



INLAND WATERWAYS USERS BOARD

Washington, D.C. 20314-1000 (CECW-P)

April 8, 2016

The Honorable Paul D. Ryan
Speaker
U.S. House of Representatives
H-232, Capitol Building
Washington, DC 20515

The Honorable Nancy Pelosi
Minority Leader
U.S. House of Representatives
H-204, Capitol Building
Washington, DC 20515

The Honorable Mitch McConnell
Majority Leader
U.S. Senate
S-230 Capitol Building
Washington, DC 20510

The Honorable Harry Reid
Minority Leader
U.S. Senate
S-221, Capitol Building
Washington, DC 20510

Dear Speaker Ryan, Leader McConnell, Leader Pelosi, and Leader Reid:

This letter is submitted pursuant to Section 2002(d) of the Water Resources Reform and Development Act of 2014 (Public Law 113-121, June 10, 2014, hereinafter referred to as “WRRDA”). Section 2002(d) requires the Inland Waterways Users Board (“Board” or “Users Board”), among other things, to “provide...not later than 60 days after the date of the submission of the budget proposal of the President to the Congress, advice and recommendations to Congress regarding construction and rehabilitation priorities and spending levels” for commercial navigation features and components of the inland waterways and inland harbors of the United States.

The Inland Waterways Users Board is a federal advisory committee established almost 30 years ago by the Water Resources Development Act of 1986 (Public Law 99-662). Comprised of a balanced, regionally-varied mix of the primary users and shippers utilizing the inland and intracoastal waterways for commercial purposes, the Users Board was created to give commercial users a strong voice in the investment decision-making the users are supporting with their continuing diesel-fuel-based cost-sharing tax payments.

Overview

Modern lock and dam infrastructure is essential to inland waterways transportation, which is a key component of the nation’s intermodal transportation network and is critical to U.S. competitiveness in the world market, to environmental protection, to energy efficiency, to the sustainment of well-paying American jobs, and to congestion relief. Despite all of its advantages, our inland waterways infrastructure is suffering and in need of immediate modernization. More than 60 percent of the 241 lock chambers in our inland waterways system

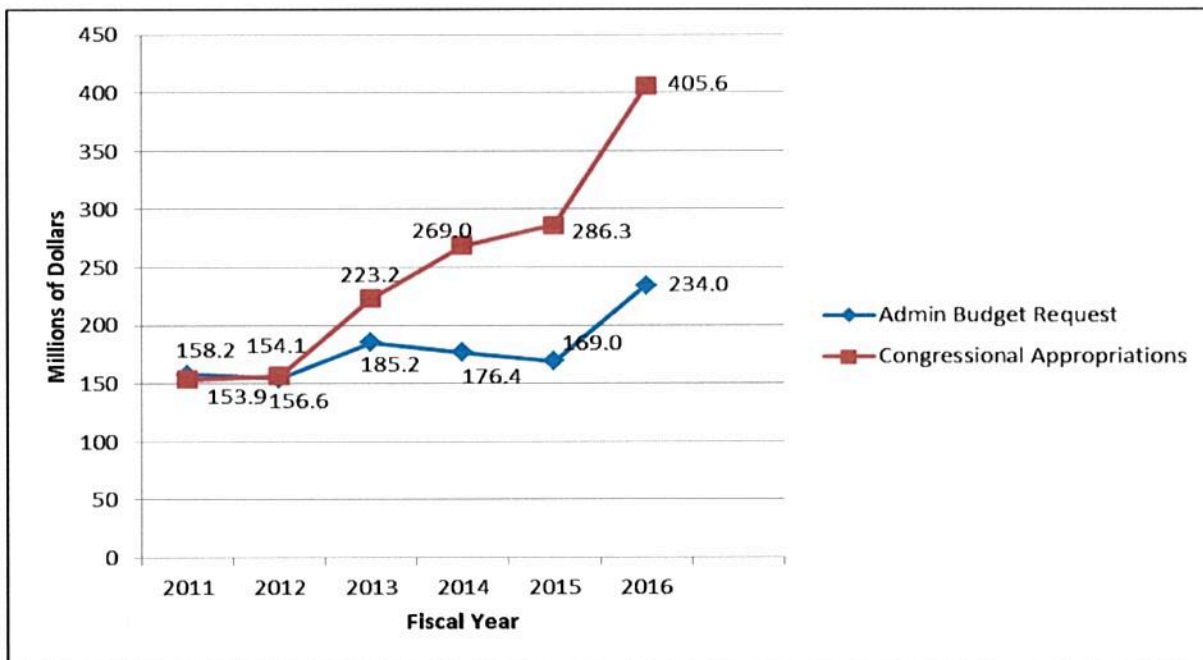
are over 50 years old and have exceeded their economic design lives. Critical lock failures and significant unscheduled down time have occurred at locks across the system. This situation threatens to erode the very fabric of our inland waterways system.

