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REPORT BY THE U.S.

General Accounting Office

Need For The 1983 Saint Lawrence Seaway Toll Increase

In GAO's opinion, the Saint Lawrence Seaway Development Corporation, the operator of U.S. seaway facilities, needs the additional revenue it will receive from the 1983 seaway toll increase. Even with the additional revenue, the financially self-sustaining Corporation is currently projecting a fiscal year 1983 operating deficit of $600,000.

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GAO/RCED-83-131
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WASHINGTON, D.C. 20548

RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

B-211225

Selected Representatives
House of Representatives

In your joint January 31, 1983, letter you asked us to assess the Saint Lawrence Seaway Development Corporation's basis and need for the 1983 Saint Lawrence Seaway toll increase, in view of the termination of the Corporation's debt to the U.S. Treasury. We analyzed the Corporation's justification for the increase and its current financial needs.[1]

In our opinion, the 1983 toll increase is needed. The additional revenue expected from the increase and the savings which resulted from the termination of the Corporation's debt will be used to finance deferred and planned projects. Despite these events, the Corporation's fiscal year 1983 budgeted expenses exceed its currently projected revenue by $600,000. This projected operating deficit will cause additional deferrals of needed projects.

THE SAINT LAWRENCE SEAWAY

The Saint Lawrence Seaway is an international system of waterways extending 2,342 miles from the Atlantic Ocean through the Saint Lawrence River to the western tip of Lake Superior. In the 190-mile Saint Lawrence River section from Montreal to Lake Ontario, a joint United States and Canadian seaway navigation project was constructed in the 1950's. This section contains seven locks--two are owned and operated by the United States and five by Canada.[2]

The Saint Lawrence Seaway Development Corporation

The Saint Lawrence Seaway Development Corporation--a wholly U.S. Government-owned enterprise--was created in 1954[3] to

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[1]A detailed explanation of our review objectives, scope, and methodology is contained in appendix I.

[2]For a map of the seaway system see appendix II.

[3]Created by Public Law 83-358 (68 Stat. 92; 33 U.S.C. 981).

construct, operate, and maintain the U.S. part of the seaway. It is one of the operating administrations in the Department of Transportation. The Corporation is self-sustaining, based on income received from tolls and other charges assessed for the use of its facilities.

The Corporation is authorized to borrow a total of $140 million by issuing revenue bonds to the Secretary of the Treasury. Through calendar year 1981, the Corporation issued $136.8 million in bonds of which $26.8 million was redeemed.[4] This left an outstanding debt of $110 million. However, the fiscal year 1983 Department of Transportation appropriations act[5] terminated this remaining debt. As of December 31, 1982, the Corporation had no long-term debt.

Seaway toll agreements

The Corporation's authorizing legislation requires that it coordinate its activities with the Saint Lawrence Seaway Authority of Canada. This includes negotiating agreements on seaway tolls. On January 29, 1959, the U.S. Corporation and the Canadian Authority agreed to levy tolls on vessels and cargoes which use the seaway and published a Joint Seaway Tariff of Tolls. With the exception of fees at the Canadian-owned Welland Canal, the seaway tolls remained unchanged until 1978. On March 20, 1978, the U.S. and Canadian Governments agreed to toll increases that would about double the seaway toll over a 3-year period ending in 1980. On March 18, 1982, the two Governments again agreed to increase the charges an average of 18 percent in 1982 and 10 percent in 1983 for commercial vessels and cargoes using the entire seaway between Montreal and Lake Erie.[6] Under the current agreement the United States receives 29 percent of the revenue from the Montreal to Lake Ontario section and Canada 71 percent. Canada retains all revenue derived from its Welland Canal facility.

1983 TOLL INCREASE IS NEEDED

Legislation establishing the agency directs that toll rates shall, as nearly as practicable, cover all the costs of operations, maintenance, and capital replacements and improvements.

