20Benefits.pdf> ²¹

<http://www.azcentral.com/story/news/local/phoenix/2015/07/22/ruling-setback-phoenix-stop-pension-spiking/30500321/>

pensions. Any pay or benefits they cut or take away during negotiations are ultimately taken from themselves. This inherent conflict creates financial instability and contributes to a structural deficit.

Moreover, all these retirement and benefit plans cost time and money, and the money for these benefits must come from somewhere. This is money that should go towards servicing the poor and providing necessary city functions, but instead it goes into the pockets of city employees.

Now that you know the truth, you have entered the government matrix. You constantly hear the complaints about poor people taking advantage of government benefits, but the cheating that occurs by beneficiaries pales in comparison to the systematic cheating occurring by government employees in the name of those noble causes. In the end, the poor are not getting the services they need, and hard earned tax dollars are not going towards the projects they claim to be needed for.

The first step to the solution is easy. Stop the practice of self-selecting on any and all projects. This also means eliminating the phony committees who coincidentally are selected by the same government bodies who then "win" the contract- a clear conflict of interest.

Arizona had a strong opportunity in 2013 to fix this problem with SB1322. This bill required all levels of government to put all services above \$500,000 out for bid, while maintaining the ability for governmental entities to bid for those services as well. It had three major requirements: 1) all services must be bid, 2) the governmental entity is not required to accept the bids and 3) it required all bidders, including the governmental entity, to use the same accounting principles used in the private sector.¹⁹ You can guess which groups who came out opposing this bill. Local governments not only used their muscle, but called on businesses doing business with their agencies to come out

¹⁹ <http://www.azleg.gov/legtext/50leg/1r/bills/sb1322p.pdf>

and oppose the bills. The unions held large rallies in the mall. The bill passed the House and Senate but was vetoed by the Governor at the time.²⁰

The veto was primarily based on the “local control” argument which is always used when members of the private sector push transparency and openness to markets on government.²¹ The issue of making government bid on projects created enough anxiety, but interestingly enough the biggest issue was the requirement that they use basic private sector accounting principles. This would have forced all governments to compete at the same level as the private sector and would have prevented any bid rigging by hiding expenditures.

This conflict of interest does not end with just contracts, it extends to other areas of government. Phoenix recently went to court on a pension case. Before going to court, the City had the opportunity to choose its strategy in court and its leaders chose the weakest approach, knowing full well it was one of the least likely to succeed in court.²² This way, if Phoenix loses the case, it can claim that the court does not support pension reform and any future cases are futile. This conflict of interest has now reinforced the image that pensions are untouchable. Again, all guided by the “professional staff” who had a clear conflict of interest to protect their own pensions.

Getting politicians to re-focus on protecting the poor and the taxpayer is the hard part. Until this happens, the poor will never get the services they deserve and the taxpayer will continue to pay more for less. The good graft proponents will always tell you the solution is to dump more money into the Ponzi scheme, but we know the dysfunctions were not created due to a shortage of

²⁰ <https://legiscan.com/AZ/text/SB1322/id/86161>

²¹ <http://azcapitoltimes.com/news/2011/04/28/brewer-vetoes-bill-on-privatizing-city-services/>

²² <https://www.phoenix.gov/news/district6/884>

funds. A false sense of urgency and always needing more funds is just a ploy city staff has learned to use to grow the Ponzi scheme and continue the graft.

For this reason, we need to stop feeding the beast. For the Ponzi scheme of government to be successful, it needs more and more money, more and more bodies. The goal of government has become to fund itself. Whether you are liberal or conservative, the money is not going towards the programs you envisioned and until we cut off the oversupply, there will be no incentive to moderate spending.

For elected officials, it's easy to simply vote no when the time comes. But it will take more than that. We must understand why the system functions in the manner it does. The answer is the “good graft.” Only after we see past the proposed good intentions of government, the intentionally obscure transfers of federal dollars to local agencies and into the hands of city employees, and the inability to self-regulate, can we tackle the real question: How do we change the system?

We need a focused strategic plan that clearly outlines the role of government. If an expenditure doesn't fit the plan, we don't do it. We may find situations where the goal is strategic, but the execution may not be. For example, maintaining a police force is a strategic function of government. But the manner in which we employ and get those officers on the streets may not fit within a limited strategic model of government. Then the plan must be altered to comply with the strategic plan as well. We cannot let the noble nature of the cause make us blind to the corruption of the graft.

Everyone will agree a car needs an oil change, but does it need to be done by a person costing \$100,000 per year?

Accountability starts when the politicians make the conscious decision to protect the taxpayer first and to place the needs of the poor above the needs of the government staff. The solutions are really quite easy, but getting politicians to act above their own self-interest is not.