



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

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Washington, DC 20515

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March 21, 2014

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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 “President’s Fiscal Year 2015 Budget Request for Coast Guard and Maritime Transportation Programs”

PURPOSE

On Wednesday, March 26, 2013, at 9:30 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) 2015 budget requests for the United States Coast Guard, the Federal Maritime Commission (FMC), and the Maritime Administration (MARAD). The Subcommittee will hear from the Commandant and Master Chief Petty Officer of the Coast Guard, the Administrator of MARAD, and the Chairman of the FMC.

BACKGROUND

Coast Guard

The 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).

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 one of the five armed forces 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 to a four-year term. In 2010, President Obama appointed Admiral Robert J. Papp, Jr. as Commandant of the Coast Guard. On February 28, 2014, the President nominated Vice Admiral Paul F. Zunkunft to succeed Admiral Papp.

FY 2015 Coast Guard Budget Request

The President requests \$9.79 billion in FY 2015 for the activities of the Coast Guard, \$567 million (or 5.5 percent) less than the FY 2014 enacted level. Of the \$9.79 billion requested, \$8.13 billion is for Coast Guard discretionary accounts, \$364 million (or 4.3 percent) less than the FY 2014 enacted level. This amount does not include funding for Overseas Contingency Operations/Global War on Terrorism (OCO). The Administration is expected to send Congress a FY 2015 budget amendment in the coming weeks that will request OCO funding for the Coast Guard through the Department of Defense (DoD).

Program	FY 2014 Enacted	FY 2015 President's Budget Request	Diff. Bet. FY 2015 Request & FY 2014 Enacted	% Diff. Bet. FY 2015 Request & FY 2014 Enacted
Operating Expenses	\$6,784,807,000	\$6,750,733,000	(\$34,074,000)	-0.5%
Environmental Compliance & Restoration	\$13,164,000	\$13,214,000	\$50,000	0.4%
Reserve Training	\$120,000,000	\$109,605,000	(\$10,395,000)	-8.7%
Acquisition, Construction & Improvements	\$1,375,635,000	\$1,084,193,000	(\$291,442,000)	-21.2%
Alteration of Bridges	\$0	\$0	\$0	0.0%
Research, Development, Test & Evaluation	\$19,200,000	\$17,947,000	(\$1,253,000)	-6.5%
Medicare-Eligible Retiree Health Care Fund Contribution	\$185,958,000	\$158,930,000	(\$27,028,000)	-14.5%
Subtotal, Discretionary	\$8,498,764,000	\$8,134,622,000	(\$364,142,000)	-4.3%
Retired Pay	\$1,460,000,000	\$1,449,451,000	(\$10,549,000)	-0.7%
State Boating Safety Grants	\$105,873,000	\$111,842,000	\$5,969,000	5.6%
Oil Spill Liability Trust Fund Claims	\$299,741,000	\$101,000,000	(\$198,741,000)	-66.3%
Subtotal, Mandatory	\$1,865,694,000	\$1,662,373,000	(\$203,321,000)	-10.9%
Total	\$10,364,458,000	\$9,796,995,000	(\$567,463,000)	-5.5%

Operating Expenses: The President requests \$6.75 billion for Coast Guard Operating Expenses (OE) in FY 2015, \$34 million (or 0.5 percent) less than the FY 2014 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 41,000 active duty military members, 8,000 reservists, and 8,600 civilian employees.

The budget for OE includes increases in funding to cover follow-on costs for the operation and maintenance of new assets and technology acquired in FY 2014 and increases in other administrative expenses. The request includes a \$75 million increase to cover the cost of

the Administration's proposed one percent pay raise for military personnel in FY 2015, as well as expanded military benefits enabling Coast Guard servicemembers to maintain parity with benefits received by DoD servicemembers. It also includes a \$5.8 million increase to cover the cost of the Administration's proposed one percent pay raise for civilian personnel. Finally, it includes a \$3.5 million increase to conduct emergency hull corrosion repairs and other crew safety related maintenance on the Service's fleet of 210-foot Medium Endurance Cutters (MEC).