Addressing this challenge in a responsible way represents a wise and prudent investment in our nation’s economic well-being, both now and for the future. Corps of Engineers analysts, for example, have just completed a review of 2014 data (the most recent data analyzed by the Corps and made publicly available) and concluded that “in 2014 internal navigation traffic moved 604 million tons of commodities valued at \$232 billion. Shippers (and ultimately consumers) save \$20.37 per ton...compared to other modes, or \$12.3 billion annually...” Given that only about \$1 billion in Fiscal Year (FY) 2014 Corps funding was allocated to inland navigation, this represents a net national economic benefit for the year of more than \$11 billion and an 11-to-1 return on investment for that \$1 billion allocation.

Fiscal Year 2016

The Congress demonstrated a much greater understanding of and commitment to the need to improve the nation’s inland waterways system than did the Administration for Fiscal Year (FY) 2016. While the FY 2016 President’s Budget request proposed to fund the construction of lock and dam projects cost-shared by the Inland Waterways Trust Fund (IWTF) at a higher level than the Administration had proposed for FY 2015, that FY 2016 proposal was far below what Congress had appropriated for FY 2015 and also far below the \$405 million amount Congress provided in the 2016 Consolidated Appropriations Act (P.L. 114-113). See Figure 1.

Figure 1: Annual Funding for IWTF Modernization Projects



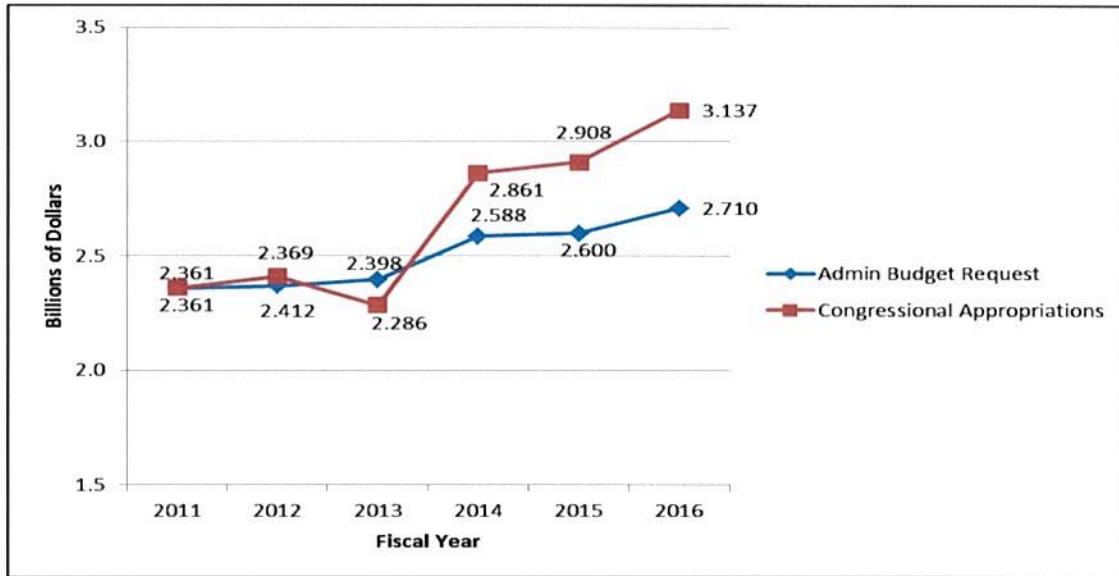
The \$172 million in additional FY 2016 construction funding that Congress provided for IWTF projects resulted in all four of the Users Board’s top priority modernization projects receiving allocations at or very close to capability levels in the Corps’ Fiscal Year 2016 Work Plan that was made public on February 9th of this year. These project-specific allocations, displayed in Table 1, are substantially the same as the Board recommended in our 28th Annual Report from December 2015.

