



**U.S. House of Representatives
Committee on Transportation and Infrastructure**

Washington, DC 20515

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February 25, 2011

MEMORANDUM

TO: Members, Subcommittee on Coast Guard and Maritime Transportation

FROM: Staff, Subcommittee on Coast Guard and Maritime Transportation

RE: Hearing on "A Review of the Administration's Fiscal Year 2012 Budget Requests for the U.S. Coast Guard, Federal Maritime Commission, and Federal Maritime Administration: Finding Ways To Do More with Less."

PURPOSE

The Subcommittee on Coast Guard and Maritime Transportation will hold a hearing to examine the fiscal year (FY) 2012 budget requests for the Coast Guard, Federal Maritime Commission, and Maritime Administration on Tuesday, March 1st at 10:00 a.m. in room 2167 Rayburn House Office Building.

BACKGROUND

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.

Under Section 2 of Title 14, United States Code, the Coast Guard has primary responsibility to enforce or assist in the enforcement of all applicable Federal laws on, under, and over the high seas and waters subject to the jurisdiction of the United States; to ensure safety of life and property at sea; to carry out domestic and international icebreaking activities; and, as the fifth armed force of the United States, to maintain defense readiness to operate as a specialized service in the Navy upon the declaration of war or when the President directs.

The Coast Guard is directed by a Commandant, who is appointed by the President with the advice and consent of the Senate for a four-year term. In 2010, President Obama appointed Admiral Robert J. Papp, Jr. as Commandant of the Coast Guard.

(in millions)

Program	FY2011 CR	FY2012 Authorized	FY2012 President's Budget	Diff. of FY2012 Pres. Budget and FY2011 CR	
				\$	%
Operating Expenses	6,563.9	None	6,819.5	255.6	3.9%
Overseas Contingency Operations	241.5		258.3	16.8	6.9%
Environmental Compliance & Restoration	13.2	None	16.7	3.5	26.5%
Reserve Training	133.6	None	136.8	3.1	2.4%
Acquisition, Construction & Improvements	1,536.3	None	1,421.9	-114.4	-7.4%
Alteration of Bridges	4.0	None	0.0	-4.0	-100.0%
Research, Development, Test & Evaluation	24.7	None	19.8	-5.0	-20.1%
Medicare-Eligible Retiree Health Care Fund Contribution	265.3	None	261.9	-3.5	-1.3%
Subtotal, Discretionary (not including OCO)	8,541.1		8,676.6	135.5	1.6%
Subtotal, Discretionary (including OCO)	8,782.6		8,934.8	152.3	1.7%
Retired Pay	1,400.7	None	1,440.2	39.5	2.8%
State Boating Safety Grants	117.7	None	120.8	3.1	2.6%
Oil Spill Liability Trust Fund Claims (estimate)	92.0	None	101.0	9.0	9.8%
Subtotal, Mandatory	1,610.4		1,661.9	51.5	3.2%

Total (not including OCO)	10,151.5		10,338.5	187.0	1.8%
Total (including OCO)	10,393.0		10,596.7	203.8	2.0%

FY 2012 Coast Guard Budget Request: The President requests \$9.85 billion in FY 2012 for Coast Guard activities, an increase of \$178 million (or 1.8 percent) above the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. For purposes of this memo, amounts included in the Continuing Resolution are expressed as full year numbers. This amount does not include \$258.3 million for Overseas Contingency Operations, which the administration proposes to appropriate to the Department of Defense (DoD) in FY2012 and then make available to the Coast Guard.

Operating Expenses: The budget request for Coast Guard Operating Expenses (OE) in FY2012 is approximately \$6.82 billion, an increase of \$255.6 million (or 3.9 percent) above the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. 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 2012 request proposes to increase the size of Coast Guard's military workforce by approximately 20 positions while increasing the number of civilian personnel by nearly 700 positions. These are net increases which account for a decline in positions from decommissioning certain assets, as well as increases due to the conversion of positions from military to civilian, the transfer of the polar icebreaking program and certain intelligence personnel back to the Coast Guard for accounting purposes, and the creation of nearly 200 positions to support additional vessel inspection and marine environmental response activities.

The request includes \$66 million to cover the cost of the 1.6 percent pay raise for military personnel in 2012, as well as increases in military benefits to maintain parity with benefits received by DoD servicemembers. The budget does not request funding for a civilian pay increase in 2012.

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 2011, increased sustainment costs for aging assets, and increases in other administrative expenses. These increases are offset by \$162.2 million in cuts derived through the decommissioning of certain assets (see below), consolidation of technical services and reductions in travel, support, and other administrative costs.

