CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 28, 2007

H.R. 2830
Coast Guard Authorization Act of 2007

As ordered reported by the House Committee on Homeland Security on September 25, 2007

SUMMARY

H.R. 2830 would authorize the appropriation of $7.5 billion through fiscal year 2012, primarily for activities of the U.S. Coast Guard (USCG) for 2008. Assuming the appropriation of the authorized amounts, CBO estimates that implementing the bill would result in discretionary outlays of about $5 billion in fiscal year 2008 and $7.4 billion over the 2008-2012 period. (About $100 million would be spent after 2012, including $9 million specifically authorized to be appropriated for 2013.)

In addition, the bill addresses the contracting practices used by the Coast Guard for the Integrated Deepwater Program (IDP). Assuming appropriation of the necessary amounts, CBO estimates that the USCG would spend $5 million over the next two years to implement title VIII. That increase in spending would probably be more than offset by savings in future years—which could be hundreds of millions of dollars—but CBO cannot estimate the likely size of that savings or clearly identify what proportion of any long-term savings would be attributable to this legislation and what share would result from changes that the Coast Guard would implement under current law.

Several provisions of H.R. 2830 could result in small changes in offsetting receipts (a credit against direct spending), primarily from fees on commercial vessels, CBO estimates that any net change in direct spending under the bill would be minimal. We estimate that enacting this legislation would increase revenues from civil penalties by $8 million in 2008, by $31 million over the 2008-2012 period, and by $56 million over the 2008-2017 period.

H.R. 2830 contains intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) because it would preempt some state laws and impose new requirements that affect certain public and private vessels and others in the maritime industry. The aggregate costs to public and private entities of complying with those mandates are uncertain and would depend, in part, on future regulations. CBO estimates,

however, that those costs would not exceed the annual threshold established in UMRA for intergovernmental mandates ($66 million in 2007, adjusted annually for inflation) due to the small number of public entities involved. Because the costs to comply with some of the mandates would be substantial for private-sector entities, CBO estimates that the aggregate cost to those entities would exceed the annual threshold established by UMRA for private-sector mandates ($131 million in 2007, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effects of H.R. 2830 are summarized in Table 1. The costs of this legislation fall within budget functions 300 (natural resources and environment) and 400 (transportation).

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted early in fiscal year 2008 and that the authorized amounts will be appropriated for each year.

Spending Subject to Appropriation

USCG Authorizations for Fiscal Year 2008. The proposed authorization levels shown in Table 1 are those specified by the bill for discretionary accounts, excluding $26 million to be derived from the Oil Spill Liability Trust Fund (OSLTF). That amount, which consists of $24 million for operating expenses and $2 million for research, is already authorized under existing law. Estimated outlays are based on historical spending patterns for the Coast Guard.

For 2008, title I of the bill would authorize the appropriation of about $6.1 billion for USCG operations, including $127 million for reserve training and $12 million for environmental compliance. That title also would authorize the appropriation of about $1.2 billion for capital acquisitions and other multiyear projects, including $19 million for research activities and $16 million for bridge alterations. Of the amounts authorized by title I, $46 million would be derived from the OSLTF, including $26 million that is already authorized under existing law.

The bill also would authorize the appropriation of about $1.2 billion for Coast Guard retirement benefits in 2008, but that amount is excluded from this estimate because such benefits are considered an entitlement under current law and are not subject to appropriation. Thus, the authorization has no additional budgetary impact.

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 2830

	By Fiscal Year, in Millions of Dollars					
	2007	2008	2009	2010	2011	2012
SPENDING SUBJECT TO APPROPRIATION						
USCG Spending Under Current Law						
Budget Authority/Authorization Level [a]	7,164	26	0	0	0	0
Estimated Outlays	6,533	1,706	902	424	199	102
Proposed Changes						
USCG Authorization for 2008						
Authorization Level	0	7,349	0	0	0	0
Estimated Outlays	0	4,998	1,274	534	308	99
Ballast Water Treatment						
Authorization Level	0	31	31	31	31	31
Estimated Outlays	0	23	29	30	31	31
Other USCG Programs						
Authorization Level	0	7	7	5	6	3
Estimated Outlays	0	7	7	5	6	3
Integrated Deepwater Program						
Estimated Authorization Level	0	5	0	0	0	0
Estimated Outlays	0	3	2	0	0	0
Total Changes						
Estimated Authorization Level	0	7,392	38	36	37	34
Estimated Outlays	0	5,031	1,312	569	345	133
Total Spending Under H.R. 2830						
Estimated Authorization Level	7,164	7,418	38	36	37	34
Estimated Outlays	6,533	6,737	2,214	993	544	235
CHANGES IN REVENUES [b]						
Estimated Revenues	0	8	7	6	5	5

a. The 2007 level is the amount appropriated for that year for USCG discretionary programs. The $26 million shown for 2008 is the amount authorized to be appropriated from the Oil Spill Liability Trust Fund for Coast Guard operating expenses and research.

b. CBO estimates that revenue collections would sum to $56 million over the 2008-2017 period (see Table 2).

