

**STATEMENT OF DAVID T. MATSUDA
MARITIME ADMINISTRATOR
MARITIME ADMINISTRATION**

**BEFORE THE
HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION**

**The Maritime Administration's
Fiscal Year 2014 Budget Request**

April 16, 2013

Good afternoon Chairman Hunter, Ranking Member Garamendi, and Members of the Subcommittee. Thank you for the opportunity to discuss the President's Fiscal Year (FY) 2014 budget priorities and initiatives for the Maritime Administration (MARAD). I am pleased to appear before you to highlight how the President's budget request will support maritime transportation and its contributions to the U.S. economy, national security and resiliency, and environmental sustainability.

MARAD's mission is to foster a merchant marine that meets both the economic and security needs of the Nation. The scope of our mission includes port and intermodal infrastructure, capable vessels and shipbuilding facilities, national policies which encourage a sustained investment in U.S. shipping, and of course, maritime education, training, and other support for the skilled men and women who have developed maritime careers in this vital industry.

We accomplish this primarily through a mix of Federal readiness programs, some of which sustain government-owned reserve sealift ships crewed by civilian mariners and some which provide operating stipends to commercial maritime companies. Each of these programs help to ensure that the transportation services our Nation requires at a moment's notice will be available to us when needed. Late last year, a major milestone was reached when the President signed into law legislation requested by the Administration effectively extending the Maritime Security Program (MSP) from 2015 to 2025. This law helps provide long-term stability to ensure a militarily-useful U.S. flag fleet and provides increasing stipend levels over the next 10 years. I thank the Subcommittee for supporting the passage of this legislation.

FY 2014 BUDGET REQUEST

The President's FY 2014 budget request for MARAD is \$365 million, which will support the agency's coordinated program of activities and initiatives advancing Departmental and national maritime transportation objectives. The budget request highlights new initiatives for port infrastructure development and a mariner retention incentive program.

KEY PRIORITIES

The U.S Merchant Marine Academy (USMMA) continues to be an area of focus for the agency and is a top priority for the Department. Raising the profile and prestige of the USMMA in conjunction with improving the institution both administratively and academically is a management imperative. MARAD has made important progress in shaping the course and direction of the USMMA, including the appointment of new leadership, Superintendent Rear Admiral James Helis and Deputy Superintendent Rear Admiral Susan Dunlap, and issuance of a new Strategic Plan to guide Academy strategic management and program development. The President's FY 2014 budget request continues the Department's commitment to maintenance and improvement of Academy facilities that helps to create an enriching educational environment.

Another key priority for MARAD is fulfilling its role in meeting the economic and security needs of the Nation. Defense sealift relies heavily on the U.S. commercial sector and MSP funding is essential for the maintenance of a U.S. presence in ocean-borne foreign commerce. In addition to providing employment for 2,700 U.S. merchant mariners, the MSP fleet also ensures the military's ability to obtain assured access to commercial vessels and intermodal networks and mariners. The President's FY 2014 budget also includes \$25 million for a new initiative aimed at mitigating the impact on sealift capacity and mariner jobs resulting from food aid program reform.

The President's budget request will also advance the agency's contribution to environmental sustainability by supporting the disposal of obsolete National Defense Reserve Fleet (NDRF) vessels, preservation and license activities for retention of the Nuclear Ship SAVANNAH, maritime environmental technology assistance, and advancements in ocean policy. The National Ocean Policy coordinates and aligns coastal and ocean-related actions of the Federal agencies to bolster our ocean economy, improve ocean health, support local communities, strengthen our security, and access the best available information to ensure we are using our ocean resources to the maximum benefit of all Americans. Because the Policy is implemented through agency action under existing authorities and missions, there is no separate line item for the National Ocean Policy in the President's Fiscal Year 2014 budget.

Other priorities for MARAD in FY 2014 include the continued oversight and stewardship of Transportation Investment Generating Economic Recovery (TIGER) grant funding for maritime projects, and improving the management of our human, information, and financial resources.

ECONOMY

Maritime transportation is a vital industry, contributing roughly \$15 billion per year to the national economy, in terms of value added. U.S. waterborne commerce exceeds 2 billion metric tons per year. MARAD programs help strengthen and improve the Marine Transportation System, relieving pressure on highways by helping to increase the use of our Nation's waterways. Because waterborne transport provides a cost-effective

transportation alternative, it can help mitigate congestion in other transportation modes, and significantly reduce fuel consumption per ton-mile, with a related carbon footprint reduction.

MARAD's mariner training activities focus on preparing individuals for maritime careers while developing and maintaining a vital and viable U.S. merchant marine for commerce, emergency response, and national security. The USMMA and State Maritime Academies educate and graduate merchant marine officers ready to serve the maritime industry and Armed Forces. In addition, MARAD's work with shipping, shipbuilding, and port and vessel operations supports the maritime industry, which comprises more than 250,000 jobs.