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[4]Issued bonds reduce the Corporation's remaining borrowing authority and this authority is not restored when bonds are redeemed. Therefore, the Corporation's remaining unused borrowing authority is $3.2 million ($140 million authorized less $136.8 million issued).

[5]Public Law 97-369, enacted on December 18, 1982.

[6]A complete schedule of tolls is contained in appendix III.

Even with the termination of the debt to the U.S. Treasury, in our opinion, the 1983 toll increase is needed to help the Corporation finance its deferred and planned projects. The toll increase will provide about 5 percent more revenue in 1983 than the 1982 toll level would have provided. However, budgeted expenses will exceed revenue by nearly $600,000. This shortfall may require the deferral of planned 1983 maintenance and capital replacement and improvement projects. Corporation officials expressed concern that past deferral of such projects has resulted in lower operational efficiency.

Lack of revenue causes deferred maintenance and capital replacements and improvements

In fiscal year 1982, the Corporation's total revenue was $10.2 million, a decrease of about 3 percent from the fiscal year 1981 total of $10.5 million. The Corporation's Deputy Director for Seaway Systems Analysis attributed the decline primarily to the recession, but also to decreases in Soviet grain purchases and increased competition from railroads and barges. Current projections for fiscal year 1983 set the Corporation's total revenue at $10.5 million--$502,000, or 5 percent, will be the result of the toll increase.

The 1983 projected revenue of $10.5 million is not sufficient to meet the Corporation's estimated expenses of $11.1 million. If current Corporation forecasts are correct, and there is no economic recovery leading to increased shipping in 1983, the Corporation's revenues will fall short of estimated expenses by about $600,000. This shortfall will lead to continued deferrals of 1982 projects and projects planned for 1983. The Director of Program Review estimated that, based on a budget revenue forecast of $11.1 million for 1983, less than 50 percent of the 1982 deferred maintenance projects and probably none of the deferred capital replacement and improvement projects will be accomplished in fiscal year 1983 because of a lack of funds.

In fiscal year 1982, the Corporation had planned expenditures, not including the debt repayment, of $11.7 million. However, because of a drop in revenue the agency deferred incurring about $3.8 million in obligations, reducing its actual obligations for the year to $7.9 million. Approximately $824,000 in maintenance projects was deferred, including some structural repairs to the Eisenhower Lock and the painting and repair of the lock gates. Other deferred items included replacing lock fenders and reroofing the machine shop. Deferrals of capital replacements and improvements accounted for about $762,000 and included such items as an ice flushing system for the Snell Lock and the replacement of air curtains at both locks. (These items aid lock operations when there is ice on the river.) The remaining $2.2

million in deferrals included administrative and other operational items, such as delays in hiring permanent and temporary employees, who would have been needed for repair and maintenance projects, and deferring work, such as dredging and building repairs.

Impact of deferrals

The Corporation's Assistant Resident Manager for Facilities and Navigation believes that deferral of maintenance and capital replacement projects can lead to operational inefficiency. For example, because the replacement of lock fenders was deferred, a ship that was using the lock veered into the gate. This caused about $5,000 worth of damage to the lock and required 2 days of repair work.

According to the Assistant Resident Manager, other short-term effects of the deferrals are the operating inefficiencies that result from the failure to replace aging equipment. This official indicated that much of the Corporation's equipment was acquired in 1959, when the seaway opened. As the Corporation's capital property grows older, maintenance costs rise and productivity decreases because more employees' efforts are directed toward repairing the aging equipment.

Our observations of the lock operations and facilities confirmed the need for continued upgrading and maintenance.[7] The deteriorating concrete on the Eisenhower Lock is a continuing problem which will require attention. The Corporation needs more storage space since much of its materials and equipment is left outdoors where it is subject to the weather. One warehouse that is used to store supplies, such as electrical wire, was built as a temporary structure by the original construction contractors, according to the Assistant Resident Manager. The building is not heated and is severely dilapidated, and as a result supplies stored there will deteriorate.

