FY 2011 BUDGET FOR THE COAST GUARD, THE MARITIME ADMINISTRATION, AND THE FEDERAL MARITIME COMMISSION

(111–90)

HEARING

BEFORE THE

SUBCOMMITTEE ON
COAST GUARD AND MARITIME TRANSPORTATION

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

February 25, 2010

Printed for the use of the
Committee on Transportation and Infrastructure

U.S. GOVERNMENT PRINTING OFFICE

55–119 PDF WASHINGTON : 2010

For sale by the Superintendent of Documents, U.S. Government Printing Office
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Washington, DC 20515

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February 24, 2010

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: Hearing on the "FY 2011 Budget for the Coast Guard, the Maritime Administration and the Federal Maritime Commission"

PURPOSE OF THE HEARING

The Subcommittee on Coast Guard and Maritime Transportation will convene on Thursday, February 25, 2010, at 10:00 a.m., in room 2167 of the Rayburn House Office Building to receive testimony regarding the Administration's fiscal year (FY) 2011 budget requests for the U.S. Coast Guard, Maritime Administration (MARAD), and Federal Maritime Commission (FMC).

BACKGROUND

I. Coast Guard Budget

FY 2011 Coast Guard Budget Request: The President requests $9.6 billion in FY 2011 for U.S. Coast Guard activities, which is a decrease of $35.1 million (or just under 0.4 percent) below the total amount enacted for the service for FY 2010. For budgeting purposes, this amount does not include $242 million for overseas contingency operations, which was provided in the Coast Guard's FY 2010 budget. The Obama Administration has proposed to transfer this funding to the Department of Defense (DOD) in FY 2011 and make it available to the Coast Guard on a reimbursable basis. 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 2011.

Operating Expenses (OE): The overall budget request for Coast Guard Operating Expenses (OE) in FY 2011 is approximately $6.65 billion, an increase of $87 million (just over one percent) above the FY 2010 enacted level. The OE account comprises more than two-thirds of the Coast Guard's budget and funding from this account supports all the Coast Guard's missions, including

Search and Rescue; Marine Safety; Aids-to-Navigation; Living Marine Resources; Drug and Migrant Interdiction; Marine Environmental Protection; Other Law Enforcement; Ports, Waterways, and Coastal Security; and Defense Readiness. This funding also covers the costs associated with the Coast Guard's workforce comprised of more than 42,170 active duty, 8,100 reservists, and 7,700 civilians.

The FY 2011 request proposes to reduce the size of the Coast Guard's military workforce by 1,112 positions while increasing the number of civilian personnel by 339 positions. The decrease in the number of military personnel results largely from the decommissioning of assets. The proposed increase in civilian personnel is attributable to the conversion of positions from military to civilian positions and the need for new civilian positions to support new assets, including the National Security Cutter (NSC) and the Maritime Patrol Aircraft (MPA). The Administration's budget request covers pay increases of 1.4 percent for officers and enlisted members of the Coast Guard and for civilian employees.

The budget request proposes to decommission a number of legacy Coast Guard assets, including both cutters and aircraft, as detailed below.

- Currently, the Service expects that the High Endurance Cutters (HEC) *Hamilton* and *Chase* (both homeported in San Diego, California) and the cutters *Jarvis* and *Rush* (both homeported in Honolulu, Hawaii) will be decommissioned. To ensure that these regions have the capabilities of an HEC available, it is further proposed that two HECs will be moved from Alameda, California, where NSCs 1-3 will be homeported. One of the HECs removed from Alameda will be sent to San Diego, while the other HEC will be sent to Honolulu. The budget also proposes decommissioning the Medium Endurance Cutter (MEC) *Acushnet*; this is the oldest vessel in the Coast Guard's fleet. Importantly, even if both NSCs 1 and 2 are fully operational by the end of FY 2011, the proposed decommissionings will reduce the total number of cutters in the Coast Guard fleet and yield a concomitant reduction in overall capabilities. The Coast Guard estimates that approximately 5,000 cutter hours will be lost in FY 2011 as a result of the decommissionings. Given the service's reduced operational capabilities, some performance targets have been lowered. For example, the Coast Guard has lowered from 18.5 percent in FY 2010 to 15.5 percent in FY 2011 the targeted removal rate for cocaine from non-commercial vessels in maritime transit.

- The budget also proposes to remove two HH-60 helicopters from Coast Guard Air Station Clearwater that were assigned to support Operations Bahamas, Turks, & Caicos. Further, the budget proposes to remove two HH-60 helicopters from Coast Guard Air Station Elizabeth City that supported Maritime Security Response Teams. These HH-60 helicopters are proposed to be re-assigned to Traverse City, Michigan. The service will then remove five HH-65 helicopters from Traverse City and from its associated seasonal air facilities, Muskegon and Waukegan; the two seasonal facilities will be closed. One of the five HH-65 helicopters will be assigned to Barber's Point, Hawaii, which lost an airframe in a casualty. The other four helicopters will be held out of service to be used as spares or for parts as needed. The Coast Guard reports that helicopters attached to air facility Waukegan directly contributed to operations resulting in seven lives saved and 16 lives assisted from 2004 through 2009, while helicopters attached to air facility Muskegon directly contributed to operations resulting in six lives saved and 21 lives assisted from 2004 through 2009.

- The budget proposes retiring one HU-25 Falcon jet from Air Station Cape Cod and three HU-25 Falcon jets from Air Station Miami.

- These asset decommissionings will reduce the Coast Guard's operating costs by $38.6 million.

The budget request also proposes to decommission five Maritime Safety and Security Teams (MSST) currently located in New York, New York; Anchorage, Alaska; San Francisco, California; New Orleans, Louisiana; and Kings Bay, Georgia. Seven MSST teams would remain and they will deploy regionally. Decommissioning of the five MSST teams would decrease the budget request for the Deployable Force Capacity program by $18.2 million. The Coast Guard plans to reinvest part of the savings from the MSST decommissionings into the Law Enforcement Detachment (LEDET) program to address increased demand for LEDET services.

The budget request proposes to consolidate the Maritime Intelligence Fusion Centers (MIFC) in the Atlantic and Pacific Areas into a single geographically dispersed command, which will eliminate 12 full-time positions. The request also proposes to decommission the National Strike Force Coordination Center. The consolidation of the MIFC and decommissioning of the National Strike Force Coordination Center would decrease program costs by $40.9 million.

The budget request also proposes to eliminate seven Investigator positions at Coast Guard Investigative Service (CGIS) regional field offices and two positions on the CGIS Staff, decreasing program costs by $575,000.

Despite these decommissionings and unit closures, the Administration's FY 2011 budget request for the Coast Guard would yield a net increase of $87 million in the total operating budget above the amount appropriated in FY 2010. The majority of the increase is attributable to the annualization of the FY 2010 pay increase, the FY 2011 pay increase, and military allowances; together, these costs increase the budget by $143 million. Additional budget increases are attributable to follow-on costs associated with new assets and with such systems as the Rescue-21 system.[1]

Environmental Compliance and Restoration: The President requests $13.3 million for environmental compliance and restoration operations, less than a 0.1 percent increase over the FY 2010 enacted level. Environmental compliance and restoration provides for the clean-up and restoration of contaminated Coast Guard facilities, and provides for the rehabilitation of Coast Guard assets to ensure they comply with environmental laws established to prevent contamination of and damage to the environment.

Reserve Training: The President requests $135.6 million for reserve training, an increase of nearly two percent over the FY 2010 enacted level; this funding is intended to cover training costs for Coast Guard Reserve personnel. The members of the Coast Guard Reserve are mobilized in the

[1] Rescue 21 is intended to replace the Coast Guard's National Distress Response System, which was activated in the 1970s, with an upgraded Very High Frequency-Frequency Modulated (VHF-FM) communications system that will improve the service's ability to locate mariners in distress; coordinate with Federal, State, and local first responders; and reduce communication coverage gaps in coastal areas.

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 (DHS) and in direct support of the DOD in Iraq as part of Operation Iraqi Freedom, where Reservists manage waterside security around major ports and U.S. military assets.

Acquisitions, Construction, and Improvements (AC&I): The President requests $1.38 billion in FY 2011 to fund capital acquisitions, a $155 million (10.1 percent) decrease from the FY 2010 enacted level. These funds support the acquisition, construction, and improvement of vessels, aircraft, information management resources, shore facilities, and aids-to-navigation.

A total of $1.11 billion of the AC&I request is for the Integrated Deepwater Systems program, which is the acquisition program intended to replace or rehabilitate the Coast Guard's cutters and aircraft. This request would be a decrease of nearly $41.8 million (3.6 percent) below the FY 2010 enacted level. Approximately $269 million is proposed to be used for aircraft and $730.7 million for surface ships. The Deepwater request includes:

- $538 million for the construction of NSC 5;
- $240 million for the construction of Fast Response Cutters 9 through 12;
- $154 million for program management, systems engineering and integration costs, and logistics management costs in the Deepwater program, and C4ISR information technology costs;[2]
- $42 million for the purchase of 10 Response Boats-Medium;
- $40 million for one HC-144A Maritime Patrol Aircraft; and
- $32 million for the conversion/sustainment of 8 HH-60 helicopters.

The President's budget requests $340 million for non-Deepwater capital expenses, including $69.2 million for shore facilities and aids-to-navigation (of which $14 million would fund Coast Guard housing facilities); and $36 million to implement the Rescue 21 system in California, Hawaii, Guam, Puerto Rico, and the Great Lakes.

Alteration of Bridges: Created by the Truman-Hobbs Act of 1940 (33 U.S.C. § 511 et. seq.), the bridge alteration program authorizes the Federal Government to share with a bridge's owner the cost of altering or removing railroad and publicly owned highway bridges that obstruct maritime navigation. The President's budget does not request any funding in FY 2011 for the Truman-Hobbs program. The Coast Guard received $142 million in the FY 2009 American Recovery and Reinvestment Act (Recovery Act) and $4 million was appropriated for the program in FY 2010. There is a significant backlog for the Truman-Hobbs bridge alteration program. The Coast Guard reports that eight bridges have been deemed unreasonable obstructions to navigation and currently await funding; 32 additional bridges are potentially unreasonable obstructions to navigation but require additional study before they can be deemed eligible for the Truman-Hobbs program.

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[2] C4ISR stands for Command, Control, Communication, Computers, Intelligence, Surveillance and Reconnaissance.

Research, Development, Test, and Evaluation: The President's budget requests $20 million for Research, Development, Test and Evaluation, a $4.7 million (19 percent) decrease below the FY 2010 enacted level. The funding supports continued and improved mission performance for the Service's 11 Coast Guard missions through applied research and development conducted at the Coast Guard's Research and Development Center.

Retired Pay: The Administration's budget request assumes that $1.4 billion will be needed for retired pay in FY 2011. This amount represents a $39 million (2.9 percent) increase over the FY 2010 enacted level

LORAN-C Termination: The Administration has concluded that LORAN-C is no longer required by the Armed Forces, the nation's security interests, or the transportation sector given the availability of the U.S. Global Positioning System (GPS).[3] On February 8, 2010, the Coast Guard terminated and permanently discontinued the Federal broadcast of the LORAN-C signal. The Coast Guard de-staffed and closed its 24 LORAN-C stations and associated support units, resulting in a savings of $36 million in FY 2010 and subsequent savings of $190 million over five years. These savings do not include costs associated with environmental compliance and remediation of these sites before they can be released for other uses. The Coast Guard has not completed an estimate of these costs or a timeline for the completion of this work.

Port Security Grants: The Administration requests $300 million in FY 2011 for port security grants through the budget of the Federal Emergency Management Agency.

COAST GUARD

(in millions)

Program	FY2010 Enacted	FY2011 Authorized	FY2011 President's Budget	Diff. of FY2011 Pres. Budget and FY2010 Enacted $	%
Operating Expenses	6,563.9[4]	None	6,651.0	87.1	1.3%
Acquisition & Constr.	1,536.3	None	1,381.2	-155.1	-10.1%
Environmental Compliance	13.2	None	13.3	0.1	.99%
Alteration of Bridges	4.0	None	0.0	-4.0	-100.0%
Retired Pay	1,361.2	None	1,400.7	39.5	2.9%
Research & Dev.	24.7	None	20.0	-4.7	-19.0%
Reserve Training	133.6	None	135.7	2.0	1.5%
Total	**9,637.0**	**None**	**9,601.9**	**-35.1**	**-0.4%**

[3] The LORAN-C system is a system that provides navigational data to mariners and aviators. Specifically, LORAN-C is a low-frequency hyperbolic radio navigation system comprised of 24 transmitting stations. These stations send pulsed signals at precise times; LORAN-C receivers measure the differences in the time it takes for the pulsed signals to reach a ship or aircraft and then calculate the position of the ship or aircraft.

[4] This figure does not include contingency operation funding appropriated to the Coast Guard in FY 2010.

A. GAO Report on Coast Guard Personnel Management Systems

On January 29, 2010, the Government Accountability Office (GAO) completed a report entitled "Coast Guard: Service Has Taken Steps to Address Historic Personnel Problems, but it is Too Soon to Assess the Impact of these Efforts."

This report, which was requested by Chairman Oberstar, Ranking Member Mica, Subcommittee Chairman Cummings, and Subcommittee Ranking Member LoBiondo, discusses:

- Documented personnel problems experienced by the Coast Guard in the last decade;
- Coast Guard efforts to address these problems, and the extent to which these efforts conform to congressional direction or identified best practices; and
- Possible challenges to the implementation of planned personnel management systems.

The GAO notes that the "Coast Guard has a well-documented history of personnel problems, identified by Congress, GAO, and marine safety industry stakeholders, among others" and that the Coast Guard "faces continuing problems in balancing homeland security and more traditional missions, such as law enforcement and marine safety."[5]

The GAO report provides a brief overview of specific personnel problems documented in previous studies, including problems with personnel qualifications and mission execution in such areas as marine safety, search and rescue, small boat forces, and acquisition management.[6]

The GAO observes that the Coast Guard "has made efforts to address these problems, such as the development of servicewide mission-support and mission-specific plans, as well as the creation or expansion of data-driven management tools," but "most of these efforts are in early stages of implementation or expansion" and "data are not yet available to assess them."[7]

The Coast Guard was directed by Senate Report 110-396 to develop a workforce plan that would include "a gap analysis of the mission areas that continue to need resources" as well as "a strategy, including funding, milestones, and a timeline for addressing personnel gaps for each category of employee."[8] In August 2009, the Coast Guard released a Workforce Action Plan (Plan) but, according to the GAO, the Plan "did not provide a gap analysis of the mission areas and personnel needed, and thus also did not provide a strategy with proposed funding, milestones, and a timeline for addressing these personnel gaps."[9]

The Coast Guard has proposed re-organizing its top-level military leadership. Under the proposed reorganization, the Vice Commandant position would become a four-star position (it is currently a three-star position); additionally, the Chief of Staff's position as well as the Atlantic Area and Pacific Area Commander positions would be eliminated and four new three-star positions would be created (each of which would report directly to the Vice Commandant). One of the new

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[5] GAO, *Coast Guard: Service Has Taken Steps to Address Historic Personnel Problems, but It Is Too Soon to Assess the Impact of These Efforts*, GAO-10-268R (January 2010), at 4.
[6] *Id.* at 7-9.
[7] *Id.* at 4.
[8] *Id.* at 11.
[9] *Id.*

three-star positions to be created is the Commander, Force Readiness Command (FORCECOM), which is to be responsible for standardizing training for all Coast Guard forces. The GAO reports that FORCECOM has developed a Business Plan intended to ensure that "allocated forces are trained to standards, armed with current tactics and procedures, interoperable, and inspected in order to meet current and future operational requirements."[10] This plan is to be implemented through FY 2010.

Additionally, the Coast Guard has developed plans to meet unique personnel needs in a few specific mission areas, including an *Acquisition Human Capital Strategic Plan*, which identifies specific strategies for "building and maintaining an acquisition workforce,"[11] and a *Marine Safety Performance Plan*, which is a "mission-specific plan" that "seeks to address competency concerns by setting goals, objectives, and performance targets for the marine safety mission for FY 2009 through FY 2014."[12]

The Coast Guard is now in the process of developing five data-driven tools to enable it to collect comprehensive information to support more effective management of its personnel. The five tools are described in more detail below:

- **Officer Specialty Management System (OSMS):** The OSMS is intended to track officer "specialties," which are "areas of expertise" associated with specific types of occupations.[13] The Coast Guard has identified 13 specialties and 38 subspecialties and specific competency requirements are to be established for each specialty. The GAO reports that the Coast Guard expects to begin classifying officers into specialties in summer 2010.[14]

- **Competency Management System (CMS):** According to the GAO, the CMS is the system which the Coast Guard will use to "establish and modify a standard set of competencies, assign competencies to positions, record competencies earned by members, collect and organize competency data and information, and allow for the use of competency information in personnel management decisions."[15] The Coast Guard believes this information will enable it to understand the skills it requires from its personnel as well as the number of personnel within the Service who have a specified skill. The GAO reports that approximately 80 percent of active duty and reserve positions had been classed within the CMS by the end of 2009; it is uncertain when all positions (including those in the auxiliary) will be classed.[16]

- **Manpower Requirements Determination (MRD):** The MRD is intended to capture the Coast Guard's personnel needs by type of task or mission, e.g., the number and type of specific crewmembers needed to operate a class of cutter (e.g., boatswains mates, cooks etc.). The GAO reports that the goal of this system is "to create a common set of standards and analytical approaches so that officials responsible for personnel allocation decisions can make more standardized human capital comparisons across units or programs."[17] The Coast

[10] *Id.* at 12.
[11] *Id.* at 13.
[12] *Id.*
[13] *Id.* at 14.
[14] *Id.*
[15] *Id.*
[16] *Id.* at 15.
[17] *Id.*

Guard is working to complete the doctrine and procedure documents that will guide the MRD by fall 2010.[18]

- **Sector Staffing Model (SSM):** The Coast Guard intends to use the SSM to "create baseline staffing data that are comparable" across all sectors.[19] The data collected through the SSM are intended to be used to quantify staffing shortages within sectors as well as to facilitate assessments of proposed reorganizations or policy changes on sector staffing.

- **Coast Guard Business Intelligence (CGBI):** The CGBI system is the system that will enable Coast Guard personnel to access the data and reports collected in the OSMS, CMS, MRD, and SSM (and in other Coast Guard data programs). This system was launched in 2006 and updated in April 2009; the system is now operational but continues to be upgraded as new individual programs are brought on-line (e.g., the SSM is expected to be accessible through this system in mid-2010).[20]

Assessing the personnel management plans and systems under development by the Coast Guard, the GAO wrote that it is "too soon to tell whether the plans and data-driven tools that the Coast Guard has begun to put in place will provide an analytical foundation to support management decisions related to resource allocation and personnel preparedness because the plans and tools are still in development or support ongoing efforts."[21] The GAO also identified specific challenges that the Coast Guard may face as it continues to develop these personnel-management systems. In particular, the GAO notes it is unclear whether the Coast Guard has sufficient resources to implement its personnel management systems and efforts, including ensuring the reliability of the data populating its systems and achieving effective coordination among the various entities responsible for developing the personnel-management systems.[22] Additionally, the GAO notes that it is uncertain whether the Coast Guard will have the level of personnel necessary to meet its "personnel and mission requirements once they are established."[23]

II. Maritime Administration (MARAD) Budget

Mission

MARAD'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 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 that 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.

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[18] *Id.*
[19] *Id.*
[20] *Id.* at 16.
[21] *Id.*
[22] *Id.* at 17 and 19.
[23] *Id.* at 18.

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 does not currently have a confirmed Administrator. Mr. David Matsuda serves as MARAD's Deputy Administrator. He was nominated by President Barack Obama to be MARAD's Administrator on December 7, 2009, and the Senate Committee on Commerce, Science, and Transportation held a hearing on January 26, 2010 to consider Mr. Matsuda's nomination.

FY 2011 Maritime Administration Budget Request: The President requests $352.0 million in FY 2011 for MARAD activities. This represents a decrease of approximately $10.7 million (3 percent) below the level appropriated in FY 2010.

Operations and Training: The overall budget request for MARAD Operations and Training is $164.4 million, an increase of $14.6 million (9.7 percent) over the FY 2010 appropriated level. The budget requests $100 million for the operation of the U.S. Merchant Marine Academy (USMMA), an increase of $25.9 million (35.1 percent) over the FY 2010 appropriation. The request includes $30.9 million for badly needed capital improvements to the Academy's dining facility and dormitories. The budget request also contains $63.1 million for Academy operations, an increase of approximately $4 million over the FY 2010 appropriation. The budget request would also provide $6 million dollars for the repayment of possible overcharges of fees assessed to USMMA midshipmen who attended the Academy between 2003 and 2009. MARAD has engaged the services of PricewaterhouseCoopers (PwC) to determine the magnitude of overcharges assessed to midshipmen. PwC is expected to provide its determination in March 2010.

The USMMA is currently operating without a Superintendent. The Academy's most recent Superintendent left the school on January 4, 2010 after a term of approximately 14 months. MARAD is engaged in a search for a replacement.

The Operations and Training budget request also contains $49.3 million for MARAD Operations and Programs, a decrease of $10.4 million (17.5 percent) below the FY 2010 appropriation. MARAD's Operations and Programs account funds MARAD's headquarters operations ($48.3 million, an increase of 0.1 percent above the FY 2010 appropriation), and several Department of Transportation (DOT) strategic objectives.

The President's budget request also includes $15 million that would be provided to the State Maritime Academies (SMAs). This is a decrease of approximately $900,000 (5.9 percent) below the FY 2010 appropriation. This funding would provide $2.0 million for Student Incentive Payments (SIP) to SMA cadets who elect to serve in the Navy's Merchant Marine Reserve or in billets requiring maritime skills in the Army, Army Reserve, or National Guard. Students who elect to

participate in the SIP program receive $8,000 per year. SMAs would also receive $2 million in direct payments for maintenance and support and a total of $11 million for the maintenance of the training ships operated by them.

Assistance to Small Shipyards: No funds were requested for this program in FY 2011. In FY 2010, Congress appropriated $15.5 million for the Assistance to Small Shipyard program. The program provides grants, loans, or loan guarantees to small shipyards to fund capital improvements at the shipyards and training for shipyard workers.[24] Under the Duncan Hunter National Defense Authorization Act for Fiscal Year 2009 (P.L. 110-417), when making grants, loans or loan guarantees under the act, MARAD is required to assess the economic circumstances and conditions of maritime communities; assess whether proposed projects would facilitate the quality, efficiency, and cost-effectiveness of domestic ship construction for commercial and Federal Government use; and assess whether projects would be effective in fostering employee skills and enhancing productivity.

Under the Recovery Act, Congress appropriated $100 million for MARAD's Assistance to Small Shipyards Program ($2 million of which was provided for the administrative expenses of this program). All $98 million directed to grants has been obligated and approximately $17.4 million has been expended. No FY 2010 funds have been obligated because MARAD is still reviewing grant applications.

Ship Disposal Program: MARAD's budget request for the Ship Disposal program is $10 million, a decrease of $5 million (50 percent) below the FY 2010 appropriation. The Ship Disposal Program provides resources to properly dispose of obsolete government-owned vessels in the National Defense Reserve Fleet. MARAD contracts with domestically owned shipbreaking firms to dismantle these ships in compliance with guidelines set forth by the Environmental Protection Agency. Currently, MARAD has custody of 78 obsolete ships moored at locations in Virginia, Texas, and California.

MARAD's goal is to drydock 10 obsolete ships in 2010 and dispose of eight. MARAD is focused on addressing the environmental risks associated with ship disposal and the additional cost associated with compliance with the Clean Water Act and the National Invasive Species Act. In addition, the economic downturn has reduced the overall demand for recycled steel for the construction and automobile industries. As a result, recyclers are facing tight credit, declining revenues, and increasing inventories of scrap steel.[25]

Maritime Security Program: The FY 2011 budget request contains $174 million, provided through the DOD, for the Maritime Security Program (MSP). This equates to $2.9 million for each of the 60 ships enrolled in the program. The MSP provides direct payments to U.S.-flag ship operators engaged in U.S. foreign trade. Vessel operators that participate in MSP maintain their U.S.-crewed and U.S.-flagged ships in active commercial service and, when called upon, provide intermodal sealift support to the DOD in times of war or national emergency. MSP participants provide ships, logistics management services, and access to port terminal facilities that cannot be duplicated by the Federal Government.

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[24] Duncan Hunter National Defense Authorization Act for Fiscal Year 2009, Pub. L. No. 110-417, § 3508 (2008).
[25] *Id.* at 72.

Maritime Guaranteed Loan (Title XI) Program: The Title XI Maritime Guaranteed Loan Program provides a Federal guarantee of private sector debt for ship construction in the United States. Title XI provides a full faith credit guarantee of debt obligations issued to finance (1) the construction or reconstruction of U.S.-flag vessels in U.S. shipyards by U.S. or foreign ship owners; or (2) the modernization of U.S. shipbuilding technology. Vessels constructed under the Title XI program contribute to the ability of the United States to carry its foreign and domestic waterborne commerce, help sustain efficient shipbuilding facilities, and help preserve a skilled shipbuilding workforce.

The Administration requests $3.7 million for the continued administration of the Maritime Guaranteed Loan Program. Due to recent funding and an appropriation through the DOD, no other new funds are requested for FY 2011. Recent appropriations for the Title XI program include, $48 million in FY 2009, $30 million provided through the DOD appropriation in FY 2010, and an additional $5 million provided through the DOT's 2010 appropriation. The Title XI program currently has $43 million in carryover funds. In FY 2011, MARAD will continue to monitor the Title XI loan guarantee portfolio of $2.5 billion.

As of October 1, 2009, MARAD was reviewing applications for Title XI loan guarantees from eight companies for loans totaling approximately $2.6 billion. These applications would support a variety of projects, including the construction of drill rigs and platform supply vessels for the offshore oil and gas industry, shuttle tankers, and a variety of tugs and barges.[26] The projects would be undertaken in shipyards on all coasts.

Since FY 2008, there have been five defaults under the Title XI loan guarantee program. The Budget Estimate for FY 2011 attributes these defaults to the economic downturn.

Ocean Freight Differential: The MARAD Budget Request for FY 2011 proposes $175 million in new borrowing authority to pay the U.S. Department of Agriculture's Commodity Credit Corporation to offset the difference in the cost of shipping humanitarian food aid cargoes on U.S.-flag and foreign flag ships.

Cargo preference laws reserve a certain portion of government cargoes to be shipped aboard U.S.-flagged ships, crewed by U.S. citizen mariners. The Food Security Act of 1985 (P.L. 99-198) (FSA) increased the minimum tonnage of food aid cargoes reserved for U.S.-flagged ships from 50 to 75 percent. The FSA also required the DOT to finance the costs associated with the food shipments carried on U.S.-flagged vessels that exceed the costs that would have been incurred for shipments on foreign-flagged vessels. The Ocean Freight Differential program reimburses U.S. government agencies (ex. U.S. Department of Agriculture) that must ship their cargoes on U.S.-flagged ships.

Ready Reserve Force Program: MARAD maintains and operates government-owned ships in the Ready Reserve Force (RRF). RRF ships are deployed, at the request of the Secretary of Defense, to support military and humanitarian operations. RRF ships are maintained by U.S. management companies employing U.S.-citizen mariners. The ships can be deployed on short notice. Five ships from the RRF that are capable of operating in the absence of port facilities have been deployed to support earthquake recovery operations in Haiti.

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[26] *Id.* at 121.

MARAD anticipates that the RRF program will provide a significant level of support for interagency agreements in FY 2011. For instance, as U.S. Forces withdraw from Iraq, the RRF is expected to be called upon by the Secretary of Defense to return military cargoes and equipment to the United States.[27]

Short Sea Transportation: The term "Short Sea Transportation" refers to commercial transportation of intermodal or wheeled cargo over inland or coastal waterways between ports within the United States and between U.S. ports and Canadian ports on the Great Lakes. [28]

The Energy Independence and Security Act of 2007 (P.L. 110-140) established a Short Sea Transportation program to be administered by the Secretary of Transportation that would identify short sea transportation projects and routes that will mitigate landside congestion. Under P.L. 110-140, the Secretary may promote the development of short sea transportation services and coordinate with various stakeholders in the public and private sectors to develop infrastructure to support short sea transportation services.[29]

P.L. 110-140 also made U.S.-flag vessels engaged in short sea transportation trade eligible to participate in the Capital Construction Fund Program (CCF) administered by MARAD. The CCF is a tax deferral program that allows vessel owners to place money in a tax deferred account and withdraw the funds to help finance the construction of vessels to be deployed in short sea transportation trades.

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. Funding for Short Sea Transportation initiatives is derived from MARAD's Operations and Programs account. The FY 2011 Budget Request reduces funding for MARAD Operations and Programs from $59.7 million to $49.3 million (a 17.5 percent reduction).

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[27] *Id.* at 100.
[28] Energy Independence and Security Act, Pub. L. 110-140, § 55605 (December 19, 2007).
[29] *Id.* § 55601(e).

MARAD

(in millions)

Program	FY2010 Enacted	FY2011 Authorized	FY2011 President's Budget	Diff. of FY2010 Pres. Budget and FY2009 Enacted $	%
Operations and Training	149.75	None	164.35	14.6	9.8%
Assistance to Small Shipyards	15.0	None	0.0	-15.0	-100%
Ship Disposal Program	15.0	None	10.0	-5.0	-33.3%
Maritime Security Program	174.0	None	174.0	0.0	0%
Maritime Guaranteed Loan Program Administrative Expenses	4.0	None	3.69	-0.31	-7.8%
Maritime Guaranteed Loan Program Loan Guarantees	5.0	None	0.0	-5.0	-100%
Total	**362.75**	**None**	**352.04**	**-10.71**	**-2.95%**

III. Federal Maritime Commission Budget

The President requests nearly $25.5 million in FY 2011 for FMC activities, which is an increase of approximately $1.4 million (5.8 percent) over the total amount enacted in FY 2010 for the FMC.

Obligations by Program Activities: The President requests $11.4 million for operations; $7.9 million for formal proceedings; $5.1 million for administrative costs; $780,000 for the Inspector General; and $228,000 for the Office of Equal Opportunity.

The FMC has operated on a five-year budget authorization; that authorization expired at the end of FY 2008.

Organization

The FMC is typically composed of five Commissioners appointed to five-year terms by the President with the advice and consent of the Senate. Not more than three members of the FMC may belong to the same political party. The Chairman of the FMC is designated by the President.

The Chairman is the administrative officer and chief executive of the agency. The Chairman's position, which had been vacant since 2006, was filled on October 14, 2009, when Richard A. Lidinsky, Jr. was sworn in as Chairman. Chairman Lidinsky is the FMC's 18th Chairman.

Mr. Joseph E. Brennan, Ms. Rebecca F. Dye, and Mr. Michael A. Khouri also currently serve as Commissioners on the FMC. There is one vacancy at the FMC.

Since assuming the Chairmanship of the FMC, Chairman Lidinsky has instituted a reorganization of the FMC, which took effect on January 31, 2010. The re-organization restores an administrative structure that was in place earlier in the FMC's history by establishing the position of Managing Director, who will serve as the FMC's senior executive and oversee the Commission's operating Bureaus (Certification and Licensing, Enforcement, and Trade Analysis). The FMC's organizational units – including the Office of the Secretary, Office of the General Counsel, Office of Administrative Law Judges, Office of Equal Employment Opportunity, Bureau of Consumer Complaints and Licensing, Bureau of Enforcement, and Bureau of Trade Analysis – now report to the Chairman through the Managing Director. The Office of the Executive Director and the Office of the Inspector General continue to report directly to the Chairman.

As part of this reorganization, the FMC's Office of Consumer Affairs & Dispute Resolution Services, which provides alternative dispute resolution services for claims filed by consumers and exporters, has been established as an independent office reporting directly to the Chairman. The Director of this office will now serve as the FMC's ombudsman.

On November 17, 2009, Chairman Lidinsky announced the formation at the FMC of a Maritime Environmental Advisory Committee "to provide leadership in identifying and supporting the creation of green jobs in the maritime industry."[30]

On November 23, 2009, Chairman Lidinsky announced that the FMC would undertake a comprehensive study of the impact of the European Union's (EU) decision to eliminate immunity for shipping conferences; this decision became effective in November 2008. The planned study will examine "two years before and after the October 2008 EU repeal of its block exemption for liner conferences" and will include "analysis of changes in carrier market structure, competition, agreements, services, vessel capacity, rates and surcharges."[31] The study is also expected to examine "the extent to which the repeal altered liner cargo growth and/or the mix of commodities shipped and the competitiveness of U.S container exports."[32] The EU had provided the exemption since 1987.

History: The FMC was established August 12, 1961, as an independent regulatory agency by Reorganization Plan No. 7. Prior to that date, the Federal Maritime Board had responsibility for the regulation of ocean commerce and the promotion of the United States Merchant Marine. Under Reorganization Plan No. 7, U.S. shipping laws were separated into two categories: regulatory and promotional. The responsibility of promoting an adequate and efficient U.S. Merchant Marine was assigned to the United States Maritime Administration (MARAD), now located within the DOT. The newly formed FMC was charged with the administration of the regulatory provisions of the shipping laws.

The Shipping Act of 1984 (98-237) (Shipping Act) made major deregulatory changes in the regulatory regime for shipping companies operating in the U.S. foreign commerce. In 1998,

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[30] FMC, *New Team Created to Address Green Maritime Initiatives* (November 17, 2009).
[31] FMC, *Chairman Encourages Public Participation in EU Study* (November 23, 2009).
[32] *Id.*

Congress passed the Ocean Shipping Reform Act of 1998 (105-258) that had additional deregulatory amendments and modifications to the Shipping Act. This was a significant pro-market shift in shipping regulations.

Functions

The principal statutes or statutory provisions administered by the Commission are contained in subtitle IV of title 46, United States Code. This includes filing of tariffs and service contracts under chapter 405; regulation of controlled carriers under chapter 407; regulation of ocean transportation intermediaries such as freight forwarders under chapter 409; and actions to address unfair foreign shipping practices under chapters 421 and 423.

The FMC's regulatory responsibilities include:

1. Regulating certain activities of international shipping lines (called "ocean common carriers"), marine terminals operators, and ocean transportation intermediaries that operate in the United States foreign commerce or the trade between individuals or legal entities in United States with different countries. (An Ocean Transportation Intermediary is either an ocean freight forwarder or a non-vessel operating common carrier. An ocean freight forwarder is an individual or company that dispatches shipments from the United States via common carriers and arranges or books space for those shipments on behalf of shippers. They also prepare and process the documentation and perform related activities pertaining to those shipments. A non-vessel operating common carrier is a common carrier that extends itself out to the public to provide ocean transportation. It does not operate the vessels by which ocean transportation is provided, and is a shipper in relation to the involved ocean common carrier.)

2. Overseeing the financial responsibility of cruise ship lines and other passenger ship operators, ensuring they have the resources to pay compensation for personal injuries or non-performance.

3. Monitoring the laws and practices of foreign governments which could have a discriminatory or otherwise adverse impact on the U.S. maritime trade and U.S. shipping industry and administers bilateral trade sanctions to persuade foreign governments to remove adverse conditions.

4. Enforcing special regulatory requirements applicable to shipping lines controlled or owned by foreign governments (so-called "controlled carriers").

5. Reviewing and regulating agreements between marine terminals and/or shipping lines (which enjoy statutory immunity from the antitrust laws) and service contracts between shipping lines and their customers.

6. Licenses and regulates ocean transportation intermediaries in the United States, and ensures all maintain evidence of financial responsibility. These intermediaries include freight forwarders, who make bookings and process paperwork for shipper customers (roughly analogous to a travel agent for freight), and "non-vessel-operating common carriers," who act as resellers of space on shipping lines' vessels.

7. Reviewing common carriers' privately published tariff systems for accessibility and accuracy.

The FMC is authorized by chapters 421 and 423 of title 46, United States Code to take action to ensure that the foreign commerce of the U.S. is not burdened by non-market barriers to ocean shipping. The FMC may take countervailing action to correct unfavorable shipping conditions in U.S. foreign commerce and may inflict penalties to address actions by carriers or foreign governments that adversely affect shipping in the U.S. foreign oceanborne trades or that impair access of U.S. flag vessels to ocean trade between foreign ports.

The FMC conducts informal and formal investigations as a part of its regulatory responsibility. If a person or company is unable to settle a dispute that involves a possible violation of the Shipping Act, that person or company may file a complaint to the FMC. The complaint will be referred to the FMC's Office of Administrative Law Judges (ALJ). If the ALJ is unable to decide the case merely by reading written evidence, a hearing may be conducted that is similar to trial in which witnesses will appear and give testimony under oath. The ALJ's initial decision may be appealed to the FMC by the filing of exceptions by the parties within 22 days, or may be reviewed by the FMC on its own motion. If there are no exceptions to the initial decision, it becomes administratively final 30 days after the date of issuance.

FMC BUDGET REQUEST
(in millions)

Program	FY2010 Enacted	FY2011 Authorized	FY2011 President's Budget	Diff. of FY2011 Pres. Budget and FY2010 Enacted	
				$	%
Formal Proceedings	7.2	None	7.9	.7	9.7%
Inspector General	.76	None	.78	.02	2.6%
Equal Employment Opportunity	.23	None	.23	0	0
Operations	11	None	11.4	.4	3.6%
Administrative	4.9	None	5.1	.2	4%
Total	**24.1**	**None**	**25.4**	**1.3**	**5.4%**

PREVIOUS COMMITTEE ACTION

The Subcommittee on Coast Guard and Maritime Transportation held hearings in the first and second sessions of the 110th Congress to examine the proposed FY 2008 and FY 2009 budgets for the Coast Guard, Maritime Administration, and FMC. Various hearings held throughout the 110th Congress have also examined specific aspects of the programs implemented by the Coast Guard (including its Acquisitions program), MARAD (including its work to promote short sea

shipping and the continued development of a robust maritime workforce), and the FMC (including its management and regulation of international shipping).

WITNESSES

PANEL I

Admiral Thad Allen
Commandant
United States Coast Guard

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

Mr. David Matsuda
Acting Administrator
United States Maritime Administration

Mr. Richard A. Lidinsky, Jr.
Chairman
Federal Maritime Commission

PANEL II

Mr. Stephen Caldwell
Director, Homeland Security and Justice Issues
United States Government Accountability Office

HEARING ON FY 2011 BUDGET FOR THE COAST GUARD, THE MARITIME ADMINISTRATION, AND FEDERAL MARITIME COMMISSION

Thursday, February 25, 2010

HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 2167, Rayburn House Office Building, the Honorable Elijah E. Cummings [Chairman of the Subcommittee] presiding.

Mr. CUMMINGS. The Subcommittee will come to order. Mr. LoBiondo is on his way, but Congress has a very busy schedule today, so I want to make sure we do this on time and move the process along.

The Subcommittee convenes today to consider the fiscal year 2011 budget requests for the Coast Guard, the Maritime Administration, and the Federal Maritime Commission.

The Obama Administration has requested approximately $9.6 billion in fiscal year 2011 for the Coast Guard, including the service's operating expenses, the acquisition budget, reserve training, pay for retirees, the Truman-Hobbs bridge program, and environmental compliance. This budget request is approximately $35 million, or 0.4 percent, below the enacted appropriation for the Coast Guard in fiscal year 2010.

Just to put this budget request in some perspective, the base budget request for the Department of Defense, DOD, is $548.9 billion, an increase of more than three percent above the enacted budget for fiscal year 2010, and that figure does not include funding for overseas contingency operations.

To achieve the budget reductions proposed in the Coast Guard's fiscal year 2011 budget, while generally preserving the budget for asset recapitalizations, the budget request proposes a number of cuts in the Coast Guard's operations. Specifically, the budget proposes to reduce the size of the Coast Guard's military workforce by 1,112 positions while increasing the number of civilian personnel by 339 positions, yielding a net reduction of 773 positions.