Table 1: FY 2016 Allocations for IWTF Projects (millions of dollars)

	FY 2016 President’s Budget (millions of dollars)	Corps of Engineers Capability (millions of dollars)	FY 2016 Work Plan (millions of dollars)
Olmsted Locks & Dam	\$180.0	\$268.0	\$268.0
Lower Monongahela 2-3-4	\$52.0	\$60.0	\$58.9
Kentucky Lock Addition	-	\$48.0	\$45.4
Chickamauga Lock	-	\$29.9	\$29.9
Lockport Lock and Dam	-	\$1.4	\$1.4

Corps of Engineers Operation and Maintenance (O&M) account funding for FY 2016 followed a pattern similar to that experienced for lock and dam Construction account spending. The President’s Budget request of \$2.71 billion (O&M) for FY 2016 was slightly higher than the \$2.6 billion requested by the budget for FY 2015, but it was significantly below the \$2.908 billion for FY 2015 and the \$3.137 billion for FY 2016 that Congress appropriated for those years. Figure 2 illustrates the relationship between Administration-requested Operation and Maintenance account funding levels and amounts actually appropriated by Congress for each of the past six years.

Figure 2: Operation & Maintenance Account
Civil Works Program, Corps of Engineers



Particularly in each of the past three fiscal years, Congress wisely has increased Corps O&M funding by more than ten percent above the level proposed by the Administration.

President’s Budget Proposal for FY 2017

Table 2 displays summary information about the FY 2017 President’s Budget relative to the President’s Budget request for FY 2016 and compared to what Congress appropriated for FY 2016 in the Consolidated Appropriations Act, 2016 (P.L. 114-113)

Table 2: Corps of Engineers Funding

	FY 2016 President’s Budget (millions of dollars)	FY 2016 P.L. 114-113 (millions of dollars)	FY 2017 President’s Budget (millions of dollars)	FY 2017 Budget vs FY 2016 Appropriations
Construction	\$1,172	\$1,862	\$1,090	↓ 41.5%
• IWTF Projects	\$234	\$405	\$225	↓ 44.4%
Operations and Maintenance	\$2,705	\$3,137	\$2,705	↓ 13.8%
• Inland Navigation	\$691	\$759	\$631	↓ 16.9%
Other Accounts	\$850	\$990	\$825	↓ 16.7%
Total Appropriation	\$4,732	\$5,989	\$4,620	↓ 22.9%

In the Construction account, the FY 2017 President's Budget proposes to fund lock and dam modernization nationwide at a \$225 million level that is approximately \$165 million below the \$390 million level that can be supported by revenues expected to be received by the Inland Waterways Trust Fund during FY 2017. This budget request is approximately 45% below what was appropriated for the current fiscal year and is about 42% below what Congress envisioned just a little more than one year ago when, as the industry urged, the inland waterway diesel fuel tax that commercial users pay and goes into the IWTF was increased from 20 cents per gallon to 29 cents per gallon to support increased investment in the nation's inland waterways infrastructure. Further, the President's Budget proposal would fund only a single lock and dam construction project (Olmsted Locks and Dam) and would provide no FY 2017 funds for three other ongoing priority lock and dam construction projects (Lower Monongahela Locks and Dams 2, 3 and 4 Replacement, Kentucky Lock Addition and Chickamauga Lock).

