



Statement of

Ronald O'Rourke
Specialist in Naval Affairs

Before

Committee on Homeland Security
Subcommittee on Transportation and Maritime Security
U.S. House of Representatives

Hearing on

**“Building the Fleet: Assessing the Department
of Homeland Security’s Role in the United
States Coast Guard’s Acquisitions Process”**

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Introduction

Chairman Giménez, Ranking Member Thanedar, thank you for the opportunity to appear before you today to testify on “Building the Fleet: Assessing the Department of Homeland Security’s Role in the United States Coast Guard’s Acquisitions Process.” As part of my work for Congress as the CRS specialist for naval issues, a position I have held since 1984, I have been tracking Coast Guard shipbuilding programs since 1998 (i.e., for the last 26 years).¹ I currently maintain CRS reports on the Polar Security Cutter (PSC) program;² the National Security Cutter (NSC), Offshore Patrol Cutter (OPC), and Fast Response Cutter (FRC) programs;³ as well as the Waterways Commerce Cutter (WCC) program.⁴ My biography is in the **Appendix** at the end of this statement.

As requested, my testimony focuses primarily on the PSC program. I initiated the CRS report on what is now referred to as the PSC program in 2008, and have since updated it periodically (usually multiple times each year). I last testified before this subcommittee on July 18, 2023, at a hearing on strategic competition in the Arctic.⁵ My work on the PSC program supports my efforts as the head of the CRS Arctic team and the coordinator of the CRS overview report on the Arctic, which CRS initiated in 2010.⁶ Parts of this testimony are adapted from the CRS report on the PSC program and the CRS report on the NSC, OPC, and FRC programs.

Polar Security Cutter (PSC) Program

Two key issues for the Polar Security Cutter (PSC) program are cost growth and schedule delay.

Cost Growth

Coast Guard and Navy estimates of PSC procurement costs have increased about 39% since the April 2019 PSC program contract award:

- At a March 28, 2019, hearing on the Coast Guard’s proposed FY2020 budget, then-Coast Guard Commandant Admiral Karl Schultz testified that as of that date, the cost of the first PSC was estimated at \$925 million to \$940 million, and that the cost of the second and third PSCs would be in the range of \$700 million each,⁷ producing an estimated three-ship total of about \$2,325 million to \$2,340 million (i.e., about \$2.3 billion).
- As shown in the CRS report on the PSC program, the most recent estimate provided by the Coast Guard to CRS is for the first PSC to cost \$1,297 million (i.e., about \$1.3 billion), the second PSC to cost \$921 million, and the third PSC to cost \$1,017 million (i.e., about \$1.0 billion), producing an estimated three ship total \$3,235 million (i.e.,

¹ See CRS Report 98-830 F, *Coast Guard Integrated Deepwater System: Background and Issues for Congress*, by Ronald O’Rourke (first version October 5, 1998).

² CRS Report RL34391, *Coast Guard Polar Security Cutter (Polar Icebreaker) Program: Background and Issues for Congress*, by Ronald O’Rourke.

³ CRS Report R42567, *Coast Guard Cutter Procurement: Background and Issues for Congress*, by Ronald O’Rourke.

⁴ CRS In Focus IF11672, *Coast Guard Waterways Commerce Cutter (WCC) Program: Background and Issues for Congress*, by Ronald O’Rourke.

⁵ CRS Testimony TE10084, *Strategic Competition in the Arctic*, by Ronald O’Rourke.

⁶ CRS Report R41153, *Changes in the Arctic: Background and Issues for Congress*, coordinated by Ronald O’Rourke.

⁷ Source: CQ transcript of the hearing.

about \$3.2 billion),⁸ a total that is about 39% higher than the total from the March 28, 2019, testimony.