The decrease in the number of military personnel results largely from the proposed decommissioning of assets. The budget proposes decommissioning five cutters, including four High Endurance Cutters. These decommissionings will result in the loss of approxi-

mately 5,000 cutter mission hours in fiscal year 2011. The budget also proposes to remove several HH-65 helicopters from service, close two seasonal air facilities, retire four Falcon jets, and decommission five Maritime Safety and Security Teams.

There is no way to sugar coat what the impact of these proposed cuts would be: they will reduce the capacity of the Coast Guard to carry out its missions. The impact is clearly reflected in the Coast Guard's own performance measure estimates for fiscal year 2011. For example, the Coast Guard has lowered from 18.5 percent in fiscal year 2010 to 15.5 percent in fiscal year 2011 the projected target removal rate for cocaine from non-commercial vessels in maritime transit. In plain English, according to the Coast Guard's own performance measures, reduced patrol hours will likely mean that fewer drugs will be interdicted at sea. Other performance indicators have also been lowered.

I am deeply, deeply concerned by the proposed reductions in the Coast Guard's budget. The Coast Guard is a branch of our military and performs vital functions to secure our homeland from a variety of threats, including terrorism-related threats and illegal activities such as drug smuggling. The Coast Guard also regulates the safe operation of the maritime transportation system, aids those in distress at sea, and protects our marine environment.

I firmly believe that the Coast Guard's budget needs to be equal to our Nation's requirements for the Coast Guard's services, and this budget simply does not meet that standard. Today, the Subcommittee will also examine a new report issued by the Government Accountability Office assessing the Coast Guard's personnel management systems.

The training and expertise of Coast Guard personnel have obviously long been critical concerns to this Subcommittee, particularly as we have closely examined what appear to have been shortcomings in personnel training in such mission areas as marine safety, search and rescue, and acquisition management. Ensuring that the Coast Guard has in place the systems it needs to effectively track personnel qualifications and manage its assignment process will be critical to ensuring that the Coast Guard can staff its missions with fully qualified personnel. We look forward to the testimony of Mr. Stephen Caldwell from the GAO on our second panel.

Before I briefly discuss the budgets for the Maritime Administration and the FMC, I also note that this is likely the last time that Admiral Allen will appear before this Subcommittee as Commandant to discuss an annual budget request, as his term expires in May of this year. I want to take this opportunity to thank the Commandant for his extraordinary leadership—and I do mean that—of the Coast Guard through what have been times of truly great challenge, including, most recently, leading the service's exemplary response to the crisis in Haiti. I have the utmost respect for the Commandant and I offer my deepest thanks to him for his lifetime of service to our Nation and for the close working relationship we have had over the past four years.

And I just say to you, Commandant, on behalf of a grateful Congress and a grateful Nation, we thank you.

Similarly, I thank Master Chief Petty Officer Bowen, who is also making what will likely be his last appearance before the Subcommittee, for his outstanding service.

We are pleased to have Mr. David Matsuda, the Acting Administrator of the Maritime Administration with us today. Mr. Matsuda was nominated to this position by the President on December 7th, 2009. The Senate is considering Mr. Matsuda's nomination and we are hopeful that he will soon receive confirmation.

The Maritime Administration's fiscal year 2011 budget request totals $352 million, a decrease of approximately $10.7 million below the level appropriated in fiscal year 2010. The bulk of MARAD's appropriations fund MARAD's Operations and Training account. MARAD operates the United States Merchant Marine Academy at Kings Point, New York, and provides support for six State maritime academies with funds from this account.

The fiscal year 2011 budget would provide just over $100 million for the operation of the Merchant Marine Academy, including $30.9 million for badly needed infrastructure improvements. The Academy faces many challenges, including the recent resignation of its Superintendent. We are eager to hear how the Maritime Administration is addressing these challenges.

The American Recovery and Reinvestment Act of 2009 provided $100 million to MARAD's Assistance to Small Shipyards Program. All of these funds have been obligated. In fiscal year 2010, Congress appropriated $15 million for MARAD's Assistance to Small Shipyards Program and MARAD is reviewing applications for this funding. In fiscal year 2011, despite what appears to be a significant demand for assistance among small shipyards, there is no request for funds for the Assistance to Small Shipyards Program.

MARAD's Title XI program provides a Federal guarantee of private sector debt for ship construction in U.S. shipyards. Currently, MARAD is reviewing applications for loan guarantees for a number of projects that would cover approximately $2.6 billion in loans for a variety of projects at shipyards on all coasts. However, the Fiscal Year 2011 budget request for Title XI is only $3.7 million, the amount of funding needed to administer the existing loan portfolio. I note that since Fiscal Year 2008 there have been five defaults under the Title XI loan guarantee program. We look forward to examining all of these issues in more detail today.

The fiscal year 2011 budget request for the Federal Maritime Commission totals $25.4 million. After several years without a Chairman, the FMC finally has a new Chairman, Richard Lidinsky, whom we welcome to the Subcommittee. The FMC also has another new Commissioner, Mr. Michael Khouri.

Chairman Lidinsky has announced a number of new initiatives at the FMC, including a staff reorganization, the creation of a new Maritime Environmental Advisory Committee to support the creation of green jobs in the maritime industry, and the commencement of a comprehensive study of the impact of the European Union's decision to eliminate immunity for shipping conferences.

We look forward to hearing more about these initiatives and to understanding Chairman Lidinsky's vision for the role of the FMC in a maritime transportation industry that has been significantly challenged by the world economic crisis.

With that, I yield to my distinguished Ranking Member, Mr. LoBiondo.

Mr. LOBIONDO. Thank you, Mr. Chairman, very much. I would like to ask unanimous consent that Mr. Mica, the Ranking Member of the full Committee, be allowed to sit in on this Subcommittee.

Mr. CUMMINGS. Without objection.

Mr. LOBIONDO. Thank you, Mr. Chairman.

I thank the panel for being here, especially Admiral Allen and Master Chief Bowen for your incredible commitment, dedication, and service. I can't tell you how disheartened and saddened I am that what is probably one of your last hearings, or your last one on the budget, has to come at a time when you were put in the position that you are with this budget. Earlier this month we know the President transmitted his proposed budget for 2011 and the budget slightly increases amounts available to the Federal Maritime Commission, but its overall funding for the Maritime Administration and what I think are nothing short of reckless and unconscionable slashing of funding for the Coast Guard operation and acquisitions has to be brought before us.

To say that I am troubled by what was proposed doesn't come close to covering it. We listened over the years as the Coast Guard was asked to do more with less and, Admiral Allen, on many occasions you pointed out—whether it was in the 1970s or the 1980s or the 1990s—that Congress would increase the mandates for the Coast Guard, you desperately needed more personnel, you desperately needed more operations and maintenance dollars, you desperately needed acquisition dollars, and all those requests were ignored for decades.

The Coast Guard, through the incredible dedication of its men and women, managed to carry out its mission. Then we embarked upon Operation Deep Water. We all know the transition that the Coast Guard had to assume with Homeland Security, and at a time when the Coast Guard, I think, was deeply troubled, Admiral Allen, you were incredibly the right man at the right time to come in and get the Coast Guard sort of on the straight track here.

With all this having been said, the President has said that this budget, his budget, reflects his priorities in tough economic times. But I don't know how any of us can support a budget for the Coast Guard which makes it a priority to cut our ability to safeguard American lives at sea and secure our ports and waterways from terrorist attacks. These reductions in force and capabilities can only be interpreted as undermining port security, and one of my big concerns over the time, as Chairman of this Subcommittee and my time on this Subcommittee, is that while aviation security has received almost a blank check over the years since September 11th, we have fought and scraped for port security dollars to keep up with the incredible threat and challenge that we have from terrorist operations at our ports. I don't understand how these actions can possibly be the priority of any administration.

Under the President's budget, the Coast Guard will be forced to operate with less people board fewer assets, with less financial support. It is a recipe for disaster. The budget proposes to eliminate more than 1,100 jobs at a time when not only record numbers of Americans are out of work, but at a time, over the last couple of

years, where we attempted to strengthen the numbers for the personnel of the Coast Guard, made modest increases, and now we are going to slide all the way back down the hill. It just doesn't make any sense to me.

We are going to abolish five specially trained anti-terrorist teams responsible for providing security at our largest ports, reduce the number of vessels capable of carrying out Coast Guard missions, close air stations in the Great Lakes, and permanently ground five newly re-engined enhanced helicopters, turning them into multi-million dollar supply closet items. Not the right way to go.

Admiral Allen, on many occasions you have appeared before this Subcommittee and said the Coast Guard must do away with the attitude that it simply can do more with less. You were right, sir, when you said those things. Unfortunately, the message you have received from the Commander-in-Chief is that the Coast Guard must do even more with less. It is contrary to everything that many of us have worked for for decades. I think it is simply unacceptable.

The budget does not reflect the priorities of the American people, nor does it provide the resources necessary for success of Coast Guard missions. Admiral Allen, you have characterized this budget as a necessary short-term sacrifice to place the Coast Guard on a better footing in the future. Yet, this budget not only fails to increase funding for the construction of new, more capable vessels and aircraft, it slashes several programs to the bare minimum number of airframes and hulls required to keep the production line open.

So what exactly is the service sacrificing personnel and near-term mission success for? I share the Commandant's concern about the long-term needs of the Coast Guard, the fleet, and for that reason I have long advocated for the acceleration of the recapitalization efforts. During the previous administration, we were fortunate to have a very strong bipartisan effort from Members of this Subcommittee, Members of the Full Committee, and Members of Congress to understand the urgent need to increase the pace of acquisitions in a shorter period of time.

Lastly, I want to express my extremely strong opposition to the proposal to eliminate five Maritime Safety and Security Teams, including the team stationed at our Nation's second largest port, the Port of New York-New Jersey. For those who are not aware, these specially trained and equipped teams provide critical anti-terrorist capabilities. We should be increasing these teams, if anything, not decreasing them. It is the wrong direction to go to even consider that we can do with less of them. The Coast Guard already falls short in its requirement to escort high-interest vessels.

The President's proposed cuts would only further endanger our homeland security. I don't say those words lightly. I don't see how we can interpret it in any other way than that. At a time when homeland security can't be further reduced—and, let's face it, across America, the further we get from September 11th, the more most Americans think this is something that is in ancient history, and it is not.

I hope my colleagues will join with me on this Subcommittee and with you, Mr. Chairman, and with the full Committee in finding a way to keep these drastic budget cuts from happening.

I am also concerned by some of the proposals made for the Maritime Administration. The President has failed to request any funding for Federal loan guarantees to support construction of new U.S.-built, U.S. flag vessels in our shipyards, something that we desperately need. This funding supports critically needed jobs for American shipbuilders and U.S. merchant mariners, yet no attention was given to this program.

I hope my colleagues will work in a cooperative and bipartisan way to restore a robust investment in our domestic shipbuilding industry for many reasons, for the jobs and for the economic situation, and for the homeland security implications that that has.

Lastly, the President has proposed a slight increase in the budget for the Federal Maritime Commission. This will provide the resources necessary for the Commission's expected workload, and I support the proposed funding level for that particular area.

I want to thank all of our witnesses for appearing this morning and for their testimony. I would like to welcome Federal Maritime Commission Chairman Mr. Lidinsky. I welcome you; I wish you well in your first appearance at the Subcommittee. I hope we will have a long and cooperative arrangement, and I am sure that we will. As well as Maritime Administration David Matsuda, who previously worked for Senator Lautenberg, a very close friend and colleague of mine from New Jersey. I know I join with all of my colleagues in wishing the Senator a very speedy recovery.

Once again, Admiral Allen, I would like to thank you and Master Chief Bowen for remarkable dedication, remarkable commitment to your Country, remarkable commitment to the men and women of the Coast Guard. And, as I mentioned earlier, I am really saddened that you are coming to the end of your term at such a critical time, and I am really short that it had to be the tone that it did in this particular hearing for this budget, but there is no way to sugar coat that.

Having said that, Master Chief, I want to particularly commend you for your efforts to improve the quality of life issues for the men and women of the Coast Guard, something that you have done in a remarkable and dedicated way. Thank you for raising the alarm on the sad state of Coast Guard housing and, thanks to your leadership, although we have not come up with the right solution at this point, I think we are clearly focused in understanding that there is something we can't let go and that we are going to continue to work on for the men and women of the Coast Guard and as a follow-up to your commitment that you made at this point.

Admiral Allen, I find it difficult to come up with the right words to express my appreciation for your remarkable service to our Country, whether it was at a time of Katrina, when you took over and clearly the Federal Government was floundering in its effort. You got nothing but the highest marks from everyone involved in bringing that situation under control.

As I mentioned earlier, I think you took over the Coast Guard at an extremely difficult period in time, with many challenges and questions that were raised, and thanks to your unique quality and

style of leadership, I think the service has fully regained its footing, and, sir, you are to be commended for that. That was no easy task. I thank you for your selfless efforts on behalf of the men and women of the Coast Guard. I appreciate your advice and appreciate your personal friendship over the years and, once again, your tremendous commitment to our Country.

With that, I thank you very much and, Mr. Chairman, I thank you.

Mr. CUMMINGS. I thank you very much, Mr. LoBiondo.

Let me just say this. Let's be real clear. I agree with the Ranking Member with regard to these cuts, and our staffs have already put together the draft proposal with regard to views and estimates and we are all in agreement on this on both sides.

And I know it is a difficult thing, Admiral Allen, when you have to come and—I read your speech about the state of the Coast Guard—defend the budget, but I promise you I think you will have unanimous support from this Subcommittee and probably the Transportation Committee to restore these cuts so that the Coast Guard can do exactly the things that Mr. LoBiondo just stated. We will proceed very methodically but very effectively and efficiently. So I just want to make sure that is very clear and on the record.

Mr. McMahon, and then we will go to our Ranking Member. Mr. McMahon.

Mr. MCMAHON. Thank you, Chairman Cummings and Ranking Member LoBiondo, and, of course, a special New York welcome and thank you to our great Coast Guard Commandant Admiral Thad Allen and, of course, Master Chief Bowen and Mr. Matsuda and Mr. Lidinsky. We thank you all for coming and bringing your testimony to us this morning.

I welcome this important review of the President's budget. Coast Guard Sector New York is headquartered at Fort Wadsworth, in my district in Staten Island, standing guard at the entrance to New York Harbor, and we salute the brave men and women that keep our shores safe every day.

The President has made clear that his budget would fully protect spending on defense and homeland security, while making the key investments necessary to move us forward. But this commitment does not appear to be reflected in the Coast Guard and Maritime proposals before us today. In particular, I have very serious concerns about the proposed elimination of the Maritime Safety and Security Teams, or MSSTs, that provide our first line of defense in response to terrorist threats or incidents, and cannot begin to comprehend the decision to decommission the 90-person team based in New York City with the enormous, of course, beautiful harbor that it possesses.

Our Nation's worst terrorist attack occurred in New York City, as you all know, on 9/11. Many of us lost loved ones, friends and neighbors, and the scars of that horrible day remain with all of us today. New York City remains the greatest target for terrorists wanting to do America harm. It is our Nation's preeminent financial center, the East Coast's largest shipping port, and our densest and most populous metropolitan area, with more than 20 million people in its environs. Any terrorist attack on New York wouldn't

just affect New Yorkers, but it would have significant ramifications for every American, as we sadly learned already.

The decision to decommission the New York-based MSST makes no sense whatsoever. The MSST keeps watch on our ports and patrols key landmarks, like the Statute of Liberty and Brooklyn Bridge, which we know have been targeted as well. If the team responsible for carrying on these missions is based outside of New York and significantly reduced in personnel head count, I have little confidence that the MSST will be able to respond in time, in the minutes that often allow us to prevent and disrupt terrorist incidents.

Admiral Allen, on February 12th I, along with 10 other Members of the New York delegation, sent a letter to Secretary Napolitano, and cc'd it to you, urging a reconsideration of this misguided and ill-conceived decision.

Mr. Chairman, thank you for agreeing to my request for a hearing on this key matter today, and I look forward to discussing this further.

I also have some concerns about the MARAD project and the proposal to completely zero out funds for the small shipyard grant program. From what I understand from DOT, although the Recovery Act only provided about $100 million for this initiative, DOT received more than $1 billion in requests for funding.

In New York Harbor, shipbuilding and repair capacity is so overstretched that we often need to send our ships to Norfolk to find places to repair our vessels, including some routine repairs to the Staten Island Ferry. And you should know that of the $117 million in Federal funds, New York Harbor did not get a single dime. And now, to add insult to injury, it just completely baffles me that Federal support for shipping and shipbuilding will be completely eliminated. We have a successful program that is creating jobs and building up our long-term shipping infrastructure. We should be increasing support, not decreasing funds for this key initiative.

Mr. Chairman, as a Member and a Vice Chair of this Subcommittee, I look forward to working with you at this hearing and beyond to ask these and tougher questions. We need to be sure that the Committee views and estimates that we send to the Budget Committee and the appropriators reflect the best interests of our Nation's security and long-term infrastructure needs at our ports, and I thank you for your continued leadership on this matter. Thank you.

Mr. CUMMINGS. Thank you very much.

The distinguished Ranking Member of the full Committee, Mr. Mica, is recognized.

Mr. MICA. Well, thank you, and thank you for conducting this hearing, Mr. Cummings, and also Ranking Member LoBiondo, and allowing me a few minutes. I will try not to get into too much of the Subcommittee's business, but I wanted to take an opportunity to do two things today: first, to come and thank Master Chief Petty Officer Bowen for his long service to our Nation and great work in the United States Coast Guard, and then I have to take a minute to say a special thanks to Admiral Allen. Wow. What a great guy at a great time.

You have already been praised by other Members, but I particularly want to thank you for working with me as the Ranking Member. I came on at a similar time and I still remember your first calls, the difficult challenges you had from the very first day you took your post and I took mine. And the manner in which this gentleman has handled probably some of the most difficult seas and waters the Coast Guard has ever had to navigate has been absolutely outstanding. He has a calm demeanor; he has a way about himself that he is determined to get the job done no matter what obstacles, political rhetoric or high challenges he has to face. He gets it done quietly and effectively. And he inherited, again, some things that have been alluded to here, the Deep Water issues, Katrina. It goes on and on, the things that he has had in his short tenure.

But we are very proud of you. I am particularly grateful of the working relationship we have shared, and I wish you well. Well done, sir.

My second objective is to come here and join with my other colleagues unanimously in protesting the budget that has been delivered.

I guess you couldn't go out in a calm sea, Admiral Allen. Sorry they had to deal you this last card in the deck.

This is absolutely outrageous that we would cut our first line of defense, domestic defense for both national security and for maritime safety at this time. It is beyond me.

I woke up this morning, Mr. Cummings, and I heard—this is a good one for you. Homeland Security outside of Coast Guard has over 180,000 employees, not counting Coast Guard, and you know there is over—I guess as of this week—there was a report that was done this week—there are more contract employees on top of the 180,000 in Homeland Security. Here they are cutting Coast Guard 1,100 positions, one of our most vital, again, national defense and safety. We have this huge bureaucracy. TSA, they are increasing 2,000 positions. They already have over 60,000. It has grown from 16,500 screeners. They have 8700 administrators in TSA across the Country, 3,200 administrators and people within the D.C. area making over $100,000 a year. And the Coast Guard people and the salaries, the sacrifices they and their families make, and here we are slashing them. There is something wrong with this picture.

Now, I will work in a bipartisan manner to correct this. I appreciate the Chairman's methodical approach and his commitment today to correct this, Mr. LoBiondo and others. We will work together. We will change this. This is not the way to go at this time. So we are not going to get the Coast Guard, we are not going to cripple their assets. We are going to keep them sailing in smooth waters and protecting us like they have done for so many years.

So thank you again, you two, for your great leadership, for your working with this Committee and all you have done. We are grateful and the Country is grateful, and we are going to roll up our sleeves and go from here.

Mr. Chairman and Mr. Ranking Member, thank you. I yield back.

Mr. CUMMINGS. I want to thank you very much, Mr. Mica, for being here and for your support.

We will now hear from our witnesses. Admiral Thad Allen is the Commandant of the United States Coast Guard. We will then hear from Master Chief Petty Officer Bowen, who is the Master Chief Petty Officer of the United States Coast Guard. We will then hear from Mr. David Matsuda, who is the Acting Administrator of the Maritime Administration; and then we will hear from Mr. Richard Lidinsky, who is the Chairman of the Federal Maritime Commission.

Admiral Allen.

TESTIMONY OF ADMIRAL THAD W. ALLEN, COMMANDANT, UNITED STATES COAST GUARD; MASTER CHIEF CHARLES W. BOWEN, MASTER CHIEF PETTY OFFICER OF THE UNITED STATES COAST GUARD; DAVID MATSUDA, ACTING ADMINISTRATOR, MARITIME ADMINISTRATION; AND RICHARD A. LIDINSKY, JR., CHAIRMAN, FEDERAL MARITIME COMMISSION

Admiral ALLEN. Good morning, Chairman and Ranking Member LoBiondo and the other Members present here today. Thank you for having us here to talk about the 2011 budget. I have a written statement for the record and I will summarize my comments here, if that is okay, sir.

I am pleased to be joined by Master Chief Petty Officer Bowen, who has been a shipmate of mine since he first worked for me back in 1993, when I was Captain of the Port of Long Island Sound. He has been a great shipmate and I wholeheartedly agree with your characterization of his service, and it has been my honor to serve with him.

I would like to thank the Subcommittee for their support for Coast Guard men and women. Mr. Chairman, you and I came on board about the same time. You have been steadfast. Mr. LoBiondo, you have always been there for us, and we appreciate the support for our troops in New York as well.

As you noted, Mr. Chairman, on the 12th of February I delivered my fourth and final State of the Coast Guard Address, and I described our current state as ready and resilient, and I believe, as I stated then, it was clearly demonstrated following the devastating earthquake in Haiti. One hour after the earthquake struck, three Coast Guard cutters had orders to proceed to Haiti. Arriving on scene the next morning, our units controlled aircraft movements until the airport could reopen, they conducted the first surveys and assessments of the damage and provided medical care to the most critically injured. They even delivered a baby on the flight deck of a Coast Guard cutter. They also conducted evacuation of American citizens and medical evacuations to higher level care for hundreds of Haitian citizens.

As the recovery operations ramped up, our personnel teamed with FEMA to provide an incident management team to support USAID and the Ambassador to Haiti. Our units conducted port assessments and assisted in the reopening of the Port of Port-au-Prince. We also deployed a reserve port security unit to provide security in the port, and that unit has been relieved and is demobilizing as we meet here this morning. Finally, we continue to mon-

itor departures from Haiti for any indication that a mass migration may occur.

The Coast Guard was first on scene because of our operational forces and our command and control structure. We are agile and flexible. Our operational model is unique in this Country and in the world. In an era where a whole of government effort is being sought to deal with a variety of complex challenges, we are in fact a whole of government organization.

Mr. Chairman, you stated several times we are the Nation's thin blue line at sea. But because we are so unique and multi-missioned, there is continual discussion regarding our mission mix, our location in government. But I would like you to consider this. As we surged forces in Haiti, other Coast Guard personnel and assets were breaking ice on the Great Lakes and in New England, medical evacuating a heart attack victim 270 miles off the coast of San Diego, conducting fishing vessel boardings in the Bering Sea, and detaining 12 foreign vessels around the Country for violating international safety and security standards.

The genius of our organization continues to be our operational model that allows our field commanders to move resources where they are needed and our doctrine that emphasizes on-scene initiative. To sustain this performance for the Nation, we must provide our people with the capability to safely and effectively execute the mission. As we discuss the fiscal year 2011 budget, it is important to acknowledge the current fiscal environment and the requirement for us to make tough choices to make sure our personnel have new cutters and aircraft in the future.

As has been noted, we are operating on a constrained fiscal environment and the President noted in his State of the Union address families across the Country are tightening their belts. The Federal Government should do the same. Obviously, that sentiment is reflected in our 2011 budget submission.

In our discussions with the Secretary and Department leadership, we agreed to make the difficult tradeoff between balancing our current operational capacity with the need for new cutters, aircraft, boats, and sensors.

Mr. Chairman, given the funding levels provided, we made the conscious decision to invest in our future. The budget contains nearly $1.4 billion to acquire new assets, while removing aging cutters and aircraft from service that are too costly to maintain. It includes $13.9 million for housing units. And we do appreciate the First Lady's personal interest in the welfare of our people and our housing programs. But to allow for recapitalization within a fixed top line, there is no other place to look but forestructure, both personnel and assets, to meet the funding limits established.

We must continue to provide pay and entitlements to our people. They are first. We must take care of them. To that end, our operating expense request reflects pay raises, cost of living increases, and other cost increases that are absorbed within the current operating base. That means fewer people and fewer units.

I won't go through the detail of the cuts; you have already described those in your opening statements, so I will save the time.

As a result, we have less capacity in 2011 than we did in 2010. We will use our existing resources to prosecute all of our missions

by allocating them to the highest priority, just as we have always done. That includes accepting greater risk and managing our resources professionally and with proper stewardship, and we will continue to do that. Obviously, recapitalizing the fleet is my top priority. It has to be because our future readiness is at stake.

Of the 12 cutters that responded to Haiti, 10 suffered severe mission-affecting casualties, 2 were forced to return to port for repairs and are still unable to operate, and 1 proceeded to an emergency dry dock. Each passing year erodes our capability, putting our people at risk and endangering our ability to execute our statutory responsibility.

Mr. Chairman, the state of the Coast Guard is ready and resilient, but I would characterize our fleet as fragile and approaching the limits of support due to the age of our large cutters. We must recapitalize our aging fleet to continue our service to the Nation. Our personnel deserve the best because that is what they provide to us. After the first day of rescue operations in Haiti, a young petty officer emailed this to his mother: Today I have truly been more thankful to be an American. As a country, we will stand together and put aside our different opinions on health care, war, the economy to help those in need.

Mr. Chairman, I appreciate your offer of support, from the Ranking Member as well. Let me add, in closing remarks, I too have appreciated your friendship, mentorship, and leadership. It has been an honor to serve with you.

Mr. CUMMINGS. Thank you very much.

Master Chief Petty Officer Bowen.

Master Chief BOWEN. Good morning, Mr. Chairman and distinguished Members of the Subcommittee. This is my fourth and last appearance before you due to my impending retirement. I would like to personally thank all of you for your efforts on behalf of Coast Guard people. During my career, I have been fortunate to serve alongside what I believe to be the most capable and dedicated workforce in the U.S. Government, and I am thankful today for the privilege of discussing their needs with you.

In my written statement I went into great detail describing the heroic action of Coast Guard personnel over the last year. However, I am not sure that human words are capable of adequately describing how I really feel about the performance of our people. They are protectors, defenders, lifesavers. As showcased after the earthquake in Haiti, the Coast Guard brings hope alive. Just hours into the tragedy, a very young Coast Guardsman, very young, off Coast Guard Cutter MOHAWK, named Fireman Runner, said, a little boy about four years old came up to me and squeezed me so hard and just told me that he loved me, looked up and told me that he was the only one left; everyone else in his family had died. Today I saw people that should not have been alive. It was a bad horror movie.

I was proud of Commander John Driscoll as he stood at the Killick Coast Guard base and responded to a reporter who questioned why Coast Guard with limited medical training was working on survivors with such extensive and terrible injuries. He simply responded with, there is no other choice; these people have no other hope.

The Coast Guard workforce is resilient, but we are stretched thin. We continue to seek parity with Department of Defense services regarding military benefits and family programs. On June 16th, 2009, Ranking Member LoBiondo and Members of this Subcommittee who are part of the Coast Guard Caucus sponsored H.R. 2901, a measure that, if enacted, would go a long way toward improving support and conditions for our people. Most of the proposals contained in this bill are also found in H.R. 3619, the Coast Guard authorization bill that passed in the House in October 2009. Both measures would provide enhanced authority for child development service centers and chaplain services, allow for Coast Guard participation in the Armed Forces Retirement Home, and authorize the President to award the Coast Guard cross and silver star medals for extraordinary heroism and gallantry in action.

Both measures seek to address a lapse in Coast Guard housing authority. Unfortunately, housing continues to be a major concern. Last week I visited the Coast Guard command base on Long Island, New York, an area that experiences major swings in the housing market depending on the economy and the season. Because of this, the Coast Guard owns approximately 100 homes on the island, homes that must be maintained, but we are falling behind. I visited one home at Station Eden's Neck that I remember as a beautiful house when I saw it back in 1994. Even today it was characterized by the folks there as a good house. On close inspection, I agreed that it was livable, but I noted terrible drafts at the windows; kitchens and bathrooms and fixtures that have not been updated in many, many years; cabinet doors that were warped and did not close properly.

I am thankful that the 2011 budget provides $14 million to address these deficiencies. I consider this a down-payment on the $350 million Coast Guard-owned housing backlog. I strongly believe that without further relief, this quality of life issue will eventually impact negatively on both retention and readiness.

The constant work and support of this Subcommittee continues to make a difference to better our Coast Guard, a Coast Guard that means so much to so many people. For that I am grateful and honored to have had the opportunity during the last four years to represent the interests of our workforce before you.

Thank you.

Mr. CUMMINGS. Mr. Matsuda?

Mr. MATSUDA. Good morning, Chairman Cummings, Ranking Member LoBiondo, and Members of the Subcommittee. Thank you for inviting me here today to discuss President Obama's fiscal year 2011 budget priorities and initiatives for the Maritime Administration.

The President's budget request of $352 million for the agency will fund programs important for maritime transportation. These programs support the maritime sector's continuing contributions to our Country's economic competitiveness, environmental sustainability, and transportation system's safety, security, and readiness.

But first, with the Subcommittee's permission, I would like to give you a quick update on the Maritime Administration's disaster aid relief efforts in Haiti.

At the request of the Secretary of Defense, we activated a total of seven Maritime Administration ships, five from the ready reserve force and two additional high-speed ferries. Coast Guard, Defense Department, and Maritime Administration employees worked very well together to ready these inactive ships for duty. Three are being used today, the SS Cape May, the SS Cornhusker State, and the Huakai. In addition, we have helped promote the services of the many capable U.S. commercial ships, 17 of which have served in relief efforts. All are carrying food aid, supplies, and even passengers in ferry service, and all are crewed with dedicated and skilled U.S. mariners.

With regard to the budget, Secretary Ray LaHood has made clear that one of his top priorities is to improve the profile and prestige of the U.S. Merchant Marine Academy in Kingspoint, New York. To that end, the President has requested $100 million for the U.S. Merchant Marine Academy in fiscal year 2011. This would represent a 35 percent increase above the fiscal year 2010 enacted level. The increase would support capital improvements, operational funding for items like necessary computer and information technology upgrades and academic program enhancements, as well as compensation for previous overcharges of midshipmen fees.

The Maritime Administration is also making improvements with regard to the school's financial accountability. We are aggressively implementing recommendations made by the Government Accountability Office in its most recent audit report. My plan is to successfully address all 47 GAO recommendations by the end of this fiscal year. Additionally, we will continue to strongly support training of Merchant Marine officers at the six State academies.

Another priority for the Maritime Administration is job creation. The agency's Title XI loan guarantee program supports jobs through infrastructure investment and economic growth. When credit markets are tight, this program is especially vital for those trying to get financing for U.S. ship construction. With the current Title XI subsidy balance of $78 million, we will be able to issue commitments to worthy applicants in 2011.

An additional source of port infrastructure funding comes from the Department's discretionary infrastructure grant program, also called the TIGER program. On February 17th, the Department announced $1.5 billion in TIGER grant awards for fiscal year 2010. Of this amount, more than $120 million will fund seven port and maritime related projects. These grants will support new marine highway services, add capacity to ports, and improve shoreside connections to inland markets.

Security preparedness and response are also critical missions for the agency and command the largest share of the budget request. For example, the President's budget request includes $174 million for the 60 ships in the Maritime Security Program. This level of funding matches the authorized level. This important program guarantees military access to commercial U.S. flag ships, related logistic services, and a workforce of trained U.S. mariners. U.S. flag commercial ships have delivered over 430,000 containers [TEU] of equipment and supplies to support U.S. troops in Iraq and Afghanistan.

Last, but not least, the Maritime Administration is committed to the proper disposal of obsolete ships in the National Defense Reserve fleet. In 2009, for the first time in three years, ships began to leave the Suisun Bay Reserve Fleet in California. Even more will leave this year. The President's budget request supports the environmentally responsible disposal of an additional 15 ships from the fleet in fiscal year 2011.

Mr. Chairman, I look forward to working with the Subcommittee on advancing maritime transportation to our Country. I am happy to respond to any questions the Subcommittee might have. Thank you.

Mr. CUMMINGS. Thank you very much.

Mr. Lidinsky.

Mr. LIDINSKY. Good morning, Mr. Chairman and Members of the Subcommittee. I appreciate this opportunity to present the President's fiscal year 2011 budget for the Federal Maritime Commission. With me today at this hearing are Commissioner Rebecca Dye and our newest commissioner, Mr. Michael Khouri.

Mr. Chairman, I would like to add personally it is a great honor to appear before this Subcommittee, since this is where I began my maritime career many years ago under one of your illustrious predecessors also from Baltimore. So it is good to be back home.

With the Committee's permission, I would like to summarize my testimony and request that the full written statement be included in the record.

Mr. CUMMINGS. Without objection.

Mr. LIDINSKY. Thank you.

The President's budget for the Maritime Commission provides $25,498,000 for fiscal year 2011. This represents an increase for us of $1,363,000 over 2010 and funds 132 employees. We will add one new IT position to speed the Commission's data security efforts and reduce burdens on the businesses we regulate.

During my confirmation hearings last July, I stated the Obama Administration's commitment to three main priorities for the Commission: first, the top priority should be our role in assisting the economic recovery for job growth, both within our commercial ocean transportation industry and among the businesses they serve; second, the Commission must focus on protecting our Country's shipping community and, above all, the American consumer from unfair practices from foreign governments, cargo carriers, or cruise lines; third, we will work with all sectors of our maritime family to help green our ports and the shipping industry.

In the coming year, we will play a valuable supporting role as a trade and economic leader to help the Administration begin to implement the National Export Initiative and to redouble our exports over the next five years. Each of our commissioners is committed to working in a collegial, cooperative, and bipartisan manner to accomplish the Commission's mission.

Let me also add that Commissioner Joe Brennan is back at the fort guarding our activities this morning, but he sends the Committee his regards.

My vision of the FMC is to be a more proactive regulatory agency so that we do not just react to issues that are brought to us. Based on that, here are three goals that we have accomplished already.

First, after receiving valuable insight and input from the Committee and others, we have announced an agency reorganization program that became effective on January 31st of this year. We have reestablished the Office of Managing Director and have established the Office of Consumer Affairs and Dispute Resolutions as an independent office. In the near future, the Commission will present a revised budget that reflects this new organization, but we have the same funding level and the same number of FTEs.

Just last week the Commission voted to initiate a rulemaking to relieve non-vessel operating common carriers from tariff rate publication requirements. This relief will result in significant cost savings and potentially new jobs in that sector of the industry. We are holding hearings next week to review the passenger vessel industry and their requirement to cover financial activities of cruise line passengers if there is an accident at sea or an operator fails to perform.

In the environmental area, the FMC sees three key issues: First, the Commission voted back in August to end its opposition to the Clean Air and Trucks program at the Port of Los Angeles and, going forward, the Commission is committed to being a helpful partner for our ports on green issues. Second, we have an internal staff committee to help the Commission focus on green issues and become a clearinghouse for ports and other parts of the maritime industry interested in greening their activities. Third, the Commission recently reviewed a very significant proposal of the 16 carriers in the Trans-Pacific discussion agreement which will allow them to institute slow steaming and have a great environmental impact from that activity.

In October 2008, the European Union repealed its block exemption anti-trust immunity from competition rules on liner shipping conferences. The Commission is continuing work on a comprehensive study of the impacts of this repeal. We must be very careful to gauge the long-term impacts on our own trade.

The Commission is also working on two new issues involving foreign governments. The first is to carefully monitor the activities of the People's Republic of China and their new requirements for the Shanghai Shipping Exchange, which could have indirect impact on our carriers and on our shippers. Second, we are watching increased diversion of U.S.-bound cargo to Canada, away from U.S. ports. Two years ago, the Canadian government opened a new container port in Prince Rupert, and in alliance with a Chinese carrier, have moved 265,000 containers through that port, many away from our West Coast ports this past year. We are consulting with ports and other U.S. entities, as well as Customs and Border Protection, to address any potential unfair practices and potential security impacts.

Finally, but not least, I have found that the Commission staff, although small, is very dedicated to public service. Over 10 percent of our employees have 35 years or more of service at the Commission. We continue to implement personnel practices that earned our Commission recognition as the Most Improved Small Federal agency last year, and our 2009 Annual Employee Survey, along with results from 2008 and 2007, suggested FMC employees are now very satisfied with their jobs and related aspects of employment. More

than 30 percent of the survey showed successive improvement each year, and I know that the Committee has been very interested in this issue, and we are committed to building a diverse skilled, and effective staff.

Mr. Chairman and Members of the Committee, thank you for this opportunity to testify. It is an honor to be before you and I'm happy also to answer any questions you might have.

Mr. CUMMINGS. Thank you very much.

Before we go into questions, I wanted to grant Mr. Ehlers an opportunity to provide his opening statement.

Mr. EHLERS. Thank you very much, Mr. Chairman. I certainly appreciate this opportunity. Unfortunately, I am bouncing between two Committee meetings at the same time. I wanted to raise the issue of the helicopters on the Great Lakes, particularly on Lake Michigan, which is a very heavily used lake, and the helicopter has been a real godsend there. In fact, we have Grand Haven, Michigan, which every year holds a helicopter festival—I am sorry, a Coast Guard festival out of appreciation for the Coast Guard activities on Lake Michigan. It is a very well attended facility and we have hundreds of thousands of people who come from Chicago and other areas during the summer, and they all appreciate the Coast Guard's activity there.

I guess my fatherly advice—since I am older than most of you—is don't even start the battle. You did it a few years ago and got soundly beaten by the Congress and the operation was restored. But aside from that, I would just plead for the need for the helicopters on the Great Lakes, particularly on Lake Michigan, which has a huge amount of traffic during the summer. This is, of course, a seasonal placement, but the idea of pulling five helicopters away from Travers City and Muskegon and Walkegon is just not sound judgment if you look at the number of lives saved and the number of lives assisted every year. I would very much encourage you to withdraw that part of your budget and maintain the helicopter presence on Lake Michigan in particular.

So this is a statement, not a question, but I would hope that you would take that to heart. And restore that service. We are talking about, to me, a substantial number of lives that will be at risk without that service, so I beg of you, please restore that and end the battle early on and come out of it as heroes, instead of bloodied and beat upon the head during the next few months of this Congress.

Thank you very much and thank you again, Mr. Chairman, for letting me make this statement.

Mr. CUMMINGS. Thank you.

Admiral Allen, one of the things that you talked about was the recapitalization of the service to the Deepwater Program, and I think basically what you were saying is that is a priority, is that right?

Admiral ALLEN. Yes, Mr. Chairman.

Mr. CUMMINGS. But at the same time, as far as operational performance, there will be a reduction, is that correct? In other words, is there a tradeoff here?

Admiral ALLEN. Yes, sir. That is exactly what I mean.

Mr. CUMMINGS. Yes. And is that an appropriate tradeoff? And, if it is, would you explain that to us?

Admiral ALLEN. Yes, sir. Within a constrained fiscal environment, you almost move away from traditional budgeting, where you take the prior year enacted, you would incrementally add on things like cost of living increases, pay raises, and so forth; you would look at what efficiencies you could achieve and what new things you might want to do; and it is an incremental or decremental changes to the prior year enacted level.

When you are looking at severely constrained budget environments, you don't start with prior year enacted and increment or decrement that; you start with what is available in terms of funding and you make tradeoffs within that line, and that is what we did, sir.

Mr. CUMMINGS. Now, I read an article yesterday which pretty much stated that there would likely, if things were to go as they are right now budget-wise, be a reduction in counterterrorism with regard to the Coast Guard. Do you think that is a good idea?

