

Statement of Peter Stephaich
on behalf of
Waterways Council, Inc.
before the
Subcommittee on Water Resources and Environment
Committee on Transportation and Infrastructure
U.S. House of Representatives
April 16, 2013

Chairman Gibbs, Ranking Member Bishop, and Members of the Subcommittee, thank you for the opportunity to testify before you today on the topic of “Foundations for a New Water Resources Development Act”. My testimony will focus on the importance of water resources development legislation, the fact that our current approach for modernizing the Nation’s locks and dams is fundamentally broken, and the need for adoption of the Capital Development Plan to address this situation.

As Chairman of Campbell Transportation Company, I am the chief executive officer of a fully integrated marine service provider headquartered near Pittsburgh, Pennsylvania. Campbell operates 40 towboats, 500 barges, four shipyards/repair facilities, and a fabrication shop at two locations on the Ohio River and two on the Monongahela River. I am also a member of the Board of Directors and the Executive Committee and am the Secretary of Waterways Council, Inc. (WCI or Waterways Council). Waterways Council is the national public policy organization that advocates in support of a modern and well-maintained system of inland waterways and ports. Our diverse members include waterways carriers, shippers, agricultural interests, port authorities, trade unions, shipping associations and waterways advocacy groups from all regions of the country.

At the outset, allow me to say how pleased WCI is to be able to continue this dialogue with the Subcommittee. Over the past few Congresses, Waterways Council or our member companies have been privileged to testify on a number of occasions about the importance to the Nation of our inland waterway system and the serious modernization challenges facing that system.* My testimony today should be viewed in the context and as a continuation of that earlier testimony. Our message is straight-forward and, we believe, compelling: The Nation's inland waterways system, a pillar of this country's economic and social progress for two centuries, is in need of significant modernization investment, and the Capital Development Plan, jointly formulated by navigation experts from the U.S. Army Corps of Engineers and the inland waterway industry, is the way for that investment to proceed.

ANCHORED IN THE CONSTITUTION

When the Transportation and Infrastructure Committee met for its organizational meeting earlier this year, Chairman Shuster reminded everyone present about the central role that the inland waterway system has played in our Nation's history. From this country's earliest days, even before our Constitution was adopted, the inland waterways system was recognized as a priceless asset and a matter of fundamental federal responsibility and stewardship. The authors of our Constitution anchored the federal government's preeminent role in regulating navigation, both inland and coastal, in Article 1 Section 3's commerce clause, Article 1 Section 9's prohibition of preference among ports, and elsewhere in that seminal document. One of the first Congress' first

*See, for example, testimony before the Subcommittee on Water Resources and Environment of Stephen D. Little (April 30, 2008, April 15, 2010, and September 21, 2011), Michael J. Toohey (September 21, 2011), Mark Knoy (April 18, 2012), and Martin Hettel (April 18, 2012).

actions was enactment of legislation providing for federal upkeep of the new Nation's navigational aids. The U.S. Supreme Court has repeatedly upheld the federal government's preeminent role with respect to our waterways.

Congress has exercised its role in regulating and setting policy for the Nation's waterways through various legislative enactments over the years. In the previous century, periodic "Rivers and Harbors Acts" or "Flood Control Acts", which predominated in the first half of the century, were replaced by "Water Resources Development Acts" in more recent times. By whatever title - - Rivers and Harbors Act, Flood Control Act, or Water Resources Development Act -- Congress has consistently provided direction to the Executive Branch on how to properly use and how to protect our waterways for the benefit of the country.

WRDA IS NEEDED...NOW!

It has now been almost six years since the most recent Water Resources Development Act became law. Important water resources policy decisions are pending before this 113th Congress, and none is more important in Waterways Council's view than the need to re-design the way the U.S. Army Corps of Engineers manages the planning and construction of lock and dam modernization projects on the inland waterway system.

Because of our natural geographic bounty as well as the special foresight and enlightened investment decisions made by generations who preceded us, our nation is blessed today with the world's preeminent inland waterway transportation system. That system is made up of

approximately 12,000 miles of commercially active inland, including intracoastal, waterways. Of this total, nearly 11,000 miles comprise the “fuel-taxed portion” of the system, on which commercial operators pay a diesel fuel tax that is deposited into the Inland Waterway Trust Fund. This tax pays for half the cost of new construction and major rehabilitation of the fuel-taxed waterways’ infrastructure, principally, locks and dams.

Nationwide, according to the U.S. Army Corps of Engineers, the fuel-taxed waterways include 207 lock chambers at 171 sites on 27 statutorily-designated inland rivers and intracoastal waterways system segments. The locks and accompanying dams allow users of all types, commercial and recreational, to stair-step their way through the system while being assured that the depths that those users require will be available as needed. Recreational users do not pay the diesel fuel tax that goes into the Inland Waterways Trust Fund.