The Administration's low-ball budget request for inland waterways system modernization runs directly counter to multiple recent actions taken by Congress to address underinvestment in lock and dam infrastructure. In (1) the Continuing Appropriations Act of 2014, (2) the Water Resources Reform and Development Act of 2014, (3) December 2014's CRomnibus, (4) the ABLE Act of 2014, and (5) December 2015's Consolidated Appropriations Act, Congress has taken consistent and significant steps towards bringing annual system modernization funding to the \$380 million per year average annual level called for in the 20-year Capital Development Plan that was jointly created by navigation experts from the Corps of Engineers and the inland towing industry.

In addition to ignoring the clear Congressional policy direction just highlighted, the FY 2017 President's Budget suggests a lock and dam investment approach that not only does not fully use expected FY 2017 IWTF revenues but instead unnecessarily delays the completion of the three non-funded priority projects and actually causes the total cost to complete the three projects to increase by more than the amount that the Administration refused to budget for FY 2017 compared to the full use amount. In other words, instead of recommending the \$390 million full use amount, which would reduce by the same \$390 million the remaining cost to complete the four priority projects, the President's Budget would reduce Olmsted's completion cost by \$225 million but delay progress on the other three projects such that their total completion cost would increase by more than \$200 million. To make matters worse, the delay in completing the three non-budgeted projects could result in more than \$907 million in national economic benefits foregone during the delay.

Examined individually, the impact of adopting the Olmsted-only FY 2017 President's Budget recommendation for lock and dam modernization would be as follows according to information the Corps provided to the Board in connection with last week's Users Board Meeting No. 78 in Pittsburgh, Pennsylvania:

- Assuming that the Lower Monongahela 2, 3 and 4 Replacement project is not funded in FY 2017 but then receives efficient funding in FY 2018 and beyond, the project completion will be extended four years because of site constraints (e.g. insufficient space for three separate contractors at the same time on the middle wall) and re-solicitation-

related delays. This would result in \$800 million in foregone benefits (approximately \$200 million per year) and a direct project cost increase of approximately \$164 million (made up of \$9 million of inflation, \$24 million of project overhead cost and \$141 million of direct cost).

- Assuming that Kentucky Lock is not funded in FY 2017 but then receives efficient funding in FY 2018 and beyond, the project’s lock operational date will be extended 12 months from August 2023 to August 2024. This would result in more than \$90 million in foregone benefits and a direct project cost increase of approximately \$15 million (made up of \$8 million of inflation and \$7 million of extended project overhead cost).
- Assuming that Chickamauga Lock is not funded in FY 2017 but then receives efficient funding in FY 2018 and beyond, the project’s operational date will be postponed eight months from September 2022 to May 2023. This would result in \$17 million in foregone benefits and a project cost increase of approximately \$23 million (made up of \$13 million of inflation and \$10 million of additional project overhead cost).

Table 3 summarizes this wasteful and completely preventable situation.

Table 3: Forgone Benefits from the President’s Budget

	Delay	Increased Cost (Millions of Dollars)	Benefits Foregone (Millions of Dollars)
Lower Mon	4 Years	\$164	\$800
Kentucky	12 Months	\$15	>\$90
Chickamauga	8 Months	\$23	\$17
Total		\$202	>\$907

Following the President’s Budget proposal would be a \$202 million cost mistake and a more than \$907 million benefits foregone mistake.