The Assistant Resident Manager believes that the long-term effects of continued deferrals will be twofold. First, if old equipment is not replaced and maintenance is not performed, the Corporation's ability to provide safe and efficient service to users will be affected. Second, if the winter maintenance and capital replacements and improvements are curtailed, the structural integrity of the locks could be affected. This would result in the shutdown of the entire international system. The Corporation's Comptroller said that funds made available through the debt elimination will be used to accomplish projects deferred in prior years.

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[7]Photographs of a lock in operation and repair work on the Eisenhower Lock are contained in appendix IV.

ESTABLISHING THE 1982 AND 1983 TOLL INCREASES

We believe the process which identified the need for the 1982 and 1983 Saint Lawrence Seaway toll increases was reasonable. The U.S. Corporation and Canadian Authority reviewed their financial condition based on cargo tonnage, revenue forecasts, and expense estimates for 1981 through 1983 in determining the need for a toll increase. The Corporation developed its financial estimates based on historical data, assumptions about future economic conditions, and anticipated expenses. The Corporation considered the impact of proposed increases on seaway shipping and concluded that the impact would be small to negligible. Before the toll increases were implemented, the proposed increases were published in the Federal Register. Comments on them were received and analyzed and a public hearing was held.

Negotiations result in toll increase

A March 20, 1978, agreement between the U.S. Corporation and the Canadian Authority established a Joint Tolls Review Board to review the toll level and determine whether the tolls adequately meet their financial needs. The Board is comprised of four officials, two from each agency.

The Board began the 1981 toll review on April 10, 1981. After reviewing tonnage and revenue projections and each agency's expense estimates, the Board concluded that a toll increase was needed to meet expected deficits. The Board added that the 1981 toll level would leave the U.S. Corporation with a $1.8 million deficit and the Canadian Authority with a $10.9 million deficit by the end of 1981. By the end of the 1982 shipping season, without a toll increase, these deficits were expected to grow to $3.8 million for the Corporation and $23.3 million for the Authority.

In July 1981, the Secretary, U.S. Department of Transportation, and the Canadian Transport Minister decided that it would be impractical to impose a toll increase during the 1981 shipping season. This decision was based on the poor economic outlook at the time and the short notification period for announcing the increase. Also, in response to the Corporation's publication of the proposal in the Federal Register, seaway shippers opposed the 1981 increase because they had already entered into contractual obligations based on the existing rates. Consequently, it was decided that toll increases should be considered for 1982 and 1983.

On August 13, 1981, the Board recommended increasing tolls on the Montreal to Lake Ontario section by 16 percent in the 1982 shipping season and 8 percent in the 1983 season. On November 30, 1981, the U.S. Corporation and the Canadian Authority agreed to the recommended increases. These increases were intended to help the U.S. Corporation meet its projected 1981 through 1983 financial needs, including its debt repayment.

The development of U.S. revenue forecasts and expense estimates

The Corporation's tonnage and revenue forecasts and its expense estimates appear to have been reasonably developed. According to the Deputy Director for Seaway Systems Analysis, the Corporation based its tonnage forecasts on historical patterns, current economic factors, and information from industry representatives. The tonnage and revenue forecasts used during the negotiations were agreed to by both the U.S. Corporation and the Canadian Authority. The expense figures, however, were developed and submitted separately by each agency.

The Corporation continually revises its tonnage and revenue forecasts in an effort to keep up with constantly changing economic factors which affect shipping. Information considered when making tonnage and revenue forecasts includes

--historical trade patterns,

--informal reviews with industry representatives,

--assessments of competing transportation routes, and

--consultant studies.

Corporation staff analysts evaluate this information and coordinate the projections with their counterparts in the Authority. In April 1981 the Joint Tolls Review Board agreed on tonnage and revenue projections that were the basis for the toll increase.

