



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

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May 17, 2019

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 “Review of Fiscal Year 2020 Budget Request for the Coast Guard and Maritime Transportation Programs”

PURPOSE

The Subcommittee on Coast Guard and Maritime Transportation will hold a hearing on Wednesday, May 21, 2019, at 10:00 a.m. in 2167 Rayburn House Office Building to examine fiscal year (FY) 2020 budget requests for the Coast Guard and Maritime Transportation Programs. The Subcommittee will hear testimony from the U.S. Coast Guard (Coast Guard or Service), the Federal Maritime Commission (Commission or FMC), and the Maritime Administration (MARAD).

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 102 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. Admiral Karl Schultz was sworn in as the 26th Commandant of the Coast Guard in June 2018.

Coast Guard FY 2019 Enacted to FY 2020 President's Budget Request Comparison				
(Dollars in Thousands)				
Program	FY 2019 Enacted	FY 2020 President's Budget Request	Diff. Bet. FY 2020 Budget Request & FY 2019 Enacted	% Diff. Bet. FY 2020 Budget Request & FY 2019 Enacted
Operations & Support (O&S)	\$ 7,643,201	\$ 7,858,900	\$ 215,699	2.8%
Overseas Contingency Operations ¹ (OCO)	\$ 163,000	\$ -	\$ (163,000)	-100.0%
Environmental Compliance & Restoration (EC&R)	\$ 13,469	\$ 13,495	\$ 26	0.2%
Medicare-Eligible Retiree Health Care Fund (MERHCF)	\$ 199,360	\$ 205,107	\$ 5,747	2.9%
Procurement, Construction & Improvements (PC&I)	\$ 2,248,260	\$ 1,234,656	\$ (1,013,604)	-45.1%
Research & Development ² (R&D)	\$ 20,256	\$ 4,949	\$ (15,307)	-75.6%
Subtotal, Discretionary	\$10,287,546	\$ 9,317,107	\$ (970,439)	-9.4%
Retired Pay	\$ 1,739,844	\$ 1,802,309	\$ 62,465	3.6%
State Boating Safety Grants	\$ 114,682	\$ 116,700	\$ 2,018	1.8%
Maritime Oil Spill Program	\$ 101,000	\$ 101,000	\$ -	0.0%
General Gift Funds	\$ 2,864	\$ 2,864	\$ -	0.0%
Subtotal, Mandatory	\$ 1,958,390	\$ 2,022,873	\$ 64,483	3.3%
Total	\$12,245,936	\$ 11,339,980	\$ (905,956)	-7.4%

The chart above compares the FY 2020 budget request to the FY 2019 enacted funding level.

Fiscal Year 2020 Coast Guard Budget Request

The President requests \$11.34 billion in FY 2020 for the activities of the Coast Guard, including \$9.32 billion in discretionary funding. The Coast Guard Authorization Act of 2018 (Pub. L. 115-282) authorizes \$10.6 billion in discretionary funds for the Coast Guard in FY 2019, \$370 million (or 4 percent) more than the current FY 2019 enacted level of \$10.27 billion, and \$1.32 billion (or 13 percent) greater than the FY 2020 requested level in the President's Budget. This amount does not include a transfer of approximately \$160 million in funding to the Coast Guard from the Department of Defense (DoD) Overseas Contingency Operations (OCO) account. The transfer of those funds would support the ongoing deployment of six 110-foot Coast Guard Patrol Boats conducting national defense and port and waterways security operations in the Persian Gulf.

In FY 2019, the Coast Guard transitioned to the Department of Homeland Security (DHS) Common Appropriations Structure (CAS). Accordingly, activities funded through the previous Operating Expenses, Reserve Training, Environmental Compliance and Restoration, and Medicare-

¹ Coast Guard OCO funding is historically requested in the Navy's request but appropriated directly to the Coast Guard.

² The FY 2020 reduction to R&D funding is due to the transfer of personnel costs to the O&S account. There is no actual reduction.

