



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

Washington, DC 20515

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February 20, 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 “President’s Fiscal Year 2016 Budget Request for the Coast Guard and Maritime Transportation Programs”

PURPOSE

On Wednesday, February 25, 2015, 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 (FY) 2016 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.

FY 2016 Coast Guard Budget Request

The President requests \$9.96 billion in FY 2016 for the activities of the Coast Guard, \$402 million (or 3.9 percent) less than the current enacted level. The Coast Guard is currently operating under a FY 2015 Continuing Resolution (P.L. 113-235) that provides funding at the FY 2014 enacted level. H.R. 240, a full year appropriations bill for the Department of Homeland Security (DHS) passed the House on January 14, 2015, and is awaiting action by the Senate.

Of the \$9.96 billion requested in FY 2016, \$8.49 billion is for Coast Guard discretionary accounts, \$358 million (or 4.2 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.

Program	FY 2014 Enacted/FY 2015 CR	FY 2016 President's Budget Request	Diff. Bet. FY2016 Budget Request & FY2015 CR	% Diff. Bet. FY 2016 Budget Request & FY
Operating Expenses	\$6,784,807,000	\$6,821,503,000	\$36,696,000	0.5%
Environmental Compliance & Restoration	\$13,164,000	\$13,269,000	\$105,000	0.8%
Reserve Training	\$120,000,000	\$110,614,000	(\$9,386,000)	-7.8%
Acquisition, Construction & Improvements	\$1,375,635,000	\$1,017,269,000	(\$358,366,000)	-26.1%
Alteration of Bridges	\$0	\$0	\$0	
Research, Development, Test & Evaluation	\$19,200,000	\$18,135,000	(\$1,065,000)	-5.5%
Medicare-Eligible Retiree Health Care Fund Contribution	\$185,958,000	\$159,306,000	(\$26,652,000)	-14.3%
Subtotal, Discretionary	\$8,498,764,000	\$8,140,096,000	(\$358,668,000)	-4.2%
Retired Pay	\$1,460,000,000	\$1,605,422,000	\$145,422,000	10.0%
State Boating Safety Grants	\$105,873,000	\$115,776,000	\$9,903,000	9.4%
Oil Spill Liability Trust Fund Claims	\$299,741,000	\$101,000,000	(\$198,741,000)	-66.3%
Subtotal, Mandatory	\$1,865,694,000	\$1,822,198,000	(\$43,496,000)	-2.3%
Total	\$10,364,458,000	\$9,962,294,000	(\$402,164,000)	-3.9%

Operating Expenses: The President requests \$6.82 billion for Coast Guard Operating Expenses (OE) in FY 2016, \$36.7 million (or 0.5 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 FY 2015 and increases in other administrative expenses. The request includes a \$78 million increase to cover the cost of the Administration's proposed 1.3 percent pay raise for military and civilian personnel in FY 2016, as well as expanded military benefits enabling Coast Guard servicemembers to maintain parity with benefits received by DoD servicemembers. Finally, it includes \$5.3 million to begin the relocation of Air Station Los Angeles.

These increases are offset by \$173.8 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:

- *Cuts to Personnel:* The FY 2016 request proposes to cut the size of the Coast Guard's workforce by 304 positions. This includes a reduction of 268 servicemembers and 36 civilians. These are net reductions representing a decline in positions from decommissioning certain assets and reducing healthcare, logistics, and other support service personnel.
- *Asset Decommissionings:* The FY 2016 budget proposes to decommission two 110-foot Patrol Boats and three HC-130H aircraft. The 110-foot Patrol Boats are being replaced by new 154-foot Fast Response Cutters (FRC). The HC-130H aircraft are being transferred to the Forest Service as part of an arrangement that will enable the Coast Guard to receive 14 C-27J aircraft from the Air Force. The Coast Guard estimates these decommissionings will save \$12.6 million in FY 2016.
- *Contractor Reductions:* The FY 2016 request proposes to terminate \$45 million worth of professional services contracts due to expire in 2015. These contracts include information technology support, strategic planning, and engineering design work. The Coast Guard intends to bring this work "in-house."

Environmental Compliance and Restoration: The President requests \$13.3 million for the Environmental Compliance and Restoration (EC&R) account in FY 2016, \$105,000 (or 0.8 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 198 EC&R projects with an estimated combined cost of over \$144 million.

Reserve Training: The President requests \$110.6 million for the Reserve Training account in FY 2016, \$9.4 million (or 7.8 percent) less 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 FY 2016 request assumes enactment of a proposal made in the FY 2015 request that would move approximately 600 reservists from the Selected Reserve to the Inactive Ready Reserve. This reduces the number of regularly trained Coast Guard Reservists to approximately 7,000. The reduction in the number of Selected Reservists enables the Service to cut the number of personnel responsible for training Reservists by 58 positions.

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 \$1.02 billion for the Acquisitions, Construction, and Improvements (AC&I) account in FY 2016, \$358.4 million (or 26.1 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 \$799 million for the acquisition of aircraft, vessels, and command, control, communications, computer, intelligence, surveillance, and reconnaissance (C4ISR) systems. This represents a reduction of \$440 million (or 35 percent) from the current enacted level. The budget request includes:

- \$91.4 million to conduct Post Delivery Activities on National Security Cutters (NSC) 5 through 8 and to complete the first dry docking of NSC #2 (USCGC WAESCHE) to repair structural defects;
- \$340 million to acquire six FRCs;
- \$18.5 million to continue Preliminary Contract and Design work on the Offshore Patrol Cutter (OPC). The OPC is supposed to replace the Service's aging 210-foot and 270-foot MECs. DHS is also requesting authority to transfer an unlimited amount of funds to begin the detailed design phase if the Coast Guard is ready to award that in FY 2016;
- \$102 million to acquire spares, continue crew training, and establish an air station in Sacramento, CA, 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. The Coast Guard has yet to provide the Subcommittee an estimate of these costs;

- \$55 million to acquire spare parts and support the establishment of a HC-130J air station in Kodiak, AK. The HC-130J is replacing the Service's 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; and
- \$4 million for survey and design of a new polar icebreaker.

