

A Possible New Budget Concept

National Dredging Meeting

***Dredging Contractors of
America***

26 May 2010

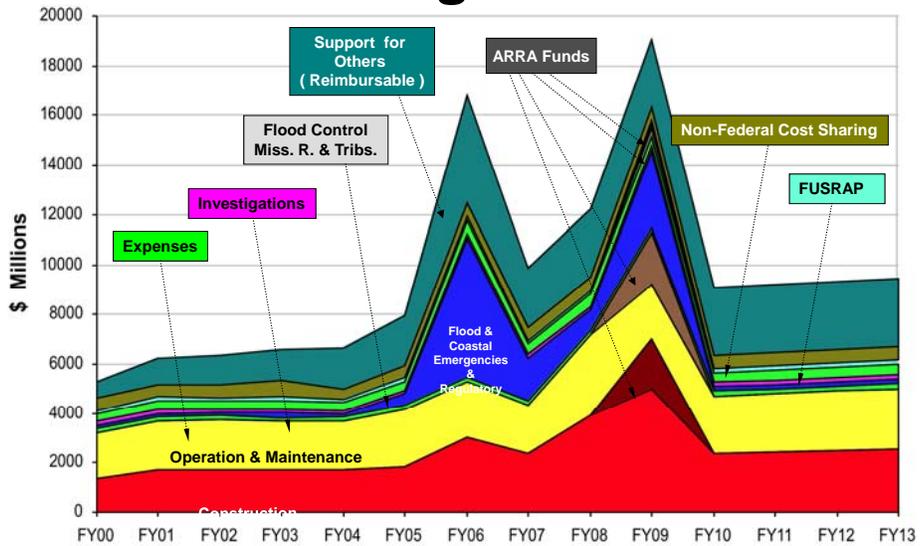


AGENDA

- **Budgets and Appropriations Trends**
 - Where we are
 - Where we're headed
- **One solution to future funding--Inland Waterways**
- **A New Budget Concept**
 - Focus on key infrastructure
 - Focus on delivery key products 7 services
 - Focus on system health, recapitalization, growth over time
 - Evolving relationships with system users/partners
- **Does This Nation rely on a "System" of Ports???**



Civil Works Program Overview



FY11 CIVIL WORKS PROGRAM By BUSINESS LINE (\$ Millions)

	<u>FY 10 Budget</u>	<u>FY 10 APPROPS</u>	<u>FY 11 BUDGET</u>
Navigation	1,766	1,796	1,658
Flood	1,628	1,865	1,543
Aquatic Restoration	546	568	582
FUSRAP	134	134	130
Stewardship	99	99	108
Hydropower	230	211	207
Recreation	283	284	280
Water Supply	4	5	4
Emergency Mgt	55	14	43
Regulatory	190	190	193
Exec Dir & Mgt	184	185	185
ASA(CW)	6	5	6
TOTAL	5,125	5,445*	4,939

*\$140 million for Environmental Infrastructure

Budgets & Appropriations

	FY06	FY07	FY08	FY09	FY 10
	\$ Millions				
Investigations	95	94	90	91	100
Operations & Maintenance	1,979	2,258	2,471	2,475	2,504
Construction	1,637	1,555	1,523	1,402	1,718
Miss. River & Tributaries	270	278	260	240	248
Regulatory Program	160	173	180	180	190
Flood & Coastal Emergencies	70	81	40	40	41
F.U.S.R.A.P.	140	140	140	140	134
Expenses	162	164	177	177	184
ASA(CW)	0	0	0	6	6
Total Budget Request	4,513	4,743	4,881	4,751	5,125
Appropriation	5,329	5,340	5,592	5,403	5,445
Increase from Budget	816	597	711	652	320



Latest for FY10 & FY11

- **FY10 Emergency Supplemental:**
 - \$700M current estimate of damaged projects, e.g. channel siltation due to named storms
 - Probably about \$217M will be appropriated
 - First time in 5 years we'll have to prioritize which projects we repair
- **FY11 Appropriation**
 - **House and Senate are preparing bills**
 - **Expect Committee Report this year; maybe House and Senate Bills, but no appropriation until after mid-term elections ~Nov-Dec 2010**
 - **Have been advised of restricted ceilings; appropriation at/below Admin FY11 Budget**



Future Appropriations Without Change?