The budget proposes to decommission the following assets:

- *High Endurance Cutter:* The Coast Guard proposes to decommission one High Endurance Cutter (WHEC) in FY 2012. The 378' WHEC fleet has an average age of 43 years and the cutters are failing at increased rates resulting in lost operational days and increased maintenance costs. The Coast Guard estimates saving \$6.7 million in FY 2012 through decommissioning one WHEC. The Coast Guard is decommissioning two WHECs in FY 2011. The WHEC fleet is being replaced by the National Security Cutter (NSC). Two NSCs have been delivered to date and the Service expects to take delivery of a third NSC in FY 2011.
- *PC-179s:* The Coast Guard currently has a Memorandum of Agreement with the Navy to crew, operate, and maintain three Navy built 179 foot Patrol Coastal (PC) vessels. The MOA with the Navy expires at the end of FY 2011. The Coast Guard does not propose to extend the MOA. The Coast Guard estimates saving \$16.3 million in FY 2012 by no longer operating and maintaining these vessels. The Coast Guard first entered into a MOA with the Navy for these vessels in 2004 to mitigate a shortfall in patrol boat hours due to the failure of aging assets. The Coast Guard expects to fill the lost patrol boat hours from the expiration of the MOA on the PC-179s through the acquisition of the Fast Response Cutter (FRC). The Coast Guard anticipates taking delivery of the first FRC in 2011.
- *USCGC POLAR SEA:* The Coast Guard operates the nation's only Class I polar icebreakers. The Service proposes to decommission the POLAR SEA in FY 2011, one of the two icebreakers. Built in the mid-1970's, the POLAR SEA and its sister ship, the POLAR STAR have suffered numerous breakdowns in recent years. The POLAR STAR is currently undergoing a service life extension project and will not be operational until 2013. The POLAR SEA suffered a significant engine failure and has not been operational since June, 2010. The Coast Guard proposes to complete the rebuilding of the engine on the POLAR SEA before decommissioning it.

Environmental Compliance and Restoration: The President requests \$16.7 million for the Environmental Compliance and Restoration (EC&R) account in FY 2012, a \$3.5 million (or 26.5 percent) increase over the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. 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 \$16.7 million requested for EC&R to pay for the environmental remediation and restoration of Coast Guard facilities in Alaska and North Carolina, several Long Range Aids to Navigation (LORAN) stations throughout the country, as well as several cutters scheduled for decommissioning in FY 2012. The Coast Guard currently has a backlog of 459 EC&R projects with an estimated combined cost of \$338 million.

Reserve Training: The President requests \$136.8 million for the Reserve Training account in FY 2012, a \$3.1 million (or 2.4 percent) increase over the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. 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 the last year, 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 \$1.42 billion for the Acquisitions, Construction, and Improvements (AC&I) account in FY 2012, a reduction of \$114.3 million (or -7.4 percent) below the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. 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 \$971 million for the acquisition of aircraft, vessels, and communications systems formerly known as considered the Integrated Deepwater System. This represents a reduction of \$298 million (or -23.5 percent) below the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. The budget request includes:

- \$77 million to complete construction of the fifth NSC;
- \$25 million to continue the development of the Offshore Patrol Cutter (OPC);
- \$358 million to construct FRCs 9 through 14;
- \$129.5 million to acquire two HC-144A Marine Patrol Aircraft and five mission systems pallets for previously acquired aircraft;
- \$56.1 million for the modernization/sustainment of the HH-60 Jayhawk helicopter fleet;
- \$24 million for the modernization/sustainment of the HH-65 Dolphin helicopter fleet;
- \$62 million for the modernization/sustainment of the HC-130 Hercules aircraft fleet;
- \$187.6 million for C4ISR acquisition, program management, systems engineering and integration, and infrastructure improvement costs.

The budget requests \$451 million in other capital costs, an increase of \$261 million (or 138 percent) above the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. This includes \$110 million to acquire 40 Response Boat Mediums (RB-Ms), \$65 million to deploy the Rescue 21 system to Lake Michigan,

Puerto Rico, Hawaii, and Guam, and \$110 million in personnel costs to execute AC&I programs. This also includes \$92.9 million to construct shore facilities and aids to navigation, as well as \$20 million to rehabilitate Coast Guard servicemember housing. The Coast Guard currently has a backlog of over 40 prioritized shore facility improvement projects with an estimated combined cost of \$581.5 million.