Admiral ALLEN. Well, sir, there is an overall reduction in capacity, and I understand the concern, especially with the Marine Safety and Security Teams. As I mentioned in my opening statement, the Coast Guard's operating model is we give all the resources to our field commanders and they allocate those to the highest need or risk in their areas. Counterterrorism operations, port and waterway safety and security, critical infrastructure protection are all part of that. So what is going to happen is, if you have lower level of operating assets, it puts a larger premium on how you do that risk calculation and where you do allocate the resources. And I would say there is less capability to do counterterrorism operations, but I would have to tell you that we manage that across the portfolio, so all the missions potentially could be impacted based on the decision the field commanders made on how to allocate those resources, sir.

Mr. CUMMINGS. Now, as you know, this Subcommittee and, indeed, this Committee have been deeply concerned about failing qualification standards for Coast Guard personnel. In response to the Congressional direction, the Coast Guard recently developed a workforce action plan. The Congressional direction instructed the Coast Guard to provide a workforce plan that would include a gap analysis of the mission areas that continue to need resources and the type of personnel necessary to address those needs, as well as strategy, including funding requirements and time line to address those needs.

The GAO reported in the study of the Coast Guard personnel management systems released today, which we will hear about shortly, the workforce action plan developed by the Coast Guard did not provide the gap analysis and did not identify funding needs or set for a potential time line by which the gaps could be filled. How many total personnel does the Coast Guard need to carry out its assigned missions with fully qualified personnel and does the Coast Guard currently have that level of personnel, and has the Coast Guard completed a gap analysis?

Admiral ALLEN. Yes, sir. I am assuming you are talking specifically about our operation centers——

Mr. CUMMINGS. That is right.

Admiral ALLEN.—in regard to search and rescue mission. We have stood up an internal working group and we are moving to identify those gaps and the resources required. Generally, we are talking about communication watch standards that listens for mayday and distress calls, people who actually developed the search plans and the supervision over those. The current staffing varies at every sector in the Coast Guard. Some of those supervisors stand 12-hour watches, some stand 24-hour watches. The goal with our gap analysis is to create a standard staffing model and develop those shortfalls. That is in progress and we intend to provide that information as soon as we are completed, sir.

Mr. CUMMINGS. But, now, when you go across the board, do you have a gap analysis for the entire operation of the Coast Guard?

Admiral ALLEN. Yes, sir. I just want to make sure I am being responsive to your question. The particular issue you raised I believe relates to sector command centers and how we manage the search and rescue mission. That is a discreet subset of the larger Coast Guard personnel system, if you will.

Mr. CUMMINGS. Okay.

Admiral ALLEN. That is being addressed specifically in terms of gaps at each sector, and that is what we will come forward for the back gap analysis, sir.

Mr. CUMMINGS. I got you.

Admiral ALLEN. Regarding the larger size of the Coast Guard, we have had many discussions about that and what we could do with additional people, sir.

Mr. CUMMINGS. This cut of military personnel, that is a real problem?

Admiral ALLEN. Well, there are a couple of challenges associated with it. And, again, what we are talking about is trying to adjust forestructure to make sure we can continue to recapitalize, and that means assets and people. That is the only place you can go if you are going to pay your people, do cost of living increases and other costs associated without any increase in your top line.

Mr. CUMMINGS. It is rather disturbing because one of the things that we have been trying to do, and we have done this on a bipartisan basis, is try to increase the number of personnel overall, and we have a 773 reduction when you look at the situation that we are finding ourselves in with this budget.

Mr. LoBiondo.

Mr. LOBIONDO. Thank you, Mr. Chairman.

Admiral Allen, the Coast Guard recently completed a fleet mixture analysis to determine the numbers and types of vessel platforms that will be necessary to support the Coast Guard missions in the future. Mr. Mica and I requested this report a couple of weeks ago; however, the report has not been provided to the Subcommittee. I am forced to make a conclusion here that maybe you can shed some light on or prove me wrong, but given the timing of the budget recommendations and the lack of the report coming forward, I have to assume that the Administration is refusing to allow you to give us this report because it likely calls for acquisition of a number of assets that cannot be supported by this absurd

budget by the Administration. Can you tell us when the Subcommittee might expect this report?

Admiral ALLEN. Yes, sir. And, in fact, that discussion between the Administration has not occurred. We are finalizing the report and we are prepared to come up and brief you on it very shortly, sir.

Mr. LOBIONDO. Okay. I emphasize this because in your statement on the modernization of the fleet, you talk about the—and I think it is important for this to be on the record, Mr. Chairman—you talked about the recent experience in support of the Haiti operation and the response, and you noted that the Coast Guard operates one of the oldest fleets in the world, and of the 12 major cutters assigned to the Haiti relief operation, 10 of the 12 cutters, or 83 percent, suffered severe mission-affecting capabilities. I guess in layman's terms they broke down.

Admiral ALLEN. Not quite broke down, but had major—say it could be a casualty of a subsystem, like a water evaporator. But mission-debilitating casualties, that is correct, sir.

Mr. LOBIONDO. Two were forced to return to port for emergency repairs; one proceeded to emergency dry dock. And you also stated that you had to divert air resources away from evacuation efforts to deliver repair parts.

Admiral ALLEN. That is correct, sir.

Mr. LOBIONDO. So, Mr. Chairman, we are saying the same thing, but I think we are going to be forced to emphasize this repeatedly and emphatically so that everyone understands in real terms, in a real operation, in a real disaster, what these devastating cuts are going to mean.

Further along the same line, Admiral Allen, the President, as we talked about, proposed to eliminate five Maritime Safety and Security Teams, one of them, as we noted, home-ported in New York City, another one in Anchorage, one in San Francisco, one in New Orleans, and one in Georgia. The impact would be just short of 400 military positions. Can you outline for us, in your view, what specific capabilities would be lost under this proposal if it were to be enacted?

Admiral ALLEN. Yes, sir. Marine Safety and Security Teams have a combination of capabilities, but most notably is on-water presence, the ability to conduct security patrols not only on the water, but around facilities on land. The teams are deployable. They are most notably used for surge operations. They don't have a standby search and rescue response capability; we employ them on specific missions both in the ports where they are stationed and elsewhere around the world; and these teams have been deployed anywhere in the world, from the Persian Gulf to Guantanamo Bay to surge operations in support of Democratic and Republican national conventions. They are our deployable specialized forces.

Mr. LOBIONDO. So they would act obviously as a deterrent, keep bad guys away.

Admiral ALLEN. Yes, sir. When they are not deployed, they actually operate in the port where they are at, so if you take the Marine Safety and Security Team in New York Harbor, when they are not deployed, say, to Guantanamo Bay or in support of a surge op-

eration someplace in the Country, they would augment local forces with presence on the water and deterrence.

Mr. LOBIONDO. I specifically highlight New York-New Jersey because obviously geographic reasons for me, but assuming this ridiculous proposal were to be advanced and enacted, what would it mean in the case of the Port of New York if there were to be terrorist activity? How do we make up the gap here? Who is going to pick up the slack?

Admiral ALLEN. Yes, sir. First of all, the based resources in and around New York constitute between 600 and 700 personnel between military and civilians, and the station on Staten Island in New York is our largest search and rescue station, so there is a considerable amount of forces already there. Faced with the need to reduce the number of Marine Safety and Security Teams, we took into account the existing footprint already in New York. But if you are talking about that capability and where would it come from, the next closest team, presuming the proposal is enacted, would be Boston, sir.

Mr. LOBIONDO. Well, just in winding up the last few seconds, I appreciate that, Admiral Allen, and, again, understanding the difficult position you are put in. But just think about what we are saying to the people of New York in terms of how we are considering the homeland security issue at the place where the site of the attack took place on September 11th. We are saying that it is okay for the Administration to decide that the security priorities of New York can be better covered by Boston. It is just absurd.

Thank you.

Mr. CUMMINGS. Mr. McMahon.

Mr. MCMAHON. Thank you, Mr. Chairman. I would just like to follow up a little bit on Congressman LoBiondo, the Ranking Member's questions about the MSST, which, as I mentioned in my opening statement, is of grave, grave concern for us in New York.

Admiral Allen, as you know, Congress created the MSST program to perform both port security and harbor missions, and to protect our harbors in the event of a terrorist incident. Could you just review again where is the logic in decommissioning the team responsible for providing protection for our largest city and our Nation's greatest terrorist target? This decision isn't just worrisome for me as a New Yorker, but also as an American; it makes me question our priorities. Even the GAO testimony states that this decommissioning will decrease operational capability and performance in the ports, waterways, and coastal security mission.

Almost a decade after the 9/11 attacks, how can we even think of turning our back on the security needs of New York City and, in particular, the ports? The single largest cost reduction in the Coast Guard budget is the $18.2 million to be cut from the MSST program, with almost half of these reductions, about 90 FTEs, coming from the decommissioning of the team based in New York, in my district. Could you just tell us what it means exactly for New York Harbor, what is the logic behind it? And, in effect, isn't this leaving the harbor unprotected?

Admiral ALLEN. Yes, sir. Thank you for the question. Let me go back to the rationale and the tradeoffs and the decisions we made, because I think it is very important that we have the conversation

and understand that. We have around the Coast Guard right now Coast Guard surface unit stations that are ready to respond to search and rescue, law enforcement, and other taskings. They are ready to respond 7 by 24, basically firehouse type operations. Then we have separate forces that deploy for surge operations that are mission specific.

In New York we have a station on Staten Island and other stations in the area that respond to search and rescue 7 by 24, 365. That is not the mission of the Maritime Safety and Security Team that is headquartered in the New York area; they are there for surge operations to be deployed other places. When you are looking at tradeoffs within a fixed line budget, you can't go to the 7 by 24, 365 response effort because that is safety of life, and that is our first and highest priority. So if you are looking at where you have forestructure that you can use to trade off, which we have to to meet the top line, the MSSTs became the logical place to do that given the funding constraints we are facing.

Mr. MCMAHON. But what capability, then, is lost in this case from New York Harbor?

Admiral ALLEN. Yes, sir. What you have is a unit that has on-the-water capability in terms of operating small boats, doing waterside security, doing security at selected waterfront facilities on land. That capability is available in New York, but is also deployable anyplace we might need it for surge operations. So the team in New York, when they are not deployed, would be available to the local commanders for doing those types of operations. So if you are looking at the incremental change, what would be available in New York after this team would be gone, it would be that time that they are not deployed, that they are available to local commanders for on-scene security duties which would enhance deterrents and increase security.

Mr. MCMAHON. But is my understanding correct that they are being eliminated from New York but moved somewhere else or remaining in other places?

Admiral ALLEN. No. We have 12 of these teams. What we did was, knowing that we had to reduce the forestructure to meet the funding limits, we made sure that there was regional coverage and we took into account—and you can disagree or not with this—given the extensive amount of personnel and units we have assigned to the New York area, which is our largest operating command in the Coast Guard, we did take note that there are already almost 700 people in New York, excluding the Marine Safety and Security Team. And when you are making these hard choices, you have to take into account the resources that are already there, and that is what we did, sir.

Mr. MCMAHON. So where is the regional deployment center now for——

Admiral ALLEN. As I told Mr. LoBiondo, the closest Marine Safety and Security Team would be Boston, sir.

Mr. MCMAHON. Certainly, I don't think it could be argued that that would be too far away to really have an impact if an occurrence were to take place in New York, where that surge would most likely be needed.

Admiral ALLEN. Sir, if an event were to occur in New York Harbor, Boston is further than New York, you are absolutely right, but the MSST that is in New York may or may not be there all the time because they are deployed. It is when they are available in the harbor, in a non-deployed status, that they can used by the local commander. And what I would be happy to do for the record is give you the amount of days they were available to the local commander versus deployed I think would frame the issue better for you, sir.

Mr. MCMAHON. I appreciate that, Admiral. Lastly, if you could, in kind of civilian terms, when I go back home to my district and say that we have spoken about this, what do I say to people to reassure them that they are not less safe, that our harbor is not less safe, and that New York has now lost a significant part of its deterrent and response to terrorist threats in our harbor, which we know remains the number one target in our Country?

Admiral ALLEN. Well, following passage of the Maritime Transportation Security Act that authorized the MSSTs, we located a deployable specialized force in New York for the purpose of providing regional support around the Country and be able to deploy these forces, whether they are to the Middle East or Guantanamo, wherever we might need them, knowing that we would have capacity that could be used to help the local commander in New York when they were not deployed. The search and rescue coverage and all the other missions of the Coast Guard are maintained with the additional 600 people that are currently in New York, and they are not being diminished, sir.

Mr. MCMAHON. Thank you, Admiral.

Let me just thank you for the extra time, Mr. Chairman. I will just conclude by saying that I will join with the leadership of this Committee on both sides of the aisle to do everything we can to make sure that these cuts do not become reality and affect the safety of the people whom we represent certainly in the New York-New Jersey area. Thank you.

Mr. CUMMINGS. Mr. Young.

Mr. YOUNG. Thank you, Mr. Chairman.

Again, Admiral Allen, thank you for all you have done for the Coast Guard. You have been a great leader. We will miss you when you leave and I hope, wherever you go, you are as successful as you have been in the Coast Guard. And I do apologize for this Congress, as we call it—not the House—for never really authorizing you. Four years we have not passed a bill out of the Senate, and I say shame on them. And I am still going to hammer them.

Mr. Chairman, Members of the Committee, one thing, the Admiral is doing what he has to do. It is up to us to rewrite this President's budget, which is a disaster. I have said this to—I don't know where they come from and why it happens, but they cut the Coast Guard. The Coast Guard is the most active unit we have, I believe, in the armed forces today. Some people would disagree with that, but you are constantly on call and on duty, and we haven't funded them. So it is our responsibility, this Congress, to step up to the plate and fund, I think, one of the finest agencies we have in the United States armed services.

But, Admiral, I have to suggest another thing. We have a Coast Guard cutter called the Acushnet in Ketchikan that is, again, supposed to decommissioned in 2011. It still is an old ship, we all know that, but it does a great duty, and I don't think there is a replacement vessel now that can take its place between 2011 and probably 2013. I am just asking you can we delay that decommissioning until we have a replacement vessel, because it does serve a great purpose?

Admiral ALLEN. Yes, sir, I understand there is a concern about the Acushnet, and I understand it is important to the local community in Ketchikan, which I note, as we have discussed before, is where I went to grade school.

Mr. YOUNG. That is why you are such a good admiral, by the way, but go ahead. Talk about kissing up to somebody.

Admiral ALLEN. The Acushnet and I are approximately the same age, sir, and I am retiring.

Mr. YOUNG. But you are in good shape.

Admiral ALLEN. And I am retiring, sir.

Mr. YOUNG. That is not our fault. But go ahead.

Admiral ALLEN. This is another issue just like the Maritime Safety and Security Teams. Given a fixed funding, the age of the cutters, the amount of money it takes to keep them running and the need to build new cutters, something has to give against a fixed top line, and these are very tough choices. Nobody likes to vacate a port, especially one in the State of Alaska that has been the source of such support for us—and we thank you for what you have done over the years—but faced with being able to accommodate pay raises and cost of living increases, there is no place to go except forestructure, and that is the number of assets or the number of people, sir.

Mr. YOUNG. Okay, let's say this Committee does what it should do and we get enough money to meet those demands. I am just asking until 2013, because by that time, hopefully, we are on schedule to have a vessel to replace the Acushnet. But there will be a period of time between 2011 and 2013, approximately two and a half, three years, we won't have a vessel to cover that, and with the C-130s as old as they are in Kodiak, we are talking about coastline—you can take three times the coastline of the East Coast and it still doesn't equal the coastline and the activities we have in Alaska. I am just saying this vessel is crude, it is supplied, it is stationed, it is ready to go; it is just old. And I argue, regardless what you say, there is going to be a gap there that will hurt us. So if we raise some more money to get into this budget, I hope you will consider the fact that we don't quite decommission that vessel as soon as expected.

Admiral ALLEN. Yes, sir. In the sake of complete transparency and clarity here, though, let me be perfectly clear about the cutter decommissionings. We are proposing to decommission four high endurance cutters and the Acushnet, which is a medium endurance cutter, in Ketchikan. We have two new cutters that are coming online, the Bertholf and the Waesche; we have a third cutter that is 35 percent done and we are in negotiations right now—about to enter into negotiations to award the contract for the fourth national security cutter. So we have two cutters in operation, one that

is 35 percent, one to be put on contract. We are removing the vessels they are replacing from service this year. So we will go through a gap with fewer hulls until the new ones are built, and that is an artifact of the funding levels that we are required to live in, sir.

Mr. YOUNG. And I go back to say if the money is there, don't decommission it, because we have that gap, and I don't want that to occur. I am talking about the length we have and vessels to still do the job.

Admiral ALLEN. Yes, sir. I roger the message, sir.

Mr. YOUNG. Okay, lastly, Mr. Chairman and Admiral, we have three icebreakers under the Coast Guard, two are still on dry dock, one is still operating, the Healy; and, of course, the Administration came down with no money for icebreakers. The Chairman and I have discussed this; the Chairman of the full Committee have also discussed it. In fact, this is in our arctic bill. Has the Coast Guard ever considered leasing icebreakers to do the job at a much lesser cost than actually building a new one? Because I don't see this Administration coming down with any money for it, and I think there could be money for leasing.

Admiral ALLEN. Yes, sir. As you know, right now we have three icebreakers, the Coast Guard Cutter Healy, which is an ice strength and research vessel operating for about seven or eight years now, a very capable ship. The two heavy-duty icebreakers, Polar Sea and Polar Star are near the end of their service life. The Polar Sea has been extended. We do have money to bring the Polar Star back into service and we are making those repairs at this time. The current gaps that we have are money to operate the Polar Star and the fact that the money right now resides in the National Science Foundation and not in the Coast Guard base.

Now, separate from that is the issue of the future of the Polar Sea and the Polar Star in terms of replacing that capability. You can build new icebreakers; you can lease them. You have a lot of options in how you might move forward, sir. But that has to be preceded by a policy decision that we have to replace that capability, and that has not happened yet, sir.

Mr. YOUNG. Has the Coast Guard looked at that policy decision? Would that be made by the Coast Guard or somebody else?

Admiral ALLEN. Sir, once we have a policy decision that the capability of the Polar Sea and the Polar Star needs to be replaced, we will do an alternatives analysis that will look at everything, including leasing, sir.

Mr. YOUNG. I thank you.

Thank you, Mr. Chairman.

Mr. CUMMINGS. Thank you.

Ms. Richardson.

Ms. RICHARDSON. Thank you, Mr. Chairman.

Mr. Matsuda, it is good to see you again, and thank you so much. I had an opportunity for you to come into my district. I found you to be very engaging and wanting to understand what was happening in the largest port complex in the United States, and we thank you for seeing that personally.

Given what you have learned about the Port of Los Angeles and Long Beach during your visit, what do you see as the biggest chal-

lenges facing our port security, given the 2011 budget for the Maritime Administration?

Mr. MATSUDA. Thank you, Congresswoman. First of all, I certainly appreciated being able to view the port with you. I actually went back last week and visited a couple more of our ships that are based there. I was most impressed and the message I heard loud and clear from the port officials and the community was the need to focus on a more national supply chain and goods movement policy that effectively links the ports along with the inland infrastructure, like the rail and trucks and the highways that connect to the port, to be able to make sure that goods moved there flow through there freely and smoothly and as efficiently as possible.

As you know, we don't have as strong a role in security as some of our fellow agencies like the Coast Guard here, but we work very closely with them, and we think that one way to help in that regard is to make sure that there is a smooth flow of movements through the port itself.

Ms. RICHARDSON. Well, in light of that, we had a situation where we had a labor lockout in the ports, and when the ports were closed, it cost our economy $1 billion a day. And that is billion with a B. So although you are absolutely right in terms of the security aspect, what happens on the port security side if we have a reason that we have to shut down the ports, it would dramatically impact on your particular end. So in light of that, have you thought of any initiatives that MARAD would be undertaking in the coming year to support the expansion of short sea shipping? The full year 2011 budget request reduces funding for MARAD operations and programs from $59.7 million to $49.3 million, a 17.5 percent reduction. Why is this reduction proposed?

Mr. MATSUDA. Well, first of all, MARAD has undertaken discussions with officials at Department of Defense and NORTHCOM. We have talked about what would happen if a port were to go out of service, an entire port, because that is something that not a lot of folks in the industry are looking at. Many of them are concerned with a single terminal or a single part of a port being out of service. So we are looking at that. Perhaps we can do some modeling and get some more information about what would actually happen, what we would need to be doing as a Country to be prepared.

As far as the marine highway program, this remains an extremely high priority for the Administration. One thing I would point out is that in the discretionary grant program, the TIGER program that the Department recently announced awards for, we funded I believe it is somewhere upwards of $50 million in marine highway projects, and that is far and away above any funding levels the agency has ever received from line item marine highway initiatives. So that is something that we look forward to—we believe these projects stand up on their own merit and really do produce the types of benefits that we know they will; to the environment in terms of energy usage, reducing congestion around the port itself on the land side. So we will continue to push this.

Ms. RICHARDSON. I agree with your assessment as a whole; however, you are speaking to a person who represents, in conjunction with Congressman Rohrabacher, the largest port in the United States and, however, we were left out on that list. So it is a little

sore spot with me of how we manage to provide this and, yet, we didn't even do it for the most critical area in the Nation. But thank you, sir.

Admiral Allen, several of my colleagues have talked about their particular port areas and you have heard the area that I represent, and I am just curious. Do you see any impacts in the western region with the decommissioning of these four high endurance cutters or anything else that is being proposed currently in the Coast Guard budget?

Admiral ALLEN. Nothing immediately in the L.A.-Long Beach area, ma'am, but I would support your comments on the value, the size, and the criticality of that port to the United States. In fact, if I could just add on to Mr. Matsuda's comments, several weeks ago he and I traveled out to U.S. Northern Command. We met with General Renuart and General Duncan McNabb, who is head of the Transportation Command, and we spent an entire afternoon with industry leaders—we are talking about COs of ships, port operators and so forth—to talk about port resiliency. Specifically, how you could reestablish port operations after a catastrophic event, whether it was natural or manmade. This is going to be an ongoing effort and a partnership between MARAD, the Coast Guard, and NORTHCOM, and this is part of a larger effort that has been going on for several years that we call Maritime Transportation Recovery, and there is a national plan to do that. And we have a way to actually orchestrate work with industry and stakeholders and the local port to prioritize how we do assessments, reopen the port, and queuing of traffic as it needs to come in and out, and we are committed to that process and I can tell you working very, very closely with Mr. Matsuda.

Ms. RICHARDSON. Thank you, sir.

So if the Chairman would be in agreement, I would like to ask if you could forward to this Committee a copy of maybe the summarizing notes from the Maritime Transportation Recovery meeting that you had. I would be very curious to learn more about it.

Admiral ALLEN. Be happy to do that.

[The information follows:]

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Currently, the only pending court case involving the conversion of the 110' WPBs to 123' WPBs is the qui tam action brought by Mr. Michael DeKort on behalf of the U.S. against Integrated Coast Guard Systems (ICGS), Lockheed Martin Corporation and Northrop Grumman Ship Systems, Inc. (NGSS) in the U.S. District Court for the Northern District of Texas, Dallas Division. The case is designated as Civil Action No. 3-06-CV-1792-O.

Bollinger Shipyards, Inc. performed the conversion work under subcontract to defendant NGSS in the lawsuit. Since it was brought in federal district court, the case is within the purview of the Department of Justice (DOJ) which has jurisdiction to decide whether to intervene.

On February 6, 2009, DOJ filed a notice advising the court that "it is not intervening at this time." The notice stated that "the government's investigation will continue." The parties to the court case are currently engaged in discovery, and the court has set a trial date to commence in November 2010. Neither DOJ nor the Coast Guard attorneys have a timeline as to the expected length of trial, an anticipated court decision date or the likelihood of any settlement before trial.

Ms. RICHARDSON. Mr. Chairman, can I ask one final question? I know I have passed my time.

Mr. CUMMINGS. Yes, very quickly.

Ms. RICHARDSON. Yes?

Mr. CUMMINGS. Yes, one.

Ms. RICHARDSON. Thank you, sir.

I am just curious, Admiral, how involved were you with the actual Administration in forming this budget? Were you sought to say you have to cut four percent and you can pick where you want to cut it, or were you basically told this is where it is going to happen?

Admiral ALLEN. No, the budget that is proposed reflects some very hard decisions and tradeoffs that I personally discussed with the Secretary and her staff and presented as a way to meet the requirements of a fixed top line.

Ms. RICHARDSON. So were they your ideas or theirs?

Admiral ALLEN. The tradeoffs that were made that are reflected in this budget to meet that funding level reflect my recommendations, hard choices that I made and proposed given the funding reality we were dealing with, ma'am.

Ms. RICHARDSON. Thank you, sir.

And you have been very kind, Mr. Chairman. Thank you.

Mr. CUMMINGS. Thank you.

Mr. Taylor.

Mr. TAYLOR. Thank you, Mr. Chairman.

Let me begin by thanking Admiral Allen and Chief Petty Officer Bowen for their many years of service, and particularly for the great job you did in the command positions that you have held for the past three years. I certainly have enjoyed working with you and I still consider, as an ex-enlisted guy, one of the highlights of my life getting to travel down to Gulfport, Mississippi with you, so thank you very much for doing that.

Admiral, I will start with you. Yesterday I gave the C&O a hard time, saying that he was retiring ships faster than I could build them or put them in the budget. Given the replacement of your large high endurance cutters, medium endurance cutters, are you building them as fast as Congress can fund the replacements? I am sorry, are you retiring them faster than Congress can fund the replacements? As I told the C&O, I put a ship in the budget; best case scenario, three years later it is commissioned. Worst case scenario, six years later it is commissioned. But with the stroke of a pen he has retired one. So is your budget recommendation on at least a one-for-one capabilities basis replacing those vessels that are being decommissioned this year?

Admiral ALLEN. Sir, we are retiring them faster than we are replacing them. I mentioned earlier, but let me just restate it for your information. We have delivered two national security cutters, the Waesche and the Bertholf; the Stratton is 35 percent done. We are about ready to enter negotiations with Northrop Grumman right now to put the fourth under contract. We are decommissioning four vessels this year that represent those four ships. Two have been delivered, one 35 percent, one yet to put on contract subject to proposal negotiations. So there will be a bathtub effect where there will be lost cutter days and cutters out of service, sir.

Mr. TAYLOR. Where are you on the court case involving the stretch 110s to the 123s involving biology ship building and Northrop Grumman?

Admiral ALLEN. Yes, sir, that is under the purview of the Department of Justice. A suit has been filed and they are controlling all the process associated with that. I will say, since this is my last hearing and there has been a lot of interest expressed in that, let me just go on record personally on where I stand on this, because I think it is important from an integrity standpoint.

Mr. TAYLOR. Certainly. I think it is very important.

Admiral ALLEN. Yes, sir. You and I are in violent agreement that we need to recover the value of the Government's money that was spent on that. While the court case is going on and being adjudicated, the Department of Justice has the control over what is going on, and at one point the vessels were tied up because there were potential evidentiary requirements for those vessels. We have since negotiated with the Department of Justice to take equipment off those vessels and put them back into service where it can be used, so we are realizing some value; and that changes every day, but I can give the Committee a report on what we have realized in terms of parts and equipment coming off of that.

I was ready to proceed with any manner, whether it was third party adjudication or whatever, to go after the value of those ships. Frankly, with the lawsuit being filed, we are all on the sidelines until that is done because we do not control that process, sir. And I can tell you your frustration is matched by mine on this.

Mr. TAYLOR. Have the Coast Guard's attorneys or the Justice Department's attorneys given you any time line as to when this might be resolved, or at least go to trial?

Admiral ALLEN. I have no time line right now, but I am more than happy to consult with Justice and give you an answer for the record, sir.

Mr. TAYLOR. Thank you, sir.

Admiral ALLEN. Yes, sir.

Mr. TAYLOR. Mr. Matsuda, thank you. Let me start by thanking you for returning my phone call the other day. I will start by saying that I think your predecessor made a tragic mistake when he replaced Joe Stewart at the United States Merchant Marine Academy, and it is my understanding that there is an opening at the Merchant Marine Academy. If Admiral Stewart is available, I would sure hope you would interview him. If he has decided that he does not wish to return, then I would highly recommend—and I have looked, under your advice, at the qualifications for the job. I would highly encourage you to interview General Steven Blum, formerly the Chief of the National Guard Bureau, now the Deputy Commander at the Northern Command. I realize he lacks the maritime experience that is spelled out in some places, but in every other category I have known him to be just an outstanding officer in the United States military. I think he would serve that Academy well, so I am going to ask that you strongly consider him.

Secondly, in this environment—every day we are called upon to explain where every dollar goes, but in this environment we are called upon even more so. Quite honestly—and I don't mean to pick on you, because you have inherited this agency, but when it comes

to the Maritime Administration, over the past few years, it is pretty hard to explain what your agency does. And I am somebody who follows this more than most. I know you run the Merchant Marine Academy.

One of the things I would hope you would be doing is promoting the interest of the United States Merchant Marine. One of the ways we can do that is to encourage people to build ships, repair ships, and operate ships under the American flag. In the case of building and repairing ships, during the Clinton years—now, the so-called Title XI program has a thousand fathers. I am one of the uncles. I took great pride when we passed, during the Clinton years, the national shipbuilding initiative that we invigorated both in statute and with some dollars. One of the very first things the Bush Administration did was starve it back to death.

I cannot encourage you enough, in this environment, where we need the ships, where people need to work, to take a very aggressive approach towards the national shipbuilding initiative, the Title XI program. It is a loan guarantee program. We are not giving anybody anything, and we get an incredible 20 to 1 return on our investment. For every dollar that we make available in loan guarantees, $20 are made available to the yards to build ships, or to the operators to buy a ship or repair a ship. I would encourage you to strongly go forward on that in this environment, where we are looking at better than 10 percent unemployment and where all of the yards need work.

Secondly—and, again, this does involve the Commandant—could I ask for an extension, Mr. Chairman? Sir?

Mr. CUMMINGS. Yes.

Mr. TAYLOR. Thank you.

This does involve the Commandant, but it also involves you. There have been instances where people have brought to me photographs of ships that have been rebuilt in Chinese shipyards that are operating under the Maritime Security Program, which is reserved for American flag, American owned, Jones Act vessels; and Jones Act vessels are supposed to be rebuilt in American yards. Now, the Commandant has explained to me—and I accept his explanation—his frustration in that he considers, or the people he sends to these yards, ambiguous language as far as what exactly is the law, and he has recommended to this Committee language to clear that up.

I would certainly encourage you, in the time that he remains, to work with him to submit to this Committee that language or better language, if you have come up with a better way of doing it. We need to make it abundantly clear in this environment, where Americans need work, that if you are going to enjoy the privileges of the Jones Act, that you need to abide by the Jones Act.

Mr. CUMMINGS. Mr. Coble.

Mr. TAYLOR. Thank you, Mr. Chairman.

Mr. CUMMINGS. Mr. Coble.

Mr. COBLE. Thank you, Mr. Chairman. I apologize to you and to the panel for my belated arrival; I have a judiciary hearing going on now.

But it is good to see all of you again. Thank you for being here.

Let me talk to the Commandant and the Master Chief regarding the housing situation. I know you all have some proposals to modernize the housing initiative. Tell me, gentlemen—we talked about it before, but what are the benefits of this proposal? Also, what do you envision, Admiral or Master Chief, as the obstacles to the implementation thereof?

Admiral ALLEN. Sir, what I would like to do is make a comment and let the Master Chief follow up, if I could.

We have had problems over the years with family housing because of the size of the Coast Guard, our budget, and some of the limitations placed on how we actually acquire housing. In the Department of Defense, there are a couple of things they do that are hard for us to get to. One is a public-private venture, where you basically have a firm come in, building the housing, and they get the allowance for quarters. There is an offset there and over a 30-year period their investment is paid off. Under the scoring requirements, however, the amount of that guarantee has to be squared up front in a budget, and that has been an insurmountable obstacle for us, even if we were to get the authorization.

Separate from that is the ability to sell property, take the proceeds from the sale of assets and move that into a fund that could basically sell fund housing to be self-generating and remove property off the books and gain value for property we don't need anymore that can be converted to housing for our people.

I will let the Master Chief follow up.

Master Chief BOWEN. Yes, sir. We have several properties that could be put up for sale right away, several more behind that that could be ready in two to five years for a substantial amount of money towards improving Coast Guard housing. It is not the final solution to this problem, but it would really help.

Mr. COBLE. Thank you both.

Mr. Chairman, thank you, and thank you all for being with us. Mr. Chairman, good to see you again.

Mr. CUMMINGS. Mr. Lidinsky, many U.S. exporters are complaining that there is not enough space available on vessels to carry all goods waiting for export in a timely fashion, particularly given the President's emphasis on expanding U.S. exports at a time when many vessels have been tied up to reduce capacity. What is the Commission doing to ensure that the shipping conferences are not unreasonably limiting capacity to drive up rates and what more can be done to ensure that the U.S. exporters have the containers and shipping capacity necessary to meet those needs?

Mr. LIDINSKY. Thank you, Mr. Chairman. As the Committee knows, in this very severe period of economic turndown and 2009 having been the worst year for the maritime industry in decades, capacity has been cut back. We have stressed in our meetings with the carriers, with their talking agreements, that they must be able to serve our exports as well as imports. Beyond that, at this point, we urge them to work as partners with shippers to identify where potential shipments might be coming from, so that the key will be the location of containers at the right points inland. We have no problem along the coastal areas; primarily it is the inland points; and we had discussions internally yesterday about how we can

identify for the Department of Agriculture, and for other shipper groups, how we might increase export container levels.

Mr. CUMMINGS. Just two other things. To Mr. Matsuda, you wrote in your testimony that providing support and oversight to restore the Academy programs and controls is an agency management imperative. What measures are being taken to correct the situation at the Academy? Number two, some within Kings Point, the community, have expressed concern that the Academy may not be able to maintain its accreditation. The shock of the Academy of losing its accreditation cannot be overstated. I just want to know where we are on that.

Mr. MATSUDA. Thank you, sir. As I mentioned, the Secretary has made Kings Point a priority, and I share his vision of what he sees for the school to be one of the crown jewels of the service academies. Starting at the top, we are doing everything we can to find the right superintendent to take the helm of this important institution. I thank Congressman Taylor earlier for plugging this vacancy. We are conducting a nationwide search; it is a Federal career Civil Service position and we are doing everything we can to find the very best. We are also taking a very close look at how the Maritime Administration oversees the Academy. I found personally that better communication and listening to the Academy officials, to the broader Academy community—including the alumni association, parents, the midshipmen themselves—has proven extremely valuable and very productive in making sure that everyone understands what is going on.

Mr. CUMMINGS. All right. I am going to be submitting questions to all of you. I want to thank all of you for your testimony. And, again, Admiral Allen, Mr. Bowen, we wish you the very, very, very best. May God bless you. Thank you.

We will call up our next panelist, Steven Caldwell. Mr. Steven Caldwell. We will hear from you for five minutes.

TESTIMONY OF STEPHEN CALDWELL, DIRECTOR, HOMELAND SECURITY AND JUSTICE ISSUES, GOVERNMENT ACCOUNTABILITY OFFICE

Mr. CALDWELL. Chairman Cummings, Representative LoBiondo, and Representative Taylor, I am glad to be here today to talk about the Coast Guard. Let me briefly summarize the two topics I will address. I will be talking about the 2011 budget request from the Coast Guard, as well as selected management challenges that the Coast Guard faces.

Mr. CUMMINGS. Sorry, I didn't give you your proper introduction. Stephen Caldwell is the Director of Homeland Security and Justice Issues with the United States Government Accountability Office. Thank you, Mr. Caldwell.

Mr. CALDWELL. Thank you.

We are also releasing our report on Coast Guard workforce planning and the variety of initiatives that they have underway.

Admiral Allen has left the hearing, but I did want to mention something about Haiti, which--some of the other Coast Guard folks here can pass on. One of the first groups evacuated from Haiti by the Coast Guard, was a group of two GAO people that were there looking at development assistance. So I just wanted to personally

thank the Coast Guard for their efforts to get our people back home.

Regarding the budget, many of the details have already been discussed here in terms of the major themes and the tradeoffs that Admiral Allen has proposed. I can address those more fully under Q&A. So I will move on to some of the key management challenges, including some workforce issues related to the report releasing today.

While my written statement includes some issues on the Deepwater acquisition program, I am not going to discuss those much in my oral comments. I would like to mainly discuss the Commandant's reorganization and command realignment, as well as the workforce planning issues. Both of these management initiatives can improve Coast Guard mission performance by providing more detailed information on the requirements that the Coast Guard faces. But it is important for us to recognize that a good estimate of the resource requirements will not necessarily mean that those resources will be available: this budget makes that very clear. Allow me to provide a couple of examples of that.

First, regarding the command realignment, despite the Coast Guard not receiving statutory permission for all of the changes that it has proposed, most of those changes are well underway in terms of Coast Guard implementation in terms of, the Deployable Operation Group, the DOG—the MSRT is one of the units under the DOG—the DOG has achieved some of the intended benefits of providing standardized training tactics and procedures across the Coast Guard. The purpose of the DOG was to better leverage existing assets. What it has really shown is that having a dedicated management cadre within the DOG has highlighted some of the resource challenges and gaps that they face. One example of those would be helicopter training for vertical insertion, which is one of their key homeland security missions at the high end of the threat spectrum. But it is pretty hard to—while you are identifying that requirement—and we have just recently done some work on that—that doesn't mean that the resources will be there. As Admiral Allen has mentioned, two of the helicopters that support vertical insertion training for the MSRT in the Norfolk area are being withdrawn to move to the Great Lakes.

In terms of the workforce planning, a number of initiatives are well underway to create new plans and analytic tools to have the Coast Guard come up with better estimates of what it needs in terms of personnel, as well as their qualifications are and whether they are achieving workforce goals. Admiral Allen mentioned the sector staffing model as one of the key new tools for workforce planning. It is intended to create detailed baseline staffing data comparable across the Coast Guard's 35 diverse sectors. But, again, having the high fidelity model to come up with those requirements is not going to mean that the Coast Guard has those assets, particularly in this budget, where you have military billets decreasing by 1,000 positions.

On the positive side, these new tools do allow Coast Guard tradeoffs to be highlighted in a situation where you are going to make difficult resource allocation decisions as the budget tightens.

In closing, thank you very much. I would be happy to respond to any questions. I know the House of Representatives has a lot going on today. Thank you.

Mr. CUMMINGS. Thank you very much, Mr. Caldwell. The Coast Guard has proposed a significant reorganization of its top leadership, including promoting the Vice Admiral to four stars, eliminating the Pacific Atlantic area commands, and creating several new three star commands. Multiple sources, including the GAO, have commented on the lack of performance metrics necessary to enable assessments to be made of the specific efficiencies this reorganization will achieve. You wrote in your testimony that the Coast Guard has taken steps to identify applicable business metrics which are intended to be used to evaluate the performance and effectiveness of a modernized Coast Guard. What are the metrics that the Coast Guard has developed or is developing and what is the status of that development, and are they adequate to enable comprehensive assessments of the proposed reorganization to be made? Because, after all, we are all concerned about effectiveness and efficiency.

Mr. CALDWELL. Mr. Chairman, last year we did a report on the Coast Guard's reorganization and where it stood. As we wrote that report we thought about whether we should make some recommendations to the Coast Guard on development of performance metrics at that time and they had enough underway that we did not do so. But I still want to emphasize how important the continued development and use of those metrics are. One of the things that is more difficult and where the Coast Guard is making less progress is what you referred to as efficiency measures. They have a lot of measures in terms of the outputs, what they are doing, where they are in their reorganization process. But looking at either the impact of those actions on the outputs is something that has always been hard for the Coast Guard to do. And where they are even weaker is in developing efficiency measures and determining whether they are able to do the same mission with less people.

Mr. CUMMINGS. You wrote in your new report on the Coast Guard personnel about a lack of a gap analysis in the workforce action plan the service recently developed. Do you believe that the Coast Guard fully understands its personnel needs and its existing gaps, and simply doesn't—or does it just simply not want to share information or what? How do you see all of this?

