Committee on Transportation and Infrastructure
U.S. House of Representatives
Washington, DC 20515

Bill Shuster
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Nick J. Rahall, II
Ranking Member

Christopher P. Bertram, Staff Director

James H. Zoia, Democrat Staff Director

June 16, 2014

SUMMARY OF SUBJECT MATTER (Amended)

TO:	Members, Subcommittee on Coast Guard and Maritime Transportation
FROM:	Staff, Subcommittee on Coast Guard and Maritime Transportation
RE:	Hearing on "Maintaining Coast Guard Readiness"

PURPOSE

The Subcommittee on Coast Guard and Maritime Transportation will meet on Wednesday, June 18, 2014, at 9:30 a.m., in 2253 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 Government Accountability Office (GAO), the Congressional Research Service, and the Navy League of the United States.

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 communicate and to coordinate its operations. The program was known as the Integrated Deepwater Systems (Deepwater). To manage the acquisition program, the Coast Guard relied on a lead system integrator composed of partnership between Lockheed Martin and Northrop Grumman. The partnership was named 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 GAO. Although the ICGS accomplished some goals, such as delivering a reengined HH-65 helicopter, the Coast Guard terminated the contract with the ICGS in 2007 and is now performing the acquisition functions in-house. In 2010, Congress passed the Coast Guard Authorization Act (P.L. 111-281) which prohibited the

further use of lead system integrators. The assets scheduled for recapitalization remain essentially the same as those specified under Deepwater.

Fiscal Year 2015 Budget Request for Coast Guard Acquisitions

The President requests $1.08 billion for the Acquisitions, Construction, and Improvements (AC&I) account in fiscal year (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.

	FY 2014 Enacted Level	FY 2015 President's Budget Request	H.R. 4005, FY 2015 Authorized Level (passed House)	H.R.____, FY 2015 DHS Appropriations (reported to House)
Acquisition, Construction, & Improvements	$1,375,635,000	$1,084,193,000	$1,546,448,000	$1,287,040,000

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 address design flaws identified after construction was underway;
- $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 is expected to 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 Medium Endurance Cutters (MEC). It will be the Service's most expensive acquisition in its history;
- $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.

Issues

Capital Investment Plan

Section 663 of title 14, United States Code, requires the Commandant of the Coast Guard to submit a Capital Investment Plan (CIP) to the Committee each year in conjunction with the budget request. The CIP identifies projected funding levels over the next five fiscal years for each major acquisition, as well as an estimated timeline and total cost to complete each such acquisition. The purpose of the CIP is to ensure Congress can conduct proper oversight of the Service's budget, acquisition plans, mission needs, and readiness to conduct operations in future years. On Friday, June 13, 2014, the Committee received the attached CIP for fiscal years 2015 through 2019.

CIPs submitted in past years have been criticized by GAO for failing to accurately reflect cost and schedule impacts from funding shortfalls. In its recent report entitled *Better Information on Performance and Funding Needed to Address Shortfalls* (GAO-14-450), GAO recommends the Coast Guard be required to regularly update the estimated timeline and total cost to complete each acquisition based upon actual funding levels. It also recommends the Service develop a long-term fleet modernization plan that identifies all acquisitions needed to meet mission needs and the costs associated with such acquisitions over 20 years.

Cost Increases and Schedule Delays

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 revised acquisition program that was approved in 2007. The revised program identified a new baseline cost of $24.2 billion and a timeline of 20 to 25 years to complete the construction and delivery of recapitalized assets.

In its recent report, GAO estimated it could take an additional 10 years to complete the current acquisition program and the cost could increase by at least $6 billion. GAO found that the Coast Guard and the Department of Homeland Security (DHS) have taken limited steps to address affordability of the acquisition portfolio. DHS conducted two studies that reassessed the large cutters being acquired under the current recapitalization program to determine if trade-offs could be made in planned quantity or capability. However, in both cases DHS concluded that the studies validated the 2005 acquisition program and no trade-off decisions were made (GAO-14-450).