Even with this 39% increase, PSC procurement costs still appear to still be significantly underestimated. At least five potential factors could increase estimated PSC procurement costs from the March 2019 figures to figures that are significantly above the current estimate:

- **The actual PSC design is larger than the government’s indicative design.** The design chosen for the PSC is about 35% larger in terms of light-ship displacement than the indicative design (i.e., the government’s in-house notional design) that informed earlier Navy and Coast Guard cost estimating for the program. Adjusting for this larger design might incur an approximate 35% increase in estimated PSC procurement costs over the costs estimated at the time of the April 2019 PSC contract award.
- **The Navy has frequently underestimated lead ship costs.** As detailed by the Congressional Budget Office (CBO)⁹ and the Government Accountability Office (GAO),¹⁰ the costs of lead ships in Navy shipbuilding programs have exceeded the Navy’s estimates. Cost growth on Navy lead ships, CBO analysis shows, has ranged from a few percent to about 150%, with the weighted average figure for the 19 ship classes examined by CBO being 25%, and the unweighted average being 40%.¹¹ Many of these 19 cases involve lead ships whose light-ship displacements were not underestimated, meaning that the cost growth resulted from factors other than the one described in the previous bullet point.
- **Recent inflation in shipbuilding.** Shipbuilding, like other sectors of defense procurement and the U.S. economy in general, has experienced significant inflation since the start of the COVID-19 pandemic due to supply chain disruptions and other impacts. The Navy states “the residual effects of inflationary pressures of the past few years, workforce challenges, plus increased labor and supply costs across the defense enterprise, all drove costs associated with our shipbuilding account up roughly 20% over the last couple of years.”¹² This inflation has increased the estimated procurement costs of multiple Navy shipbuilding programs. Within Coast Guard shipbuilding, the estimated unit procurement cost of an FRC has increased from \$60 million in the Coast Guard’s enacted FY2021 appropriation to \$100 million in the Coast Guard’s FY2024 unfunded requirements list and FY2025 budget submission, although not all of the increase is necessarily due to the recent inflation in shipbuilding.
- **Potential need for additional increases in worker wages and benefits.** Shipyards and associated supplier firms face challenges in recruiting and retaining new workers, in part because wages and benefits in service and retail jobs have grown more in recent years than have wages and benefits at shipbuilders and supplier firms.¹³ As a result, workers are now more likely to choose service and retail jobs, where the work, while paying less than

⁸ Source: U.S. Coast Guard email to CRS, March 26, 2024, which stated that costs shown are from the PSC 2021 LCCE v3 (Life Cycle Cost Estimate, version 3). The Coast Guard stated in the email that the 2021 LCCE v3 is the Coast Guard’s current model for estimated PSC procurement costs.

⁹ See CBO, *An Analysis of the Navy’s Fiscal Year 2024 Shipbuilding Plan*, October 2023, p. 34 (Figure 10).

¹⁰ See Government Accountability Office, *Navy Shipbuilding[.] Past Performance Provides Valuable Lessons for Future Investments*, GAO-18-238SP, June 2018, p. 8.

¹¹ See CBO, *An Analysis of the Navy’s Fiscal Year 2024 Shipbuilding Plan*, October 2023, p. 34 (Figure 10).

¹² Department of the Navy, *Highlights of the Department of the Navy FY 2025 Budget*, 2024, page 1-12.

¹³ See, for example, Paul McLeary and Lee Hudson, “Navy Shipyards Compete with Fast Food, and Are Losing,” *Politico Pro*, April 9, 2024.

shipbuilding work, is more likely to be done in air-conditioned indoor settings, involve less heavy lifting or risk of serious injury, and take place in locations offering easier daily commutes.¹⁴ Reestablishing a larger differential in wages and benefits between shipbuilding jobs and service and retail jobs could require substantially increasing total wages and benefits for shipbuilding workers. Such a change could, in turn, substantially increase procurement costs for ships such as the PSC, since shipyard labor can account for roughly 40% of a military ship's total procurement cost. Increases in worker wages and benefits could also result from shipyards along the Gulf Coast competing against one another for available shipbuilding workers.¹⁵

- **Labor hours and absorption of fixed overhead costs.** Construction delays due to lower-than-anticipated shipyard worker productivity, supply chain issues, or other causes could increase the cost of the PSC because of the ship requiring a larger-than-anticipated number of labor hours to build (if worker productivity is an issue), and because the ship would absorb a portion of the shipyard's monthly fixed overhead costs for an increased number of months (an effect somewhat like the meter in a taxi continuing to run even when the taxi is stuck in traffic).

