

Position of the Upper Mississippi River Basin Association On Investment and Key Issues for Upper Mississippi River System Commercial Navigation

June 25, 2013

The Upper Mississippi River System (Upper Mississippi) is a vital component of the nation's inland waterway system and is extremely crucial to local, regional, and national economies, particularly for its ability to efficiently move a substantial portion of the nation's agricultural exports to the Gulf of Mexico. The Upper Mississippi encompasses the commercial navigation channels on the Mississippi River main stem north of Cairo, Illinois; the Minnesota River in Minnesota; the Black River in Wisconsin; the St. Croix River in both Minnesota and Wisconsin; and the Kaskaskia River and Illinois River and Waterway in Illinois. Commercial navigation serves as a critical link in the nation's multi-modal transportation system by connecting the Upper Mississippi states to the world economy, while also relieving congestion on highways and ensuring that other modes remain cost competitive. Compared to other transportation modes such as truck and rail, barge transportation offers a more efficient, cost-effective, and environmentally-friendly method for moving a wide range of bulk cargo. It minimizes transportation costs, thereby helping to make agricultural and other commodity prices competitive for producers as well as consumers. River transportation supports jobs at grain elevators, manufacturing facilities, terminals, and docks that ship and receive tonnage, providing tremendous direct and indirect economic value. The Upper Mississippi locks and dams, river training structures, and channel maintenance also provide direct benefits to drinking water and power plant operators, other industrial water users, and recreational boaters in addition to their obvious benefits to commercial navigation stakeholders. Recognizing the tremendous ecological and economical value of the Upper Mississippi to the region and nation, Congress declared in 1986 that the river is "a nationally significant ecosystem and a nationally significant commercial navigation system." Planned Upper Mississippi infrastructure improvements have been designed to substantially lower transportation costs by increasing the system's reliability and efficiency, eliminate or minimize safety risks, and stimulate market opportunities. These infrastructure improvements will also allow the region to capitalize on the Panama Canal's expansion, which will make international waterborne commerce even faster and less expensive.

Unfortunately, investment in the Upper Mississippi commercial navigation system has been inadequate since the mid-1980s. Most recently, challenges to investment have included constrained federal domestic discretionary spending, restrictions on Congressionally-directed funding, shortfalls in the Inland Waterways Trust Fund, cost overruns elsewhere in the Corps' navigation program, and a lack of Office of Management and Budget support for the Navigation Ecosystem Sustainability Program (NESP) that has spanned both the Bush and Obama Administrations. The lack of investment in the nation's inland navigation infrastructure, particularly on the Upper Mississippi, has left us with an aging and deteriorating system that risks catastrophic failure if left unaddressed. Cumulatively, the aged locks on the Upper Mississippi are now placing a tremendous demand on the Corps' operation and maintenance budget. The Corps estimates that the deferred maintenance backlog on the Upper Mississippi is over \$1 billion. Scheduled and unscheduled outages to repair deteriorating infrastructure cause substantial traffic congestion and delays, shift freight to more expensive modes of transportation, and increase commodity prices, thereby reducing the nation's global competitiveness.

The Upper Mississippi River Basin Association's (UMRBA) member states of Illinois, Iowa, Minnesota, Missouri, and Wisconsin have a vested interest in ensuring that the Upper Mississippi continues to function as an important commercial transportation corridor, connecting our states to the world economy. In representing the states' common water resource interests, UMRBA voices their collective perspectives on issues and advocates on their behalf to the Administration and Congress. Therefore, it is with concern for both the river system's near term reliability and efficiency as well as its long term ability to support commercial navigation that the UMRBA offers the following position statement:

Near Term Infrastructure and Planning Investment on the Upper Mississippi River System

Immediately improve the Upper Mississippi commercial navigation system by completing the most critical operation and maintenance backlog projects, initiating major rehabilitation where needed, as well as implementing already identified small-scale efficiency measures