The Corporation's expense figures used in the 1981 negotiations were based on budget estimates. The total financial need was developed by estimating operating and maintenance costs, adding a percentage increase for inflation, and adding other fixed costs such as depreciation and debt repayment. In determining the revenue needed from the tolls, revenue from other sources, such as interest income, was not included. The Corporation's analysis for the negotiations showed that revenue needed from tolls would be $11.8 million in 1981, $13.4 million in 1982, and $13.6 million in 1983.

The impact of toll increases on shipping

The Corporation is required to consider encouraging seaway utilization when negotiating tolls. In February 1980, it initiated an independent analysis to determine the impact of toll increases on seaway shipping. Preliminary results were considered by Corporation officials during the negotiations to help assess the possible impact of toll increases. The final results, issued in January 1982, concluded that the proposed increases would have a small to negligible impact on the level of shipping through the Montreal to Lake Ontario section.

Public notification and public hearing

The Corporation's authorizing legislation requires public notification and a public hearing--to the extent practicable--before toll changes are implemented. A request for comments on the Joint Tolls Review Board report, which suggested several toll revisions, was published in the June 11, 1981, Federal Register. Proposed toll increases for 1982 and 1983, along with a public hearing notification, were published in the September 10, 1981, Federal Register. The public hearing was held on October 2, 1981. Fifty letters or statements were received from individuals or organizations, including Members of Congress and representatives of ports, carriers, and shippers.

According to the Corporation's analysis, most comments opposed the proposed increases, but few questioned its need. Fifty-eight percent of the comments proposed a moratorium or postponement of the increases pending the development of a national user charge policy. Eight percent suggested that the Corporation should review costs and internal operations to reduce the toll burden. Two percent of the comments favored the increase. The Corporation concluded that its legislative mandate, requiring that it be financially self-sufficient, precluded delaying the increases pending user charge legislation.

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We discussed the contents of this report with Saint Lawrence Seaway Development Corporation officials, and their views are incorporated.

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Transportation; the Saint Lawrence Seaway Development Corporation; and other interested parties.

J. Dexter Peach
Director

LIST OF ADDRESSEES FOR GAO REPORT
ON SAINT LAWRENCE SEAWAY 1983 TOLL INCRFASE
(GAO/RCED-83-131)

The Honorable John D. Dingell
House of Representatives

The Honorable William D. Ford
House of Representatives

The Honorable Dennis M. Hertel
House of Representatives

The Honorable Mary Rose Oakar
House of Representatives

The Honorable James L. Oberstar
House of Representatives

The Honorable Louis Stokes
House of Representatives

Contents

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this review were to (1) assess the basis for the 1983 Saint Lawrence Seaway toll increase and (2) determine if the toll increase is still needed since the U.S. Corporation's debt to the U.S. Treasury was terminated. We concentrated on

--the Corporation's financial needs, including an analysis of its deferred maintenance and capital replacements and improvements projects;

--the 1981 U.S.-Canadian negotiations which established the 1982 and 1983 toll levels;

--the development of the Corporation's financial needs for those negotiations; and

--existing studies and comments on the impact of toll increases on seaway tonnage.

We reviewed the Corporation's maintenance and capital replacement and improvement plans and observed the general condition of the seaway facilities. We did not, however, assess the Corporation's need for its budgeted expenses, including specific maintenance and capital projects.

