



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

James L. Oberstar
Chairman

Washington, DC 20515

John L. Mica
Ranking Republican Member

David Heysfeld, Chief of Staff
Ward W. McCarragher, Chief Counsel

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James W. Coon II, Republican Chief of Staff

SUMMARY OF SUBJECT MATTER

TO: Members of the Subcommittee on Coast Guard and Maritime Transportation

FROM: Subcommittee on Coast Guard and Maritime Transportation Staff

SUBJECT: Fiscal Year 2009 Budget Requests for the United States Coast Guard and the United States Maritime Administration

PURPOSE OF HEARING

On Tuesday, February 26, 2008, at 10:00 a.m., in Room 2167 Rayburn House Office Building, the Subcommittee on Coast Guard and Maritime Transportation will meet to examine the Administration's fiscal year 2009 budget requests for the Coast Guard and the Maritime Administration.

The Subcommittee will receive testimony from the Coast Guard on the service's fiscal year 2009 budget request and the Deepwater acquisition program. The Subcommittee will also receive testimony from the Administrator of the United States Maritime Administration on the Administration's fiscal year 2009 budget request.

BACKGROUND

FY 2009 Coast Guard Budget Request: The President requests \$8.8 billion in FY 2009 for U.S. Coast Guard activities, which is an increase of approximately \$459 million (5.5 percent) over the total amount enacted in FY 2008 for the service. The Coast Guard's request is designed to sustain the Coast Guard's ability to support America's maritime safety, security, and stewardship interests in FY 2009.

Operating Expenses (OE): The overall budget request for Coast Guard Operating Expenses (OE) in FY 2009 is approximately \$6.2 billion, an increase of more than \$212 million (3.5 percent) over the FY 2008 enacted level. The OE account comprises more than two-thirds of the Coast Guard's

budget. Funding from this account provides for the safety of the public through the Coast Guard's Search and Rescue and Marine Safety programs, including aids to navigation, pollution response, and waterways management. OE funding also covers the costs associated with the Coast Guard's workforce, which is comprised of 47,368 military and civilian positions. The request covers pay increase for officers and enlisted members (3.4 percent) and civilian employees (2.9 percent) of the Coast Guard.

The Administration has designated \$20 million of this request to provide for 276 new marine inspectors in the Coast Guard's marine safety programs. According to the Coast Guard performance budget models, in FY 2006, the Coast Guard spent \$527 million for marine safety programs and in FY 2009, they are requesting only \$488 million for these programs. However, the Coast Guard has said that these charts in their budget do not accurately reflect the money they actually spend on their various missions.

In FY 2006, funding for Coast Guard polar icebreakers was transferred to the National Science Foundation (NSF), which was then directed to reimburse the Coast Guard for costs associated with the service's operation of its three existing polar icebreakers (POLAR SEA, POLAR STAR, and HEALY). The FY 2009 request again provides operation and maintenance funds for the polar icebreakers through NSF.

Reserve Training: The President requests approximately \$130.5 million, an increase of 3.6 percent over the FY 2008 budget, to cover training costs for Coast Guard Reserve personnel. The members of the Coast Guard Reserve are mobilized in the event of a national emergency or disaster. Reservists maintain readiness through mobilization exercises and by undertaking limited duration duty alongside regular Coast Guard members during both routine and emergency operations.

In addition, the Coast Guard Reserve fills critical national security and national defense roles in the Department of Homeland Security and in direct support of the Department of Defense in Iraq, where Reservists manage waterside security around major ports and U.S. military assets. The Coast Guard Reserve continues to be deployed in support of Operation Iraqi Freedom.

Environmental Compliance and Restoration: The President requests approximately \$12.3 million for environmental compliance and restoration, a 0.7 percent decrease from the FY 2008 appropriated level. Environmental Compliance and Restoration provides for the clean-up and restoration of previously and currently contaminated Coast Guard facilities, and provides for the design of "fixes" on Coast Guard assets so that they comply with environmental laws established to prevent contamination and damage to the environment.

Acquisitions, Construction, and Improvements (AC&I): The President requests \$1.2 billion to fund all planned Coast Guard capital acquisitions in FY 2009, an approximately \$212.5 million increase from the FY 2008 appropriated level. These funds support the acquisition, construction, and improvement of vessels, aircraft, information management resources, shore facilities, and aids to navigation.