The U.S. Army Corps of Engineers (Corps) estimates that, given current fiscal and policy constraints and competing national priorities, the first new lock on the Upper Mississippi would not be completed until 2047, based on current investment levels for inland navigation. Unless the underlying circumstances dramatically change, the states recognize that the planned expansion of the system is not on the immediate horizon. In the interim, important and immediate opportunities exist to enhance the current system's reliability. The Administration, Congress, and industry must come to consensus on strategies to adequately fund necessary repairs and regular upkeep of navigation infrastructure. We believe that addressing the operation and maintenance backlog and some major rehabilitation in the near term are critically needed to maintain the river's ability to move commerce until such time as capacity expansion measures can be advanced. Currently, routine operation and maintenance needs alone on the Upper Mississippi are at least \$150 million to \$200 million annually. Several small-scale projects developed through NESP are ready for construction as soon as funding permits. These include switchboats at Locks 20-25 to facilitate double-cut lockages and downbound lock approaches; mooring cells at Locks 14, 24, and La Grange to provide waiting stations close to the locks; and a guidewall extension at Lock 22 to better assist operators in transiting through the lock chamber. Additional mooring cell projects would be ready for construction in only two to three years.

- ✓ *UMRBA urges the Administration and Congress to provide the necessary funding to address critical operation and maintenance as well as major rehabilitation needs throughout the Upper Mississippi. We also support the implementation of small-scale construction measures, which will provide substantial benefits to the region at relatively little cost.*

Advance designs to recapitalize the Upper Mississippi commercial navigation infrastructure

The 600-foot locks found at most Upper Mississippi dams do not accommodate the modern 15-barge tow configuration. Any tow larger than eight barges has to be pulled apart into two segments for locking, thereby increasing shipping time and costs. These capacity limitations hamper the system's ability to support future traffic growth, undermining the potential to fully realize regional and national economic benefits. Congress authorized NESP to address critical capacity constraints on the system. NESP calls for seven new 1,200-foot locks at the most congested locations, including at Lock and Dams 20, 21, 22, 24, and 25 on the Upper Mississippi River and at La Grange and Peoria on the Illinois Waterway. UMRBA recognizes the efficiencies and cost savings that would be realized by simultaneous construction on multiple locks. However, current fiscal constraints almost certainly preclude the possibility of initiating multiple new locks on the Upper Mississippi at the same time. UMRBA continues to support the Corps' recommended plan for sequencing lock construction on the system, starting with Locks 25, La Grange, 22, and 24. This sequence is also supported by industry stakeholders. Although construction will not likely begin for several years, it would be prudent to have these projects ready to move to construction at the earliest possible opportunity. This would entail having project designs and construction methods approved.

- ✓ *UMRBA asks the Administration and Congress to provide sufficient funding to the Corps to continue planning for capital investment on the Upper Mississippi, as authorized by Congress in the Navigation and Ecosystem Sustainability Program. Specifically, this should include completing design of a 1,200-foot lock at Lock 25 as the first step in sequencing the projects already authorized by Congress.*

Need for Prioritization by the Administration, Congress, and Industry

Elevate the Upper Mississippi's critical capital needs on the national stage

While there are multiple trends and challenges affecting the viability and efficiency of the nation's inland waterway system, perhaps none is more significant than the overall decline in federal infrastructure investment since the mid-1980s. In large part due to deferred maintenance and major rehabilitation, the estimated value of the Corps' capital stock has declined from a peak of \$250 billion in 1983 to an estimated \$165 billion in 2011 (in 2009 dollars). Timely, reliable, and adequate federal investment in operation and maintenance, repair, and modernization of the nation's inland navigation infrastructure is critical to maintaining and enhancing waterborne transportation, as well as preventing a catastrophic failure of the system. This is especially important on the Upper Mississippi where most locks have only one chamber and consequently traffic is stopped whenever a failure occurs.

Furthermore, federal investment in the nation's waterways infrastructure must be equitable. Between 1986 and 2001, the Inland Waterways Trust Fund derived approximately 40 percent of its revenue from shipments transiting the Upper Mississippi. However, only 15 percent of Fund expenditures during that same period were for Upper Mississippi projects. This imbalance still exists and would be continued under the 2010 Inland Marine Transportation Systems Capital Projects Business Model. It is unwise, unacceptable, and unfair to ignore the infrastructure needs in a region that provides so much benefit to the nation.

