May 2013

Waterways

A publication of the Upper Mississippi Waterway Association
PO Box 7006
St., Paul, MN 55107
e-mail: umwa@umwa.net
http://www.umwa.net

In this issue

'Market-based' support for needed river infrastructure

Past issues of *Waterways* have carried stories about the growing calls for waterway infrastructure renewal and warnings about the consequences of inaction. But as a growing number of headlines also show, the consequences of U.S. dithering on meaningful legislation are already happening.

The latest example is the temporary closure of the Marseilles Lock and Dam on an upper stretch of the Illinois River and extended navigation restrictions while that facility is being repaired after a flood-caused barge accident. The Army Corps of Engineers built a temporary dike below the dam to allow repairs and maintain a pool for navigation. The river was closed for a time and recreational boaters are prohibited in the area while repairs are made.

Corps of Engineers Photo

Frustration expressed

The frustration with the slow progress on meaningful waterway legislation to bring the inland waterway system up from the D- grade recently assigned by the American Society of Civil Engineers was well expressed recently by Paul Taylor, President of the Illinois Corn Growers Association.

"Now we find ourselves in the position of a third-world nation. What once contributed to America's greatness now serves as a monument to our inability to find consensus and take action," Taylor said in an opinion piece in the *Quad-CityTimes* newspaper.

"Our locks and dams have been patched and repaired to the point that not much more can be done. It's like repairing an old car. Sooner or later, no amount of investment in repairs can return an operable, dependable vehicle."

Market-based support

Another newspaper in another important Mississippi River city has also editorialized about the need for not only the Water Resources Development Act (WRDA) passed by the U.S. Senate and being considered in U.S. House Committees, but funding legislation as well.

"Our support is market-based. Using our inland waterways makes sense, both for the economy and the environment.

One jumbo barge has the same capacity as 70 trucks or 16 rail cars. And a typical 15-barge tow on our nation's rivers is equal to 1,050 trucks. That helps keep air cleaner, highways less congested and transportation costs competitive," the *St. Paul Pioneer Press* says.

"Our inland waterways and rivers are 'the hidden

(Continued on page 4)

From the Executive Director...

Water Infrastructure Public-Private Partnership (PPP)

Congress is considering legislation to establish a pilot program that would allow non-Federal interests to carry out authorized flood damage reduction and navigation projects.

The purpose of S. 566 and companion H.R. 1153 is to: identify project and cost-saving options to reduce the backlog of authorized Corps of Engineers' projects now estimated at more than $60 billion; evaluate technical, financial and organizational ability of a non-Federal partner to carry out design, execution, management and construction of 1 or more projects; and evaluate alternatives for the decentralization of project decision-making processes of the Corps.

“The purpose is to: identify project and cost-saving options to reduce the backlog of authorized… projects…”

Secretary of Army in Charge

Under the program, the Secretary of the Army shall identify a total of not more than 15 water-related projects authorized for construction.

After developing detailed plans for each project in consultation with a non-Federal entity, the Secretary shall enter into a project partnership agreement with that entity to provide full project control for construction in accordance with plans approved by the Secretary.

Certain restrictions apply including:

of the 15 projects identified by the Secretary, not more than 12 shall have received Federal funds and experienced delays or missed deadlines within 5 years prior to this Act, OR, have not used all funds made available for that project;

prior to entering into a private partnership agreement, the agreement must be declared by an independent third party to represent a better public and financial benefit than a similar transaction using public financing.

Undefined Cost Sharing Will Continue

Finally, with respect to cost sharing of a congressionally approved project, nothing in this Act affects the cost-sharing requirement in place the day before enactment. The legislation makes no reference to the existing 50% currently paid from each the Federal government and the Inland Waterways Trust Fund. On the surface, the navigation industry appears to be on the hook for its 50% of the project cost, or whatever amount is applicable if the existing 50-50 split is changed prior to enactment of this legislation.

Both the Senate and House bills were introduced in mid-March and are currently in their respective committees.

Public-Private Partnerships Can Be Dicey

Six years ago this column discussed an editorial from a national business paper suggesting then-Congressman James Oberstar was a “blockhead” for sending a testy letter to all 50 states warning against entering public-private partnerships for local projects. The 2007 editorial suggested that while Mr. Oberstar states he is concerned that PPPs do not adequately protect the public interest, he is more concerned with a threat to himself and his 75-member House Transportation Committee, the largest in Congress.

The *real* problem, that editorial said, is the federal process: the recent $300 billion highway bill, up 1/3 from its predecessor, included 6,400 special projects like bike paths, museums, parking lots and snowmobile trails that totaled $34 billion. “[T]ransportation has become little more than a public works committee with the highway bill serving as a vehicle for Members to hand out checks to favored constituents”, concluded the editorial. Now seven years on, PPPs seem as problematic as ever.