Mr. CALDWELL. When you asked the question earlier, Admiral Allen responded about the sector staffing model, but really it is a bigger issue than that. The Appropriations Committee had asked that a gap analysis be done across all personnel and all requirements, and that has not been done. I do recognize the awkward situation for Admiral Allen in terms of the limitations he has in presenting the budget he would want as opposed to the budget he gets from OMB.

Mr. CUMMINGS. One of the things that we saw with regard to personnel qualifications was Deepwater. There were some issues as to whether or not we had the type of personnel with the necessary experience to do acquisitions in a way that would be fair to the people of the United States, and be effective and efficient, of course.

From what you can see, are we in a better position now than we were, say, when Deepwater was first put together?

Mr. CALDWELL. Mr. Chairman, we are definitely in a better position, and this budget continues progress that the Coast Guard has made. If you notice, one thing the Coast Guard's budget supports is a DHS-wide initiative to get more civilian government people in acquisition positions so that you don't have contractors watching over the contractors. Part of the loss in military billets this year is because they are increasing civilian billets, and when you get civilians in there that are trained to do acquisition work, you are going to be in a better position than putting military people there with a relatively short rotation. This is the case unless, of course, the military personnel are engineers and they are properly qualified to do acquisition work.

Mr. CUMMINGS. So the civilians, because they stay in a position—the likelihood that they will stay in a position longer, acquired experience, I take it, you see that as something that is definitely beneficial, as opposed to our military people being shuffled from one place to another and never getting as much experience, in many instances, is that a fair statement?

Mr. CALDWELL. If the military people have detailed technical training and experience, you don't have that difference, but generally not all of them do. Some of them do. Admiral Rabago is a professional engineer with years of experience, but not all the other military staff involved in the acquisition division have that.

The other thing I wanted to mention is that the Coast Guard is making progress in terms of closing the vacancy gap, as we reported last year. They went from about 27 percent of their slots in acquisition being vacant down to about 16 percent; and with this budget the Coast Guard hopes to continue making progress to fill those vacancies.

Mr. CUMMINGS. Mr. LoBiondo?

Mr. LOBIONDO. Thank you, Mr. Chairman.

Mr. Caldwell, thank you for your service. Thank you for being here today. As you note in your testimony, the Coast Guard has portrayed the fiscal year 2011 budget request as a tradeoff between current operations and future acquisition efforts. Do you believe that the requested funding level for acquisitions provided the resources necessary to address declining asset readiness by replacing them promptly?

Mr. CALDWELL. The Coast Guard has been in a bind in making that tradeoff. We did a report on the National Security Cutter and the legacy HECs last year, and at that time the Coast Guard wasn't committing to what they were going to do about the HECs. It was going to require more and more money to keep lengthening the HEC length of service and to keep them active. As the Admiral said, they needed to use that HEC money for other things so that they can get these other deepwater ships out quickly. It will create a short-term gap in terms of those major cutters, operations and missions.

Mr. LOBIONDO. Can you offer us your ideas, feelings, opinion that if the 10 percent reduction in acquisition funding goes through, is that an appropriate tradeoff for the loss of more than 1,000 Coast Guard personnel?

Mr. CALDWELL. I don't have an overall position on that. It is kind of curious because as part of that tradeoff, you know, it is not a straight tradeoff between funding between AC&I and the operational expenses because the AC&I funding is actually going down. To find more money for AC&I they are pulling the funds from those other positions. Those positions come from a wide spectrum of Coast Guard. But a lot of those positions, maybe up to 700 of those positions, are coming from those high endurance cutters. As you decommission those cutters, you do have a period where you don't need those people for the new cutters yet. So while you are losing that capability, that is where those people are coming from.

Mr. LOBIONDO. And in July, I think it was, you testified that the Coats Guard's latest estimate on Deepwater assets were something like $2.7 billion more than anticipated and that the schedule would slip. At current funding levels, can the Coast Guard complete the Deepwater program as designed in 20 years?

Mr. CALDWELL. I think "current" is the operative word. We only appropriate the money one year at a time. What is of great interest to GAO, as it is to you, Mr. LoBiondo, is the fleet mix analysis. What assumptions did the Coast Guard use for the numbers of ships they would need, what requirements they would need for the OPC. The OPC is the biggest unknown in this. You have a funding trail laid out from the NSCs; you have a more clear funding trail laid out for the FRCs. The OPCs are starting to ramp up this year in terms of funding for pre-design, pre-contract work. If the money is not there in the long run, that may affect that mid-level cutter--the OPC.

Mr. LOBIONDO. Thank you, Mr. Caldwell.

Thank you, Mr. Chairman.

Mr. CUMMINGS. I might remind the Ranking Member we had to postpone a hearing on Deepwater because of the snow, but we are going to examine all those issues with regard to Deepwater very shortly, when we reschedule.

Mr. Taylor.

Mr. TAYLOR. Thank you, Mr. Chairman.

Mr. Caldwell, I am curious, since you have had a chance to look into this. I remain dumfounded that the Coast Guard acquisition team and the Navy acquisition team continue to resist combining their forces, given the 110/123 problems, given the Navy's problems with the LCS program. We continue to have two apparently understaffed programs, both making tragic expensive mistakes, and yet they resist combining their resources to hopefully have one team that does this better. Have you given it any thought? Have you made any recommendations along those lines?

Mr. CALDWELL. We have given it some thought in terms of the Coast Guard increasing its use of Navy expertise. This has happened with the NSCs as well as some of the other Coast Guard assets where they have gone to the Navy, which has given them expertise in reviewing the acquisition plans and reviewing some of the logistical plans for bringing the first-in-class cutters onboard.

In terms of the overall issue of whether they should be combined, we have not looked at that, sir.

Mr. TAYLOR. Have you seen—is there anything that convinces you that the mistake that was made on the 110/123, have you seen

anything, either administratively or legislatively, that would keep us from making that mistake again? And if you haven't and you see something that needs to be done, what recommendation would that be?

Mr. CALDWELL. We have made recommendations that will help prevent that kind of thing from happening. There is always pressure from Congress to get this money spent and get these assets out there. GAO usually takes a go slow approach. If we are going to get these assets that are out there, let's make sure they are working, let's look at certain milestones that are being met before we commit to initial production and full production and those kinds of things. So those are some of the things that we recommend.

Mr. TAYLOR. Towards that end, have you made any specific recommendations to this Committee of how we could do this better going forward?

Mr. CALDWELL. Let me answer that for the record, and we can send you the specific recommendations we made to the Coast Guard in our reports over the last couple of years.

Mr. TAYLOR. Okay. And, again, I mentioned this in my town meetings, that we paid someone $80 million, who in turn ruined eight ships and then got paid several more million dollars to fix what he should have done right the first time; and then the Coast Guard takes it to a second vendor without telling the first vendor, which, in my opinion, probably voided the contract. I mean, it is just—and, by the way, we still, as a Nation, have not been compensated for the ruining of the eight ships and the loss of their use.

So it is a very real scenario that never should have happened the first time, and, again, we made the mistake once. We have to take the steps to keep this from happening again, and I would hope, in the course of this Justice investigation, which I am sure you have a hand in, that there are going to be some recommendations. Please do not be shy about forwarding them to me or this Committee, whatever you are the most comfortable with, because that is just absolutely something that we shouldn't have done the first time and we sure as heck can't do a second time.

Thank you, Mr. Chairman.

Mr. CUMMINGS. Thank you.

Just one last question. One of the things you reported in your testimony was about the deficiencies with regard to financial reporting, noting that the DHS Office of Inspector General reported a lack of documentation within the Coast Guard of key processes, risk assessments, and internal controls. Since finances are such a significant issue, why is the Coast Guard continuing to have such problems in financial reporting, and do you believe that its transition to a new financial accounting system will enable it to resolve those deficiencies?

Mr. CALDWELL. That is our hope. We have been jointly working with the IG on this issue. The IG has generally been doing work at the Coast Guard level; GAO has been doing work at the departmental level. Admiral Allen was ready to move ahead with certain Coast Guard improvements in the financial management system. The Department, I think, over-ruled him in terms of getting some Department-wide improvements in place. The problems at the Coast Guard were also happening at TSA and at least one of the

other components. It will be still some time before the Department can come up with a clean financial audit opinion.

Mr. CUMMINGS. Okay.

All right, anything else?

[No response.]

Mr. CUMMINGS. Thank you very much.

Mr. CALDWELL. Thank you.

Mr. CUMMINGS. This hearing is now adjourned.

[Whereupon, at 12:03 p.m., the Subcommittee was adjourned.]

CONGRESSWOMAN LAURA RICHARDSON (CA-37)

COMMITTEE ON TRANSPORTATION
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION

HEARING:
"FY 2011 BUDGET FOR THE COAST GUARD, THE MARITIME ADMINISTRATION, AND THE FEDERAL MARITIME COMMISSION"

THURSDAY, FEBRUARY 25, 2010
10:00 A.M.
2167 RAYBURN

Mr. Chairman, thank you for convening the hearing today on the Fiscal Year 2011 Budget for the Coast Guard, The Maritime Administration, and the Federal Maritime Commission. I would also like to thank the witnesses for taking the time to appear before the Committee.

The 37th District of California is directly impacted by how the U.S. Coast Guard spends its annual budget. Of particular interest to my district is how the Coast Guard funds its Ports, Waterways, and Coastal Security programs. Being adjacent to the Port of Long Beach and the Port of Los

Angeles, the safety and security of the ports, waterways, and coastal areas directly affects my constituents.

Although this issue is of direct importance to my district, the safety and security of our nation's ports, waterways, and coastal areas ought to be of greater concern to the entire country. Although the September 11th attacks that devastated our nation almost a decade ago were perpetrated because of weak airline security, we must not ignore the vulnerability of our ports and coastal regions because doing so will mean leaving ourselves subject to a similarly devastating attack via our waterways.

The President has requested $9.6 billion for Fiscal Year 2011, which is a decrease of $35.1 million. This is approximately 0.4 percent less than the total discretionary amount received in FY 2010, which represents a net reduction of approximately 773 positions. Now, we all know

that these are tough economic times and we need to make difficult decisions about how to spend our limited resources until we recover from this recession. However, I ask that we look closely at how a net reduction of 773 positions in our U.S. Coast Guard will affect our nation's security in the long run. We cannot afford to leave ourselves unnecessarily vulnerable because of a lack of focus on our ports, waterways, and coastal security.

If there are actions that the Coast Guard can take to make sure that the reduction in their budget and workforce does not put our national security at undue risk, it is the duty of this Subcommittee to see that those actions be taken as soon as possible. I look forward to hearing from our distinguished witnesses as to how the FY 2011 budget will be implemented while still protecting the Ports, Waterways, and Coastal Security programs.

Thank you again, Mr. Chairman, for convening this hearing. I yield back the balance of my time.

U. S. Department of Homeland Security

United States Coast Guard

Commandant
United States Coast Guard

2100 Second Street, S.W.
Washington, DC 20593-0001
Staff Symbol: CG-821
Phone: (202) 372-3500
FAX: (202) 372-2311

TESTIMONY OF ADMIRAL THAD W. ALLEN
COMMANDANT, U.S. COAST GUARD

COAST GUARD FISCAL YEAR 2011 BUDGET REQUEST

BEFORE THE HOUSE COMMITTEE ON COAST GUARD AND MARINE TRANSPORTATION

FEBRUARY 25, 2010

INTRODUCTION

Good morning Mr. Chairman and distinguished members of the Committee. Thank you for the enduring support you have shown to the men and women of the United States Coast Guard.

I am here today to discuss the Coast Guard's Fiscal Year (FY) 2011 Budget Request. Before I discuss the details of the request, I would like to take this opportunity to explain how I view the principles of Coast Guard operations, our most recent actions in Haiti, and the current budget environment.

For over two centuries the U.S. Coast Guard has safeguarded the nation's maritime interests at home and around the globe. The Coast Guard saves those in peril and protects the nation's maritime transportation system, resources, and environment. Over the past year, Coast Guard men and women – active duty, reserve, civilian and auxiliarists alike – continued to deliver premier service to the public. They performed superbly in the heartland, in our ports, and while deployed at sea and around the globe. They saved over four thousand lives and worked closely with interagency partners to ensure resilience to natural disasters at home and abroad.

A Coast Guard C-130 evacuates U. S. survivors from Haiti following the devastating January 12, 2010 earthquake.

The Coast Guard's military, multi-mission, maritime assets provide agile and adaptable operational capabilities that are well-suited to serve the nation's interests. The national benefit of this multi-mission character is exemplified at the field level by an individual asset's ability to seamlessly, and at times simultaneously, carry out distinct yet complimentary functions in the maritime domain – law enforcement, national defense, facilitation of maritime commerce, maritime safety, environmental protection, and humanitarian response. In short, whether in our nation's intercoastal waterways, ports, coastal areas, or maritime approaches, the Coast Guard is here to protect, ready to rescue.

The Coast Guard's ability to conduct surge operations and leverage partnerships in response to nationally significant safety, security, or environmental threats is critical to disaster recovery and exemplifies the resiliency of the Coast Guard and the Department of Homeland Security (DHS).

At a time when "whole of government" approaches are critical to achieving national objectives across a broad spectrum of strategic challenges, it must be recognized that the Coast Guard provides a unique and invaluable contribution to maritime safety and security. There is no finer example of the ability of the service to respond to all threats and hazards than our recent response to the earthquake in Haiti. The first Coast Guard asset was on scene in Port-au-Prince less than 18 hours after the earthquake. Coast Guard units were the first on scene and have been working around the clock with our interagency partners to provide humanitarian assistance, evacuate U.S. citizens, and help the most seriously wounded. As Commandant, I could not be more proud of our response efforts in Haiti. Our actions were guided by the Principles of Coast Guard Operations contained in Coast Guard Publication One, U.S. Coast Guard: America's Maritime Guardian. All six principles were evident during our efforts in Haiti:

- Clear Objective: The first cutters and aircraft that arrived in Haiti knew what needed to be done and reconciled their unit's competencies with the opportunities.
- Effective Presence: We were already in position to respond quickly to Haiti and our continued presence in the ports and oceans make us critical first responders.
- Unity of Effort: We are bureaucratically multi-lingual which helped us quickly integrate our operations within DHS as well as with U.S. Agency for International Development, Department of Defense, and other interagency partners.
- On-Scene Initiative: We expect our people to take action without having to wait for orders. That is part of our very make up and what separates us from other entities.
- Flexibility: By our nature, we are multi-mission and this greatly enhances our value to the Nation and the global maritime community.
- Managed Risk: We allocate the right mix of units and people, as well as leveraging all partnerships, to achieve desired effects.
- Restraint: We are sensitive to the broader context of our operations. We understand how our operations impact the public we serve.

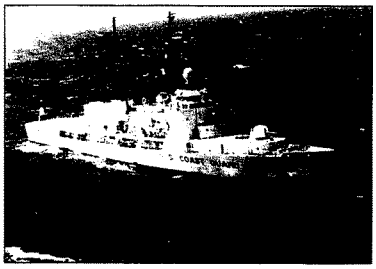
The principles are as relevant today as they were in 1790, and will guide our implementation of the initiatives proposed in the FY 2011 budget.

FY 2011 REQUEST

The FY 2011 budget presents the most efficient and effective use our resources. We applied strong fiscal discipline to make sure that in 2011 we will be investing our resources in what works, cutting down on redundancy, eliminating spending on ineffective programs and making improvements across the board. We took as our highest priority the continued acquisition of new cutters, aircraft, and infrastructure. This commitment is vital to our ability to protect, defend, and save well into the 21st century.

The Coast Guard's FY 2011 budget request focuses resources on our top budget priority - continued recapitalization of aging assets and infrastructure. In addition to recapitalization, the FY 2011 budget includes pay and standard personnel costs associated with the military workforce, training, operating funds for new assets, and unit and depot level maintenance. Highlights from our request are included in Appendix I.

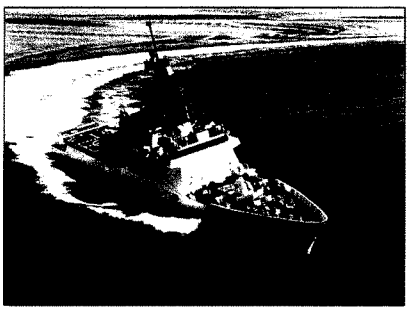
Recapitalizing to Preserve Future Capability



The Coast Guard plans to decommission four High Endurance Cutters (HEC) in FY 2011. HECs provide primary long-range maritime interdiction capability for DHS, and will be recapitalized through the National Security Cutter (NSC) program. Coast Guard Cutter HAMILTON, pictured above, is over 40 years old.

The FY 2011 budget continues funding for recapitalization of aging assets (e.g. cutters, aircraft, boats, Command, Control, Communication, Computers, Intelligence, Surveillance, and Reconnaissance, and infrastructure. I cannot emphasize enough that recapitalization is critical to preserving future surface, air, and shore asset capability; this is an essential investment for the Coast Guard. What the Coast Guard builds today will help secure the nation's borders, rescue those in peril, preserve our maritime resources and vitality, and protect the environment for decades to come.

The FY 2011 budget continues the disposition of legacy assets where new surface and air assets are coming online. Additionally, savings from targeted reallocations of operational capacity, efficiencies, and consolidation initiatives are redirected to support continued recapitalization of aging assets and infrastructure. These capacity shifts could create short-term impacts on Coast Guard service delivery if recapitalization schedules are not met, however, operational commanders will always allocate resources to meet the nation's highest order maritime safety, security, and stewardship needs. As such, monitoring performance and adapting through risk management will be a key strategic aim for the Coast Guard in FY 2011. In general, long-term Coast Guard performance ultimately depends on the pace and stability of future recapitalization, which in turn depends on our ability to manage the cost, schedule and quality of our acquisition programs.



Coast Guard Cutter WAESCHE (WMSL 751), the second NSC, will be operational in FY 2011. The Coast Guard's HECs will be replaced by more capable NSCs. The FY 2011 request includes funding for the production of the fifth NSC.

Preservation of the Coast Guard's maritime capability through the recapitalization of surface and air assets is a strategic imperative for DHS and the Coast Guard. The FY 2011 budget continues major cutter recapitalization by funding production of the fifth National Security Cutter (NSC), refurbishment of another 270-ft Medium Endurance Cutter, design of the Offshore Patrol Cutter (OPC), and construction of four more Fast Response Cutters (FRCs).. Another FY 2011 recapitalization priority is the HC-144A Maritime Patrol Aircraft (MPA) which will replace the HU-25 Falcon, approaching the end of its service life.

At the requested funding level of $1.4 billion, we will maintain a robust and stable capital investment funding profile, which is my highest priority for the Coast Guard. I appreciate Congress' continuing efforts to coordinate closely with the Coast Guard to support our acquisition reform initiatives.

Delivering Value to the Nation

In FY 2011, the Coast Guard will continue to provide exceptional service to the nation. The FY 2011 budget provides $87 million more for the operating expenses of Coast Guard, including personnel pay and allowances, training and recruiting, operating funds for newly acquired assets delivered through Coast Guard recapitalization programs, and unit and depot level maintenance. Further, the budget annualizes new funding provided by Congress in FY 2010 for marine safety, financial management oversight, armed helicopters, Biometrics at Sea, the Seahawk Charleston Interagency Operations Center, counternarcotics enforcement, and new watchstanders. It also enhances deployable law enforcement capacity to mitigate emergent terrorism and border security risks.

A Coast Guard Response Boat-Medium (RB-M) assists New York City first responders following the Hudson River crash landing of US Airways Flight.

Workforce Optimization

In FY 2011, the Coast Guard will sustain previous enhancements to the acquisition, financial management, and marine safety workforces, and it will continue to promote a diverse and competent workforce that can adapt to employ new and improved assets to meet evolving mission demands.

Maintaining the welfare of our workforce remains one of my top priorities. The FY 2011 budget supports our need to improve military housing. The Coast Guard currently owns 4,020 military housing units, the average age of which is over 40 years. Many of the Coast Guard's housing assets require recapitalization due to safety and habitability issues. The budget funds the recapitalization, improvement, and acquisition of 18 military family housing units in critical areas where we struggle to provide suitable and affordable housing for our members.

Through strong efforts and a commitment to the workforce, the Coast Guard will continue to foster an environment in which every individual has opportunity to prosper. In 2009, the Coast Guard launched its Diversity Strategic Plan. This plan builds upon the significant progress we have achieved to date and provides direction for our collective efforts to make the Coast Guard a leader in diversity development and a model for the nation.

Savings and Decommissionings

The safety and security of the American people are our highest priorities, and the Coast Guard will continue to meet national search and rescue standards across the country. The Coast Guard will leverage available efficiencies to maximize service delivery and provide the nation with the highest possible return on investment. Proposed efficiency highlights include small boat logistics management improvements, contract in sourcing, headquarters management efficiencies, and the consolidation of intelligence fusion centers under a single operational command. The FY 2011 budget also includes the decommissioning of legacy assets, the restructuring of deployable forces, and the realignment of helicopter capacity to the Great Lakes region. Four HECs, which have been in service since Vietnam, are being recapitalized with newer, more capable NSCs. A new regionalized construct for Maritime Safety and Security Teams (MSSTs) will enable the

Coast Guard to rapidly deploy teams of skilled professionals to ports and operating areas across the country based on risk and threats as needed. Rotary wing realignment reallocates existing highly capable aircraft to the Ninth Coast Guard District where they will be more operationally effective in executing assigned missions, thus allowing the closure of two seasonal Air Facilities.

Modernization of Business Practices

Coast Guard Modernization is the centerpiece of an overarching strategy to transform our legacy command and control structures, support systems, and business processes into an adaptive, change-centric, learning organization. This transition from a geographically based structure to a functionally aligned organization enables the Coast Guard to optimize sustained mission execution and support, and increase alignment within DHS and with our fellow Armed Forces. By positioning ourselves to be more flexible, agile, and change-centric, we will improve our service to the nation and enhance every Guardian's ability to protect, defend, and save.

Our recent experience and support of Haiti response and relief operations is instructive. As I have noted in the past, the Coast Guard operates one of the oldest fleets in the world. Of the 12 major cutters assigned to Haiti relief operations, 10 cutters, or 83 percent, suffered severe mission affecting casualties, two were forced to return to port for emergency repairs, and one proceeded to an emergency dry dock. We also had to divert air resources away from evacuation efforts to deliver repair parts. This process was coordinated flawlessly through our new logistics structure, including the creation of a forward-deployed logistics structure at Guantanamo Bay. The response was a triumph for our modernized mission support organization. It also underscores the condition of our fleet and the responsible actions we are taking to decommission those assets with liabilities that outweigh their service value.

We are creating a better Coast Guard through modernization, and the recent positive endorsement our efforts received from the National Academy of Public Administration reinforces the need to continue moving forward. As I enter my final months of service as Commandant, I ask for your support to provide the Coast Guard with authority to carry out the remainder of our modernization efforts.

CONCLUSION

Regarding our ongoing efforts in Haiti, many have questioned how the Coast Guard can do so much so quickly, and I simply reply: "This is what we do." Our Guardians are committed to protecting, defending, and saving without having to be told to do so. Along with all Americans, I am truly inspired by the Coast Guard men and women operating in theater, backfilling for deployed units, or providing the necessary support to make it all possible. As always, our Guardians are here to protect and ready to rescue at a moment's notice. That is who we are and why we serve.

I look forward to working with the Committee as we move together to achieve our shared goals of a stronger, more capable and effective Coast Guard across all of our safety, security and stewardship missions. Again, thank you for the opportunity to testify before you today. I am pleased to answer your questions.

Appendix I - FISCAL YEAR 2011 BUDGET REQUEST

The FY 2011 President's Budget continues funding for recapitalization of aging assets (e.g., cutters, aircraft, boats, and command, control, computer, communications, intelligence, surveillance, and reconnaissance (C4ISR) and infrastructure. Recapitalization is vital to preserving future surface, air, and shore asset capability, and is an essential investment for the nation. In addition to recapitalization, the FY 2011 President's Budget includes pay and standard personnel costs associated with the military workforce, training, operating funds for new assets, and unit and depot maintenance.

FISCAL YEAR 2011 INITIATIVES AND ENHANCEMENTS

Recapitalize Operating Assets and Sustain Infrastructure

Surface Assets
$856.0M, 0 FTE

The budget provides $856.0M for surface asset recapitalization or enhancement initiatives: production of National Security Cutter (NSC) #5; continued analysis and design of the Offshore Patrol Cutter (OPC); production of Fast Response Cutters (FRC) #9 - #12; production of Cutter Small Boats -- one Long Range Interceptor and one Short Range Prosecutor; and operational enhancement of three Medium Endurance Cutters at the Coast Guard Yard through the Mission Effectiveness Project.

Air Assets
$101.0M, 0 FTE

The budget provides $101.0M for the following air asset recapitalization or enhancement initiatives: production of HC-144A Maritime Patrol Aircraft #15; HH-60 engine sustainment and avionics, wiring and sensor upgrades for eight aircraft; HC-130H avionics and sensor development and testing, and the acquisition of components for two center wing box replacements; and HC-C130J fleet introduction.

Asset Recapitalization – Other
$155.5M, 0 FTE

The budget provides $155.5M for the following equipment and services: continued development of logistics capability and facility upgrades at shore sites where new assets will be homeported; and design and development of C4ISR-integrated hardware and software systems for surface and air assets.

Response Boat Medium (RBM)
$42.0M, 0 FTE

The budget provides $42M to order 10 boats to replace the aging 41-foot utility boat and other non-standard boats with an asset more capable of meeting the Coast Guard's multi-mission requirements.

Rescue 21
$36.0M, 0 FTE

The budget provides $36.0M to complete deployment at Sectors Detroit, Mich; Los Angeles/Long Beach, Calif.; Honolulu, Hawaii; San Juan, P.R.; Guam; and Buffalo, N.Y.; and continue deployment at Sectors Lake Michigan and Sault Sainte Marie, Mich.; Ohio River Valley, Ky.; Upper Mississippi River, Mo.; and Lower Mississippi River, Tenn. The Rescue 21 system is the Coast Guard's primary communications, command, and control system for all inland and coastal missions.

Shore Facilities and Aids to Navigation (ATON) Recap Projects
$69.2M, 0 FTE

The budget provides $69.2M to recapitalize shore infrastructure for safe, functional, and modern shore facilities that effectively support Coast Guard assets and personnel. FY 2011 funding supports:

- Survey and Design – Planning and engineering of out-year shore projects.
- Minor Shore Projects – Completion of minor shore construction projects that are less complex but enable the Coast Guard to respond to critical operational and life safety issues associated with degraded shore facilities.
- ATON Infrastructure – Improvements to short-range aids and infrastructure.
- Chase Hall Barracks – Continued renovations to the Coast Guard Academy's Chase Hall by modernizing and improving habitability of the cadet barracks.
- Newport, R.I. Pier – Improving an existing pier face to provide over 800+ linear feet of moorings for Coast Guard Cutters Juniper, Willow, and Ida Lewis, and creates the necessary pierside support facilities.
- Aviation Technical Training Center – Building upon efforts funded under the American Recovery and Reinvestment Act (ARRA) to rehabilitate Thrun Hall at the Aviation Technical Training Center in Elizabeth City, N.C.

Housing
$14.0M, 0 FTE

The budget provides $14.0M for the construction, renovation, and improvement of Coast Guard military family housing. The Coast Guard currently owns 4,020 military housing units, the

average age of which is over 40 years. Funding is critical to improving Coast Guard-owned housing facilities, enhancing the quality of life of the military workforce and their families, and reducing the overall shore infrastructure maintenance backlog.

Military Workforce
$86.2M, 0 FTE

The budget provides $86.2M to maintain parity of military pay, allowances, and health care with the Department of Defense. As a branch of the Armed Forces of the United States, the Coast Guard is subject to the provisions of the National Defense Authorization Act, which includes pay and personnel benefits for the military workforce. The Coast Guard's multi-mission military workforce is unique within DHS. This request includes funding for basic allowance for housing, childcare benefits for Coast Guard members, permanent change of station costs, and military health care costs.

Shore Facilities
$4.3M, 0 FTE

The budget provides $4.3M for the operation and maintenance of acquisition, construction and improvement shore facility projects scheduled for completion prior to FY 2011. Funding is required for daily operating costs for energy, utility services, grounds maintenance, routine repairs, and housekeeping. These costs also include the operation and maintenance of the ATON's day/night/sound/electronic signal, power system, and support structure.

Response Boat-Medium (RB-M) Maintenance
$2.0M, +5 FTE

The budget provides $2.0M for FY 2011 operations and maintenance costs associated with delivery of 18 RB-Ms. This request also includes electrical support personnel and associated personal protective equipment to support the platform's increased capability.

Rescue 21 Follow-on
$7.1M, +1 FTE

The budget provides $7.1M for follow-on funding to operate Rescue 21, the Coast Guard's primary system for performing the functional tasks of command, control, and communications in the inland and coastal zones for Coast Guard operations including search and rescue and maritime security missions. This funding will support five distinct cost categories that sustain Rescue 21: equipment operation and maintenance, circuit connectivity, property and power, training, and technology refresh.

Rescue Swimmer Training Facility (RSTF)
$1.9M, +7 FTE

The budget provides $1.9M for the operation and maintenance of the RSTF, its Modular Egress Training Simulator, and recurring training costs. The RSTF will directly support Aviation Survival Technician (rescue swimmer) training and qualification standards, as well as egress certification and recertification for air crews and some small boat crews.

Surface and Air Asset Follow-on
$62.5M, +173 FTE

The budget provides a total of $62.5M to fund operations and maintenance of cutters, boats, aircraft, and associated subsystems delivered through major cutter, aircraft, and associated C4ISR acquisition efforts. Funding is requested for the following assets:

- NSC – Shoreside logistics support and maintenance funding necessary for three NSCs located in Alameda, Calif.; unit operations and maintenance funding for the third NSC scheduled for delivery in FY 2011.
- Training System Personnel – Funding and training personnel for the NSC C4ISR training suite at Training Center Petaluma, Calif.
- FRC – Operating and maintenance funding for the first five FRCs scheduled for delivery in FY 2011 and homeported in Miami, Fla.; shore-side maintenance personnel needed to support FRCs being delivered in FY 2011; and, personnel to operate and maintain the seventh and eighth FRCs scheduled for delivery early in 2012.
- Transition Aviation Training Center Mobile and Air Station Miami to HC-144A Maritime Patrol Aircraft (MPA) – Funding to support a change in aircraft type, allowance, and programmed utilization rates at Aviation Training Center Mobile, Ala. and Air Station Miami, FlaFL.
- HC-144A MPA – Operating and maintenance funding and personnel for aircraft #12 and personnel for aircraft #13; logistics support personnel and maintenance funding for the HC-144A product line.
- Armed Helicopters for Homeland Security Follow-on – Recurring funds to maintain Airborne Use of Force (AUF) Kit "A" equipment for 22 HH-65C helicopters.
- C4ISR Follow-on – Funding to maintain new high-speed Ku-band satellite communications systems installed on major cutters prior to FY 2011.

FISCAL YEAR 2011 EFFICIENCIES, REALLOCATIONS, AND DECOMMISSIONINGS

The FY 2011 President's Budget includes efficiencies, consolidation initiatives, decommissionings, and operational restructuring. Savings associated with targeted efficiencies and consolidation initiatives have been redirected to support operations and maintenance and recapitalization priorities.

Maritime Safety and Security Teams
-$18.2M, -196 FTE

In FY 2011, Maritime Safety and Security Teams (MSSTs) Anchorage, Kings Bay, New Orleans, New York, and San Francisco will be decommissioned. The seven remaining MSSTs will provide the same geographic coverage by deploying regionally to mitigate the highest prevailing port security risks in the nation's critical ports.

MSSTs will continue to escort vessels, patrol critical infrastructure, perform counter terrorism activities, enforce laws aboard high interest vessels, and respond to unanticipated surge operations (e.g., mass migration response, hurricane response, terrorist attack, etc.) consistent with regional threats.

As part of this initiative, the Coast Guard will reinvest partial MSST savings in the Law Enforcement Detachment (LEDET) program to address increased demand for LEDET services in support of Coast Guard missions. The FY 2011 investment increases the roster of all 17 existing LEDETS from 11 to 12 members per team, and creates one new 12-person LEDET. LEDETs are high return-on-investment national assets that augment defense operations in support of combatant commanders and counter drug operations in the Caribbean and Eastern Pacific.

High Endurance Cutters
-$28.2M, -383 FTE

In FY 2011, the Coast Guard will decommission four High Endurance Cutters (HEC): RUSH, JARVIS, CHASE, and HAMILTON. The average age of the HEC fleet is 42 years. A disproportionate share of the depot level maintenance budget is being used to sustain these aging assets. With two NSCs anticipated to be operational by 2011, the Coast Guard is positioned to begin decommissioning these legacy assets.

Medium Endurance Cutter
-$2.8M, -43 FTE

In FY 2011, the Coast Guard will retire the Medium Endurance Cutter Acushnet. Acushnet is well past its useful service life and has unique systems that are costly and difficult to sustain.

HU-25 Aircraft
-$7.7M, -32 FTE

In FY 2011, Coast Guard will decommission four HU-25 fixed winged aircraft. Three aircraft will be immediately replaced by the new HC-144A aircraft. The fourth HU-25 will be retired from service at Coast Guard Air Station (A/S) Cape Cod, Mass., reducing aircraft allowance at this station from four to three until a replacement HC-144A arrives. Three aircraft provide the minimum manning required to maintain 24/7 Search and Rescue capability.

Rotary Wing Capacity
-$5.5M, -34 FTE

In FY 2011, the Coast Guard will realign rotary wing capacity to provide four medium-range HH-60 helicopters to the Great Lakes region. To facilitate this delivery of enhanced multi-mission capability, two HH-60 helicopters from Operations Bahamas Turks & Caicos, and two HH-60s from Maritime Security Response Team (MSRT) in Chesapeake, Va. will be permanently relocated to Coast Guard Air Station Traverse City, Mich. Upon arrival of the four HH-60s, five HH-65 helicopters presently stationed at Air Station Traverse City will be removed from active service.

The HH-60 helicopter has the added capability over the HH-65 to operate in extreme cold weather conditions, including icing, which persist in the Air Station Traverse City area of responsibility approximately five months per year. In addition, the HH-60 helicopter has double the flight time endurance of the HH-65 providing additional operational range for search and rescue (SAR) missions and security patrols in the Great Lakes region and along the northern maritime border. Enhancing the operational capability of Air Station Traverse City helicopters will also enable the closure of two seasonal Coast Guard Air Facilities at Muskegon, Mich. and Waukegan, Ill. while still meeting SAR program response requirements.

U. S. Department of Homeland Security
United States Coast Guard

Commandant
United States Coast Guard

2100 Second Street, S.W.
Washington, DC 20593-0001
Staff Symbol: CG-0921
Phone: (202) 372-3500
FAX: (202) 372-2311

TESTIMONY OF CHARLES W. BOWEN
MASTER CHIEF PETTY OFFICER OF THE COAST GUARD

"COAST GUARD'S FY 2011 BUDGET REQUEST

BEFORE THE HOUSE SUBCOMMITTE ON
COAST GUARD AND MARITIME TRANSPORTATION

FEBRUARY 25, 2010

Good morning Mr. Chairman and distinguished members of the Committee. This is my fourth and final appearance before you due to my impending retirement from the Coast Guard after 32 years of service. I would like to personally thank each of you for your efforts on behalf of the Coast Guard workforce. During my career I have been fortunate to serve alongside the most capable and dedicated workforce in the U.S. government, and I am thankful for the privilege of discussing its needs with you today.

The United States Coast Guard is America's oldest continuous seagoing service. We are one of the United States' five Armed Forces and the only one located within the Department of Homeland Security. We are responsible for the safety and security of the nation's maritime domain. As a multi-mission service, we save the lives of those in peril on the sea, enforce maritime law, protect the environment, and defend the nation at home and abroad alongside the other Armed Forces. Coast Guard personnel are trained to respond to all threats and all hazards. These are responsibilities we take very seriously. In the heartland, in the ports, on the seas, and around the globe, the men and women of the U.S. Coast Guard are here to protect, ready to rescue.

Nowhere was this more evident than in the Coast Guard's response to the earthquake that hit Haiti on Jan. 12, 2010. The Coast Guard cutter FORWARD was the first U.S. asset to arrive in Haiti, getting underway from Guantanamo Bay Naval Base immediately and arriving in Port-au-Prince harbor the following morning to provide assistance. Coast Guard units worked around the clock to evacuate U.S. citizens and help the most seriously injured. Cutters TAHOMA, MOHAWK, VALIANT and OAK were soon on scene. Crews from TAHOMA and MOHAWK established a makeshift trauma unit with the Haitian Coast Guard and triaged hundreds of injured people; TAHOMA's crew even delivered a baby boy from an injured Haitian woman on their flight deck, and a second baby at their shore-side clinic. Coast Guard C-130 aircraft performed critical damage assessment over-flights and the cutter VALIANT conducted a port assessment of Cap Haitien to create another entry way for the tons of international aid and supplies that were backing up at the airport. Cutter OAK, a sea-going buoy tender, repaired the port city's primary pier and marked the hazards to navigation to provide a safe approach and mooring to allow much needed supplies to flow directly into the beleaguered city.

Guardians are committed to protecting, defending and saving, and are ready to respond at a moment's notice. This recent humanitarian assistance and disaster recovery operations in Haiti is just one highlight of the Coast Guard's service. In 2009, we had another exceptional year in terms of mission performance. We responded to over 23,000 search and rescue cases and saved nearly 5,000 lives. We seized over 160 metric tons of cocaine valued at over $4.9 billion, conducted almost 50,000 armed waterborne patrols near maritime critical infrastructures, completed more than 18,000 small vessel

security boardings, and interdicted nearly 3,700 undocumented migrants attempting to enter the United States illegally from on the high seas.

During 2009, U.S. Coast Guard active and reserve personnel continued to deploy around the world in support of our country's security and defense. In support of Operations Iraqi Freedom and Enduring Freedom we have Port Security Units deployed to both Guantanamo Bay and Kuwait. Our six 110-foot patrol boats, two law enforcement detachments and supporting personnel bolster the ability of the naval component commander in the Arabian Gulf to secure the sea lanes, prevent terrorism at sea, train Iraqi naval forces and protect Iraq's vital off-shore oil infrastructure.

Personnel performing Coast Guard missions do so in demanding, oftentimes harrowing conditions. Over the course of the last year, I visited thousands of Coast Guardsmen all over the world and know firsthand what they do. Our mission responsibilities are complicated and sometimes dangerous. Despite our best efforts and the professionalism, bravery and dedication of our workforce, casualties and mishaps occur. Just a few months ago I attended a memorial service held at Coast Guard Air Station Sacramento for the crew of Coast Guard 1705. On Oct. 29, 2009, this HC-130 Hercules crashed offshore of San Diego, California after colliding with a Marine Corps helicopter. Seven Guardians and two members of the Marine Corps gave their lives. The Coast Guard crewmembers who lost their lives, Lieutenant Commander Che Barnes, Lieutenant Adam Bryant, Chief Petty Officer John Seidman, Petty Officer Second Class Monica Beacham, Petty Officer Second Class Carl Grigonis, Petty Officer Second Class Jason Moletzky and Petty Officer Third Class Danny Kreder II will be remembered always for sacrificing their lives doing what they were trained to do: searching for a mariner in distress. Very simply they personify our Guardian Ethos.

INFRASTRUCTURE RECAPITALIZATION

Our Commandant, Admiral Thad Allen, is dedicated to mission execution and committed to ensuring that Coast Guard men and women are equipped with the most capable fleet of multi-mission ships, aircraft, and boats available in order to complete the mission at hand. We are committed to ensuring that our workforce is prepared now and in the future. Our people deserve operational assets that are equipped to twenty-first century standards in order to protect our country from various maritime threats. And yet we ask them to work and live on platforms that are years – and in some case decades – past their designed service lives. The average age of a ship in our 378-foot fleet is 42 years old. Our afloat workforce maintain these aging platforms to the best of their abilities and capabilities, but sometimes the age forces lengthy unscheduled maintenance periods, adversely impact mission execution, or create risks to personnel. Our aging legacy cutters that are laid up are not performing the tasks that our nation expects from them. That is why fleet recapitalization is of particular importance to me. We must minimize adverse impacts on mission performance by keeping recapitalization on track, and it is our responsibility to provide our people with safe, habitable, and reliable platforms.

