



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

Washington, DC 20515

Bill Shuster
Chairman

Peter A. DeFazio
Ranking Member

Christopher P. Bertram, Staff Director

Katherine W. Dedrick, Democratic Staff Director

March 11, 2016

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 2017 Budget Request for the Coast Guard and Maritime Transportation Programs”

PURPOSE

On Tuesday, March 15, 2016, at 10:00 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 2017 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. On May 30, 2014, President Obama appointed Admiral Paul F. Zukunft as Commandant of the Coast Guard.

Fiscal year 2017 Coast Guard Budget Request

The President requests \$10.3 billion in fiscal year 2017 for the activities of the Coast Guard, \$791 million (or 7.12 percent) less than the current enacted level. The Coast Guard is currently operating under the Consolidated Appropriations Act, 2016 (P.L. 114-113), that provides \$30.8 million (or 0.3 percent) more than the fiscal year 2015 enacted level.

Of the \$10.3 billion requested in fiscal year 2017, \$8.43 billion is for Coast Guard discretionary accounts, \$729 million (or 7.96 percent) less than the current enacted level. This amount does not include a transfer of \$160 million in funding to the Coast Guard from the Department of Defense (DoD) Overseas Contingency Operations account. The transfer of these funds would support the ongoing deployment of six 110-foot Coast Guard Patrol Boats conducting port and waterways security operations in the Persian Gulf. Below is a comparison of the President’s fiscal year 2017 budget request to the fiscal year 2016 appropriated funding.

Program	FY 2016 Enacted	FY 2017 President's Budget Request	Diff. Bet. FY 2017 Budget Request & FY 2016 Enacted	% Diff. Bet. FY 2017 Budget Request & FY 2016 Enacted
Operating Expenses	\$6,901,488,000	\$6,986,815,000	\$85,327,000	1.24%
Environmental Compliance & Restoration	\$13,221,000	\$13,315,000	\$94,000	0.71%
Reserve Training	\$110,614,000	\$112,302,000	\$1,688,000	1.53%
Acquisition, Construction & Improvements	\$1,945,169,000	\$1,136,788,000	(\$808,381,000)	-41.56%
Alteration of Bridges	\$0	\$0	\$0	
Research, Development, Test & Evaluation	\$18,019,000	\$18,319,000	\$300,000	1.66%
Medicare-Eligible Retiree Health Care Fund Contribution	\$168,847,000	\$160,899,000	(\$7,948,000)	-4.71%
Subtotal, Discretionary	\$9,157,358,000	\$8,428,438,000	(\$728,920,000)	-7.96%
Retired Pay	\$1,604,000,000	\$1,666,940,000	\$62,940,000	3.92%
State Boating Safety Grants	\$114,326,000	\$116,088,000	\$1,762,000	1.54%
Oil Spill Liability Trust Fund Claims	\$107,329,000	\$107,868,000	\$539,000	0.50%
Subtotal, Mandatory¹	\$1,827,276,000	\$1,893,110,000	\$65,834,000	3.60%
Total²	\$11,112,251,000	\$10,321,548,000	(\$790,703,000)	-7.12%

¹ Subtotal includes General Gift Funds not listed in table

² Fiscal year 2016 total includes Overseas Contingency Operations funding minus rescissions

Operating Expenses: The President requests \$6.99 billion for Coast Guard Operating Expenses (OE) in fiscal year 2017, \$85.3 million (or 1.24 percent) more than the current 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, 7,500 reservists, and 8,500 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 fiscal year 2016 and increases in other administrative expenses. The request includes a \$291.3 million increase to cover the cost of the 1.6 percent pay raise for military and civilian personnel, 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.

These increases are offset by \$201.6 million in cuts derived through decommissioning certain assets, reducing the number of military and civilian positions, as well as reductions in personnel, support, and other administrative costs. The proposed reductions in the OE account include:

- *Personnel:* The fiscal year 2017 request proposes to cut High Value Unit Escorts conducted by the Coast Guard that includes a reduction of 28 positions. In addition, the Service reduces roughly 400 positions due to decommissioning certain assets and reducing healthcare, logistics, and other support service personnel. The Service shows an overall increase of 325 positions mainly due to increases in Follow-On personnel for the NSCs, FRCs and some of its aircraft.
- *Asset Decommissionings:* The fiscal year 2017 budget proposes to decommission four 110-foot Patrol Boats, one High Endurance Cutter (HEC), Manned Covert Surveillance Aircraft, and one Seagoing Buoy Tender crew. The 110-foot Patrol Boats are being replaced by new 154-foot Fast Response Cutters (FRC). The HECs are being replaced by new 418-foot National Security Cutters (NSC). The Coast Guard estimates these decommissionings will save \$18.4 million in fiscal year 2017.
- *Contractor Reductions:* The fiscal year 2017 request proposes to terminate \$35 million worth of professional services contracts, including any due to expire in 2016. The Coast Guard is conducting an internal analysis of all professional service contracts and contracts will be compared to determine prioritization and areas of highest need; any low priority contracts will be terminated.