Administration Budget Ceilings	Projected Appropriations	Inflation Adjusted (3%)
•FY 10 - \$5.1	•FY 10 - \$5.4	•FY 10 - \$5.4
•FY 11 - \$4.9	•FY 11 - \$5.4	•FY 11 - \$5.6
•FY 12 - \$4.7	•FY 12 - \$5.3	•FY 12 - \$5.7
•FY 13 - \$4.5	•FY 13 - \$5.3	•FY 13 - \$5.9
•FY 14 - \$4.7	•FY 14 - \$5.4	•FY 14 - \$6.1
•FY 15 - \$4.8	•FY 15 - \$5.4	•FY 15 - \$6.4
** \$2.9 billion lost to inflation in 5 yrs!		



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External Trends To Watch

- **Continuing Pressure on Budget**
 - Entitlement Programs
(Medicare, Medicaid, Social Security)
 - Interest on the National Debt
- **Cost of Infrastructure Recapitalization**
 - Improved Inspection Techniques
 - Modern Design Standards
 - Cost of meeting ESA and other legal requirements
- **Cost of Construction Inflating Faster than CPI**
 - Fuel, Steel, Concrete
 - Expanding worldwide demand



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What Key Leaders are Saying

- “Spending is almost 30% higher than taxes. Total debt held by the public rises from 40% of GDP in 2008 to 90% in 2020.” [CBO, 3/7/10]
- “To avoid...ultimately unsustainable budget deficits, the nation will ultimately have to choose among higher taxes, modifications to entitlement programs such as Social Security and Medicare, *less spending on everything else* from education to defense, or some combination of the above.” (B. Bernanke, 3/29/10)
- “But unless we as a nation demonstrate a strong commitment to fiscal responsibility, in the longer run we will have neither financial stability nor healthy economic growth.” [B. Bernanke, 4/7/10]

What Key Leaders are Saying

- **CBO**
 - 1962 – Discretionary portion of budget = 75%
 - 2010 – Discretionary portion of budget = 38%
- “Vowed to lead an effort to cut \$15 billion in overhead costs from the Pentagon’s \$550 billion budget. Without the savings the military will not be able to afford its current force...The gusher has been turned off and it will stay off for a good period of time.” (SecDef Gates, 8 May 2010)

For the Out Years ...

- We expect a major debate on Federal funding priorities to commence with the FY 11 budget and continue beyond
- We must seek to improve our budget 'defense' of the value to the nation of the water resources infrastructure for which we are responsible
- We must continue to place a high priority on execution of all that is appropriated

What Future Can We Imagine Without Change?

- **Our budgets will decrease relative to our need if we don't do SOMETHING different.**
- **We will not be able to provide quality, responsive service to the nation if we cannot create support for a budget that more closely matches systems requirements.**
- **We will not be able to improve as an agency if we are not funded for efficient project planning, design, construction, operations and maintenance.**



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THE CIVIL WORKS MISSION --An Alternative View--

- **How Do WE View our Civil Works Mission?**
- **How do WE Communicate our Mission to Others?**
- **What's Not Working? Why Change?**
- **A Different View?**
- **The Inland Marine Transportation System (IMTS) Model**
- **Lessons Learned from the IMTS**
- **A New Business Model**



Program Development and Defense
How do *others* view our program?

ADMINISTRATION Performance-Based/ Business Line	CONGRESS Account & Project Based [Member-Based]
<ul style="list-style-type: none"> •Flood Risk Management •Navigation •Environment •Hydropower •Regulation •Recreation •Water Supply •FUSRAP •Emergency Management •Expenses 	<ul style="list-style-type: none"> •Investigations/Planning •Construction •Operations & Maintenance •Miss River & Tributaries + •Regulatory •FCCE •FUSRAP •Expenses •Misc
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--Program Development and Defense--
How do *you* view our program?

By Project	Stakeholders/Districts/ Members of Congress
By District/Division	Districts/Divisions
By Account	Congressional Appropriations Cmtes
By Business Line	OMB
By Congressional District	Members of Congress

THE CIVIL WORKS MISSION

- **TOO MANY VIEWS**
- **NO SHARED, COMPREHENSIVE VIEW**
- **NO SENSE OF PURPOSE**



THE CIVIL WORKS MISSION

--Program Development and Defense--

What's Not Working?