United States Merchant Marine Academy

The President's FY 2014 Budget requests \$81 million for the Academy. Of this, \$67 million will support Academy Operations and \$14 million will fund the Capital Improvement Program. The FY 2014 request will enable the Academy to effectively achieve its core responsibility of providing the highest caliber academic study with state of the art learning facilities for the Nation's future merchant marine officers and maritime transportation professionals. The Academy anticipates graduating 248 licensed merchant marine officers for service in the maritime industry and the Armed Forces in 2014.

The agency's strong commitment to improved Academy facilities is reflected in the FY 2014 request for \$14 million for the Capital Improvement Program. The funding, together with carry-over funds, will support four priorities identified in the Academy's Five-Year Capital Improvement Plan, including architectural and engineering designs for renovation of Samuels Hall/Bowditch Hall academic buildings, Samuels Hall renovation and construction, Zero Deck construction, and initiation of repairs to the seawall to help protect against further erosion.

We have made significant progress in improving institutional management, oversight and controls at the Academy. In the last eight months, we have appointed a new Superintendent and Deputy Superintendent, issued new policies, completed a reorganization reflecting a better functional alignment, and issued a new Strategic Plan, establishing objectives for academics, leadership, facilities management, and outreach.

As a result of our emphasis on oversight and strengthening controls at the Academy, we have provided the Government Accountability Office (GAO) with documentation for corrective actions and process improvements addressing all of their recommendations for the Academy. GAO has confirmed closure of 33 recommendations in the 2009 audit report, and we have indications from GAO that additional closures are expected to be confirmed shortly. We also have provided documentation of our improvements to Academy capital improvement program management and oversight, addressing the concerns identified in GAO's 2012 audit report. Congress' assistance has been instrumental to guiding our efforts to provide the funding and leadership the Academy

needs to train and prepare the next generation of midshipmen to meet the country's rapidly-evolving defense and maritime transportation needs.

State Maritime Academies

The President's FY 2014 budget requests \$17.1 million, unchanged from FY 2012, for the State Maritime Academy (SMA) program. This \$17.1 million request includes \$2.4 million to fund the Student Incentive Payment (SIP) program, enabling enrollment of 300 students to be able to meet identified Armed Forces reserve requirements; \$3.6 million for annual direct payments to the six SMAs to provide for operational support; and, \$11.1 million to fund maintenance and repair costs for Federally-owned training ships on loan to the SMAs.

The state academies regard the SIP program and support for their training ships as among the most important recruiting tools to encourage potential state maritime academy cadets to pursue careers as merchant marine officers. MARAD anticipates approximately 650 students in the license program will graduate from the academies in 2014. Annually, the six SMA training vessels provide for approximately 123,000 cadet sea days, opportunities for important hands-on technical training. Maintaining the operating condition of these NDRF training vessels is important as the ships can also be called up to respond to emergencies or relief efforts.

In November and December 2012 the Training Ship (TS) EMPIRE STATE and TS KENNEDY were deployed to provide support to FEMA for Hurricane Sandy relief efforts. Combined with the NDRF vessel WRIGHT, a Ready Reserve Force (RRF) aviation support ship, these three ships housed nearly a thousand emergency responders and relief workers daily at a highly cost-effective rate during a critical time when warm beds, hot meals, and places to recharge communications devices all came at a premium given the dearth of local hotel space.

Additionally, the National Maritime Heritage Act authorizes 25 percent of sales from recycling of obsolete NDRF ships to be provided to the SMAs. In the past fiscal year, MARAD provided approximately \$2.3 million to the SMAs from the vessel scrap sales, capping a four-year period in which Federal support to the state maritime academies by MARAD was increased 83 percent.

Maritime Security Program (MSP)

The MSP is the agency's largest appropriated program. The primary purpose of the MSP is ensuring the military's access to a global intermodal system with sealift capacity and ready U.S. mariners, while also maintaining a U.S.-flag fleet capable of supporting a U.S. presence in foreign commerce. MSP vessel participants have the global, multi-modal reach that delivers cargoes supporting overseas deployments of U.S. forces. MSP ships are carrying the bulk of military supplies and equipment in support of U.S. forces in and out of Afghanistan. Presently, 90 percent of the cargo transported to and from

Afghanistan is carried by MSP carriers. As of April 1, 2013, 60 vessels were enrolled by 13 U.S. operators.

For FY 2014, a total of \$208 million in new budget authority is requested for the Maritime Security Program (MSP) account. Within the total, \$183 million is included for the base MSP program, \$3 million less than the authorized level. The difference is projected to be funded by program recoveries of unpaid obligations (funds obligated but unpaid and recovered in 2014). Funding at this level will enable DOT to continue to maintain a U.S.-flag international trade merchant fleet crewed by U.S. citizens to serve the Nation's economic, homeland and national security needs.