Our review was performed in accordance with generally accepted government auditing standards. The work was performed at Department of Transportation and Saint Lawrence Seaway Development Corporation headquarters in Washington, D.C., and at seaway facilities in Massena, New York, during January, February, and March 1983. This report was developed based on:

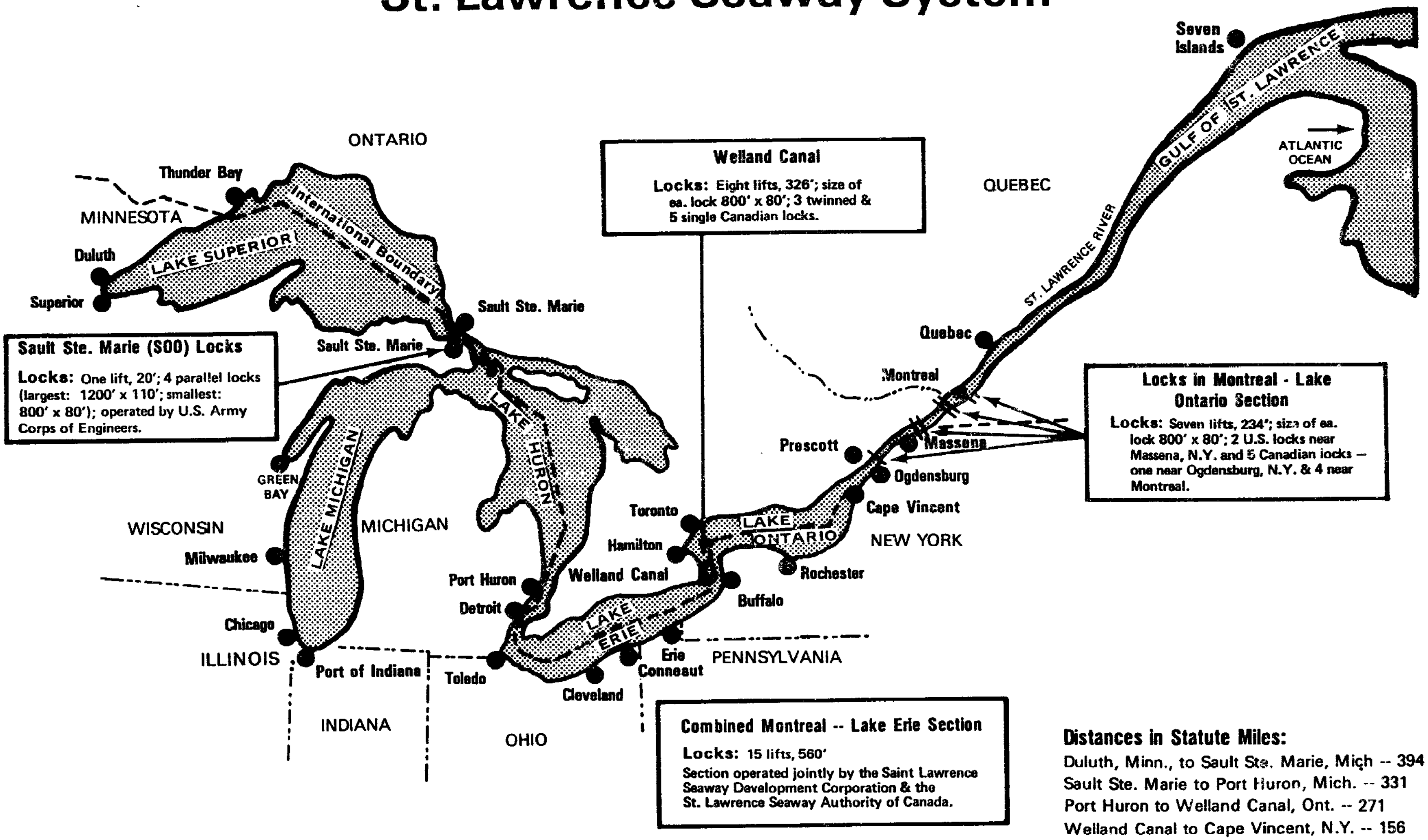
--Interviews with officials from the Office of the Secretary, Department of Transportation; the Saint Lawrence Seaway Development Corporation; and organizations representing seaway shippers, ports, and carriers.