Environmental Compliance and Restoration: The President requests \$13.3 million for the Environmental Compliance and Restoration (EC&R) account in fiscal year 2017, \$94,000 (or 0.71 percent) more than the current 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 \$13.3 million requested for EC&R to pay for the environmental remediation, restoration, and long term monitoring of Coast Guard property in several states. The Service currently has a prioritized backlog of 186 EC&R projects with an estimated combined cost of over \$140 million.

Reserve Training: The President requests \$112.3 million for the Reserve Training account in fiscal year 2017, \$1.7 million (or 1.53 percent) more than the current 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 fiscal year 2017 request retains the fiscal year 2016 level of 416 positions and 416 FTEs, which was a reduction from fiscal year 2105 levels of 445 positions and 456 FTEs to support the readiness of the 7,000 member Coast Guard Reserve workforce.

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 by 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 \$1.1 billion for the Acquisitions, Construction, and Improvements (AC&I) account in fiscal year 2017, \$808.4 million (or 41.6 percent) less than the current 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, communications and information technology systems, and related equipment.

The budget request includes \$964.8 million for the acquisition of aircraft, vessels, and command, control, communications, computer, intelligence, surveillance, and reconnaissance (C4ISR) systems. This represents a reduction of \$659.7 million (or 41percent) from the current enacted level. The budget request includes:

- \$127 million to conduct Post Delivery Activities on National Security Cutters (NSC) 4 through 8 and testing and evaluation of one Small Unmanned Aircraft Systems (sUAS) to establish sUAS capability on one NSC;
- \$240 million to acquire four FRCs;
- \$100 million to facilitate evaluation of required deliverables from the Detail Design and award of the Long Lead Time Materials for the OPC, which is on schedule to occur in late fiscal year 2016. The OPC is supposed to replace the Service's aging 210-foot and 270-foot MECs;
- \$130 million to fund the requirement to induct, deploy, and establish logistics for newly acquired C-27J aircraft, including C-27J Asset Project Office activities and support,

training, equipment and spares, and aircraft re-generation at Davis Monthan AFB. The request also includes funding for the missionization for two HC-27Js;

- \$20.8 million to fund procurement of critical spares and equipment to complete activation of the second operational HC-130J. It begins the retrofit of the legacy Mission System Suite HC-130J with the Service's variant of the U.S. Navy Minotaur mission system. The HC-130J is replacing the Service's fleet of older model HC-130H aircraft;
- \$25 million for the continued modernization and sustainment of the HH-65 Dolphin helicopter fleet;
- \$24.3 million for C4ISR acquisition, program management, and systems engineering and integration; and
- \$147.6 million to fund completion of programmatic planning documents and award of contract for Detail Design and all other design activities leading to commencement of production activities for a heavy polar-class icebreaker by 2020.

The budget requests \$172 million in other capital costs, \$148.7 million (or 46 percent) less than the current enacted level. This includes \$120.9 million in personnel costs to execute AC&I programs and \$51 million to construct or renovate shore facilities and aids-to-navigation. The Coast Guard currently has a backlog of 20 shore facility improvement projects with an estimated combined cost of over \$317 million.

Finally, no funding is included in the budget request to rehabilitate housing for Coast Guard servicemembers and their dependents. The account received \$21 million in the current fiscal year. The 2014 Howard Coble Coast Guard and Maritime Transportation Act required the Service to establish an inventory of its real property and submit a report on its findings by March 30, 2016.

Alteration of Bridges: The President does not request funding for the Alteration of Bridges program in fiscal year 2017. The program did not receive funding in fiscal year 2016 or fiscal year 2015. 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.

Research, Development, Test, and Evaluation: The President requests \$18.3 million for the Coast Guard's Research, Development, Test, and Evaluation (RDT&E) account, \$300,000 (or 1.66 percent) more than the current 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 \$18.3 million requested for RDT&E in fiscal year 2017 to improve its modeling and simulation capabilities and develop new technologies for the detection and recovery of oil and hazardous substances both on the surface and in the water column, and in the Arctic environment; develop solutions to Arctic maritime communication challenges; to test new unmanned systems; and to develop new systems to improve intelligence collection and dissemination.

Coast Guard Fiscal Year 2017 Authorized Funding

On February 8, 2016, the President signed into law H.R. 4188, the Coast Guard Authorization Act of 2015 (P.L. 114-120). P.L. 114-120 authorized funding for the discretionary accounts of the Coast Guard for fiscal year 2017. Below is a comparison of the President's fiscal year 2017 budget request to the FY 2017 enacted authorization.

Program	FY 2017 President's Budget Request	FY 2017 Enacted Authorization (PL 114-120)
Operating Expenses	\$6,986,815,000	\$6,981,036,000
Environmental Compliance & Restoration	\$13,315,000	\$16,701,000
Reserve Training	\$112,302,000	\$140,016,000
Acquisition, Construction, & Improvements	\$1,136,788,000	\$1,945,000,000
Research, Development, Test, & Evaluation	\$18,319,000	\$19,890,000
Total	\$8,267,539,000	\$9,102,643,000

Federal Maritime Commission

The FMC was established in 1961 as an independent agency which regulates oceanborne 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 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 Cordero as Chairman.

