



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

**Bill Shuster**  
**Chairman**

**Washington, DC 20515**

**Nick J. Rahall, III**  
**Ranking Member**

April 12, 2013

Christopher P. Bertram, Staff Director

James H. Zola, Democrat Staff Director

**SUMMARY OF SUBJECT MATTER**

TO: Members, Subcommittee on Coast Guard and Maritime Transportation  
FROM: Staff, Subcommittee on Coast Guard and Maritime Transportation  
RE: Hearing on "President's Fiscal Year 2014 Budget Request For Coast Guard and Maritime Transportation Programs"

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**PURPOSE**

On Tuesday, April 16, 2013, at 2:00 p.m. in 2167 Rayburn House Office Building, the Subcommittee on Coast Guard and Maritime Transportation will hold a hearing to examine the fiscal year (FY) 2014 budget requests for the United States Coast Guard, the Federal Maritime Commission, and the Maritime Administration.

**BACKGROUND**

**United States Coast Guard**

The United States Coast Guard was established on January 28, 1915, through the consolidation of the Revenue Cutter Service (established in 1790) and the Lifesaving Service (established in 1848). The Coast Guard later assumed the duties of three other agencies: the Lighthouse Service (established in 1789), the Steamboat Inspection Service (established in 1838), and the Bureau of Navigation (established in 1884).

Under section 2 of title 14, United States Code, the Coast Guard has primary responsibility to enforce or assist in the enforcement of all applicable Federal laws on, under, and over the high seas and waters subject to the jurisdiction of the United States; to ensure safety of life and property at sea; to carry out domestic and international icebreaking activities; and, as one of the five armed forces of the United States, to maintain defense readiness to operate as a specialized service in the Navy upon the declaration of war or when the President directs.

The Coast Guard is directed by a Commandant, who is appointed by the President with the advice and consent of the Senate to a four-year term. In 2010, President Obama appointed Admiral Robert J. Papp, Jr. as Commandant of the Coast Guard.

FY 2014 Coast Guard Budget Request: The President requests \$9.79 billion in FY 2014 for the activities of the Coast Guard, \$582.3 million (or 5.6 percent) less than the FY 2013 enacted level. Of the \$9.79 billion requested, \$7.99 billion is for Coast Guard discretionary accounts, \$728 million (or 8.3 percent) less than the FY 2013 enacted level. This amount does not include funding for Overseas Contingency Operations/Global War on Terrorism (OCO). The Administration is expected to send Congress a FY 2014 budget amendment in the coming weeks that will request OCO funding for the Coast Guard through the Department of Defense (DoD).

Program	FY 2013 Enacted*	FY 2014 President's Budget Request	Difference Bet. FY2014 Request and FY2013 Enacted	% Difference Bet. FY2014 Request and FY2013 Enacted
Operating Expenses	\$6,811,779,000	\$6,755,383,000	-\$56,396,000	-0.8%
Environmental Compliance & Restoration	\$13,134,000	\$13,187,000	\$53,000	0.4%
Reserve Training	\$132,353,000	\$109,543,000	-\$22,810,000	-17.2%
Acquisition, Construction & Improvements	\$1,543,353,000	\$909,116,000	-\$634,237,000	-41.1%
Alteration of Bridges	\$0	\$0	\$0	0.0%
Research, Development, Test & Evaluation	\$19,664,000	\$19,856,000	\$192,000	1.0%
Medicare-Eligible Retiree Health Care Fund Contribution	\$201,610,000	\$186,602,000	-\$15,008,000	-7.4%
<b>Subtotal, Discretionary</b>	<b>\$8,721,893,000</b>	<b>\$7,993,687,000</b>	<b>-\$728,206,000</b>	<b>-8.3%</b>
Retired Pay	\$1,440,157,000	\$1,452,150,000	\$11,993,000	0.8%
State Boating Safety Grants	\$113,199,000	\$109,464,000	-\$3,735,000	-3.3%
Oil Spill Liability Trust Fund Claims	\$101,000,000	\$238,600,000	\$137,600,000	136.2%
<b>Subtotal, Mandatory</b>	<b>\$1,654,436,000</b>	<b>\$1,800,294,000</b>	<b>\$145,858,000</b>	<b>8.8%</b>
<b>Total</b>	<b>\$10,376,329,000</b>	<b>\$9,793,981,000</b>	<b>-\$582,348,000</b>	<b>-5.6%</b>

\*Does not include reductions from sequester

Operating Expenses: The President requests \$6.75 billion for Coast Guard Operating Expenses (OE) in FY 2014, \$56.4 million (or 0.8 percent) less than the FY 2013 enacted level. The OE account supports the day-to-day activities of the Coast Guard including administrative expenses, support costs, travel, lease payments, and the operation and maintenance of infrastructure and assets. The OE account also funds personnel compensation and benefits for the Service's approximately 42,000 active duty military members, 8,000 reservists, and 8,000 civilian employees.

