

Q&A: USACE Infrastructure Strategy: UIS Overview and P3 Review

Planning Community of Practice Webinar

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Moderated by Camie Knollenberg, Planning Community of Practice

This March 3, 2016 webinar is part of a series of information-sharing webinars hosted by the U.S. Army Corps of Engineers Planning Community of Practice. In this webinar, Mr. Edward Belk described the USACE Infrastructure Strategy (UIS), public-private partnerships, and how they can be a funding opportunity for USACE. For more information on Planning training opportunities and options, visit the [Community of Planning Toolbox](#).

For more information on the USACE

Infrastructure Strategy and P3/P4, the Alternative Financing SharePoint site can be viewed (with a CAC) at: <https://team.usace.army.mil/sites/IWR/PDT/altfin/default.aspx>

There's also a Corps intranet site on Alternative Financing (as part of Civil Works Transformation) with additional information: <https://intranet.usace.army.mil/lrd/CWT/Pages/default.aspx>

The O&M budget is less than 1% of infrastructure value. What's the depreciation rate for Corps-maintained infrastructure?

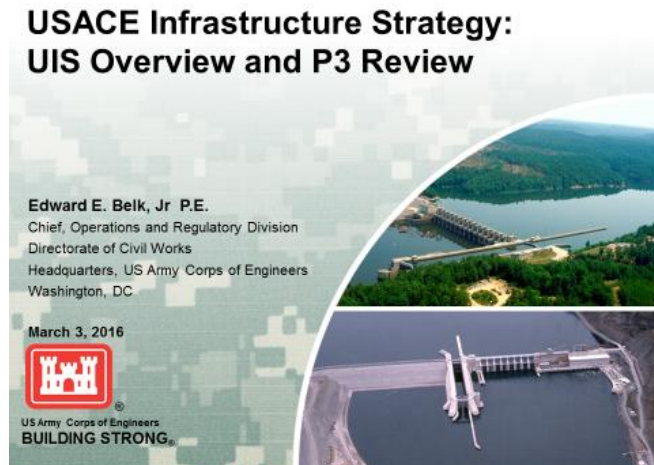
USACE uses a straight depreciation method. Basically, the value of the asset is expensed over the useful life of the asset. For example: \$10 asset, 10 years of useful life, \$1 depreciation a year - except we do depreciation monthly so we take the 10 years and multiple it by 12.

Do you think the Corps can be sustainable without a consistent reinvestment revenue stream to maintain our infrastructure and ecological assets?

That's the conundrum that we're working with. Every federal agency and most public and private sector folks who do infrastructure are all struggling with the reinvestment challenges. On older projects, where the focus has been on maintenance, now we're looking at recapitalization. That introduces another large requirement. I think our approach to the USACE Infrastructure Strategy is one way to get at it: looking at it with divestiture; streamlining our ability to use contributed funds from partners; public-private partnerships. All those things together collectively are our response.

How can we help create new flood risk management P3s, and generate interest and momentum in a community to pursue such possible future success stories?

I think it begins with the community platform. The reason the Fargo Moorhead project happened was because that region was one spring away from total devastation, and the cost to rebuild after this event



would have been billions of dollars. They simply couldn't wait. Their benefit cost ratio was not competitive for the budget, but there was federal interest, a BCR over 1, and P3 offers an opportunity to move that type of project along.

I think the other sweet spot is going to be projects that are in the budget and already authorized. P3 can be a way to build a project in five or six years, rather than 15 or 20 years. There's a value proposition there that a sponsor might consider even though they are already in the budget.

We also have a Share Point site with a lot of products to help you with screening, to help you learn how to sell P3 - P4. And so I would recommend that to you as you have discussions with partners on whether or not a P3 tool is worth considering.

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There's also an intranet site with relevant information:

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How does private financing fit in with SMART Planning? It seems USACE is moving more toward single purpose projects, which would tend not to draw private investment.

The intent really isn't to have more single purpose projects. We have an imperfect way to value multi-purpose projects in terms of formulation and investment decisions, but there's still value in them.

The Corps and the sponsor owns what the project will be and what the outcome will be. The private sector will determine if it's investment-worthy. P3s can be more attractive for multi-purpose projects, because multi-purpose projects allow more diversity in your ability to cover risk.

What return do private partners need to want to participate in PPP? What assurances exist to reduce uncertainty on that return?

There are billions of dollars waiting for investment, big hedge funds and retirement funds looking for long-term returns with low to moderate risk. There is a risk profile they're interested in, and that's some of the due diligence that's required when you look at a P3 transaction. Risk will need to be quantified for everything: market risk, weather, political risk. All of this is included in a Monte Carlo type simulation. The risk analyses are very exhaustive and robust but this is important because this helps investors get comfortable making an investment over the long term.

What will be the role of USACE Engineering in P3 projects?

P3 transactions do not unplug the Corps from project delivery. We're still going to be doing, or can do, engineering and design, construction, and operation and maintenance. But we could not do those in some areas – it all depends on the project. Engineering will still have a role, because federal equities have to be protected and assured. It may be a different role – it might not be design, maybe it's design oversight, maybe its quality assurance.

USACE's roles will be tailored to the needs of the project. We know there will be roles for Engineering, Operations, Planning, biologists. Maybe in a different way than traditionally, but they're still going to be involved.

What has been the most surprising or unlikely private entity to emerge as a viable partner, and under what circumstance did they contribute to solve the problem?

When you're talking about private sector partners, you're not talking to one entity, but a consortium. You're talking to financiers, engineers and attorneys and a large suite of interests that are looking at delivering that piece of infrastructure.

The Fargo project is the only one that has closed; it has a sophisticated consortium that represents different elements of the private sector. Remember, this method of funding is new to the water sector and new to the Corps, but it's not new to the industry or to the marketplace.

Has the Corps considered developing a market place for interested private partners to meet public sector representatives and learn about potential PPP projects?

There are a lot of P3 forums, so it's not necessary for the Corps to host that marketplace of opportunities to match market capability against infrastructure needs.