- It's about us: "The *Corps'* CW Budget"; it's not about who we serve.
- There is stakeholder *project ownership*; but not stakeholder program ownership
- We communicate the *cost, benefit and value of projects*; we don't communicate the value of our programs, products or services
- We don't communicate the purpose or value of *infrastructure systems* to the nation



THE CIVIL WORKS MISSION

USACE is the Nation's Steward for
Four Infrastructure Systems
that support 6 Communities of Interest

1. Flood Risk Management

- Coastal
- Inland

2. Navigation

- Coastal
- **Inland**

3. Environment

4. Hydropower



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THE CIVIL WORKS MISSION

--A Systems View--

The Inland Marine Transportation System (IMTS)

A Case Study

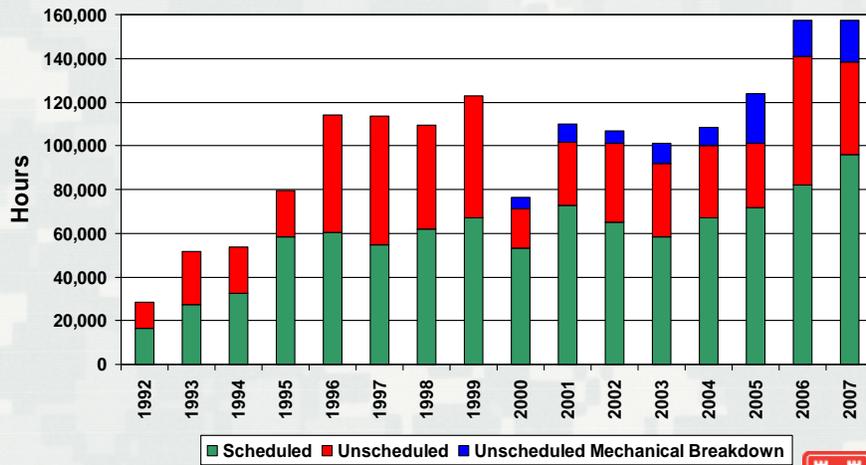


IMTS History

- IWTF and general revenues fund major rehabilitation and new construction on the Inland Waterways
- IWTF revenues are about \$85M/yr
- Total available for new construction \$170M /yr
- Funds committed to too many projects
- Few completions
- Industry was not pleased with Corps performance



IMTS—Maintenance Hours



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Selected Case Study

- Looked at 3 projects: Marmet, L&D 2,3&4, Olmstead
- Worst Case: Olmstead L&D. Cost increase from \$1B to \$2.1B. Time increase from 8 to 22 years
- No end in sight
- Reasons:
 - Poor funding practices
 - Inaccurate cost and schedule estimates
 - Design changes
 - Differing site conditions
 - Scope changes
- Compiled a record of poor PPM, cost and schedule increases, few completions
- Very unhappy industry

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CASE Study--IMTS

Current Practice

A Performance-Based/Account Based Program Development

- We justify each project independently, based on performance metrics. Many are justified. Start too many projects because it is politically expedient. Fund many, esp large projects, inefficiently.
- IWTF and limit IMTS new construction and major maintenance to ~ \$170M /yr vs ~\$400 million required
- Few completions; few benefits realized
- **Compiled a history of poor programs mgmt, poor project mgmt, inefficient design, inefficient construction, time growth, cost growth**
- Very unhappy industry

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IMTS Investment Strategy Team Program Management Team

• **Program Manager:** Jeanine Hoey

• **IWUB:** Royce Wilken/Steve Little +
about 6-8 other industry
members

• **HQ USACE:**

• **Operations:** Jim Walker, Jeff
McKee, Mike Kidby

• **Programs:** Mark Pointon, Mary
Anne Schmid, Sandy Gore

• **Planning:** TBD (vice
Worthington)

Management: Jose

• **Divisions:**

– **LRD:** Bill Harder

– **MVD:** Steve Jones

– **NWD:** Eric Braun

– **SAD:** Wynne Fuller

– **SWD:** Glenn Proffitt

• **IWR:** David Grier

• **ERDC:** John Hite

• **Economists:**

– Wes Walker

– Keith Hofseth

• **Cost Engineer:** Mike Jacobs



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IMTS Capital Investment Strategy Program Development

- Collaborative Team – US Army Corps of Engineers and Waterways Industry (recommendations reflect those of the team, not necessarily those of the Inland Waterways Users Board, the U.S. Army Corps of Engineers or the Administration)
- Team Objectives
 - Evaluate *the System*
 - Projects funded efficiently
 - Emphasis on finishing projects
- Created project list (103 projects)
- Prioritized, established 20-year system recap program (25 pr)
- Total IMTS Capital Investment Program Target -\$380M/year
 - New construction - \$320M/year
 - Major rehab - \$60M/year
 - \$380M Program includes management reserve of \$30M
 - Additional out-year capacity available
- Program & project mgmt, design, constr, O&M reforms