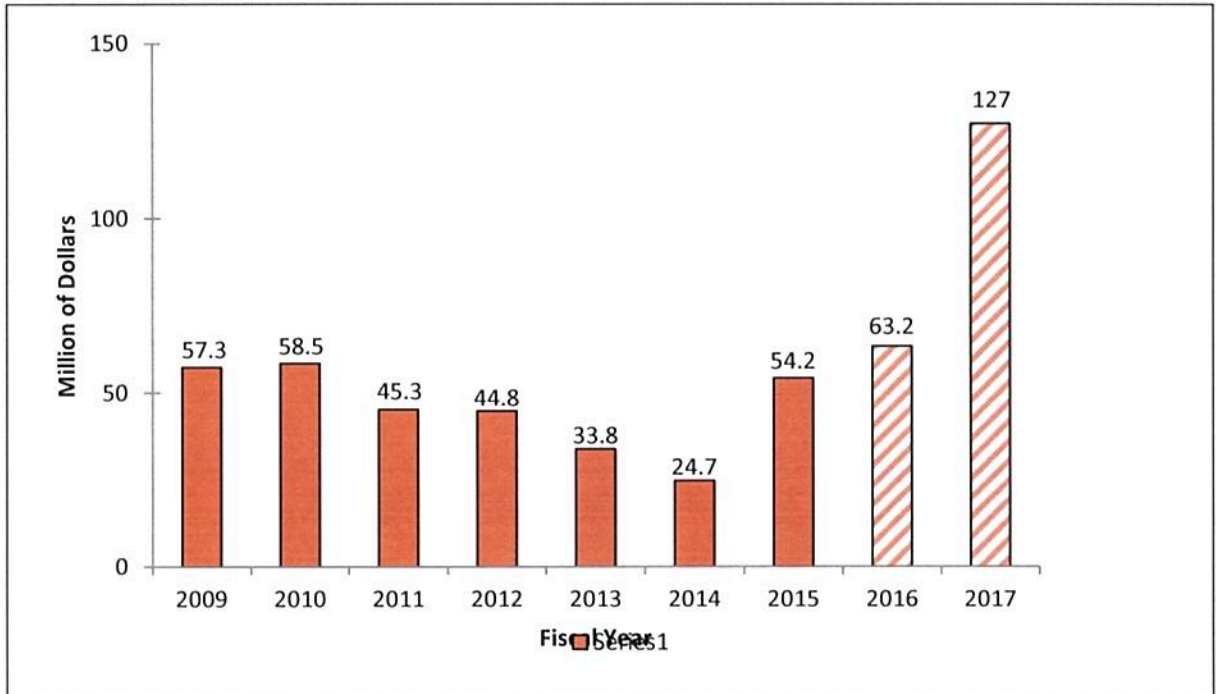
The FY 2017 President’s Budget proposal of \$2.705 billion for the Corps Operation and Maintenance (O&M) account would constitute a 13.8 percent reduction from the FY 2016 appropriated amount for O&M. According to Corps explanatory materials, inland navigation O&M activities would receive \$631 million in FY 2017, \$60 million below what the President’s Budget had proposed for FY 2016 for those activities and \$128 million below what Congress provided for inland navigation O&M in the 2016 Consolidated Appropriations Act, a 16.9 percent cut from the FY 2016 appropriated level. Within the FY 2017 President’s Budget proposal for O&M, allocations for specific waterways include:

- Mississippi River: \$189 million
- Ohio River: \$104 million
- Gulf Intracoastal Waterway: \$61 million
- McClellan-Kerr / Arkansas River: \$40 million
- Illinois Waterway: \$35 million
- Columbia / Snake Rivers: \$25 million
- Tennessee River: \$23 million, and
- Black Warrior Tombigbee: \$20 million.

Inland Waterways Trust Fund

The balance in the Inland Waterways Trust Fund at the beginning of Fiscal Year 2016 was \$54.3 million, having increased during FY 2015 by \$29.5 million due partly to increased revenues from the 9-cents-per-gallon waterway diesel fuel tax increase that went into effect April 1, 2015. According to FY 2017 President's Budget documents, the IWTF balance will balloon to \$127 million by the end of FY 2017 because the budget proposes to use only \$34 million of the \$107 million the Administration estimates will be generated during FY 2017 by waterway diesel fuel taxes. The Board believes that the IWTF balance under the proposed budget actually will be even higher -- to roughly \$136 million -- because the Board believes that Trust Fund revenues for FY 2017 will be approximately \$116 million based on historical patterns and current experience. For example, the 10-year (2005-2014) per-penny-of-tax amount generated on average each year for the Trust Fund exceeded \$4 million, as did the average for each of the five most recent full years that the 20-cent-per-gallon tax was in effect (2010-2014). Results seen for FY 2015, during which the 20-cent tax rate was in effect for the first half of the year and the 29-cent rate was in effect for the second half, similarly tracked the \$4 million per penny of tax average annual revenue experience. The first five months of FY 2016 have also produced similar revenue results according to U.S. Treasury Department monthly reports. Figure 3 illustrates recent IWTF end-of-year balance experience and projected balances under the FY 2017 President's Budget proposal.

