the WATERWAYS JOURNAL Weekly SINCE 1887

Overhaul Of Corps' Benefit-Cost Analysis Is Overdue

December 7, 2018
EDITORIAL By Waterways Journal

Last week, the National Waterways Foundation released a long-awaited report titled "How Project Selection In the Corps of Engineers Is Affected By Benefit-Cost Ratio (BCR) Analysis." It's dense and weedy, getting into the nitty-gritty details of formulas that economists and project evaluators use to forecast and estimate project costs and benefits.

The report's overall argument is clear, though. It addresses longstanding concerns among users and advocates of inland waterways projects. The core problem is one of fairness and accuracy: the Corps of Engineers defines "benefits" of large waterways projects too narrowly, and therefore does not properly capture in its estimates all the genuine benefits of a given project.

To be sure, Congress owns a large chunk of this issue, owing to the fractured way it authorizes and funds (or sometimes, doesn't fund) waterways infrastructure projects. When projects stretch out for decades, estimates of their costs—and, especially, benefits—based on conditions 20 or 30 years earlier clearly need recalibrating. Some of the limitations on the way the Corps calculates changing interest rates, for example, go back to the 1974 Water Resources Development Act (WRDA).

But there are clearly things the Corps can do to better capture the proper value of waterways projects to the nation, the report argues. The Corps focuses narrowly on transportation cost savings, but other federal agencies commonly consider a wider range of societal benefits. The report compares the way the Corps considers benefits with the practices of the Bureau of Land Management, the Environmental Protection Agency, and the Department of Transportation's TIGER grant program (renamed BUILD). The TIGER program uses a number of factors in calculating benefits that the Corps does not.

Discussing the Chickamauga Lock and Dam Feasibility Report, the report argues, "The manner in which costs and benefits are presented makes it virtually impossible for the reader to understand whether they are reasonable or not." It suggests that tables showing the costs and benefits by year would better enable readers to understand them.

Developments like the rapid growth of fracking—which resulted in both booming liquids cargoes and the equally rapid decline of coal barge-loads—can completely change the basis for calculating the costs and benefits of a lock and dam or waterway. A given waterway or lock can show a fall in numbers of tows transiting. But if many more of those tows are pushing petroleum products instead of coal, the value of those tows (and therefore the potential benefit of that particular lock or waterway to the nation) is increasing. Present formulas do not do enough to capture those factors. In effect, that shortcoming unfairly depreciates the future benefits of a project.

The report also argues that the Corps should evaluate projects already underway differently from how it evaluates new or proposed projects, using a formula it calls Remaining Benefit-Remaining Cost (RBRC) that takes better account of the sunk costs already invested in a project.

This informative, well-supported report is timely and deserves a wide readership among members of Congress and their staffs—and at the Office of Management and Budget, which is still working on its review of Corps project delivery practices.