Eligible Retiree Health Care Fund Contribution were included as part of the new Operations and Support (O&S) account in FY 2019. In addition, acquisition personnel costs previously funded through the Acquisition, Construction, and Improvements account are included as part of the O&S account. The Acquisition, Construction, and Improvements account transitioned to the Procurement, Construction, and Improvements account and the Research, Development, Test and Evaluation account became the new Research and Development account.

Operations and Support (previously Operating Expenses)

The President's budget requests \$7.86 billion for the O&S account in FY 2020, \$51 million (or 0.7 percent) more than the FY 2019 enacted level.³ The O&S 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 O&S account also funds personnel compensation and benefits for the Service's approximately 41,000 active duty military members, 7,500 reservists, and 8,500 civilian employees.

The O&S budget includes increases in funding to cover follow-on costs for the operation and maintenance of newly acquired assets and technology and increases in other administrative expenses. The request includes a \$342 million increase from the FY 2019 enacted level to cover the cost of the 2020 military pay raise (2.6 percent), as well as expanded military benefits enabling Coast Guard servicemembers to maintain parity with benefits received by DoD servicemembers, operational adjustments, and operating and maintenance funds for new assets.

O&S increases are offset by \$120 million in cuts derived through decommissioning certain assets, information technology streamlining, and the termination of one-time costs. The proposed reductions in the O&S account include:

- **Asset Decommissionings:** The FY 2020 budget proposes to decommission four HC-130H aircrafts, which are being replaced by the new HC-130J aircrafts. The Coast Guard estimates these decommissionings will save \$16.2 million in FY 2020 through increased fuel efficiency. The Coast Guard is also in the process of decommissioning a High-Endurance Cutter (WHEC) for \$9.3 million and three 110-foot Patrol Boats for \$2.6 million.
- **Information Technology Streamlining:** The FY 2020 budget proposes consolidating enterprise services, including replacing contractors at the Command, Control, Communications, Computers, and Information Technology (C4IT) Service Center with government full time employees (FTEs). The Coast Guard estimates this insourcing will save \$3.7 million in FY 2020.
- **Termination of One-Time Costs:** The FY 2020 budget request proposes a \$32.1 million savings associated with the termination of one-time costs for program start-up and exit transactions in FY 2019, including the termination of CG Aircraft FAA Compliance and Obsolete Equipment Replacement (\$20.2 million) and National Security Cutter and Fast Response Cutter Follow-On (\$5.4 million).

³ For this calculation, the FY 2019 O&S and OCO levels are combined.

Environmental Compliance and Restoration (EC&R)

The President requests \$13.5 million for the EC&R in FY 2020, \$98,000 (or 0.73 percent) more than the FY 2019 enacted level. The EC&R funding 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 \$13.5 million requested for EC&R to pay for continued long-term monitoring at 24 sites and begins or continues investigation/remediation site work at 7 sites.

Procurement, Construction, and Improvements

The President requests \$1.23 billion for the Procurement, Construction, and Improvements (PC&I) account, a \$1.01 billion (or 45.1 percent) decrease over the FY 2019 enacted level. The PC&I account funds the acquisition, procurement, construction, rebuilding, and physical improvements of Coast Guard owned and operated vessels, aircraft, facilities, aids-to-navigation, communications and information technology systems, and related equipment.

The FY 2020 budget request includes \$1.18 billion for the acquisition of aircraft, vessels, and the continued build-out of Command, Control, Communications, Computer, Intelligence, Surveillance, and Reconnaissance (C4ISR) systems. This represents a decrease of \$912.3 million (or 55.4 percent) from the FY 2019 enacted level. Specifically, the budget request includes:

