COAST GUARD MAJOR ACQUISITIONS

(114–17)

HEARING

BEFORE THE

SUBCOMMITTEE ON
COAST GUARD AND MARITIME TRANSPORTATION

OF THE

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TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

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May 8, 2015

SUMMARY OF SUBJECT MATTER

TO:	Members, Subcommittee on Coast Guard and Maritime Transportation
FROM:	Staff, Subcommittee on Coast Guard and Maritime Transportation
RE:	Hearing on "Coast Guard Major Acquisitions"

PURPOSE

The Subcommittee on Coast Guard and Maritime Transportation will meet on Thursday, May 14, 2015, at 10:30 a.m., in 2253 Rayburn House Office Building to receive testimony regarding the status of the Coast Guard's current acquisition program and examine the program's sustainability. The Subcommittee will hear from the United States Coast Guard, the Government Accountability Office (GAO), and the Navy League of the United States.

BACKGROUND

Coast Guard Recapitalization

The Coast Guard began a process of recapitalizing its aging offshore vessels and aircraft in the late 1990's. The program's focus was to replace those assets that carry out missions farther than 50 miles from shore and to modernize information technology systems that the Service relies upon to communicate, coordinate, and command its operations. The program was known as the Integrated Deepwater System (Deepwater). To manage the acquisition program, the Coast Guard relied on a lead system integrator composed of a partnership between Lockheed Martin and Northrop Grumman. The partnership was named the Integrated Coast Guard System (ICGS).

Deepwater encountered significant quality control and cost issues. It was the subject of several hearings and an investigation by the Committee. It remains the subject of continuing review by the GAO. Although ICGS accomplished some goals, such as delivering a re-engined HH-65 helicopter, the Coast Guard terminated the contract with ICGS in 2007, assumed full control of the recapitalization program, and is now performing the acquisition functions in-house. In 2010, Congress passed the Coast Guard Authorization Act (P.L. 111-281), which prohibited the further use of lead system integrators. In most cases, the assets scheduled for

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

Fiscal Year 2016 Budget Request for Coast Guard Acquisitions

The President requests $1.02 billion for the Acquisitions, Construction, and Improvements (AC&I) account in fiscal year (FY) 2016, $208 million (or 17 percent) less than the FY 2015 enacted appropriation level. The AC&I account funds the acquisition, construction, and physical improvements of Coast Guard owned and operated vessels, aircraft, facilities, aids-to-navigation, information management systems, and related equipment.

	FY 2015 Enacted Authorization (P.L. 113-281)	FY 2015 Enacted Appropriations (P.L. 114-4)	FY 2016 President's Budget Request
Acquisition, Construction, & Improvements	$1,546,448,000	$1,225,223,000	$1,017,269,000

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

- $91.4 million to complete Post Delivery Activities for National Security Cutter's (NSC) #5, 6, 7 and 8, and to conduct dry docking of NSC #2 (WAESCHE) to address design flaws identified after construction was underway;

- $340 million to acquire six Fast Response Cutters (FRC) (hulls #33-38). This would be the first set of FRCs acquired under a Phase II contract the Service expects to award by April 2016. The FRC is replacing the Coast Guard's nearly 30 year-old 110-foot Patrol Boats;

- $18.5 million to continue Preliminary Contract and Design work on the Offshore Patrol Cutter (OPC). The OPC is intended to replace the Service's aging 210-foot and 270-foot Medium Endurance Cutters (MECs). The Administration is requiring the Department of Homeland Security (DHS) to complete an analysis of alternatives for the OPC acquisition. Until the analysis is completed, the Coast Guard cannot award a contract for detailed design of the OPC. Failure to award a detailed design contract before the end of FY 2016 will significantly increase the cost and further delay this acquisition program, which is the largest segment of the overall recapitalization initiative. The President's budget for fiscal year 2016 does not include the nearly $70 million required for detailed design. However, it does include a request to authorize a transfer of funds from an undefined source within DHS to the Coast Guard to complete detailed design of the OPC;

- $102 million to acquire spares, continue crew training, and establish an air station in Sacramento, California, for the first four HC-27J aircraft slated for transfer from the Air Force to the Coast Guard. The request does not fund missionization costs for the HC-27Js;

- $55 million to acquire spare parts and support the establishment of a HC-130J air station in Kodiak, Alaska. The HC-130J is replacing the Service's legacy fleet of older model HC-130H aircraft;

- $40 million for the modernization and sustainment of the HH-65 Dolphin helicopter fleet;

- $36.6 million for C4ISR acquisition, program management, and systems engineering and integration;

- $6 million to conduct a Material Condition Assessment of the Service's polar icebreaker POLAR SEA. The POLAR SEA is one of the Coast Guard's and the Nation's two polar class heavy icebreakers. Since it suffered a major engine casualty in June 2010, the icebreaker has not been operational; and

- $4 million to continue survey and design work for a new polar icebreaker.

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

Finally, the FY 2016 budget request does not include funding to rehabilitate housing for Coast Guard service members and their dependents. The account received $18 million in FY 2014. Much of the Service-owned housing is decades old and in poor condition. The Coast Guard recently completed a survey of the condition of its service member housing to help the Service better prioritize future expenditures.

Issues

Capital Investment Plan

Section 663 of title 14, United States Code, requires the Commandant of the Coast Guard to submit a Capital Investment Plan (CIP) to the Committee each year in conjunction with the budget request. The CIP identifies projected funding levels over the next five fiscal years for each major acquisition, as well as an estimated timelines and total costs to complete each such acquisition. The purpose of the CIP is to ensure Congress has adequate information to conduct proper oversight of the Service's budget, acquisition plans, mission needs, and readiness to conduct operations in future years. On April 6, 2015, the Committee received the attached CIP for fiscal years 2016 through 2020.

CIPs submitted in past years have been criticized by GAO for failing to accurately reflect cost and schedule impacts from funding shortfalls. In its June 18, 2014 report entitled *Better Information on Performance and Funding Needed to Address Shortfalls* (GAO-14-450), GAO recommended the Coast Guard be required to regularly update the estimated timeline and total cost to complete each acquisition based upon actual appropriations. It also recommended the Service develop a long-term fleet modernization plan that identifies all acquisitions needed to meet mission needs and the costs associated with such acquisitions over 20 years. H.R. 1987, the Coast Guard Authorization Act of 2015, includes language which would enact these recommendations.

Cost Increases and Schedule Delays

In 1996, the Coast Guard developed a Mission Need Statement (MNS) to identify how Deepwater would fill capability gaps in its missions and establish a baseline for the numbers, types, and capabilities of new and recapitalized assets that would be needed to meet the Service's mission requirements. In 2005, the Coast Guard revised the 1996 MNS to accommodate additional capabilities needed to meet post-September 11 mission requirements. The 2005 MNS guided the creation of a revised acquisition program that was approved in 2007. The revised program identified a new baseline cost of $24.2 billion and a timeline of 20 to 25 years to complete the construction and delivery of new replacement assets.

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

In April 2014, the Coast Guard announced it would begin the process of revising the 2005 MNS to determine its future mission needs and, if necessary, update the programs of record for each asset being acquired to reflect the revised mission needs. On December 18, 2014, the President signed into law S. 2444, the Howard Coble Coast Guard and Maritime Transportation Act of 2014 (P.L. 113-281), which directed the Coast Guard to provide an integrated major MNS on the date on which the President submits to Congress a budget for fiscal years 2016, 2019 and every four years thereafter. The Coast Guard has informed staff that the revised MNS will be delivered to Congress in July, 2015.

