



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

Washington, DC 20515

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June 21, 2013

SUMMARY OF SUBJECT MATTER

TO: Members, Subcommittee on Coast Guard and Maritime Transportation
FROM: Staff, Subcommittee on Coast Guard and Maritime Transportation
RE: Hearing on "Coast Guard Readiness: Examining Cutter, Aircraft, and Communications Needs"

PURPOSE

The Subcommittee on Coast Guard and Maritime Transportation will meet on Wednesday, June 26, 2013, at 10:00 a.m., in 2167 Rayburn House Office Building to receive testimony regarding the status of the Coast Guard's current acquisition program and examine the program's sustainability. The Subcommittee will hear from the United States Coast Guard, the Congressional Research Service, The Heritage Foundation, and the Center for American Progress.

BACKGROUND

Coast Guard Recapitalization

The Coast Guard began a process of recapitalizing its aging vessels and aircraft in the late 1990's. The program's focus was to replace those assets that carry out missions farther than 50 miles from shore and to modernize information technology systems that the Service relies upon to coordinate its operations. The program was known as the Integrated Deepwater Systems (Deepwater). To manage the acquisition program, the Coast Guard engaged a Lockheed Martin/Northrop Grumman team, called the Integrated Coast Guard System (ICGS).

Deepwater encountered significant quality and cost issues. It was the subject of several hearings and an investigation by the Committee. It is also the subject of continuing review by the Government Accountability Office (GAO). Although the ICGS accomplished some goals, such as delivering a reengineered HH-65 helicopter, the Coast Guard terminated the contract with the ICGS in 2007 and is now performing the

acquisition functions in-house. The assets scheduled for recapitalization remain the same.

Fiscal Year 2014 Budget Request for Coast Guard Acquisitions

The President requests \$909 million for the Acquisitions, Construction, and Improvements (AC&I) account in fiscal year (FY) 2014, \$634.2 million (or 41 percent) less than the FY 2013 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 \$830.9 million for the acquisition of aircraft, vessels, and command, control, communications, computer, intelligence, surveillance and reconnaissance (C4ISR) systems. This represents a reduction of \$506.4 million (or 38 percent) below the FY 2013 enacted level. The budget request includes:

- \$616 million to complete construction of the seventh National Security Cutter (NSC). No funding is included for Long Lead Time Materials for NSC #8, which will delay the production line and increase costs;
- \$75 million to acquire two Fast Response Cutters (FRC). The FRC is replacing the Coast Guard's nearly 30 year-old 110-foot Patrol Boats. The current contract requires the Coast Guard to acquire at least four FRCs each year. Acquiring two will delay the production of FRCs and increase costs;
- \$25 million to continue the development of the Offshore Patrol Cutter (OPC). The OPC program, the largest cost-driver in the current recapitalization program, is supposed to replace the Service's aging 210-foot and 270-foot Medium Endurance Cutters (MEC);
- \$16 million for modernization and sustainment of the HC-130H Long Range Surveillance Aircraft fleet;
- \$12 million for the continued modernization and sustainment of the HH-65 Dolphin helicopter fleet;
- \$59.9 million for C4ISR acquisition, program management, systems engineering and integration, and the Nationwide Automatic Identification System; and
- \$2 million to survey and design a new polar icebreaker.

The Administration proposes to eliminate funding for the following acquisition programs in FY 2014:

- HC-144A Maritime Patrol Aircraft: The Coast Guard's program of record for this procurement calls for the acquisition of 36 MPA to replace the obsolete HU-25 Falcon aircraft and some HC-130H aircraft. To date, funding has been secured to acquire 18 MPA and 17 Mission System Pallets, which provide the MPA with the necessary avionics to support Coast Guard missions. Though the Service has not yet submitted a plan to make up lost patrol hours that come as a result of not

fulfilling this acquisition, the Secretary of Homeland Security has requested at least 14, and as many as 21, C-27 Spartan aircraft being excessed by the Air Force be transferred to the Coast Guard.

- **Response Boat – Medium:** The Coast Guard’s program of record for this procurement calls for the acquisition of 180 Response Boat – Mediums (RB-M) to replace the aged, slow, and obsolete 41 foot utility boat. To date, funding has been secured to acquire 170 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 upgrade the helicopter’s radar sensor system to improve the asset’s ability to conduct search and rescue. The Service now proposes to delay these upgrades.

The budget requests \$120.2 million in other capital costs, 87.9 million (or 42 percent) less than the FY 2013 enacted level. This includes \$115 million in personnel costs to execute AC&I programs and \$5 million to construct shore facilities and aids to navigation. The Coast Guard currently has a backlog of 28 prioritized shore facility improvement projects with an estimated combined cost of nearly \$500 million.

Finally, no funding is included in the budget request to rehabilitate housing for Coast Guard servicemembers and their dependents. The account received \$10 million in FY 2013 funding. Much of the Service-owned housing is decades old and in poor condition. The Coast Guard recently completed a survey of the condition of its servicemember housing to help the Service better direct investments.

Issues

Mission Need Statement

In 1996, the Coast Guard developed a Mission Need Statement (MNS) to identify how Deepwater would fill capability gaps in its missions and establish a baseline for the numbers, types, and capabilities of new and recapitalized assets that would be needed to meet the Service’s mission requirements. In 2005, The Coast Guard revised the 1996 MNS to accommodate additional capabilities needed to meet post-September 11 mission requirements. The 2005 MNS guided the creation of a new program of record approved in 2007 with a baseline of 20 to 25 years for construction and delivery of recapitalized assets at a total cost of \$24.2 billion.