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Example IMTS Capital Investment Strategy Future Program with Current Revenues

Current Program \$170M/YR - Projects completed with efficient schedule		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Project																														
OLMSTED LOCKS AND DAM, OHIO RIVER, IL & IN																														
EMSWORTH LOCKS AND DAM, OHIO RIVER, PA (Dam Safety)																														
MARKLAND LOCKS AND DAM, KY & IN (MAJOR REHAB)																														
TOTAL Efficient Funding		136	145	136	148	145	134	67	50	28	0.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Current Program \$170M/YR - Projects completed with constrained schedule		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Project																														
LOCKS AND DAMS 2, 3 AND 4 - MONONGAHELA RIVER, PA																														
CHICKAMAUGA LOCK, TN																														
KENTUCKY LOCK ADDITION, TN RIVER, KY																														
INNER HARBOR NAVIGATION CANAL LOCK, LA																														
TOTAL Constrained Funding		8	25	33	21	24	34	102	118	140	166	170	167	169	136	142	147	112	145	95	110	170	170	170	170	170	170	170	170	
TOTAL Program		144	170	169	169	169	168	169	168	166	170	167	169	136	142	147	112	145	95	110	170	170	170	170	170	170	170	170	170	

NO NEW STARTS!!



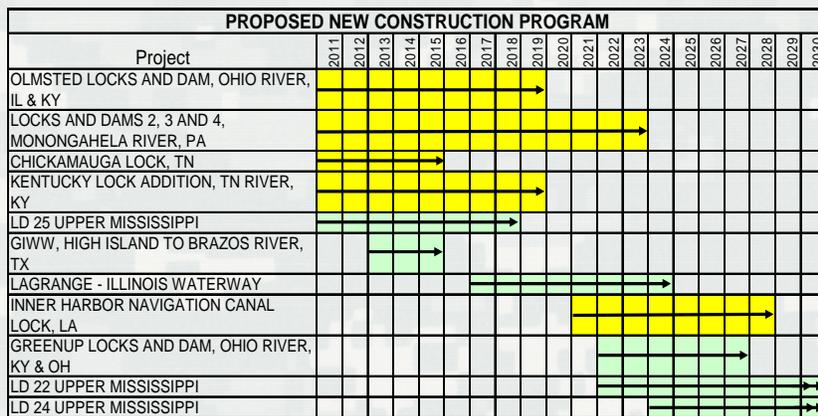
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Cost Sharing and Revenue Plan

- Cost share recommendation
 - Lock New Construction and Major Rehab above \$100M: 50% Federal / 50% IWTF
 - Lock Major Rehab less than \$100M and Dams: 100% Federal
 - \$270M/Year Federal
 - \$110M/Year IWTF
 - Requires 30% – 45% increase in fuel tax (\$0.06 – \$0.09 per gal)
- Cost sharing cap
- Revenue Plan – increase in current industry funding mechanism

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IMTS Capital Investment Strategy New Construction Program