The Coast Guard has also failed to make timely changes in the programs of record for several acquisitions to reflect decisions made regarding the acquisition. This has led to the reporting of total acquisition cost estimates that may not be accurate. For instance, the Coast Guard's current program of record for the Maritime Patrol Aircraft (MPA) calls for the acquisition of 36 HC-144 aircraft at a total cost of $3.1 billion. However, the Coast Guard has not requested funds in the last two fiscal years to acquire more than the 18 HC-144s acquired to date and has informed staff it has no plans to request such funds in the future. The Air Force will transfer 14 C-27J aircraft to the Coast Guard this year. The transfer, coupled with ending the procurement of the HC-144, will avoid over $500 million in acquisition costs. However, the program of record for the MPA and the overall cost of the Service's acquisition program still reflect the $3.1 billion cost for 36 HC-144s.

In April 2014, the Coast Guard announced it would begin the process of revising the 2005 MNS to determine its future mission needs and, if necessary, update the programs of record for each asset being acquired to reflect the revised mission needs. It is unclear whether this revised MNS will result in an acquisition program that better meets projections of future years funding.

Unplanned Capital Needs

Delays in the acquisition program have exacerbated existing capability gaps and created new ones. As a result, additional acquisition needs have been identified that the Service has yet to adequately plan or budget for. For instance:

- Polar Icebreaker – The Coast Guard has two Class III-heavy icebreakers capable of operating in Polar Regions, although only one is currently operational. The Service is working with other federal agencies to determine operational requirements for a new polar icebreaker. The Service estimates a new class III-heavy icebreaker will cost more than $1 billion. The Coast Guard has noted that accommodating that cost into projected acquisition funding levels would significantly limit funds needed to complete the current acquisition program and severely delay the delivery of new or recapitalized assets.

- Medium Endurance Cutters - Under the Coast Guard's current recapitalization program, the 210- and 270-foot MECs are scheduled to remain 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 to compensate for the delayed arrival of the OPC fleet.

- 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. Nevertheless, 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.

Performance of New Assets

GAO's recent report found the new assets it reviewed are demonstrating improved performance over the legacy assets they replace. However, the new assets have yet to meet all key performance parameters (KPPs). GAO found the Coast Guard's approach to the initial operational test and evaluation (IOTE) process failed to ensure that KPPs were met before the Service and DHS made decisions to enter full rate production (GAO-14-450). For instance, the FRC was required to meet six KPPs governing the cutter's speed, sea keeping ability, endurance, interoperability, and readiness. Of the six KPPs, only three were tested. Of the three tested, only one was partially met. Despite the failures in IOTE, DHS approved the FRC for full rate production. DHS directed the Service to develop solutions to problems found in IOTE and conduct follow on testing by the end of FY 2015. By contrast, the Department of Defense requires specific minimum performance standards be met prior to entering full rate production. GAO found the Coast Guard's inconsistent approach to IOTE could result in costly refits for assets, additional delays in the delivery of new assets, and less certainty in acquisition cost estimates.

WITNESSES

Panel I

Vice Admiral Charles Michel
Deputy Commandant for Operations
United States Coast Guard

Ms. Michele Mackin
Director, Acquisition and Sourcing Management
Government Accountability Office

Panel II

Mr. Ronald O'Rourke
Specialist in Naval Affairs
Congressional Research Service

Mr. James H. Offutt
National President
Navy League of the United States

FY 2015-2019 Five Year Capital Investment Plan (CIP)
Acquisition, Construction & Improvements