Of the \$1.2 billion request, \$990.4 million (an approximately \$207.2 million increase from the enacted funding for FY 2008) is for the Deepwater program, the Coast Guard's program to replace or rehabilitate cutters and aircraft utilized primarily 50 miles offshore over a 25-year period.

The budget requests funding for the following projects:

- \$353.7 million to complete National Security Cutter #4;
- \$115 million to build three Fast Response Cutters; and,
- \$86.6 million to build two Medium Patrol Aircraft.

The President's budget has requested \$216.7 million for non-Deepwater capital expenses, including only \$50 million for shore-based facilities – a figure that is significantly less than amounts historically provided for these capital needs. In FY 2005, for example, Congress appropriated \$360 million for non-Deepwater capital expenses to help pay for the maintenance and construction of the Coast Guard's shore-based facilities and equipment. Failure to adequately fund maintenance, repair, and replacement of shore facilities will only result in higher outlays in the future. The FY 2009 budget requests funding for the following shoreside projects:

- \$64 million for 14 Response Boats-Medium (to replace the 41 foot Utility Boats);
- \$11.6 million for six duplex housing units in Cordova, AK;
- \$10.3 million to continue renovations of the cadet barracks at the Coast Guard Academy;
- \$14.6 million for continued deployment of a nation-wide automatic identification system for ships, a transponder-based collision avoidance system that will also allow the Coast Guard to track vessels for security purposes;
- \$73 million for "Rescue 21," the Service's new "maritime 911" program; and
- \$2.5 million for High Frequency (HF) radio modernization and recapitalization.

Research, Development, Test, and Evaluation: The President's budget requests approximately \$16 million for Research, Development, Test and Evaluation, a \$9 million (36 percent) decrease under the amount appropriated for FY 2008. Specific projects projected for FY 2009 include development of advanced analytical techniques to support the acquisition process, development of new methods and procedures for mass rescue operations at sea, development of new technologies for the recovery of oil and hazardous materials in extreme cold weather conditions, and development of standards necessary to allow for the approval of new aquatic nuisance species prevention systems.

Alteration of Bridges: Created by the Truman-Hobbs Act of 1940 (33 U.S.C. 511 et. seq.), the bridge alteration program provides that the Federal Government will share with a bridge's owner the cost of altering or removing railroad and publicly owned highway bridges that obstruct maritime navigation. No funds are requested for this program in FY 2009. In FY 2008, \$16 million was appropriated for this program. Last year, the President's budget proposed to transfer responsibility for the Truman-Hobbs bridge alteration program to the Department of Transportation; however, that request was not renewed this year.

Retired Pay: The President's budget assumes that \$1.2 billion will be needed for retired pay in Fiscal Year 2009. This represents a \$52 million increase over the fiscal year 2008 enacted level.

PORT SECURITY GRANTS

The President's budget requests \$210 million for port security grants for FY 2009. In FY 2008, \$388.6 million was available for port security grants.

COAST GUARD

(in millions)

Program	FY2008 Enacted	FY2009 Authorized	FY2009 President's Budget	Diff. of FY2009 Pres. Budget and FY2008 Enacted	
				\$	%
Operating Expenses	6,001.3	None	6,213.4	212.1	3.5%
Acquisition & Constr.	987.8	None	1,205.1	217.3	22%
Environmental Compliance	13.0	None	12.3	-.7	-5.3%
Alteration of Bridges	16.0	None	---	--	--
Retired Pay	1,184.7	None	1,236.7	52.0	4.4%
Research & Dev.	25	None	16	9.0	36%
Reserve Training	126.9	None	130.5	3.6	3%
Total	8,354.7	None	8,814	191.1	10.6

MARITIME ADMINISTRATION (MARAD) BUDGET

FY 2009 Maritime Administration Budget Request: The President requests \$313.3 million in FY 2009 for Maritime Administration activities, which is a decrease of approximately \$21,000 (.03 percent) below the total amount enacted in FY 2008 for the Administration.

Obligations by Program Activities: The President requests \$117.8 million for operations and training; \$0 for Assistance to Small Shipyards (versus \$10 million enacted in FY 2008); \$18 million for the Ship Disposal Program; \$174 million for the Maritime Security Program; and \$3.5 million for the Maritime Guaranteed Loan Program.

Operations and Training: The overall budget request for MARAD's Operations and Training is approximately \$117.8 million, a decrease of approximately \$4 million (4.2 percent) under the FY 2008 enacted level. Of the \$117.8 million, \$61.3 million is for the U.S. Merchant Marine Academy (USMMA); \$11 million for the State Maritime Schools; and \$45.5 million for MARAD operations. Funding from this account supports staff at MARAD headquarters and gateway offices who administer and direct the Federal maritime programs for the operation of the USMMA and financial assistance for the six State maritime schools.