--Reviews of related documents, including legislative records, tonnage and revenue forecasts, expense estimates, toll negotiation reports, toll agreements, comments on proposed toll increases, budgets, annual reports, analyses of required maintenance and of capital replacements and improvements, and an independent analysis of the impact of toll increases on seaway tonnage.

--Observations of ongoing winter repair work and the general condition of the Corporation's seaway facilities and equipment.

GAO will audit the Corporation's financial operations later this year for the year ended December 31, 1983.

St. Lawrence Seaway System



Distances in Statute Miles:

Duluth, Minn., to Sault Ste. Marie, Mich -- 394
Sault Ste. Marie to Port Huron, Mich. -- 331
Port Huron to Welland Canal, Ont. -- 271
Welland Canal to Cape Vincent, N.Y. -- 156
Cape Vincent to Montreal, Que. -- 189
Montreal to Gulf of St. Lawrence -- 425
Chicago, Ill., to Atlantic Ocean -- 2250
Duluth to Atlantic Ocean -- 2342

Total Lift: 580'

Source:
U.S. Department of Transportation
Saint Lawrence Seaway Development Corporation, 3/82

APPENDIX II

St. Lawrence Seaway Joint Tariff of Tolls

Comparison of 1981 tolls with those to be assessed for 1982 and 1983

CARGO TOLLS/ COMMERCIAL VESSEL CHARGES

Montreal-Lake Ontario Section (full transit)	1981	1982	1983
	Cargo Tolls Per Metric Ton		
Bulk	$0.68	$0 79	$0 85
Containers	0.68	0.79	0 85
Government Aid Cargoes	0.41	0 48	0 52
Grain	0 41	0.48	0 52
General	1 65	1 91	2 06
Vessel charge, per gross registered ton	0 07	0 075	0 08
Welland Canal Section (full transit)			
Bulk	$0 31	$0.31	$0 31
Containers	0.31	0.31	0 31
Government Aid Cargoes	0.31	0.31	0.31
Grain	0.31	0.31	0.31
General	0.50	0 50	0.50
Vessel charge, per gross registered ton	0 07	0.07	0 07
Vessel lockage charge, for 8 locks			
Loaded vessels	none	1200.00	2000 00
Ballast vessels	none	600.00	1500 00

Combined Sections (full transit)	1981	1982	1983
	Cargo Tolls Per Metric Ton		
Bulk	0 99	1 10	1.16
Containers	0 99	1.10	1.16
Government Aid Cargoes	0 72	0.79	0.83
Grain	0 72	0.79	0.83
General	2 15	2.41	2.56
Vessel charge per gross registered ton	0 14	0.145	0 15
Vessel lockage charge for 8 Welland locks			
Loaded vessels	none	1200 00	2000.00
Ballast vessels	none	600 00	1500.00

OTHER CHARGES

1 Partial transit by commercial vessel (1982-83).
- Montreal-Lake Ontario section—15% per lock of applicable toll (unchanged)
- Welland Canal section—13% per lock of applicable toll (unchanged)

	1981	1982-83
2 Per paid-fare passenger	$0 75/lock	$ 1.00/lock
3 Pleasure craft (minimum charge)	4 00/lock	5.00/lock
4 Other vessels (minimum charge)	8.00/lock	10.00/lock

Abbreviated Selected Tariff Definitions

Bulk Cargo—goods, other than grain, transported loose or in mass, i e , coke, cement, domestic package freight, liquids, ores and minerals, pig iron, pulpwood, raw sugar and woodpulp.

