



April 5, 2010

Via Web Form

Terry Breyman
Associate Director of Natural Resources
Council on Environmental Quality
722 Jackson Place, N.W.
Washington, D.C. 20503

Re: Comments on the Draft Principles and Standards Sections of the "Economic and Environmental Principles and Guidelines for Water and Related Land Resources Implementation Studies"

Dear Mr. Breyman:

Taxpayers for Common Sense (TCS) appreciates the opportunity to provide comments to the Council on Environmental Quality on the Proposed Principles and Standards Sections of the Economic and Environmental Principles and Guidelines for Water and Related Land Resources Implementation Studies (the proposed P&S).

As an organization that works for better management of taxpayer resources, TCS has long advocated for a federal water policy that ensures a modern, economically efficient, and appropriately limited role for the federal government in the management of water resources. The proposed P&S represent an opportunity to move toward such an improved federal water policy.

TCS supports many of the praises and criticisms of the proposed P&S submitted by a diversity of conservation, budget, and governance groups. TCS submits our separate comments to bring attention to a few particular points critical to making federal water policy work in the interests of all American taxpayers.

The federal government's primary role in water resource management should be to provide leadership in facilitating projects and policies that reflect a comprehensive and coordinated national vision. As such, the proposed P&S must establish a framework for effectively addressing the nation's water resource needs while promoting accountability, modernization, prioritization, and equity.

I. Proper Calculation of Benefits and Costs

While the proposed P&S takes a positive step in requiring an accounting of both quantifiable and non-quantifiable benefits and costs of proposed policies, it is lacking in specificity for policies and projects proposed for expressly economic considerations, such as navigation, flood plain management, and disaster mitigation. Projects that are primarily undertaken because of economic considerations must provide a significant return on investment for taxpayers.

II. Benefit-Cost Analyses must account for true costs and benefits

Proper calculation of benefits and costs associated with proposed projects is integral to ensuring better management of taxpayer resources. History has shown interested parties and agencies have not always used the proper methods or most up-to-date tools in calculating benefits and costs. There are a number of steps all agencies must take in calculating costs and benefits of proposed projects and policies:

a. Use of modern accounting methods

In too many cases the Army Corps of Engineers (Corps) has avoided easily calculable costs. For instance, the Corps assumes optimal project funding (every dollar is available when it is time to be spent) when calculating benefits and costs of projects. In reality, the Corps has rarely, if ever, received optimal funding – this in turn increases project costs and delays project benefits away from those that justified authorization.

b. Use of the proper discount rate

By law, the Corps uses a flawed discount rate formula set in 1974 for its benefit-cost analyses, which today leads to inaccurate and faulty assessments of project justifications. The discount rate is based off of the rate for Treasury bonds and is designed to adjust slowly. No one believes Corps projects are as safe a risk as Treasury bonds and the slow adjustment means that the discount rate may at some point actually fall below the Treasury rate. The discount rate should be set by the Office of Management and Budget.

c. Contemporary Economic Modeling

Analyses of projects and policies must be based on the most up-to-date economic information. Calculations based on data developed years or even decades in the past must be reevaluated in light of changing tools, needs, and economic developments.

d. Account for Lifetime Costs and Benefits

The entire lifetime costs, from construction, maintenance, through decommissioning, must be included in cost-benefit analyses.

e. Analyses Must not be Conducted in a Bubble

The nation's water resources are a part of an integrated system. Cost-benefit analyses must account for this interconnectedness. Projects performed in one location inevitably affect resource use in other areas, be it upstream, downstream, in nearby ports, etc. For instance, the Corps has consistently rejected conducting a multi-port analysis for any deepening project arguing that traffic shifts are not included in the justification. This ignores the economic reality that traffic is relatively elastic, and shifts that affect investment must be taken into account.

f. Use of Proper/Reasonable Assumption for Benefits

The proposed P&S must ensure the stated benefits of a project are reasonable. Too often proponents of projects and policies promise benefits that, when held up to scrutiny, fail to hold water.

g. Reevaluation and Accountability

Throughout construction and operation, benefit-cost analyses must be reevaluated to ensure the promised costs and benefits come to realization. These lessons learned must be applied to future projects and should affect a projects continued operation or future investments.

III. Non-Structural Alternatives Should be the Default

In many cases non-structural approaches are the most efficient, economical, and beneficial means of approaching water resource management. Especially in a time with such major fiscal constraints, where feasible, non-structural solutions should be the default.

In proposing alternatives, agencies must include alternatives, structural and non-structural, that could be implemented by other agencies, governments, or interested parties. Agencies have limited scope, authority, and tools. Limiting proposed alternatives to only those that an individual agency can bring to bear, excludes tools and expertise of other actors and can lead to unnecessary, overly expensive, or ill-conceived projects and policies.

Specific examples of where a problem could be better addressed by looking beyond a single agency:

- a. Upper Mississippi River Navigation – The National Academy of Sciences review of the lock expansion project consistently called for the Corps to examine non-structural measures such as scheduling and lockage fees. However, the Corps rejected these approaches in the analysis because they were outside their purview.
- b. Improvements at Ports – When looking at federal investments at ports to improve their efficiency and throughput the Corps only considers channel deepening. In reality that same amount of federal spending could have greater efficiency and economic benefits through intermodal and land side investments.
- c. FEMA buyouts – In many cases a partnership with FEMA or other agencies to buy high risk properties may be a more cost-effective approach to flood damage reduction than structural solutions.

IV. New Principles and Standards Need to Cover All Projects

Many projects constructed or initiated under the existing Principles and Guidelines may not meet the requirements of the revised Principles and Standard. All projects authorized but not yet constructed must be reevaluated in light of the revised principles and standards to ensure the project continues to meet the needs.

Continued operations and maintenance activities also must be reevaluated to ensure they align with the revised principles and standards.

Thank you for your interest in our comments and for your work in drafting the revised Principles and Standards. The P&S can provide an equitable, sustainable and cost-effective framework to lead the Corps into being a more accountable, modern agency that prioritizes and meets critical water resources needs without breaking the bank.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steve Ellis". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Steve Ellis
Vice President
Taxpayers for Common Sense