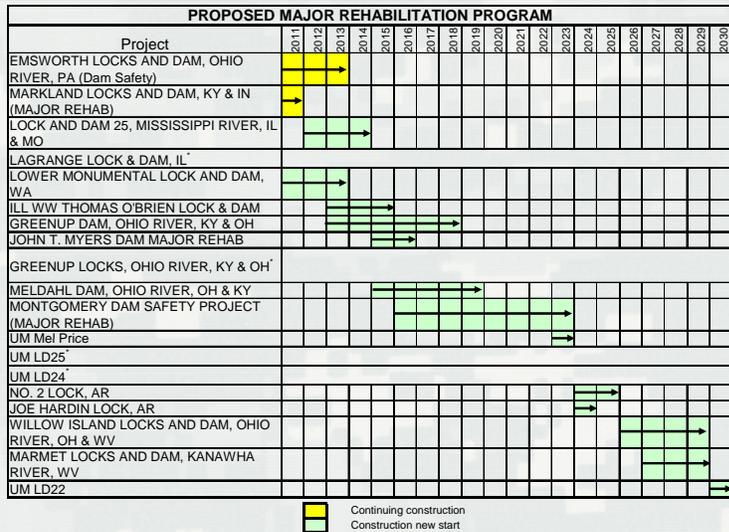


Continuing construction
 Construction new start



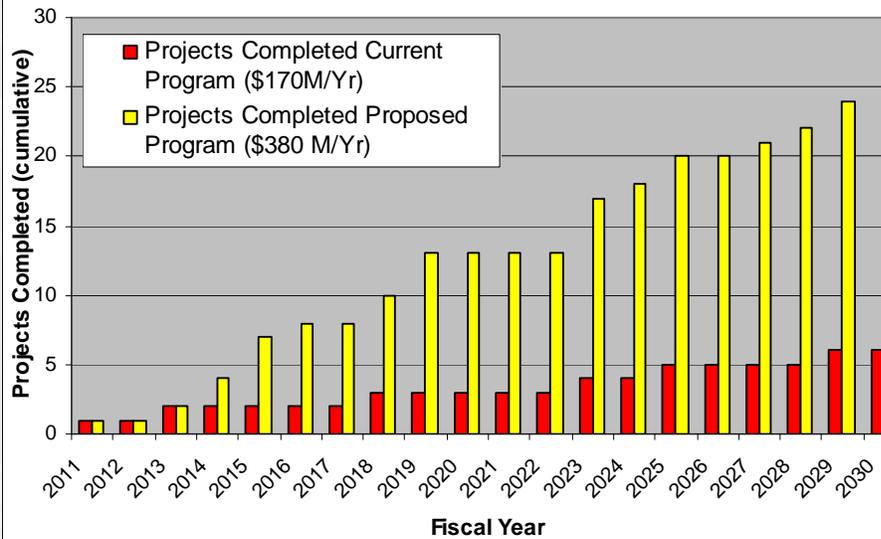
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IMTS Capital Investment Strategy Major Rehabilitation Program



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Comparison of Completed Projects



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IMTS Capital Investment Strategy Project Delivery Process Recommendations

- Implemented Recommendations
 - Risk-based cost estimates
 - Independent External Peer Reviews
 - Project Management Certification
- Proposed Improvements
 - IMTS Capital Investment Program Regulation
 - IWUB representative PDT members
 - Project Management Plan – IWUB Chairman and representative as signatories
 - Adopt applicable concepts of Milcon Model
 - Acquisition – Early Contractor Involvement
 - IWUB concurrence on new starts
 - IWUB status briefings
 - Measure and monitor results of recommended process improvements
- Recommendations forwarded for consideration
 - Design/Review Center(s) of Expertise
 - Standardized Designs
 - Continuing Contracts Clause
 - Emphasis on reduced O&M expenditures

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Benefits of Proposed IMTS Capital Investment Program

- Cost efficiencies - *\$0.5 - \$2.1B in avoided cost growth* on navigation projects
- *Avoiding more than \$2.8B additional benefits foregone*
 - Looking only at projects that could be completed under the current scenario (reference slide 3)
 - Benefits foregone to date at Olmsted and Lower Mon alone are \$5.2B
- Improved reliability and efficiency of IMTS
 - 5 - DSAC 1 dams
 - 3 - DSAC 2 dams
 - 1 - lock rated as an F condition
 - 6 - locks rated as a D condition
- Additional benefits of achieving IMTS improvements over shorter timeframe
 - Environmental
 - Societal benefits
 - Safety
 - Energy

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CASE Study—IMTS

What Changed with the Systems View?

- Created a single USACE-Industry Management Purpose: *System Recapitalization*
- Agreed on essential system requirements
- Prioritized Construction
- Developed a Funding Plan
- Together, Seeking Cost-Shared Legislation to ‘Right Size’ Funding for the long term (~\$380 million/yr)
- Agreed on a partnering plan to manage system recapitalization
- Agreed to seek a cost-shared solution to the funding shortage
- Identified a number of Program and Project Mgmt reforms



Some Lessons Learned

- **We have a history of poor programs and project mgmt; inefficient planning, design and construction; time and cost growth on large IWTS projects**
- **Our Divisions, our Districts and our Stakeholders identify with ‘projects’ and not ‘programs’**
- **We view our mission as a collection of ‘projects’.**
- **We promote ‘projects’, not ‘programs’**
- **Many Stakeholders are not happy with USACE.**
- **We have not adjusted our budget process or our program STRATCOM to a changing world.**