- \$35 million for long-lead time materials for the second heavy icebreaker, now referred to as Polar Security Cutter (PSC). The joint Coast Guard and Navy Polar Security Cutter Integrated Program Office (IPO) recently awarded the contract for the construction of the Nation's first PSC in more than 40 years to VT Halter of Mississippi;
- \$60 million to conduct Post Delivery Activities on National Security Cutters (NSC) 7 through 11;
- \$140 million for the production of two Fast Response Cutters (FRC), hulls 53 and 54 of the planned 58 hull program of record;
- \$457 million for the construction of the third Offshore Patrol Cutter (OPC) and scope acquisition of Long Lead Time Materials for OPCs 4 and 5. OPCs will replace the Service's aging 210-foot and 270-foot Medium Endurance Cutters (MEC);
- \$103 million to support the ongoing HC-27J aircraft conversion project. The request funds HC-27J non-recurring engineering required to support aircraft missionization and cockpit modernization, in addition to low-rate initial production of missionized aircraft;
- \$50 million for the continued modernization and sustainment of the HH-65 helicopter fleet;
- \$25.2 million for C4ISR design, development, and integration; and
- No funding for the Alteration of Bridges program in FY 2020. The program last received funding in FY 2010. Established 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 privately or publicly owned railroad and highway bridges that are determined by the Service to obstruct marine navigation.

The budget requests \$173.6 million to construct or renovate shore facilities and aids-to-navigation. This request is an \$81 million (or 31.9 percent) decrease from the FY 2019 enacted level. The Coast Guard currently has a backlog of 125 prioritized shore facility improvement projects with an estimated combined cost of over \$1.7 billion; GAO estimates that the projects without cost estimates raise that value to above \$2.6 billion.⁴

Research and Development (previously Research, Development, Test, and Evaluation)

The President requests \$4.95 million in FY 2020 for the Coast Guard's Research and Development (R&D) account, \$15.3 million (or 75.6 percent) less than the FY 2019 enacted level. The reduction is due to the shifting of R&D personnel costs to the O&S account; it does not reflect a reduction in program costs. The R&D 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 \$4.95 million in FY 2020 for programs to develop, test, and evaluate systems that improve operational presence and response, including supporting unmanned aircraft system (UAS) prototypes, continuing development and testing of the next generation Arctic navigation safety information system, evaluating emerging maritime oil spill response technology, and evaluating existing cybersecurity tools for critical port infrastructure protection and resilience.

Federal Maritime Commission

The Federal Maritime Commission (FMC or Commission) was established in 1961 as an independent agency that regulates oceanborne transportation in the foreign commerce of the United States. The FMC protects shippers and carriers from restrictive or unfair practices of foreign-flagged carrier alliances. The FMC also enforces 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. Michael A. Khouri was designated Chairman of the Commission by the President in March, 2019.

⁴ GAO, COAST GUARD SHORE INFRASTRUCTURE: *Applying Leading Practices Could Help Better Manage Project Backlogs of At Least \$2.6 Billion*, [GAO-19-82](#), February 21, 2019.

FMC FY 2019 Enacted to FY 2020 President's Budget Request Comparison				
(Dollars in Thousands)				
Account	FY 2019 Enacted	FY 2020 President's Budget Request	<i>Diff. Bet. FY 2020 Request & FY 2019 Enacted</i>	<i>%Diff. Bet. FY 2020 Request & FY 2019 Enacted</i>
Inspector General	\$441	\$487	\$46	10.43%
Operational and Administrative	\$27,049	\$27,513	\$464	1.72%
Total	\$27,490	\$28,000	\$510	1.86%

The President requests \$28 million in FY 2020 for the activities of the FMC, \$510,000 (or 1.86 percent) more than the FY 2019 enacted level.

Maritime Administration

The 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. Rear Admiral Mark H. Buzby, USN, (Ret.) has served as MARAD Administrator since August 2017.

Fiscal Year 2020 MARAD Budget Request

MARAD FY 2019 Enacted to FY 2020 President's Budget Request Comparison				
(Dollars in Thousands)				
Account	FY 2019 Enacted	FY 2020 President's Budget Request	<i>Diff. Bet. FY 2020 Request & FY 2019 Enacted</i>	<i>% Diff. Bet. FY 2020 Request & FY 2019 Enacted</i>
Operations and Training	\$149,442	\$377,497	\$228,055	152.60%
Assistance to Small Shipyards	\$20,000	\$0	<i>-\$20,000</i>	<i>-100.00%</i>
Ship Disposal Program	\$5,000	\$5,000	\$0	0.00%
Maritime Security Program	\$300,000	\$300,000	\$0	0.00%
Title XI - Administrative Expenses	\$3,000	\$0	<i>(\$3,000)</i>	<i>-100.00%</i>
Title XI - Loan Guarantees	\$0	\$0	\$0	0%
State Maritime Academy Operations⁵	\$345,200	\$0	<i>(\$345,200)</i>	<i>-100%</i>
Port Infrastructure Program	\$292,730	\$0	<i>(\$292,730)</i>	<i>-100%</i>
Total	\$1,115,372	\$682,497	<i>-\$432,875</i>	<i>-38.81%</i>