In July 2011, the GAO released a report entitled “Action Needed As Approved Deepwater Program Remains Unachievable” (GAO-11-743). The title refers to the GAO’s finding that it will be impossible for the Coast Guard to complete its major

acquisitions without breaching its 2007 baseline. Among other reasons for the breach, the GAO found that funding requested by current and past administrations has not been sufficient to meet acquisition timelines, and the Service has not conducted a comprehensive reanalysis of the current recapitalization program to examine tradeoffs between budget constraints, timelines, capabilities, and asset quantities. As a result, the GAO estimated it could take an additional 10 years to complete the current recapitalization program and the cost could increase by at least \$5 billion.

Since the publication of the GAO's report, the Coast Guard and the Department of Homeland Security (DHS) have released two studies that reassessed the large cutters being acquired under the current recapitalization program: the Fleet Mix Analysis Phase II (FMA II) and the Major Cutter Study. The purpose of the studies was to assess the current acquisition program and alternatives to determine the best mix of cutters to meet Coast Guard mission requirements laid out in the 2005 MNS.

- Fleet Mix Analysis Phase II - The 2007 baseline calls for acquiring a mix 91 new cutters (8 NSCs, 25 OPCs, 58 FRCs). However, the Coast Guard estimates that after completing the acquisition of 91 new cutters, the Service would still experience mission capability gaps in 6 of its 11 statutory missions. To examine the issue, the Coast Guard conducted its Fleet Mix Analysis Phase I (FMA I) which determined the number of cutters that would be needed to completely fill the Service's mission capability gaps. The objective fleet mix included in FMA I calls for a mix of 157 new cutters (9 NSCs, 57 OPCs, 91 FRCs). In November 2011, the Coast Guard released its FMA II which applied budget constraints on the FMA I analysis. FMA II calls for the acquisition of 149 new cutters (9 NSCs, 49 OPCs, 91 FRCs).
- DHS Major Cutter Study - DHS released its Major Cutter Study in December 2011. This study evaluated the anticipated mission effectiveness of the Coast Guard's current acquisition program of record for both the NSC and OPC against alternative fleet mixes. These mixes included varying numbers of both assets, as well as the possibility of substituting either a modernized 270 foot Medium Endurance Cutter or a Coast Guard variant of the Navy's Littoral Combat Ship for the OPC. DHS found that while some of the alternative mixes provided advantages in some mission areas, no alternative could match the program of record in every mission area. Additionally, those advantages would not be realized for several decades. As such, DHS concluded that the study validates the 2007 program of record.

In April 2013, DHS announced it would conduct a "comprehensive portfolio review" that will revise the programs of record and operational requirements for assets to be acquired under the recapitalization program to better meet projections of future years funding.

Acquisition Delays

Problems with Deepwater led to considerable delays in the delivery of new and refurbished assets. The Service does not expect to complete the current recapitalization program until the mid-2030's, approximately ten years behind schedule. In the meantime, the Service's legacy vessels and aircraft are either approaching, or have exceeded, their intended service lives. The age of the legacy assets, coupled with increased operations tempos, have led to increased rates of failure among the assets' parts and major systems. This, in turn, has increased scheduled and unscheduled maintenance costs and reduced patrol hours which have negatively impacted operational readiness and mission performance.

In its August 2012 report entitled "Legacy Vessels' Declining Conditions Reinforce Need for More Realistic Operational Targets" (GAO-12-741), the GAO found that scheduled maintenance costs for legacy assets increased 32 percent from fiscal years 2008 to 2011. The GAO also found that the Service's legacy fleet of vessels was not able to achieve operational targets for percent time free of casualty or operational hours. As a result of the failure of its legacy assets to operate at target levels, the Service reported that from fiscal years 2007 through 2010, it reduced the hours spent conducting drug interdiction activities by 65 percent and the number of operational hours spent conducting alien interdiction activities declined by 40 percent.

Unplanned Capital Needs

Delays in the acquisition program have exacerbated existing capability gaps and created new ones. In addition, as the years have gone by, the new acquisition needs have been identified that the Service has yet to plan or budget for. For instance:

- Medium Endurance Cutters - Under the Coast Guard's current recapitalization program, the 210 and 270 foot MECs will be in service into the mid-2030's before the fleet will be fully replaced by the new OPC. However, the recently completed Mission Effectiveness Project for the MECs will not extend the service life of the MECs until that time. The Coast Guard has informed staff it is convening a Ship Structure Machinery Engineering Board to begin the process of evaluating the current condition of the MEC fleet and examine ways to extend the fleet's service life.
- HH-60 and HH-65 Helicopter Fleet - Under the Coast Guard's current recapitalization program, the Service's fleet of medium range HH-60 and short range HH-65 helicopters have undergone a series of upgrades to extend their service lives. However, both aircraft are expected to reach the end of their service lives in 10 to 15 years. The Service has not begun the process of planning for their replacements.

WITNESSES

Panel I

Vice Admiral John Currier
Vice Commandant
United States Coast Guard

Panel II

Ronald O'Rourke
Specialist in Naval Affairs
Congressional Research Service

Dr. Steven Bucci
Director, Douglas and Sarah Allison Center for Foreign Policy
The Heritage Foundation

Dr. Lawrence Korb
Senior Fellow
Center for American Progress