CAPITALIZING ON A PERPETUAL ASSET

The Seaway is a vital economic asset that needs the capital investment essential for future generations

The St. Lawrence Seaway Power Project was singled out a few years ago as one of the North America's top 10 public works projects of the 20th century by the American Public Works Association. Built in the mid- to late-1950s, the 'billion dollar' project as it was then dubbed by the media, realized a century long dream by visionaries to connect the continent's heartland with world markets.

Almost half a century later, the commercial navigation component of the Seaway Project has delivered a positive return on investment. It has served as a gateway for trade, transporting more than 2.3 billion tons of cargo worth roughly $300 billion through the seven 'new' locks and the eight older ones at the Welland Canal. It has served as an indispensable component of our transportation system, especially for bulk and breakbulk commodities that are essential components for manufacturing, construction and agricultural industries between the world's largest trading partners.

The achievements, however, mask a significant shortcoming that needs to be acknowledged and addressed with minimal delay: a failure to renew capital investment over time. When I was sworn in as Administrator in late September 2006, the U.S. Seaway's budget for fiscal 2008 had already been completed and approved by the Secretary, the Office of Management and Budget, and Congress. Months later, when preparing for the 2009 budget, I focused on the capital and operations and maintenance (O&M) funding mechanisms for the Saint Lawrence Seaway Development Corporation (SLSDC). In that process, I discovered a fundamental problem with the Seaway funding model, a flaw which our Canadian partners suffered from for many years, but which they fixed in the mid-1990s. This shortcoming is still plaguing the U.S. Seaway. Unless remedied, it could result in dire consequences.

Like bridges, tunnels, pipelines, subways and similar infrastructure, the Seaway is what is known in finance circles as a "perpetual asset." That is, when the assets that make up the Seaway reach the end of their useful life, they are not discarded. Rather, during the course of their useful life, the assets are renewed through periodic capital investment, so that at the end, they have been rehabilitated and rebuilt. Their cycle of life can then begin all over again.

The planned life of the Seaway's locks built by the U.S. Army Corps of Engineers and related equipment supporting them were designed to provide safe, reliable service for approximately 50 years. Built in the 1950s and opened for business in April 1959, the two U.S. Seaway locks (Eisenhower and Snell) and related infrastructure are fast approaching the end of their useful lives. Ideally, over the last five decades one would have seen recurring capital investment in Seaway infrastructure to assure its status as a perpetual asset. What I have found, however, to my surprise, is that throughout its entire history the U.S. Seaway has never had a capital account independent of its O&M expenses. The Seaway has never received the capital required to adequately renew its infrastructure assets.

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SOURCE: SLSDC

The Canadian model. In the 1990s, the Canadian government instituted major reforms for the St. Lawrence Seaway Management Corporation (SLSMC). It created a User Board to oversee management of the corporation. More importantly, it formalized the SLSMC's funding model. Under the new model, tolls received by the corporation would be used to fund O&M expenses. Capital costs would be paid by the government annually, based on rolling five year capital plans negotiated with the corporation.

Corporation officials anticipate that this year toll revenue will be approximately C$60 million while the capital contribution from government will reach approximately C$50 million, a ratio of capital to O&M expense of almost 1:1. By contrast, last year the SLSDC's "capital" budget was $800,000 and O&M was approximately $17 million, a ratio of capital to O&M expense of 1:20.

Lessons learned. It is a known and self-evident fact that it is simply not possible to safely maintain the Seaway in the future through O&M expenses alone and without a robust capital account. As proof, one needs only to look at the Canadian experience with the locks at the Welland Canal, which were completed in 1932. From the beginning, the Welland received funding only from tolls—in other words, only enough to pay for O&M expenses. There was no capital account, and therefore no spikes of capital investment in the system. Fifty years later—at the end of its useful life—one of the locks suffered a catastrophic failure, collapsing onto a ship, shutting down Great Lakes shipping for almost a month and triggering a host of lawsuits and political repercussions. Failure to learn the lessons of history condemns one to potentially repeat them.

The Seaway is too vital an economic linchpin to our economic security to fail to accord it essential investment for future generations.

We need to state loudly the message that time has proven to be true: the Seaway is too vital an economic linchpin to our economic security to fail to accord it essential investment for future generations. We owe this to our customers, stakeholders and employees. We are doing our utmost to correct what is clearly an untenable situation, one that can only degrade with time.

If we at the U.S. Seaway are to avoid a similar fate, we must solve the problem of years of neglect and a non-existent capital account. We owe this to our President, to the Department of Transportation, to our customers and stakeholders, to our employees.

The funding model we have now is both unsustainable for our infrastructure and potentially unsafe for our employees and customers. That is why we are working hard to resolve the problem. ■

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