The budget for OE includes increases in funding to cover follow on costs for the operation and maintenance of new assets and technology acquired in FY 2013 and increases in other administrative expenses. The request includes \$29 million in increases to cover the cost of the Administration's proposed 1 percent pay raise for military personnel in FY 2014, as well as expanded military benefits enabling Coast Guard servicemembers to maintain parity with benefits received by DoD servicemembers. It also includes \$5.8 million to cover the cost of the Administration's proposed 1 percent pay raise for civilian personnel. Finally, it includes \$29 million to acquire and install new software and hardware to improve the Service's financial management and accounting operations.

These increases are offset by \$218.7 million in cuts derived through the decommissioning of certain assets and closure of two air stations, the elimination of certain military benefits, and reductions in personnel, travel, support, and other administrative costs.

The budget proposes the following reductions in the OE account:

- *Cuts to Personnel:* The FY 2014 request proposes to cut the size of the Coast Guard's workforce by 931 positions. This includes a reduction of 850 servicemembers and 81 civilians. These are net reductions representing a decline in positions from decommissioning certain assets, the closure of facilities, cuts to personnel assigned to training, intelligence, headquarters, and the Coast Guard Academy, as well as reductions in the number of personnel responsible for inspecting foreign-flagged vessels entering U.S. waters and the security of foreign ports. Reductions will take place through attrition.
- *Cuts to Military Benefits:* The FY 2014 request proposes to eliminate tuition assistance for Coast Guard officers and limit benefits available to enlisted personnel.
- *Air Stations:* The FY 2014 request proposes to close two Coast Guard air stations in Charleston, South Carolina and Newport, Oregon and remove from service the four HH-65D helicopters stationed at those locations. The Service estimates these changes will save \$5 million in FY 2014. The Coast Guard expects the closure of these facilities will increase response times in the local areas. The Service recently spent millions to upgrade the HH-65 fleet with new engines and avionics.
- *High Endurance Cutters:* The FY 2014 request proposes to decommission two High Endurance Cutters (WHEC). First commissioned in 1967, the 378-foot WHEC fleet is failing at an increased rate resulting in lost operational days and increased maintenance costs. The Coast Guard estimates decommissioning two WHECs will save \$14.1 million in FY 2014. The WHEC fleet is being replaced by the National Security Cutter (NSC). Three NSCs have been delivered to date and the Service expects to take delivery of a fourth NSC in FY 2014.
- *HU-25 Falcons:* The FY 2014 request proposes to retire the Coast Guard's eight remaining HU-25 Falcon aircraft. The Service is replacing the outdated Falcons with new HC-144 Maritime Patrol Aircraft (MPA). The Service estimates retiring these assets will save \$9.3 million in FY 2014.
- *HC-130 Aircraft:* The FY 2014 request proposes to retire two Coast Guard HC-130H aircraft. The Service is replacing the nearly 30 year-old HC-130H aircraft with new HC-130J aircraft. The Service estimates retiring these assets will save \$7.7 million in FY 2014.

Environmental Compliance and Restoration: The President requests \$13.2 million for the Environmental Compliance and Restoration (EC&R) account in FY 2014, \$0.05 million (or 0.4

percent) more than the FY 2013 enacted level. The EC&R account provides for the clean-up and restoration of contaminated Coast Guard facilities, as well as for the remediation of Coast Guard assets to ensure they are safe to operate or can be decommissioned in compliance with environmental laws.

The Coast Guard plans to use the \$13.2 million requested for EC&R to pay for the environmental remediation and restoration of Coast Guard facilities in several states. In FY 2013, the Service had a backlog of over 400 EC&R projects with an estimated combined cost of over \$185 million.

Reserve Training: The President requests \$109.5 million for the Reserve Training account in FY 2014, \$22.8 million (or 17.2 percent) less than the FY 2013 enacted level. The Reserve Training account funds the costs of training members of the Coast Guard Reserve and the administration of the Reserve Program.

