



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

Bill Shuster
Chairman

Mathew M. Sturges
Staff Director

March 9, 2018

Peter A. DeFazio
Ranking Member

Katherine W. Dedrick
Democratic Staff Director

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 2019 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, March 14, 2018, at 11:00 a.m., in 2167 Rayburn House Office Building to examine the fiscal year (FY) 2019 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 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. His term expires in

May 2018. On March 8, 2018, President Trump announced his intention to nominate Vice Admiral Karl Schultz as the 26th Commandant of the Coast Guard.

Fiscal Year 2019 Coast Guard Budget Request

The President requests \$10.93 billion in FY 2019 for the activities of the Coast Guard. The FY 2019 request was in line with the spending caps for FY 2019 that were set in the Balanced Budget and Emergency Deficit Control Act. The Bipartisan Budget Act of 2018 increased defense and non-defense discretionary spending caps in FY 2018 and FY 2019. Based on those increases, the President modified the FY 2019 budget request to reflect the increased cap levels through an Addendum which included \$720 million for the Coast Guard for the construction of the first Heavy Polar Icebreaker. With this additional funding, the total request for the Coast Guard is \$11.65 billion, which is an increase of \$977 million above the FY 2018 request level of \$10.673 billion, and an increase of \$979 million over the FY 2017 enacted level of \$10.671 billion.

Of the \$11.65 billion requested in FY 2019, \$9.7 billion is for Coast Guard discretionary accounts, \$1.1 million (or 11 percent) more than the current FY 2017 enacted level. 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 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.

The Coast Guard is currently operating under *The Continuing Appropriations Act, 2018* (P.L. 115-56, as amended by P.L. 115-123), that provides \$4.244 billion (or 60 percent of the FY 2017 enacted level) in discretionary funding through March 23, 2018.

In FY 2019, the Coast Guard will transition to the DHS Common Appropriations Structure (CAS). Accordingly, activities funded through the previous Operating Expenses, Reserve Training, Environmental Compliance and Restoration, and Medicare-Eligible Retiree Health Care Fund Contribution are included as part of the new Operations and Support (O&S) account. 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 transitions into the Procurement, Construction, and Improvements account and the Research, Development, Test and Evaluation account becomes the new Research and Development account.

Below is a comparison of the President's FY 2019 budget request to the FY 2017 enacted funding level.

Program	FY 2017 Enacted	FY 2019 President's Budget Request	Diff. Bet. FY 2019 Budget Request & FY 2017 Enacted	% Diff. Bet. FY 2019 Budget Request & FY 2017 Enacted
Operations & Support ¹	\$ 7,218,059	\$ 7,792,498	\$ 574,439	8.0%
Operating Expenses	\$ 6,916,936	\$ 7,462,054	\$ 545,118	7.9%
Environmental Compliance & Restoration	\$ 13,315	\$ 13,429	\$ 114	0.9%
Reserve Training	\$ 112,302	\$ 117,655	\$ 5,353	4.8%
Medicare-Eligible Retiree Health Care Fund	\$ 175,506	\$ 199,360	\$ 23,854	13.6%
Procurement, Construction & Improvements	\$ 1,370,007	\$ 1,886,750	\$ 516,743	37.7%
Research & Development	\$ 36,319	\$ 19,109	\$ (17,210)	-47.4%
Subtotal, Discretionary	\$ 8,624,385	\$ 9,698,357	\$ 1,073,972	12.5%
Retired Pay	\$ 1,666,940	\$ 1,734,844	\$ 67,904	4.1%
State Boating Safety Grants	\$ 113,049	\$ 114,682	\$ 1,633	1.4%
Maritime Oil Spill Program	\$ 101,000	\$ 101,000	\$ -	0.0%
General Gift Funds	\$ 2,829	\$ 2,864	\$ 35	1.2%
Subtotal, Mandatory	\$ 1,883,818	\$ 1,953,390	\$ 69,572	3.7%
Total	\$ 10,508,203	\$ 11,651,747	\$ 1,143,544	10.9%

¹ The FY 2019 President's Budget Requests combines 4 legacy appropriations into "Operations & Support."

Operations and Support (previously Operating Expenses)

The President requests \$7.79 billion for the O&S account in FY 2019, \$876 million (or 11 percent) more than the FY 2017 enacted level. 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 \$275.2 million increase to cover the cost of the FY 2019 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.

Environmental Compliance and Restoration (EC&R)

The President requests \$13.4 million for the EC&R in FY 2019, \$114,000 (or 0.86 percent) more than the FY 2017 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 \$13.4 million requested for EC&R to pay for the continued long-term monitoring at 29 sites and begins or continues investigation/remediation site work at 19 sites.

Reserve Training

The President requests \$117.65 million for the Reserve Training in FY 2019, \$5.4 million (or 4.77 percent) more than the FY 2017 enacted level. Reserve Training funding supports the costs of training members of the Coast Guard Reserve and the administration of the Reserve Program.

The FY 2019 request retains the FY 2017 enacted level of 416 positions. The FY 2019 request of 409 FTEs is a reduction of seven FTE from the FY 2017 enacted level of 416 FTEs. This request supports 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 2017, Coast Guard Reservists were mobilized to support U.S. states and territories affected by Hurricanes Harvey, Irma, and Maria.