A simple (not compounded) sum of the potential percentage cost increases described in the first three bullet points above (using the 25% and 40% figures from the second bullet) comes to a potential percentage cost increase, if all three factors were to come fully into play, of 80% to 95% above the March 2019 figures.

Increasing the March 2019 figures by 80% would result in an estimated cost of \$1,665 million to \$1,692 million (i.e., about \$1.7 billion) for the lead ship and \$1,260 million (i.e., about \$1.3 billion) each for the second and third ships, producing an estimated three-ship total of \$4,185 million to \$4,212 million (i.e., about \$4.2 billion). This total is about 30% higher than the currently estimated total of \$3,235 million.

Increasing the March 2019 figures by 95% would result in an estimated cost of \$1,804 million to \$1,833 million (i.e., about \$1.8 billion) for the lead ship and \$1,365 million (i.e., about \$1.4 billion) each for the second and third ships, producing an estimated three-ship total of \$4,534 million to \$4,563 million (i.e., about \$4.5 billion to \$4.6 billion). This total is about 40% higher than the currently estimated total of \$3,235 million.

¹⁴ Ibid.

¹⁵ A January 22, 2024, press report states:

Rear Adm. Chad Jacoby, the assistant commandant of the Coast Guard for acquisition, said this month workforce challenges—specifically, needing more highly trained welders and design engineers—are contributing to delays on the Polar Security Cutter program at Bollinger Mississippi, formerly VT Halter Marine.

“If you look across all of our construction programs, every shipyard says they’re going to hire 1,000 or 2,000 more people prior to executing the contracts that we have in place. They all happen to be on the Gulf Coast, so if you add up all those numbers, it’s probably physically impossible for every one of those individual shipyards to hire 2,000 more people” to support on-time ship deliveries, Jacoby said on a Jan. 11 panel at the Surface Navy Association annual conference.

He told Defense News after the panel he is specifically concerned about Bollinger Mississippi in Pascagoula and its Polar Security Cutter; Eastern Shipbuilding Group in Panama City, Florida, which is building the first four Offshore Patrol Cutters; Austal USA in Mobile, Alabama, which will build the next 11 OPCs; and Birdon America, a Denver-based company that will build the Waterways Commerce Cutters with a number of Louisiana- and Alabama-based companies.

“It is one workforce across many states,” the admiral said of the Gulf Coast region. “As each shipyard says they’re going to hire people, they’re definitely competing against each other.”

(Megan Eckstein, “Coast Guard Ship Programs Facing Delays amid National Worker Shortage,” *Defense News*, January 22, 2024.)

The cost figures in the two previous paragraphs do not include any increases cost resulting from the factors outlined in the fourth and fifth bullet points above.

Percentage increases in estimated ship procurement costs comparable to the potential 80%-95% increase discussed above have recently occurred in certain Navy shipbuilding programs. The estimated procurement cost of the lead ship in the Navy's TAGOS-25 ocean surveillance ship program increased about 82% between the Navy's FY2023 and FY2024 budget submissions;¹⁶ the estimated procurement cost of the lead ship in the Navy's medium landing ship (LSM) program increased 43% between the Navy's FY2024 and FY2025 budget submissions;¹⁷ and the estimated procurement cost of the lead ship in the Navy's light replenishment oiler (TAOL) program increased 202% between the Navy's FY2024 and FY2025 budget submissions. An April 2024 CBO report on the procurement costs of LSMs estimates that LSMs will cost roughly 127% to 187% more than the Navy estimates.¹⁸

