March 2003

CORPS OF ENGINEERS

Effects of Restrictions on Corps' Hopper Dredges Should Be Comprehensively Analyzed

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Highlights

Highlights of GAO-03-382, a report to Congressional Committees

Why GAO Did This Study

The fiscal year 2002 Conference Report for the Energy and Water Development Appropriations Act directed GAO to study the benefits and effects of the U.S. Army Corps of Engineers' (Corps) dredge fleet. GAO examined the characteristics and changing roles of the Corps and industry in hopper dredging; the effect of current restrictions on the Corps' hopper dredge fleet; and whether existing and proposed restrictions on the fleet, including the proposal to place the *McFarland* in ready reserve, are justified. In addition, GAO identified concerns related to the government cost estimates the Corps prepares to determine the reasonableness of industry bids.

What GAO Recommends

GAO recommends that the Secretary of the Army direct the Corps of Engineers to (1) obtain and analyze baseline data to determine the appropriate use of the Corps' hopper dredge fleet, (2) prepare a comprehensive analysis of the costs and benefits of existing and proposed restrictions on the use of the Corps' hopper dredge fleet, and (3) assess the data and procedures used to prepare the government cost estimate. The Department of the Army agreed with GAO's recommendations. The Dredging Contractors of America generally agreed with GAO's recommendations, but strongly disagreed that restrictions on the Corps' hopper dredges have not resulted in proven benefits.

www.gao.gov/cgi-bin/getrpt?GAO-03-382.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Barry T. Hill at (202) 512-3841 or hillbt@gao.gov.

What GAO Found

In response to 1978 legislation that encouraged private industry participation in dredging, the Corps gradually reduced its hopper dredge fleet from 14 to 4 vessels (the *Wheeler*, the *McFarland*, the *Essayons*, and the *Yaquina*) while a private hopper dredging industry of five firms and 16 vessels has emerged. Dredging stakeholders generally agreed that the Corps needs to retain at least a small hopper dredge fleet to (1) provide additional dredging capacity during peak demand years, (2) meet emergency dredging needs, and (3) provide an alternative work option when industry provides no bids or when its bids exceed the government cost estimate by more than 25 percent. In reviewing the cost estimation process, GAO found that the Corps' estimates are based on some outdated contractor cost information and an expired policy for calculating transit costs.

The restrictions on the use of the Corps' hopper dredge fleet that began in fiscal year 1993 have imposed costs on the Corps' dredging program, but have thus far not resulted in proven benefits. The Corps estimates that it spends $12.5 million annually to maintain the *Wheeler* in ready reserve, defined as 55 workdays plus emergencies, of which about $8.4 million is needed to cover the costs incurred when the vessel is idle. A possible benefit of restrictions on the Corps' vessels is that they could eventually encourage existing firms to add dredging capacity or more firms to enter the market, which, in turn, may promote competition, improve dredging efficiency, and lower prices. Although there has been an increase in the number of private industry hopper dredges since the restrictions were first imposed, the number of private firms in the hopper dredging market has decreased. In addition, during the same time period, the number of contractor bids per Corps solicitation has decreased, while the number of winning bids exceeding the Corps' cost estimates has increased.

Although the Corps proposed that the *McFarland* be placed in ready reserve, it has not conducted an analysis to establish that this action would be in the government's best interest. Specifically, in a June 2000 report to the Congress, the Corps stated that the placement of the *Wheeler* in ready reserve had been a success and proposed that the *McFarland* also be placed in ready reserve. However, when asked, the Corps could not provide any supporting documentation for its report. Furthermore, according to the Corps, future use of the *McFarland* will require at least a $25 million capital investment to ensure its safety, operational reliability, and effectiveness. Such an investment in a vessel that would be placed in ready reserve and receive only minimal use is questionable.