Unplanned Capital Needs

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

- Polar Icebreaker – The Coast Guard has two Class III-heavy icebreakers (i.e., CGG POLAR STAR and CGC POLAR SEA) capable of operating in Polar Regions, although only POLAR STAR is currently operational. The Service estimates a new Class III-heavy icebreaker will cost more than $1 billion. The Coast Guard has noted that accommodating that cost into projected acquisition funding levels would significantly limit funds needed to complete the current acquisition program and severely delay the delivery of new or recapitalized assets.

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

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

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

- Medium Endurance Cutters - Under the Coast Guard's current recapitalization program, the 210- and 270-foot MECs are scheduled to remain in service into the mid-2030s before the legacy fleet will be fully replaced by the new OPC fleet. However, the recently completed Mission Effectiveness Project (MEP) for the MECs will not extend the service life of the MECs until that time. The Coast Guard has informed staff that it is in the process of evaluating the current condition of the MEC fleet and examining ways to extend the fleet's service life to compensate for the delayed arrival of the OPC fleet. This analysis could precipitate the need for a second MEP for the MEC fleet which will affect funding allocations under future CIPs.

- HH-60 and HH-65 Helicopter Fleets - Under the Coast Guard's current recapitalization program, the Service's fleets of medium range HH-60 and short range HH-65 helicopters

have undergone a series of upgrades to extend their service lives. Nevertheless, both aircraft are expected to reach the end of their service lives in 10 to 15 years. The Service has not begun the process of planning for their replacements. Furthermore, the HH-65 airframe is no longer being manufactured. This fact may restrict future Coast Guard operational capability should HH-65 airframes presently in service be lost permanently due to casualties, or be inoperative for extended periods due to extensive repair and maintenance.

Performance of New Assets

GAO's June 2014 report found that the new assets it reviewed are demonstrating improved performance over the legacy assets they replaced. However, the new assets have yet to meet all key performance parameters (KPPs). GAO found the Coast Guard's approach to the initial operational test and evaluation (IOTE) process has failed to ensure that KPPs were met before the Service and DHS made decisions to enter full rate production (GAO-14-450). GAO found the Coast Guard's inconsistent approach to IOTE could result in costly refits for assets, additional delays in the delivery of new assets, and less certainty in acquisition cost estimates. GAO recommended changes in the Service's IOTE procedures to address the issue. H.R. 1987 includes language which would enact these recommendations.

C-27J Aircraft

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

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

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

WITNESSES

Rear Admiral Baffer
Assistant Commandant for Acquisitions
United States Coast Guard

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

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

COAST GUARD MAJOR ACQUISITIONS

THURSDAY, MAY 14, 2015

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

The subcommittee met, pursuant to notice, at 10:37 a.m. in room 2253, Rayburn House Office Building, Hon. Duncan Hunter (Chairman of the subcommittee) presiding.

Mr. HUNTER. The subcommittee will come to order. The subcommittee is meeting today to review the Coast Guard's major acquisition programs.

As this subcommittee has continually highlighted, the Coast Guard currently operates tens, and in some cases, hundreds of thousands of hours short of its operational targets. This means assets are not there for the Service to secure our ports, protect our environment, and ensure the safety of our waterways. Last month, the subcommittee held a hearing on Coast Guard missions and heard from the Service's vice admiral in charge of operations who attributed much of the failure to meet mission performance goals to not having a sufficient number of modern assets.

The only way to reverse the decline in the Coast Guard's mission performance is to make the necessary investments to acquire new and improved assets. Unfortunately, based on the fiscal year 2016 budget request, as well as the fiscal year 2016 through 2020 CIP [Capital Investment Program], it appears the President refuses to make those investments.

The President's budget cuts funding needed to acquire critically needed replacement assets by 17 percent. The budget also fails to guarantee the funding needed to begin detailed design for the Offshore Patrol Cutter. Failure to move into detailed design on the OPC by the end of 2016 could result in significantly higher costs and substantial acquisition delays. Moving this and other acquisitions further to the right will only further degrade Coast Guard mission performance.

Unfortunately, the situation does not improve any time in the near future. According to the Coast Guard's Capital Investment Plan, over the next 5 years, annual funding for acquisitions never exceeds $1.2 billion. That is approximately $1 billion less than the GAO and the former Commandant of the Coast Guard have testified is needed on an annual basis to keep the current acquisition program on schedule and on budget. The CIP is nothing more than

a roadmap to additional acquisition delays, increased costs for taxpayers, and ongoing mission performance failures.

I have said this for some time now: If the President is going to send us budgets that fail to pay for the assets needed to meet Coast Guard mission requirements, then it is time for him and the Coast Guard to review their mission requirements. That is why, in the last bill that we passed, the Howard Coble Coast Guard and Maritime Transportation Act of last year, required the Coast Guard to submit a revised Mission Need Statement to this committee. The Mission Need Statement is the underlying justification for the Service's acquisition program. It lays out mission requirements and helps identify gaps in capabilities. So, if you don't have the assets, you are not going to get the assets unless you change the mission to match the assets.

The Coast Guard has assured the subcommittee that we will receive the revised Mission Need Statement in July. At that time, I intend to hold a hearing to review it and determine whether the administration intends to continue the charade of expanding Coast Guard mission requirements without providing the Coast Guard the assets it needs to meet those requirements.

In the interim I look forward to today's update on the status of the Coast Guard's current acquisition programs and the challenges the Service is facing—we got our gavel, now we can—now we are a real subcommittee, that is good.

[Laughter.]

Mr. HUNTER. And the challenges that the Service is facing in fielding these new assets.

I thank the witnesses for appearing today and look forward to their testimony.

With that, I yield to Ranking Member Garamendi.

Mr. GARAMENDI. Chairman, thank you very much. And, to your staff, thank you for meeting our need for caffeine and coffee. Appreciate that.

I appreciate the opportunity to once again assess the Coast Guard's ongoing efforts to recapitalize its surface, air, and communications assets. And nothing should be more important to this subcommittee than our responsibility to ensure that our Nation's multimission military maritime law enforcement authority has the tools it needs to meet the many challenges it faces, day in and day out, off our shores and around the world.

The Coast Guard's Capital Investment Program, or CIP, is essentially a roadmap. The Coast Guard provides this plan to Congress to help guide our decisions on what and how much we should invest annually to fulfill the largest recapitalization program in the Service's illustrious history.

Fortunately, the Coast Guard has been able to make some important progress in this effort. For example, it has begun on the eighth and last National Security Cutter. Once built, this final hull will complete the transition from the legacy fleet of High Endurance Cutters to a new, modern cutter fleet that is fewer in number, but far more technologically capable than its predecessors.

However, there are concerns. Regrettably, the Offshore Patrol Cutter, the largest and most expensive acquisition in the entire recapitalization effort, still remains a concept on the naval architect's

drawing board, and is far, far away from entering production. Even some of the new assets that have been provided to the Coast Guard, such as the 14 C–27Js, aircraft, that were authorized to be transferred from the Air Force to the Coast Guard—and, by the way, good work, making that happen, thank you—to bring these new assets online is far too slow, raising the potential for future operational gaps in the Coast Guard's fleet of fixed-wing patrol craft.