Assistance to Small Shipyards: MARAD did not request funds for Assistance to Small Shipyards in FY 2009. This funding is made available for as grants for capital improvements and related infrastructure at qualified shipyards that facilitate the quality, efficiency, and cost-effectiveness of domestic ship construction for commercial and federal government use as authorized under section

3506 of Public Law 109-163. A total of \$10 million was enacted for this program in FY 2008 and is to remain available until expended.

Ship Disposal: The budget includes \$18 million for the essential expenses related to the disposal of obsolete vessels in the National Defense Reserve Fleet. This is \$1 million (6 percent) less than the FY 2008 enacted level. Of the \$18 million, \$15 million will support the continuation of obsolete ship disposal activities, which will allow 14 vessels to be moved from inventory, while \$3 million will provide funds to bring the Nuclear Ship SAVANNAH nuclear facility into conformance with applicable Nuclear Regulatory Commission (NRC) SAFSTOR standards (inoperable, defueled, and protected long-term storage).

Maritime Security Program: The budget includes \$174 million to maintain and preserve a U.S.-crewed, U.S.-flagged merchant fleet to serve the national security needs of the United States. Direct payments are provided to U.S. flag ship operators engaged in U.S. foreign trade. Vessel operators that participate are required to keep the vessels in active commercial service and provide intermodal sealift support to the Department of Defense in times of war or national emergency.

Maritime Guaranteed Loan (Title XI) Program: The budget includes \$3.5 million for the program administration of the Maritime Guaranteed Loan Program. No new subsidy funds were requested for new loan guarantees for ship construction. In FY 2008, \$8.4 million was enacted for the Title XI Program, of which \$5 million (subsidy funding) will remain available until expended. Guaranteed loans are provided for purchasers of ships from the U.S. shipbuilding industry and for the modernization of U.S. shipyards.

Mission

The Maritime Administration's mission is to strengthen the United States' maritime transportation system – including its infrastructure, industry, and labor – to meet the economic and security needs of the nation. MARAD's programs promote the development and maintenance of an adequate, well-balanced United States merchant marine so that it is sufficient to carry the nation's domestic waterborne commerce and a substantial portion of its waterborne foreign commerce and capable of serving as a naval and military auxiliary in time of war or national emergency. MARAD works to ensure the United States maintains adequate shipbuilding and repair services, efficient ports, effective intermodal water and land transportation systems, and reserve shipping capacity for use in time of national emergency.

MARAD's objectives include:

- Commercial Mobility – reducing congestion on the nation's inland waterway, marine, and landside infrastructure;
- National Security – assuring an intermodal sealift capacity to support America's national security interests; and,
- Environment – formalizing environmental considerations in operations and in partnership with other agencies and private stakeholders to streamline processes that lead to environmentally friendly transportation improvements.

MARAD has re-aligned its headquarters offices and will eventually establish offices at 10 of the largest U.S. ports to enable to identify waterway bottlenecks and develop plans to improve

freight movement. MARAD will work with stakeholders, promoting collaboration, and focusing particularly on planning and environmental issues.

Maritime Administrator

The Maritime Administrator is the head of the Maritime Administration (MARAD) and reports to the Secretary of Transportation. The Administrator advises the Secretary of Transportation on commercial maritime matters, strategic sealift, and the U.S. maritime industry. The Administrator is also a liaison with public and private organizations that are concerned with the U.S. maritime industry. As the U.S. maritime policy advisor to the Secretary, the Administrator works with international maritime groups, conducts negotiations, and maintains effective relations with other agencies of the federal government and the public.

Short Sea Shipping

Short Sea Shipping is an alternative form of commercial transportation that utilizes inland and coastal waterways to move commercial freight from major domestic ports to its destination.

Last year, Congress passed the Energy Independence and Security Act of 2007 (P.L. 110-140). Title XI of that Act established a Short Sea Shipping program in MARAD and required the agency to identify short sea transportation projects and routes that will mitigate landside congestion. This includes coordinating resources between U.S.-flag vessel owners, shippers, ports, and state and local governments. This law also made U.S.-flag vessels engaged in short sea transportation between U.S. ports eligible to participate in the Capital Construction Fund Program administered by MARAD. This is a tax deferral program that allows vessel owners to place money in a tax deferred account and withdraw the funds to help finance short sea transportation projects.