Shore side infrastructure is also important to our people's quality of life. We must provide our people with safe and secure aircraft hangars, command and control buildings, and piers from which to operate and maintain our assets. Aging buildings are just as potentially dangerous as aging operational units; too many of them are in critical need of renovation and repair.

Ultimately, the future operational success of the Coast Guard is dependent upon a comprehensive recapitalization of front line cutter and aviation assets and shore/support infrastructure. With your help we will continue the Coast Guard's long history of protecting America's citizens and interests at home and abroad. The men and women of the United States Coast Guard are doing more than we've ever

asked them to do in more places than we've ever asked them to go. Your continued support is vital to the success of the recapitalization of the Coast Guard and the well-being of our people.

HOUSING

Housing remains a major issue for our military members and their families. The challenging economy places extra importance on housing options, and we thank the Congress for recent additional funding for the Homeowners Assistance Program, which enables us to help those in need this upcoming permanent change of station transfer season. We are also grateful for your continued support of annual basic allowance for housing (BAH). Adequate BAH permits our members to obtain housing on the local economy which, in turn, reduces the need for Coast Guard owned and leased housing.

The state of Coast Guard-owned housing continues to be of particular interest and concern to me. The vast majority of Coast Guard personnel reside in private sector housing; however, there are locations where private sector housing is insufficient and it is necessary for the Coast Guard to provide housing. Currently, the Coast Guard owns approximately 4,020 family housing units and 227 unaccompanied personnel housing facilities. The average age of Coast Guard housing is 40 years, and we been unable to keep up with maintenance and recapitalization needs. Importantly, the FY 2011 budget contains $14 million to address two critical housing projects (Upper Keys, FL and Montauk, NY). We appreciate the interest in the condition of family and unaccompanied housing shown by Chairman Cummings and Ranking member LoBiondo.

The Coast Guard is very appreciative of the $7.5 million provided by the American Recovery and Reinvestment Act, which allowed us to complete a new 26-unit housing complex for the 50 crew members (and their families) assigned to the 225-foot buoy tender SYCAMORE in Cordova, Alaska. In Montauk, FY 2009 appropriations enabled the Coast Guard to purchase three homes for members and their families. We also recently completed the second phase of a three-phase real property exchange for the acquisition of new houses in Guilford, Conn., where the Coast Guard leveraged valuable properties with inadequate housing for the purchase of new homes of an equal or greater value in a high housing demand location. Last year, I mentioned the Coast Guard had embarked on the largest General Service Administration (GSA) relocation project ever undertaken by the Coast Guard to provide much needed housing in the Middle and Upper Florida Keys. I am happy to report that project is well underway, and we expect to have 12 houses ready this summer for Coast Guard families assigned there.

We are committed to seeking and implementing various solutions to improve the state of housing for our personnel. It is a top priority, and we seek your continued support of legislation to improve the quality of Coast Guard housing.

HEALTHCARE

Available healthcare, and more importantly access to available healthcare, is one of the most important issues affecting Coast Guard families today. Military healthcare is the cornerstone of our quality of life benefit system, and is critical to our people. The U.S. Coast Guard is unique among the armed services in that our mission set often dictates that a very high percentage of our workforce is geographically spread out, sometimes at very small commands in especially remote locations in the country. Approximately 50 percent of our members and their families are located more than an hour from the nearest Department of Defense military treatment facility. These members and their families must rely upon the TRICARE provider network or more specifically, TRICARE Prime Remote. This means that not only are there no military treatment facilities nearby, but also often times no established TRICARE

network. The remote locations that our members are located in are often also high cost resort areas. We have members who have not been able to locate TRICARE participating providers simply because the local providers are reluctant to accept the low reimbursement rate TRICARE offers. Specifically, access to health care services in Alaska is often severely limited by the scarcity of providers, their reluctance to accept TRICARE payment rates, great distances and transportation issues, and other factors. When local providers are unavailable, patients must be transported to another location for treatment, which is expensive and involves considerable lost duty time. An increase in the established TRICARE maximum allowable charge rate would have a significant positive impact on the retention and recruitment of current and potential network and authorized providers. Increasing the incentive to become and remain a TRICARE network and/or authorized provider is essential to obtaining timely and appropriate health care in the TRICARE Prime Remote areas. DoD and TRICARE managers are aware of these issues and are working to address them. We have made significant progress with TRICARE over the past few years, and with your continued support we hope this positive trend continues.

CHILD CARE

Available, affordable and accessible childcare is one of the most important quality of life issues for Coast Guard personnel. As previously stated, due to the locations in which we serve, our people are very often located in remote, high-cost areas. High child care costs impact our workforce throughout all geographical areas, but particularly those without access to DoD or Coast Guard child development centers. This makes it difficult, if not impossible, to maintain parity with the other armed services with respect to providing our people with quality and affordable child care options.

The Coast Guard child care system supports a much smaller percentage of Coast Guard children than the DoD childcare system. As of the end of December 2009, there were 1,486 Coast Guard dependent children enrolled in Coast Guard-sponsored child care services; an increase from 3 percent of all eligible children in FY 2004 to 5.3 percent in FY 2009. By comparison, approximately 14 percent of DoD children under 12 are enrolled in some form of DoD child care (sponsored/subsidized by DoD). Today, there are approximately 28,000 Coast Guard dependent children under the age of 12. Our goal is to provide at least the same percentage of children with services as DoD provides, or approximately 3,920 children.

Our GSA subsidy program helps to offset members' childcare costs and has been a critical support element for those families able to access the program. Our goal is to provide this subsidy to all families.

RECRUITING

In FY2009, we not only filled 100 percent of both our active duty and reserve recruiting targets with highly qualified recruits, but we continued to diversify our workforce. Additionally, over 23 percent of our active duty accessions were women (a record high) and 36 percent of our active duty accessions were from diverse communities. Among public service organizations, the Coast Guard has become a "service of choice" and it is essential we continue to recruit and retain a workforce that reflects the changing face of our country. We are proud of our diverse workforce and we are committed to building and sustaining a climate in which people of all backgrounds and cultures are valued and respected. By continuing to increase diversity through successful recruiting, we improve our mission performance.

Recruiting is one of the most demanding and rewarding jobs we ask our people to do. Despite the fact that less than 30 percent of the general population is eligible to be recruited for military service, our recruiters continue to find bright, talented young people attracted to our missions: saving lives, enforcing

the law, protecting the environment, and defending our nation. Our recruiters are doing a superb job and are more than meeting the challenge to make our Coast Guard the best it can be. The key to successful mission execution begins there.

CONCLUSION

Mr. Chairman, thank you for the opportunity to appear before you and for all that you do for the men and women of the Coast Guard. I am honored to have had the privilege to represent our workforce during the last four years and am grateful for your support and understanding of the importance of our mission and the people who execute it.

I am very proud of the accomplishments of our service members. The Coast Guard succeeds through the courage, sacrifice, and devotion of our people. We ask much, and expect much. By asking more of them, we are asking more from their families. We must continue to support the programs and initiatives we presently have in place, and they must continue to evolve as the needs of our families change.

I look forward to answering any questions that you may have.

United States Government Accountability Office

GAO

Testimony before the Subcommittee on Coast Guard and Maritime Transportation, Committee on Transportation and Infrastructure, U.S. House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EST
Thursday, February 25, 2010

COAST GUARD

Observations on the Requested Fiscal Year 2011 Budget, Past Performance, and Current Challenges

Statement of Stephen L. Caldwell, Director
Homeland Security and Justice Issues

GAO
Accountability * Integrity * Reliability

GAO-10-411T

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Accountability · Integrity · Reliability
Highlights

Highlights of GAO-10-411T, a report to Subcommittee on Coast Guard and Maritime Transportation and Infrastructure Committee, U.S. House of Representatives

Why GAO Did This Study

The U.S. Coast Guard, a component of the Department of Homeland Security (DHS), conducts 11 statutory missions that range from marine safety to defense readiness. In an effort to enhance performance the Coast Guard continues to implement its Deepwater program—the acquisition program to replace or upgrade its vessels and aircraft—while also carrying out a reorganization program to update its command structure, among other things. This testimony discusses the Coast Guard's (1) budget request for fiscal year 2011 and key performance indicators for fiscal year 2009; and (2) key management challenges confronting the Coast Guard. This testimony is based on GAO products issued in 2009 and 2010 (including GAO-09-682, GAO-09-810T, and GAO-10-268R); other GAO products issued over the past 11 years—with selected updates in February 2010; and preliminary observations from ongoing GAO work on the Deployable Operations Group. GAO analyzed budget and performance documents, such as DHS's fiscal year 2011 budget justification, and interviewed Coast Guard officials.

What GAO Recommends

GAO has made recommendations in prior reports to DHS to improve planning and other aspects of the Deepwater program. DHS concurred and is in various stages of implementing them. GAO provided a copy of new and updated information in this statement to DHS and incorporated comments as appropriate.

View GAO-10-411T or key components. For more information, contact Stephen Caldwell at (202) 512-9610 or caldwells@gao.gov.

February 25, 2010

COAST GUARD

Observations on the Requested Fiscal Year 2011 Budget, Past Performance, and Current Challenges

What GAO Found

The Coast Guard's budget request for fiscal year 2011 is slightly lower than the agency's 2010 enacted budget and year-to-year mission performance trends are mixed. The Coast Guard's fiscal year 2011 budget request of $9.87 billion is approximately $35.8 million (or 0.4 percent) less than the service's enacted budget for fiscal year 2010. The slight reduction is largely attributable to a decrease in funds requested for (1) acquisition, construction, and improvement and (2) research, development, test, and evaluation. The reductions in these and other appropriation accounts are balanced by increases in funds requested for operating expenses and retired pay. One of the key themes of the fiscal year 2011 budget is the trade off between current operational capacity and continued investment in future capability through capital investment. Specifically, the Coast Guard is reducing funds for current assets and missions to increase funds for its top budget priority—long-term recapitalization of vessels and aircraft. The Coast Guard acknowledges that the proposed emphasis on recapitalization of aging assets may lead to a short term decline in mission performance. With regard to fiscal year 2009 performance, Coast Guard met its performance goals for 6 of 11 statutory mission areas but year-to-year performance trends are mixed. For example, the Coast Guard reported an improvement in reducing the maritime terrorism risk but reported a decline in the percentage of time that Coast Guard assets met designated combat readiness levels. Specifically, the Coast Guard reported that, for fiscal year 2009, agency assets met designated combat readiness levels 44 percent of the time, well below its goal of 100 percent. The Coast Guard attributes this decline in performance to reduced High Endurance Cutter readiness and personnel and training shortfalls for port security unit reserve forces.

The Coast Guard continues to face several management challenges. Our prior work has identified continuing problems in Deepwater costs, management and oversight that have led to some delivery delays and operational challenges for some Coast Guard assets. Additionally, the Coast Guard is in the process of a major reorganization effort to establish a new command structure. While the Coast Guard reported completing all interim key actions for the reorganization program on schedule with some aspects of the transition—such as the deployable operations group—resulting in operational improvements, the agency desires additional statutory authorities to fully establish the new command structure and senior leadership positions. The Coast Guard has submitted a legislative proposal to request the statutory authority needed to make such changes. Lastly, the Coast Guard has a history of workforce management challenges which they have worked to address by developing plans and tools to better identify appropriate personnel for their assigned positions and allocate personnel resources. However, it is too soon to assess these efforts' impact. Moreover, as the Coast Guard faces a change in leadership in May 2010, it will be increasingly important to sustain its efforts to address the challenges that it faces.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the Coast Guard's fiscal year 2011 budget, mission performance, and related management challenges. For many years, we have provided Congress with information and observations on the Coast Guard's budget and related issues. Consistent with this approach, this statement will include information from our prior work to help provide perspective as appropriate. The Coast Guard, an Armed Service of the United States housed within the Department of Homeland Security, is the principle federal agency responsible for maritime safety, security, and environmental stewardship through multimission resources, authorities, and capabilities. The Coast Guard has faced various management challenges over the years, many of which we have identified in previous reports.[1]

As you know, the Coast Guard has grown considerably since 2002 to meet new homeland security requirements while continuing to carry out its traditional missions such as marine safety and search and rescue operations. See appendix I for a description of the Coast Guard's 11 statutory missions. To help fulfill all of its missions, the Coast Guard is currently implementing several major initiatives, including the multi-billion dollar Deepwater acquisition program,[2] while continuing efforts to improve its command structure and mission-support processes.

This statement will discuss:

- the Coast Guard's budget request for fiscal year 2011 and the extent to which it met key performance indicators for fiscal year 2009; and
- key management challenges confronting the Coast Guard.

In assessing the Coast Guard's budget request for fiscal year 2011 and performance results in fiscal year 2009, we reviewed the President's budget request, related Coast Guard documents—including the U.S. Coast Guard Posture Statement, issued in February 2010—and the agency's fiscal

[1]See related GAO products at the end of this statement.

[2]The Deepwater program is the largest acquisition program in Coast Guard history and is intended to replace or modernize the Coast Guard's aging vessels, aircraft, and some communications systems.

year 2009 performance report.[3] The scope of our review did not include evaluating whether the proposed funding levels were appropriate for the Coast Guard's stated needs. In identifying and discussing various management challenges confronting the Coast Guard, we focused on the information presented in our past and recently issued products including, among others, the service's large-scale Deepwater acquisition program, command realignment,[4] and the workforce planning report we are publicly releasing today.[5] The scope of our prior work included reviews of program documents, such as the Coast Guard's Major Systems Acquisition Manual (MSAM); analysis of applicable program databases; and interviews with Coast Guard officials at headquarters and field units in domestic and international locations. Our prior work was conducted in accordance with generally accepted standards and our previously published reports contain additional details on the scope and methodology for those reviews. This statement also provides preliminary observations from our ongoing work on the Deployable Operations Group for the Senate and House Appropriations' Committee's Subcommittees on Homeland Security.

We conducted selected updates for this statement from July 2009 through February 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[3]U.S. Coast Guard, *U.S. Coast Guard Posture Statement with 2011 Budget in Brief* (February 2010) and U.S. Coast Guard, *U.S. Coast Guard Fiscal Year 2009 Performance Report* (February 2010).

[4]The Coast Guard also refers to its command realignment effort as the modernization program.

[5]Today we are releasing our report on the Coast Guard's personnel programs: *Coast Guard: Service Has Taken Steps to Address Historic Personnel Problems, but It Is too Soon to Assess the Impact of These Efforts*, GAO-10-268R (Washington, D.C.: Jan. 29, 2010). For examples of our prior Coast Guard work, see: GAO, *Coast Guard: Better Logistics Planning Needed to Aid Operational Decisions Related to the Deployment of the National Security Cutter and Its Support Assets*, GAO-09-947 (Washington, D.C.: July 17, 2009); GAO, *Coast Guard: As Deepwater Systems Integrator, Coast Guard is Reassessing Costs and Capabilities but Lags in Applying its Disciplined Acquisition Approach*, GAO-09-682 (Washington, D.C.: July 14, 2009); *Coast Guard: Observations on the Genesis and Progress of the Service's Modernization Program*, GAO-09-530R (Washington, D.C.: June 24, 2009).

Summary

The Coast Guard's budget request for fiscal year 2011 is slightly lower than the agency's 2010 enacted budget and year-to-year mission performance trends are mixed. The Coast Guard's fiscal year 2011 budget request totals $9.87 billion and is approximately 0.4 percent lower than its fiscal year 2010 enacted budget.[6] The slight reduction is largely attributable to a decrease in funds requested for acquisition, construction, and improvement and research, development, test, and evaluation. The reductions in these and other appropriation accounts are balanced by increases in funds requested for operating expenses and retired pay. While the Coast Guard's fiscal year 2011 request for operating expenses is higher than last year's enacted budget, the year-to-year percentage increase in this appropriation account is down from last year. Specifically, last year the agency requested a 5.8 percent increase for this account and this year it is requesting a 1.3 percent increase. According to Coast Guard documents, key initiatives for fiscal year 2011 include recapitalization of surface assets including production of Coast Guard cutters, recapitalization of air assets including the production of additional Maritime Patrol Aircraft and upgrades to several classes of aircraft, and continuing development and upgrades to key equipment and services such as communications systems and shore side infrastructure. The Coast Guard acknowledges that due to resource tradeoffs, the proposed emphasis on recapitalization of aging assets will come at the expense of current operations and may lead to an immediate decline in mission performance. With respect to the agency's performance, Coast Guard met its performance goals for 6 of 11 mission areas for fiscal year 2009 but year-to-year performance trends are mixed. For example, the Coast Guard reported an improvement over last year in reducing the maritime terrorism risk but reported a decline in the percentage of time that Coast Guard assets met designated combat readiness levels. Specifically, the Coast Guard reported that, for fiscal year 2009, key agency assets met designated combat readiness levels 44 percent of the time, well below their goal of 100 percent. The Coast Guard attributes this decline in performance to reduced High Endurance Cutter readiness and personnel and training shortfalls.

[6]When supplemental funding and funds transferred from the National Science Foundation for Polar Operations are taken into account and added to the fiscal year 2010 enacted budget, the calculations reflect a decrease of about 3 percent from fiscal year 2010 to fiscal year 2011. These figures include the Coast Guard's biggest mandatory appropriation account—retired pay—but do not include three smaller mandatory appropriation accounts-boating safety, oil spill liability trust fund, or gift fund.

The Coast Guard faces management challenges in a number of areas, many of which we have identified in our prior work. Our work on the Deepwater acquisition program identified problems in costs, management and oversight that have led to delivery delays and other operational challenges for certain assets and missions, but it also recognized several steps the Coast Guard has taken to improve Deepwater management. Another management challenge is the Coast Guard's ongoing major reorganization effort to update its command structure, support systems, and business practices.[7] The Coast Guard reported completing all interim key actions for the reorganization program on schedule. Additionally, some facets of the transition—such as the new deployable operations group—are already resulting in operational improvements. The Coast Guard has requested but has not yet received additional statutory authorities to fully establish its desired new command structure and associated senior leadership positions. Finally, the Coast Guard has a well-documented history of workforce challenges, including problems identifying its workforce needs. For example, the agency has had difficulty determining critical skills and defining appropriate staffing levels to achieve its missions. The report we are issuing today suggests that the agency has responded to these workforce challenges by developing plans and tools to better identify appropriate personnel for their assigned positions and allocate personnel resources, but it is too soon to assess the impact of these efforts.[8] While Coast Guard has efforts underway to address many of the key challenges confronting the agency, sustaining these efforts will be a challenge for the new Coast Guard leadership team.

[7]GAO-09-530R.

[8]GAO-10-268R.

Coast Guard Budget Request for Fiscal Year 2011 Is Slightly Lower than the Previous Year's Enacted Budget; Year-to-Year Mission Performance Trends are Mixed

Coast Guard's Fiscal Year 2011 Budget Request Is Lower

The Coast Guard's budget request for fiscal year 2011, at $9.87 billion, is approximately $35.8 million (or 0.4 percent) less than the service's enacted budget for fiscal year 2010 (see table 1).[9] This slight reduction is largely driven by a $155 million (10 percent) decrease in funds requested for acquisition, construction, and improvement (AC&I) and a $4.7 million (19 percent) decrease in funds requested for research, development, test, and evaluation. The Coast Guard's budget justification shows that the proposed reduction in AC&I funds is largely due to decreases in funding for the response boat-medium; the Maritime Patrol and HH-65 Aircraft, among others; and Rescue 21.[10] The reductions in these and other appropriation accounts were balanced by requested increases including

[9]GAO's analysis of the Coast Guard's budget request is presented in nominal terms. These calculations do not include either the $241.5 million in supplemental funding that the Coast Guard received for overseas contingency operations in fiscal year 2010 or the $54 million transferred from the National Science Foundation for Polar Operations. When these funds are taken into account and added to the fiscal year 2010 enacted budget, the calculations reflect a decrease of about 3 percent from fiscal year 2010 to fiscal year 2011. Our calculations also do not include any of the $240 million in Recovery Act funding allocated to the Coast Guard in fiscal year 2009, some of which will be spent in fiscal years 2011 and 2012. Finally, these figures include the Coast Guard's biggest mandatory appropriation account—retired pay—but do not include three smaller mandatory appropriation accounts—boating safety, oil spill liability trust fund, or gift fund.

[10]The HH-65 is the Coast Guard's main helicopter, serving such missions as search and rescue, drug and migrant interdiction, and homeland security. Rescue 21 is a Coast Guard program to modernize a 30-year-old search and rescue communications system used for missions 20 miles or less from shore, referred to as the National Distress and Response System. Among other things, it is to increase communications coverage area, allow electronic tracking of department vessels and other mobile assets, and enable secure communication with other federal and state entities.

approximately an additional $87 million (1.3 percent increase) requested for operating expenses and $39.5 million more (about a 3 percent increase) for retired pay, a mandatory appropriation account. While the Coast Guard's fiscal year 2011 request for operating expenses is higher than last year's enacted budget, the year-to-year percentage increase in this appropriation account is down from last year. Specifically, last year the agency requested a 5.8 percent increase for this account and this year it is requesting a 1.3 percent increase.

Table 1: Comparison of Coast Guard's Budget Request for Fiscal Year 2011 and the Enacted Budget for Fiscal Year 2010

			Difference between FY 2011 requested budget and FY 2010 enacted budget	
Appropriations Account[a]	**Enacted budget for FY 2010 (in millions)**	**Requested budget for FY 2011 (in millions**	**Amount (in millions)**	**Percentage change**
Operating expenses	$6,563.9	$6,651.0	$ 87.1	1.3
Acquisition, construction, and improvements	1,536.3	1,381.2	-155.1	-10.1
Retired pay	1,361.2	1,400.7	39.5	2.9
Medicare Eligible Retiree Health Care Fund Contribution	266.0	265.3	-0.7	-0.3
Reserve training	133.6	135.7	2.0	1.5
Research, development, test and evaluation	24.7	20.0	-4.7	-19.0
Alteration of bridges	4.0	0.0	-4.0	-100.0
Environmental compliance and restoration	13.2	13.3	0.1	1.0
Total (see note [b])	**$9,903.0**	**$9,867.2**	**-$35.8**	**-0.4**

Source: GAO analysis of Coast Guard data.

[a] Table above does not include transfers, supplementals or mandatory funding for boating safety, oil spill liability trust fund, or gift fund.

[b] Column and calculation totals may not add up due to rounding.

Of the $9.87 billion requested for fiscal year 2011, about $6.7 billion, or approximately 67 percent, is for operating expenses (OE). The OE account is the primary appropriation that finances Coast Guard's activities, including operating and maintaining multipurpose vessels, aircraft, and shore units. The remaining part of the request consists primarily of funds

for AC&I and retired pay, each representing around $1.4 billion, or 14 percent of the total.[11]

One of the key themes of the fiscal year 2011 budget is the trade off between current operational capacity and continued investment in future capability through capital investment because of fiscal constraints. Specifically, the Coast Guard is reducing funds for current assets and missions to increase funds for its "top budget priority" of long-term recapitalization of vessels and aircraft. According to the Commandant, this trade off reflects "hard choices" by the Coast Guard to manage current operations (as funded at lower levels) to sustain its recapitalization program.

The reductions in current operational capacity include retirement of 5 major cutters (4 High Endurance Cutters and 1 Medium Endurance Cutter) and 9 aircraft (4 HU-25 falcon jets, and 5 HH-65 helicopters as part of a larger realignment of helicopters).[12] The Coast Guard will also reduce the number of Maritime Security and Safety Teams (MSST) from 12 to 7.[13] The Coast Guard expects that these changes in capacity will reduce the overall level of service it provides the nation and that performance will be diminished in a variety of areas. For example, retirement of these vessels and aircraft will reduce performance across several of its missions—including illegal drug interdiction, undocumented migrant interdiction, defense readiness, living marine resources, and other law enforcement to prevent illegal fishing. Similarly, reducing the number of MSSTs will

[11]The AC&I appropriation account finances the acquisition of new capital assets, construction of new facilities, and physical improvements to existing facilities and assets. The Retired Pay appropriation account provides payments as identified under the Retired Serviceman's Family Protection and Survivor Benefits Plans, as well as other personnel entitlements such as medical care of retired personnel and their dependents.

[12]The 378-foot High Endurance Cutter class are the largest cutters ever built for the Coast Guard. Equipped with a helicopter flight deck, retractable hangar, and the facilities to support helicopter deployment, the High Endurance Cutter is versatile and capable of performing a variety of missions, and operates throughout the world's oceans. Medium Endurance Cutters are helicopter-capable medium-range, medium-endurance platforms. Their missions include enforcement of laws and treaties, fisheries, migrant interdiction, counter-drug activities, safety inspections, search and rescue, and homeland security. The HU-25 is a medium-range surveillance fixed-wing aircraft. There are three variants of the HU-25; the primary difference is in the installed sensor package.

[13]The Coast Guard's MSSTs constitute a domestic force for mitigating or responding to terrorist threats or incidents. Teams have deployed, for example, to national special security events such as the Presidential Inauguration, the Olympics, and the Super Bowl.

decrease operational capacity and performance in the ports, waterways, and coastal security mission, according to the Coast Guard. While some of this lost operational capacity will ultimately be restored through ongoing recapitalization (e.g., new National Security Cutters will eventually replace the decommissioned High Endurance Cutters), some capacity reductions will have long-term implications (i.e., the five HH-65 helicopters and five MSSTs will not be replaced).

The Coast Guard intends to take the funds saved by these measures and use them to continue recapitalization of key vessels, aircraft, and shore infrastructure. Deepwater aircraft include the Maritime Patrol Aircraft and continued upgrades to existing aircraft (e.g., the HC-130).[14] In addition, continued funding is planned for the maintenance of legacy cutters until the new Deepwater assets are acquired and become operational.[15] Management of the Deepwater program is discussed later in this testimony. The Coast Guard has allocated funds for recapitalization of other assets outside the Deepwater program including response boats, communications systems, and aids-to-navigation. The Coast Guard expects that recapitalization of these assets will restore and sustain performance across a variety of missions in the long term.

As with the last year's enacted budget, the Coast Guard's fiscal year 2011 budget request for homeland security missions represents approximately 36 percent of the service's overall budget, with the non-homeland security funding representing approximately 64 percent.[16] That said, there were several notable year-to-year changes within mission areas. Appendix II compares the Coast Guard's fiscal year 2010 enacted budget and requested fiscal year 2011 funding levels by statutory mission. According to Coast Guard officials, the most significant changes are a result of changes to project funding levels within the AC&I appropriation. For example, proposed funding to support the Ports, Waterways, and Coastal Security

[14]The HC-130 Hercules is a long-range surveillance and transport, fixed-wing aircraft that is used to perform a wide variety of missions.

[15]The Coast Guard budget includes funding for Deepwater assets, including the National Security Cutter, the Fast Response Cutter, and design funding for the Offshore Patrol Cutter.

[16]As a multi-mission agency, the Coast Guard notes that it may conduct multiple mission activities simultaneously. As a result, it is difficult to accurately detail the level of resources dedicated to each mission. The Coast Guard uses an activity-based cost model that averages past expenditures and models future investments to approximate future spending by mission.

mission decreased by about $101 million or 6 percent.[17] This reduction is in part the result of a reduction in capital funding for the Response Boat-Medium which the Coast Guard anticipates will substantially contribute to this mission. This reduction is also the result of plans to decommission 5 of 12 MSSTs. The Coast Guard estimates that these decommissionings will result in $18.2 million in savings but they may also decrease operational capacity and performance. To manage this risk, the agency plans to implement a regionalized deployable force construct for the remaining 7 MSSTs, with resources apportioned to operational commanders based on the highest prevailing risk in the nation's ports. In another example, the proposed funding for Search and Rescue is about $49.6 million or 5 percent lower than last year's enacted budget.[18] Coast Guard officials explained that the planned decommissioning of 5 High Endurance Cutters will result in some reduction in search and rescue capacity but, overall, the proposed budget preserves basic search and rescue requirements. Further, the Coast Guard reports that it has enhanced its ability to detect and locate persons in distress through technology improvements such as Rescue 21 and the installation of advanced equipment on response assets.

Performance goals for 6 of 11 missions were met, but year-to-year trends are mixed

The Coast Guard's overall performance for fiscal year 2009 is generally consistent with recent years but trends among some missions have been mixed. The Coast Guard assessed its fiscal year 2009 performance on 27 measures covering all of its statutory mission areas. The Coast Guard found that it met 19 of 27 performance measures and met all performance goals for 6 of 11 missions.[19] Similarly, in fiscal year 2008 Coast Guard reported meeting all performance goals in 5 mission areas. See table 2 for Coast Guard's mission performance results and see Appendix III for a

[17]The goal of the Ports, Waterways, and Coastal Security program is to reduce the risk of maritime terrorism by improving maritime domain awareness, conducting maritime security and response operations, and developing maritime security regimes.

[18]This reduction is also reflective of reductions in investments in Rescue 21 and the Response Boat-Medium. The key functions of the Coast Guard's Search and Rescue program are to operate multimission stations and a national distress and response communication system and conduct search and rescue operations for mariners in distress.

[19]A goal (also known as a strategic goal or objective) constitutes a specific set of policy, programmatic, and management objectives for the programs and operations covered in the strategic plan, and serves as a framework from which the annual objectives and activities are derived. Performance measures are particular values or characteristics used to measure output or outcome of activities, objectives, and goals.

detailed list of Coast Guard's performance results for fiscal years 2004 through 2009.

Table 2: Coast Guard Mission Performance Results for Fiscal Year 2009

Coast Guard mission	Number of performance targets	Number of performance targets met
Missions meeting 2009 performance targets:		
• Search and Rescue	1	1
• Ports, waterways, and coastal security	2	2
• Marine safety	6	6
• Marine environmental protection	4	4
• Other law enforcement	2	2
• Ice operations	1	1
Missions partially meeting 2009 performance targets:		
• Aids to navigation	2	1
• Illegal drug interdiction	2	1
• Migrant interdiction	2	1
Missions that did not meet 2009 performance targets:		
• Defense readiness	4	0
• Living marine resources	1	0
Total	**27**	**19**

Source: GAO analysis of Coast Guard data (see table 5 in app. III).

As table 2 shows, the Coast Guard reported meeting all performance targets for 6 of the 11 statutory missions—search and rescue; ports, waterways, and coastal security; marine safety; marine environmental protection; other law enforcement; and ice operations.[20] Regarding the Ports, Waterways, and Coastal Security mission, for example, one of the Coast Guard's fiscal year goals was to reduce maritime terrorism risk by 21 percent. The Coast Guard exceeded this target by ten percent. For another 3 of the 11 statutory missions—aids to navigation, migrant interdiction, and illegal drug interdiction—the Coast Guard met 1 of 2 performance targets in each mission area. For illegal drug interdiction, the Coast Guard narrowly missed its goal of removing 15.7 percent of cocaine from non-commercial vessels in maritime transit zones (actual was 15

[20] According to the Coast Guard, the other law enforcement mission is more accurately described as foreign fishing vessel law enforcement.

percent) but exceeded its goal of removing 134 tons of cocaine (actual was about 160 tons).[21] As in fiscal year 2008, the Coast Guard did not meet any of the related performance measures for the remaining two missions—defense readiness and living marine resources. For the defense readiness mission, the Coast Guard reported that, for fiscal year 2009, agency assets met designated combat readiness levels 44 percent of the time, well below the goal of 100 percent.[22] The Coast Guard has historically lagged in this mission area and this year's performance results are the lowest since 2004. The Coast Guard attributes this decline in performance primarily to the declining material condition and readiness of aging High Endurance Cutters and training shortfalls for High Endurance Cutter and port security unit reserve forces. The planned retirement of multiple High Endurance Cutters—the agency's primary deployable surface assets for combatant commander support—may continue to put achievement of these defense readiness objectives at risk.

[21]Starting in fiscal year 2009, the Coast Guard revised its methodology for measuring drug interdiction performance by adopting the Consolidated Counter-Drug Database as its source for tracking cocaine movement estimates. This change in methodology makes it difficult to compare the fiscal year 2009 performance to prior year's performance so we have not reported prior year results in table 5 of appendix III.

[22]Coast Guard reports that its defense readiness performance measures will be retired in fiscal year 2010. The measures will be replaced with other measures that employ different methodology to better reflect readiness of the Port Security Units and the entire fleet of patrol boats and High Endurance Cutters.

Management Challenges and Competing Priorities Continue to Present Challenges to Coast Guard Leadership

The Deepwater Program Continues to Present Budget and Management Challenges

Over the years, our testimonies on the Coast Guard's budget and performance have included details on the Deepwater acquisition program—the service's top recapitalization budget priority—related to affordability, management, and operations.[23] Given the size of Deepwater funding requirements, the Coast Guard faces a long-term challenge in funding the program within its overall and AC&I budgets. The Deepwater program, at $1.11 billion, accounts for approximately 11 percent of the Coast Guard's overall $9.87 billion budget request and 80 percent of the agency's $1.38 billion AC&I request for fiscal year 2011 capital spending. The Deepwater acquisition program also continues to represent a significant source of unobligated balances—money appropriated that is available but not yet committed for projects included in previous years' budgets.[24] For example, as of November 2009, approximately $472 million remained unobligated for the Deepwater's aircraft program. Continuing into future budgets, Deepwater affordability is likely to continue to be a

[23]To help carry out its missions, the Coast Guard has a large-scale acquisition program, called Deepwater, under way to replace or upgrade its fleet of vessels or aircraft. Our reports and testimonies over the past 12 years have included details on the Deepwater program. See, for example, GAO-09-682; *Coast Guard: Update on Deepwater Program Management, Cost, and Acquisition Workforce*, GAO-09-620T (Washington, D.C.: April 22, 2009); *Coast Guard: Change in Course Improves Deepwater Management and Oversight, but Outcome Still Uncertain*, GAO-08-745 (Washington, D.C.: June 24, 2008); *Coast Guard: Observations on the Fiscal Year 2009 Budget, Recent Performance, and Related Challenges*, GAO-08-494T (Washington, D.C.: Mar. 6, 2008); and *Coast Guard: Challenges Affecting Deepwater Asset Deployment and Management Efforts to Address Them*, GAO-07-874 (Washington, D.C.: June 18, 2007).

[24]See GAO, *Coast Guard: Observations on the Fiscal Year 2008 Budget, Performance, Reorganization, and Related Challenges*, GAO-07-489T (Washington, D.C.: April 18, 2007); GAO-08-494T; and GAO, *Coast Guard: Observations on the Fiscal Year 2010 Budget and Related Performance and Management Challenges*, GAO-09-810T (Washington, D.C.: Jul. 7, 2009).

major challenge for the Coast Guard given other demands on the agency for both capital and operations spending.[25]

In addition to fiscal constraints, the Coast Guard has also had several acquisition management challenges throughout the history of this program and some of those challenges remain. To address some of these past acquisition management challenges, in April 2007, the Coast Guard assumed the role of systems integrator for the Deepwater Program, reduced the scope of the work by the former systems integrator (or prime contractor), Integrated Coast Guard Systems (ICGS), and assigned these functions to Coast Guard stakeholders.[26] Additionally, the Coast Guard has improved and begun to apply the disciplined management process contained in its Major Systems Acquisition Manual (MSAM) for individual assets, although it did not meet its goal of adhering to this process for all Deepwater assets by March 2009. In addition, we reported in July 2009 that the MSAM does not appear to be consistent with DHS policy that requires entities responsible for operational testing to be independent of the system's users.[27] The Coast Guard concurred with our recommendation to consult with DHS on policies regarding the independent operational test authority.

The Coast Guard has also made other improvements to its oversight and management of the Deepwater program. Due in part to the Coast Guard's increased insight into its purchases, the anticipated cost, schedules, and capabilities of many Deepwater assets have changed since the $24.2 billion baseline was established in 2007. Coast Guard officials have stated that this baseline reflected not a traditional cost estimate, but rather the anticipated contract costs as determined by ICGS. As the Coast Guard developed its own cost baselines for some assets, as of July 2009, it has become apparent that some of the assets it is procuring will likely cost up

[25]Additionally, while a lot of attention has been given to the recent fiscal deterioration, the federal government faces even larger fiscal challenges that will persist long after the return of financial stability and economic growth. See GAO, *The Federal Government's Long-Term Fiscal Outlook, Fall 2009 Update*, GAO-10-137SP (Washington, D.C.: Oct. 15, 2009).

[26]To carry out this acquisition, the Coast Guard awarded the competitive contract to a systems integrator, which for the Deepwater program, was a contractor composed of two major companies acting as a joint venture, responsible for designing, constructing, deploying, supporting, and integrating the various assets to meet projected Deepwater operational requirements at the lowest possible costs, either directly or through subcontractors.

[27]GAO-09-682.

to $2.7 billion more than anticipated. This represents about a 39 percent cost growth for the assets under the revised cost estimates.[28] According to Coast Guard, as more cost baselines are developed and approved, further cost growth is likely. Updated baselines also indicate that schedules have slipped for delivery of several of the assets.

Problems in Deepwater management and oversight have led to delivery delays and other operational challenges for certain assets, as our prior work has identified, particularly (1) patrol boats and their anticipated replacements, the Fast Response Cutters[29] and (2) the National Security Cutter. Specifically, we reported in June 2008 that conversion of the first eight 110-foot patrol boats was unsuccessful, and subsequently, the Coast Guard decided to remove these vessels from service and accelerate the design and delivery of the replacement Fast Response Cutters.[30] The removal from service of the eight converted patrol boats in November 2006 created operational challenges by reducing potential patrol boat availability by 16 percent or 20,000 annual operational hours.[31] To mitigate the loss of these eight patrol boats and the associated 2,500 operational hours per patrol boat in the near term, the Coast Guard implemented a number of strategies beginning in fiscal year 2007. For example, the Coast Guard began using the crews from the eight patrol boats removed from service to augment the crews of eight other patrol boats so that these assets could operate for longer duration, yet still met crew rest requirements. To help fill the longer-term patrol boat operational gap, Coast Guard officials continue to pursue the acquisition of a commercially available Fast Response Cutter. The Coast Guard reports that the first of these cutters, the Sentinel, will commence operations in Miami, Florida in fiscal year 2011. While the contract is for the design and production of up to 34 cutters, the Coast Guard intends to acquire a total of 12 by fiscal year

[28]As part of our ongoing work, we are updating the Coast Guard cost estimates of Deepwater assets and expect to report on this work by mid-2010.

[29]The Fast Response Cutter is slated to replace the 110' and 123' patrol boats under the Coast Guard's Deepwater system and is projected to provide greater speed, endurance, and operational hours then current patrol boats.

[30]See GAO, *Coast Guard: Strategies for Mitigating the Loss of Patrol Boats Are Achieving Results in the Near Term, but They Come at a Cost and Longer Term Sustainability Is Unknown*, GAO-08-660 (Washington, D.C.: June 23, 2008).

[31]Under the original 2002 Deepwater implementation plan, the Coast Guard intended to convert all 49 of its aging and deteriorating 110-foot patrol boats into 123-foot patrol boats with increased capabilities. This conversion was to serve as a bridging strategy until a replacement vessel, the Fast Response Cutter, became operational.

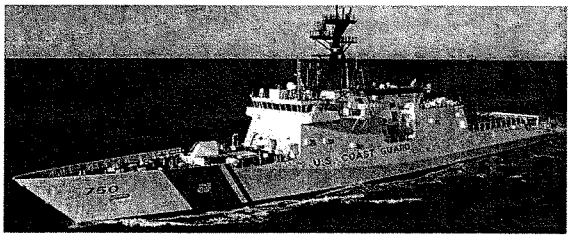
2011 to assess the capabilities of these first 12 before exercising options for additional cutters. Coast Guard officials noted that they plan to assess the capabilities of the new cutter through operational test and evaluation before exercising options for additional cutters.