And then there are other unmet needs. We can go on with a lengthy list—and I will—of planned or unplanned needs. Recapitalization of the Coast Guard's—you will like this, Mr. Chairman—polar icebreaker—I think we have heard that discussed here many times—of well more than $1 billion possibly being spent on that. How are we going to get the money for that? Additionally, there is substantial backlog of unmet shoreside infrastructure needs that was last estimated at over $1.4 billion.

And, while we should be pleased that the Coast Guard was able to complete the Mission Effectiveness Program, MEP, to extend the service life of its legacy fleet of Medium Endurance Cutters, the delays in the production of the new OPCs will almost certainly require yet another round of Mission Effectiveness Projects. And that is the challenge for Congress.

Mr. Chairman, you were speaking about the President's budget. And, indeed, it is too little. However, it is reflective of this thing called the Budget Control Act, otherwise known as sequestration, which is our problem that—we need to break through that, and find a much more rational way of funding the necessary governmental programs.

Well, moving back to the Coast Guard, anything less than a full-on effort by the Coast Guard to meet its capital requirements isn't—will leave the Coast Guard far short of always ready, semper paratus. But a Coast Guard that is a hollow vestige of the proud maritime institution that has served this Nation for very long is not what we want. And we share the responsibility of making sure the Coast Guard has what it needs to be always ready.

I yield back, Mr. Chairman.

Mr. HUNTER. Thank the gentleman from California. Our first witness today is Rear Admiral Bruce D. Baffer, the Coast Guard's Assistant Commandant for Acquisition, and Chief Acquisition Officer.

Admiral, you are recognized.

TESTIMONY OF REAR ADMIRAL BRUCE D. BAFFER, ASSISTANT COMMANDANT FOR ACQUISITION AND CHIEF ACQUISITION OFFICER, U.S. COAST GUARD; MICHELE MACKIN, DIRECTOR, ACQUISITION AND SOURCING MANAGEMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; AND JAMES H. OFFUTT, NATIONAL PRESIDENT, NAVY LEAGUE OF THE UNITED STATES

Admiral BAFFER. Thank you, Mr. Chairman. Chairman Hunter, Ranking Member Garamendi, members of the subcommittee, good morning. Thank you for the opportunity to speak on Coast Guard recapitalization. On behalf of the Commandant, as well as the men and women of the Coast Guard, thank you for your oversight and

continued support of our Service. My complete statement has been provided, and I ask that it be entered into the record.

The Coast Guard's acquisition directorate is tasked with managing an annual portfolio in excess of $1 billion to deliver the goods and services the coastguardsmen need to perform their missions in the field. To these ends, we continue to invest in our acquisition enterprise, attracting talented professionals to the Coast Guard, maturing military and civilian career paths, and providing training and certification opportunities to grow and retrain our highly capable acquisition workforce. We formalized and documented our processes and procedures, and we are applying lessons learned.

I would also like to acknowledge the very effective working relationship we enjoy with the Government Accountability Office. Over the last 14 years, Ms. Mackin has applied her leadership through numerous audits, helping the Coast Guard realize our vision as a model acquisition enterprise.

I would also like to recognize the Navy League for their strong, ongoing support of the Coast Guard, both at the national and the local chapter levels.

In short, we have been busy. Over just the past few months, we completed the program of record for the Response Boat-Medium, with delivery of the 174th boat. We completed acceptance trials in the fifth National Security Cutter, and awarded a contract for the production of the eighth and final cutter in the NSC program of record. We issued a request for proposals for full and open competition for the remaining 26 Fast Response Cutters, and took delivery of the seventh and eighth C–130J aircraft.

The Commandant continues to make recapitalization one of his highest priorities, and, recognizing the budget environment, we are maximizing every dollar. To this end, we are emphasizing competition and affordability across the portfolio by employing DOD's Better Buying Power Initiative, particularly focusing on competition, early industry engagement, fixed-price contracts, and affordability as a requirement.

As an example, our highest priority acquisition program, the Offshore Patrol Cutter, has been structured to formally meet the Coast Guard's most pressing offshore mission requirements through the use of commercial standards, fixed-price contracts, and state-of-the-market technologies. We are employing an acquisition strategy that maximizes competition and promotes the domestic shipbuilding industrial base by removing the traditional barriers to enter the military shipbuilding market. We will select a single contractor in fiscal year 2016 to complete the detailed design, and ultimately construct the vessel.

On the aviation side, the Coast Guard is regenerating 14 C–27J medium-lift aircraft, providing much-needed maritime patrol capability. This subcommittee played a crucial role in facilitating the transfer from the Air Force to the Coast Guard, injecting additional capabilities a year ahead of schedule, and minimizing costs to taxpayers.

I know the subcommittee is particularly interested in our efforts to increase icebreaking capability. As we continue to develop requirements for a new heavy icebreaker, we are also beginning the preservation and evaluation process on *Polar Sea*. There is no

question that the cost of acquiring a new icebreaker and potentially reactivating *Polar Sea* poses a particular challenge in this current budget environment.

In closing, I am extremely proud to lead the dedicated professionals working tirelessly to ensure the Coast Guard has the capabilities to safely and affordably carry out our 11 statutory missions. Successful programs such as the NSC, FRC, HC–144, C–130J, RB–M, and Rescue 21 are providing mission capability now, and will be for decades to come. I am absolutely certain the OPC will be equally successful in meeting all of our performance and affordability requirements. But none of these successes happen without this subcommittee's foresight and commitment.

Thank you for the opportunity to testify today. I thank you for your steadfast support of our Coast Guard. I look forward to answering your questions.

Mr. HUNTER. Thank you, Admiral.

Our next witness today is Ms. Mackin, the GAO's Director of Acquisition and Sourcing Management.

You are recognized.

Ms. MACKIN. Thank you, Mr. Chairman. Good morning, Ranking Member Garamendi, members of the subcommittee. Thank you for having me here today to discuss Coast Guard acquisitions.

As we have noted in our recent reports, the Coast Guard has made strides in its acquisition management capabilities. As the admiral mentioned, competition has been injected into recent procurements, and new assets are being delivered to the operators. Key test events are also taking place.

I will briefly touch on three issues this morning. First, the C–27J aircraft transfer and overall status of fixed-wing flight-hours; second, observations on the major cutter fleet; and third, I will discuss what we view as the most pressing concern facing the Coast Guard, which is the affordability of its acquisition portfolio.

As you know, the Coast Guard is receiving 14 C–27Js from the Air Force at no cost. Once operational, these aircraft will contribute to Coast Guard missions. But it will take time and money to transfer them from storage, assess their condition, establish a spare parts pipeline, and modify them to meet Coast Guard missions. The full fleet of 14 operational aircraft is anticipated in 2022, and about $600 million will be needed to operationalize the fleet.

A broader observation regarding the fixed-wing fleet is that, under the Coast Guard's current plan, even with the C–27Js, the Coast Guard will fall almost 20 percent short of its annual flight-hour goal, which is currently 52,400 hours. The Coast Guard is in the process, as was mentioned, of revisiting its 2005 Mission Needs Statement, and conducting a fleet mix analysis that may result in a different flight-hour goal, or different mix of aircraft. However, the fleet mix analysis will not be complete until 2019.