- ✓ *UMRBA asserts that there is an incredible discrepancy between the Upper Mississippi's contributions to the Inland Waterways Trust Fund and the return investment in the river's infrastructure, as well as the general underfunding of Upper Mississippi operation and maintenance. UMRBA respectfully requests that the Administration, Congress, and industry place a higher priority on financing necessary repair measures to maintain and enhance the Upper Mississippi's ability to reliably move commerce.*

Resolve Inland Waterways Trust Fund revenue shortfalls

The non-federal (or industry) share of inland navigation construction and major rehabilitation costs comes from the Inland Waterways Trust Fund, which generates revenue through a tax on fuel used by inland marine operators. The tax is currently \$0.20 per gallon, which has proven insufficient to meet the nation's inland waterways investment needs. In fact, annual expenditures on construction and major rehabilitation projects are limited by insufficient trust fund capacity. In 2011, the fuel tax generated \$84.0 million in revenue for the Inland Waterways Trust Fund, but expenditures were \$90.3 million, leaving a year-end balance of only \$31.9 million. Additionally, intermittent federal funding, inefficient project delivery, and project cost overruns have further diminished the effectiveness of the available trust fund revenue. The Inland Waterways Trust Fund constraints have delayed major navigation projects on the Upper Mississippi, including implementation of planned system expansion. In its FY 2010 energy and water report, the Senate Appropriations Committee concluded that "funding for NESP is dependent on a solution to the [Inland Waterways Trust Fund], therefore a transition to NESP is not anticipated in the immediate future."

However, the need for a solution is urgent. UMRBA believes the fuel tax has proven an effective, non-distorting mechanism for generating the non-federal share for navigation improvements. We support the continuation of the fuel tax as the revenue-generating mechanism for the Inland Waterways Trust Fund, with an increase in the tax to an appropriate level to sufficiently support projected investment

needs, while accounting for inflation, traffic levels, tow boat fuel efficiency, and other critical factors. Any fuel tax increase should have the support of inland marine operators, who are assessed the tax. It is essential that the revenue mechanism be equitable throughout the entire inland navigation system, in which shippers pay based on their use of the river system. A lockage fee, which both the Bush and Obama Administrations have proposed, would unfairly disadvantage locked segments of the inland navigation highway.

- ✓ ***UMRBA urges the Administration, Congress, and industry to resolve the Inland Waterways Trust Fund revenue shortfalls with a solution that maintains geographic equity and inland navigation's cost-competitiveness. We believe that there is industry consensus that this would likely include an appropriate increase in the fuel tax paid by inland marine operators.***

Explore cost share options to ease Inland Waterways Trust Fund constraints

The current Inland Waterways Trust Fund imbalance is so great that any revenue-generating solution will need to be accompanied by some modification to the current cost sharing requirements. The Inland Marine Transportation System Capital Investment Strategy Team, composed of Corps and industry experts, estimated that a 250 percent increase in the fuel tax would be required to support the Team's 2010 proposed plan for a \$380 million annual construction and major rehabilitation investment program. An increase of this magnitude would reduce the cost-competitiveness of the inland navigation industry with other modes of transportation and, therefore, reduce the overall integrity of the nation's multi-modal transport system. In its 2010 plan, the Capital Investment Strategy Team offers some possible options to reduce Inland Waterways Trust Fund obligations through cost share modifications that merit exploration. These include lowering the non-federal contribution for construction, major rehabilitation, and/or dams; eliminating the non-federal cost share for new dam construction and establishing a minimum threshold for the dollar value of cost shared major rehabilitation projects; and capping the trust fund's exposure when projects experience significant cost overruns. In addition, the plan calls for improvements in the Corps' project planning and construction implementation processes to minimize project schedules and costs.

UMRBA agrees with the Corps and industry Team's observations that there are many beneficiaries of the inland waterway system who do not currently contribute to the non-federal cost share — e.g., power plants and other industrial water users, drinking water suppliers, wastewater treatment facilities, hydropower operators, and recreational boaters. UMRBA also shares the Team's belief that modifying cost share requirements may be necessary to advance needed infrastructure improvements. While UMRBA does not currently have a position on the specific modifications, the states do believe that the Administration, Congress, industry, and other stakeholders should evaluate the full array of possible options and reach consensus expeditiously. As an alternative to a monetary threshold for non-federal cost share on major rehabilitation and/or dam projects, the states believe that a functional definition based on type of activity and the level of planning required might be both more appropriate and resilient over time. A functional definition would decipher the point at which a repair project (e.g., concrete repairs, mechanical replacements) is beyond routine maintenance and would extend the practical life of a lock or dam. In addition, UMRBA recognizes that cost overruns and construction delays experienced in recent years are quite simply unacceptable and highlight the need for sound reforms to inland navigation project delivery. In fact, UMRBA supports increasing the federal cost share on the Olmsted project in order to advance critical repair and recapitalization needs elsewhere, with the project proceeding as scheduled. Olmsted has experienced tremendous cost escalations that have led to the project consuming most of the Inland Waterways Trust Fund expenditures over the past two decades. Over the past several years, between 90 and 95 percent of trust fund expenditures have been devoted to Olmsted. If the project cost share agreement is not changed, this consumption rate will continue for