Regarding the National Security Cutters, delays in the delivery of National Security Cutters and the support assets of unmanned aircraft and small boats have created operational gaps for the Coast Guard that include the projected loss of thousands of days in National Security Cutter availability for conducting missions until 2018, as we reported in July 2009.[32] The first vessel (USCGC Bertholf, see figure 1) was initially projected for delivery in 2006 but was not delivered to the Coast Guard until May 2008. We reported in July 2009 that this first vessel was undergoing final trials as the Coast Guard prepared it for full operational service in the fourth quarter of fiscal year 2010. The Coast Guard deployed this first National Security Cutter without its planned support assets.[33] Given the delivery delays, the Coast Guard must continue to rely on High Endurance Cutters that are becoming increasingly unreliable. Coast Guard officials said that the first National Security Cutter capabilities will be greater than those of a High Endurance Cutter; however, the Coast Guard cannot determine the extent to which the National Security Cutters' capabilities will exceed those of the High Endurance Cutter until the National Security Cutters' support assets are operational, which will take several years. To mitigate these operational gaps, the Coast Guard is considering extending the service life of some of its High Endurance Cutters and is using existing aircraft and small boats until unmanned aircraft and new small boats are operational. However, because the High Endurance Cutters are increasingly unreliable, the Coast Guard planned to perform a series of upgrades and maintenance procedures on selected vessels. Before this work could begin, the Coast Guard conducted an analysis on the condition of the High Endurance Cutters and this resulted in the plan to decommission 4 High Endurance Cutters by fiscal year 2011, which could further negatively impact the Coast Guard's ability to more effectively conduct missions.

[32]GAO-09-497.

[33]The Bertholf was outfitted with cutter interceptor boats and an H-65 helicopter during its first operational patrol.

Figure 1: The Coast Guard's First National Security Cutter, The Bertholf



Source: U.S. Coast Guard.

Looking forward, Coast Guard officials stated that they must review and continuously re-validate whether assumptions used to determine the original fleet mix (i.e., types and number of vessels and aircraft) of Deepwater assets are still reflective of mission demands and operational requirements. For example, the Coast Guard is conducting an updated review to determine whether it will continue with the contractor's original 2001 baseline mix of 8 National Security Cutters, 25 Offshore Patrol Cutters, and 58 Fast Response Cutters. From 2005 to 2006, the Coast Guard worked to rebaseline the Deepwater program to reflect its post-September 11 mission. In April 2006, we reported on this baseline, looking at key changes in asset numbers and capabilities between the original (2001) and revised (2005 and 2006) Deepwater baseline implementation plans.[34] At that time, we found that the Coast Guard's analytical methods were appropriate for determining if the revised asset mix would provide greater mission performance and whether the mix was appropriate for meeting Deepwater missions. In May 2007, the DHS approved the Deepwater Acquisition Program Baseline, which reflects the revised 2005 to 2006 implementations plans. Since that time, as the Coast Guard has taken over the acquisition and management responsibilities for the Deepwater program from the contractor, it has realized that its knowledge of how the various proposed assets would work together to help meet mission needs were limited because the contractor, in certain cases, had

[34]See GAO, *Coast Guard: Changes to Deepwater Plan Appear Sound, and Program Management Has Improved, but Continued Monitoring Is Warranted,* GAO-06-546 (Washington, D.C.: April 28, 2006).

developed the plans for these assets without using all of the input from the Coast Guard.[35] Coast Guard officials stated that as part of the on-going process to review the original work completed by the contractor, and in light of technology advances, the Department's maturation, program oversight, and new assets coming online, the Coast Guard has initiated an analysis of the capabilities, number, and mix of assets it needs to fulfill its Deepwater missions by undertaking a new fleet mix analysis.[36] The Coast Guard expects that this fleet mix analysis will assist in determining capability-capacity-performance sensitivities and serve as one tool, among many, in making future capability requirements determinations, including future fleet mix decisions. The results of this study were originally expected in the summer of 2009, but U.S. Coast Guard officials told us that, as of February 2010, the finalization of this study is not expected for a few more months, at which time Coast Guard leadership is to assess the results and plan for future asset procurement decisions. According to Coast Guard officials, the Coast Guard plans to update this fleet mix analysis every 4 years and use it as a basis to update the numbers and types of assets needed for the Deepwater program. At this time, it is too soon to determine the extent to which the fleet mix analysis will inform the Coast Guard's future Deepwater investment decisions.

Coast Guard has Efforts Underway to Address Key Reorganization Challenges

The Coast Guard is also continuing its command reorganization, but has not received requested statutory authorities designed to establish its new command structure.[37] This reorganization is intended to better position the service to fulfill not only traditional missions—such as ensuring the safety and security of commercial shipping, safeguarding U.S. fisheries, interdicting illicit drugs, and conducting search and the rescue operations—but also homeland security responsibilities that expanded after the September 11 terrorist attacks. The reorganization is specifically focused on modifying the Coast Guard's command and control

[35]In 2001, the contractor completed a study documenting the capabilities, types, and mix of assets the Coast Guard needed to fulfill its Deepwater missions, referred to as the Fleet Mix Study.

[36]On October 24, 2008, a Coast Guard charter established a study group to conduct the Coast Guard fleet mix analysis. The group's purpose is to analyze, validate and make recommendations regarding capability requirements necessary to execute Coast Guard missions in the Deepwater operating environment.

[37]See GAO-09-530R. As we reported, the U.S. Coast Guard is undertaking a major effort to update its command structure, support systems, and business practices.

structure[38]—including the establishment of four new organizational entities—as well as updating mission support systems, such as maintenance, logistics, financial management, human resources, acquisitions, and information technology.

While the Coast Guard reported completing all interim key actions for the reorganization program on schedule, it has not received requested statutory authorities designed to fully establish the new command structure and associated senior leadership positions. Specifically, the Coast Guard submitted a legislative change proposal to, in general, amend Title 14 of the U.S. Code, changing the Vice Commandant's grade from that of a vice admiral to an admiral, and enabling the Coast Guard to appoint four vice admirals rather than two.[39] Lacking these legislative authorities, the Coast Guard is not able to fully implement its envisioned command structure realignment leaving the Coast Guard with its existing geographically-divided command structure—Pacific Area and Atlantic Area. As a result, the Coast Guard has reported that some role ambiguity currently exists due to the combination of both old and new organizational components operating concurrently. For example, many personnel designated to the new Force Readiness Command are continuing to focus almost exclusively on Pacific Area responsibilities. According to the Coast Guard, the staff is currently able to shift resources internally to meet changing demands and priorities; however, the situation is not sustainable. That is, without the legislative changes, personnel will not be able to fully carry out their duties as envisioned by the new command structure. However, as we previously reported, even if the proposed command realignment is fully implemented through enactment of legislative changes, development of relevant performance metrics also remains critically important to ensure that the purported organizational benefits of reorganization are realized. The Coast Guard has taken steps to identify applicable business metrics, which are intended to be used to evaluate the performance and effectiveness of modernized Coast Guard processes and facilitate continued improvement

[38]Within the Coast Guard, command and control refers to the exercise of authority and direction by a properly designated commander over assigned forces in the accomplishment of the mission. Command and control functions are performed through an arrangement of personnel, equipment, communications, facilities, and procedures.

[39]While several current bills (e.g., H.R. 2650, H.R. 3619, and S. 1194) contain the Coast Guard's legislative change proposal provisions, as of February 15, 2010, such bills were still pending.

Establishment of the Deployable Operations Group is one example of Coast Guard reorganization that appears to be achieving organizational benefits, although selected management challenges also exist. Established in July 2007, the Deployable Operations Group aligns all of the Coast Guard's deployable specialized forces under a single unified command with national, rather than regional focus. To date, the Deployable Operations Group has largely achieved many of the organizational benefits that it intended as a result of establishing a single command entity to manage and oversee all of its deployable specialized forces. For example, the Deployable Operations Group has (1) standardized tactics, techniques, and procedures; (2) streamlined the process used to request and allocate deployable resources; and (3) implemented an employment schedule that provides dedicated training periods for deployable units, among other improvements. As the Deployable Operations Group continues to mature, however, the command faces challenges to ensure that deployable units are adequately prepared and have the necessary resources to carry out both routine operations and respond to national events and emergencies. For example, the Deployable Operations Group faces human resource challenges associated with a reduction in number of personnel allotted to perform key duties. Specifically, the Deployable Operations Group is operating with 113 staff although initial planning estimates called for 147. Other challenges involve achieving and maintaining qualifications for capabilities that are critical for maritime interdiction missions, such as vertical insertion from a helicopter onto the deck of a target vessel. Although three different types of deployable units are designated to be capable of performing this action, a limited number of required helicopters and trained pilots are available to meet the ongoing training demand. Coast Guard officials stated that they expect that the proposed elimination of dedicated helicopter support to the Maritime Security Response Team (MSRT) will likely exacerbate this challenge.[40] In addition, while the Deployable Operations Group was created to leverage existing resources—potentially doing more with the same resources—its enhanced oversight has also identified new resource requirements. For example, the Deployable Operations Group has identified areas of increasing demand and potential resource gaps that may require difficult decisions about

[40] The Maritime Security Response Team (MSRT) is a highly specialized resource with advanced counterterrorism skills and tactics. The MSRT is trained to be a first responder to potential terrorist situations; deny terrorist acts; perform security actions against non-compliant actors; perform tactical facility entry and enforcement; participate in port level counterterrorism exercises; and educate other forces on Coast Guard counterterrorism procedures.

Deployable Specialized Forces roles', required capacity, and their resulting impact on the Coast Guard's overall budget. These challenges may be further exacerbated by having fewer Coast Guard personnel available to meet the increasing demand. We are continuing to assess the Coast Guard's Deployable Operations Group and will report on the results of our review this by spring of this year.

However, the Coast Guard has not made progress in all of its efforts to improve mission support challenges, such as financial management. According to the DHS-OIG's report on the fiscal year 2009 financial statement and internal controls, the Coast Guard did make some progress in fiscal year 2009.[41] In response to reporting from previous years on several internal control deficiencies that led to a material weakness in financial reporting, the Coast Guard developed its *Financial Strategy for Transformation and Audit Readiness*, which is a comprehensive plan to identify and correct conditions that are causing control deficiencies. However, the DHS-Office of Inspector General's (DHS-OIG) report also found that the Coast Guard was unable to provide documentation of key processes, risk assessments, or evidence supporting the existence of internal controls. Coast Guard management acknowledged that pervasive material weaknesses exist in key financial processes, and therefore the agency is unable to make an assertion on the effectiveness of internal control over financial reporting. In addition, the Coast Guard was unable to provide evidence to support transactions and account balances that are material to DHS's financial statements. In addition, the Deputy Inspector General testified before Congress on financial management challenges at the Department and noted that the Coast Guard was one of three components primarily responsible for material weaknesses in the department's internal controls.[42] In addition, the Coast Guard also contributed to the Transportation Security Administration's (TSA's) financial systems security material weakness due to TSA's reliance on the Coast Guard's financial systems. According to the Commandant, the financial audit is a top Coast Guard responsibility, and the solution ultimately lies in the transition to a new financial accounting system that is

[41]Department of Homeland Security, Office of Inspector General, *Independent Auditor's Report on DHS' FY2009 Financial Statements and Internal Control Over Financial Reporting*, OIG-10-11 (Washington, D.C., November 13, 2009).

[42]Taylor, James L., Deputy Inspector General. Department of Homeland Security, Office of Inspector General. Testimony Before the House of Representatives, Committee on Homeland Security, Subcommittee on Management, Investigations, and Oversight. October 29, 2009.

being developed by DHS. In addition, Coast Guard officials stated that the Coast Guard must also correct deficiencies which are not dependent upon the system, as well as work to have policies, processes, and data ready to successfully migrate and operate under a new financial system. As we reported in December 2009, DHS has developed certain elements for its financial management strategy—the Transformation and Systems Consolidation (TASC) program—and a plan for moving forward with its financial system integration efforts, but it faces significant challenges in completing and implementing its strategy.[43] Although we made seven recommendations and reaffirmed six prior recommendations to mitigate DHS's risk in acquiring and implementing the TASC, none were specific to the Coast Guard.[44] We will, however, continue to closely monitor the progress of this new financial management systems strategy, which will ultimately affect all components, including the Coast Guard.

Coast Guard Also Facing Workforce Challenges

In addition to having efforts underway to address key reorganization challenges, the Coast Guard is also working to address workforce challenges. We reported in January 2010 that the Coast Guard has efforts underway to address some long-standing workforce challenges, but it is too soon to determine the impact of these efforts.[45] The Coast Guard has a well-documented history of workforce problems, identified by Congress, GAO, and marine safety industry stakeholders, among others. For example, the Coast Guard faces continuing problems in balancing homeland security and more traditional missions, such as law enforcement and marine safety, in the wake of the September 11 terrorist attacks. In 2002 and 2003, we reported that the Coast Guard did not have a long-term strategy that outlined how it sees its resources—including personnel—distributed across its various missions. Furthermore, we reported that although the Coast Guard used a variety of mission performance measures, it lacked a useful reporting mechanism to synthesize and convey data to Congress about its non-homeland security mission

[43]See GAO, *Financial Management Systems: DHS Faces Challenges to Successfully Consolidating Its Existing Disparate* Systems, GAO-10-76 (Washington, D.C.: Dec. 4, 2009).

[44]See, GAO-10-76. For further information on our prior work and recommendations in this area, see GAO, *Homeland Security: Departmentwide Integrated Financial Management Systems Remain a Challenge*, GAO-07-536 (Washington, D.C.: June 21, 2007); and, GAO, *Financial Management Systems: DHS Has An Opportunity to Incorporate Best Practices in Modernization Efforts*, GAO-06-553 (Washington, D.C.: Mar. 29, 2006).

[45]GAO-10-268R.

resource levels. Thus, we recommended in 2004 that the Coast Guard implement a system to accurately account for resources expended in each of its mission areas.[46] Although the Coast Guard generally agreed with this recommendation, the agency took no formal position. The agency explained that it believed that its multimission nature posed a higher degree of difficulty for the agency to implement the recommendations. The Coast Guard has reported improvements in the transparency and accuracy of its financial systems and data, though concerns remain, as reported by the DHS-OIG. Further, in 2008, we reported that the Coast Guard's execution of a security-related program was at risk because it lacked a strategic workforce plan that (1) defined appropriate staffing levels, (2) identified the critical skills needed to achieve the mission, and (3) eliminated workforce gaps to prepare for future needs. As a result, we recommended that Coast Guard fully develop a workforce plan for this program. DHS partially concurred with our recommendation, saying current workforce needs had been analyzed, but acknowledged the need to do more if new authorities were provided to expand the program's capacity-building activities. However, we found that those actions fell short of the planning called for by the human capital management guidance and that further development of a workforce plan was still appropriate.[47]

The Coast Guard has made efforts to address these workforce challenges through the development of servicewide mission-support and mission-specific plans, as well as the creation or expansion of data-driven management tools. However, most of these efforts are either in early stages of implementation or expansion or the data are not yet available to assess them. One of the four plans we reviewed did not fully conform to congressional direction. For example, one servicewide effort, the Workforce Action Plan, was developed in response to appropriations committee report direction, whose members had expressed concern that the size of the Coast Guard's workforce had not kept pace with its

[46]See, GAO, *Coast Guard: Relationship between Resources Used and Results Achieved Needs to Be Clearer*, GAO-04-432 (Washington, D.C.: Mar. 22, 2004).

[47]GAO, *Maritime Security: Coast Guard International Port Security Program Has Made Progress, but Additional Workforce Planning Is Needed*, GAO-08-335SU (Washington, D.C.: Apr. 4, 2008).

increased mission requirements.[48] The Workforce Action Plan did not provide a gap analysis of the mission areas and personnel needed, and thus also did not provide a strategy with proposed funding, milestones, and a timeline for addressing these workforce gaps for each employee, consistent with congressional direction. The remaining three plans generally conformed to best practices.[49]

Furthermore, as the Coast Guard continues to develop and implement these workforce-related efforts, it faces challenges due to resource constraints, data reliability problems, and coordination. The Coast Guard acknowledged that it faces two types of resource challenges—first, dedicating the necessary resources to implement and monitor its planning and data-tool workforce initiatives, and second, having the resources to meet its workforce and mission requirements once they are established. Coast Guard officials also acknowledged challenges with obtaining reliable, verifiable, and repeatable data that may affect the data-driven tools created by the Coast Guard. Along with resource and data reliability challenges, the Coast Guard faces potential challenges in coordinating its various workforce-related plans and tools. Specifically, in the midst of the large organizational transformation that is under way involving numerous changes to the Coast Guard's command structure, enterprisewide support systems, and business practices, it may prove difficult for the Coast Guard to coordinate more narrowly defined workforce management efforts, such as plans and tools that span a range of specific functions and encompass a variety of Coast Guard activities. The Coast Guard has established an office to coordinate the modernization effort and other broad organizational change initiatives; however, it is not clear whether its span of control or influence will extend to the specific workforce-related plans and tools.

[48]The Senate Report (S. Rep. No. 110-396 at 80 (2008)) accompanying the Department of Homeland Security Appropriations Act, 2009 (Pub. L. No. 110-329, 122 Stat. 3574, 3652 (2008)) required the Commandant of the United States Coast Guard to address specific elements in the development of a workforce action plan. The Explanatory Statement accompanying the Department of Homeland Security Appropriations Act, 2009, directed the Coast Guard to comply with the Senate report direction regarding a workforce action plan (H.Comm. on Appropriations, 110th Cong., Committee Print on H.R. 2638/Public Law 110-329 at 646 (2008)).

[49]For detailed information on each of these plans and tools including the issue they are intended to address, purpose, responsible command, time frames, and status, see pp. 23-44 of GAO 10-268R.

Leadership Is Key to Sustaining the Coast Guard's Efforts to Address Challenges

Leadership is critical as the Coast Guard faces large scale changes and resource decisions in the near term. While the Coast Guard has efforts underway to address many of the key challenges confronting the agency, sustaining these efforts will be a challenge for the new Coast Guard leadership team.[50] As we have previously reported, at the center of any serious change management initiative—such as the reorganization plan—are the people.[51] Thus, the key to a successful merger and transformation is to recognize the "people" element and implement strategies to help individuals maximize their full potential in the new organization, while simultaneously managing the risk of reduced productivity and effectiveness that often occurs as a result of the changes. One key practice in this effort is ensuring that the organization's top leadership drives the change initiative and defines and articulates a succinct and compelling reason for the change. For example, in 2003 we reported that because a merger or transformation entails fundamental and often radical change, strong and inspirational leadership is indispensable, and that top leadership that is clearly and personally involved in the merger or transformation represents stability and provides an identifiable source for employees to rally around during tumultuous times. The agency's leadership must set the direction, pace, and tone for the transformation. For all of these ongoing efforts and changes to achieve their intended benefits, it is important that Coast Guard leadership maintains attention to these challenges.

Mr. Chairman and members of this Subcommittee, this concludes my prepared statement. I would be happy to respond to any questions that you or other Members of the Subcommittee may have.

GAO Contacts and Staff Acknowledgments

For information about this statement, please contact Stephen L. Caldwell, Director, Homeland Security and Justice Issues, at (202) 512-9610, or caldwells@gao.gov. Contact points for our Office of Congressional Relations and Office of Public Affairs may be found on the last page of this statement. Other individuals making key contributions to this testimony include Sylvia Bascopé, Claudia Becker, Dawn Hoff, John Hutton, Lara

[50]The current Coast Guard Commandant's 4-year term ends in May 2010. At such time, he will be replaced by a new Commandant and Coast Guard leadership team.

[51]GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-369 (Washington, D.C.: July 2, 2003).

Kaskie, J. Kristopher Keener, Dan Klabunde, Ryan Lambert, and Michele Mackin.

Appendix I: The Coast Guard's Statutory Missions

This appendix outlines the Coast Guard's mission, activities and functions. A component of DHS, the Coast Guard is a multimission military service that serves as the principal federal agency responsible for maritime safety, security, and environmental stewardship. In addition to being one of the five armed Services of the United States, the Coast Guard serves as a law enforcement and regulatory agency with broad domestic authorities. The Coast Guard has responsibilities that fall under two broad mission categories—homeland security and non-homeland security. Within these categories, the Coast Guard's primary activities are further divided into 11 statutory missions, which are listed in table 3.

Table 3: Coast Guard Homeland Security and Non-Homeland Security Missions

Statutory missions[a]	Primary activities and functions of each Coast Guard mission
Homeland security missions	
Ports, waterways, and coastal security	• Conducting harbor patrols, vulnerability assessments, intelligence gathering and analysis, and other activities to prevent terrorist attacks and minimize the damage from attacks that occur.
Defense readiness	• Participating with the Department of Defense in global military operations. • Deploying cutters and other boats in and around harbors to protect Department of Defense force mobilization operations.
Migrant interdiction	• Deploying cutters and aircraft to reduce the flow of undocumented migrants entering the United States via maritime routes.
Non-homeland security missions	
Drug interdiction	• Deploying cutters and aircraft in high drug-trafficking areas. • Gathering intelligence to reduce the flow of illegal drugs through maritime transit routes.
Aids to navigation	• Managing U.S. waterways and providing a safe, efficient, and navigable marine transportation system. • Maintaining the extensive system of navigation aids; monitoring marine traffic through vessel traffic service centers.
Search and rescue	• Operating multi-mission stations and a national distress and response communication system. • Conducting search and rescue operations for mariners in distress.
Living marine resources	• Enforcing domestic fishing laws and regulations through inspections and fishery patrols.
Marine safety	• Setting standards and conducting vessel inspections to better ensure the safety of passengers and crew aboard commercial vessels. • Partnering with states and boating safety organizations to reduce recreational boating deaths.
Marine environmental protection	• Preventing and responding to marine oil and chemical spills. • Preventing the illegal dumping of plastics and garbage in U.S. waters. • Preventing biological invasions by aquatic nuisance species.

Statutory missions[a]	Primary activities and functions of each Coast Guard mission
Other law enforcement (foreign fish enforcement)	• Protecting U.S. fishing grounds by ensuring that foreign fishermen do not illegally harvest U.S. fish stocks.
Ice operations	• Conducting polar operations to facilitate the movement of critical goods and personnel in support of scientific and national security activity. • Conducting domestic icebreaking operations to facilitate year-round commerce. • Conducting international ice operations to track icebergs below the 48th north latitude.

Source: Coast Guard.

[a]The Coast Guard's homeland security and non-homeland security missions are delineated in section 888 of the Homeland Security Act of 2002 (Pub. L. No. 107-296, 116 Stat. 2135, 2249 (2002)). Starting with the fiscal year 2007 budget, however, the Office of Management and Budget designated the Coast Guard's drug interdiction and other law enforcement missions—which were originally homeland security missions—as non-homeland security missions for budgetary purposes.

Appendix II: Coast Guard's Budget Request, by statutory mission

This appendix compares the Coast Guard's proposed budget for fiscal year 2011 against the agency's enacted budget for the previous year, by mission. Table 4 highlights those mission areas in which the Coast Guard proposes change—either an increase or decrease in investment from year to year. The last two columns of the table give a sense of the magnitude of the proposed change, both as a dollar figure and as a percentage change. Figure 2 graphically illustrates these year-to-year changes, by mission.

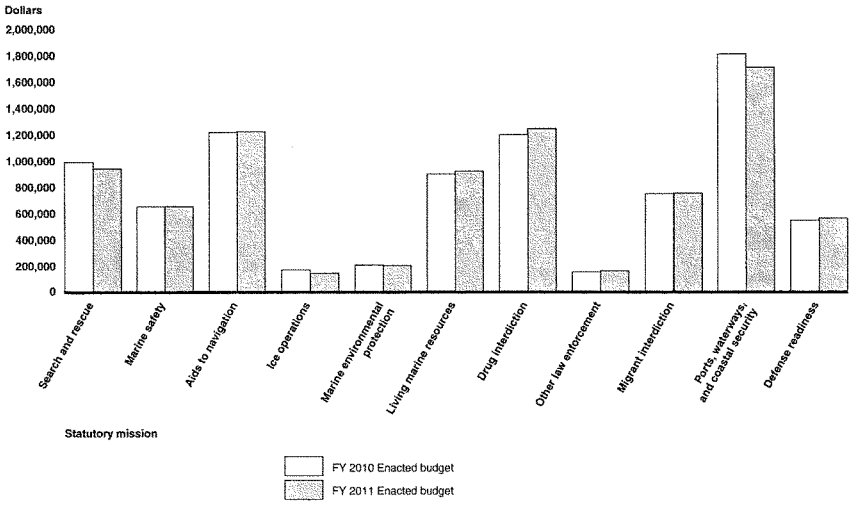
Table 4: Coast Guard Fiscal year 2011 Budget Request by Statutory Mission

Statutory Mission[a]	FY 2010 Enacted	FY 2011 Requested	Change	Percentage Change
Search and rescue	$985,991	$936,370	-$49,621	-5
Marine safety	649,711	650,054	343	0
Aids to navigation	1,215,310	1,219,873	4,563	0
Ice operations	167,397	141,297	-26,100	-16
Marine environmental protection	202,241	198,711	-3,530	-2
Living marine resources	893,391	915,947	22,556	3
Drug interdiction	1,193,726	1,239,658	45,932	4
Other law enforcement	148,840	158,581	9,741	7
Migrant interdiction	742,322	747,425	5,103	1
Ports, waterways, and coastal security	1,802,134	1,700,995	-101,139	-6
Defense readiness	540,686	557,626	16,940	3
Total Discretionary Funding	**8,541,749**	**$8,466,537**	**-$75,212**	**-1**

Source: GAO analysis of Coast Guard data.

[a]The Coast Guard budgets by statutory appropriations account categories rather than statutory mission program categories. In order to display budget allocated by mission program, the agency uses an activity-based cost model that averages past expenditures to forecast future spending.

Figure 2: Coast Guard Fiscal Year 2010 Enacted Budget and FY 2011 Budget Request, by Statutory Mission



Source: GAO analysis of Coast Guard data.

Appendix III: Performance Results by Mission for Fiscal Years 2004 through 2008

This appendix provides a detailed list of performance results for the Coast Guard's 11 statutory missions for fiscal years 2004 through 2009 (see table 5). In some cases, noted by n/a, performance measures have changed and do not allow for direct comparison with the fiscal year 2009 measure. The table is broken into three sections—missions meeting all of their 2009 performance targets, missions partially meeting their performance targets, and missions meeting none of their performance targets.

Table 5: Coast Guard Performance Results by Mission from Fiscal Year 2004 through Fiscal Year 2009

		Performance results						
Coast Guard mission	**Mission performance measures**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**Performance target for 2009**
Missions meeting 2009 performance targets								
Search and rescue	Percentage of people saved from imminent danger in the maritime environment*	76.7%	77.1%	76.0%	76.6%	76.8%	77.3%	≥76.0%
Ports, waterways, and coastal security	Percent reduction in maritime terrorism risk over which the Coast Guard has influence	n/a	14%	18%	15%	20%	31%	≥21%
	MTSA annual required facility inspection rate	n/a	100%	100%	78%	100%	100%	100%
Marine safety	5-year average commercial mariner deaths and injuries	483	473	502	527	494	475	≤529
	Annual commercial mariner deaths and injuries	460	522	617	480	388	369	≤496
	5-year average commercial passenger deaths and injuries	170	171	215	238	250	228	≤251
	Annual commercial passenger deaths and injuries	259	188	334	254	215	149	≤236
	5-year average recreational boating deaths and injuries	4,703	4,503	4,367	4,249	4,147	4,038	≤4,248
	Annual recreational boating deaths and injuries	4,081	4,120	4,197	4,285	4,052	3,534	≤4,184
Marine environmental protection	5-year average number of oil spills greater than 100 gallons per 100 million short tons shipped	17.6	16.0	14.3	14.0	13.2	11.8	≤13.0
	Annual number of oil spills greater than 100 gallons	162	149	168	140	122	98	≤150

Coast Guard mission	Mission performance measures	Performance results 2004	2005	2006	2007	2008	2009	Performance target for 2009
	5-year average number of chemical discharge incidents per 100 million short tons shipped	42.5	31.9	27.9	24.7	19.8	17.8	≤25.9
	Annual number of chemical discharge incidents greater than 100 gallons	39	31	46	39	21	22	≤50
Other law enforcement (foreign fishing enforcement)	Number of incursions into U.S. exclusive economic zone	247	171	164	126	81	112	≤195
	Interdiction rate of foreign vessels detected violating U.S. exclusive economic zone	n/a	n/a	n/a	23.0%	16.0%	14.3%	≥9%
Ice operations	Number of days critical waterways are closed due to ice	4	0	0	0	0	0	≤2/8[b]
Missions partially meeting 2009 performance targets								
Aids to navigation	5-year average number of collisions, allisions, and groundings[c]	1,928	1,875	1,818	1,823	1,857	1,878	≤1871
	Availability of federal short-range aids to navigation	97.5%	97.1%	97.0%	97.9%	98.3%	98.0%	≥97.5%
Migrant interdiction	Percentage of undocumented migrants attempting to enter the United States via maritime routes that are interdicted	n/a	n/a	n/a	65.2%	62.7%	84.4%	≥69.9%
	Percentage of undocumented migrants attempting to enter the United States via maritime routes that are interdicted by the Coast Guard	n/a	n/a	n/a	42.1%	46.9%	37.5%	≥50%
Illegal Drug interdiction	Removal rate for cocaine shipped via non-commercial maritime means[d]	n/a	n/a	n/a	n/a	n/a	15%	≥15.7%
	Metric tons of cocaine removed	133.4	153.2	130.2	161.7	166.9	160.1	≥134
Missions that did not meet 2009 performance targets								
Defense readiness[e]	Percentage of time that Coast Guard assets meet designated combat readiness level	76%	67%	62%	51%	56%	44%	100%
	Defense Readiness of High Endurance Cutters	98.5%	99.5%	84.2%	47.0%	47.0%	20.7%	100%
	Defense Readiness of Patrol Boats	n/a	n/a	100%	100%	95.0%	94.0%	100%
	Defense Readiness of Port Security Units	29.0%	1.5%	1.0%	4.5%	24.5%	19.8%	100%
Living marine resources	Percentage of fishing vessels observed to be in compliance with federal regulations	96.3%	96.4%	96.6%	96.2%	95.3%	96.7%	≥97%

Source: GAO analysis of Coast Guard data.

Note: n/a, not available. Performance targets for previous years may have been different than fiscal year 2009 targets.

[a]This measure calculates the number or lives saved divided by the number of lives in distress, excluding cases involving 11 or more persons. Starting in fiscal year 2009, "lives in distress" now includes "lives unaccounted for"—persons still missing when search and rescue operations cease.

[b]Closure day targets vary according to the relative severity of the winter. The standard is 2 days in an average winter and 8 days in a severe winter.

[c]A collision refers to two moving vessels that strike one another whereas an allision is when a vessel strikes a fixed object, such as a bridge.

[d]In fiscal year 2009, the Coast Guard revised its methodology for measuring drug interdiction performance by using the Consolidated Counter Drug Database (CCDB) as its source for tracking cocaine movement. Coast Guard states that the CCDB quarterly, event-based estimates are historically more than 60 percent higher than the annual production- and consumption- based estimates which had previously been used. This could make it appear as though Coast Guard performance dropped from fiscal year 2008. Therefore, no comparable prior year figures are available.

[e]The Coast Guard reports that the defense readiness performance measures reported in fiscal year 2009 will be retired in fiscal year 2010. The measures are being replaced with similar Status of Resources Training System based readiness measures that employ different methodology to better reflect readiness of all the Port Security Units and the entire fleet of patrol boats and High Endurance Cutters.

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STATEMENT OF
THE HONORABLE RICHARD A. LIDINSKY, JR.,
CHAIRMAN, FEDERAL MARITIME COMMISSION
800 NORTH CAPITOL ST., N.W.
WASHINGTON, D.C. 20573
(202) 523-5723
(202) 275-0518 (Fax)

BEFORE THE
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON COAST GUARD AND
MARITIME TRANSPORTATION
UNITED STATES HOUSE OF REPRESENTATIVES

February 25, 2010

Mr. Chairman and members of the Subcommittee, thank you for this opportunity to present the President's Fiscal Year 2011 budget for the Federal Maritime Commission.

The President's budget for the Federal Maritime Commission ("the Commission" or "FMC") provides $25,498,000 for Fiscal Year 2011. This represents an increase of $1,363,000 over our Fiscal Year 2010 appropriation and funds 132 work years of employment.

Our Fiscal Year 2011 budget request contains $18,515,000 for salaries and benefits to support the Commission's programs. This salary and benefits request is an increase of $1,410,000 over our Fiscal Year 2010 appropriation. This figure includes funds for all salaries and benefits, promotions, within-grade increases, annualization of Fiscal Year 2010 pay increases, and an anticipated 2.1 percent Fiscal Year 2011 pay adjustment. It also includes one new information technology (IT) position to speed the Commission's efforts to comply with recent government-wide technology and information security initiatives, and to modernize and automate filings and registrations to increase productivity, transparency, and reduce burdens on the businesses we regulate.

Official travel has been straight-lined at the Fiscal Year 2010 level of $283,000. The ability of our staff to travel to meet with stakeholders and our counterparts remains an essential aspect of our effort to provide better service to the ocean transportation industry and to accomplish our oversight duties more effectively.

Administrative expenses are decreased $47,000 below the Fiscal Year 2010 level. GPO printing costs are increased by $25,000, rental of office space is increased by $18,000, and costs associated with sending correspondence are increased by $7,000.

These increases are offset by reductions for furniture and equipment, library materials, and telephone and postage expenses totaling $40,000, plus a reduction in commercial and

government contract costs of $57,000. Administrative expenses to be funded in Fiscal Year 2011 support our customary business expenses, such as for telephones, litigation, postage, commercial and government contracts, and supplies.

In summary, the Commission's budget represents the basic spending necessary to conduct day-to-day operations and to meet the responsibilities Congress has entrusted to this agency.

STATE OF THE U.S. TRADES

Since 1916, the Commission and its predecessor agencies have effectively administered Congress's directives for oversight of the liner shipping industry. Working with the industry and its customers, we have developed a regulatory system that allows for necessary oversight activity with minimal impact on the efficient flow of U.S. exports and imports. I would like to highlight the state of major U.S. trades as well as identify some significant current events.

Due to the global recession's impact on international trade flows, Fiscal Year 2009 was perhaps the worst year to date in the forty-year plus history of international containerized shipping. The total volume of U.S. liner exports shipped worldwide fell by 14 percent in contrast to the preceding fiscal year's 16 percent increase. Similarly, the total volume of liner imports to the U.S. declined by 16 percent compared to a decline of 6 percent in Fiscal Year 2008. Freight rates dropped precipitously, and liner companies reduced and reconfigured their service offerings to adjust to the reduced demand and consequent overcapacity of vessel space.

On a global scale, container trade contracted by 11 percent. By end of the fiscal year, excess capacity resulted in the idling of over 500 container ships, or 10 percent of the total fleet capacity in twenty-foot equivalent units (TEUs) – a sharp increase from the 2 percent idle capacity in Fiscal Year 2008. Overcapacity problems were exacerbated by pre-existing vessel orders that expanded worldwide containership capacity by 10 percent as of July 2009.

China remained our leading overseas trading partner, and trade with nations in northeast Asia continued to account for over half of U.S. combined containerized imports and exports. Concentration among carriers remained relatively unchanged from Fiscal Year 2008, with the top 10 carriers accounting for about 60 percent of the worldwide containership capacity.

Trans-Pacific Trades

In the largest of the U.S. liner trades, the Trans-Pacific trades, carriers reduced shipping capacity by almost 10 percent on a year-to-year fiscal year basis following a decline in U.S. export container volume to Asia of 12 percent and a decline in U.S. import container volume from Asia of 16 percent. Nonetheless, Asian import cargo continued to dominate the trade. For every TEU of U.S. exports moved outbound, 2.2 TEUs of imports from Asia were shipped inbound. In the outbound trade direction, members of the rate discussion agreement, the *Westbound Transpacific Stabilization Agreement*, had a combined market share of 63 percent. In the inbound trade direction, the combined market share of the rate discussion members of the

Transpacific Stabilization Agreement (TSA) dropped from 86 percent to 83 percent. However, with Maersk Line's recent return to TSA, the organization's market share now exceeds 94 percent.

The fourth quarter of calendar year 2009 and early 2010 saw an unusual and largely unanticipated increase in cargo volumes shipped from Asia as well as an increase that had been expected in U.S. exports. It is unclear how much of this recent increase in imports from Asia was related solely to decisions by U.S. companies to replenish low inventory levels, and how much represents a longer-term revival of demand for cargo space.

U.S. – North Europe Trades

In the liner trade between the U.S. and North Europe, cargo volumes dropped significantly in both trade directions. U.S. exports fell by 28 percent compared to the preceding fiscal year. Import cargo from North Europe decreased by 18 percent. To cope with the declines in cargo volume, major carriers in the trade cut back their services to remove excess vessel capacity and further coordinated their operations through vessel sharing agreements. By the end of the fiscal year, it was reported that annualized vessel capacity in the trade was reduced by 18 percent in the outbound direction and 11 percent in the inbound direction. Despite such capacity reduction, utilization was only at 68 percent in both directions.

In October 2008, the European Union (EU) repealed its block exemption from competition rules for liner shipping conferences. In place of a conference agreement, carriers in the U.S.-EU trades formed the *Container Trade Statistics Agreement*, which established an information exchange system among its members, and formed a trade association called the *European Liner Affairs Association*. In September 2009 the European Commission renewed a revised version of its block exemption regulations for ocean carrier consortia agreements, which allow them to share vessel space, effective for the period from April 2010 through April 2015.

U.S. – Oceania Trades

Between the U.S. and the region of Australia, New Zealand, and the Pacific Islands, the volume of liner cargo fell by about 10 percent in both trade directions, and remained substantially imbalanced. U.S. export cargo exceeded import cargo by 70,000 TEUs, or about 40 percent. Over the fiscal year, coordinated service changes implemented by carriers through their vessel sharing agreements resulted in capacity reductions in both trade directions. By the end of the fiscal year, the reductions in vessel capacity were estimated at 12 percent in the outbound trade direction and 17 percent in the inbound trade direction.

The structure of the trade for container carriage between the United States and Australia, New Zealand, and the Pacific Islands may have the potential to generate anticompetitive conditions for U.S. importers and exporters. Six carriers control over 80 percent of the market and have overlapping rate discussion and capacity management authorities. Accordingly, the

Commission is closely analyzing that trade, and has issued two orders recently requiring the carriers to submit data.

U.S. – South America Trades

Between the U.S. and South America as a whole, liner exports in the outbound trade direction declined by 18 percent, and liner imports moving inbound fell by 14 percent in comparison to the preceding fiscal year. The volumes of cargo shipped inbound and outbound was closely balanced. The region can be generally divided into two liner trade sectors: the west coast of South America and the east coast of South America.

Carriers operating between the U.S. and east coast of South America do not participate in a broad-based discussion agreement. In the western sector, however, most of the major carriers that provide direct service are members of the *West Coast of South America Discussion Agreement* (WCSADA), a discussion agreement with voluntary rate authority. During the fiscal year, a number of membership changes occurred that raised the market share of WCSADA to 85 percent in the outbound direction and 63 percent in the inbound direction.

COMMISSION ACTIVITIES

During my confirmation hearing last July, I stated a commitment to three main priorities for the Commission: First, the Commission's top priority should be playing a key role in assisting our economic recovery for job growth — both within our ocean commercial transportation industry and among the exporting and importing businesses they serve. Second, the Commission must remain at all times alert to foreign activities that are harmful to our carriers and trade routes, with a focus on protecting our country's shipping community, and above all the American consumer. And third, consistent with our regulatory authority, the Commission needs to work with all sectors of our maritime family to help green our ports and the shipping industry.

