



DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
WASHINGTON, D.C. 20314-1000

REPLY TO
ATTENTION OF:

CECW-PC

18 Dec. 2002

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (CIVIL WORKS)

SUBJECT: Findings of the U.S. Army Corps of Engineers, Comprehensive Reanalysis of the Delaware River Deepening Project

1. This memorandum is in response to the June 2002 General Accounting Office (GAO) report (GAO-02-604) entitled "Delaware River Deepening Project: Comprehensive Reanalysis Needed." In accordance with your directions and agreement with GAO, the U.S. Army Corps of Engineers conducted a comprehensive reanalysis of the authorized project to determine whether the proposed project is economically justified and that it accurately and fairly represents the expected benefits and costs.

2. BACKGROUND

a. GAO Audit. At the request of Senators Corzine and Torricelli and Congressman Andrews, GAO commenced a review in July 2001 of the project's benefits, costs, and environmental aspects. GAO conducted an exit brief on 22 April 2002 and presented information that questioned the adequacy and appropriateness of the economic analysis as the basis for the Department of the Army to proceed toward implementation of the project. Based upon this information, I suspended negotiations on the Project Cooperation Agreement (PCA) and all activities leading to construction. On 29 May 2002, you were briefed on the Corps review of the draft GAO report and provided the Department's response to GAO. You concurred with GAO's recommendations on the need for a current and comprehensive reanalysis of the project's benefits and costs be conducted, to include engaging an external independent review panel to ensure that it accurately and fairly represents expected benefits and costs of the proposed project. The GAO report was released on 10 June 2002 and included your 29 May 2002 response.

b. Reanalysis of Benefits and Costs. An economic reanalysis was commenced by the Philadelphia District Engineer under contract with the economic consulting firm of David Miller and Associates and completed on 4 December 2002. The reanalysis was an entirely new analysis of the costs and benefits of the authorized 45-foot project which included development of new economic models, historic vessel traffic and port development information, and new commodity forecasts. This effort included an indepth crude oil and container analysis representing these primary benefit categories, as well as critical sensitivity analyses of these and other commodities. The North Atlantic Division provided continued oversight of the reanalysis and continuous quality

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assurance. The Division arranged independent technical review (ITR) of the benefit analysis, which was provided by Dr. Michael Bronzini. Similarly, ITR of the cost analysis was provided by Moffatt-Nichols, a consulting engineering firm.

c. External Independent Review. I engaged the firm of Planning Management Consultants Limited (PMCL) to establish a panel of experts to conduct the external independent review of the Philadelphia District Report. PMCL constituted a panel of navigation and economic experts to perform the review. The panel members consisted of Dr. John Boland, Professor of Environmental Economics of Johns-Hopkins University; Dr. Ken Casavant, Professor of Agricultural Economics, Washington State University; and, Dan Smith, expert in navigation economics and principal of the Tioga Group.

3. Findings and Discussion. The 4 December 2002 report of the Philadelphia District finds the authorized 45-foot project to be economically justified. The reanalysis identifies \$24.7 million in annual benefits and \$20.9 million in remaining annual costs, with a resulting benefit-cost ratio of 1.18 at 5-7/8 percent discount rate. The district's report represents the final report for the project and takes into account all prior ITR, HQUSACE comments, and comments in the 15 November 2002 report by the external independent review panel. The Policy Compliance Support Branch in the Planning and Policy Division, Directorate of Civil Works has prepared the final documentation of review for the proposed project.

The following are the documents that have been prepared under the comprehensive reanalysis and constitute the full record of HQUSACE review:

- a. Philadelphia District Report dated 4 December 2002.
- b. North Atlantic Division Endorsement dated 9 December 2002.
- c. External independent review report dated 15 November 2002.
- d. HQUSACE Documentation of Review dated 17 December 2002.

Appendix A contains the GAO Audit Report dated June 2002. Appendix B contains the comprehensive reanalysis which and the HQUSACE review record includes items a.-d. above. The HQUSACE Documentation of Review-provides the formal audit trail for identification and resolution of HQUSACE and external independent review panel comments during the review process. The Documentation of Review is organized by Issue (keyed to either HQUSACE or external independent review panel comment originator); Philadelphia District Response; and completed HQUSACE assessment of the response. All issues have been satisfactorily resolved as documented in Appendix B.

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4. Recommendation. It is recommended that you approve this memorandum as the complete documentation package for the economic reanalysis performed by the Department of the Army in response to the GAO audit and as the basis to re-institute discussions with the State of Delaware and New Jersey on permit actions. Furthermore, it is recommended that the letter at Appendix C be transmitted to GAO for their information to include a complete copy of this memorandum and its appendices. It is additionally recommended that a copy of your letter to GAO and a complete copy of this memorandum and appendices be placed on the web-site of the Corps for review and use by the public and all interested parties.

FOR THE COMMANDER:



Encls

ROBERT H. GRIFFIN
Major General, USA
Director of Civil Works