Regarding surface assets, all eight National Security Cutters are on-contract or delivered, and the ship recently completed operational testing. A general observation there is that the NSC was determined operationally effective and suitable, but with several major deficiencies. And we are currently doing a more detailed review of the test at the request of the subcommittee.

To touch on other cutters, the Coast Guard is preparing to recompete the remaining 26 Fast Response Cutters, and it is also pursuing a competitive acquisition strategy for the Offshore Patrol Cutter. The Coast Guard plans to award a contract for design of the first tranche of these ships next year. However, the Coast Guard faces a significant gap between the projected delivery dates of the OPCs and the end-of-service life for the legacy Medium Endurance Cutters these ships are replacing. The Coast Guard is studying how to make the legacy cutters viable for a longer period to close this gap, but no decision has been made.

Finally, the Coast Guard faces affordability challenges that are not reflected in the 5-year Capital Investment Plan. The primary driver, of course, is the OPC, expected to cost $12 billion, which will take up over two-thirds of the Coast Guard's acquisition funding while it is being built. Our concern is that the Coast Guard has not set forth a long-term acquisition plan for its surface and aviation assets, such as the 20-year plan we recommended last year, and which this subcommittee also calls for in its Coast Guard Authorization Act. Such a plan should include necessary tradeoffs that reflect budget realities.

We have recommended, since 2010, that the Coast Guard conduct this type of assessment. We believe this approach would help ensure that all stakeholders, including Congress, understand the constraints the Coast Guard is facing long term, and what it can realistically acquire at expected funding levels.

Thank you. This concludes my statement, and I will be happy to answer questions at the appropriate time.

Mr. HUNTER. Thank you, Ms. Mackin.

Our final witness today is Mr. James Offutt, national president of the Navy League of the United States.

Mr. Offutt, you are recognized.

Mr. OFFUTT. Mr. Chairman, Mr. Garamendi, members of the committee, thank you for the opportunity to appear before you on such an important topic. I would like to submit my full testimony for the record.

Mr. HUNTER. Without objection.

Mr. OFFUTT. I offer an abbreviated version now, and look forward to your questions.

The U.S. Coast Guard is a very unique service, with military and civil responsibilities, and humanitarian missions. The Coast Guard has seen its area of responsibility grow to 11 statutory missions. But its budget growth has not kept pace with this increase, failing to match mission demand or be adjusted for inflation.

Despite their incredible record of achievement, the Coast Guard faces many familiar but daunting challenges. Increased Arctic activity, increased maritime transportation goods, and increased human and drug trafficking all add demands on the Coast Guard. The Service will not properly be equipped to meet these challenges unless we make serious investments now.

The Coast Guard has been clear that it needs an acquisition budget of $2.5 billion per year to fulfill its mission. Unfortunately, the administration continually requests an acquisition budget that hovers at or below $1 billion, with Congress providing the extra funding. The administration's low-budget request for acquisition,

construction, and improvements, or AC&I, represent the bare-minimum funding for the Coast Guard to accomplish its missions. The Navy League notes with disappointment that the requested funding level for fiscal year 2016 is totally unsatisfactory. Given the fiscal climate, the Navy League recommends a budget of at least $1.5 billion per year, as this committee has authorized, to help the Coast Guard achieve its recapitalization goals.

The highest AC&I priority for the Coast Guard is to lay the groundwork for construction of the Offshore Patrol Cutter, which will replace cutters built in the 1960s and 1980s. The importance of the OPC cannot be overstated. It will function as a Service operational workhorse to carry out the Coast Guard's primary missions over the next 40 years. Given the magnitude of the impending capability gap caused by the cutters, the Navy League believes Congress should fund the construction of two OPCs, annually.

Facing more complex challenges and growing demand signal, Coast Guard will need Fast Response Cutters acquired at six per year. What a great ship. I visited one in Key West. The capabilities are multiple times the cutters that they are replacing. I am amazed at the bridge. The bridge has a very modern layout, makes the seakeeping very easy, and greatly reduces that seakeeping workload, and allows the crew to concentrate more on a mission.

The National Security Cutter acquisition success story. These cutters work well in far-off regions, and provide better seakeeping, higher sustained transit speeds, and greater endurance and range. They also provide an increased array of mission versatility, among their other benefits.

The Navy League is concerned with the increasing capability gap caused by the rapid decommissioning of operational assets before replacements are available. This cost-driven strategy is not in the best interest of homeland security. The answer is new ships sooner. The old ones cannot be run effectively. And, in some cases, can't be run safely.

On the aviation front the Coast Guard will begin using the C–27J aircraft acquired through the interservice transfer. It will save about a half a billion dollars in acquisition costs. It is a great example of interservice cooperation.

In the near future, the Coast Guard will need to make significant investments in its unmanned aircraft systems. This will be a significant part of the total force package for major cutters.

The Coast Guard still faces many of the same challenges that come with every major acquisition program, including increased costs, driven by material cost increases and less-than-optimum production runs. However, these increased costs have not been met with increased funds, meaning program delays which, in turn, increase costs for in-service vessel sustainment. This diverts already-limited funds from acquisition, further exacerbating the funding shortfall.

Shore infrastructure repairs are estimated to cost $1.4 billion, but the Coast Guard has only been given about $40 million a year for this needed investment. The costs are increasing faster than the Coast Guard can pay—yet another devastating cycle.

The need for a new polar icebreaker deserves special consideration. The Coast Guard must have a sustained presence there. We

need to invest more, but we cannot allow this investment to disrupt other planned capitalization. The top line of the acquisition budget must increase. The committee could also consider a special fund outside the normal AC&I budget for an icebreaker similar to the National Sea-Based Strategic Deterrence Fund, created for the National Defense Authorization Act. The alternative is not funding a new polar icebreaker, and is a U.S. abdication of Arctic influence and responsibility.

All the major decisionmakers have agreed the Coast Guard's recapitalization and modernization at current funding levels will not sustain the Coast Guard mission. We recognize the fiscal environment. But, given the role of the Coast Guard, saving American lives, safeguarding our national security, and contributing to economic prosperity by ensuring the free flow of commerce, we believe the Service deserves special consideration.

In his annual address, the Commandant stated the Coast Guard has lost nearly 40 percent of our acquisition budget over the last 4 years. This pattern can no longer continue. The lack of assets and presence where needed causes the Coast Guard to make tough decisions every day about which mission to support.

The Navy League would like to thank this committee for its leadership, thank Congress for being supportive of the Coast Guard and ensuring they have the resources they need. We must be good shipmates to all of them, as they have been to every American.

Thank you, sir.

Mr. HUNTER. Thank you very much for your testimony. All of you, thank you very much.

The point of this hearing is to get to how we get you the most stuff, with the least amount of money, on time. That is the point of this, I guess. And finishing, or piggybacking on what Mr. Offutt said, if the Coast Guard is making—and the GAO has said that the Coast Guard makes tradeoffs within the annual budget process every year. We have heard that from you before. It is not a good strategy, long term. And I would like you to tell us why, number one.

And, number two, what does the Coast Guard risk by doing it like that every year? Thank you.