These priorities are consistent with the Commission's strategic plan and its mission of fostering a fair, efficient, and reliable international ocean transportation system, and protecting the public from unfair and deceptive practices. The agency's strategic plan sets forth three goals: (1) to maintain an efficient and competitive international ocean transportation system; (2) to protect the public from unlawful, unfair, and deceptive ocean transportation practices and resolve shipping disputes; and (3) to advance agency objectives through high-performance leadership and efficient stewardship of resources. In the coming year, these goals will only increase in importance. As trade and the economy continue their recovery and the Administration begins to implement the National Export Initiative to double exports over the next five years, the ocean transportation system we regulate will play a critical supporting role. Each of the Commissioners understands the importance of the agency's objectives, and we are committed to working in a collegial, cooperative, and bipartisan manner to accomplish them.

During the past year, we have taken several important actions directed toward accomplishing these goals:

Agency Reorganization

After receiving valuable insight and input from Congress and others, we recently announced an agency reorganization that became effective on January 31, 2010. I believe the Commission's new organizational structure will enable us to become more responsive to the needs of exporters, importers, and the shipping industry; enhance the fiscal and operational efficiency of our overall operation; and put the Commission in the best position to satisfy our statutory mandates and meet our strategic goals. The reorganization involved two major changes to the Commission's structure — the re-establishment of the position of Managing Director and the establishment of the Office of Consumer Affairs and Dispute Resolution Services (CADRS) as an independent office. For more than 42 years of its almost 49 year existence as an independent agency, the Commission has worked effectively with a Managing Director who served as the Commission's senior executive responsible for the management and coordination of the Commission's operating bureaus and administrative functions. The Commission's return to this structure is intended to achieve greater cohesion and coordination of operating and administrative programs, leading to greater efficiencies and effectiveness.

The establishment of CADRS as an independent office better equips the Commission for its increased emphasis on assisting consumers, resolving disputes that impede the efficiency of ocean transportation, and assisting parties in avoiding lengthy and costly litigation. The Director of CADRS will serve as the Commission's Ombudsman and, with a direct line to my office, will be ideally situated to handle inquiries and complaints about industry issues and Commission services. CADRS also provides the public and ocean transportation industry a variety of impartial, speedy, and confidential alternative dispute resolution services, such as mediation.

This reorganization also marks the first stage of an internal assessment of the Commission's strategic priorities and allocation of resources to maximize the positive impact of Commission programs in meeting the needs of the shipping industry and consumers. Since the reorganization, we have already initiated a study of the Commission's licensing process, with a view towards streamlining the process to improve the response time to applicants, while continuing to ensure effective review of each applicant's qualifications.

Because of the timing of the reorganization, the Fiscal Year 2011 budget necessarily reflects the Commission's previous organization. In the near future, the Commission will be presenting a revised budget that reflects the new organization. The revised budget will seek the same total funding, and the same FTEs, as the budget currently before you. No additional appropriations are required to implement the reorganization.

Economic Relief for Non-Vessel Operating Common Carriers

Just last week, the Commission voted to initiate a rulemaking that would relieve Non-Vessel Operating Common Carriers (NVOCCs) from tariff rate publication and adherence requirements of the Shipping Act. NVOCCs are common carriers that act as intermediaries

between their shipper customers and steamship lines. The exemption action, which the Commission is taking under Section 16 of the Shipping Act (46 U.S.C. § 40103), would apply to individually negotiated rates memorialized in writing. However, relief would be subject to several conditions, in order to ensure no adverse effects on competition or U.S. commerce result. This relief should result in significant cost savings for more than 3,200 licensed NVOCCs, most of whom are small businesses. I predict that many of those cost savings will also be passed along to the hundreds of thousands of exporting and importing businesses the NVOCCs serve.

Foreign Shipping Practices

The Commission continues to address restrictive or unfair foreign shipping practices under Section 19 of the Merchant Marine Act, 1920; the Foreign Shipping Practices Act of 1988 (FSPA); and the Controlled Carrier Act of 1978. Section 19 empowers the Commission to make rules and regulations to address conditions unfavorable to shipping in our foreign trades; FSPA allows the Commission to address adverse conditions affecting U.S. carriers in our foreign trades that do not exist for foreign carriers in the United States. Under the Controlled Carrier Act, the Commission can review the rates of government-controlled carriers to ensure that they are not below a level that is just and reasonable. The Commission is carefully monitoring state-owned carriers to ensure that U.S. trades remain substantially free of unfair trading practices of foreign governments.

The Commission is closely monitoring the impact of the People's Republic of China's new requirements on vessel operating ocean common carriers to provide freight rate data to a quasi-governmental agency, the Shanghai Shipping Exchange (SSE) and for the SSE to establish a freight index based upon information received from such carriers in U.S. trades. In response to complaints that shippers have recently filed with the Commission, we are consulting with other U.S. Government agencies on how to address those requirements.

The Commission is also carefully monitoring the diversion of U.S.-bound container cargo to Canadian ports and away from U.S. ports, an issue that has had a growing impact on our west coast ports. Two years ago, Canada opened a new container port in Prince Rupert, British Columbia. The Port of Prince Rupert, its vessel-operator customers, and the Canadian government have begun an advertising campaign promoting that Canadian port as the most efficient and cost-effective gateway for cargo destined to the U.S. Midwest and beyond. West coast ports in the United States are already feeling the impact of this diversion. Yet Canada has said they expect to multiply capacity at Prince Rupert from the roughly 265,000 TEUs they received in 2009 to between 1.5 and 2 million TEUs by the end of 2010, and perhaps to 4 million TEUs by 2015. United States-destined cargo moving through Canadian ports avoids both the U.S. harbor maintenance tax and parts of the U.S. container security regime. We are consulting regularly with U.S. ports and examining the issue of potential unfair practices that would shift U.S. cargo from U.S. ports to Canada. We also have reached out to U.S. Customs and Border Protection (CBP) to discuss and address any potential security impacts.

Environment

I believe that in the coming years, the international ocean transportation industry will only be able to remain efficient, competitive, and reliable if it also takes steps to become more sustainable. Our nation's ports will have difficulty handling the necessary flow of cargo if their impacts on surrounding air quality prevent needed expansion and modernization. As oil becomes increasingly scarce and the world takes steps to address climate change, the ocean vessel carriers have begun to recognize the importance of measures to reduce fuel consumption and carbon emissions. Although estimates vary, several studies have found that the international ocean shipping industry accounts for roughly 3% of global greenhouse gas emissions. This means that if the ocean shipping industry were a country, it would rank seventh in the world in emissions. Recognizing that any future accord to address climate change may include this important sector, many in the industry have begun taking steps to ensure they remain sound in a carbon-constrained future.

In its role as a regulator of marine terminal operators and ocean common carriers, the FMC has therefore seen environmental issues become increasingly central to the new agreements and shipping practices it monitors and approves. As ports and ocean common carriers adjust to reduce their environmental footprint, the Commission has been working this past year to ensure that it is a helpful partner. So far, the Commission has begun three important efforts to help our ports and the shipping industry become cleaner and more sustainable.

First, in my initial Commission meeting in August 2009, the Commission voted unanimously to withdraw its opposition to the Clean Trucks programs at the ports of Los Angeles and Long Beach and allow their clean air measures to proceed. Going forward, the Commission is committed to a renewed, proactive relationship with these and the rest of the country's ports.

Second, in November 2009, we announced the formation of an internal staff committee to help the Commission become a clearinghouse for information on current and proposed environmental initiatives by the ports, the shipping industry, and other agencies. The Commission's environmental committee has begun to review the filings at the agency for best environmental practices that the Commission can put forward as models for adoption by other ports and companies. The Commission plans to coordinate with the Environmental Protection Agency and other agencies to begin rolling these best practices out this year.

Third, the Commission recently reviewed, and allowed to become effective on February 6, 2010, a proposal of the TSA that would allow member lines to establish a forum to discuss ways to reduce vessel-related pollution. The TSA is a discussion agreement among 15 carriers operating in the U.S.-Asia trades. Those carriers are the major ocean common carriers involved in the largest U.S. international shipping lane. TSA officials and member lines have stated that their immediate effort would be to coordinate the implementation of a practice called "slow steaming." As has recently been noted in the New York Times and elsewhere, slow steaming allows vessels to save fuel, which reduces their emissions and affords substantial cost savings

during this period of financial stress. TSA member lines have indicated that they may also use their new authority to work to increase use of alternative fuels, "cold ironing,"[1] and other pollution-reducing technologies. While these practices hold promise for reducing vessels' emissions, the Commission will closely monitor slow-steaming arrangements to ensure that they do not cause unreasonable constraints as international shipping demand recovers. Each of these steps will help advance the Administration's goals of creating green jobs and seeking a more sustainable approach to maritime issues.

Impact of European Union Repeal of Block Exemption

The Commission is continuing its comprehensive study of the impact of the October 2008 EU repeal of its block exemption from competition laws for liner conferences. While the long-term effects of the EU's policy shift are difficult to predict — given the global recession's effect on international trade flows — the study will describe and analyze what has occurred in the U.S.-EU trades following the repeal of liner conference antitrust immunity and the economic downturn. We hope also to make some comparisons between trade lanes operating under U.S. shipping statutes and those operating under the EU regime.

We are collecting data for the 5-year review period (CY 2006–CY 2010), including data on changes to market structure, demand, vessel capacity and utilization, and revenues and rates. In addition, we have been consulting with, and will continue to consult, organizations representing our major stakeholders — U.S. exporters and importers, public port authorities and marine terminal operators, ocean transportation intermediaries, and the liner vessel operators. We are seeking both their practical insights and information-gathering assistance. We also plan to solicit industry and public views more formally by way of a Notice of Inquiry (NOI) later this year.

Updating Financial Protections for Cruise Ship Passengers

As I stated earlier, the Commission is increasing its emphasis on service and protection for members of the public who are not sophisticated shippers, but who may travel on cruise ships or deal with international shipping once or twice when they ship personal belongings. Consistent with that emphasis, the Commission issued a NOI to obtain input about the adequacy of financial coverage of passenger vessel operators to reimburse passengers when a cruise line fails to perform a cruise. Following receipt of written comments, the Commission has scheduled a public hearing on March 3, 2010, to provide interested parties further opportunity for input via oral testimony directly before the Commissioners.

National Security

The Commission continues to exchange enforcement information with the Department of Homeland Security (DHS). Within the DHS, the Commission works together with CBP under

[1] "Cold ironing" is the practice of a ship plugging into shore-side electricity instead of running its on-board fuel engines to generate electricity while it is docked.

an existing Memorandum of Understanding. Cooperation with other agencies has expanded into joint field operations to investigate entities suspected of violating both agencies' statutes or regulations. Such cooperation often involves local police, U.S. Citizenship and Immigration Services (formerly INS) officers, and Immigration and Customs Enforcement officers, and the Federal Bureau of Investigation. FMC Area Representatives also confer with other federal agencies regarding ongoing matters of mutual interest, such as inaccurate descriptions of shipments and other industry malpractices.

The Commission's oversight of ocean common carriers, ocean transportation intermediaries, and marine terminal operators is an important element in the effort to protect our nation's seaports. The Commission has a wealth of information available to assist our nation's efforts to secure not only our seaports but the entire supply chain. Unique among federal agencies, the FMC regulates virtually all entities involved in liner shipping, receiving, handling, and transporting cargo and passengers in foreign commerce. The FMC's unique mission affords us the opportunity to assist front-line security efforts by providing information regarding the backgrounds of all parties utilizing our nation's supply chain, including those with direct access to our seaports.

The Commission is currently assisting national security efforts by working to share its informational resources with other federal agencies, including DHS through the International Trade Data System (ITDS) and the Automated Commercial Environment (ACE) portal. The Commission and CBP are in the process of executing and implementing an updated Memorandum of Understanding that will solidify the cooperative relationship between the two agencies, particularly with respect to the sharing of information. For its part, the Commission expects to provide access to its extensive informational resources and databases containing background information on entities regulated by the Commission. These are some of the most complete databases identifying ocean transportation intermediaries and other persons engaged in U.S. foreign commerce. Once completed, the ACE/ITDS system will provide greater transparency into the nation's supply chain.

Monitoring Agreements

Over the past year, the Commission continued to monitor the international liner trades, focusing in large part on agreement activities relating to ocean common carriers and marine terminal operators. The Commission continued to monitor agreements that had potential for the greatest competitive impacts due to the parties' ratemaking authority or high market share. For example, I mentioned earlier that the Commission has been analyzing data gathered from the carriers operating in the U.S. and Australia/New Zealand trade, first issuing an Order requiring data pursuant to our authority under Section 15 of the Shipping Act, followed by a second Order in November 2009 to update our analysis with data addressing the impact of the global economic downturn and the reductions in capacity following the downturn. The Commission continues to monitor that trade closely, as six carriers control over 80 percent of the market and have overlapping rate discussion and capacity management authorities.

Modernization and Technology

The Commission is pursuing several IT initiatives to comply with governing IT statutes and regulations, as well as evaluating use of IT to increase efficiency and productivity, particularly in the licensing process. We believe enhanced information systems are critical to efficient identification and licensing of regulated entities and to information sharing with our counterparts at the CBP and other federal agencies. These IT systems will enable our Area Representatives, Bureau of Enforcement, and CADRS staff to have timely and comprehensive access to data needed to tackle ocean transportation intermediary and vessel operator practices that abuse or defraud the shipping public.

The Commission plans to use new IT to improve both agency business processes and the public's ability to conduct business with the agency. In Fiscal Year 2009, the agency, in response to several recent government-wide initiatives, identified new technology that will be incorporated into its business processes. This technology investment will lead to greater productivity, efficiency, and transparency. It will also reduce burdens for the ocean shipping industry.

Annual Employee Survey

On a final note, I have found the Commission's staff, although small, to be very dedicated to public service and the Commission's mission. We are continuing to implement personnel practices that earned the Commission recognition from the Partnership for Public Service and American University's Institute for the Study of Public Policy as the Most Improved Small Federal Agency. The Commission has analyzed the results of the 2009 Annual Employee Survey, along with those obtained from the 2007 and 2008 surveys. The FMC's response rate to those surveys has remained relatively stable, with approximately 66% of employees responding. Even with such a good response rate, the data may only be statistically reliable to a point because of the small size of the Commission's staff. However, when the data is compared to similar data from prior years, certain trends are apparent. The trends are predominantly positive and are indicative of a healthy organization. The Commission remains committed to building a skilled and effective staff.

General overall results indicated that more than 75% of the responding Commission employees answered positively on questions regarding their personal work experience. More than 30% of the survey questions showed successive improvement from 2007 to 2008, and again from 2008 to 2009. Most significant were the ever-increasing positive responses received about the respondents' general satisfaction with their job and their pay, taking everything into consideration.

The survey results suggest that, overall, FMC employees are very satisfied with their jobs and related aspects of employment, hold their leaders in high regard, believe FMC's organizational culture promotes improvement in processes, products, services, and outcomes, and has the talent necessary to achieve its organizational goals.

Mr. Chairman and members of the Subcommittee, I hope that these comments give you a clear indication of the state of the U.S. shipping industry and the important work to be accomplished by the Federal Maritime Commission. I thank the Subcommittee for its support of the Commission through the years and respectfully request favorable funding consideration for Fiscal Year 2011 and beyond so that the agency may continue to perform its vital statutory functions, and so that the public and shipping industry may continue to be served efficiently and effectively.

STATEMENT OF DAVID T. MATSUDA
ACTING MARITIME ADMINISTRATOR
MARITIME ADMINISTRATION

BEFORE THE
HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION

FEBRUARY 25, 2010

Good afternoon Chairman Cummings, Ranking Member LoBiondo, and Members of the Subcommittee. Thank you for inviting me here today to discuss the President's budget priorities and initiatives for the Maritime Administration (MARAD) for fiscal year 2011. I am pleased to appear before you to describe how the President's budget request will support maritime transportation and its contributions to economic competitiveness, environmental sustainability, and transportation system safety, security and readiness.

FY 2011 BUDGET REQUEST

The Maritime Administration budget request for 2011 is $352 million, which will support the agency's coordinated program of activities and initiatives advancing Departmental and national objectives. The 2011 request proposes a $26 million increase above 2010 for the U.S. Merchant Marine Academy (USMMA), which primarily supports substantive capital improvements for Midshipmen facilities, including the regimental galley and two dorms, and upgrades to the academic program and IT infrastructure. The USMMA program increase is offset by decreases in other programs and initiatives. This funding level is sufficient to sustain current services levels for the full range of MARAD program operations and activities.

UNITED STATES MERCHANT MARINE ACADEMY

Improving the profile and prestige of the U.S. Merchant Marine Academy is Secretary LaHood's number one priority for the Maritime Administration. To that end, the President requested $100 million for the USMMA in fiscal year 2011, an increase of $26 million above the 2010 level. This increase will support capital improvements; operational funding for necessary IT upgrades and academic program enhancements; and compensation for possible Midshipman Fee overcharges.

The President requested $30.9 million (an increase of $15.9 million above fiscal year 2010) for capital improvements. Of the funding in the fiscal year 2011 request, $23 million will support the priority renovation of the Delano Hall midshipman galley, where the Regiment receives all of its meals. The Academy will also initiate the architecture and engineering studies ($3 million) for future renovation of Cleveland Hall and Rogers Hall student dormitories, the two remaining barracks in need of major renovations. In addition, the Academy will install a new tug and barge simulator ($2 million) in 2011, and will accomplish dry-docking of the Kings Pointer ($1 million) training ship necessary

to maintain U.S. Coast Guard certification. Another $1.9 million will support general capital repairs.

The fiscal year 2011 request also includes $63.1 million for Academy operations, reflecting an increase of $4 million above the fiscal year 2010 enacted level for operational enhancements and inflationary increases. The program increase will support critical IT infrastructure improvements needed to meet Federal Information Security Management Act (FISMA) and Clinger-Cohen requirements and wireless campus capabilities ($2.181 million); improvements and enhancements to the Academy's instruction program, including four new instructor positions ($707,000); new equipment and supplies to upgrade classrooms and the learning environment ($400,000); and a recruitment diversity initiative ($145,000).

Lastly, the MARAD request also includes $6 million to repay students who attended the Academy during the past six years for possible Midshipman Fee overcharges. These funds would be available to repay students who attended the Academy from 2003 to 2009. The Secretary would be authorized to establish compensation levels by class year that would represent fair payments to students of those years.

Providing support and oversight to restore and strengthen USMMA programs and controls is an agency management imperative. The agency is making significant progress in implementing management and process improvements responding to recommendations in the GAO audit report, and this has been designated a priority of the Department. Our plan is to successfully address all 47 GAO recommendations by the end of FY 2010. Thus far, we have completed actions addressing 19 of the recommendations, and are on target to complete 34 of the 47 recommendations by the end of the second quarter of this fiscal year.

ECONOMIC COMPETITIVENESS AND RECOVERY

Maritime transportation contributes more than $10 billion per year to the national economy, and the industry comprises more than 265,000 jobs. MARAD's work with commercial shipping, shipbuilding, port operations, and vessel operations supports the maritime industry, which is a significant employer. MARAD's Title XI and Assistance to Small Shipyards programs provide loan guarantees and grants supporting the industry, which can be an engine for efficiency and capacity improvements and economic growth. America's Marine Highways help move freight more efficiently and contribute to reducing transportation's environmental footprint.

Assistance to Small Shipyard Grants

In fiscal 2010, Congress provided $15 million in funding to support capital improvements at qualified shipyards to improve the ability of domestic shipyards to compete for domestic and international commercial ship construction. This follows $117.5 million in Omnibus and ARRA funding provided in fiscal year 2009. For the fiscal year 2010 grant program, MARAD has received about 160 applications, and we anticipate awarding

between 10 and 15 grants with an average grant amount of $1 to 1.5 million. We will award all 2010 fiscal year grants by April 15, 2010.

Maritime Guaranteed Loan Program (Title XI)

Title XI offers loan guarantees for shipyard modernization projects and for building vessels in U.S. shipyards for operation under U.S. flag, supporting infrastructure investment and economic growth. The program helps by providing applicants long-term financing at stable interest rates, sustaining efficient facilities for shipbuilding and ship repair within the U.S., and promoting system capacity and jobs. The current Title XI subsidy balance for new loans is $78 million. The $78 million comprises carryover funding and funds provided in the 2010 Appropriation. The funding will enable MARAD to issue commitments to worthy applicants in 2011. The fiscal year 2011 request proposes funding of $3.7 million for the administration of the Title XI guaranteed loan portfolio.

America's Marine Highways

On February 17, 2010, the anniversary of the Recovery Act, the Department of Transportation announced $1.5 billion in Transportation Investment Generating Economic Recovery (TIGER) Discretionary grants for fiscal year 2010. Of this amount, $120.4 million has been designated for seven port and maritime-related projects, most of which will be supplemented by state and local funds. MARAD will administer these port-related grants under the oversight of the Office of the Secretary. These grants will support new marine highway services, add capacity to ports, and improve shoreside linkages to inland markets. The fiscal year 2010 program also includes 2-4 Marine Highway grants supported by $7 million in funding for the Presidential Initiative for Secure and Efficient Ports.

SECURITY, PREPAREDNESS, AND RESPONSE

Security, preparedness, and response are critical missions for the Agency and commands the largest share of the budget request. The Agency's activities focus on developing and maintaining a vital and viable U.S. merchant marine for domestic and international commerce, emergency response, and national security. The budget request will also support Agency programs contributing to defense mobilization and emergency response readiness: United States Merchant Marine Academy (highlighted earlier), State Maritime Academies, and the Maritime Security Program.

MARAD's programs help ensure the readiness of sealift capacity to respond to national and international crises and DOD mobilizations. The U.S. Merchant Marine Academy and State Maritime Academies educate and graduate merchant marine officers ready to serve the maritime industry and Armed Forces. The Maritime Security Program sustains a fleet of commercial vessels capable of supporting national security and federal emergency response requirements.

The importance of the readiness of this capability was underscored recently with the Agency's activation of vessels to support the disaster relief for Haiti. Four Ready Reserve Fleet (RRF) vessels and two Title XI high speed ferries were activated for Haiti operations. In addition, 17 U.S.-flag vessels were used in active support of Haiti relief operations carrying USAID food aid, DOD cargo/supplies obtained under the military universal services contract, and providing passenger ferry service. Each active vessel is crewed by approximately 25 commercial merchant mariners.

State Maritime Academies

The fiscal year 2011 request for the State Maritime Academy (SMA) program includes $15 million. MARAD's fiscal year 2011 request includes funds for: (1) annual direct payments to each of the six state maritime academies, (2) the Student Incentive Payment (SIP) program, and (3) payment of maintenance and repair costs for training ships on loan to the state academies. Of the $15 million request:

- $2 million will be paid directly to the SMAs for maintenance and support, a payment of $333,333 to each school in fiscal year 2011.
- $2 million will fund the SIP program, for which the annual incentive payment per cadet was increased to $8,000 in fiscal year 2011.
- $11 million will fund maintenance and repair costs for Federally-owned training ships on loan to the various state academies.

The state academies regard the SIP Program as among the most important recruiting tools to encourage state maritime academy cadets to pursue careers as Civil Service Mariners. We are eager to assess the impact of the increase in SIP payments in 2010 from $4,000 per year to $8,000 on recruitment.

Maritime Security Program

The Maritime Security Program (MSP) is the Agency's largest appropriated program. The primary purpose of the MSP is to provide the Department of Defense (DOD) with assured access to commercial U.S.-flag ships and related intermodal systems, as well as a pool of trained U.S. mariners available to support national security requirements during war or national emergency. MSP vessel participants also deliver cargoes supporting overseas deployments of U.S. forces. The DOD Surface Deployment and Distribution Command reports that since September 11, 2001, U.S.-flag commercial ships have delivered over 430,000 twenty foot equivalent units (TEUs) of containerized equipment and supplies to support U.S. troops in Iraq and Afghanistan. MSP ships have also supported the rebuilding of Iraq. For fiscal year 2011, the President's request of $174 million will fund 60 ships in the MSP fleet at the authorized level of $2.9 million per ship. Funding at this level will enable MARAD to continue to maintain a U.S.-flag international trade merchant fleet crewed by U.S. citizens to serve the Nation's commercial and national security needs.

ENVIRONMENT

MARAD environmental programs are aimed at reducing pollution and the adverse environmental effects of maritime transportation and facilities on communities and livability; focusing on obsolete vessel disposal, reducing marine air emissions, and treating ballast water.

Environmental Programs

The impact of marine transportation on the human and natural environment has become more evident in port and coastal communities, which are feeling the brunt of environmental quality impacts from marine transportation activities. At the same time, marine transportation is expected to grow considerably due to increased use of our Nation's waterways for freight and passenger movement. Marine-related environmental impacts will therefore become more profound. The environmental impacts of marine transportation must be adequately anticipated and addressed or they will adversely affect the Nation's economic growth and the quality of life of our port and seaside communities.

The three most pressing environmental issues facing the maritime industry are invasive species in ballast water, and energy use and air emissions. The Maritime Administration has been called upon by industry and government agencies to provide technical advice and expertise, data, and assistance for the development of policy, regulation, research and studies in these areas. While MARAD has funding in FY 2010, no funding has been requested for FY 2011; yet, MARAD will continue to support industry efforts. The MARAD 2011 program will further critical multi-modal transportation research to reduce environmental pollution, advancement of a ballast water discharge standard, infrastructure and methodologies for certifying and verifying ballast water technology, improving vessels emissions data, and reducing the Agency's carbon footprint.

Ship Disposal

Of the fiscal year 2011 request of $10 million for the Ship Disposal program, $7 million will support the disposal of obsolete ships in the National Defense Reserve Fleet. The President, Secretary LaHood, and I are committed to the proper disposal of these ships. In fiscal year 2009, for the first time in three years, ships began to leave the Suisun Bay Reserve Fleet in California and even more will leave this year. The fiscal year 2011 request supports the removal of an additional 15 ships from the inventory, providing for domestic dismantling contracts, artificial reefing, deep sinking, vessel sales and donations, and vessel export for recycling (if available).

The 2011 budget request also includes $3 million in funding to continue nuclear license management for the inactive Nuclear Ship SAVANNAH. The budget will support the continued maintenance and safeguarding of the SAVANNAH nuclear plant, and technical actions to keep the vessel into conformance with Nuclear Regulatory Commission standards.

Mr. Chairman, I wish to express my appreciation for the opportunity to present and discuss the MARAD programs for fiscal year 2011, and for the Committee's continuing support for maritime programs. We will continue to keep this Committee apprised of the progress of our programs in these areas in the coming year, including our efforts improving processes and internal controls at the USMMA.

I look forward to working with you on advancing maritime transportation in the United States, and am happy to respond to any questions you and the members of this Committee may have. Thank you.

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

James L. Oberstar
Chairman

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

Washington, DC 20515

John L. Mica
Ranking Republican Member

James W. Coon II, Republican Chief of Staff

April 2, 2010

Mr. David Matsuda
Acting Administrator
Maritime Administration
1200 New Jersey Avenue, SE
Washington, DC 20590-00001

Dear Mr. Matsuda:

Please review and answer the following questions for the record concerning the Budget hearing held on February 25, 2010.

Title XI

1. The Maritime Guaranteed Loan Program, known as "Title XI," was created to provide a Federal guarantee of private sector debt for domestic ship construction and shipyard modernization. MARAD has reported that it has received applications for Title XI loan guarantees that would cover nearly $2.6 billion in loans. However, the funding requested in the FY 2011 budget would only cover Title XI's administrative expenses; no funding was requested to support new loan guarantees.

    a. What are some of the challenges facing Title XI? Why has the Administration not requested any new funding for this program?

    b. The Budget Estimate's section regarding Title XI loan guarantees mentions that MARAD has incurred 5 defaults since FY 2008. What is the amount of loan guarantees that are in default and what is likely to be the disposition of each default case? To what do you attribute these defaults – and were these "bad" or "risky" projects to begin with?

    c. Please describe the process that MARAD uses to determine the creditworthiness of a project.

2. Is it possible for the Maritime Administration (MARAD) to concurrently perform required internal and external reviews of the Title XI shipbuilding loan guarantee applications to expedite the approval of loan guarantees for qualified, economically sound projects? If so, why is MARAD not expediting these applications?

United States Merchant Marine Academy

1. MARAD's Budget Estimate proposes closing down several of the Non-appropriated Funds Instrumentalities (NAFI) that "provide, or assist the Academy in providing, programs or services to Midshipmen and Academy staff that are not otherwise provided through Congressional appropriations."

   a. Which NAFIs does MARAD believe should be closed at the Academy and what are their functions? What will the impact of these closures be on the Academy's mission?

   b. How will MARAD replace the capability of the NAFIs to "provide or assist the Academy in providing programs or services to the Midshipmen"?

2. Other federal service academies use appropriated and non-appropriated funds to fulfill their missions. What was different about the way in which the Merchant Marine Academy made use of its non-appropriated funds that made it a violation of federal laws?

3. The GAO report entitled, "United States Merchant Marine Academy - Internal Control Weaknesses Resulted in Improper Sources and Uses of Funds; Some Corrective Actions Are Under Way" (GAO-09-635) stated:

   "Our review identified instances of improper and questionable sources and uses of funds by the Academy and its affiliated NAFIs, some of which violated laws, including the ADA. Specifically, we identified improper and questionable sources and uses of midshipmen fees and questionable financial activity associated with GMATS and other NAFIs. The improper and questionable activities and transactions that we identified demonstrate the Academy did not have assurance that it complied with applicable fund control requirements, including those in the ADA. Further, the Academy could not effectively carry out its important stewardship responsibilities with respect to maintaining accountability over the collection and use of funds, including assuring that funds were collected and used only for authorized purposes. As discussed in this report, the primary causes of these improper and questionable sources and uses of funds can be attributed to a

weak control environment and the flawed design and implementation of internal controls at the Academy, including inadequate oversight and monitoring by the Academy and MARAD" (pg. 10).

a. Who within the Maritime Administration was responsible for providing, "assurance that it [the Academy] complied with applicable fund control requirements?"

b. What authority did Academy officials have to reprogram appropriated and non-appropriated funds?

c. Are there any records of communications between MARAD and Academy officials regarding the questionable practices identified in the GAO's report?

d. Has there been a formal investigation into the violations of federal law identified in the GAO's report?

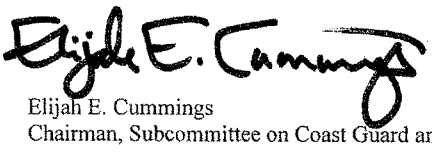
4. The Merchant Marine Academy Capital Improvements Advisory Panel recently concluded its work. In its report, the panel identified the Academy's lack of dedicated staff to design, construct, and plan capital improvements and recommended that MARAD should not initiate any major capital improvement projects until qualified staff are in place. What is MARAD's plan to address this staffing shortfall?

Short Sea Shipping

The FY 2011 Budget Request reduces funding for MARAD Operations and Programs from $59.7 million to $49.3 million (a 17.5 percent reduction). Why is this reduction proposed? What initiatives will MARAD be undertaking in the coming year to support the expansion of short-sea shipping?

Thank you for your attention to these matters.

Sincerely,



Elijah E. Cummings
Chairman, Subcommittee on Coast Guard and Maritime Transportation

HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
QUESTIONS FOR THE RECORD

TITLE XI

QUESTION: The Maritime Guaranteed Loan Program, known as "Title XI", was created to provide a Federal guarantee of private sector debt for domestic ship construction and shipyard modernization. MARAD has reported that it has received applications for Title XI loan guarantees that would cover nearly $2.6 billion in loans. However, the funding requested in the FY 2011 budget would only cover Title XI's administrative expenses; no funding was requested to support new loan guarantees.

a. What are some of the challenges facing Title XI? Why has the Administration not requested any new funding for this program?

RESPONSE: Challenges facing the program center around the tension between promoting new shipbuilding activity and sound lending practices.

As a result of a number of defaults (from 1998-2002 totaling $489.5 million and from 2008 to present totaling $308.9 million),the underwriting standards followed by the Title XI program have come under increasing scrutiny. As a response to the 1998-2002 defaults, the Department of Transportation's Inspector General recommended "a rigorous analysis of the risks from modifying any loan approval criteria and imposition of compensating provisions to mitigate risks" and "establishment of an external review process as a check on MARAD's internal loan application review and as assistance in crafting loan conditions and covenants." These recommendations have been implemented. MARAD, like any other lender, would like to avoid defaults on its loan guarantees, and this desire to avoid defaults and be responsible stewards of taxpayer's funds sometimes results in the Title XI program being unable to support shipbuilding projects.

New subsidy funds were not requested by the Administration for FY 2011 as new funding was not projected as necessary at the time of the request.

b. The Budget Estimate's section regarding Title XI loan guarantees mentions that MARAD has incurred 5 defaults since FY 2008. What is the amount of loan guarantees that are in default and what is likely to be the disposition of each default case? To what do you attribute these defaults – and were these "bad" or "risky" projects to begin with?

RESPONSE: Since 2008, MARAD has paid out $353,486,852 in principal and interest on five defaulted Title XI guarantees. For each of those defaults, MARAD has or is assuming control of the defaulted vessels and, in coordination with the Attorney General, is foreclosing on the vessels. MARAD intends to maximize the return from the sale or disposition of the assets. The defaults were largely the result of the recent recession. Three of the defaults were of passenger cruise vessels – these defaults were the result of the steep decline in cruise passengers as economic conditions deteriorated from 2007. The fourth project – Hawaii Superferry – defaulted

after the Hawaii Supreme Court ordered a halt to its operations while an environmental study was performed. The final project defaulted as a result of decreased day rates in the oil transportation market. Each of these projects, at the time of approval, met the statutory requirements of the program and were determined to be economically sound. However all projects include an element of risk and have the potential for default.

c. Please describe the process that MARAD uses to determine the creditworthiness of a project.

RESPONSE: MARAD performs an extensive review of each application for Title XI financing. This review entails MARAD staff evaluating the following factors:

- applicant's operating ability
- employment of the vessels
- economic soundness of the project (including competition and major risks, availability of assured revenue through long term charters, transportation agreements, and guarantees)
- technical acceptance
- environmental compliance
- compliance with standard financial requirements (equity/net worth), working capital and long term-debt to equity ratio)
- acceptability of non-cash equity and additional collateral offered
- amount of debt to be guaranteed
- amount of fees associated with the project
- the ability of the borrower to repay the indebtedness
- interest rate for the guaranteed debt.

The most important factors in this evaluation are the economic soundness of the project and the ability of the borrower to repay the indebtedness. For certain projects MARAD may retain an external advisor to review certain aspects of an application. When an application has been approved (Bob Ross) by MARAD staff, it is presented to the Department of Transportation Credit Council for review and a recommendation to the Maritime Administrator to proceed with the guarantee.

QUESTION: Is it possible for the Maritime Administration (MARAD) to concurrently perform required internal and external reviews of the Title XI shipbuilding loan guarantee applications to expedite the approval of loan guarantees for qualified, economically sound projects? If so, why is MARAD not expediting these applications?

RESPONSE: It is only possible to a limited extent for MARAD to concurrently perform required internal and external reviews of applications. Each office within MARAD performs its review and identifies missing information; many offices can proceed independently of the others. In the review of any application, the cost of the project is an essential item, as an economic soundness determination requires that the guarantee amount be known. An external review cannot be performed until the cost of the project has been established. Likewise, an incomplete application jeopardizes the external reviewer's ability to perform its review in the time allotted in its contract.

United States Merchant Marine Academy

QUESTION: MARAD's Budget Estimate proposed closing down several of the Non-appropriated Fund Instrumentalities (NAFIs) that "provide, or assist the Academy in providing, programs or services to Midshipmen and Academy staff that are not otherwise provided through Congressional appropriations."

a. Which NAFIs does MARAD believe should be closed at the Academy and what are their functions? What will be the impact of these closures on the Academy's mission?

RESPONSE: On March 16, 2010, the Acting Maritime Administrator signed an Administrative Order that identified closing the following NAFIs:

- Ship's Service Store – This NAFI provides barbers and tailors who serve the Midshipmen. It also manages a contract for the midshipmen's laundry. These services are paid for with Midshipman Fees charged to our students. Through a recent change in the law, Midshipman Fees for barbers, tailors and laundry services will now be collected into the Treasury, and these functions will be accommodated on-budget, rather than through a NAFI.

- Fiscal Control Office – This was a service organization for the budget and accounting functions of many of the other NAFIs. With several NAFIs closing, this office will no longer be necessary. Further, this NAFI has no staff. At present, it is only a collection of commercial bank accounts.

- Sail, Power, and Crew Association – At one time, this NAFI employed approximately 11 staff. Although the NAFI was originally established to handle extracurricular sailing sports for the students, its functions devolved to being an extension of the school's

Waterfront Department, and its resources supplemented the operations of the school. The NAFI now has no staff and no funding. Functions previously performed by this NAFI are now provided by Civil Servants though the school's annual budget.

- Staff and Faculty Housing – This NAFI was established to manage quarters owned by the Alumni Association that were being leased to current faculty members. A portion of the faculty's rent to the Alumni Association was retained by this NAFI for the maintenance of the quarters. This NAFI was not properly constituted, and it has already closed. These arrangements are now handled directly between faculty tenants and the Alumni Foundation.

- Museum – The American Merchant Maritime Museum, which is part of the Academy and located on campus, used to fund its activities through a NAFI that raised a small amount of revenue for this purpose. The NAFI's finances proved to be inadequate to maintain the museum's collections. The museum's building and artifacts belong to the United States. The preservation of these items is now funded through the Academy's annual budget.

- Cultural Events – This NAFI raised revenue to provide for trips to cultural events for the Midshipman, such as Broadway shows in New York City. The purpose of this NAFI overlapped with the Regimental Morale NAFI. These activities will now be consolidated under the Regimental Morale function.

- Music Program – This NAFI raised a modest amount of revenue to support the school's musical programs, such as the Regimental Band. These functions are now funded on-budget.

In addition to these NAFIs, a few NAFIs are now under review through September, with their status dependent on the outcome of that review. As a result of this review, a NAFI could retain its current status, transition to another structure, have its services provided by the Academy, or discontinue operations. The four NAFIs now under review are:

- the Regimental Morale Association,
- the Athletics Association,
- Melville Hall, and
- the Global Maritime and Transportation School (GMATS).

b. How will MARAD replace the capability of the NAFIs to "provide or assist the Academy in providing programs or services to the Midshipmen"?

RESPONSE: As outlined in the response to part (a), for many of the NAFIs that are closing or modifying their operations, the capabilities provided by these organizations will continue, only by a different means. In some cases, such as barbers and tailors, these services will continue to be provided through Midshipman Fees that are now collected into the Academy's account in the Treasury. Other services previously provided may be properly viewed as the government's responsibility. These services will be funded though the school's annual budget.

QUESTION: Other federal service academies use appropriated and non-appropriated funds to fulfill their missions. What was the difference about the way in which the Merchant Marine Academy made use of its non-appropriated funds that made it a violation of federal laws?

RESPONSE: Most NAFI activities in the federal government are located in the Department of Defense (DOD). Generally, many of DOD's NAFIs have a statutory basis, which, in some instances, provides for a mixing of appropriated and non-appropriated funding. In contrast, none of the Academy's NAFIs have any explicit statutory basis. Although the school's relationship with its NAFIs includes many instances that were not proper, two were prominent:

- A separate personnel system was establish for the school's system of NAFIs. In addition to employing NAFI employees who conducted NAFI business, this system was also utilized to employ staff, using appropriated funds, who exclusively conducted the government's business. The school was not authorized to use an employment system outside of Title 5 of the U.S. Code to meet its employment needs and avoid the pay requirements, merit protections, and veteran preferences of the Civil Service.

- Also, some of the NAFIs established substantial portions of their operations to provide for the government's procurement needs. The school used these NAFIs non-competitively to acquire goods and services in a way that is prohibited by the Competition in Contracting Act and the Federal Acquisition Regulation.