Alteration of Bridges: The President does not request funding for the Alteration of Bridges program in FY 2012. The program received \$4 million under the FY 2011 Continuing Resolution which expires on March 4, 2011. 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 Coast Guard Research, Development, Test, and Evaluation (RDT&E) account, a reduction of \$4.9 million (or -20 percent) below the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. 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 2012 to develop new technologies for the detection and recovery of oil and hazardous substances from the sea floor; develop ballast water treatment methodologies; provide improved, sensors, data sharing and information security technologies for assets and shore units; and develop new systems to improve intelligence collection and dissemination.

Retired Pay: The President requests \$1.4 billion for the Retired Pay account, a \$39.4 million (or 2.8% increase) over the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. 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.

FY 2012 FMC Budget Request: The President requests \$26.2 million in FY 2012 for the activities of the FMC, an increase of \$767,000 (or 3 percent) above the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011.

Account	FY2011 CR (Expires March 4, 2011)	FY2012 President's Budget Request	<i>Difference of FY11 CR and FY12 Budget Request</i>	<i>% Difference of FY11 CR and FY12 Budget Request</i>
Formal Proceedings	\$8,271,111	\$8,620,451	\$349,340	4%
Equal Employment Opportunity	\$226,831	\$225,388	-\$1,443	-1%
Inspector General	\$770,607	\$799,409	\$28,802	4%
Operational and Administrative	\$16,229,451	\$16,619,752	\$390,301	2%
Total	\$25,498,000	\$26,265,000	\$767,000	3%

Formal Proceedings: The President requests \$8.6 million for the Formal Proceedings account, a \$349,340 (or 4% increase) over the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. 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 (\$214,094) 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.

FY 2012 MARAD Budget Request: The President requests \$357.8 million in FY 2012 for the activities of MARAD, a reduction of \$5.1 million (or -1.4 percent) below the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011.

Account	FY2011 CR (Expires March 4, 2011)	FY2012 President's Budget Request	<i>Difference of FY11 CR and FY12 Budget Request</i>	<i>% Difference of FY11 CR and FY12 Budget Request</i>
Operations and Training	\$149,750,000	\$161,539,000	<i>\$11,789,000</i>	<i>7.9%</i>
Assistance to Small Shipyards	\$15,000,000	\$0	<i>-\$15,000,000</i>	<i>-100.0%</i>
Ship Disposal Program	\$15,000,000	\$18,500,000	<i>\$3,500,000</i>	<i>23.3%</i>
Maritime Security Program	\$174,000,000	\$174,000,000	<i>\$0</i>	<i>0.0%</i>
Title XI - Administrative Expenses	\$4,000,000	\$3,740,000	<i>-\$260,000</i>	<i>-6.5%</i>
Title XI - Loan Guarantees	\$5,000,000	\$0	<i>-\$5,000,000</i>	<i>-100.0%</i>
Total	\$362,750,000	\$357,779,000	<i>-\$4,971,000</i>	<i>-1.4%</i>

Operations and Training: The President requests \$161.5 million for the Operations and Training (O&T) account, an increase of \$11.8 million (or 7.9 percent) above the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. 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 \$93.1 million for the U.S. Merchant Marine Academy, including \$64.2 million for Academy Operations, and \$28.9 million for capital

improvements, repairs, and maintenance; \$17.1 million for the six state maritime academies; and \$51.4 million for MARAD Operations and Programs.

The budget request does not include funding for the Marine Highways grant program. The program received \$7 million in funding within MARAD's Operations and Training account in the FY 2011 Continuing Resolution which expires on March 4, 2011.

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 \$15 million in annualized funding in the FY 2011 Continuing Resolution which expires on March 4, 2011.

Ship Disposal: The budget requests \$18.5 million for the Ship Disposal Program, a \$3.5 million increase (or 23 percent) above the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. The requested funding includes \$12.954 million for expenses related to the disposal of eight obsolete ships, and \$3.046 million to conduct the regulatory activities associated with storing the Nuclear Ship SAVANNAH.

Maritime Security Program: The budget requests \$174 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 is the same level of funding for MSP as provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. Together with unobligated balances carried forward from prior years, this request will provide the total FY 2012 program level of \$186 million necessary to fund the program at the FY 2012 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. The budget also proposes to rescind \$54 million in unobligated Title XI loan guarantees. MARAD currently has \$96 million in Title XI loan applications pending. The program received \$9 million in annualized funding in the FY 2011 Continuing Resolution which expires on March 4, 2011.

WITNESSES

The Subcommittees will hear testimony from the following 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