another decade. While we would not support modifying cost share agreements mid-construction as a general rule, Olmsted is a unique case that is preventing needed investment elsewhere.

- ✓ *UMRBA urges the Administration, Congress, industry, and other key partners to fully evaluate modifications to the current cost share requirements as well as efficiencies to Inland Waterway Trust Fund expenditures, including sound improvements to future project delivery and a more reliable funding mechanism. A cost share modification should be advanced only if it proves to be fair, equitable, effective, and generally enjoys consensus. Recognizing the extraordinary cost overruns, UMRBA also calls for Congress to increase the federal share for the remaining costs to construct Olmsted.*

Examine innovative approaches to financing and implementing waterways infrastructure projects

Identifying and testing innovative financing and project delivery approaches to implementing waterways infrastructure projects are garnering wide-ranging support among inland navigation stakeholders. Examples of suggested innovative approaches that merit consideration include financing through bonding, venture capital, and other private financing options; contracting project planning and/or construction to non-federal entities; and involving construction contractors early in the planning process. The current financing and project delivery processes are largely recognized as inadequate to address the significant backlog in identified infrastructure needs.

- ✓ *UMRBA urges the Administration, Congress, industry, and other key stakeholders to identify and explore innovative financing and project delivery approaches to maximize infrastructure investment on the nation's waterways. Where appropriate, pilot programs should be used to examine the benefits and feasibility of innovative approaches.*

Integrated, multi-purpose management of the Upper Mississippi River System

Continue to advance commercial navigation priorities in a multi-purpose, collaborative approach

The Upper Mississippi states are strongly committed to the principles of sustainability and multi-purpose use as the foundation of the river's management. The region's prosperity and quality of life depend upon the Upper Mississippi's continuing vitality as a commercial transportation system, a rich and diverse ecosystem, a source of water supply, and a recreational resource. The states continue to support Congress' authorization of NESP, which seeks to advance the navigation and ecosystem components in an integrated, balanced, adaptive, collaborative, and fairly funded manner. A shared commitment to integrated river management among the Administration, Congress, federal and state agencies, and key stakeholders is crucial to maintaining the region's prosperity. Further, the states support efforts to integrate water resources management at the full watershed scale and across multiple uses, such as is taking place through the America's Watershed Initiative.

The deeply-rooted history of interagency partnership on the Upper Mississippi has been critical in sustaining and enhancing the river's many economic, ecosystem, and social values. This partnership has been instrumental in the successful implementation of the Upper Mississippi River Restoration – Environmental Management Program (UMRR-EMP) and the authorization of NESP. Over the past 26 years, UMRR-EMP has matured into a well-respected, effective restoration and science program that is strongly supported by the Upper Mississippi federal and state agencies and river partners. While the Corps has the ultimate responsibility for program management and execution, the program partners are critical to the successful implementation of many aspects of the program. These partner contributions include, but are not limited to, providing in-kind engineering and technical expertise for habitat project

planning and prioritization and monitoring and research efforts; non-federal cost share to construct habitat projects; ongoing operation and maintenance of habitat projects; and implementing the program's monitoring of the river's status and trends. These same partnership arrangements would be required to completely and effectively advance the ecosystem restoration and monitoring efforts Congress authorized under NESP. Thus it will be essential for the Corps to continue to support that same level of important partner engagement in NESP through similar collaboration mechanisms. In the same vein, we would expect that the Corps would consult with all relevant stakeholders in prioritizing and implementing modernization of the Upper Mississippi navigation system as authorized by Congress in NESP.

- ✓ *UMRBA calls for continued advancement of Upper Mississippi commercial navigation priorities in tandem with ecosystem restoration and other river priorities under a collaborative approach.*