A procurement cost for the first PSC that is closer to \$2 billion than to \$1 billion would be comparable to the procurement cost of a Navy LPD-17 Flight II class amphibious ship, which is about \$2.0 billion. The LPD-17 Flight II design a little larger than the PSC design and has more expensive combat system equipment than the PSC.¹⁹

The Coast Guard could respond to potential PSC program cost growth by granting contract relief to the PSC shipbuilder, Bollinger Mississippi Shipbuilding, through a request for equitable adjustment (REA) or pursuant to P.L. 85-804 (as done for the builder of the first four OPCs, Eastern Shipbuilding Group).²⁰

Schedule Delay

The PSC program has fallen far behind its original schedule. The Coast Guard originally aimed to have the first PSC delivered in 2024, but the ship's estimated delivery date has been delayed repeatedly and is now expected to occur no earlier than FY2029.

A principal cause of the delay has been the time needed to achieve design maturity (i.e., to complete the detail design of the ship). The parent design strategy used for the PSC program (i.e., the strategy of creating the PSC design by modifying the design of an existing polar-capable ship) was intended by the Coast Guard and Navy to reduce the PSC's design time. Five years after contract award, the expected reduction in design time does not appear have been realized. The time needed to mature the PSC design suggests that the parent design used for the PSC program—the design for the new German polar icebreaker *Polar Stern II*—might now more closely resemble a parent design in name only (PDINO).²¹ In

¹⁶ For more on the TAGOS-25 program, see CRS In Focus IF11838, *Navy TAGOS-25 Ocean Surveillance Shipbuilding Program: Background and Issues for Congress*, by Ronald O'Rourke.

¹⁷ For more on the LSM program, see CRS Report R46374, *Navy Medium Landing Ship (LSM) (Previously Light Amphibious Warship [LAW]) Program: Background and Issues for Congress*, by Ronald O'Rourke.

¹⁸ Congressional Budget Office, *Acquisition Costs of the Navy's Medium Landing Ship*, April 2024, p. 1. For further discussion, see CRS Report R46374, *Navy Medium Landing Ship (LSM) (Previously Light Amphibious Warship [LAW]) Program: Background and Issues for Congress*, by Ronald O'Rourke.

¹⁹ Another consideration in comparing cost estimates for the first PSC and the LPD-17 Flight II design is that the first PSC is at the top of the learning curve for building the PSC design, while the cost of the LPD-17 Flight II design reflects learning curve benefits from producing earlier LPD-17 Flight I class ships. For more on the LPD-17 Flight II class program, see CRS Report R43543, *Navy LPD-17 Flight II and LHA Amphibious Ship Programs: Background and Issues for Congress*, by Ronald O'Rourke.

²⁰ For more on P.L. 85-804 and the contract relief granted in the OPC program to Eastern Shipbuilding Group under that law, see CRS Report R42567, *Coast Guard Cutter Procurement: Background and Issues for Congress*, by Ronald O'Rourke.

²¹ The phrase *parent design in name only* (with the resulting acronym PDINO) is only one possible shorthand way of referring to the situation. One possible way to pronounce the acronym PDINO would be pa-DEE-no.

this regard, the PSC program appears somewhat similar to the Navy’s Constellation (FFG-62) class frigate program, which the Navy initiated as a program that would use a parent design, but which observers might now characterize as having moved over time toward a PDINO situation.²² Limited numbers of available naval architects and design engineers within the United States also appear to have contributed to delays in maturing the PSC design.²³

With PSC design maturation now approaching 80%—the minimum typically targeted by the Navy before beginning construction of a lead ship—a principal option for substantially accelerating the construction of polar icebreakers for the Coast Guard would be to complete the maturation of the PSC design, begin building PSCs at the program’s current shipbuilder, Bollinger Mississippi Shipbuilding, and at some later point introduce a second shipbuilder to build additional PSCs in parallel to those being built by Bollinger. The Coast Guard has testified that its most recent fleet mix analysis calls for a total of 8 to 9 polar-capable icebreakers, including 4 to 5 heavy polar icebreakers (i.e., PSCs), and 4 to 5 medium polar icebreakers. Given these figures and Bollinger’s current contract to build up to three PSCs, one possible approach might be to introduce a second shipbuilder to build the fourth and fifth PSCs while Bollinger completes the first three. Another possible approach would be to have Bollinger build all 4 or 5 PSCs while accelerating the start date of the timeline for designing and building the medium polar icebreakers. This second approach could accelerate the date for completing the larger total of 8 to 9 heavy and medium polar icebreakers. These two alternatives are not the only possible approaches.

