



U.S. House of Representatives
Committee on Transportation and Infrastructure
Washington, DC 20515

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March 2, 2012

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MEMORANDUM

TO: Members, Subcommittee on Coast Guard and Maritime Transportation

FROM: Staff, Subcommittee on Coast Guard and Maritime Transportation

RE: Hearing on “Protecting Maritime Jobs and Enhancing Marine Safety in the post-Budget Control Act Fiscal Environment: A Review of the Administration’s Fiscal Year 2013 Coast Guard and Maritime Transportation Budget Request”.

PURPOSE

On March 7, 2012, at 10:00 a.m. in 2167 Rayburn House Office Building, the Subcommittee on Coast Guard and Maritime Transportation will hold a hearing to examine the fiscal year (FY) 2013 budget requests for the United States Coast Guard, Federal Maritime Commission, and Maritime Administration.

BACKGROUND

United States Coast Guard

The United States Coast Guard was established on January 28, 1915, through the consolidation of the Revenue Cutter Service (established in 1790) and the Lifesaving Service (established in 1848). The Coast Guard later assumed the duties of three other agencies: the Lighthouse Service (established in 1789), the Steamboat Inspection Service (established in 1838), and the Bureau of Navigation (established in 1884).

The Coast Guard remained a part of the Department of the Treasury until 1967, when it was transferred to the newly created Department of Transportation. Under the Homeland Security Act of 2002, (P.L. 107-296), the Coast Guard was transferred to the Department of Homeland Security on March 1, 2003.

FY 2013 Coast Guard Budget Request: The President requests \$9.96 billion in FY 2013 for Coast Guard activities, \$602.4 million (or -5.7 percent) less than the FY 2012 enacted level. This amount does not include \$254.5 million for Overseas Contingency Operations (OCO), which the administration proposes to appropriate to the Department of Defense (DoD) in FY 2013 and then make available to the Coast Guard. If OCO funding is appropriated directly to the Coast Guard in FY 2013, as it has been in all previous fiscal years, then the budget proposes \$347.9 million (or -3.5 percent) less than the FY 2012 enacted level.

Operating Expenses: The budget request for Coast Guard Operating Expenses (OE) in FY 2013 is approximately \$6.79 billion, an increase of \$35.9 million (or 0.5 percent) above the FY 2012 enacted level. The OE account supports the day to day activities of the Coast Guard including administrative expenses, support costs, travel, lease payments, and the operation and maintenance of infrastructure and assets. The OE account also funds personnel compensation and benefits for the Service's approximately 42,000 active duty military members, 7,000 reservists, and 8,000 civilian employees.

The FY 2013 request proposes to cut the size of Coast Guard's workforce by 1,071 positions. This includes a reduction of 1,008 servicemembers and 63 civilians. These are net reductions representing a decline in positions from decommissioning certain assets, the closure of facilities, and cuts to personnel assigned to intelligence, airborne use of force, training, and recruiting. These reductions are offset by increases in personnel to support the operation and maintenance of recently acquired assets.

The request includes \$78.9 million to cover the cost of the Administration's proposed 1.7 percent pay raise for military personnel in FY 2013, increases in military benefits to maintain parity with benefits received by DoD servicemembers, as well as a 0.5 percent pay raise for civilian personnel.

Other increases in the OE budget request are attributable to follow on costs for the operation and maintenance of new assets and technology acquired in FY 2012; increased sustainment costs for aging assets; and increases in other administrative expenses, including \$24.5 million in additional lease costs for the Service's new headquarters at St. Elizabeths Hospital. These increases are offset by \$181.6 million in cuts derived through the decommissioning of certain assets and closure of two seasonal air facilities (see below), consolidation of technical services and reductions in personnel, travel, support, and other administrative costs.

The budget proposes to close or decommission the following facilities or assets:

- *Lake Michigan Season Air Facilities:* The Coast Guard proposes to close two air facilities which house HH-65 helicopters during the summer months in Waukegan, WI and Muskegon, MI. The rest of the year, the helicopters operate out of Air Station Traverse City, MI. The Service proposes to transition Air Station Traverse City from housing five HH-65s to housing three HH-60s helicopters. The Service proposes to transfer two of the three HH-60's from Air

Station Clearwater, FL where they are primarily assigned to a drug interdiction mission in the Caribbean, as well as one from Air Station Elizabeth City, NC where it currently supports a tactical homeland security mission. Finally, the Coast Guard proposes to remove three of the HH-65s from service and transfer the remaining two helicopters to two air stations that recently suffered HH-65 casualties. The Service estimates these changes will save \$5.2 million in FY 2013. The Service recently spent millions to upgrade the HH-65 fleet with new engines and avionics.