Ms. MACKIN. Mr. Chairman, you are right. We have said that for, actually, a number of years now. What they risk by this every year, when the budget comes through, is, obviously, delaying some assets. We have seen that recently, with the Fast Response Cutter, which will lead to more costs down the road.

What we would like to see, as we have said for a number of years, is a long-term plan that sets forth what is needed and, importantly, addresses these tradeoffs that can be made, so that everybody—there is transparency. Everybody can see what is coming down the pike, what is needed to pay for it, and what some of the tradeoff options might be.

Mr. HUNTER. And again, what are the downsides? If they don't do it through their CIP, and they do it every year, and react quickly to whatever the budget request is from the President and our authorization appropriations, what do they risk?

Ms. MACKIN. The risk is that they had, for example, planned to buy six Fast Response Cutters a year. The budget comes in less

than they had expected. They have to stretch the procurement out. That is just an example. That could happen in any number of different programs.

So, stretching out schedule means operators aren't getting the assets on the schedule that they had expected them. And it can also lead to increased costs.

Mr. HUNTER. Admiral, one question here. Based on the CIP that you have now, and kind of along this same line of thought, what programs of record, what acquisition items, will be delivered on time?

Admiral BAFFER. We are delivering all of our acquisition programs on time right now.

Mr. HUNTER. So everything?

Admiral BAFFER. The problem is what is the baseline. When we have to change the schedule based on funding, then they get pushed to the right.

So, if you look back at the original baseline, they are delayed. But if you look at what they require, based on that funding level, they are delivering on time. We are delivering on time and on budget.

Mr. HUNTER. So you are saying—when you change the schedule to match the budget, then things are on time in the new schedule. If you use an old schedule, an original one, then things are no longer on time.

Admiral BAFFER. Yes, sir.

Mr. HUNTER. OK.

Admiral BAFFER. That is correct. And what happens is, when we stretch them out, that lack of predictable funding increases costs for the program. Time cost money, especially on a major program. And, as we stretch them out, you still incur the overhead and the fixed costs that go along with that production.

Let me just give you an example. We have got the same team building NSCs right now, where we have got four of them on contract that we did when we only had one on contract. So we are able to apply that same overhead, the same oversight, to a greater number of cutters, greater number of assets. So the per-unit cost is much more efficient when you can build them fast. When we spread them out it slows it down. And then that increases the per-unit cost.

Ms. MACKIN. I think what he said is absolutely right. It is that churn every year that, in the past, has led to having to do new baselines every year, which is not a small thing to undertake, to reflect the stretched-out schedules. That is just not the most efficient way to operate an acquisition program.

Mr. HUNTER. So, fill me in, then. Out of ignorance—because I don't know—how do you compare—if you are trying to compare whether you are on time or not, and whether programs are being delivered on time, how do you do that if your schedule—what baseline do you use? If you really wanted to get an accurate look at, originally, when are things supposed to be built, and being delivered, what baseline do you use?

Admiral BAFFER. We use the currently approved APB, the Acquisition Project Baseline, that is approved by the Department. When

things get stretched out because of funding problems, that requires a new APB. Otherwise, you would go into breach.

Mr. HUNTER. OK, so—but—right. But how do you tell if stuff is being delivered on time or not, based on—if you change the baseline every year, and you change the schedule to match the programs not being on time, but you change the schedule to match them, so that they are on time, how do you know which projects are really not on time? Meaning what is your—what original baseline do you use from 3 or 4 years ago?

Admiral BAFFER. Well, it really——

Mr. HUNTER. Do you do that at all now?

Admiral BAFFER. Well, yes, sir, we do. It comes down to what is the cause. If it is a funding delay or a contract delay, is it a program management problem or is it just—we didn't have the funding to put it on contract? So, in the big picture, you would go back to the original baseline and say, we are behind in recapitalizing the Coast Guard because we haven't built all these ships that we thought we were going to have built by this time, so we are behind.

From a project manager's point of view, contract management, what you bought, are you delivering, you know, within the contract that you said you were going to buy it to, you can manage to that and you are on time. But it is really—it is two separate timelines that you are managing to, and it is very difficult to keep them all straight.

Mr. HUNTER. Got you. Thank you.

Mr. Garamendi?

Mr. GARAMENDI. Thank you, Mr. Chairman. I want to go to the heart of the question here.

It appears as though—Ms. Mackin, if you could help me with this—that the maximum money needed annually is somewhere north of $2 billion for the acquisition programs, for all of it.

Ms. MACKIN. That is approximately right. Again, based on the current Mission Need Statement and program of record, which, in essence, is the Deepwater program. So that is why we are—the Coast Guard is now revisiting that Mission Need Statement. That is important. We are still dealing, to a large extent, with a very dated Mission Need Statement.

Mr. GARAMENDI. In your analysis, and for all three of you, the—there are two ways to get at this. You adjust the Mission Need Statement to the available money, or you adjust the Mission Need Statement to the available needs of the 11 statutory responsibilities. Which are you suggesting be done, which of those two options?

Ms. MACKIN. Well, what we would really like to see, and as this subcommittee has also called for in the Authorization Act, is a long-term plan that sheds some light on what is needed over a 20-year period, and indicates what these tradeoffs need to be. And that way, decisionmakers at DHS and Congress can see what those tradeoffs are. With the current 5-year CIP or annual budget process, you don't have that long-term visibility that we think would really help the Coast Guard get what it needs to meet its missions.

Mr. OFFUTT. If I may?

Mr. GARAMENDI. Yes.

Mr. OFFUTT. I believe that the Mission Need Statement is a different statement that says, based on all of my statutory requirements and everything, if I were to fulfill all of those needs, here is what I would have to have, and that is the Mission Need Statement.

Then you have perhaps this 20-year plan, which recognizes the budget realities, and shows, in essence, what I would call a working budget document, which most every business develops, says, here is where I think I am, and then you could compare the two and see what your gap is for your Mission Need Statement. But I wouldn't want to take that Mission Need Statement, which takes all of your statutory authorities, you know, from Congress, administration, down through your interaction with DOD and change that—and I agree, that needs updated.

So, I think what the problem is is getting this correct in your—CIP, you are calling it? Yes.

Mr. GARAMENDI. Admiral, considering what the two have said, what is your response? What about the Mission Need Statement? How do we get there? Are we even trying to get a new Mission Need Statement?

Admiral BAFFER. Yes, Ranking Member. We are doing a new Mission Need Statement this summer, as was mentioned earlier. And that is going to drive to a new CONOPS [Concept of Operations], and then we are going to be reevaluating the program of record, both across aviation cutters and everything else, because it is a balanced system. The number of cutters influences the number of aircraft, and the C–27Js have certainly thrown a new wrinkle into that program of record. So we do need to visit that. But you have to start with that Mission Need Statement.

Whether we start with a constrained Mission Need Statement or an unconstrained Mission Need Statement, I think it needs to start with an unconstrained Mission Need Statement that says what is the mission we are required to do, but—and it also has to be adjusted for the budget realities.

Mr. GARAMENDI. Therefore, it would seem to me that, for our purposes, we would need to see the unconstrained Mission Need Statement, and then compare that to the constrained Mission Need Statement, the latter being, really, a result of the inability of the administration and Congress to provide the wherewithal for the unconstrained Mission Need Statement. So, the two would then put pressure on us to address the differential. Am I correct here? Is that how this could be done?

