



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

Washington, DC 20515

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May 8, 2015

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 “Coast Guard Major Acquisitions”

PURPOSE

The Subcommittee on Coast Guard and Maritime Transportation will meet on Thursday, May 14, 2015, at 10:30 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), and the Navy League of the United States.

BACKGROUND

Coast Guard Recapitalization

The Coast Guard began a process of recapitalizing its aging offshore 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, coordinate, and command its operations. The program was known as the Integrated Deepwater System (Deepwater). To manage the acquisition program, the Coast Guard relied on a lead system integrator composed of a partnership between Lockheed Martin and Northrop Grumman. The partnership was named the Integrated Coast Guard System (ICGS).

Deepwater encountered significant quality control and cost issues. It was the subject of several hearings and an investigation by the Committee. It remains the subject of continuing review by the GAO. Although ICGS accomplished some goals, such as delivering a re-engined HH-65 helicopter, the Coast Guard terminated the contract with ICGS in 2007, assumed full control of the recapitalization program, 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. In most cases, the assets scheduled for

recapitalization remain the same as those programs specified under Deepwater, although the Coast Guard has modified some approved programs of record due to changes in circumstances.

Fiscal Year 2016 Budget Request for Coast Guard Acquisitions

The President requests \$1.02 billion for the Acquisitions, Construction, and Improvements (AC&I) account in fiscal year (FY) 2016, \$208 million (or 17 percent) less than the FY 2015 enacted appropriation 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 2015 Enacted Authorization (P.L. 113-281)	FY 2015 Enacted Appropriations (P.L. 114-4)	FY 2016 President's Budget Request
Acquisition, Construction, & Improvements	\$1,546,448,000	\$1,225,223,000	\$1,017,269,000

The budget request includes approximately \$799 million for the acquisition of aircraft, vessels, and command, control, communications, computer, intelligence, surveillance, and reconnaissance (C4ISR) systems. This represents a reduction of \$129.3 million (or 13 percent) from the FY 2015 enacted level. The budget request includes:

- \$91.4 million to complete Post Delivery Activities for National Security Cutter’s (NSC) #5, 6, 7 and 8, and to conduct dry docking of NSC #2 (WAESCHE) to address design flaws identified after construction was underway;
- \$340 million to acquire six Fast Response Cutters (FRC) (hulls #33-38). This would be the first set of FRCs acquired under a Phase II contract the Service expects to award by April 2016. The FRC is replacing the Coast Guard’s nearly 30 year-old 110-foot Patrol Boats;
- \$18.5 million to continue Preliminary Contract and Design work on the Offshore Patrol Cutter (OPC). The OPC is intended to replace the Service’s aging 210-foot and 270-foot Medium Endurance Cutters (MECs). The Administration is requiring the Department of Homeland Security (DHS) to complete an analysis of alternatives for the OPC acquisition. Until the analysis is completed, the Coast Guard cannot award a contract for detailed design of the OPC. Failure to award a detailed design contract before the end of FY 2016 will significantly increase the cost and further delay this acquisition program, which is the largest segment of the overall recapitalization initiative. The President’s budget for fiscal year 2016 does not include the nearly \$70 million required for detailed design. However, it does include a request to authorize a transfer of funds from an undefined source within DHS to the Coast Guard to complete detailed design of the OPC;

- \$102 million to acquire spares, continue crew training, and establish an air station in Sacramento, California, for the first four 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;
- \$55 million to acquire spare parts and support the establishment of a HC-130J air station in Kodiak, Alaska. The HC-130J is replacing the Service's legacy fleet of older model HC-130H aircraft;
- \$40 million for the modernization and sustainment of the HH-65 Dolphin helicopter fleet;
- \$36.6 million for C4ISR acquisition, program management, and systems engineering and integration;
- \$6 million to conduct a Material Condition Assessment of the Service's polar icebreaker POLAR SEA. The POLAR SEA is one of the Coast Guard's and the Nation's two polar class heavy icebreakers. Since it suffered a major engine casualty in June 2010, the icebreaker has not been operational; and
- \$4 million to continue survey and design work for a new polar icebreaker.

The budget requests \$218 million in other capital costs, a \$62.4 million (or 50.1 percent) increase over the FY 2015 enacted appropriation. This includes \$116.8 million in personnel costs to execute AC&I programs and \$101.4 million to construct shore facilities and aids-to-navigation. The Coast Guard currently has a backlog of 30 prioritized shore facility improvement projects with an estimated combined cost of over \$564 million.

Finally, the FY 2016 budget request does not include funding to rehabilitate housing for Coast Guard service members 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 service member housing to help the Service better prioritize future expenditures.

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 timelines and total costs to complete each such acquisition. The purpose of the CIP is to ensure Congress has adequate information to conduct proper oversight of the Service's budget, acquisition plans, mission needs, and readiness to conduct operations in future years. On April 6, 2015, the Committee received the attached CIP for fiscal years 2016 through 2020.

CIPs submitted in past years have been criticized by GAO for failing to accurately reflect cost and schedule impacts from funding shortfalls. In its June 18, 2014 report entitled *Better Information on Performance and Funding Needed to Address Shortfalls* (GAO-14-450), GAO recommended the Coast Guard be required to regularly update the estimated timeline and total cost to complete each acquisition based upon actual appropriations. It also recommended 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. H.R. 1987, the Coast Guard Authorization Act of 2015, includes language which would enact these recommendations.