- *High Endurance Cutters:* The Coast Guard proposes to decommission two High Endurance Cutters (WHEC) in FY 2013. The 378' WHEC fleet was first commissioned in 1967. The WHECs are failing at an increased rate which is resulting in lost operational days and increased maintenance costs. The Coast Guard estimates saving \$16.8 million in FY 2013 through decommissioning two WHECs. The WHEC fleet is being replaced by the National Security Cutter (NSC). Two NSCs (BERTHOLF and WAESCHE) have been delivered to date and the Service expects to take delivery of a third NSC (STRATTON) in FY 2012.
- *110' Patrol Boats:* The Coast Guard proposes to decommission three 110 foot Patrol Boats (WPB) and terminate the High Tempo High Maintenance (HTHM) Operations program. HTHM was a bridging strategy to maintain patrol boat mission hours by approximately doubling the normal programmed hours for eight 110's by rotating two crews on each WPB. The Service estimates these changes will save \$35.4 million in FY 2013. The Coast Guard estimates it needs an additional 103,000 patrol boat operational hours to fully carry out its missions. The Service estimates the termination of HTHM operations and the decommissioning of three 110's will increase the current patrol boat mission hour gap by 17,000 hours.
- *HU-25 Falcons:* The Coast Guard proposes to decommission three of the six remaining HU-25 Falcon aircraft in its inventory. The Service is replacing the outdated Falcons with new HC-144 Maritime Patrol Aircraft. The Service estimates decommissioning these assets will save \$5.5 million in FY 2013.

Environmental Compliance and Restoration: The President requests \$13.2 million for the Environmental Compliance and Restoration (EC&R) account in FY 2013, \$0.3 million (or -2.5 percent) less than the FY 2012 enacted level. The EC&R account provides for the clean-up and restoration of contaminated Coast Guard facilities, as well as for the remediation of Coast Guard assets to ensure they operate or are decommissioned in compliance with environmental laws.

The Coast Guard plans to use the \$13.2 million requested for EC&R to pay for the environmental remediation and restoration of Coast Guard facilities in several states. The Service currently has a backlog of over 400 EC&R projects with an estimated combined cost of over \$185 million.

Reserve Training: The President requests \$132.5 million for the Reserve Training account in FY 2013, \$1.7 million (or -1.3 percent) less than the FY 2012 enacted level. The Reserve Training account funds the costs of training members of the Coast Guard Reserve and the administration of the Reserve program.

Coast Guard Reservists maintain readiness through regular training and exercises. Reservists can be mobilized by the Secretary of Homeland Security to support the response to a national emergency or disaster, and the Secretary of Defense to support national security operations worldwide. In recent years, Coast Guard Reservists were mobilized to support Haiti earthquake relief operations, the response to the BP DEEPWATER HORIZON oil spill, and to conduct port security activities in Iraq in support of Operation Enduring Freedom.

Acquisitions, Construction, and Improvements: The President requests \$1.19 billion for the Acquisitions, Construction, and Improvements (AC&I) account in FY 2013, a reduction of \$271.6 million (or -18.5 percent) below the FY 2012 enacted level. The AC&I account funds the acquisition, construction, and physical improvements of Coast Guard owned and operated vessels, aircraft, facilities, aids to navigation, information management systems and related equipment.

The budget request includes approximately \$1.03 billion for the acquisition of aircraft, vessels, and command, control, communications, computer, intelligence, surveillance and reconnaissance (C4ISR) systems. This represents a reduction of \$64.5 million (or -6 percent) below the FY 2012 enacted level. The budget request includes:

- \$683 million to complete construction of the sixth NSC. No funding is included in the five year Capital Improvement Plan for the acquisition of NSCs #7 or #8;
- \$30 million to continue the development of the Offshore Patrol Cutter (OPC);
- \$43 million to acquire one HC-144A Marine Patrol Aircraft;
- \$31.5 million for the modernization/sustainment of the HH-65 Dolphin helicopter fleet;
- \$76.5 million for C4ISR acquisition, program management, systems engineering and integration, and Nationwide Automatic Identification;
- \$8 million to survey and design a new polar icebreaker.