The FY 2014 request proposes to move 1,050 reservists from the Selected Reserve to the Inactive Ready Reserve. This reduces the number of regularly trained Coast Guard Reservists from 8,100 to 7,050. The reduction in the number of Selected Reservists enables the Service to cut the number of personnel responsible for training Reservists by 118 positions, providing savings of \$26.5 million in FY 2014.

Reservists maintain readiness through regular training and exercises. Reservists can be mobilized by the Secretary of Homeland Security to support the response to a national emergency or disaster, and the Secretary of Defense to support national security operations worldwide. In recent years, Coast Guard Reservists were mobilized to support Haiti earthquake relief operations, the response to the BP DEEPWATER HORIZON oil spill, and to conduct port security activities in Iraq in support of Operation Enduring Freedom.

Acquisitions, Construction, and Improvements: The President requests \$909 million for the Acquisitions, Construction, and Improvements (AC&I) account in FY 2014, \$634.2 million (or 41 percent) less than the FY 2013 enacted level. The AC&I account funds the acquisition, construction, and physical improvements of Coast Guard owned and operated vessels, aircraft, facilities, aids to navigation, information management systems, and related equipment.

The budget request includes approximately \$830.9 million for the acquisition of aircraft, vessels, and command, control, communications, computer, intelligence, surveillance and reconnaissance (C4ISR) systems. This represents a reduction of \$506.4 million (or 38 percent) below the FY 2013 enacted level. The budget request includes:

- \$616 million to complete construction of the seventh NSC. No funding is included for Long Lead Time Materials for NSC #8, which will delay the production line and increase costs;
- \$75 million to acquire two Fast Response Cutters (FRC). The FRC is replacing the Coast Guard's nearly 30 year-old 110-foot Patrol Boats. The current contract requires the Coast Guard to acquire at least four FRCs each year. Acquiring two will delay the production of FRCs and increase costs;

- \$25 million to continue the development of the Offshore Patrol Cutter (OPC). The OPC is supposed to replace the Service's aging 210-foot and 270-foot Medium Endurance Cutters;
- \$16 million for modernization and sustainment of the HC-130H Long Range Surveillance Aircraft fleet;
- \$12 million for the modernization and sustainment of the HH-65 Dolphin helicopter fleet;
- \$59.9 million for C4ISR acquisition, program management, systems engineering and integration, and the Nationwide Automatic Identification System; and
- \$2 million to survey and design a new polar icebreaker.

The Service proposes to eliminate funding for the following acquisition programs in FY 2014:

- *HC-144A Maritime Patrol Aircraft:* The Coast Guard's program of record for this procurement calls for the acquisition of 36 MPA to replace the obsolete HU-25 Falcon aircraft and some HC-130H aircraft. To date, funding has been secured to acquire 18 MPA and 17 Mission System Pallets, which provide the MPA with the necessary avionics to support Coast Guard missions. The Coast Guard has not presented a plan to mitigate the lost patrol hours that come as a result of not fulfilling this acquisition.
- *Response Boat – Medium:* The Coast Guard's program of record for this procurement calls for the acquisition of 180 Response Boat – Mediums (RB-M) to replace the aged, slow, and obsolete 41 foot utility boat. To date, funding has been secured to acquire 170 RB-Ms. Despite proposing to terminate the acquisition early, the Service has not amended the program of record to explain how the reduced buy will meet mission requirements. Terminating the acquisition early could impair small boat readiness, which could impact search and rescue mission effectiveness.
- *HH-60 Helicopter Conversion:* The Coast Guard had planned to make critically needed upgrades to the helicopter's radar sensor system to improve the asset's ability to conduct search and rescue. The Service now proposes to delay these upgrades.

The budget requests \$120.2 million in other capital costs, 87.9 million (or 42 percent) less than the FY 2013 enacted level. This includes \$115 million in personnel costs to execute AC&I programs and \$5 million to construct shore facilities and aids to navigation. In FY 2013, the Coast Guard had a backlog of over 35 prioritized shore facility improvement projects with an estimated combined cost of over \$540 million.

Finally, no funding is included in the budget request to rehabilitate housing for Coast Guard servicemembers and their dependents. The account received \$10 million in FY 2013 funding. Much of the Service-owned housing is decades old and in poor condition. The Coast Guard recently completed a survey of the condition of its servicemember housing to help the Service better direct investments.