The President requests \$682.5 million in FY 2020 for the activities of MARAD, \$432.8 million (or 39 percent) less than the FY 2019 enacted level.

Operations and Training

The President's FY 2020 request of \$135.2 million for Operations and Training (O&T) is \$14.2 million less than the FY 2019 enacted level of \$149.4 million. 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.

MARAD's budget does not include funding for the:

- Marine Highways Grant Program,
- Recapitalization of the State Maritime Academy training vessels,
- Port Infrastructure Development Grant Program

⁵ The FY 2020 budget request for O&T also includes \$81.9 million for the U.S. Merchant Marine Academy, including \$77.9 million for Academy Operations; \$4 million for capital improvements, repairs, and maintenance; \$242.4 million for the six state maritime academies, including \$30.8 million for School Ship Maintenance and Repair; and, \$53.3 million for MARAD Operations and Programs. The Merchant Marine Academy is under jurisdiction of the House Committee on Armed Services.

- Assistance to Small Shipyards Grant Program, or
- Title XI Loan Guarantees.

Assistance to Small Shipyards

The Assistance to Small Shipyards Grant Program provides capital grants to small privately owned shipyards to expand and modernize shipbuilding capacity, efficiency, and competitiveness. Grant requests routinely exceed available funds. The program received \$20 million in FY 2019 and is reauthorized through fiscal year 2020 at \$35 million per year in the National Defense Authorization Act for Fiscal Year 2018 (P.L. 115-91).

Ship Disposal

The FY 2020 budget requests \$5 million for the Ship Disposal Program, the same level as was enacted for FY 2019. The program provides for the proper disposal of obsolete government-owned merchant ships maintained by MARAD in the National Defense Reserve Fleet. This request includes \$3 million to maintain the Nuclear Ship SAVANNAH in protective storage according to Nuclear Regulatory Commission license requirements, while decommissioning of the vessel's defueled nuclear reactor, components, and equipment is in progress. The remaining \$2 million is requested for program support, including salaries and overhead. MARAD is not expected to dispose of any more than two of the remaining eight non-retention vessels in the National Defense Reserve Fleet due to low prices in the scrap metal market. The National Defense Reserve Fleet is under jurisdiction of the House Committee on Armed Services.

Maritime Security Program

The FY 2020 budget requests \$300 million for the Maritime Security Program (MSP), the same as was enacted for FY 2019. Under this program, \$300 million in direct payments are allocated among up to 60 U.S. flagged vessel operators engaged in foreign trade. MSP vessel operators 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. This budget request enables vessel operators to remain active and available for service. Allocating less than \$300 million annually allows U.S. vessels to exit the program without penalty, and likely also leave the U.S. flag registry. The MSP is under jurisdiction of the House Committee on Armed Services.

Title XI Loan Guarantees

The President's Budget does not request funding to support loan guarantees for the construction or reconstruction of U.S.-flagged vessels in U.S. shipyards under the Title XI program. While \$3 million was enacted for the program in FY 2019, the President's Budget demonstrates intent to eliminate this program and transfer management of the active Title XI loan guarantee portfolio to the Surface Transportation Innovative Finance Bureau. The Title XI Loan Guarantee program is under jurisdiction of the House Committee on Armed Services.

WITNESS LIST

Admiral Karl P. Schultz

Commandant

United States Coast Guard

Master Chief Jason M. Vanderhaden

Master Chief Petty Officer of the Coast Guard

United States Coast Guard

Rear Admiral Mark H. Buzby, USN, Ret.

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The Honorable Michael A. Khouri

Chairman

Federal Maritime Commission