Arctic Security Cutter (ASC) Program

Of the 4 to 5 medium polar icebreakers called for in the Coast Guard’s fleet mix analysis, one is to be the Commercially Available Polar Icebreaker (CAPI)—an existing, privately-owned ship that the Coast Guard plans to purchase and modify into a Coast Guard medium polar icebreaker, using funding appropriated for that purpose in the Coast Guard’s FY2024 budget. The ship to be purchased and modified is *Aiviq*, a U.S.-registered ship that was originally built to serve as an Arctic oil-exploration support ship, and which has an icebreaking capability sufficient to serve as a Coast Guard medium polar icebreaker.²⁴ The other 3 to 4 medium polar icebreakers are to be new-construction ships referred to as Arctic Security Cutters (ASCs).

As discussed in the CRS report on the PSC program, one possible acquisition strategy for polar icebreakers would be to build PSCs and ASCs to a common basic design (i.e., the PSC design). A congressionally mandated July 2017 report from the National Academies of Sciences, Engineering, and Medicine (NASEM) on the acquisition and operation of polar icebreakers concluded that notional operational requirements for new medium polar icebreakers would result in ships similar in size to new

²² For more on the FFG-62 program, see CRS Report R44972, *Navy Constellation (FFG-62) Class Frigate Program: Background and Issues for Congress*, by Ronald O’Rourke. On the issue of the FFG-62’s parent design strategy, the report states:

An April 2, 2024, press report states: “At one point the Constellation design shared about 85 percent commonality with the original [Italian-French] FREMM [Fregata Europea Multi-Missione parent] design, but the alterations [incorporated into the FFG-62 design] have brought that commonality down to under 15 percent, a person familiar with the changes told USNI News.” If the FFG-62 design shares less than 15% commonality with the FREMM design, then some observers might characterize the FFG-62 program as having moved over time toward what might be termed a parent design in name only (PDINO) design approach.

²³ The January 22, 2024, press report quoted in footnote 15 mentions states (emphasis added): “Rear Adm. Chad Jacoby, the assistant commandant of the Coast Guard for acquisition, said this month workforce challenges—specifically, needing more highly trained welders and **design engineers**—are contributing to delays on the Polar Security Cutter program at Bollinger Mississippi, formerly VT Halter Marine.”

²⁴ For further discussion of the CAPI program and *Aiviq*, see CRS Report RL34391, *Coast Guard Polar Security Cutter (Polar Icebreaker) Program: Background and Issues for Congress*, by Ronald O’Rourke.

heavy polar icebreakers. (The Coast Guard’s current medium polar icebreaker, *Healy*, is somewhat larger than *Polar Star*.) Given this probable similarity in size, the NASEM report recommended building a single medium polar icebreaker to the same basic design as three new heavy polar icebreakers. This approach, the report concluded, would reduce the cost of the medium icebreaker by avoiding the cost of developing a new design and by making the medium polar icebreaker the fourth ship on an existing production learning curve rather than the first ship on a new production learning curve.²⁵ The same general approach could be applied to procuring 4 to 5 PSCs and 3 to 4 ASCs.