O&S increases are offset by \$120.6 million in cuts derived through decommissioning certain assets, the elimination of a program and the associated military and civilian positions, and the termination of one-time costs. The proposed reductions in the O&S account include:

- *Reduction of Pharmacy Co-Pays:* In FY 2019, the Coast Guard anticipates a \$7.3 million savings based on the FY 2018 National Defense Authorization Act (NDAA) proposal to modify retail and mail order pharmaceutical co-pays.
- *Termination of One-Time Costs:* The FY 2019 budget request proposes a \$37.1 million savings associated with the termination of one-time costs for program start-up and exit transactions in FY 2018, including the termination of CG Aircraft FAA Compliance and Obsolete Equipment Replacement (\$16.8 million) and National Security Cutter Follow-On (\$7.7 million).
- *Elimination of Crew Rotation Concept Pilot Program:* The FY 2019 budget eliminates \$31.7 million funding and 231 positions / 231 FTEs for the Crew Rotation Concept operations on National Security Cutter hulls 1-3 homeported in Alameda, CA.

- *Asset Decommissionings*: The FY 2019 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 2019.

Procurement, Construction, and Improvements (previously Acquisitions, Construction, and Improvements)

The President requests \$1.89 billion for the Procurement, Construction, and Improvements (PC&I) account, a \$516.7 million (or 37.7 percent) increase over the FY 2017 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 2019 budget request includes \$1.76 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 an increase of \$597.1 million (or 51.7 percent) from the FY 2017 enacted level. The budget request includes:

- \$30 million for the construction of a Heavy Polar Icebreaker. The FY 2019 Budget Addendum included an additional \$720 million, for a total of \$750 million;
- \$65 million to conduct Post Delivery Activities on National Security Cutters (NSC) 7 through 9;
- \$240 million for the production of four Fast Response Cutters (FRC);
- \$400 million for the construction of the second Offshore Patrol Cutter (OPC) and to facilitate evaluation of the Long Lead Time Materials for OPC 3. The OPCs will replace the Service’s aging 210-foot and 270-foot Medium Endurance Cutters (MEC);
- \$80 million to fund the requirement to establish logistics for 14 newly acquired HC-27J aircraft. The request funds HC-27J Asset Project Office activities, logistics, training, and engineering studies to assess and resolve aircraft obsolescence issues;
- \$20 million for the continued modernization and sustainment of the HH-65 Dolphin helicopter fleet;
- \$23.3 million for C4ISR design, development, and integration; and
- No funding for the Alteration of Bridges program in FY 2019. The program did not receive funding in FY 2017 or FY 2016. 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 \$135 million to construct or renovate shore facilities and aids-to-navigation. This request is a \$35.5 million (or 26.3 percent) increase over the FY 2017 enacted level. The Coast Guard currently has a backlog of 95 prioritized shore facility improvement projects with an estimated combined cost of over \$1.5 billion.

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

The President requests \$19.1 million in FY 2019 for the Coast Guard’s Research and Development (R&D) account, \$17.2 million (or 47.4 percent) less than the FY 2017 enacted level. 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 \$19.1 million in FY 2019 for programs to test and evaluate unmanned aircraft system (UAS) prototypes, continue development and testing of the next generation Arctic navigation safety information system, evaluate emerging maritime oil spill response technology, and evaluate existing cybersecurity tools for port critical infrastructure protection and resilience.

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). The *Coast Guard Authorization Act of 2015* authorized funding for the discretionary accounts of the Coast Guard for FY 2017. Below is a comparison of the President’s FY 2019 budget request to the FY 2017 enacted authorization.

Program	FY 2019 President's Budget Request	FY 2017 Enacted Authorization (PL 114-120)
Operations and Support	\$7,792,498,000	\$6,981,036,000
Environmental Compliance & Restoration	\$13,429,000	\$16,701,000
Reserve Training	\$117,655,000	\$140,016,000
Procurement, Construction, & Improvements	\$1,886,750,000	\$1,945,000,000
Research & Development	\$19,109,000	\$19,890,000
Total	\$9,698,357,000	\$9,102,643,000

The *Coast Guard Authorization Act of 2017* is awaiting Senate action. The *Coast Guard Authorization Act of 2017* (passed by the House of Representatives as Division E of H.R. 2825) authorizes funding levels of \$9.397 billion for FY 2018 and \$9.587 billion

for FY 2019. The FY 2018 and FY 2019 authorized levels were dictated by the funding caps in the *Balanced Budget and Emergency Deficit Control Act*.

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 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 January 23, 2017, the President designated Michael A. Khouri as Acting Chairman.

Fiscal Year 2019 FMC Budget Request

The President requests \$27.49 million in FY 2019 for the activities of the FMC, \$264,347 (or 0.97 percent) more than the FY 2017 enacted level. The Commission is currently operating under *The Continuing Appropriations Act, 2018 and Supplemental Appropriations for Disaster Relief Requirements Act, 2017* (P.L. 115-56, as amended by P.L. 115-123), that provides \$13.02 million (or 52.2 percent of the FY 2017 enacted level) through March 23, 2018. Below is a comparison of the President’s FY 2019 budget request to the FY 2017 appropriated funding.

