



Government Profiting Off the Poor: The Need for Modern Government Reform

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Introduction: Bureaucrat Budgeting 101

Thousands of people are homeless right now because of ‘good graft’— the noble intentions of government gone awry. These people are not abstract numbers. They are men, women, and children in need of help who could be living in decent, affordable housing. Instead, the homeless have been cheated out of the promises their government has made; they are the casualties of the modern government. This casualty applies to all who need help: victims of domestic violence, seniors, children, and taxpayers who are footing the cost of ‘good graft.’

Year after year, local municipalities experience record levels of growth but, at the same time, face unprecedented and unending fiscal deficits. Instead of implementing outcome-based policies that focus on meeting the needs of citizens, city governments address these crises with revenue-based policies: extending debt, raising taxes, and increasing fees. These short term patches can address current deficits, but in the long run, increase the growing imbalance between government obligations and revenue potential by increasing the size and scope of the bureaucratic empire; making each new crisis much more difficult to

solve. In short, revenue-based policies lead to waste and inefficiency by creating a structural deficit that requires more and more money every year to sustain, leaving less and less money to provide services to citizens.

Take the City of Phoenix as an example. In 2017, Phoenix experienced record high revenues, thanks to its booming population and economic growth. Despite this, the city faced yet another budget crisis. To solve the problem city management pushed a plan that would add \$2 billion in new debt to the already-strapped police and fire pension plan in order to get a temporary three year financial relief. After that, the debt grows exponentially. Although historically high revenue levels were available in the budget, the city’s expenses still exceeded its ability to pay for critical services, leaving citizens wondering where all their hard-earned tax dollars had gone.

The Origin of Good Graft

Phoenix is not the only city to dupe its citizens. Take a noble cause, such as helping the poor or building a school, and turn that noble cause into a source of profit for corrupt insiders. Instead of obvious kickbacks or outright bribes, modern corruption is more discreet, relying on ‘good graft.’ In the past, government contracts were doled out to family members, as well as friends and donors. Through overcharges and excess spending on needed work, friends and family would profit off the goodwill of the taxpayers. This pattern was repeated across the country at all levels of government.

Opportunities for this ‘good graft’ began with

“DiCiccio is on a one-man
crusade to uncover waste
at the City of Phoenix”
- Fox 10 News

President Eisenhower's Interstate Highway system as the United States government began to spend enormous sums of money on infrastructure projects from coast to coast¹. The graft was elevated during the Cold War as the government poured hundreds of millions of dollars into new military bases and upgrades to existing bases. This created millions of jobs and increased the flow of money into local communities². Then came President Johnson's Great Society and War on Poverty programs. Hundreds of millions more was spent on programs to improve health care for the indigent, to help people find good jobs, to provide adequate housing³, all with the goal of bringing an end to poverty in American communities.

In the beginning, those programs were administered by the federal government, leaving local leaders and professional city managers with little say in how the funds were allocated. This changed during the Nixon years with the advent of block grants⁴.

In the name of local control, programs were still funded by the federal government, but the administrative responsibility over these programs shifted to the cities and states⁴. While these grants outlined the objective of the program, the specifics were to be left up to the local leaders who could direct the money most efficiently. Since then, every new administration and Congress has increased spending while loosening controls over allocation⁵.

Local governments learned the fine art of stealing and now use the model to profit for themselves. Today, cities and states control how most federal dollars are spent, but the real control over this spending is left in the hands of 'professional staff.' These bureaucrats, through their closed door relationships with the politicians who hire them, have perfected a new model of 'good graft' that only benefits themselves. Local elected officials have entered into a partnership with their own 'professional staff' and have become complicit in

this scheme. Sometimes this is because local officials, despite their best intentions, must rely on government staff to do their work and provide them with needed information. More often, local politicians simply do not understand the complex agreements that are used to mask the movement of millions of federal dollars— until the trail disappears.

The Tragic Tale of Graft

There once was a city hall that was aging and in need of a new roof. The city's Board of Aldermen voted to install a new roof and, of course, they designated one member to lead the project: Alderman Smith. Naturally, the citizens agreed that replacing the roof was a reasonable use of tax dollars.

Alderman Smith then awarded the contact to his brother-in-law, who just happened to own a roofing company. One Sunday, at the Alderman's house, they agreed on the price over dinner. Once the roof was installed, it needed to be inspected. As luck would have it, the Alderman's son owned the local building inspection service. The son inspected the roof his uncle had installed and, of course, deemed it satisfactory. The city hall had a new roof and everyone seemed to be happy.

What the citizens did not see, however, was the graft.

The price the Alderman and his son-in-law agreed upon was twice as high as the going market rate. The materials used were slightly substandard, requiring a new roof to be installed in fifteen years instead of the more typical period of twenty years. Both the roofing company and the inspection team billed the city for the labor of too many men. The inspection fee was higher than expected, and Alderman was the secret owner of his son's inspection company.