Beyond enabling commercial and recreational transportation, the inland waterways system aids in flood control, enables a stable water supply for nearby communities and industries, provides hydroelectric power, offers recreation such as fishing and water sports, provides regional economic development opportunities, and enhances national security capabilities. Unlike commercial users, none of the other beneficiaries of the inland waterway system pays a fee to support modernization of the system.

While America’s inland waterway system is the best in the world, it is not without challenges. Our country’s international competitors have major efforts underway to enhance their own systems. More than half of the portion of the system that is operated by the Corps of Engineers is

now more than 50 years old. Some system segments, particularly the older portions located on the Upper Mississippi, Illinois and Tennessee Rivers, are sustained by outdated 600-foot-long locks that are unable to accommodate today's standard 15-barge tows without engaging in the inefficient and potentially dangerous procedure of "breaking" the tow into two sections in order to pass through the lock. These locks and dams require constant attention and financial support, both in terms of operations and maintenance funding to keep them reliably available to users throughout the year, as well as modernization funding to improve the system's efficiency and add to the nation's economic well-being and standard of living.

THE CURRENT APPROACH IS BROKEN!

Mr. Chairman, allow me to emphasize a key point made in earlier testimony before this Subcommittee by other witnesses representing the inland waterway industry. **The starting point for consideration of the financing and management challenges facing the inland waterway system must be recognition that the current business model for modernizing the nation's locks and dams is seriously broken and must be reformed.** As a nation, we seem to have lost the ability we once had to plan and construct individual inland waterway capital projects in a timely and cost-effective fashion.

Three short examples of current or recent travesties on the inland waterways illustrate this point.

McAlpine Lock and Dam. At Louisville, KY, a modern (1200-foot-long, 110-foot-wide) lock and dam project was constructed and placed in operation in 3 years, from 1959 to 1962. Four

years ago, in May of 2009, a second identical new 1200-foot-long, 110-foot-wide auxiliary lock was dedicated adjacent to the existing 1200-foot-long McAlpine Lock. The new lock took fourteen years to complete, more than four times as long as it took to complete the original project at the same location.

Olmsted Lock and Dam. Initial construction funding was provided by Congress in fiscal year 1991 for this Ohio River lock and dam replacement project that had been authorized by Congress three years earlier in WRDA 88 at an estimated cost of \$775 million. Today, 22 years after that first appropriation for construction and with \$1.5 billion already spent, the project is nowhere near completion and its estimated cost has almost quadrupled to at least \$3.1 billion. Even if the project continues to receive every year what the Corps calls “full and efficient funding”, as has been the case for years now, the Corps has estimated that Olmsted’s construction won’t be completed until late 2024, more than 33 years after the project’s first construction appropriation.

Lower Monongahela River Locks and Dams (also referred to as “Locks and Dams 2,3, and 4, Monongahela River, Pennsylvania”). This lock and dam replacement project was authorized by Congress in WRDA 92 at an estimated cost of \$556.4 million. Construction began in fiscal year 1995 and was projected then to be completed in December 2003. Today, twenty-one years after the project’s authorization and eighteen years after its construction began, \$532 million has been allocated to the project (through December 2012), but \$1.2 billion more is still needed to complete what the Corps now estimates will cost \$1.7 billion, an amount which can only be achieved if the project receives “full and efficient funding” every year going forward from today, which itself is an impossibility if Olmsted continues to receive the lion’s share of Inland

Waterways Trust Fund resources for the next ten years until its completion. At this point, if something isn't done to rectify the situation, it appears that the Lower Mon project's construction won't be completed until the early to mid-2030's at a cost exceeding \$2 billion. Forty years after the project's construction began!

Now, let me put this into context.

- The seven lock and dam modernization projects that were authorized throughout the country in WRDA 86 all were operational in a period of 4 to 8 years, with the average for all seven projects equaling 6.3 years.
- The entire Tennessee-Tombigbee Waterway project, the largest earth-moving project in history, saw all ten individual locks and dams and a 280-foot-wide channel spanning 234 miles be built in only 12 years from 1972 to December 1984, 21 months ahead of schedule.
- Following their 1930 Congressional authorization, 26 individual locks and dams on the Upper Mississippi River were built and placed in operation in the ten-year period that ended in 1940.
- Similarly, after being authorized in 1930, seven locks and dams were completed and opened to navigation on the Illinois River between its confluence with the Mississippi River and Chicago in a ten-year timeframe.

- All five new locks and dams on the Red River Waterway and the 225-mile-long navigation channel linking Shreveport-Bossier, LA to the Mississippi River were completed in the 21 years between 1973 and 1994.