At a November 29, 2023, hearing before the House Homeland Security Committee, Vice Admiral Peter Gautier, Coast Guard Deputy Commandant for Operations, stated that the Coast Guard in coming years will need to have “a mix of heavy icebreakers like the *Polar Star* and the Polar Security Cutters that we’re building now, and medium icebreakers like the *Healy* that have shallower drafts and can get into tighter spaces and shallower areas.”²⁶ Procuring ASCs as ships with shallower drafts could make it difficult or impossible for PSCs and ASCs to be built to a common basic design: A ship’s draft is a basic design characteristic; reducing the PSC design’s draft enough to meet the Coast Guard’s requirements might necessitate design changes that would effectively make it a different design.

Offshore Patrol Cutter (OPC) Program

Cost Growth

GAO testified in July 2023 that Offshore Patrol Cutter (OPC) program’s “acquisition cost estimate increase increased from \$12.5 billion to \$17.6 billion between the program’s 2012 and 2022 life-cycle cost estimates. The Coast Guard attributes the increase [of about 40%] to many factors, including restructuring the stage 1 contract—for OPCs 1 through 4—and recomputing the requirement for stage 2—OPCs 5 through 25—in response to a disruption caused by Hurricane Michael, and increased infrastructure costs for homeports and facilities, among other things.”²⁷

Of the five factors discussed earlier in connection with a potential increase in PSC procurement costs, two of them in particular—recent inflation in shipbuilding and the potential need for additional increases in worker wages and benefits—could further increase estimated OPC procurement costs.

Annual Procurement Quantities

As discussed in the CRS report on the National Security Cutter (NSC), OPC, and Fast Response Cutter (FRC) programs, the current OPC procurement profile, which reaches a maximum projected annual rate of two ships per year, would deliver OPCs many years after the end of the originally planned service lives of the Coast Guard’s existing medium-endurance cutters. GAO testified in July 2023 that under the OPC program’s current procurement schedule, the Coast Guard’s 14 Reliance-class 210-foot medium-endurance cutters would be replaced when they would be (if still in service) about 60 to 65 years old, and the Coast Guard’s 13 Famous-class 270-foot medium-endurance cutters would be replaced when they

²⁵ National Academies of Sciences, Engineering, and Medicine, Division on Earth and Life Studies and Transportation Research Board, *Acquisition and Operation of Polar Icebreakers: Fulfilling the Nation’s Needs, Letter Report*, with cover letter dated July 11, 2017, pp. 2, 4-6. See also Calvin Biesecker, “Coast Guard Leaving Options Open for Future Polar Icebreaker Fleet Type,” *Defense Daily*, April 12, 2018.

²⁶ Source: CQ transcript of hearing.

²⁷ Government Accountability Office, *Coast Guard Recapitalization[:] Actions Needed to Better Manage Acquisition Programs and Address Affordability Concerns*, Statement of Marie A. Mak, Director, Contracting and National Security Acquisitions, Testimony Before the Subcommittee on Coast Guard and Maritime Transportation, Committee on Transportation and Infrastructure, House of Representatives, July 27, 2023, GAO 23-106948, p. 9.

would be (if still in service) about 34 to 52 years old.²⁸ These ages, particularly for the Reliance-class cutters, would be high, raising questions concerning the ships' future operational availability and ability to perform missions cost effectively.

Coast Guard officials have testified that the service plans to extend the service lives of the medium-endurance cutters until they are replaced by OPCs. Operating aged medium-endurance cutters will incur maintenance and repair costs, particularly during the ships' final years of intended service. Even with investments in their capabilities, the ships may remain less capable in certain regards than OPCs.

One possible option for addressing this situation would be to increase the maximum annual OPC procurement rate from the currently planned two ships per year to three or four ships per year. Such an increase could result in the final (i.e., 25th) OPC being delivered a few to several years sooner than under the currently planned maximum rate. Increasing the maximum procurement rate for the OPC program could, depending on the exact approach taken, reduce OPC unit acquisition costs due to improved production economies of scale. Such an increase might also expand opportunities for using competition in the program. Notional alternative approaches for increasing the OPC procurement rate to three or four ships per year include:

- increasing the production rate to three or four ships per year at a single shipyard—an option that would depend on that shipyard's production capacity;
- using two shipyards for building OPCs to a single OPC design;
- using two shipyards for building OPCs to two designs, with each shipyard building OPCs to its own design—an option that would result in two OPC classes;²⁹ and
- building additional NSCs in the place of some of the planned OPCs—an option that might include de-scoping equipment on those NSCs where possible to reduce their acquisition cost and make their capabilities more similar to those of the OPC.