(Thousands of dollars, budget year dollars)	FY 2014 Enacted	FY 2015 PRESBUD	FY 2016	FY2017	FY 2018	FY 2019	Total Acquisition Cost[1]	Estimated Completion Date[1]	Total Quantity[1]
Vessels	**$999,000**	**$803,000**	**$580,000**	**$649,000**	**$874,000**	**$939,000**			
Survey and Design - Vessel and Boats	$1,000	$500	$1,000	$1,000	$1,000	$1,000	Not Applicable	Not Applicable	Not Applicable
In-Service Vessel Sustainment	$21,000	$24,500	$66,000	$94,000	$73,000	$46,000	Not Applicable	Not Applicable	Not Applicable
Response Boat - Medium (RB-M)	$10,000	$0	$0	$0	$0	$0	$610,000	2015	170
National Security Cutter (NSC)	$629,000	$638,000	$75,000	$130,000	$30,000	$47,000	$5,504,000	2019	8
Offshore Patrol Cutter (OPC)	$23,000	$20,000	$90,000	$100,000	$530,000	$430,000	$10,523,000	2034	25
Fast Response Cutter (FRC)	$310,000	$110,000	$340,000	$220,000	$220,000	$315,000	$3,928,000	2027	58
Cutter Boats	$3,000	$4,000	$4,000	$4,000	$0	$0	Not Applicable	Not Applicable	Not Applicable
Polar Icebreaker	$2,000	$6,000	$4,000	$100,000	$20,000	$100,000	TBD	TBD	TBD
Aircraft	**$175,310**	**$68,000**	**$238,000**	**$185,300**	**$70,000**	**$78,000**			
HC-144A Conversion/Sustainment	$9,200	$15,000	$3,000	$25,500	$0	$0	TBD	TBD	TBD
HC-27J Conversion/Sustainment	$24,900	$15,000	$130,000	$100,000	$30,000	$40,000	Not Applicable	Not Applicable	14
HH-65 Conversion/Sustainment Projects	$12,000	$30,000	$40,000	$35,000	$30,000	$30,000	$1,130,400	2019	102
HC-130J Acquisition/Conversion/Sustainment	$129,210	$8,000	$50,000	$9,800	$0	$0	TBD	TBD	TBD
Unmanned Aircraft System (UAS)	$0	$0	$15,000	$15,000	$10,000	$8,000	TBD	TBD	TBD
Other	**$64,930**	**$57,300**	**$68,500**	**$67,000**	**$33,000**	**$28,500**			
Program Oversight and Management	$10,000	$18,000	$20,000	$20,000	$20,000	$20,000	Not Applicable	Not Applicable	Not Applicable
Systems Engineering and Integration	$204	$0	$0	$0	$0	$0	Not Applicable	Not Applicable	Not Applicable
C4ISR	$40,226	$36,300	$40,000	$40,000	$8,000	$5,000	$1,053,000	2026	Not Applicable
CG-LIMS	$1,500	$3,000	$8,500	$7,000	$5,000	$3,500	Not Applicable	Not Applicable	Not Applicable
Nationwide Automatic Identification System (NAIS)	$13,000	$0	$0	$0	$0	$0	$276,800	2014	58
Shore and ATON	**$23,000**	**$40,580**	**$100,000**	**$110,000**	**$88,000**	**$70,000**			
Major Shore, ATON and S&D	$2,000	$19,580	$55,000	$50,000	$50,000	$30,000	Not Applicable	Not Applicable	Not Applicable
Military Housing	$18,000	$0	$0	$0	$0	$0	Not Applicable	Not Applicable	Not Applicable
Major Acquisition Systems Infrastructure	$0	$16,000	$40,000	$55,000	$33,000	$35,000	Not Applicable	Not Applicable	Not Applicable
Minor Shore	$3,000	$5,000	$5,000	$5,000	$5,000	$5,000	Not Applicable	Not Applicable	Not Applicable
Personnel and Management	**$113,395**	**$115,313**	**$116,466**	**$117,631**	**$115,407**	**$113,161**			
AC&I Core	$439	$0	$0	$0	$0	$0	Not Applicable	Not Applicable	Not Applicable
Direct Personnel Costs	$112,956	$115,313	$116,466	$117,631	$115,407	$113,161	Not Applicable	Not Applicable	Not Applicable
TOTAL	**$1,375,635**	**$1,084,193**	**$1,102,966**	**$1,128,931**	**$1,180,407**	**$1,228,661**			
	-$149,459								
	$1,226,176								