Mr. Chairman, I can't say it better than last year's testimony of my friend and inland waterways colleague Mark Knoy. Where is the outrage? Where is the recognition that this great Nation cannot continue to sit idly by while the Olmsted travesty essentially stops progress on the rest of the national inland waterways modernization program for more than another decade? Where is the commitment to address this situation now, without further delay and without billions of dollars more in economic benefits to the Nation being washed down the river?

SOLUTION: CAPITAL DEVELOPMENT PLAN

There is a solution to this challenge, Mr. Chairman, that WCI and more than 200 organizations nationwide believe will set the country on a course of prudent modernization of our locks and dams. That solution, known as the Inland Marine Transportation System Capital Projects Business Model, or "Capital Development Plan" for short, was developed by a team comprised of experts from within the Corps and senior leaders of the inland waterway industry who spent nearly a year and a half addressing this challenge. We in industry undertook the mission of trying to formulate a consensus-based solution both because we know at our core how important the matter is and because you in Congress challenged us to do it. In developing the Capital Development Plan, we followed the team-based approach suggested to us by the Corps of

Engineers. The Corps-Industry team produced an extensive report that was unanimously adopted by the Inland Waterways Users Board on April 13, 2010 and transmitted to the Assistant Secretary of the Army for Civil Works and the Congress. This report lays out a comprehensive solution to our inland waterways infrastructure challenges and includes the following major features:

- A \$7.6 billion 20 year program (\$380 million/year) Capital Investment Program. On average, the industry would contribute \$110 million per year and the federal government would contribute \$270 million annually.
- A prioritized list of projects with an emphasis on finishing projects already underway and ensuring that funding is available to efficiently fund work.
- Future Corps estimates for project costs must have a confidence level of at least 80%.
- The Cost share for lock construction would remain 50-50, industry-federal. Major rehabilitation costs would be 100% federal unless greater than \$100 million, in which case they would be cost shared 50-50, industry-federal. The current threshold of about \$14 million is too low and can result in routine operations and maintenance items being cost shared with the industry thereby straining the Trust Fund and functioning in a way that is contrary to Congressional intent that O&M should be a 100% federal obligation.

- The Cost share for dam construction would be 100% federal instead of the current 50-50 cost share. As mentioned earlier, there are many beneficiaries of dams (water supply, electric utilities, recreation, etc.) but only inland navigation users are currently required to pay for part of the construction cost.
- Industry's exposure for project costs would be capped at 50% of the inflation-adjusted level set in a project's authorization document in order to protect industry from unreasonable cost increases and project delay (ex. Olmsted) and to incentivize the government to complete projects within budget.
- The industry's diesel fuel user fee would be increased by 30-45%, from the current 20 cents per gallon to 26 to 29 cents per gallon.
- Improvements would be made in the Corps of Engineers' project management and processes to better deliver completed modernization projects on time and within budget.

In the 113th Congress, the Capital Development Plan has been converted into legislation and introduced by Congressman Ed Whitfield (R-KY) and Congressman Dan Lipinski (D-IL). H.R. 1149, the Waterways are Vital for the Economy, Energy, Efficiency, and Environment (WAVE-4) Act of 2013 now has 10 bi-partisan cosponsors in the House of Representatives and has been endorsed by WCI and more than 200 organizations. We thank Congressmen Whitfield, Lipinski, and the other WAVE-4 cosponsors for their leadership and urge the members of this Committee

and the entire U.S. House of Representatives to support moving the Capital Development Plan forward in the Water Resources Development Act legislation you are developing.

COST OF FAILURE TO ACT

Mr. Chairman, suppose our country continues to ignore this situation? Suppose we continue to pretend that our locks and dams don't need to be cared for, that it doesn't matter how long it takes to build a new lock and dam project or how much it costs, or that our national economy doesn't really need the increased efficiencies that modernized projects will generate? Does any of that matter?

Two recent studies remind us, once again, that it matters a great deal.

Six months ago, the American Society of Civil Engineers (ASCE) released a new report on our national infrastructure, *Failure to Act: The Economic Impact of Current Investment Trends in Airports, Inland Waterways, and Marine Ports*. The ASCE report makes recommendations for repairing the broken financing model and paints a grim picture of our transportation future if we fail to act quickly. The report identifies a severe investment gap totaling \$16 billion between now and 2020. U.S. Companies shipping goods to market will experience congestion and delays, leading to higher transportation costs, causing the price of goods to rise. As the price of U.S. goods rises, we become less competitive in the global marketplace. According to the report, there will be an estimated \$270 billion decrease in U.S. exports by 2020. Roughly \$1.3 trillion in business sales will be lost and our Gross Domestic Product (GDP) will plummet by a total \$697

billion as a result. At a time when job creation is vital for the country's economic recovery, this suggests the lost opportunity to create 738,000 jobs in 2020 and a disposable personal income hit of \$770 per year for each household.