Fiscal Year 2017 FMC Budget Request

The President requests \$27.49 million in fiscal year 2017 for the activities of the FMC, \$1.8 million (or 7 percent) more than the fiscal year 2016 enacted level. Below is a comparison of the President's fiscal year 2017 budget request to the fiscal year 2016 appropriated funding.

Account	FY 2016 Enacted	FY 2017 President's Budget Request	Diff. Bet. FY 2017 Request & FY 2016 Enacted	% Diff. Bet. FY 2017 Request & FY 2016 Enacted
Formal Proceedings	\$8,368,000	\$8,784,000	\$416,000	4.97%
Equal Employment Opportunity	\$176,000	\$192,000	\$16,000	9.09%
Inspector General	\$502,000	\$552,000	\$50,000	9.96%
Operational and Administrative	\$16,614,000	\$17,962,000	\$1,348,000	8.11%
Total	\$25,660,000	\$27,490,000	\$1,830,000	7.13%

P.L. 114-120 authorized the activities of the FMC at \$24.7 million for fiscal year 2017.

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. On July 25, 2014, President Obama appointed Paul “Chip” Jaenichen, Sr. to serve as Administrator.

Fiscal Year 2017 MARAD Budget Request

The President requests \$403.1 million in fiscal year 2017 for the activities of MARAD, \$3.8 million (or 0.95 percent) more than the fiscal year 2016 enacted level. Below is a comparison of the President’s fiscal year 2017 budget request to the fiscal year 2016 appropriated funding.

Account	FY 2016 Enacted	FY 2017 President's Budget Request	Diff. Bet. FY 2017 Request & FY 2016 Enacted	% Diff. Bet. FY 2017 Request & FY 2016 Enacted
Operations and Training	\$171,155,000	\$194,100,000	\$22,945,000	13.41%
Assistance to Small Shipyards	\$5,000,000	\$0	-\$5,000,000	0.00%
Ship Disposal Program	\$5,000,000	\$20,000,000	\$15,000,000	300.00%
Maritime Security Program	\$210,000,000	\$186,000,000	-\$24,000,000	-11.43%
Title XI - Administrative Expenses	\$3,135,000	\$3,000,000	(\$135,000)	-4.31%
Title XI - Loan Guarantees	\$5,000,000	\$0	(\$5,000,000)	0%
Total	\$399,290,000	\$403,100,000	\$3,810,000	0.95%

Operations and Training: The President requests \$194 million for the Operations and Training (O&T) account, \$22.9 million (or 13.4 percent) more than the fiscal year 2016 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 \$99.9 million for the U.S. Merchant Marine Academy, including \$74.9 million for Academy Operations, and \$25.1 million for capital improvements, repairs, and maintenance; \$29.6 million for the six state maritime academies, including \$6 million to begin design work on a new training vessel; and \$58.7 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 and modernize shipbuilding capacity, efficiency, and competitiveness. The program received \$5 million in fiscal year 2016. P.L. 113-281 reauthorized the program through fiscal year 2017 at \$10 million per year.

Ship Disposal: The budget requests \$20 million for the Ship Disposal Program, \$15 million (or 300 percent) more than the fiscal year 2016 enacted level. The program provides for the proper disposal of obsolete government-owned merchant ships maintained by MARAD in the National Defense Reserve Fleet. The requested funding will cover expenses related to the disposal of the remaining three vessels in the Suisan Bay Reserve Fleet in fiscal year 2016 to meet a California Court Consent Decree. The request also includes \$8 million to maintain in protective storage and begin the decommissioning of the NS SAVANNAH.

Maritime Security Program: The budget requests \$186 million for the Maritime Security Program (MSP) in fiscal year 2017, \$24 million (or 11.4 percent) less than the fiscal year 2016 enacted level. Under this program, \$186 million in direct payments are divided 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.

MARAD proposes to use an additional \$25 million in the request for MSP 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. 83-480) proposed by the President in the fiscal year 2017 budget.

Title XI Loan Guarantees: The budget does not request funds for new loan guarantees for the construction or reconstruction of U.S. flagged vessels in U.S. shipyards under the Title XI program. The program received \$5 million in fiscal year 2016. There is currently \$42 million in Title XI loan subsidies available, which equates to approximately \$518 million in available loan guarantees. MARAD expects to obligate most of the remaining \$42 million in fiscal year 2016.

WITNESS LIST

Admiral Paul F. Zukunft
Commandant
United States Coast Guard
accompanied by
Master Chief Steven W. Cantrell
Master Chief Petty Officer of the Coast Guard
United States Coast Guard

The Honorable Paul “Chip” N. Jaenichen, Sr.
Administrator
Maritime Administration

The Honorable Mario Cordero
Chairman
Federal Maritime Commission