The Service proposes to eliminate funding for the following acquisition programs in FY 2013:

- Response Boat – Medium (RB-M). The Coast Guard’s program of record for this procurement calls for the acquisition of 180 RB-M’s to replace the aged, slow, and obsolete 41 foot utility boat. To date, funding has been secured to acquire 166 RB-Ms. Despite proposing to terminate the acquisition early, the Service has not amended the program of record to explain how the reduced buy will meet mission requirements. Terminating the acquisition early could impair small boat readiness which could impact search and rescue mission effectiveness.

- HH-60 Helicopter Conversion. The Coast Guard had planned to make critically needed upgrades to the helicopter's search radar sensor system to improve the asset's ability to conduct search and rescue. The Service now proposes to put off these upgrades until at least 2017.
- C-130H Conversion/C-130J Acquisition. The Coast Guard's program of record calls for a fleet of 22 C-130J's by the mid 2020's. The Service proposes to use previously appropriated funding to complete the acquisition three C-130J's, bringing the fleet of C-130J's up to nine.
- In Service Vessel Sustainment. This program funds service life extension projects on the 32 year old fleet of 140 foot Icebreaking Tugs and mission effectiveness projects on the 16 year old fleet of 225 foot Seagoing Buoy Tenders. The Service proposes to delay initiation of these projects until FY 2014.
- Unmanned Aircraft System (UAS). The Service proposes to use previously appropriated funds to continue work to test and evaluate existing UAS platforms for potential use aboard cutters.

In addition, the Coast Guard proposes to withhold up to \$139 million provided by Congress in FY 2012 to construct six new Fast Response Cutters (FRC), opting instead to construct four FRCs in FY 2012. The Service then proposes to combine the withheld \$139 million from the FY 2012 appropriations with an additional \$139 million requested in FY 2013 to construct four FRCs in FY 2013. This strategy will delay the acquisition of this asset, which is being acquired to replace the 26 year old fleet of 110 foot Patrol Boats.

The budget requests \$186.5 million in other capital costs, 124.4 million (or -40 percent) less than the FY 2012 enacted level. This includes \$110 million in personnel costs to execute AC&I programs and \$49 million to make improvements to piers and hangars to support newly acquired assets. This also includes \$15 million to construct shore facilities and aids to navigation, which is \$97.9 million (or -86.7 percent) less than the FY 2012 enacted level. The Coast Guard currently has a backlog of over 35 prioritized shore facility improvement projects with an estimated combined cost of over \$540 million.

Finally, no funding is included in the budget request to rehabilitate housing for Coast Guard servicemembers and their dependents. The account received \$14 million in FY 2012 funding. Much of the Service-owned housing is decades old and in poor condition. The Service expects to complete a report which includes survey of the condition of its housing and recommendations on how to address the situation in May 2012.

Alteration of Bridges: The President does not request funding for the Alteration of Bridges program in FY 2012. The program did not receive funding in FY 2012. Created

by the Truman-Hobbs Act of 1940 (33 U.S.C. 511 et. seq.), the Alteration of Bridges program authorizes the Coast Guard to share with a bridge's owner the cost of altering or removing railroad and publicly owned highway bridges which are determined by the Service to obstruct marine navigation.

The American Recovery and Reinvestment Act of 2009 (P.L. 111-5) provided \$142 million for the Alteration of Bridges Program. The Coast Guard used the funding to begin alteration of four bridges and design work on a fifth. Seven additional bridges have been determined to be unreasonable obstructions to navigation and currently await funding. An additional 32 bridges are potential obstructions to navigation, but require additional study before they can be deemed eligible for the Alteration of Bridges program.

Research, Development, Test and Evaluation: The President requests \$19.7 million for the Coast Guard's Research, Development, Test, and Evaluation (RDT&E) account, a reduction of \$8 million (or -29 percent) below the FY 2012 enacted level. The RDT&E account funds supports improved mission performance for the Service's 11 statutory missions through applied research and development of new technology and methods.