More Lessons Learned

- **Stakeholders will join us to support a system**
 - They will pay their share.
 - They will support and lobby for the funding
 - They will discipline themselves to achieve system efficiency when they can participate fully in all aspects of budget development and program management.
- **WE must view and approach our work differently**
- **Viewing our work as a system causes us to reconsider how we approach project planning, design and construction.**



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**\$0000...
WHAT'S NEXT?**



IMAGINE

- **No GI, CG, O&M**
- **No Business Lines**
- **INSTEAD**
- **Six National Infrastructure Accounts**
 - **2 Nav, 2 Flood Risk Mgmt, Environ, Hydro**
 - **Planning, Design, Construction, O&M inclusive**
 - **We develop, defend 6 multi-year programs**
 - **We focus on delivering, maintaining 6 systems**
 - **Priorities, success measures for each**
 - **The Nation sees what is delivered, or not**



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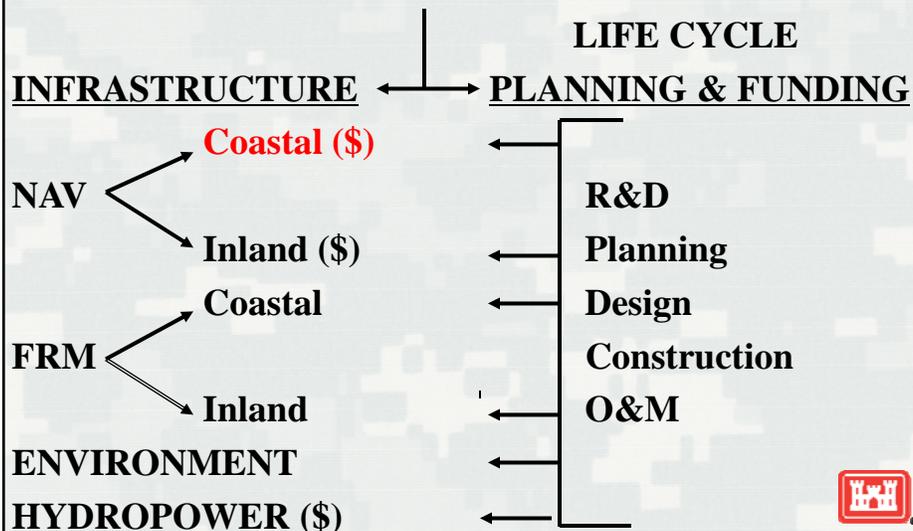
3. Environment

4. Hydropower



Six 20-Yr Infrastructure Budgets

CAMPAIGN PLAN



‘SYSTEM’ PROPONENTS WRDA Focus

SYSTEM	STAKEHOLDER
Navigation-Coastal	Port Associations, DCA, NWA, ... HMTF
Navigation-Inland	IWUB, WCI,... IWTF
Flood Risk Mgmt-Coastal	ASBPA, Cities, Ports, ...
Flood Risk Mgmt-Inland	ASFPM, ASCE States, Regions, Cities, NWC,
Environment	CEQ, TNC, ...
Hydropower	Power Marketing Agencies DIRECT FUNDING



Next Steps....Coastal Navigation

- Continue to press for HMTF Legislation
- **PROS**
 - \$1.6B/yr vs \$750 M/yr
 - Opportunity for improved policies
- **CONS**
 - “It won’t change the Corps budget ceiling.”
 - Inadequate dredge capacity; higher prices



Possible New USACE Coastal Nav Maint/Constr Policies [Assuming \$1.6B]

- Establishment of an organization to represent all ports on issues impacting all ports
 - “Coastal Waterways Users Board”
 - Long term projections/balancing of HMTF
 - Port depth study policies, processes, analytics
 - Studies: value of ports; port economic value metrics
- Creation, maintenance of a 20-year port maintenance plan
 - Priority, metrics for dredging medium size ports
 - Funding for 20-year dredge material maintenance plans
 - Advance funding for confined disposal areas
 - Priority for key structures e.g. jetties and breakwaters
 - Annual coordination of Corps long term/annual budget plans in advance of budget submission



Next Steps....Maybe?

- Redefine our business model around 6 *systems*
- Create proactive, focused *system* stakeholders
- In partnership with stakeholder groups develop long term systems plans & priorities
- Defend ‘*systems*’ funding needs.
- Adjust our STRATCOM
- Sell the concept
- Be transparent and collaborative.
- Listen, Learn, Adapt



Discussion



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