Ballast Water Treatment. Title V would require the Coast Guard to establish new standards and procedures for controlling the spread of aquatic invasive species through discharges of ballast water (water that is carried in tanks by some ships to maintain stability).

For this purpose, title V would authorize appropriations of $31 million a year. Of this amount, $22 million would be allocated for USCG activities and $9 million would be provided to the National Oceanic and Atmospheric Administration for related projects.

Other Coast Guard Programs. Other titles of the bill would authorize the appropriation of $3 million for each of fiscal years 2008 through 2012 for grants to local governments, nonprofit organizations, and others for training programs on fishing vessel safety, between $2 million and $3 million a year through 2011 to the Great Lakes Maritime Research Institute for maritime studies, and $2 million for each of fiscal years 2008 and 2009 for assessments of vessel traffic risk in Alaska.

The bill also would authorize whatever amounts are necessary for additional port security assets in the Virgin Islands, for a pilot project on biometric identification methods, and for expanded use of canine teams to detect narcotics and explosives. Based on information provided by the Coast Guard, CBO estimates that carrying out the activities authorized by these provisions would have no significant effect on the agency's operating budget.

Integrated Deepwater Program Reform. CBO estimates that complying with the requirements of title VIII would increase the Coast Guard's cost to administer IDP by $5 million over the next two years, assuming appropriation of the necessary amounts. We expect that the USCG would spend most of this amount to create a new position of chief acquisition officer, to hire and compensate new contract officers for each class of cutter and aircraft acquired under IDP, and to perform a comprehensive cost estimate for the initiative. We estimate that the cost of implementing other administrative requirements, such as testing and certifying vessels to meet U.S. Navy standards, would not add significantly to the costs of the Deepwater initiative.

The budgetary impact of other provisions of the title is uncertain—as is the cost of the Deepwater initiative under existing law. According to the Inspector General of the Department of Homeland Security (DHS), the Coast Guard's most recent cost estimate for the program—$24 billion—is likely to be too low because it does not take into account costs of hundreds of millions of dollars resulting from delays, design failures, and other problems. Title VIII would seek to address those problems by requiring greater agency supervision and more reliance on competitive bidding. CBO expects that those reforms would result in savings, but we cannot estimate the magnitude of such savings or predict the extent to which some savings would be realized by implementing similar reforms under current law.

Pending Acquisitions. CBO expects that implementing the bill would not directly affect pending acquisitions of certain classes of assets, such as the national security cutter and the maritime patrol aircraft, two assets that the USCG has already begun acquiring from its chosen contractor. The bill would exempt those and other specified projects from its requirements on management and competitive bidding if certain conditions are met. The administrative burden of meeting those conditions could cause delays in acquiring some fleet replacements and thus result in additional operating and maintenance costs over the next few years for existing assets. Similar delays, however, may occur under current law; the Coast Guard has already begun revising the design of those assets to address known problems.

Future Acquisitions. Title VIII would require that future phases of IDP be subject to open competition and other reforms. The resulting savings from such reforms could be significant—perhaps hundreds of millions of dollars—but cannot be estimated with any precision. Moreover, many of the contracting changes may occur even in the absence of legislation. For example, the Coast Guard recently announced that it intends to begin managing the program itself rather than relying on a private systems integrator. The agency has also begun implementing some of the other reforms suggested by DHS, such as more reliance on competition and independent analysis.

Any costs or savings that result from implementing the bill would depend on corresponding changes in annual appropriation acts. Annual funding for acquisitions under the program has varied widely—from $320 million in fiscal year 2002 to more than $1.1 billion to date for 2007. The President's budget request for 2008 includes nearly $840 million for the program.