The Coast Guard intends to use the \$19.7 million requested for RDT&E in FY 2013 to develop new technologies for the detection and recovery of oil and hazardous substances from the sea floor and in the Arctic environment; to develop ballast water treatment methodologies; to provide improved, sensors, data sharing and information security technologies for assets and shore units; and to develop new systems to improve intelligence collection and dissemination.

Retired Pay: The President requests \$1.4 billion for the Retired Pay account, a \$9.2 million (or -0.6 percent) less than the FY 2012 enacted level. The Retired Pay account provides mandatory funding for military retirement and medical payments to retired Coast Guard servicemembers and their dependents.

Federal Maritime Commission

The Federal Maritime Commission (FMC) was established in 1961 as an independent regulatory agency charged with the administration of the regulatory provisions of shipping laws. The FMC is responsible for the economic regulation of waterborne foreign commerce. The FMC protects shippers and carriers from restrictive or unfair practices of foreign governments and foreign-flagged carriers. The FMC also enforces the laws related to cruise vessel financial responsibility to ensure that cruise vessel operators have sufficient resources to pay judgments to passengers for personal injury or death or for nonperformance of a voyage.

The FMC is composed of five Commissioners appointed for five-year terms by the President with the advice and consent of the Senate. No more than three Commissioners may belong to the same political party. The Commission is led by a

Chairman appointed by the President. Richard A. Lidinsky, Jr. was sworn in as Chairman in October 2009.

Account	FY2012 Enacted	FY2013 President's Budget Request	<i>Difference Bet. FY2013 Request and FY2012 Enacted</i>	<i>% Difference Bet. FY2013 Request and FY2012 Enacted</i>
Formal Proceedings	\$7,864,407	\$8,584,638	\$720,231	9.2%
Equal Employment Opportunity	\$196,915	\$212,194	\$15,279	7.8%
Inspector General	\$727,322	\$764,127	\$36,805	5.1%
Operational and Administrative	\$15,311,356	\$16,439,041	\$1,127,685	7.4%
Total	\$24,100,000	\$26,000,000	\$1,900,000	7.9%

FY 2012 FMC Budget Request: The President requests \$26 million in FY 2013 for the activities of the FMC, an increase of \$1.9 million (or 7.9 percent) above the FY 2012 enacted level.

Formal Proceedings: The President requests \$8.6 million for the Formal Proceedings account, a \$0.7 million (or 9.2 percent) increase over the FY 2012 enacted. The FMC uses this account to fund the salaries and expenses of the offices of the Commissioners, Consumer Affairs and Dispute Resolution Services, General Counsel, and Administrative Law Judge.

Most of the increase in the Formal Proceedings account is attributable to the expansion of the Office of Consumer Affairs and Dispute Resolution Services and is intended to meet an increase in the number of parties seeking alternative dispute resolution. This office provides services to assist shippers, carriers and other parties in resolving disputes through mediation.

Maritime Administration

The Maritime Administration (MARAD) was established in 1950. It administers financial programs to build, promote, and operate the U.S. flag fleet; manages the disposal of Federal government-owned vessels; regulates the transfer of U.S. documented vessels to foreign registries; maintains a reserve fleet of Federal government-owned vessels essential for national defense; operates the US Merchant Marine Academy; and administers a grant-in-aid program for state operated maritime academies.

MARAD is led by an Administrator appointed by the President with the advice and consent of the Senate. David T. Matsuda was sworn in as Administrator in June 2010.

Account	FY2012 Enacted	FY2013 President's Budget Request	Difference of FY12 Enacted and FY13 Budget Request	% Difference of FY12 Enacted and FY13 Budget Request
Operations and Training	\$156,258,000	\$146,298,000	-\$9,960,000	-6.4%
Assistance to Small Shipyards	\$9,980,000	\$0	-\$9,980,000	-100.0%
Ship Disposal Program	\$5,500,000	\$10,000,000	\$4,500,000	81.8%
Maritime Security Program	\$174,000,000	\$184,000,000	\$10,000,000	5.7%
Title XI - Administrative Expenses	\$3,740,000	\$3,750,000	\$10,000	0.3%
Title XI - Loan Guarantees	\$0	\$0	\$0	0.0%
Total	\$349,478,000	\$344,048,000	-\$5,430,000	-1.6%

FY 2013 MARAD Budget Request: The President requests \$344 million in FY 2013 for the activities of MARAD, a reduction of \$5.4 million (or -1.6 percent) below the FY 2012 enacted level.