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 new replacement assets.

In its report, GAO estimated it could take an additional 10 years and potentially cost \$6 billion more to complete the current acquisition program. GAO found that the Coast Guard and DHS have taken limited steps to maintain the affordability of the acquisition portfolio. DHS conducted two studies that reassessed the offshore cutters being acquired under the current recapitalization program to determine if trade-offs could be made in planned quantities or capabilities. However, DHS concluded in both cases that the studies re-validated the 2005 acquisition program and no trade-off decisions were made (GAO-14-450).

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. On December 18, 2014, the President signed into law S. 2444, the Howard Coble Coast Guard and Maritime Transportation Act of 2014 (P.L. 113-281), which directed the Coast Guard to provide an integrated major MNS on the date on which the President submits to Congress a budget for fiscal years 2016, 2019 and every four years thereafter. The Coast Guard has informed staff that the revised MNS will be delivered to Congress in July, 2015.

Unplanned Capital Needs

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

- Polar Icebreaker – The Coast Guard has two Class III-heavy icebreakers (i.e., CGG POLAR STAR and CGC POLAR SEA) capable of operating in Polar Regions, although only POLAR STAR is currently operational. 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.

Section 222 of the Coast Guard and Maritime Transportation Act of 2012 (P.L. 112-213) required the Coast Guard to conduct a business case analysis (BCA) of the options for and costs associated with reactivating the POLAR SEA. The Service was further required to make a determination based on the BCA of whether to reactivate or decommission the icebreaker.

In November 2013, the Service completed the BCA and estimated the reactivation would cost approximately \$99 million to provide 7 to 10 years of service. Although it completed the analysis nearly two years ago, the Service has refused to make a determination. The Service is currently spending \$8 million to stabilize and preserve the POLAR SEA and is requesting an additional \$6 million in FY 2016 to conduct a materiel condition assessment of the vessel. The Coast Guard estimates that a determination to reactivate or decommission the icebreaker will not be made until after completion of the assessment in late 2016.

H.R. 1987 includes language which would set a deadline of 270 days for the Coast Guard to complete and submit to Congress its materiel condition assessment of the POLAR SEA and its determination of whether or not it is cost effective to reactivate the icebreaker.

- 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-2030s before the legacy fleet will be fully replaced by the new OPC fleet. However, the recently completed Mission Effectiveness Project (MEP) for the MECs will not extend the service life of the MECs until that time. The Coast Guard has informed staff that it is in the process of evaluating the current condition of the MEC fleet and examining ways to extend the fleet's service life to compensate for the delayed arrival of the OPC fleet. This analysis could precipitate the need for a second MEP for the MEC fleet which will affect funding allocations under future CIPs.
- HH-60 and HH-65 Helicopter Fleets - Under the Coast Guard's current recapitalization program, the Service's fleets 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. Furthermore, the HH-65 airframe is no longer being manufactured. This fact may restrict future Coast Guard operational capability should HH-65 airframes presently in service be lost permanently due to casualties, or be inoperative for extended periods due to extensive repair and maintenance.

Performance of New Assets

GAO's June 2014 report found that the new assets it reviewed are demonstrating improved performance over the legacy assets they replaced. 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 has failed to ensure that KPPs were met before the Service and DHS made decisions to enter full rate production (GAO-14-450). 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. GAO recommended changes in the Service's IOTE procedures to address the issue. H.R. 1987 includes language which would enact these recommendations.

C-27J Aircraft

Section 1098 of the National Defense Authorization Act of 2013 (P.L. 113-66) requires the U.S. Air Force to transfer 14 excess C-27J aircraft to the Coast Guard, and the Coast Guard to transfer 7 HC-130H aircraft to the U.S. Forest Service. In May 2014, the Subcommittee requested the GAO review any issues the Coast Guard is having in integrating the C-27Js into its fleet and the impact of the C-27J on the Service's fixed wing capabilities. In April 2015, GAO released its report entitled *Transfer of Fixed-Wing C-27J Aircraft Is Complex and Further Fleet Purchases Should Coincide with Study Results* (GAO 15-325). The report found the Coast Guard—

- was experiencing problems acquiring spare parts in a timely and cost-effective manner;
- did not have sufficient access to technical data needed to fully missionize, maintain, and operate the aircraft; and
- has not adequately identified, nor explained, the impact the transfer of these aircraft will have on its mission hour requirements for fixed wing aircraft and its plans to acquire other fixed wing aircraft such as additional C-130Js.

The GAO recommends the Coast Guard update Congress on changes to its mission need requirements for fixed wing aircraft and to provide Congress with a new fixed wing aircraft fleet mix analysis (FMA) to identify which aircraft it intends to acquire in the future. The Subcommittee expects the first recommendation to be addressed in the revised MNS scheduled for delivery in July 2015. With respect to the second recommendation, H.R. 1987 sets a deadline of September 30, 2015 for submission of the revised FMA to the Committee.

WITNESSES

Rear Admiral Baffer
Assistant Commandant for Acquisitions
United States Coast Guard

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

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