Alteration of Bridges: The President does not request funding for the Alteration of Bridges program in FY 2014. The program did not receive funding in FY 2013. Created by the Truman-

Hobbs Act of 1940 (33 U.S.C. 511 et. seq.), the Alteration of Bridges program authorizes the Coast Guard to share with a bridge's owner the cost of altering or removing railroad and publicly owned highway bridges that are determined by the Service to obstruct marine navigation.

Research, Development, Test, and Evaluation: The President requests \$19.8 million for the Coast Guard's Research, Development, Test, and Evaluation (RDT&E) account, an increase of \$0.2 million (or 1 percent) over the FY 2013 enacted level. The RDT&E account supports improved mission performance for the Service's 11 statutory missions through applied research and development of new technology and methods.

The Coast Guard intends to use the \$19.8 million requested for RDT&E in FY 2014 to improve its modeling and simulation capabilities and develop new technologies for the detection and recovery of oil and hazardous substances from the sea floor and in the Arctic environment; to develop ballast water treatment methodologies; to provide improved, sensors and information security technologies for assets and shore units; and to develop new systems to improve intelligence collection and dissemination. Funding will also be used to test Small Unmanned Aerial Systems for use on the NSCs.

### Coast Guard FY 2014 Authorized Funding Level

On December 20, 2012, the President signed into law H.R. 2838, The Coast Guard and Maritime Transportation Act of 2012 (P.L. 112-213). H.R. 2838 authorized funding for the discretionary accounts of the Coast Guard for FY 2013 and FY 2014. Below is a comparison of the FY 2014 authorized level and the President's FY 2014 budget request.

Program	FY 2014 Enacted Authorization (P.L. 112-213)	FY 2014 President's Budget Request	Difference Bet. FY2014 Request and FY2014 Enacted Authorization	% Difference Bet. FY2014 Request and FY2014 Enacted Authorization
Operating Expenses	\$6,981,036,000	\$6,755,383,000	-\$225,653,000	-3.2%
Environmental Compliance & Restoration	\$16,701,000	\$13,187,000	-\$3,514,000	-21.0%
Reserve Training	\$140,016,000	\$109,543,000	-\$30,473,000	-21.8%
Acquisition, Construction & Improvements	\$1,546,448,000	\$909,116,000	-\$637,332,000	-41.2%
Alteration of Bridges	\$16,000,000	\$0	-\$16,000,000	-100.0%
Research, Development, Test & Evaluation	\$19,890,000	\$19,856,000	-\$34,000	-0.2%
<b>Total</b>	<b>\$8,720,091,000</b>	<b>\$7,807,085,000</b>	<b>-\$913,006,000</b>	<b>-10.5%</b>

### Federal Maritime Commission

The Federal Maritime Commission (FMC) was established in 1961 as an independent regulatory agency charged with the administration of the regulatory provisions of shipping laws. The FMC protects shippers and carriers from restrictive or unfair practices of foreign governments and foreign-flagged carriers. The FMC also enforces the laws related to cruise

vessel financial responsibility to ensure cruise vessel operators have sufficient resources to pay judgments to passengers for personal injury or death or for nonperformance of a voyage.

The FMC is composed of five Commissioners appointed for five-year terms by the President with the advice and consent of the Senate. The Commission is led by a Chairman designated by the President. On April 1, 2013, the President designated Commissioner Mario Codero as Chairman.

FY 2014 FMC Budget Request: The President requests \$25 million in FY 2014 for the activities of the FMC, \$2.1 million (or 9.5 percent) above the FY 2013 enacted level.

Account	FY2013 Enacted*	FY2014 President's Budget Request	Difference Bet. FY2014 Request and FY2013 Enacted	% Difference Bet. FY2013 Request and FY2012 Enacted
Formal Proceedings	\$7,429,513	\$8,122,916	\$693,403	9.3%
Equal Employment Opportunity	\$190,286	\$196,791	\$6,505	3.4%
Inspector General	\$663,693	\$770,661	\$106,968	16.1%
Operational and Administrative	\$14,555,933	\$15,909,632	\$1,353,699	9.3%
<b>Total</b>	<b>\$22,839,425</b>	<b>\$25,000,000</b>	<b>\$2,160,575</b>	<b>9.5%</b>

\*Does not include reductions from sequester

### Maritime Administration

The Maritime Administration (MARAD) was established in 1950. It administers financial programs to build, promote, and operate the U.S. flag fleet; manages the disposal of Federal government-owned vessels; regulates the transfer of U.S. documented vessels to foreign registries; maintains a reserve fleet of Federal government-owned vessels essential for national defense; operates the U.S. Merchant Marine Academy; and administers a grant-in-aid program for state operated maritime academies.