Now, when will you complete this process, so that we might actually be forced to make a decision?

Admiral BAFFER. We are doing the Mission Need Statement this summer in the CONOPS, and we are going to be doing the simulations of potential fleet mixes, and measuring the effectiveness of all those potential fleet mixes throughout the year. And we are looking at the end of fiscal year 2016 of having all those potential fleet mixes figured out, where we have the mission effectiveness of those fleet mixes balanced against the cost of those fleet mixes.

But it all starts with the Mission Need Statement that is coming out this summer, sir.

Mr. GARAMENDI. So we are really looking at the next Congress before we are going to be able to really drill down and address this fundamental challenge. I think that is, as I look at the timing, about the way it will be. Am I correct? I think so.

Admiral BAFFER. It would be the fourth quarter of 2016.

Mr. GARAMENDI. Well, that is the next Congress that will deal with it.

In any case, Ms. Mackin, is there—in—I will ask all three of you. In looking at this, as you know it today, given the uncertainty because of the process not being completed, is there any reason to believe that we are not going to be looking at a number north of $2 billion?

Ms. MACKIN. I will just say that the last time the Coast Guard did a fleet mix analysis, which was a few years ago, it was not constrained, and it came in quite high, quite a bit higher than the program of record. At that point, the program of record was considered the floor. It could not be breached. What we would like to see is, you know, the realistic budget projections showing, as you indicated, what can you do in a more constrained environment, so that that can be transparent, and then the tradeoffs can be made in an informed way.

Mr. GARAMENDI. I think what I am driving at, or want to drive at here, is that it looks to me as though, under any circumstance going forward, however this thing turns out, we could wait until the next Congress, a year and a half—actually, a little more than a year and a half from now, and then go back through it. Or we can begin to prepare ourselves today for the reality that we are going to have to look at something close to or greater than $2 billion a year, in order to meet even the minimum requirements. I can't imagine a situation where it is going to come in less than that, unless you are adjusting the requirements to the constrained budget situation.

Now, an additional $1 billion for the Coast Guard activities would seem to be impossible, until we consider all of the choices that the Congress makes about where to spend money. For example, Mr. Hunter and I have spent some time on the Armed Services Committee, where vast amounts of money are spent on projects that may or may not be as essential as the Coast Guard's programs.

So, my concern, as a Member of Congress, is that we look across the program lines—stovepipes, if you will—and say, maybe we should move $1 billion a year from some activity in the defense budget or in one of the social welfare budgets, over to the Coast Guard, so that the Coast Guard could have the assets that it needs to pluck surfers out of the surf on the beaches of California when they are in trouble, or all of the other missions that you have. So I think this is a challenge for us, and particularly a challenge that our budget committees ought to be looking at.

Now, am I willing to wait until the next Congress, which I would hope to participate in but may not, to get at this? The answer is no. So I want us, in our role—and particularly, I think, Mr. Hunter and I, who play a role on both committees—to look at this in a more total-systems way. We know, for example, that the U.S. Navy cannot operate in the Arctic without an icebreaker. Yet we have no

money for the icebreaker in the Coast Guard budget. We know that the U.S. Navy must be prepared to operate in the Arctic. There is no question about that.

So, how can we move money from one pot to another pot to achieve the purposes of addressing the United States Government's responsibilities in the Arctic? And the answer is we could do that if we thought about this in a more holistic way.

And that is the end of my speech on this matter, but I am intending to pursue that, and would need your help. I don't want to wait until 2016, the next Congress. I would like to have an interim report along the way, as you develop your new approach to what is necessary.

So, at the end of the summer, you expect to have the first stage done. Is that right, Admiral?

Admiral BAFFER. Ranking Member, yes, sir.

Mr. GARAMENDI. Are you prepared to deliver to us at that point the elements of the first stage, the results of the first stage?

Admiral BAFFER. We are committed, being very open and transparent with Congress. And anything we can do to help——

Mr. GARAMENDI. Good.

Admiral BAFFER [continuing]. We would be—we are——

Mr. GARAMENDI. We know how to find each other.

Admiral BAFFER. Yes, sir.

[Laughter.]

Mr. GARAMENDI. Thank you. I will yield back.

Mr. HUNTER. Thank the gentleman.

And, Admiral, on that same thing, if you could get us—if you could just get us all of your major acquisition program of record projects, and all together would be nice, and I would like what you had for a baseline 10 years ago, maybe every 2 years, and I would like to see where it started, before I was even here, and then how it is proceeding, and how the baseline has changed to where it was to where it is. If you could do that, that is everything with an acquisition project baseline, right?

Admiral BAFFER. Right. We can certainly do that, Mr. Chairman.

[The information follows:]

The tables below include the history for each of the U.S. Coast Guard's major acquisition program baselines (APB) since 2005.

	Revised Deepwater Baseline v1.0 December 21, 2005			Deepwater APB v1.1 May 15, 2007			Program-specific APB revision 1.0				Program-specific APB revision 2.0 (if applicable)				Program-specific APB revision 3.0 (if applicable)			
	Number	Completion[1]	TAC ($M)[1,2]	Number	Completion[1]	TAC ($M)[1,2]	Approval Date	Number	Completion[1]	TAC ($M)[1,2]	Approval Date	Number	Completion[1]	TAC ($M)[1,2]	Approval Date	Number	Completion[1]	TAC ($M)[1,2]
SURFACE																		
NSC	8	2017	$2,875	8	2014	$3,450	Dec 2008	8	2016	$4,749	Jan 2014	8	2019	$5,504				
OPC	25	2027	$7,056	25	2021	$8,098	Apr 2012	25	2033	$10,523	Sep 2014	25	2034	$10,523				
FRC	58	2027	$3,277	58	2017	$3,206	Aug 2009	58	2022	$3,928	Oct 2012	58	2023	$3,928				
110-123' Conversion[3]	41	2021	$116	41	2022	$95												
WMEC MEP[3]	27	2026/ 2020	$338	27	2016	$317	Dec 2008	27	2016	$296.8								
Patrol Boat Sustainment[3]				17	2013	$117	Dec 2008	20	2013	$179.7								
AIRCRAFT																		
HC-130H Sustainment[3]	16	2015	$383	16	2017	$610	Jun 2009	16	2017	$690								
HC-130J Missionization[3]	6	2008	Not Specified	6	2009	$11	May 2009	6	2010	$163								
LRS							July 2012	22	2026	$2,761								
HC-144	36	2017	$1,590	36	2016	$1,706	Feb 2009	36	2020	$2,222	Oct 2012	36	2025	$2,756				

C-27J	.....	.....	.....	.....	.....	.....	APB will be developed prior to ADE 2A/2B				.....	.....	.....	.....	.....	.....	.....	.....
H-60	42	2016	$456	42	2019	$451	Aug 2009	42	Not Specified	$451	Nov 2012	42	2015	$466.6	.....	.....	.....	.....
H-65	95	2016	$549	102	Not Specified	$741	May 2009	102	2017	$901.2	Feb 2011	102	2019	$929.4	Mar 2014	102	2021	$917.4
OTHER																		
C4ISR	Not Specified	Not Specified	$3,481	Not Specified	Not Specified	$1,353	Feb 2011	Not Specified	2026	$1,353	Nov 2013	Not Specified	2026	$1,053	Dec 2014	Not Specified	2026	$1,053

[1] Objective figures shown for all completion dates and total acquisition costs.
[2] All funding amounts shown in then-year dollars.
[3] Program completed or cancelled.

