



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

October 3, 2001

THE DIRECTOR

The Honorable Thomas E. White
Secretary of the Army
104 Army Pentagon
Washington, DC 20301-0104

Dear Secretary White:-

As required by Executive Order 12322, the Office of Management and Budget (OMB) has reviewed a September 1999, Army Corps of Engineers (Corps) General Reevaluation Report (report) that recommends construction of a \$127 million Federal multipurpose water project in Dallas, Texas, whose primary purpose is flood control. We also have reviewed a supplementary paper on "Dallas Floodway System Phasing," dated August 3, 2001, and other information prepared by the Corps.

Under the applicable Federal principles and guidelines, the Corps must evaluate all reasonable alternatives and their impacts, and must identify the option with the greatest net economic benefits consistent with protecting the Nation's environment. Based on our review, the Corps has not done so in this case, and a renewed effort that may well lead to a fundamentally different project appears to be in order. The Administration believes that the Corps should not enter into a Project Cooperation Agreement or begin any physical construction work on the authorized project at this time.

OMB has serious concerns about the way the Corps formulated this project. The economic justification presented in the report rests largely on the level of protection that the project would provide to downtown Dallas in the event of a very large flood. Downtown Dallas is located immediately upstream of the area in which the Corps has proposed to build this project. Without the protection that the project provides to downtown, both the total cost of the project and the cost of each of its major flood control features would exceed the benefits. Given this, the report should have explored a range of options for reducing this flood risk together with those that would address downstream flooding concerns. Actions taken (or not taken) in adjacent reaches of the river affect each other.

There is some evidence that the Corps reviewed options directly addressing the downtown flood risk during the initial stages of formulating this project. Since at least 1993, the Corps has understood that raising the existing Federal levee on the east side of the Dallas Floodway (east levee) and replacing the floodwall that connects it to high ground, perhaps in combination with other justified measures, could provide a low-cost, yet highly effective way to

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reduce the existing flood risk to downtown Dallas. By 1994, the Corps had developed preliminary estimates of the costs and benefits for these upstream measures and had considered combining them in an integrated project with both upstream and downstream features. Those data suggested that the net economic benefits of a project that included raising the east levee could be high. However, the Corps elected not to evaluate this potentially promising approach in the report. In effect, this decision removed from consideration an entire set of reasonable options -- those that include a basic upgrade to the existing flood control infrastructure that defends downtown.

The Corps' recent supplementary paper (dated August 3, 2001) confirms the need to develop one or more such alternatives prior to reaching a decision on whether to proceed with the proposed project. In this supplementary paper, the Corps estimates that the benefits of upgrading the existing levee system could be over four times the costs of doing so on an annual basis. Because this represents a return on investment that far exceeds every flood damage reduction option examined in the report, these upstream improvements probably should have been the central feature of a leading alternative. In excluding this alternative, the Corps presented an incomplete picture of the available choices and their impacts, and prevented an informed public discussion of the merits of the proposed project.

The omission of an option based on the upstream improvements also led to an overstatement of the extent to which the benefits identified in the report should be attributed to this project. According to the Corps' supplemental paper, the benefit-to-cost ratio for the flood control plan recommended in the report would drop to about 1.14, once the raising of the east levee to protect downtown Dallas is considered. However, this is a composite ratio for all of the project's flood control features and, as such, gives a false sense of the plan's economic justification. The 1.14 ratio does not suggest that the Corps has sized or placed each of the features appropriately, nor does it demonstrate that they are justified incrementally. Indeed, the "chain of wetlands" may be the only feature whose flood damage reduction benefits would continue to exceed the costs. Thus, the Corps has not identified the option with the greatest net economic benefits consistent with protecting the Nation's environment, as required under the applicable Federal principles and guidelines.

In addition, OMB has the following two concerns:

- According to the report, the proposed Cadillac Heights levee would yield a net negative economic return, by increasing the overall flood damage in the city from a very large storm. Before recommending this levee, the Corps should have considered a broader range of alternatives, such as the option of purchasing, on a willing seller basis, only the homes that flood and offering relocation assistance to the people who live there.

- We disagree with the report's recommendation to award the city a \$23 million credit for past work on two local levees. Incorporating these levees into the Federal project would significantly reduce its net flood damage reduction benefits. While the decision of the city to build the Rochester Park levee and to upgrade the wastewater treatment plant levee is understandable, these levees are not integral to the Federal project, nor are they required for its construction.

Thank you for your assistance during our review. We would be happy to discuss these issues further with you and look forward to working with you to resolve these concerns.

Sincerely,

A handwritten signature in cursive script that reads "Mitchell Daniels".

Mitchell E. Daniels, Jr.
Director