The 2011 Hamilton Project

In February 2011 The Hamilton Project catalogued various transport public-private partnerships in the U.S. That document indicated that over the last two decades more than twenty transportation PPPs were established in the U.S. totaling just over $23 billion of asset value transferred from public ownership to private control. Ranging in price from $44 million to $4 billion, investors included foreign consortiums, state DOTs as well as county and state transportation authorities. Seven projects are under construction, nine projects are operational while another five were involved in bankruptcy, foreclosure, or renegotiation before again becoming operational.

In general, PPP projects replace a state or local governments' investment in a toll-producing structure with private funds from a domestic or foreign institution. For example the Chicago Skyway ($1.83 billion) and the Indiana Toll road ($3.8 billion) were leased to a Spanish-Australian consortium under a 99- and 75-year lease, respectively, with new operators responsible for all operating and maintenance costs in exchange for all tolls and concession revenue.

The most prominent reason for using PPPs according to the Hamilton paper is that years of underfunding of much-needed repair and maintenance has resulted in a backlog in the U.S. estimated to be $2.2 trillion, or more. Fortunately, the waterway portion of this backlog is small, yet economically damaging nonetheless.

The second reason PPPs are used is that the traditional process of building infrastructure decouples the initial investment—the actual building of a highway, for example—from the ongoing costs of maintaining that highway. As a result, the contractor building the project often has little incentive to take steps to lower future operation and maintenance costs.

Waterways Differ

Waterway projects largely overcome this impediment with congressional authorization and appropriation which effectively link project planning, construction and maintenance responsibility through the Corps of Engineers. However, congressional allocations are seldom for the entire amount of a multi-year project, leading to possible cost overruns or even waste. PPPs, according to The Hamilton Project, have the greatest potential to achieve efficiency gains by bundling responsibility for the initial capital investment with future maintenance and operating costs.

Isn't Our Federal Waterways Program already a PPP?

It can be argued that our federal waterways program is a PPP with the Federal Treasury the 'Public' component and the Inland Waterways Trust Fund the 'Private' component of that acronym. Established under the 1986 WRDA legislation and funded half by the federal government and half by waterway users, doesn't this arrangement address the same objectives as that of the highway crowd referenced in the Hamilton paper – to find an alternative to scarce government dollars?

Some will claim that the major difference is that the Trust Fund is of noble federal birth, whereas PPPs (at least up to this point) are regarded to be of lesser rank, often local and voluntarily funded by private, often international investors. In the end, perhaps they are the same. Then again, it's comforting to see that Section 4 states that nothing in this Act authorizes or permits the privatization of any Federal asset.

"The most prominent reason for using PPPs...is that years of underfunding of much-needed repair and maintenance has resulted in a backlog...

Other river related items:

- The Soy Transportation Coalition's Mike Steenhoek, recently assessed the impact of this year's flooding and last year's drought in a recent article and reminded readers that the river is important for shipping AND for delivering farm inputs as well.

- There's an effort underway to have the Missouri River between Kansas City and Sioux City, Iowa, declared a Marine Highway to boost economic development and reduce truck traffic on Missouri highways.

- *Investor Place's* Aaron Levitt is telling readers not to miss out on the "barge bonanza" happening on the Mississippi River because of growing oil production in Bakken Shale lands.

- In case you missed it on YouTube, the Corps has an excellent video on last year's scour work at Lock and Dam 1. It give you a chance to see the dewatered spillway and the beginning of Pool 2.

(Continued from page 1)

backbone of our freight network,' carrying the equivalent of about 51 million truck trips each year, the report card says. In many cases, the system has not been updated since the 1950s, and more than half of the locks are more than 50 years old. Barges are stopped for hours each day with unscheduled delays, preventing goods from getting to market and driving up costs, according to the report. Throughout the system, there is an average of 52 service interruptions a day."

Visual lack of maintenance

The online version of the editorial gives computer users a visual example of what lack of maintenance looks like. The YouTube video shows the collapse of a wall at the Lockport lock on the Chicago Sanitary and Ship Canal.

The paper quoted Rick Calhoun, President of Cargo Carriers, "Breakdowns cut you off. We need to count on lock-and-dam function. The nation is running out of time."

The paper used Corps of Engineers' figures for 2011 to show that more than 5.4 million tons of commodities were shipped out of Minnesota on the river system, and ports in the state unloaded 3.7 million tons from out of state, including vital inputs for farmers.

"When we look at a map of the nation's agriculturally productive midsection -- and overlay the system of connected, navigable rivers -- no other nation has such an advantage," said John Engelen, vice president of government affairs with CHS...

Pressures building

One hopeful example of some new thinking is the recently introduced and bipartisan Water Infrastructure Now Public-Private Partnership Act discussed in detail in the Executive Director's column on page 2 of this newsletter.

Competitive pressures requiring a reliable inland river system are building from another direction. An article on the WorldCrunch.com web site talks about the Port of Miami's efforts to get ready for larger post-Panamax vessels that will make that port competitive with West Coast ports. The newly enlarged Panama Canal and the larger vessels will create an even stronger export market for Midwest farm products, if Gulf Coast ports are ready and if the river system can handle the increased demand.

Upper Mississippi Waterway Assoc.
PO Box 7006
St. Paul, MN 55107

Address label here