Non-Deepwater	Original Baseline				APB revision 1.0 (if applicable)				APB revision 2.0 (if applicable)				Program-specific APB revision 3.0 (if applicable)				Program-specific APB revision 4.0 (if applicable)			
	Approval Date	Number	Completion[1]	TAC ($M)[1,2]	Approval Date	Number	Completion[1]	TAC ($M)[1,2]	Approval Date	Number	Completion[1]	TAC ($M)[1,2]	Approval Date	Number	Completion[1]	TAC ($M)[1,2]	Approval Date	Number	Completion[1]	TAC ($M)[1,2]
RB-M	Apr 2005	180	2013	$401	Jul 2010	180	2015	$610	Nov 2013	170	2015	$576	.....	.....	.....	.....	.....	.....	.....	.....
Polar IB	APB will be developed prior to ADE 2A/2B				.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Rescue 21	Apr 1999	46	2005	$200	Nov 1999	46	2005	$240	Mar 2002	46	2005	$475	May 2005	46	2007	$641	Apr 2006	46	2011	$730
R21 (cont.)	.....	.....	.....	.....	May 2008	39	2012	$1066	Nov 2014	37	2017	$845	.....	.....	.....	.....	.....	.....	.....	.....
NAIS	Jan 2007	58/11	2013	$276.8	Nov 2014	58/11	2016	$111.9	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
FMSII	Jul 2014	Not Specified	2020	$54.7	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

[1] Objective figures shown for all completion dates and total acquisition costs.
[2] All funding amounts shown in then-year dollars.

Mr. HUNTER. OK. That would be great.

Mr. Graves?

Mr. GRAVES OF LOUISIANA. Thank you for being here this morning. I appreciate your testimony. It was very helpful, all three of you.

Admiral, the initial Mission Need Statement with the acquisition schedule back in 2005, in retrospect, was that flawed?

Admiral BAFFER. That was done during the Deepwater era. The program of record was pretty good. All of our studies since then have validated that program of record, and that is why we have stayed with it. Some of the scheduling and funding requirements were probably flawed, but the actual program of record itself was actually a good piece of work, and it has been validated many times over the course of the years.

Mr. GRAVES OF LOUISIANA. You are a law enforcement agency, and I am going to take a guess that you have received a speeding ticket or something at some point in your life. You look like maybe no. All right, well——

[Laughter.]

Mr. GRAVES OF LOUISIANA. I sure have. But let me ask you. I mean if you were a cop, and you pulled somebody over, and that person goes back to the speed limit sign and says "no, no, no, it actually isn't 60 miles an hour, it is 80 miles an hour, and so I am fine now," you know, you can't change the rules in the middle.

And, you know, you indicated that the Mission Need Statement in 2005 was largely appropriate. But it sounds like, as you were answering questions before, that you guys have repeatedly revised the schedule in accordance with funding availability. And I am trying to discern—and I think, going back to the previous questions—what kind of problems is that causing, if you are continuing to move the chart to the right, move your schedule to the right?

You know, look, this was obviously put together with the idea that you were going to be able to deliver certain services and perform certain duties. Are you still able to fulfill your mission?

Admiral BAFFER. Congressman Graves, it—as we move schedules to the right, it is very disruptive to the programs and the projects. It is very inefficient. Major acquisitions have a lot of mass momentum. The contracts are structured for a certain schedule. When you deviate from that schedule, it is very difficult to change that, and it causes a lot of disruption and a lot of inefficiency, both on the Government side and the contractor side.

One of the things we are trying to do now, and we are doing it—you see with the NSCs—is get on annual efficient production rates. We had a big gap on the NSC between the third and fourth and the second and third, and that caused us a lot of reduced learning and cost problems at the yard. Now we are on an annual rate between four, five, six, seven, and eight, and we are seeing the increased efficiency. We are going down the learning curve, and we are seeing the cost benefits of doing that. We are trying to do that with all of our—the remaining programs.

OPC is structured to be as efficient as possible, and to be able to stay on that original baseline, and not deviate as we go. Because, once you deviate as you go, and you have a delay, delays

tend to cause more delays. They tend to cascade on you, and it all costs additional funds.

Mr. OFFUTT. Mr. Graves, may I comment?

Mr. GRAVES OF LOUISIANA. Sure, please.

Mr. OFFUTT. Two quick comments. One, you asked if they could perform the mission. All the services will perform their mission to the best of the ability they have with all the assets they have. There is absolutely no question about that. So the answer is yes, they will do the missions that are in front of them to the best of their ability.

The question about Deepwater, which hasn't been raised, is that the program of record still looks fairly good, based on what you knew in 2005. Remember, in Deepwater there was a management scheme chosen that just didn't work out, for a lot of number—for a number of reasons. And so, the changing of that management scheme, taking the—you know, taking—getting rid of a prime contractor and bringing it back into the internal Government and Coast Guard actually has probably helped a lot. But, remember, that was one of the major perturbations in that program, even though it——

Mr. GRAVES OF LOUISIANA. Which—sure. And so you would expect, as a result of that change, that you would perhaps go back and revisit schedules. But it seems like that some of the budget requests that we are seeing right now are compounding schedule problems even more than that evolution from Deepwater to the changes.

But let me pivot over to the OPC. As I understand, that is the Coast Guard's number-one acquisition priority. Yet there is no funding in the budget request this year for that vessel. Are you ready to go to detailed design this year?

Admiral BAFFER. We are—well, we will be awarding detailed design in 2016. We just finished preliminary design. We are—couldn't be happier with the progress that the contractors are making. All three contractors have moved to the contract design phase, and we are going to be ready to award detailed design this summer, and pick the final contractor.

Mr. GRAVES OF LOUISIANA. Last question. What are the negative implications of delays on schedules for the OPC, in—you know, you—at previous hearings we had, joint hearing with the HASC [House Armed Services Committee], you know, the Coast Guard has a mission that is zippered in with the Navy and other services in many cases, and, of course, domestic missions with drug interdiction, alien interdiction, and others. Could you address that?

Admiral BAFFER. Certainly, sir. The OPC was designed for affordability. The whole acquisition strategy was designed for affordability. And that requires us staying on schedule, getting to two-per-year production. We are not looking for innovative designs, in terms of technology. We are looking for innovation, in terms of production efficiency.

So, it is designed for production efficiency. That is how we are going to make it affordable, and using the competition to get there, but we need to stay on schedule so that the contractors get the two per year, where they can run down that learning curve and accrue

all the benefits that accrue by having a steady, stable, predictable funding stream.

Mr. HUNTER. Thank the gentleman. The gentlelady from Florida is recognized.

Ms. FRANKEL. Thank you very much. Thanks, Mr. Chairman.

So—from south Florida, so, obviously, the Coast Guard plays a very important role for our economy and our security. I just wanted to follow up on Mr. Graves's question, because we got a memo here that said that there was not money in the budget for the work that needs to be done on the OPC. So where is the money going to come from?