Where did all that extra money go? Some was used to keep Alderman and his family in the lifestyle they were accustomed to. Some of the money supported the men who work on Alderman's political campaigns and those of his allies. The rest of the money would go to a fund that would pay for Alderman's very pleasant retirement a few years down the road.

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

2. <https://object.cato.org/sites/cato.org/files/pubs/pdf/-pa114.pdf>

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

4. <https://fas.org/sgp/misc/R40486.pdf>

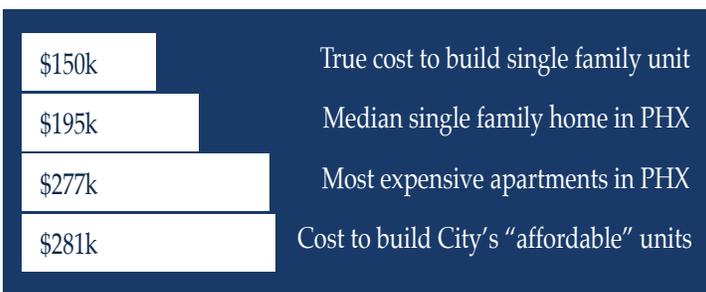
5. <https://www.mercatus.org/publication/high-levels-government-spending-become-status-quo>

The Most Expensive 'Affordable' Housing Complex

In Phoenix, local politicians approved the construction of an affordable housing apartment project on land the city already owned. Understandably, this project to benefit the poor was met with widespread community support. The apartments were built quite simply, which should have reasonably cost the city \$150,000 per unit to build, but ended up reaching around \$281,000 per unit in construction costs.⁶ In comparison, the median home price for a single family home in Phoenix was \$195,000⁷.

Around the same time, a luxury apartment complex was built in one of the most expensive neighborhoods in the City of Phoenix, an area near the Biltmore Hotel. The apartments came well equipped with every bell and whistle imaginable, including top of the line amenities and features such as a world class work out room, wood floors, granite countertops, an amazing pool, and an equally amazing club house. These private sector apartments were sold at a price considered to be the highest ever for the City of Phoenix: \$277,000.⁶

Just a little less than the 'affordable' housing complex built at the expense of the taxpayers. How could this happen?



For this project, the City of Phoenix gave itself the ability to self-select. This meant that although there were multiple bids from the private sector that would have completed the same project at about half the cost, the City of Phoenix was able to choose themselves as the developer for the project. Phoenix could have easily doubled the number of new affordable homes for the poor by choosing any of the other bids, but they still choose to award the bid to themselves. This gave them the

6. <https://paradisvalleyindependent.com/opinions/city-of-phoenix-affordable-housing-profits-on-poor/>

7. <https://www.zillow.com/phoenix-az/home-values/>

opportunity to profit from the 'good graft' on the project.

That extra cost to taxpayers went towards paying civil service workers to increase their own power and pad their budgets. It supported salary increases for government employees and dramatic increases to the pensions of their managers to cushion their retirement years. The 'good graft' of the patronage era is still alive and well, but it is no longer handed out to the families of politicians. Instead it goes to the 'professional staff' who were hired to end that very system of graft that was so prevalent in the patronage era.

Too Big to Fail?

Here is why government takes the money: The City of Phoenix has over 13,000 employees⁸ with an average cost of \$118,440 per employee⁹. In the private sector, this steep cost would be considered unsustainable, but in 'good graft' government this is hardly unthinkable. The system needs more and more money each year to protect the retirement benefits and Cadillac healthcare benefits that its employees have learned to feel entitled to.

These costly benefits for government staff were gained through decades of negotiations with public unions and have been a clear conflict of interest in the fiduciary duties of city employees from the start. City staff who enter negotiations with public unions have no incentive to say no. After all, they themselves will ultimately be the recipients of better benefits, including healthcare and pensions. Anything they cut will also be taken from their own paychecks and benefits packages. This creates financial instability and contributes to a structural deficit.

One example of benefits gone awry is the number of paid days off that are given to employees in Phoenix. Take for example an entry-level city clerk, who will receive 38.5 days off in just their first year as a city employee¹⁰. Although this is one of the lowest paid positions at the city, that clerk will accumulate an additional 10 hours of paid time off each month until retirement¹⁰, at which time the

8. <https://www.phoenix.gov/hr/current-jobs/>

9. <https://s3.amazonaws.com/s3.systematicrevenue.com/MediaFiles/352453b334fcd980f3d2b558dce82a4cec76426e0bdaca469cc8c827891da7e0.pdf>

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

Phoenix Fast Facts

\$4,400,000,000

Total unfunded pension liability

\$173,000,000

Amount 50 retirees will take home by age 78

\$118,440

Total compensation for average employee

38.5

Paid days off for entry level clerk in first year

off each month until retirement¹⁰, at which time the clerk is permitted to cash in those days off at their current pay rate— often much higher than their pay rate when they initially earned those days off¹⁰. Any time not paid out at that time is then applied to their pension package¹¹.

