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Infrastructure

How the Army Corps of Engineers Is Entering the P3 Market

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DALLAS -- A \$2 billion flood diversion project aimed at preventing future natural disasters in North Dakota and Minnesota will be the first public-private partnership for the U.S. Army Corps of Engineers.

The Red River project would protect more than 225,000 residents and \$14 billion of property by moving floodwaters away from Fargo, N.D., and other areas that suffered from a massive flood in 2009 that nearly inundated the region.

The project includes a channel that is 36 miles long and a quarter-mile wide, two aqueducts, four railroad bridges, four interstate highway bridges, and 10 county road bridges.

The partnership agreement for the diversion project was signed July 11 by Lowry Crook, deputy assistant secretary of the Army for civil works, as well as the mayors of Fargo, N.D., and Moorhead, Minn., and the directors of the Fargo-Moorhead Flood Diversion Authority.

The Red River has flooded the area 49 times in the past 110 years, including every year from 1993 to 2011 and again in 2011. Another major flood could cause more than \$10 billion of damages, said diversion authority chairman Darrell Vanyo.

The agreement formalizes the federal government's \$450 million contribution to the \$2 billion project and paves the way for a formal request from the Diversion Authority next month for qualification from interested private partners.

The Red River project will be the Army Engineers' first P3 test, said Corps commander Lt. Gen. Thomas P. Bostick.

The Water Resources Reform and Development Act of 2014 (PL 113-121) required the Army Engineers to create a pilot P3 program with up to 15 projects.

"We can't wait. The nation can't wait," Bostick said. "Finding a way to think creatively about funding these projects is very important."

Private investors are necessary because Congress provides only \$1.5 billion a year to fund \$23 billion of Corps' projects, he said.

"For the Corps, we've hired people who wake up every day and their number one mission is to think about public-private partnerships and [how] to move them forward," Bostick said.

North Dakota and its local governments will provide \$1.2 billion to build the project, with \$175 million of state funds already committed. Minnesota, which will receive fewer benefits from the project than its neighbor, will contribute up to \$100 million.

The local governments will fund most of their share of the project costs with proceeds from revenue bonds supported by a dedicated 0.5% sales tax already approved by voters in Fargo and Cass County, N.D., , said county administrator Keith Berndt.

The private partner is expected to provide up to 20% of total project costs.

The Flood Diversion Authority intends to use local sales tax revenues and state funds to make annual availability payments to the selected concessionaire.

The private partner that would be selected in 2017 would be responsible for financing its share of the project, building the required infrastructure, and operating the diversion facility for up to 35 years.

The Army Engineers will build a 12-mile dam on the Red River to direct floodwaters into the diversion channel though a conventional design-build approach, said Corps project manager Terry Williams.

It would take 20 years or more for the Corps to complete the entire project without the private partners because its federal funding comes in annual installments that are not consistent, Williams said.

"They may be able to find more innovative ways to design and build it knowing that they are going to have this operation and maintenance," she said. "They may be willing to take a little more risk than the Corps would if we were designing and building it."