MARAD is exploring how it can support the development of a robust short sea shipping system to aid in the reduction of growing freight congestion on U.S. rail and highway systems. MARAD is also looking at the use of public system incentives, vessel financing and construction, and customer requirements for the development of new waterborne transportation services in North America. A Short Sea Shipping Cooperative Program has been formed by MARAD that includes maritime business and community representatives to support projects that advance Short Sea Shipping. A Short Sea Shipping Memorandum of Cooperation has been reached with Canada and Mexico.

Deepwater Ports

The Deepwater Port Act (DWPA) of 1974, as amended by the Maritime Transportation Security Act of 2002, established a licensing system for the ownership, construction, operation and decommissioning of deepwater port structures located beyond the U.S. territorial sea that are used to offload oil and natural gas. The DWPA established the conditions that applicants for licenses must meet, including minimization of adverse impact on the marine environment and submission of detailed plans for construction, operation and decommissioning of deepwater ports. The DWPA also established detailed procedures for the issuance of licenses by the Secretary of Transportation. The Act prohibited the issuance of a license without the approval of the governors of the adjacent

coastal states. The Secretary is required to establish environmental review criteria consistent with the National Environmental Policy Act.

On June 18, 2003, the Secretary of Transportation delegated his authority to issue, transfer, amend, or reinstate a license for the construction and operation of a deepwater port to the Maritime Administrator. As such, MARAD is responsible for determining the financial capability of potential licensees, for preparing the project record of decision (which includes the decommissioning analysis), and for issuing or denying the Deepwater port license. Various other duties specified under DWPA pertaining to the licenses of Deepwater facilities are shared with the Coast Guard. For example, the Maritime Administration and the Coast Guard, in cooperation with other Federal agencies, must comply with the requirements of the National Environmental Policy Act within the time frame established.

The United States holds less than 4 percent of world reserves of natural gas, but it is in plentiful supply worldwide. The need for natural gas will grow as the country's demand for electricity continues to grow, which is why Deepwater Port activity and interest should continue to grow.

PROMOTION OF U.S.-FLAG LIQUEFIED NATURAL GAS TANKERS

The Deepwater Port Act of 1974, as amended through the Coast Guard and Maritime Transportation Act of 2006, directs the Secretary of Transportation to develop and implement a program to promote the transportation of liquefied natural gas to the U.S. on U.S.-flag vessels. The Act also directed the Secretary to give top priority to the processing of deepwater port licenses to LNG facilities that will be supplied with natural gas by U.S. flag vessels. The Act directed that the nation of registry for, and the nationality or citizenship of, officers and crew serving on board vessels transporting natural gas to a deepwater port be considered when granting a license. The Secretary delegated this responsibility to MARAD, which is now the lead federal agency for the licensing of offshore LNG and oil deepwater port terminals and is responsible for ensuring each facility is constructed and operated in a safe and secure manner.

Program	FY2008 Enacted	FY2009 Authorized	FY2009 President's Budget	Diff. of FY2009 Pres. Budget and FY2008 Enacted	
				\$	%
Operations and Training	122	None	117.8	(4.2)	-3.4%
Assistance to Small Shipyards	10	None	0	(10)	-100%
Ship Disposal Program	17.0	None	18.0	1	6%
Maritime Security Program	156	None	174	18	11.5%
Maritime Guaranteed Loan Program	3.4	None	3.5	.1	3%
Administrative Expenses					

Maritime Guaranteed Loan Program Loan Guarantees	5.0	None	0	(5.0)	-100%
Total	313.4	None	313.4	(.1)	.03

PREVIOUS COMMITTEE ACTION

The Subcommittee on Coast Guard and Maritime Transportation held hearings in the first session of the 110th Congress to examine the fiscal year 2008 budgets of the Coast Guard and the Maritime Administration. Various hearings held throughout the 110th Congress have also examined specific aspects of the programs implemented by the Coast Guard (including its Deepwater procurement program and its marine safety program) and the Maritime Administration (including its work to promote short sea shipping and the continued development of a robust maritime workforce).

WITNESSES

Vice Admiral Robert J. Papp, Jr.
Chief of Staff
United States Coast Guard

Master Chief Charles W. Bowen
Master Chief Petty Officer
United States Coast Guard

Mr. Sean Connaughton
Administrator
Maritime Administration