The President's FY 2014 request also shifts \$25 million of the efficiency savings in a new food aid program reform initiative to help preserve mariner employment on militarily useful vessels not enrolled in the MSP fleet with priority given to eligible vessels under 46 U.S.C. 53102(b) in consultation with the Department of Defense. These funds will provide a means to help sustain a qualified pool of citizen merchant mariners through vessels' stipends, mariner credentialing, and apprentice training. This will also help sustain an adequate labor pool to be readily available to support crewing government RRF sealift ships when needed. MARAD will work with stakeholders to best leverage these resources to gain viable alternatives on ways to preserve U.S.-flag ships and mariners available to support government sealift vessels.

Port Infrastructure Development

The President's FY 2014 budget request highlights a new Port Infrastructure Development Program, with a request for \$2 million. The 2010 National Defense Authorization Act (P.L. 111-84) directs the Department to implement a Port Infrastructure Development Program. Consistent with the legislation, the new program will support development of guidelines and planning for port infrastructure improvements and master plans, including implementation of a pilot grant program to help ports determine optimally effective investment strategies. Of the request, \$1.7 million would be devoted to a pilot program for competitive matching grants advancing sophisticated port infrastructure and investment planning methods, and providing an incentive for close coordination among state transportation authorities. The balance of the funding will be allocated to partnering with stakeholders to develop guidance and performance measures for evaluating marine transportation benefits and guidelines for the development of port investment plans.

Maritime Guaranteed Loan Program (Title XI)

Title XI offers loan guarantees for shipyard modernization projects and for building vessels in U.S. shipyards for operation under U.S.-flag registry. The loan guarantees enable applicants to secure long-term financing at favorable interest rates, sustaining facilities for shipbuilding and ship repair within the U.S., and promoting system capacity and jobs. The current Title XI subsidy balance for new grantees is \$38 million. This will support approximately \$421 million in shipyard projects assuming average risk category

subsidy rates. The President's FY 2014 budget requests \$2.7 million for administration of the Title XI guaranteed loan portfolio to ensure agency compliance with the Federal Credit Reform Act, borrower compliance with loan terms, and to process new loan applications. The current portfolio is \$1.8 billion, covering approximately 325 vessels and we are currently evaluating two applications totaling more than \$400 million.

ENVIRONMENT

MARAD environmental programs are aimed at reducing pollution and the adverse environmental effects of maritime transportation and facilities on communities and livability; with a focus on obsolete vessel disposal, reducing marine air emissions, and treating ballast water.

Ship Disposal

The President is requesting a total of \$2 million for the Ship Disposal Program in FY 2014. The FY 2014 request will support the continued steady progress in the removal of obsolete ships from the NDRF for disposal, with emphasis on vessels that are a high disposal priority, most of which remain in the Suisun Bay Reserve Fleet (SBRF).

There currently are 32 total non-retention ships remaining in MARAD's three fleet sites awaiting disposal, which is an historic low. With the requested funding level, and available carry-over balances, MARAD will be able to continue the disposal momentum with the expedited removal for recycling of approximately 15 obsolete ships from all three fleet sites in 2014, which will include approximately six SBRF vessels. The requested funding level is consistent with the requirements of the court-ordered settlement with California. The agency has already seen to the disposal of 39 of the 57 vessels in the consent decree, and is essentially a year ahead of expectations.

Funding in the President's request will also cover the costs related to risk mitigation for compliance with the National Invasive Species Act (NISA) and Clean Water Act (CWA), as well as lessen the environmental risk at the fleet sites and recycling facilities.

Nuclear Ship SAVANNAH

The President's FY 2014 request includes \$2.8 million for the inactive Nuclear Ship SAVANNAH, providing for the continuation of support activities including nuclear license compliance, radiological protection, ship husbandry and custodial care, decommissioning planning and preparation, and historic preservation.

Though management and custodial care of the legacy asset, which is both licensed and regulated as a nuclear power facility and designated as a National Historic Landmark, remains with MARAD's Ship Disposal Program, the FY 2014 budget requests funding in the agency Operations and Training account to focus on the Nuclear Regulatory Commission's required nuclear reactor core decommissioning activities, which must be initiated by 2026 and completed by 2031.

Maritime Environment and Technology Assistance

The most pressing environmental issues facing the maritime industry are invasive species in ballast water, energy use, and air emissions. The President's FY 2014 budget requests \$2 million for environmental sustainability efforts for these areas.

MARAD has been called upon by industry and government agencies to help address these environmental pollution issues, and we recognize that more must be done to transition toward a greener maritime future. The budget request will continue to advance critical research to develop a ballast water discharge standard, advance infrastructure and methodologies for certifying and verifying ballast water technologies, and improve vessel emissions data.

These represent the key policy proposals and initiatives highlighted in the President's FY 2014 budget. We will continue to keep this Committee apprised of the progress of our programs in these areas in the coming year, including our continuing USMMA management improvements.

Mr. Chairman, I wish to express my appreciation for the opportunity to present and discuss the President's FY 2014 request for MARAD, and for the Committee's continuing support for maritime programs and those that benefit from them, including the maritime industry, employees, shippers, travelers, and consumers of goods. I look forward to working with you on advancing maritime transportation in the United States, and am happy to respond to any questions you and the members of the Committee may have.

Thank you.