These increases are offset by \$251.3 million in cuts derived through decommissioning certain assets, reducing the number of military and civilian positions, cutting certain military benefits, as well as reductions in personnel, travel, support, and other administrative costs. The proposed reductions in the OE account include:

- *Cuts to Personnel:* The FY 2015 request proposes to cut the size of the Coast Guard's workforce by 815 positions (across all accounts). This includes a reduction of 745 servicemembers and 70 civilians. These are net reductions representing a decline in positions from decommissioning certain assets, reducing flight hours, and closing facilities, as well as reducing the number of personnel responsible for inspecting vessels entering U.S waters. The budget also proposes to cut one flag officer position and two SES positions.
- *Cuts to Military Pay:* The FY 2015 request proposes to reduce military special pay used to compensate Coast Guard servicemembers for at-sea and certain hazardous duty. The Coast Guard estimates these cuts to military pay will save \$7.5 million in FY 2015.
- *Fixed Wing Aircraft Bravo-Zero Response:* The FY 2015 budget proposes to remove the Bravo-Zero readiness requirement for fixed wing aircraft and crews at Coast Guard air stations located in the continental United States. Bravo-Zero readiness requires crews and aircraft be capable of launch within 30 minutes of receiving orders. The Coast Guard estimates this reduction in readiness will save \$2.2 million in FY 2015. The Service has not yet provided the Subcommittee with an analysis of the impact this proposal will have on response times in search and rescue cases.
- *Airborne Use of Force:* The FY 2015 request proposes to eliminate the Coast Guard's Airborne Use of Force (AUF) capability by no longer arming its fleet of HH-65 and HH-60 helicopters and deploying them as part of its ports, waterways, and coastal security mission. The Coast Guard estimates eliminating AUF capability will save \$921,000 in FY 2015. The Coast Guard recently spent more than \$100 million to outfit its fleet of HH-65 helicopters for AUF capability.
- *HC-144A Aircraft Flight Hour Reduction:* The FY 2015 request proposes to reduce the number of programmed flight hours for the new HC-144A Maritime Patrol Aircraft by 200 hours (or 17 percent) per aircraft, per year. The Coast Guard estimates the reduction in flight hours will save \$4.9 million in FY 2015. The Service currently experiences a gap of approximately 40,000 resource hours annually between what its fleet of fixed wing aircraft provides and its resource hours goal included in its 2004 Mission Need Statement.

- *High Endurance Cutters:* The FY 2015 request proposes to decommission two High Endurance Cutters (WHEC). First commissioned in 1967, the 378-foot WHEC fleet is failing at an increased rate, resulting in lost operational days and increased maintenance costs. The Coast Guard estimates decommissioning two WHECs will save \$14.9 million in FY 2015. The WHEC fleet is being replaced by the National Security Cutter (NSC). Three NSCs have been delivered to date. The Service expects to take delivery of a fourth NSC this year and a fifth in FY 2015.
- *Aids-to-Navigation:* The FY 2015 request proposes to reduce the number of aids-to-navigation it maintains, cut the number of military billets associated with the mission, and close an aids-to-navigation facility in Eufaula, Alabama. The Coast Guard estimates this action will save \$6 million in FY 2015.

Environmental Compliance and Restoration: The President requests \$13.2 million for the Environmental Compliance and Restoration (EC&R) account in FY 2015, \$50,000 (or 0.4 percent) more than the FY 2014 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 are safe to operate or can be 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 203 EC&R projects with an estimated combined cost of over \$143 million.

Reserve Training: The President requests \$109.6 million for the Reserve Training account in FY 2015, \$10.4 million (or 8.7 percent) less than the FY 2014 enacted level. The Reserve Training account funds the costs of training members of the Coast Guard Reserve and the administration of the Reserve Program.

The FY 2015 request proposes to move 600 reservists from the Selected Reserve to the Inactive Ready Reserve. This reduces the number of regularly trained Coast Guard Reservists to approximately 7,000. The reduction in the number of Selected Reservists enables the Service to cut the number of personnel responsible for training Reservists by 58 positions.