Account	FY 2017 Enacted	FY 2019 President's Budget Request	Diff. Bet. FY 2019 Request & FY 2017 Enacted	% Diff. Bet. FY 2019 Request & FY 2017 Enacted
Formal Proceedings	\$8,273,972	\$8,744,040	\$470,068	5.68%
Equal Employment Opportunity	\$146,544	\$94,508	(\$52,036)	-35.51%
Inspector General	\$367,331	\$437,817	\$70,486	19.19%
Operational and Administrative	\$18,437,806	\$18,213,635	(\$224,171)	-1.22%
Total	\$27,225,653	\$27,490,000	\$264,347	0.97%

The *Coast Guard Authorization Act of 2015* authorized the activities of the FMC at \$24.7 million for FY 2017. H.R. 2593, as passed by the Committee, authorizes \$28 million for FY 2018 and \$28.5 million for FY 2019.

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.

MARAD is led by an Administrator appointed by the President with the advice and consent of the Senate. On August 8, 2017, President Trump appointed Rear Admiral Mark H. Buzby, USN, Ret. to serve as Administrator.

Fiscal Year 2019 MARAD Budget Request

The President requests \$396.4 million in FY 2019 for the activities of MARAD, \$126.1 million (or 24 percent) less than the FY 2017 enacted level. The FY 2019 Budget Addendum included an additional \$300 million for a one-time procurement and retrofitting of two used cargo ships to replace ageing State Maritime Academy training ships. With the addition of the \$300 million, the total request for MARAD in FY 2019 is \$696.4 million.

MARAD is currently operating under *The Continuing Appropriations Act, 2018 and Supplemental Appropriations for Disaster Relief Requirements Act, 2017*, that provides \$247.4 million (or 52.7 percent of the FY 2017 enacted level) through March 23, 2018. Below is a comparison of the President’s FY 2019 budget request to the FY 2017 appropriated funding.

Account	FY 2017 Enacted	FY 2019 President's Budget Request	Diff. Bet. FY 2019 Request & FY 2017 Enacted	% Diff. Bet. FY 2019 Request & FY 2017 Enacted
Operations and Training	\$175,560,000	\$452,428,000	\$276,868,000	157.71%
Assistance to Small Shipyards	\$10,000,000	\$0	-\$10,000,000	0.00%
Ship Disposal Program	\$34,000,000	\$30,000,000	-\$4,000,000	-11.76%
Maritime Security Program	\$300,000,000	\$214,000,000	-\$86,000,000	-28.67%
Title XI - Administrative Expenses	\$3,000,000	\$0	(\$3,000,000)	-100.00%
Title XI - Loan Guarantees	\$0	\$0	\$0	0%
Total	\$522,560,000	\$696,428,000	\$173,868,000	33.27%

Operations and Training

The President’s FY 2019 request of \$152.4 million for Operations and Training (O&T) is \$23.1 million less than the FY 2017 enacted level of \$175.6 million. The FY 2019 Budget Addendum added \$300 million in the O&T account as a one-time cost for the replacement of two of its aging Schoolships – the TS *Empire State* and the TS *Kennedy*. 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 FY 2019 budget request for O&T includes \$74.6 million for the U.S. Merchant Marine Academy, including \$70.6 million for Academy Operations, and \$4 million for capital improvements, repairs, and maintenance; \$24.4 million for the six state maritime academies, including \$22 million for School Ship Maintenance and Repair; and \$53.4 million for MARAD Operations and Programs. The budget does not request funding for the Marine Highways Grant Program.

Assistance to Small Shipyards

The FY 2019 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 \$10 million in FY 2017. The *Howard Coble Coast Guard and Maritime Transportation Act of 2014* (P.L. 113-281) reauthorized the program through fiscal year 2017 at \$10 million per year.

Ship Disposal

The FY 2019 budget requests \$30 million for the Ship Disposal Program, \$4 million (or 12 percent) less than the FY 2017 enacted level. 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 \$25 million to continue the decommissioning project for the dismantlement and decontamination of the defueled nuclear power plant on board the former Nuclear Ship SAVANNAH (NSS).

Maritime Security Program

The FY 2019 budget requests \$214 million for the Maritime Security Program (MSP), \$86 million (or 28.7 percent) less than the FY 2017 enacted level. Under this program, \$214 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.

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 \$3.0 million in FY 2017. The President's FY 2019 budget request (similar to the FY 2018 request) proposes to

the move the administration of the Title XI program from MARAD to the National Surface Transportation and Innovative Finance Bureau.

WITNESS LIST

Admiral Paul F. Zukunft
Commandant
United States Coast Guard

Master Chief Steven W. Cantrell
Master Chief Petty Officer of the Coast Guard
United States Coast Guard

Rear Admiral Mark H. Buzby, USN, Ret.
Administrator
Maritime Administration

The Honorable Michael A. Khouri
Acting Chairman
Federal Maritime Commission