Changes in Direct Spending

Section 323 would authorize the Coast Guard to extend for one year certain expiring maritime licenses, certificates of registry, and merchant mariner documents. The authority to provide such extensions would apply through June 2009. Because the extensions would delay the collection of USCG fees charged for such documents, enacting this provision could reduce offsetting receipts (an offset against direct spending) over the next year or two. Some of those receipts may be spent without further appropriation, however, to cover collection expenses. CBO estimates that the net effect in direct spending from enacting the bill would be less than $500,000 a year in 2008 and 2009.

Several provisions of H.R. 2830 would direct the USCG to donate real and personal property to various parties such as local governments or nonprofit organizations. Because some of the affected vessels, aircraft, and real estate could have been sold as surplus property under existing law, donating such assets could result in forgone offsetting receipts. Based on information provided by the Coast Guard, however, CBO estimates that such losses would be less than $500,000 a year.

Revenues

H.R. 2830 would establish new penalties and raise other existing penalties, resulting in estimated new revenue collections of $31 million over the 2008-2012 period and $56 million over the 2008-2017 period (see Table 2).

Section 304 would impose a new civil penalty on individuals on vessels with a controlled substance, section 308 would impose a civil penalty on vessel owners or operators who do not keep mariner records for at least five years, and section 503 would raise civil penalties for ballast water management violations. CBO estimates that those provisions would increase revenues by less than $500,000 a year.

Additionally, title VI would impose new civil penalties for smuggling people into the United States on vessels, with the penalties varying based on the physical condition of the individuals being smuggled. The Coast Guard expects that it would collect new penalties under the bill from fewer than 100 smugglers a year, at a rate of about $100,000 per violation. Based on other information obtained from the Coast Guard regarding the number of individuals who are injured or die while being smuggled and on CBO assumptions regarding the effectiveness of federal penalties on smuggling activities, we estimate that enacting title VI would increase revenues by $8 million in 2008. We expect the number of violations to fall after 2008. Total estimated revenue collections would be $31 million over the 2008-2012 period and $56 million over the 2008-2017 period.

TABLE 2. ESTIMATED REVENUE IMPACT FROM ENACTING H.R. 2830

	By Fiscal Year, in Millions of Dollars											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
CHANGES IN REVENUES												
Penalties for Alien Smuggling												
Estimated Revenues	8	7	6	5	5	5	5	5	5	5	31	56

INTERGOVERNMENTAL AND PRIVATE SECTOR IMPACT

H.R. 2830 would impose intergovernmental and private-sector mandates, as defined in UMRA, on owners and operators of certain vessels and others in the maritime industry. Those mandates include, but are not limited to:

- Safety requirements for certain vessels;
- Standards for treating ballast water for certain vessels; and
- Security, employee protection, and other requirements on businesses and employees in the maritime industry.

The aggregate costs of the mandates in the bill are uncertain because many of them would depend on regulations to be developed under the bill. However, CBO estimates that those costs would not exceed the annual threshold established in UMRA for intergovernmental mandates ($66 million in 2007, adjusted annually for inflation) due to the small number of public entities involved. Because the costs to comply with some of the mandates would be substantial for private-sector entities, CBO estimates that the aggregate cost to those entities would exceed the annual threshold established by UMRA for private-sector mandates ($131 million in 2007, adjusted annually for inflation).

Mandates that Apply to Both Public and Private Entities

Safety Equipment and Management Requirements. H.R. 2830 would require owners and operators of commercial and public vessels to carry approved survival craft that ensure that no part of an individual is immersed in water. All survival craft would have to meet this standard by January 1, 2013. The costs to comply with this mandate would depend on how the Coast Guard would implement the new standard. However, because most public vessels do not use survival craft that immerse individuals in water, CBO estimates that additional costs to public entities would be minimal. Because of the large number of private vessels that would be affected (each of which carry anywhere from one to hundreds of survival craft), CBO estimates that compliance costs for the private sector could be substantial relative to UMRA's threshold.

The bill also would require certain domestic passenger vessels to implement safety management procedures as determined by the Secretary of Homeland Security. According to the Coast Guard and industry sources, the costs to public and private entities could vary widely depending on the coverage and scope of those procedures. However, only a small number of public entities would be affected by those requirements. CBO cannot estimate the total cost of this mandate to private entities because it would depend on future regulations.

Treatment of ballast water. Current regulations require U.S. and foreign vessels with ballast tanks that operate in the waters of the United States and that are bound for ports or places in the United States to report on and conduct activities relating to the exchange of ballast water. The bill would place additional requirements on those vessels by requiring new systems for treating ballast water. In addition, new vessels built after 2008 would have to meet specific design and construction requirements for water treatment systems to be eligible to operate in U.S. waters.