Operations and Training: The President requests \$156.3 million for the Operations and Training (O&T) account, a decrease increase of \$9.96 million (or -6.4 percent) below the FY 2012 enacted level. O&T funds the salaries and expenses for each of MARAD's programs, the operation, maintenance, and capital improvements to the U.S. Merchant Marine Academy, and financial assistance to the six state maritime academies.

The budget request for O&T includes \$77.3 million for the U.S. Merchant Marine Academy, including \$67.3 million for Academy Operations, and \$10 million for capital improvements, repairs, and maintenance; \$16 million for the six state maritime academies; and \$53 million for MARAD Operations and Programs. The budget request does not include funding for the Marine Highways grant program.

Assistance to Small Shipyards: The budget does not include a request for funding for the Assistance to Small Shipyards grant program. The program provides capital grants to small privately owned shipyards to expand shipbuilding capacity, efficiency, and competitiveness. The program received \$9.9 million in FY 2012.

Ship Disposal: The budget requests \$10 million for the Ship Disposal Program, a \$4.5 million increase (or 81.8 percent) above the FY 2012 enacted level. The requested funding includes \$7 million for expenses related to the disposal of up 15 ships, and \$3 million to conduct the regulatory activities associated with storing the Nuclear Ship SAVANNAH.

Maritime Security Program: The budget requests \$184 million to maintain 60 U.S.-crewed, U.S.-flagged merchant fleet vessels to serve the national security needs of the United States under the Maritime Security Program (MSP). This amount represents a \$10 million (or 5.7%) increase over the level provided in FY 2012. Together with unobligated balances carried forward from prior years, this request will provide the total FY 2013 program level of \$186 million necessary to fund the program at the FY 2013 authorized level of \$3.1 million per vessel. Under this program, direct payments are provided to U.S. flag ship operators engaged in U.S. foreign trade. Vessel operators that participate are required to keep the vessels in active commercial service and provide intermodal sealift support to the Department of Defense in times of war or national emergency.

Title XI Loan Guarantees: The budget does not include a request for funds for loan guarantees for the construction or reconstruction of U.S. flagged vessels in U.S. shipyards under the Title XI program. This program did not receive any funding in FY 2012.

H.R. 2838, The Coast Guard and Maritime Transportation Act of 2011

On November 15, 2011, the House of Representatives passed H.R. 2838, The Coast Guard and Maritime Transportation Act of 2011 on voice vote. H.R. 2838 authorizes the activities of the Coast Guard for each of the fiscal years 2012 through 2014 at the following levels:

Coast Guard			
Program	FY2012	FY2013*	FY2014**
Operating Expenses	\$6,819,505,000	\$6,922,645,000	\$7,018,498,780
Acquisition, Construction & Improvements	\$1,503,980,000	\$1,505,312,000	\$1,506,549,000
Reserve Training	\$136,778,000	\$138,110,990	\$139,310,681
Environmental Compliance & Restoration	\$16,699,000	\$16,699,000	\$16,699,000
Research, Development, Test & Evaluation	\$19,779,000	\$19,848,363	\$19,913,431
Total	\$8,496,741,000	\$8,602,615,353	\$8,700,970,892

* Assumes a 3% increase in military pay consistent with FY12 budget resolution

**Assumes a 2.7% increase in military pay consistent with FY12 budget resolution

H.R. 2838 also authorizes appropriations for the FMC at \$22,100,000 for each of the fiscal years 2012 through 2015.

WITNESSES

Admiral Robert J. Papp, Jr.
Commandant
United States Coast Guard

Master Chief Michael P. Leavitt
Master Chief Petty Officer of the Coast Guard
United States Coast Guard

The Honorable Richard A. Lidinsky, Jr.
Chairman
Federal Maritime Commission

The Honorable David T. Matsuda
Administrator
Maritime Administration