City pensions are another example of inflated benefits. Across the country, governments are facing unprecedented crises as retirees draw increasing amounts in pension payments over their retirements. Take just the fifty Phoenix civilian retirees with the largest pensions. These fifty people will collectively take home \$173 million in benefits by the time they each reach 78 years of age¹². This problem was not created overnight¹³. It was developed and promoted by ‘professional staff’ who have been using revenue-based policies to line their pockets and expand their institutions.

All of these benefits cost time and money that could have gone towards critical services to citizens. Instead, city staff enjoy the most expensive benefits on the market, from cadillac health benefits to the ability to retire with a great pension at an early ages. None of this is provided to the hard-working taxpayer who pays the bill. This is all based on a belief that the system they have created is simply too big to fail. It is a Ponzi scheme in which more and more people in the system are needed to protect the high pension costs of those who reach retirement. Working class citizens often find themselves giving up their last pennies to

cover the taxes that directly fund the benefits of government employees that they themselves can only dream of receiving.

This conflict of interest extends beyond just contract negotiations. Recently, the City of Phoenix went to court over a pension reform case. While preparing for the case, the City intentionally selected a legal strategy that they knew was the least likely to succeed in court¹⁴. They chose this strategy because losing the case would allow them to say that the courts did not support pension reform, thus any future attempts to reform their broken pension system would be futile. Once again, this strategy was set by ‘professional staff’ with a clear conflict of interest.

Arizona SB1322: A Bureaucrat’s Nightmare

The first step is very simple: stop allowing government to self-select on government projects. In 2013, Arizona had a strong opportunity to address these problems with SB1322, which had three major requirements:

-All service contracts over \$500,000 must be bid

-The government is not required to accept those bids

-All bidders, including government entities, must use the same accounting principles used in the private sector¹⁵

Although the bill passed both the Arizona House and Senate, the bill was eventually defeated with a veto by then-governor Jan Brewer¹⁶, who cited local control as the basis for her veto¹⁷.

Unsurprisingly, local governments and public unions vehemently opposed this bill. Requiring governments to bid on projects created anxiety among both groups. But the real opposition came from the requirement to use private sector accounting, which would have forced governments to compete on a level playing field with private sector companies and would have prevented bid-rigging from hidden expenditures.

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

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

13. https://reason.org/wp-content/uploads/files/phoenix_pension_reform_initiative.pdf

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

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

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

17. <https://azcapitoltimes.com/news/2011/04/28/brewer-ve-toes-bill-on-privatizing-city-services/>

The Victims of Tax-Funded Corruption

This is not a Republican or Democrat issue. The parties have been at war with each other but neither one is the enemy. The symptoms of this broken system are felt everywhere. It is happening across the nation, at all levels of government and it is encouraged by politicians of both parties. It continues with each new government project, not just housing for the poor: road construction, water treatment plants, any time the government can self-select itself to do what others could do more efficiently and effectively. This soft corruption exploits the kindness of caring taxpayers and voters and distorts their goals to protect the interests of 'professional staff' over the interests of the citizens. This systematic cheating by government employees deprives the poor of the services they desperately need. Hard earned tax dollars never reach the projects that citizens select.

The proponents of good graft argue that the solution is to dump more money into their Ponzi scheme. They perpetuate a false sense of urgency and beg for more funding. But in truth, this dysfunction was not created by a shortage of funds. Until politicians stop listening to this argument, the poor will continue to be cheated out of the services they need and taxpayers will always pay more while receiving much less. For the Ponzi scheme of government to be successful, it will always need more money and more bodies. The goal of government has become simply to fund itself with no incentive in sight to moderate spending.

It seems easy for elected officials to simply vote 'no' when the time comes, but it will take more than that. Citizens must understand that the system functions the way it does because of 'good graft.'

The \$100,000 Oil Change and How To Demand Accountability

Citizens cannot simply believe what they are told, they must be prepared to do their own research. In order to reform this system, one must look beyond the good intentions of government and see the intentionally obscure shuffling of taxpayer money from agency to agency and into the hands of city employees. Only when the graft is exposed can a solution be achieved.

A focused strategic plan must be developed that clearly outlines the role of government. Any expenditures that do not fit that plan must be cut. Many times, the goal of a program will fit into this strategic plan, but upon closer examination, it is determined that the execution of the program does not. In such cases, the program's execution must be altered to bring it into compliance with the strategic plan and more effectively deliver important services. It is critical that the noble nature of a cause is not used to justify a failing and wasteful expense. For instance, most citizens will agree that governments occasionally need to pay for an oil change in a police car, but does that oil change need to come from someone who costs taxpayers over \$100,000 per year?

Accountability starts when voters demand that politicians make conscious decisions to protect citizens' interests and needs above the interests of government staff. The solutions are very simple, but convincing politicians to act above their own self-interest will take constant vigilance from their constituents. Only then will the government serve its citizens instead of its own interests.

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