Another report that preceded the ASCE report by a few months reached similar unacceptable conclusions. Titled *Cost of Project Delays: An Estimate of Foregone Benefits and Other Costs Related to Schedule Delays of Inland Waterways Projects*, the report was prepared for the National Waterways Foundation by HDR/Decision Economics "with a view to better understanding the societal cost imposed by chronic delays and schedule shippages of inland waterways projects." Among the conclusions reached by the HDR report was that continuation of the current inadequate \$170 million per year investment for inland waterway modernization projects nationwide would result in a societal cost of \$34 billion, much of which has already been lost.

The situation must be addressed! We cannot continue to pretend that failing to act to remedy this problem is an acceptable approach. We need the Capital Development Plan now!

Mr. Chairman, I'd be pleased to respond to any questions you or the Subcommittee Members have. But before I do, may I pose a few for all of us to consider?

First, why wouldn't all of us want to invest today in protecting and modernizing our inland waterway system infrastructure, which every year returns to the Nation's economy more than 10 times what we spend on it?

Second, in our ever-more-competitive global economy, where our Nation's economic competitors are investing vast sums to improve their transportation networks and waterway infrastructure, why would we in the United States knowingly allow our inland waterway system to continue to deteriorate?

And finally, what is it that makes it so difficult for Americans today to see what was so clear and compelling to our parents and generations of parents before them, that for this great Nation to have a future we must invest today and every day in its wealth-producing capacity, one pillar of which is and always has been our inland waterway system?

That concludes my testimony, Mr. Chairman. Thank you for giving me this opportunity to express these views.

PETER H. STEPHAICH

Peter H. Stephaich is currently Chairman, CEO and President of Blue Danube Incorporated. He joined the company in April 1995. Mr. Stephaich is also on the Board of Directors of Blue Danube, a position that he has held since 1982.

Blue Danube Incorporated is a closely held, private, holding company, based in Pittsburgh, PA, that is engaged in the river transportation industry on the Ohio River. Blue Danube owns Campbell Transportation Company which employs a total of approximately 450 employees, owns and operates 40 boats and approximately 500 barges, and owns four shipyards. For more information, go to: www.barges.us.

Mr. Stephaich also serves in a number of advisory capacities in other family-related businesses. These primary responsibilities include money management and real estate developments in both the United States and abroad.

Prior to moving to Pittsburgh in 1995, Mr. Stephaich lived in Europe and New York City where he worked for various financial institutions, including Lazard Freres, and four years at Bankers Trust Company. At Bankers Trust, Mr. Stephaich concentrated on international financial advisory work, mostly in the transportation and aerospace industries.

Mr. Stephaich is Immediate Past Chairman and serves on the Board of the American Waterways Operators. He also serves on the Board of the National Waterways Foundation, on the Board and Executive Committee of Waterways Council, Inc., and is a Commissioner and Vice Chairman of the Port of Pittsburgh Commission. He is also Chairman of the Allegheny Institute for Public Policy and is a Trustee of the Landmarks Financial Corporation.

A native of New York City, Mr. Stephaich earned his bachelor's degree from Middlebury College and his M.B.A., with a major in finance, from New York University. Mr. Stephaich has lived and traveled extensively abroad and speaks five languages. He has two daughters and currently lives in Pittsburgh, PA.

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
Truth in Testimony Disclosure

Pursuant to clause 2(g)(5) of Rule XI of the Rules of the House of Representatives, in the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include: (1) a curriculum vitae; and (2) a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by an entity represented by the witness. Such statements, with appropriate redaction to protect the privacy of the witness, shall be made publicly available in electronic form not later than one day after the witness appears.

(1) Name:

PETER H. STEPHANICH

(2) Other than yourself, name of entity you are representing:

WATERWAYS COUNCIL, INC.

(3) Are you testifying on behalf of an entity other than a Government (federal, state, local) entity?

YES

If yes, please provide the information requested below and attach your curriculum vitae. *Waterways Council, Inc. received no federal grant or contract in the two previous fiscal years.*

NO

The information below is applicable to CAMPBELL TRANSPORTATION COMPANY, INC.

(4) Please list the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by you or by the entity you are representing:

1 - MARITIME ADMINISTRATION	\$ 1,232,135.00
2 - MARITIME ADMINISTRATION	\$ 2,973,750.00
3 - MARITIME ADMINISTRATION	\$ 365,115.00
4 - EPA - Port of Pittsburgh	\$ 374,044.00
5 - AREA MARITIME SECURITY COMMITTEE / Port of Pittsburgh	\$ 264,198.00

Peter H. Stephanich

April 12, 2013

Signature

CHAIRMAN

Date

CAMPBELL TRANSPORTATION COMPANY, INC.