Figure 3: Inland Waterways Trust Fund End-of-Year Balance



Regardless of whether the Administration’s projected end-of-2017 figure or the higher Users Board estimate is used, it is clear that the President’s Budget seriously under-utilizes the inland waterway modernization capacity generated by FY 2017 diesel tax revenues and available for investment in FY 2017 if fully used.

Inland Waterways Users Board Recommendations

Review of the FY 2016 Work Plan, the FY 2017 President’s Budget proposal, and experience to date with the Inland Waterways Trust Fund convinces the Board that the recommendations we made in our December 2015 28th Annual Report for Fiscal Year 2017 should continue to command our strong support. Thus the Board continues to recommend for FY 2017:

- **Congress should appropriate for the construction of inland waterway modernization projects the maximum amount supportable --- approximately \$390 million --- based on an estimated \$116 million in expected FY 2017 IWTF revenues;**
- **Continuing to use the project priority list contained in the Capital Development Plan dated April 13, 2010¹, the Administration should fully allocate that \$390**

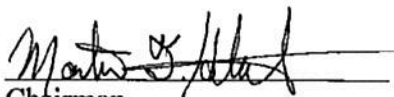
¹ The Board notes that a little more than a week ago, the Administration finalized the Secretary of the Army’s 20-year Capital Investment Strategy (CIS) called for in WRRDA 2014. The Secretary’s CIS report is substantially different from what the Board and other navigation industry representatives worked on a year ago, does not represent the position or have the concurrence of the Board, and should not be used to change the priorities of the Capital Development Plan.

million to specific projects as follows: \$225 million for Olmsted Locks and Dam, \$66 million for Lower Monongahela Locks and Dams 2, 3 and 4, \$52 million for Kentucky Lock, \$19 million for Chickamauga Lock, and \$28 million for major rehabilitation at LaGrange Lock;


- Congress should appropriate at least \$3.14 billion for the Operation and Maintenance activities of the Corps of Engineers affecting inland and coastal navigation throughout the nation;
- At least \$10 million each year should be allocated during Fiscal Years 2016 and 2017 from the Corps Investigations appropriation account for Pre-construction Engineering and Design (PED) of one or two lock modernization projects on the Upper Mississippi River and Illinois Waterways system authorized in title VIII of the Water Resources Development Act of 2007 (Public Law 110-114); and,
- The Corps should continue to efficiently fund the General Re-evaluation Report (GRR) for the Inner Harbor Navigation Canal (IHNC) Lock Replacement so that construction can be resumed on this priority project at the earliest opportunity.

Since the 28th Annual Report was submitted this past December, the Board has been made aware that completion of the feasibility report for the Upper Ohio Navigation Study has been further delayed until January 2017. **The Board recommends the Corps expedite the final Chief's Report for the Upper Ohio Navigation Study as soon as practicable, while not compromising the integrity of the final report.**

Sincerely,


Chairman

Mr. Martin T. Hettel
American Commercial Barge Line
Jeffersonville, Indiana


Date

Copies to:

Senator Orrin Hatch, Chairman, Senate Committee on Finance

Senator Ron Wyden, Ranking Member, Senate Committee on Finance

Senator Thad Cochran, Chairman, Senate Appropriations Committee

Senator Barbara Mikulski, Ranking Member, Senate Appropriations Committee

Senator James Inhofe, Chairman, Senate Committee on Environment and Public Works

Senator Barbara Boxer, Ranking Member, Senate Committee on Environment and Public Works

Congressman Hal Rogers, Chairman, House Appropriations Committee

Congresswoman Nita Lowey, Ranking Member, House Appropriations Committee

Congressman Kevin Brady, Chairman, House Committee on Ways and Means

Congressman Sandy Levin, Ranking Member, House Committee on Ways and Means

Congressman Bill Shuster, Chairman, House Committee on Transportation and Infrastructure

Congressman Peter DeFazio, Ranking Member, House Committee on Transportation and Infrastructure