The fourth alternative above could be pursued in combination with one of the first three alternatives.

Block Buy Contracting

Using block buy contracting—a form of multiyear contracting used in a few Navy shipbuilding programs—could reduce procurement costs for PSCs, ASCs, or OPCs by perhaps 5% to 10%.³⁰ The Coast Guard typically uses contracts with options for its shipbuilding programs. Although a contract with options may resemble multiyear contracting, it operates more like a series of annual contracts. Contracts with options do not achieve the kinds of reductions in acquisition costs that are possible with multiyear contracting.

Section 311 of the Frank LoBiondo Coast Guard Authorization Act of 2018 (S. 140/P.L. 115-282 of December 4, 2018) provides permanent authority for the Coast Guard to use block buy contracting with economic order quantity (EOQ) purchases (i.e., up-front batch purchases) of components in its major acquisition programs. The authority is codified at 14 U.S.C. 1137.

²⁸ Government Accountability Office, *Coast Guard Recapitalization[:] Actions Needed to Better Manage Acquisition Programs and Address Affordability Concerns*, Statement of Marie A. Mak, Director, Contracting and National Security Acquisitions, Testimony Before the Subcommittee on Coast Guard and Maritime Transportation, Committee on Transportation and Infrastructure, House of Representatives, July 27, 2023, GAO 23-106948, Figure 4 on p. 14.

²⁹ Operating two OPC classes could be viewed as similar to how the Coast Guard currently operates two primary classes of medium-endurance cutters.

³⁰ For more on block buy contracting, see CRS Report R41909, *Multiyear Procurement (MYP) and Block Buy Contracting in Defense Acquisition: Background and Issues for Congress*, by Ronald O'Rourke.

Using multiyear contracting involves accepting certain tradeoffs, including the following:

- reduced congressional control over year-to-year spending;
- reduced flexibility changing Coast Guard acquisition programs in response to unforeseen changes in strategic or budgetary circumstances (which can cause any needed funding reductions to fall more heavily on acquisition programs not covered by multiyear contracts);
- a potential need to shift funding from later fiscal years to earlier fiscal years to fund economic order quantity (EOQ) purchases (i.e., up-front batch purchases) of components;
- the risk of incurring penalty payments to shipbuilders if multiyear contracts are terminated due to unavailability of funds needed for the continuation of the contracts; and
- the risk that materials and components purchased for ships to be procured in future years might go to waste if those ships are not eventually procured.

The Navy since the 1990s has made extensive use of multiyear contracting in its ship and aircraft procurement programs. The Coast Guard, in contrast, has to date not used multiyear contracting in a major ship or aircraft procurement program. Given the relatively small size of the Coast Guard's Procurement, Construction, and Improvements (PC&I) account (see next section), the second tradeoff listed above may be of particular concern to the Coast Guard in deciding whether to use multiyear contracting.

Coast Guard Procurement, Construction, and Improvements (PC&I) Account

Three of the options presented in this testimony—building PSCs in parallel at two shipyards, accelerating the start of the timeline for designing and building ASCs, and increasing annual OPC procurement quantities—would require substantially increasing annual funding levels in the Coast Guard's Procurement, Construction, and Improvements (PC&I) account (or providing additional funding for Coast Guard ship procurement through the Navy's shipbuilding account, which has been done in the past).³¹ Increasing the PC&I funding level might also make the use of block buy contracting appear budgetarily less risky to Coast Guard officials.