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 \$1.08 billion for the Acquisitions, Construction, and Improvements (AC&I) account in FY 2015, \$291.4 million (or 21.2 percent) less than the FY 2014 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 \$928.3 million for the acquisition of aircraft, vessels, and command, control, communications, computer, intelligence, surveillance, and reconnaissance (C4ISR) systems. This represents a reduction of \$310.94 million (or 25 percent) from the FY 2014 enacted level. The budget request includes:

- \$638 million to complete construction of the eighth National Security Cutter (NSC) and conduct the first dry docking of NSC #1 (BERTHOLF) to repair structural defects;
- \$110 million to acquire two Fast Response Cutters (FRC). The FRC is replacing the Coast Guard's nearly 30 year-old 110-foot Patrol Boats. Acquiring two will delay the production of FRCs and increase costs;
- \$20 million to continue the development of the Offshore Patrol Cutter (OPC). The OPC is supposed to replace the Service's aging 210-foot and 270-foot MECs;
- \$15 million to establish an Asset Project Office and begin training on the new HC-27J aircraft slated for transfer from the Air Force to the Coast Guard. The request does not fund missionization costs for the HC-27Js. The Coast Guard has yet to provide the Subcommittee an estimate of these costs;
- \$30 million for the modernization and sustainment of the HH-65 Dolphin helicopter fleet;
- \$36.3 million for C4ISR acquisition, program management, and systems engineering and integration; and
- \$6 million for survey and design of a new polar icebreaker.

The budget requests \$155.8 million in other capital costs, \$19.5 million (or 14 percent) more than the FY 2014 enacted level. This includes \$115 million in personnel costs to execute AC&I programs and \$40.6 million to construct shore facilities and aids-to-navigation. The Coast Guard currently has a backlog of prioritized shore facility improvement projects with an estimated combined cost of over \$138 million.

Finally, no funding is included in the budget request to rehabilitate housing for Coast Guard servicemembers and their dependents. The account received \$18 million in FY 2014. 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.

Alteration of Bridges: The President does not request funding for the Alteration of Bridges program in FY 2015. The program did not receive funding in FY 2014. 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 that are determined by the Service to obstruct marine navigation.

Research, Development, Test, and Evaluation: The President requests \$17.9 million for the Coast Guard's Research, Development, Test, and Evaluation (RDT&E) account, \$1.3 million (or 6.5 percent) less than the FY 2014 enacted level. The RDT&E account 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 \$17.9 million requested for RDT&E in FY 2015 to improve its modeling and simulation capabilities and develop new technologies for the detection and recovery of oil and hazardous substances from the sea column and in the Arctic environment; to test new unmanned systems; and to develop new systems to improve intelligence collection and dissemination.

Coast Guard FY 2015 Authorized Funding

On February 11, 2014, the Transportation and Infrastructure Committee ordered reported H.R. 4005, the Howard Coble Coast Guard and Maritime Transportation Act of 2014. H.R. 4005 authorized funding for the discretionary accounts of the Coast Guard for FY 2015 and FY 2016. Below is a comparison of the FY 2015 authorized level to the President’s FY 2015 budget request.

Program	FY 2015 President's Budget Request	H.R. 4005 FY 2015 Authorized Level
Operating Expenses	\$6,750,733,000	\$6,981,036,000
Environmental Compliance & Restoration	\$13,214,000	\$16,701,000
Reserve Training	\$109,605,000	\$140,016,000
Acquisition, Construction, & Improvements	\$1,084,193,000	\$1,546,448,000
Research, Development, Test & Evaluation	\$17,947,000	\$19,890,000
Total	\$7,975,692,000	\$8,704,091,000

Federal Maritime Commission

The FMC was established in 1961 as an independent agency which regulates ocean borne transportation in the foreign commerce of the United States. 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 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. The Commission is led by a Chairman designated by the President. On April 1, 2013, the President designated Commissioner Mario Codero as Chairman.

FY 2015 FMC Budget Request

The President requests \$25.7 million in FY 2015 for the activities of the FMC, \$991,000 (or 4 percent) more than the FY 2014 enacted level.