QUESTION: The GAO report entitled, "United States Merchant Marine Academy – Internal Control Weaknesses Resulted in Improper Sources and Uses of Funds: Some Corrective Action Are Under Way" (GAO-09-635) stated:

"Our review identified instances of improper and questionable sources and uses of funds by the Academy and its affiliated NAFIs, some of which violated laws, including the ADA. Specifically, we identified improper and questionable sources and uses of midshipmen fees and questionable financial activity associated with GMATS and other NAFIs. The improper and questionable activities and transactions that we identified demonstrate the Academy did not have assurance that it complied with applicable fund control requirements, including those in the ADA. Further, the Academy could not effectively carry out its important stewardship responsibilities with respect to maintaining accountability over the collection and use of funds, including assuring that funds were collected and used only for authorized purposes. As discussed in this report, the primary causes of these improper and questionable sources and uses of funds can be attributed to a weak control environment and the flawed design and implementation of internal controls at the Academy, including inadequate oversight and monitoring by the Academy and MARAD." (page 10).

a. Who within the Maritime Administration was responsible for providing "assurance that it [the Academy] complied with applicable fund control requirements?"

RESPONSE: For much of the relevant period covered by the GAO report, the official within the Maritime Administration that was responsible for oversight of the agency's system of funds

control was the Associate Administrator for Administration. In late 2007, the agency was reorganized, placing all budget, financial management, and internal control responsibilities under a new position – the Associate Administrator/Chief Financial Officer. A financial review by the new CFO initially identified most of the internal control issues that were the subject of the GAO report.

b. What authority did Academy officials have to reprogram appropriated and non-appropriated funds?

RESPONSE: Academy officials did not have authority to reprogram appropriated and non-appropriated funds. However, for much of the period covered by the GAO review and in prior years, Academy officials executed broad discretion over the school's appropriated and non-appropriated finances. The Superintendent was delegated the Maritime Administrator's financial authority over these matters, but this did not include formal reprogramming authority. Further, as a result of MARAD's previously referenced reorganization, financial management functions now fall under the Office of the Chief Financial Officer.

c. Are there any records of communications between MARAD and Academy officials regarding the questionable practices identified in the GAO's report?

RESPONSE: As a result of the internal controls review conducted by the CFO in late 2007 and early 2008, some communications came to light regarding these activities, which suggested that MARAD management had, or should have had, an awareness of certain improper practices. No communications from headquarters specifically authorizing such practices came to the attention of the CFO as part of his review. However, for this period, headquarters either did not further inquire regarding transactions or procedures that may have been questionable, or headquarters did not exercise an appropriate degree of oversight and control to ensure that these issues were properly identified and addressed. These transactions occurred over a period of many years, covering several Administrators, Deputy Administrators, Associate Administrators, and their staff. These officials and most of these staff are no longer with the Maritime Administration.

d. Has there been a formal investigation into the violations of federal law identified in the GAO's report?

RESPONSE: Yes, there has been an investigation and associated consequences for those responsible. For several violations of the Anti-Deficiency Act highlighted in the report, the Department completed its investigation of these matters in early 2009, and the Secretary made the required statutory report to the President, the Speaker of the House, the President of the Senate, and the Comptroller General on March 9, 2009.

In addition to the violations of law identified in the Secretary's correspondence, GAO's report identified some additional areas that needed further review by DOT in order to determine if they might be Anti-Deficiency Act violations, or other violations of law or regulation. MARAD is now examining each of these other matters. To assist in this effort, MARAD engaged the services of PricewaterhouseCoopers (PwC), which gathered additional facts on several of these issues. PwC just delivered its report at the end of April. We expect to complete the process of

reviewing these additional areas of concern, as well as resolve all of the GAO's specific 47 recommendations, by the end of this fiscal year.

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RESPONSE: MARAD concurs with the Blue Ribbon Panel's recommendation, and we are taking steps to implement a solution. A new Facilities Management organization is being established for oversight of the school's Capital Improvement Program. Three new Engineers are being hired as the core of this function. The office will be headed by a GS-15, with reporting responsibilities to the school's Superintendent. Further, we are now examining further enhancements to this new office through realignments of existing Academy facilities staff that are engineers, or have related expertise, that would be helpful additions to this new important function.

Short Sea Shipping

QUESTION: The FY 2011 Budget Request reduces funding for MARAD Operations and Programs from $59.7 million to $49.3 million (a 17.5 percent reduction). Why is this reduction proposed? What initiatives will MARAD be undertaking in the coming year to support the expansion of short sea shipping?

RESPONSE: This reduction resulted for FY 2011 because the Administration did not request funds for Environment and Compliance and Secure and Efficient Ports program activities included in FY 2010 appropriations, which totaled $10.875 million, The FY 2011 request for MARAD Operations and Programs is sufficient to fund continuing program and operations support, including operating and support program staff. The request includes $1 million, which will support priority discretionary program activities. Within this level, Short Sea Shipping program efforts for FY 2011 could include:

- Continuing work with state and local transportation planners, and private operators, to develop Marine Highway projects to relieve congestion and improve air quality in major freight corridors.

- Accepting and evaluating project applications to determine public benefit and economic viability before recommending projects for designation by the Secretary as Marine Highway projects.

- Continuing to work with the private sector to identify potential incentives that would accelerate the development of new Marine Highway services.

- Continuing work with the Marine Highway Advisory Committee of MTSNAC spell out to identify and address impediments to Marine Highway services.

- Continuing to be active in the Trilateral Working Group with Canada and Mexico to develop Marine Highway connections and relieve border congestion with our trading partners.

- Continuing to administer ARRA spell out grants for Marine Highway projects to assure there is expeditious implementation and the resulting public benefits are realized.

HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
QUESTIONS FOR THE RECORD

TITLE XI

QUESTION: The Maritime Guaranteed Loan Program, known as "Title XI", was created to provide a Federal guarantee of private sector debt for domestic ship construction and shipyard modernization. MARAD has reported that it has received applications for Title XI loan guarantees that would cover nearly $2.6 billion in loans. However, the funding requested in the FY 2011 budget would only cover Title XI's administrative expenses; no funding was requested to support new loan guarantees.

a. What are some of the challenges facing Title XI? Why has the Administration not requested any new funding for this program?

RESPONSE: Challenges facing the program center around the tension between promoting new shipbuilding activity and sound lending practices.

As a result of a number of defaults (from 1998-2002 totaling $489.5 million and from 2008 to present totaling $308.9 million),the underwriting standards followed by the Title XI program have come under increasing scrutiny. As a response to the 1998-2002 defaults, the Department of Transportation's Inspector General recommended "a rigorous analysis of the risks from modifying any loan approval criteria and imposition of compensating provisions to mitigate risks" and "establishment of an external review process as a check on MARAD's internal loan application review and as assistance in crafting loan conditions and covenants." These recommendations have been implemented. MARAD, like any other lender, would like to avoid defaults on its loan guarantees, and this desire to avoid defaults and be responsible stewards of taxpayer's funds sometimes results in the Title XI program being unable to support shipbuilding projects.

New subsidy funds were not requested by the Administration for FY 2011 as new funding was not projected as necessary at the time of the request.

b. The Budget Estimate's section regarding Title XI loan guarantees mentions that MARAD has incurred 5 defaults since FY 2008. What is the amount of loan guarantees that are in default and what is likely to be the disposition of each default case? To what do you attribute these defaults – and were these "bad" or "risky" projects to begin with?

RESPONSE: Since 2008, MARAD has paid out $353,486,852 in principal and interest on five defaulted Title XI guarantees. For each of those defaults, MARAD has or is assuming control of the defaulted vessels and, in coordination with the Attorney General, is foreclosing on the vessels. MARAD intends to maximize the return from the sale or disposition of the assets. The defaults were largely the result of the recent recession. Three of the defaults were of passenger cruise vessels – these defaults were the result of the steep decline in cruise passengers as economic conditions deteriorated from 2007. The fourth project – Hawaii Superferry – defaulted

after the Hawaii Supreme Court ordered a halt to its operations while an environmental study was performed. The final project defaulted as a result of decreased day rates in the oil transportation market. Each of these projects, at the time of approval, met the statutory requirements of the program and were determined to be economically sound. However all projects include an element of risk and have the potential for default.

c. Please describe the process that MARAD uses to determine the creditworthiness of a project.

RESPONSE: MARAD performs an extensive review of each application for Title XI financing. This review entails MARAD staff evaluating the following factors:

- applicant's operating ability
- employment of the vessels
- economic soundness of the project (including competition and major risks, availability of assured revenue through long term charters, transportation agreements, and guarantees)
- technical acceptance
- environmental compliance
- compliance with standard financial requirements (equity/net worth), working capital and long term-debt to equity ratio)
- acceptability of non-cash equity and additional collateral offered
- amount of debt to be guaranteed
- amount of fees associated with the project
- the ability of the borrower to repay the indebtedness
- interest rate for the guaranteed debt.

The most important factors in this evaluation are the economic soundness of the project and the ability of the borrower to repay the indebtedness. For certain projects MARAD may retain an external advisor to review certain aspects of an application. When an application has been approved (Bob Ross) by MARAD staff, it is presented to the Department of Transportation Credit Council for review and a recommendation to the Maritime Administrator to proceed with the guarantee.

QUESTION: Is it possible for the Maritime Administration (MARAD) to concurrently perform required internal and external reviews of the Title XI shipbuilding loan guarantee applications to expedite the approval of loan guarantees for qualified, economically sound projects? If so, why is MARAD not expediting these applications?

RESPONSE: It is only possible to a limited extent for MARAD to concurrently perform required internal and external reviews of applications. Each office within MARAD performs its review and identifies missing information; many offices can proceed independently of the others. In the review of any application, the cost of the project is an essential item, as an economic soundness determination requires that the guarantee amount be known. An external review cannot be performed until the cost of the project has been established. Likewise, an incomplete application jeopardizes the external reviewer's ability to perform its review in the time allotted in its contract.

United States Merchant Marine Academy

QUESTION: MARAD's Budget Estimate proposed closing down several of the Non-appropriated Fund Instrumentalities (NAFIs) that "provide, or assist the Academy in providing, programs or services to Midshipmen and Academy staff that are not otherwise provided through Congressional appropriations."

a. Which NAFIs does MARAD believe should be closed at the Academy and what are their functions? What will be the impact of these closures on the Academy's mission?

RESPONSE: On March 16, 2010, the Acting Maritime Administrator signed an Administrative Order that identified closing the following NAFIs:

- Ship's Service Store – This NAFI provides barbers and tailors who serve the Midshipmen. It also manages a contract for the midshipmen's laundry. These services are paid for with Midshipman Fees charged to our students. Through a recent change in the law, Midshipman Fees for barbers, tailors and laundry services will now be collected into the Treasury, and these functions will be accommodated on-budget, rather than through a NAFI.

- Fiscal Control Office – This was a service organization for the budget and accounting functions of many of the other NAFIs. With several NAFIs closing, this office will no longer be necessary. Further, this NAFI has no staff. At present, it is only a collection of commercial bank accounts.

- Sail, Power, and Crew Association – At one time, this NAFI employed approximately 11 staff. Although the NAFI was originally established to handle extracurricular sailing sports for the students, its functions devolved to being an extension of the school's

Waterfront Department, and its resources supplemented the operations of the school. The NAFI now has no staff and no funding. Functions previously performed by this NAFI are now provided by Civil Servants though the school's annual budget.

- Staff and Faculty Housing – This NAFI was established to manage quarters owned by the Alumni Association that were being leased to current faculty members. A portion of the faculty's rent to the Alumni Association was retained by this NAFI for the maintenance of the quarters. This NAFI was not properly constituted, and it has already closed. These arrangements are now handled directly between faculty tenants and the Alumni Foundation.

- Museum – The American Merchant Maritime Museum, which is part of the Academy and located on campus, used to fund its activities through a NAFI that raised a small amount of revenue for this purpose. The NAFI's finances proved to be inadequate to maintain the museum's collections. The museum's building and artifacts belong to the United States. The preservation of these items is now funded through the Academy's annual budget.

- Cultural Events – This NAFI raised revenue to provide for trips to cultural events for the Midshipman, such as Broadway shows in New York City. The purpose of this NAFI overlapped with the Regimental Morale NAFI. These activities will now be consolidated under the Regimental Morale function.

- Music Program – This NAFI raised a modest amount of revenue to support the school's musical programs, such as the Regimental Band. These functions are now funded on-budget.

In addition to these NAFIs, a few NAFIs are now under review through September, with their status dependent on the outcome of that review. As a result of this review, a NAFI could retain its current status, transition to another structure, have its services provided by the Academy, or discontinue operations. The four NAFIs now under review are:

- the Regimental Morale Association,
- the Athletics Association,
- Melville Hall, and
- the Global Maritime and Transportation School (GMATS).

b. How will MARAD replace the capability of the NAFIs to "provide or assist the Academy in providing programs or services to the Midshipmen"?

RESPONSE: As outlined in the response to part (a), for many of the NAFIs that are closing or modifying their operations, the capabilities provided by these organizations will continue, only by a different means. In some cases, such as barbers and tailors, these services will continue to be provided through Midshipman Fees that are now collected into the Academy's account in the Treasury. Other services previously provided may be properly viewed as the government's responsibility. These services will be funded though the school's annual budget.

QUESTION: Other federal service academies use appropriated and non-appropriated funds to fulfill their missions. What was the difference about the way in which the Merchant Marine Academy made use of its non-appropriated funds that made it a violation of federal laws?

RESPONSE: Most NAFI activities in the federal government are located in the Department of Defense (DOD). Generally, many of DOD's NAFIs have a statutory basis, which, in some instances, provides for a mixing of appropriated and non-appropriated funding. In contrast, none of the Academy's NAFIs have any explicit statutory basis. Although the school's relationship with its NAFIs includes many instances that were not proper, two were prominent:

- A separate personnel system was establish for the school's system of NAFIs. In addition to employing NAFI employees who conducted NAFI business, this system was also utilized to employ staff, using appropriated funds, who exclusively conducted the government's business. The school was not authorized to use an employment system outside of Title 5 of the U.S. Code to meet its employment needs and avoid the pay requirements, merit protections, and veteran preferences of the Civil Service.

- Also, some of the NAFIs established substantial portions of their operations to provide for the government's procurement needs. The school used these NAFIs non-competitively to acquire goods and services in a way that is prohibited by the Competition in Contracting Act and the Federal Acquisition Regulation.

QUESTION: The GAO report entitled, "United States Merchant Marine Academy – Internal Control Weaknesses Resulted in Improper Sources and Uses of Funds: Some Corrective Action Are Under Way" (GAO-09-635) stated:

"Our review identified instances of improper and questionable sources and uses of funds by the Academy and its affiliated NAFIs, some of which violated laws, including the ADA. Specifically, we identified improper and questionable sources and uses of midshipmen fees and questionable financial activity associated with GMATS and other NAFIs. The improper and questionable activities and transactions that we identified demonstrate the Academy did not have assurance that it complied with applicable fund control requirements, including those in the ADA. Further, the Academy could not effectively carry out its important stewardship responsibilities with respect to maintaining accountability over the collection and use of funds, including assuring that funds were collected and used only for authorized purposes. As discussed in this report, the primary causes of these improper and questionable sources and uses of funds can be attributed to a weak control environment and the flawed design and implementation of internal controls at the Academy, including inadequate oversight and monitoring by the Academy and MARAD." (page 10).

a. Who within the Maritime Administration was responsible for providing "assurance that it [the Academy] complied with applicable fund control requirements?"

RESPONSE: For much of the relevant period covered by the GAO report, the official within the Maritime Administration that was responsible for oversight of the agency's system of funds

control was the Associate Administrator for Administration. In late 2007, the agency was reorganized, placing all budget, financial management, and internal control responsibilities under a new position – the Associate Administrator/Chief Financial Officer. A financial review by the new CFO initially identified most of the internal control issues that were the subject of the GAO report.

b. What authority did Academy officials have to reprogram appropriated and non-appropriated funds?

RESPONSE: Academy officials did not have authority to reprogram appropriated and non-appropriated funds. However, for much of the period covered by the GAO review and in prior years, Academy officials executed broad discretion over the school's appropriated and non-appropriated finances. The Superintendent was delegated the Maritime Administrator's financial authority over these matters, but this did not include formal reprogramming authority. Further, as a result of MARAD's previously referenced reorganization, financial management functions now fall under the Office of the Chief Financial Officer.

c. Are there any records of communications between MARAD and Academy officials regarding the questionable practices identified in the GAO's report?

RESPONSE: As a result of the internal controls review conducted by the CFO in late 2007 and early 2008, some communications came to light regarding these activities, which suggested that MARAD management had, or should have had, an awareness of certain improper practices. No communications from headquarters specifically authorizing such practices came to the attention of the CFO as part of his review. However, for this period, headquarters either did not further inquire regarding transactions or procedures that may have been questionable, or headquarters did not exercise an appropriate degree of oversight and control to ensure that these issues were properly identified and addressed. These transactions occurred over a period of many years, covering several Administrators, Deputy Administrators, Associate Administrators, and their staff. These officials and most of these staff are no longer with the Maritime Administration.

d. Has there been a formal investigation into the violations of federal law identified in the GAO's report?

RESPONSE: Yes, there has been an investigation and associated consequences for those responsible. For several violations of the Anti-Deficiency Act highlighted in the report, the Department completed its investigation of these matters in early 2009, and the Secretary made the required statutory report to the President, the Speaker of the House, the President of the Senate, and the Comptroller General on March 9, 2009.

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MITRE

After-Action Report (AAR)

USNORTHCOM – USTRANSCOM – USCG – Maritime Industry Port Security Meeting Conducted at Headquarters USNORTHCOM Colorado Springs, CO on January 25, 2010

Michael Hussey
February 2010

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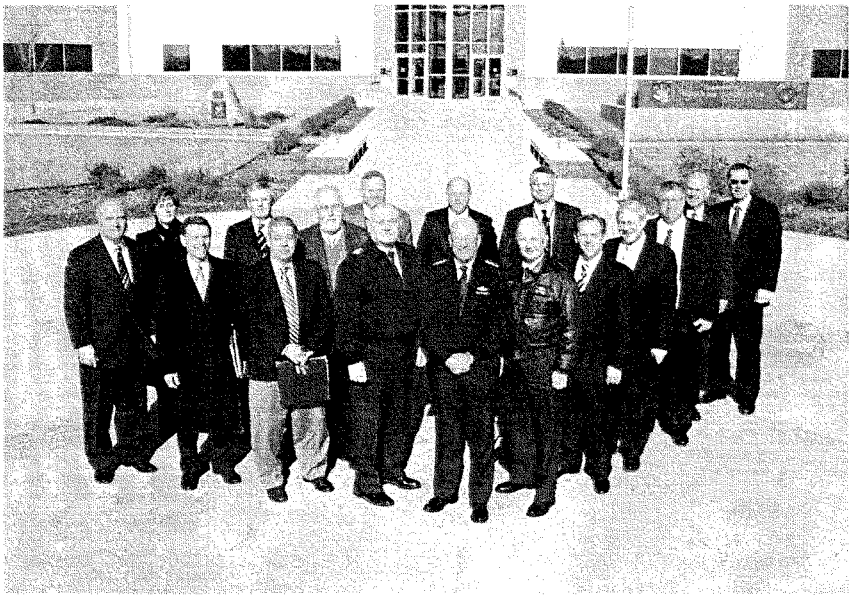


Front left to right: Mr. Paul Kirchner, Mr. Robert Behler, Mr. David Matsuda, ADM Thad Allen, General Victor Renuart, General Duncan McNabb, Mr. Eric Mensing, Mr. Noel Bassett, Mr. Steve Carmel, Mr. Clay Harris, Mr. Gary Bald.
Back Left to Right: Mrs. Sarah MacConduibh, Mr. Bruce Stubbs, Mr. Jim Black, Mr. Bruce Fernie, Mr. Ray Fitzgerald, Mr. Michael Hussey. 25 January 2010

1 Executive Summary

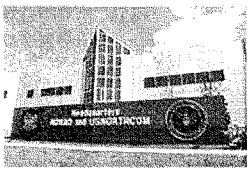
On Jan 25, 2010, Commander (CDR), United States Northern Command (USNORTHCOM) and Commander, North American Aerospace Defense Command (NORAD) General Victor E. Renuart Jr., U.S. Air Force (USAF), hosted a three-hour port security meeting in Colorado Springs, CO, which was attended by Commandant of the United States Coast Guard (USCG) Admiral (ADM) Thad William Allen, Commander, U.S. Transportation Command (USTRANSCOM) General Duncan J. McNabb, USAF, and nine maritime shipping industry executives. The purpose of the meeting was to examine current port security roles and responsibilities, identify gaps, and expand the collaborative partnership between government principals and private industry stakeholders.

While shipping companies and professional mariners rely on Sailing Direction and Coast Pilot publications when their vessels navigate through unfamiliar waters, the recent port security laws and closely associated civil maritime disaster management practices and the defense of the global commerce supply chain are still maturing concepts. Nearly all of the port security meeting conclusions in Section 3 encompass, as ADM Thad Allen, Commandant of U.S. Coast Guard notes, "the development of common procedures and how we come together" as aligned government and private industry stakeholders to preserve our maritime frontiers and commerce interests. In particular, information sharing barriers between government and industry, the absence of an emergency management process that integrates the maritime industry, and the lack of an "all stakeholder" experiment were noted concerns. A strong recommendation, echoed by all participants, was to develop, test and validate these evolving procedures during normal operations rather than in the middle of a crisis when everyone is at general quarters and unilaterally focused on their immediate sectors instead of the broader global maritime commerce network and transportation system.

2 Background

Some of the meeting's significant "touch points" include:

1. Understanding the U.S. government's (USG's) role in port security and civil disaster support as it applies to crisis and consequence management of a maritime event.
2. Gaining a better awareness of maritime industry cultures, critical infrastructure, and s, intermodal business principles for all cargo sectors in the supply chain, and leveraging industry expertise in crisis response planning stages.
3. Strengthening information sharing capabilities and expanding trust between government principals and private industry stakeholders.
4. Recognizing that "a single point of failure in the maritime transportation infrastructure can have a cascade effect on commerce, economy, and homeland security," as Maersk Line's Steve Carmel noted.



5. Identifying follow-on opportunities with maritime industry for policy development, experimentation, and concept development through experimentation (test and validation).

In 2005, Maritime Warning became one of NORAD's mission areas. NORAD was established in 1958 to manage aerospace warning, air sovereignty, and air defense for the U.S. and Canada.

Since assuming command from ADM Timothy Keating U.S. Navy (USN) in March 2007, Gen. Renuart has integrated more than 50+ agencies at USNORTHCOM to preserve and defend North American maritime frontiers, while also supporting the USCG's port security mission. USNORTHCOM also works very closely with USTRANSCOM, which provides air, land, and sea transportation for the Department of Defense (DoD).

Referencing disasters like 9/11, Hurricane Katrina, and the devastating earthquake in Haiti, the government's initial response is to "put mass on the event," which necessitates exceptional coordination and broad leadership across geographic boundaries and maritime industry sectors. In the first hours of a national response, finding the right balance between the government's reaction and intermodal maritime commerce is a delicate process, which some have referred to as "organized chaos." Gen McNabb spoke of the partnership, "Our relationship with the maritime industry is critical," which was also the cornerstone of Gen Renuart's opening remarks on Jan. 25, "This meeting is hugely important and will help us find our niche in working with you".

The MITRE Corporation, a not-for-profit organization that provides systems engineering, research and development, and information technology support to the government, coordinated and facilitated the three-hour meeting at Peterson Air Force Base, Colorado Springs, CO. In addition to the government principals mentioned above, Mr. Bruce Stubbs, DoD Executive Agent for Maritime Domain Awareness (DoD EA for MDA), Mr. David T. Matsuda, Administrator of the Maritime Administration, Mr. Robert Behler, Senior Vice President and Deputy General Manager of the MITRE Corporation's Command and Control (C2) Center, Mr. Michael Hussey and Ms. Sarah MacConduibh of the MITRE Corporation, and the following maritime industry executive level officers attended the meeting: Mr. Paul Kirchner, American Pilots' Association; Mr. Eric Mensing, APL Maritime; Mr. Ray Fitzgerald, American Roll-On Roll-Off Carrier; Mr. Noel Bassett, American Steamship Company; Mr. Bruce Fernie, Keystone Shipping Co.; Mr. Steve Carmel, Maersk Line Limited; Mr. Jim Black, Moran Shipping Agencies, Inc., Mr. Clay Harris, GDF SUEZ Energy North America, Inc.; and Mr. Gary Bald, Royal Caribbean Cruises Ltd. (RCCL).

Through several pre-meeting exchanges (teleconferences, emails, etc.), the meeting agenda (Section 2) was reviewed extensively by all government and industry principals. During the round table, a dynamic two-way exchange, the three senior Flag Officers discussed their respective port security responsibilities as operational commanders in the National Response Framework, and the maritime industry executives presented their insight and concerns as primary waterfront industry stakeholders at the tactical or port level. Real-world events—humanitarian assistance and disaster relief efforts in Haiti, the continued threat of piracy in the waters off the Horn of Africa (HOA), and the ship collision that resulted in a substantial oil spill on the Sabine River near Port Arthur, TX on Jan. 23—overlapped with many of the identified port security issues, stimulating positive conclusions and recommendations for making "the global commerce supply chain less vulnerable" to terrorist threats and natural disasters.

2.1 Port Security Meeting Agenda

0900 USNORTHCOM CDR—Gen Renuart

0920 USCG Commandant—ADM Allen

0940 USTRANSCOM CDR—Gen McNabb

1000 Major Industry Port Security Issues

- Marine Transportation Critical Infrastructure Government and Industry Challenges
- Industry Regulatory and Compliance Practices
- Balancing Government and Private Industry Global Response and Resources

1100 Round Table Discussion

1215 Adjourn

1300 Cheyenne Mountain Operations Command Center Tour

2.2 USNORTHCOM CDR

Gen Renuart spoke about the significance of the 2005 Maritime Warning mission and Hurricane Katrina, which was viewed as a "bell weather event" that prompted USNORTHCOM to better integrate the maritime domain community of interest (COI) into the "planning stages" for civil maritime support. He also pointed to the expansion of federal and civil agency partnerships at USNORTHCOM, which work closely across the inter-government seams with Canadian Defense Forces, Department of Homeland Security (DHS)-USCG and FEMA, the National Maritime Intelligence Center (NMIC) in Suitland, MD and USNORTHCOM's Joint Forces Maritime Component Commander (JFMCC) at U.S. Fleet Forces Command (USFF) in Norfolk, VA. The DoD MDA EA office has also tasked USNORTHCOM to develop improvements for MDA. Some of these joint efforts include the final revision of the Fleet MDA Concept of Operations (CONOP) which is presently under review by ADM John Harvey USN, CDR USFF, and the USNORTHCOM-sponsored Joint Integrated MDA (JIMDA), a relatively new initiative (Aug. 2009) that will test and validate new tactics, techniques, and procedures (TTPs) for maritime homeland defense.

Gen Renuart shared a USNORTHCOM video demonstration, "Homeland Defense – Our Responsibility," praised the recent and past civil maritime support from industry partners, and emphasized our shared responsibility of "preserving and securing the American Family way of life." In closing and relative to the daily nation state and non-nation state maritime threats, Gen Renuart stated, "We want the maritime warning as far offshore as possible, need a maritime warning network, and you [Industry] play a big part in that."

2.3 USCG Commandant

ADM Allen, who has a well-established relationship with many of the maritime industry executives and both Generals, noted that the "first and last miles being the hardest" with regard to initial response to a disaster and protecting the intermodal supply chain for transportation security incidents and normal commerce operations. He referenced three U.S. Pacific Command (PACOM) ports, which if a component of the intermodal system was breeched and without a secondary supply chain option, the entire commerce distribution network and national economy would quickly be stressed. Citing the Sabine River oil spill, ADM Allen spoke of managing consequences and the need for government and private industry to develop "common procedures and how we come together." Re-starting port operations is considerably more challenging than re-opening an airport, and like the Maritime Operational Threat Response (MOTR) process and the USCG's recently established Maritime Transportation Recovery Unit (MTSRU) plan, requires exceptional stakeholder coordination and planning.

2.4 USTRANSCOM CDR

Gen McNabb stressed the importance of eliminating vulnerabilities and securing the commerce supply chain, acknowledging that the Sabine River oil spill adversely disrupted the movement of DoD cargo from the Port of Beaumont, which is a significant USTRANSCOM load port, located inland and northwest of Port Arthur. Speaking of the extensive end-to-end supply chain (receive-lift-deliver) efforts to support warfighters in Afghanistan and disaster relief efforts in Haiti, Gen McNabb embraced the idea of a "common forum like this to expand relationships and identify proactive solutions" that could not be found unilaterally in the DoD or without the aid of the commercial shipping industry. After providing an update for the disaster relief efforts in Haiti, which commended the efforts of Crowley Maritime for Port au Prince pier reconstruction, Gen McNabb stated, "We want to be sure that port security has no weak links, both in CONUS [Continental U.S.] and abroad." Secondary global supply chain options are pivotal concerns for USTRANSCOM operations.

2.5 Maritime Industry Executives

The industry port security issues were not entirely covered as the meeting entered the third hour; however, much of the contextual information was incorporated in the first two hours or in post-meeting correspondence. The most significant industry port security issue was recognizing the "fragile balance" between daily commerce and the huge disruption to the distribution network and marine transportation systems if a port or critical infrastructure was shut down for any length of time (Mr. Eric Mensing, APL Maritime). Closely aligned with Gen McNabb's supply chain vulnerability concerns was the ability to recover or re-start a port. For "Malaccamax" size container ships (300,000+ deadweight tons, 50+ foot draft, and 18,000+ Twenty foot equivalents TEU's) like the Emma Maersk (pictured right), secondary port options in the US are virtually non-existent. Certain Dangerous Cargo (CDC) ships like liquefied natural gas (LNG) vessels, deep draft (40 feet +), Panamax vessels (106 foot beam), and even cruise ships arriving CONUS also have limited berthing options.

Mr. Steve Carmel, Maersk Line, made the proverbial point that industry and government do not have a shared appreciation of the global commerce system and its weaknesses. Mr. Matsuda of MARAD suggested modeling some of the intermodal port capacity thresholds to examine contingency options for workarounds during a crisis. As with many DoD and DHS programs of record, these prototype concepts are developed in normal operations, evaluated under stressed conditions, tested through performance metrics, and ultimately validated in a CONOP, TTP, or Standard Operating Procedure (SOP). Gen Renuart endorsed the modeling and simulation (M&S) idea and suggested that DoD could help facilitate some experimentation. MITRE, who is presently guiding the USAF's M&S efforts for Joint Expeditionary Force Experiment 2010 (JEFX 10), has also exercised the MOTR (RADM Joseph Nimmich USCG and Brad Kiesserman) in Jan 2007 and directed several MDA experiments for both DoD and DHS operational level components at its McLean, VA and Bedford, MA facilities.

Both Mr. Steve Carmel and Gen Renuart recognized the importance of system and culture resiliency during a maritime incident. Unlike the USG in many instances, the maritime industry

is laser focused on Just-in-Time (JIT) delivery and reducing excess capacity business principals. Understanding "what's important" to commerce, appreciating the civil disaster response processes, and mutually leveraging private industry and government resources for security can often mitigate a crisis and avoid the "organized chaos" common to an emergency response.

Mr. Bruce Fernie, Keystone Shipping Co., and retired FBI counter-terrorism agent Mr. Gary Bald, presently RCCL's Director of Global Fleet (38 Cruise Ships)Security, spoke of the existing void from formerly being a part of the government's daily port security infrastructure and being on the information-sharing peripheral even though they still hold a government clearance. Mr. Bald noted two recent examples involving Royal Caribbean Cruise Line (RCCL) ships in which he had to reach out to MITRE resources for security and logistical guidance; in the Gulf of Aden because the European Union Maritime Security Command Horn of Africa (MSCHOA) was unresponsive and in the RCCL-managed Port of Labadee, Haiti in which there was simply not an immediate USG guide for a company operating outside the military sealift fence.

Mr. Paul Kirchner, American Pilots' Association, and Mr. Jim Black, Moran Shipping Agencies, Inc., who represent a group (s) of waterfront stakeholders that are generally onboard an arriving CONUS vessel ahead of the regulatory bodies, work very closely with USCG Sector Commands and respective "Captain of the Port" (COTP). Ship Agents have intimate knowledge of all vessel port business, direct operations on behalf of the shipping companies, and coordinate all port security and clearance documents with USG agencies. Mr. Paul Kirchner spoke of expanding situational awareness for pilots, who often embark inbound vessels well offshore, and improving tactical communications with the USCG Sector field teams. Mr. Black provided a white paper on behalf of the Association of Ship Brokers and Agents, which seeks to establish higher ship agency standards. Through this bill, which is sponsored by Senator Frank R. Lautenberg (S. 915), the ship agencies are lobbying to be included in the "defense in depth" and "layered approach to homeland security" that U.S. Secretary of Homeland Security Janet Napolitano referenced in her Dec. 2, 2009 testimony before the Senate Commerce Committee.

The ability to leverage government resources to share information or enhance the industry's ability to examine operational issues on their end was presented by Mr. Noel Bassett, American Steamship Company. Whether DoD, Transportation Security Administration (TSA) or USCG can facilitate access to a "no fly"-like list for the maritime industry is a policy issue; however, the general consensus was that shipping companies could better support the current vetting process for crew and passengers that the TSA manages through the Transportation Worker's Identification Card (TWIC) process or the USCG vets through the 96 Electronic Notice of Arrival/Departure (eNOAD). Much of the information sharing barriers are contingent on "need to know", government clearances, and the ability to handle FOUO data through Public Key Infrastructure (PKI) certification and encryption.

Several inputs were received after the Jan 25th meeting, which will be noted references at the end of this report and available through respective industry point of contact (POC). ADM Allen commented on the USCG's Maritime Transportation Recovery Unit (MTSRU), which was deployed in both Port Arthur and Haiti. The MTSRU employs a new risk-based decision making application tool that uses an assessment tool to determine when to re-open a port or waterway that was impacted by a transportation security incident or a hazardous material release. The Vessel Prioritization Tool, which is part of the MTSRU tool suite, also helps determine the sequence of vessel's that have been in queue while the waterway or port was closed. Ship Agents and Pilots, who are also local knowledge experts, would like to have some input as to prioritizing when and what vessels move first.

Mr. Clay Harris of GDF Suez provided an article, "Salvage of Cargo from the War-Damaged Gaz Fountain," which carried segregated cryogenic (Liquefied Petroleum Gas – LPG) cargo of butane and propane. While steaming east out of the Persian Gulf October 12, 1984, the vessel was hit by "Maverick" TV-guided air-ground missiles, courtesy of an Iranian aircraft [3]. The recent media attention surrounding the proposed Yemen originating LNG tanker deliveries into Sabine and Boston has generated significant arguments, both against and in support to preserve the regional energy supply grid. DHS USG regulatory agencies have always partnered with other DOD federal civil support team, state, local and private industry to consider alternative options and or in lieu of any, taken exceptional port security measures for any CDC vessel, which also includes examining the risks in advance through risk assessment tools, exercises and table tops at multiple levels. This article details the successful salvage of the ship and recovery of LPG cargo, which was the only liquefied gas carrier casualty ever recorded.

In many instances, as Ray Fitzgerald, American Roll-On Roll-Off Carrier, noted, mutual "education and understanding" can often overcome some of the tactical barriers and sensitivities of port security. A port security meeting outlier, the Horn of Africa piracy threat, impacted many of the industry participants, and the general consensus was the European-led MSCHOA reporting service was often static or unresponsive.

3 Port Security Meeting Conclusions

1. "We're managing maritime and port security through a series of panics," said ADM Allen. Mr. Bruce Fernie, Keystone Shipping Co.; noted "[Industry] doesn't feel like they are part of the security infrastructure, and they want a role."Neither government nor industry appears to jointly comprehend the vulnerabilities of the global intermodal commerce and marine transportation systems.
2. Information sharing is how Mr. Bruce Fernie, Keystone Shipping Co.; summed up Industry's concerns and what is often a DoD/DHS challenge when it comes to law enforcement's sensitive data. He said, "Information sharing regarding port security in the U.S. is sensitive and I believe that there is considerably more information available than Industry folks will ever be permitted to access. We all drill and conduct exercises with our respective vessel security plans, but I am not aware of any consolidated port security exercises conducted where all of the port stakeholders participate."
3. M&S and analysis of U.S. ports as part of the global commerce network were of interest to both government and industry principals. If a port is shut down, what are the secondary supply chain options and tolerance thresholds for intermodal commerce/energy/economic sustainment? What are the immediate impacts of an attack on the Global Positioning System satellite system, which is pivotal to communication and the electronic navigation suites of commercial and military vessels?
4. CONOPs/SOPs do exist for port/maritime security during normal operations and crisis situation.
5. Given the breadth of the port security COI, Bruce Stubbs, DOD MDA EA, commented that this meeting was "a productive seminar and sensing session," which with the appropriate disclosures/public release consensus, could be leveraged for future Congressional hearing testimony, white papers, and to justify rationale for follow-on semi-annual meetings or sub-working groups, as suggested.

3.1 Actionable Recommendations

1. Develop an Industry-centric MOTR plan addendum for crisis and consequence response. Describe the maritime geographic and cargo sectors, identify the critical infrastructure waterway junction points, determine the intermodal links in major ports, and assess the resiliency of primary and secondary supply chains.
    a. Pre-designate Industry security officers, many of whom hold government clearances, as MOTR representatives.
2. Consider "a whole of government maritime fusion capability" through a virtual SharePoint web service, which could easily leverage existing unclassified/FOUO resources through PKI certification:
    a. CHAT (All Partner Access Network [APAN] and Defense Connect Online [DCO]).
    b. Common Operational Picture (COP) (Maritime Domain Awareness Data Strategy [MDA DS COI], Maritime Security & Safety Information System [MSSIS], and commercial Lloyd's AIS Live).
    c. File Sharing (HARMONIEWeb, which supported past DoD/DHS experimentation services, has DCO CHAT capability, USCG Homeport, and MARAD MarView).
    d. Alerts/Guidance/Reference Library for normal maritime commerce operations, emerging events, "no sail" lists, policy-shaping hearings, etc.
3. All stakeholder port security experimentation that leverages existing DoD/MITRE M&S capabilities to test single or multi-point failures in the global marine transportation network and to develop/validate "resilient" response processes. Frontier Sentinel, Austere Challenge, MDA SIMEX, Trident Warrior, the Boston Game (LNG), and Noble Resolve, which included Maersk, are examples of past experiments, table tops, and exercises that focused on the maritime domain.
4. Closely aligned and a by-product of experimentation, develop a CONOP/SOP or leverage existing DoD/DHS CONOPs and TTP efforts to submit an addendum that integrates maritime industry stakeholders (shipping companies, agents, pilots, and port authorities).
5. Request endorsement from meeting government principals for follow-on meetings. Of note, ADM Allen is tentatively scheduled to appear before the Senate Commerce committee to address port security on Feb. 22, 2010.

Appendix A References

[1] Association of Ship Brokers and Agents White Paper on the merits of pending US Senate Bill 915. POC Jim Black Moran Shipping Agency Tel: (281) 582-9200.

[2] "Risk-Based Decision Making Tools" by CDR Joseph H. Snowden USCG Sector Detroit for Winter 2009-2010 USCG Proceedings magazine.

[3] Salvage of Cargo from the War-Damaged Gaz Fountain by Captain J.A. Carter of Marine Safety Services Limited. POC Clay Harris 713-636-1005.

[4] Maritime Transportation Security Act, PUBLIC LAW 107–295—NOV. 25, 2002, is available at http://homeport.uscg.mil/mycg/portal/ep/browse.do?channelId=-24885&channelPage=%2Fep%2Fchannel%2Fdefault.jsp&pageTypeId=13489

[5] Electronic Notice of Arrival/ Departure (eNOAD) is available electronically at http://www.nvmc.uscg.gov/NVMC/default.aspx

[6] National Response Framework, Department Homeland Security January 2008, available electronically at http://www.fema.gov/emergency/nrf/

[7] Container Security Initiative White Paper by Keith Barber NWDC 757-443-9894.

[8] USNORTHCOM Port Security Brief by Michael Hussey MITRE 781-377-3883.

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