Since FY2010, in nominal terms (not adjusted for inflation), funding for the Coast Guard's PC&I account has remained relatively flat while the Navy's shipbuilding account has more than doubled. The Navy's shipbuilding account increased from \$13.844 billion in FY2010 (enacted) to \$32.378 billion in FY2025 (requested), a nominal increase of about 134%. The Coast Guard's PC&I account, by comparison, was \$1.536 billion in FY2010 (enacted) and is \$1.564 billion in FY2025 (requested). After accounting for inflation, the requested FY2025 figure for the PC&I account amounts to about \$1,095 million (i.e., about \$1.1 billion) in FY2010 dollars, which is 29% less in real (inflation-adjusted) terms than the FY2010 enacted figure.³²

As noted in the CRS report on the NSC, OPC, and FRC programs, at a May 14, 2013, hearing on the Coast Guard's proposed FY2014 budget before the Homeland Security Subcommittee of the Senate Appropriations Committee, then-Coast Guard Commandant Admiral Robert Papp testified

³¹ Funding from the Navy's shipbuilding account funded about 89% of the procurement cost of *Healy*, as well as the procurement of 33 of the Coast Guard's 49 Island-class 110-foot patrol boats (the cutters being replaced by FRCs). Prior-year funding for the PSC program includes \$300 million in funding from the Navy's shipbuilding account (\$150 million each in FY2017 and FY2018).

³² FY2025 dollars were converted into FY2010 dollars using the DOD deflator for procurement excluding pay, fuel, and medical in Department of Defense, *National Defense Budget Estimates for FY 2025*, April 2024, p. 61 (Table 5-5).

that an annual PC&I funding level of about \$1 billion per year “almost creates a death spiral for the Coast Guard because we are forced to sustain older assets—older ships and older aircraft—which ultimately cost us more money, so it eats into our operating funds, as well, as we try to sustain these older things.”

Budget Displays

The budget displays for the PC&I account in the Coast Guard’s annual budget-justification book lack certain basic information about the Coast Guard’s shipbuilding programs, including estimated per-hull total procurement costs and scheduled delivery dates. These omissions can impede the ability of Members and their staff to identify and track year-to-year changes in per-hull procurement costs and delivery dates, which in turn can make it more difficult to conduct effective oversight of these programs. Congress may consider whether to direct the Coast Guard to include, in its annual budget justification book, budget displays for its shipbuilding (and aircraft) procurement programs that are modeled after those in the Navy’s annual budget-justification books, which include this kind of information.

Conclusion

Chairman Giménez, Ranking Member Thanedar, thank you again for the opportunity to appear before you today, and I will be pleased to respond to any questions the subcommittee may have.

Appendix. Biography

Mr. O'Rourke is a Phi Beta Kappa graduate of the Johns Hopkins University, from which he received his B.A. in international studies, and a valedictorian graduate of the University's Paul Nitze School of Advanced International Studies, where he received his M.A. in the same field.

Since 1984, Mr. O'Rourke has worked as a naval analyst for the Congressional Research Service of the Library of Congress. He has written many reports for Congress on various issues relating to the Navy, Coast Guard shipbuilding, China's naval forces, U.S.-China strategic competition in the South and East China seas, U.S. defense strategy, defense acquisition policy, the international security environment, and the Arctic. He regularly briefs Members of Congress and congressional staffers, and has testified before congressional committees on many occasions.

In 1996, he received a Distinguished Service Award from the Library of Congress for his service to Congress on naval issues.

In 2010, he was honored under the Great Federal Employees Initiative for his work on naval, strategic, and budgetary issues.

In 2012, he received the CRS Director's Award for his outstanding contributions in support of the Congress and the mission of CRS.

In 2017, he received the Superior Public Service Award from the Navy for service in a variety of roles at CRS while providing invaluable analysis of tremendous benefit to the Navy for a period spanning decades.

Mr. O'Rourke is the author of several journal articles on naval issues, and is a past winner of the U.S. Naval Institute's Arleigh Burke essay contest. He has given presentations on naval, Coast Guard, and strategy issues to a variety of U.S. and international audiences in government, industry, and academia.