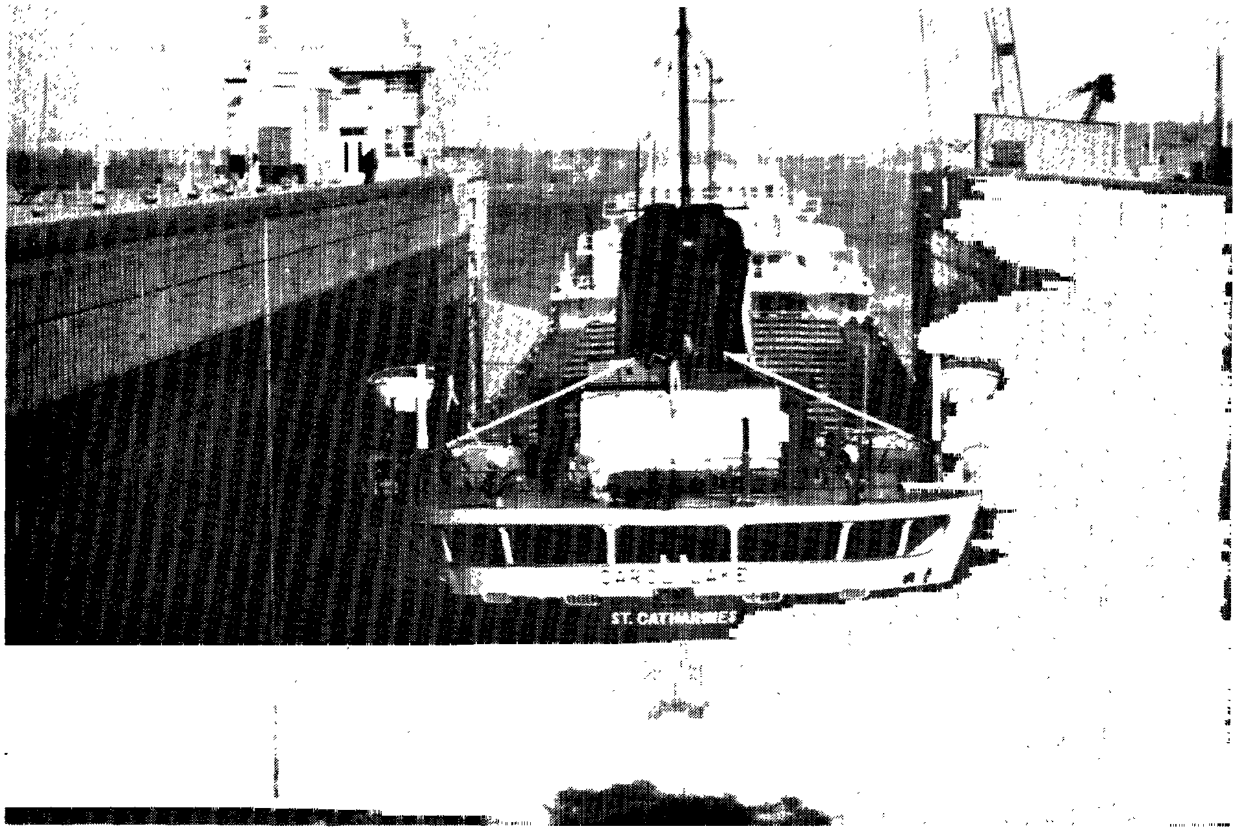
Containerized Cargo—any general cargo shipped in an enclosed, permanent, reusable non-disposable, weathertight, shipping conveyance having a capacity of 18 cubic meters or more, and fitted with a minimum of one hinged door.

General Cargo—non-bulk and non-Government aid cargo which includes packaged, processed and manufactured products

Grain—all major food and feed grains, including wheat, rye, corn, barley, soybeans, rapeseed, grain screenings, buckwheat, and dried beans and peas.

Government Aid Cargo—processed food products which are donated or the purchase of which is facilitated by the Federal Government of the U S or Canada for the purposes of foreign aid or disaster relief, such as U S Public Law 480, Title II cargo.

Source: Saint Lawrence Seaway Development Corporation



Source: St. Lawrence Seaway Development Corporation

Lock in operation.

Source: St. Lawrence Seaway Development Corporation

January 1983 winter reconstruction work on the Eisenhower Lock.

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