Account	FY2014 Enacted	FY2015 President's Budget Request	Diff. Bet. FY2015 Request & FY2014 Enacted	% Diff. Bet. FY2015 Request & FY2014 Enacted
Formal Proceedings	\$7,832,382	\$8,151,100	\$318,718	4.1%
Equal Employment Opportunity	\$190,160	\$191,544	\$1,384	0.7%
Inspector General	\$673,399	\$751,337	\$77,938	11.6%
Operational and Administrative	\$15,973,059	\$16,566,018	\$592,959	3.7%
Total	\$24,669,000	\$25,659,999	\$990,999	4.0%

H.R. 4005 authorizes the activities of the FMC at \$24.7 million for each of the FYs 2015 and 2016.

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 U.S. 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. The President nominated Paul "Chip" Jaenichen, Sr. to serve as Administrator on September 11, 2013. He is currently serving as Acting Administrator.

FY 2015 MARAD Budget Request

The President requests \$658.3 million in FY 2015 for the activities of MARAD, \$281 million (or 74.5 percent) more than the FY 2014 enacted level. This substantial increase in funding is the result of a legislative proposal to transfer funding for the management of the Ready Reserve Fleet from the DoD to MARAD. Without this transfer, the budget proposes \$10 million (or 2.6 percent) less than the FY 2014 enacted level.

Account	FY2014 Enacted	FY2015 President's Budget Request	% Diff. Bet. FY2015 Request & FY2014 Enacted	Diff. Bet. FY2015 Request & FY2014 Enacted
Operations and Training	\$148,003,000	\$148,400,000	\$397,000	0.3%
Assistance to Small Shipyards	\$0	\$0	\$0	0.0%
Ship Disposal Program	\$4,800,000	\$4,800,000	\$0	0.0%
Maritime Security Program	\$186,000,000	\$211,000,000	\$25,000,000	13.4%
Title XI - Administrative Expenses	\$3,500,000	\$3,100,000	(\$400,000)	-11.4%
Title XI - Loan Guarantees	\$35,000,000	\$0	(\$35,000,000)	-100.0%
Ready Reserve Force	\$0	\$291,000,000	\$291,000,000	-
Total	\$377,303,000	\$658,300,000	\$280,997,000	74.5%

Operations and Training: The President requests \$148.4 million for the Operations and Training (O&T) account, \$397,000 (or 0.3 percent) more than the FY 2014 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 \$79.8 million for the U.S. Merchant Marine Academy, including \$65.3 million for Academy Operations, and \$14.5 million for capital improvements, repairs, and maintenance; \$17.7 million for the six state maritime academies; and \$50.9 million for MARAD Operations and Programs. The budget does not request funding for the Marine Highways Grant Program.

Assistance to Small Shipyards: The budget does not request funds 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 did not receive funding in FY 2014. H.R. 4005 reauthorizes the program through FY 2016 at \$10 million, the current authorized level.

Ship Disposal: The budget requests \$4.8 million for the Ship Disposal Program, consistent with the FY 2014 enacted level. The requested funding will cover expenses related to the disposal of up to 10 ships in the National Defense Reserve Fleet in FY 2015. However, MARAD does not anticipate removing any ships from the Suisun Bay Reserve Fleet in Suisun Bay, CA in FY 2015.

Maritime Security Program: The budget requests \$211 million for the Maritime Security Program (MSP) in FY 2015, \$25 million (or 13 percent) more than the FY 2014 enacted level. Under this program, \$186 million in direct payments are divided among 60 U.S. flagged vessel operators engaged in foreign trade. Vessel operators that participate in MSP are required to keep their vessels in active commercial service and provide intermodal sealift support to the DoD in times of war or national emergency.

The additional \$25 million in the request for MSP will be used to reimburse U.S. flagged vessel operators for the cost of employing additional U.S. mariners displaced by a restructuring of the Food for Peace Program (P.L. 480) proposed by the President in the FY 2015 budget.

Title XI Loan Guarantees: The budget does not request 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 received \$35 million in FY 2014. There is currently \$73 million in Title XI loan subsidies available, which equates to approximately \$735 million in available loan guarantees.

WITNESS LIST

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 Paul “Chip” N. Jaenichen, Sr.
Acting Administrator
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The Honorable Mario Cordero
Chairman
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