The budget requests \$218.3 million in other capital costs, \$84.4 million (or 63 percent) more than the current enacted level. This includes \$116.8 million in personnel costs to execute AC&I programs and \$101.4 million to construct or renovate 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, no funding is included in the budget request to rehabilitate housing for Coast Guard servicemembers and their dependents. The account received \$18 million in the current fiscal year. 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.

Alteration of Bridges: The President does not request funding for the Alteration of Bridges program in FY 2016. The program did not receive funding in FY 2015. Created 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 \$18.1 million for the Coast Guard's Research, Development, Test, and Evaluation (RDT&E) account, \$1.1 million (or 5.5 percent) less 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 \$18.1 million requested for RDT&E in FY 2016 to improve its modeling and simulation capabilities and develop new technologies for the detection and recovery of oil and hazardous substances from the sea column and in the Arctic environment; to test new unmanned systems; and to develop new systems to improve intelligence collection and dissemination.

Coast Guard FY 2016 Authorized Funding

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). P.L. 113-281 authorized funding for the discretionary accounts of the Coast Guard for FY 2016. Below is a comparison of the President's FY 2016 budget request to the FY 2016 enacted authorization.

Program	FY 2016 President's Budget Request	FY 2016 Enacted Authorization (PL 113-281)
Operating Expenses	\$6,821,503,000	\$6,981,036,000
Environmental Compliance & Restoration	\$13,269,000	\$16,701,000
Bridge Alterations	\$0	\$16,000,000
Reserve Training	\$110,614,000	\$140,016,000
Acquisition, Construction, & Improvements	\$1,017,269,000	\$1,546,448,000
Research, Development, Test, & Evaluation	\$18,135,000	\$19,890,000
Total	\$7,980,790,000	\$8,720,091,000

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.

FY 2016 FMC Budget Request

The President requests \$27.4 million in FY 2016 for the activities of the FMC, \$1.7 million (or 7 percent) more than the FY 2015 enacted level.

Account	FY 2015 Enacted	FY 2016 President's Budget Request	<i>Diff. Bet. FY 2016 Request & FY 2015 Enacted</i>	<i>% Diff. Bet. FY 2016 Request & FY 2015 Enacted</i>
Formal Proceedings	\$8,100,048	\$8,813,592	\$713,544	8.8%
Equal Employment Opportunity	\$191,116	\$199,099	\$7,983	4.2%
Inspector General	\$634,434	\$527,638	<i>(\$106,796)</i>	-16.8%
Operational and Administrative	\$16,734,402	\$17,846,671	\$1,112,269	6.6%
Total	\$25,660,000	\$27,387,000	\$1,727,000	6.7%

P.L. 113-281 authorized the activities of the FMC at \$24.7 million for FY 2015.

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.

FY 2016 MARAD Budget Request

The President requests \$406.7 million in FY 2016 for the activities of MARAD, \$65.2 million (or 19.2 percent) more than the FY 2015 enacted level.

Account	FY 2015 Enacted	FY 2016 President's Budget Request	% Diff. Bet. FY 2016 Request & FY 2015 Enacted	Diff. Bet. FY 2016 Request & FY 2015 Enacted
Operations and Training	\$148,050,000	\$184,637,000	\$36,587,000	24.7%
Assistance to Small Shipyards	\$0	\$0	\$0	0.0%
Ship Disposal Program	\$4,000,000	\$8,000,000	\$4,000,000	100.0%
Maritime Security Program	\$186,000,000	\$211,000,000	\$25,000,000	13.4%
Title XI - Administrative Expenses	\$3,100,000	\$3,135,000	\$35,000	1.1%
Title XI - Loan Guarantees	\$0	\$0	\$0	0.0%
Total	\$341,150,000	\$406,772,000	\$65,622,000	19.2%

Operations and Training: The President requests \$148 million for the Operations and Training (O&T) account, \$36.6 (or 24.7 percent) more than the FY 2015 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 \$96 million for the U.S. Merchant Marine Academy, including \$71.3 million for Academy Operations, and \$24.7 million for capital improvements, repairs, and maintenance; \$34.6 million for the six state maritime academies, including \$5 million to begin design work on a new training vessel; and \$54.1 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 shipbuilding capacity, efficiency, and competitiveness. The program did not receive funding in FY 2015. P.L. 113-281 reauthorized the program through FY 2017 at \$10 million per year.

Ship Disposal: The budget requests \$8 million for the Ship Disposal Program, \$4 million (or 100 percent) more than the FY 2015 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 up to 8 ships in FY 2016.

Maritime Security Program: The budget requests \$211 million for the Maritime Security Program (MSP) in FY 2016, \$25 million (or 13 percent) more than the FY 2015 enacted level. Under this program, \$186 million in direct payments are divided among 60 U.S. flagged vessel operators engaged in foreign trade. Vessel operators that participate in MSP 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 the 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. 480) proposed by the President in the FY 2016 budget.

Title XI Loan Guarantees: The budget does not request funds for loan guarantees for the construction or reconstruction of U.S. flagged vessels in U.S. shipyards under the Title XI program. The program did not receive funding FY 2015. There is currently \$42 million in Title XI loan subsidies available, which equates to approximately \$420 million in available loan guarantees.

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