MARAD is led by an Administrator appointed by the President with the advice and consent of the Senate. David T. Matsuda was sworn in as Administrator in June 2010.

FY 2014 MARAD Budget Request: The President requests \$364.8 million in FY 2014 for the activities of MARAD, \$13.2 million (or 3.8 percent) over the FY 2013 enacted level.

Account	FY2013 Enacted*	FY2014 President's Budget Request	Difference Bet. FY2014 Request and FY2013 Enacted	% Difference Bet. FY2014 Request and FY2013 Enacted
Operations and Training	\$157,214,000	\$152,168,000	-\$5,046,000	-3.2%
Assistance to Small Shipyards	\$10,042,000	\$0	-\$10,042,000	-100.0%
Ship Disposal Program	\$5,534,000	\$2,000,000	-\$3,534,000	-63.9%
Maritime Security Program	\$175,065,000	\$208,000,000	\$32,935,000	18.8%
Title XI - Administrative Expenses	\$3,763,000	\$2,655,000	-\$1,108,000	-29.4%
Title XI - Loan Guarantees	\$0	\$0	\$0	0.0%
<b>Total</b>	<b>\$351,618,000</b>	<b>\$364,823,000</b>	<b>\$13,205,000</b>	<b>3.8%</b>

\*Does not include reductions from sequester

Operations and Training: The President requests \$157.2 million for the Operations and Training (O&T) account, \$5 million (or 3.2 percent) below the FY 2013 enacted level. O&T funds the salaries and expenses for each of MARAD's programs, the operation, maintenance, and capital improvements to the U.S. Merchant Marine Academy, and financial assistance to the six state maritime academies.

The budget request for O&T includes \$81 million for the U.S. Merchant Marine Academy, including \$67.3 million for Academy Operations, and \$14 million for capital improvements, repairs, and maintenance; \$17 million for the six state maritime academies; and \$54 million for MARAD Operations and Programs. The budget request does not include funding for the Marine Highways Grant Program.

Assistance to Small Shipyards: The budget does not request funds for the Assistance to Small Shipyards Grant Program. The program provides capital grants to small privately owned shipyards to expand shipbuilding capacity, efficiency, and competitiveness. The program received \$10 million in FY 2013.

Ship Disposal: The budget requests \$2 million for the Ship Disposal Program, \$3.5 million (or 63.9 percent) less than the FY 2013 enacted level. The requested funding will cover expenses related to the disposal of up to 15 ships in the National Defense Reserve Fleet in FY 2014.

Maritime Security Program: The budget requests \$208 million for the Maritime Security Program (MSP) in FY 2014, \$32.9 million (or 18.8 percent) over the FY 2013 enacted level. Of the \$208 million request, \$183 million, coupled with \$3 million in unobligated balances from previous years, will fund the program at the FY 2014 authorized level of \$186 million. Under this program, direct payments are provided to 60 U.S.-flagged vessel operators engaged in foreign trade. Vessel operators that participate in MSP are required to keep their vessels in active commercial service and provide intermodal sealift support to the Department of Defense in times of war or national emergency.

The remaining \$25 million in the request for MSP will be used to reimburse U.S.-flagged vessel operators for the cost of employing additional U.S. mariners displaced by a restructuring of the Food for Peace Program proposed by the President in the FY 2014 budget.

Title XI Loan Guarantees: The budget does not request funds for loan guarantees for the construction or reconstruction of U.S.-flagged vessels in U.S. shipyards under the Title XI program. This program did not receive any funding in FY 2013. There is currently \$38 million in Title XI loan subsidies available, which equates to approximately \$420 million in available loan guarantees.

**WITNESS LIST**

Admiral Robert J. Papp, Jr.  
Commandant  
United States Coast Guard

Master Chief Michael P. Leavitt  
Master Chief Petty Officer of the Coast Guard  
United States Coast Guard

The Honorable Mario Cordero  
Chairman  
Federal Maritime Commission

The Honorable David T. Matsuda  
Administrator  
Maritime Administration