According to several industry experts and the Coast Guard, water treatment systems currently available would cost between $300,000 and $1 million to install per ballast system. Some vessels that would need these systems may have as many as 20 ballast tanks, and each tank would have to be fitted with a treatment system. While vessels owned by state and local governments that do not meet exemption standards would be required to comply, CBO estimates that the costs to those entities would be small because we expect that few publicly owned vessels would be affected. CBO estimates that the cost for the private sector to comply with this mandate would exceed the threshold for private-sector mandates in at least one year over the 2008-2012 period.

Other Mandates on the Maritime Industry. The bill also would impose new requirements on public entities, businesses, and employees in the maritime industry. For example, the bill would impose new security requirements on liquified natural gas facilities; require owners and operators of public and commercial vessels, including cruise ships, to comply with new recording requirements; require ports to include in their security plans provisions that allow crew members, pilots, and representatives of crew members to leave and reboard ships without paying escort fees; allow the Secretary of Transportation to subpoena information in the course of an investigation related to the ballast water requirements; and provide certain whistleblower protections for maritime employees. CBO estimates that the additional costs to comply with those mandates would be small because compliance likely would involve only a small adjustment in current procedures, or because public entities would be unlikely to engage in the prohibited activities. The cost of some of the mandates, however, would depend on regulatory action taken under the bill and cannot be estimated at this time.

Mandates that Apply to Public Entities Only

The bill also would preempt state and local laws that would be inconsistent or conflict with the new federal requirements. CBO estimates that the additional costs to comply with that mandate would be small because compliance likely would involve only a small adjustment in current procedures.

Mandates that Apply to Private Entities Only

Safety Requirements for Fishing Industry Vessels. H.R. 2830 would impose new safety requirements on owners and operators of commercial fishing vessels. The bill also would require the individuals in charge of commercial fishing vessels operating beyond three nautical miles of the U.S. coast to keep a record of equipment maintenance and to pass a safety training program and a refresher training once every five years. The cost of recordkeeping would be minimal. The new safety training program, however, would have to include training in collision prevention, personal survival, and emergency medical care. According to industry sources, the cost of similar training programs currently available is between $100 and $500 per person. Such sources also indicate that thousands of U.S. commercial fishing captains nationwide and others would have to comply with the training requirement. The bill also would establish a grant program to provide training on commercial fishing safety.

The bill would establish safety equipment standards for certain commercial fishing industry vessels operating beyond three nautical miles of the coast. In addition, beginning in 2008, the bill would require that such vessels that are less than 50 feet in length be constructed in a manner that provides a level of safety equivalent to the minimum safety standards established by the Coast Guard that apply to recreational vessels. The cost to comply with those mandates would depend on the standards to be set by the Coast Guard.

Other Impacts

Other provisions of the bill would benefit state and local governments. In particular, the bill would likely increase sales tax receipts in Idaho and Alaska by clarifying that certain providers of recreation vessels are subject to sales taxes on rentals. The bill also would benefit state and local governments and public universities by conveying certain boathouses, ships, aircraft, and land rights to those governments and entities, and by authorizing certain grant programs.

PREVIOUS CBO ESTIMATES

On August 29, 2007, CBO transmitted a cost estimate for H.R. 2830 as ordered reported by the House Committee on Transportation and Infrastructure on June 28, 2007. The two versions of the legislation are very similar. The estimated costs of the bill as approved by the Committee on Homeland Security are higher because it would authorize $229 million more (in 2008) for USCG acquisitions.

On July 17, 2007, CBO transmitted a cost estimate for H.R. 2722, the Integrated Deepwater Program Reform Act, as ordered reported by the House Committee on Transportation and Infrastructure on June 28, 2007. On May 10, 2007, we transmitted a cost estimate for S. 924, the Integrated Deepwater Program Reform Act, as ordered reported by the Senate Committee on Commerce, Science, and Transportation on April 25, 2007. S. 924, H.R. 2722, and title VIII of H.R. 2830 address similar issues and would have similar budgetary effects if enacted. CBO estimates that H.R. 2830, like H.R. 2722, would have lower up-front costs than S. 924 because it would not require the Coast Guard to contract with a third party to perform a major analysis of IDP.

Both versions of H.R. 2830 contain the same intergovernmental mandates and essentially the same private-sector mandates. The version ordered reported by the Homeland Security Committee contains some additional private-sector mandates (on commercial vessels and certain facilities), but CBO estimates that the costs of the additional requirements to the private sector would minimal.

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