Admiral BAFFER. There is a general provision in the budget request to allow the Department to reallocate funding to provide the detailed design, the $70 million, basically, hole that we have in our budget for detailed design to make that award in 2016.

Ms. FRANKEL. So you have that. Then how long does it take after that? What is the timeline, once that is done?

Admiral BAFFER. Once we down-select to a contractor, there is an 18-month detailed design period. And during that design period, they also order the material. And as soon as we are done with the detailed design, we will be starting construction.

Ms. FRANKEL. And is there money for that?

Admiral BAFFER. There isn't money for that, but we don't need that yet, because that will be an option on the contract. So we will need that, you know, in future years, in the out-years.

Ms. FRANKEL. So, what is your estimate, your best estimate, as to actually when those assets will be delivered?

Admiral BAFFER. They will start delivering in 2021, ma'am.

Ms. FRANKEL. Oh, OK. What—so what happens to the assets that we are using in the meantime? Are they going to last?

Admiral BAFFER. That is what our concern is. Some of the assets that are being replaced are 50 years old, the oldest one being the Coast Guard Cutter *Reliance*—is 51 years old. It is currently getting the job done. But, as you put Band-Aids on them, at some point there is nothing for the Band-Aid to stick to. Those assets need to be decommissioned and replaced.

The other class that the OPC will replace is the 270-foot class, and they are 30 years old now. We just finished the MEP, the Mission Effectiveness Project, on them, and that bought us a few years, and we are evaluating their condition right now to see what we have to do to those ships to extend them a little bit longer. Our goal is not to spend any more money than we have to on the legacy fleet, but to make sure we can cover our capability gaps until the OPCs replace them.

Ms. FRANKEL. So what are the potential consequences of this gap, and not getting our—the current fleet up to standards, while we wait for the new fleet?

Admiral BAFFER. If we maintain our current schedule, the gap is not that large. It is manageable. The concern is, if we don't get started on OPC, the gap could be very large. And then it causes the question: What is our offshore mission capability in the future?

Ms. FRANKEL. So, could you be more specific as what would be potential consequences?

Admiral BAFFER. Drug enforcement, marine environmental protection. These cutters perform the whole host of Coast Guard missions off our coasts and in our EEZ [exclusive economic zone]. So, depending on what part of the country you're in, it is the fishery stocks up in New England; it is migrant interdiction down in the Caribbean; drug interdiction in the Caribbean and also in the Eastern Pacific; LMR [living marine resources] up in Alaska. That is a big concern for us. Our fishery stocks are very important to us, and we need to be able to manage them in the future.

Ms. FRANKEL. OK. Thank you. Thank you. I waive the rest of my time.

Mr. HUNTER. I thank the gentlelady. I want to go back really quick.

You are getting $70 million for the final design review, or the final design. That is going to come from within the Department, meaning it hasn't been—it is not authorized, it is not—it is maybe probably not going to be appropriated. The way you are doing it right now is DHS just says, "Hey, we had some—we had 70 million bucks in our general fund that was unaccounted for, and we would like you to have it."

Admiral BAFFER. Mr. Chairman, I would be——

Mr. HUNTER. Is that what it is, or——

Admiral BAFFER. General provision——

Mr. HUNTER. I was trying to mischaracterize it, but I didn't. That was the actual——

[Laughter.]

Mr. HUNTER. So that is what is happening?

Admiral BAFFER. In short, yes, sir.

Mr. HUNTER. So what happens if they don't give you the $70 million? I mean what if something else breaks in some other department, and they have to spend the money for that?

Admiral BAFFER. Well, we have—you know, this is the Coast Guard's number-one priority. The Secretary is very interested in Coast Guard recapitalization, and he is certainly making it one of his priorities. And we are working with DHS to make sure that we have the money available when we want to make the award this summer.

Mr. HUNTER. OK. Ms. Mackin, could you help? Explain to me, because I am fairly new here, right? How does that work? If the money is not authorized and it is not appropriated, it just comes out of the Department, could you explain that to me? I mean how do you—when it comes to tracking, and when it comes to having foresight on these things, and scheduling, how does that work?

Ms. MACKIN. To be honest, I don't have any more details than you do on this. We saw what you did, which was the general provision that was referenced that directed DHS to transfer the money to the Coast Guard. I am not quite sure how that will work, in terms of the mechanics. Sorry.

Mr. HUNTER. Would it hurt—what happens if the money is appropriated from Congress, as opposed to a handshake deal with DHS? Anything? Or the money is the money, it doesn't matter?

Admiral BAFFER. On the acquisition side, we are in the execution business. We execute the funds that are provided to us, wherever they come from.

Mr. HUNTER. So it doesn't matter, really.

Admiral BAFFER. Not to us, no.

Mr. HUNTER. Mr. Graves, you have any more questions?

Mr. GRAVES OF LOUISIANA. I do.

Mr. HUNTER. Mr. Graves is recognized.

I am sorry, Mr. Garamendi is recognized. Sorry.

Mr. GARAMENDI. That is OK, Mr. Chairman. Mr. Graves had some very good questions, and I want to yield just a few minutes at the end of this to my colleague, who has a question that she will ask.

But I got to—as a whole series of questions I think we need for the record, and we will make those available to you—the Fast Response Cutter engine problem, we need to have some information on that. The C–27Js, while you do have seven or eight of them, are they operational? What is going to be necessary to make them operational? What additional work needs to be done on that?

This question is about operational testing, the effectiveness of that whole program. We will get you the specifics on these, and if you could preset those to us in writing for the record, it will save some time here.

I do have just one very specific question, probably because of my history dealing with this issue. The Department of the Interior recently this week issued a permit for Shell Oil to drill off the Arctic coast. Was the Coast Guard involved in that? And how do you propose to provide the necessary—or the potential support for that drilling? I know it is not acquisition, but——

Admiral BAFFER. Well, Ranking Member, I know we are currently involved with the Department of the Interior and BSEE [Bureau of Safety and Environmental Enforcement], and, you know, and the partnership, because it is—we are all involved in those communications and those deliberations——

Mr. GARAMENDI. And, for the record, because—and it is really not your turf—I would like to know a specific involvement of the Coast Guard in providing the support. The last time Shell attempted to drill in that area they had a problem that required a lot of support from the Coast Guard. And I want to know how the Coast Guard intends to work on that.

But my next question—so, for the record, if you can——

Admiral BAFFER. Be happy to provide that, sir.

[The information follows:]

> To fulfill our mandated missions in the region, the Coast Guard's presence in the Arctic will remain active during the summer operational window starting in June and ending in October. The Coast Guard's role in the Arctic is not solely for the purpose of oversight of Shell's drilling operations, if approved. Operation Arctic Shield 2015 will provide the Coast Guard with much broader Arctic domain awareness and an enhanced opportunity to respond to maritime safety and security incidents, including fulfillment of our spill response oversight and direction role as the Federal On-Scene Coordinator if a spill were to occur.
>
> The Coast Guard has cooperated closely with the Department of the Interior, in particular with Interior's Bureau of Safety and Environmental Enforcement (BSEE) relative to their role in ensuring offshore operations are properly permitted and conducted in a safe and efficient manner, with industry Oil Spill Response Plans and associated equipment and personnel at the ready. For Shell's 2015 Arctic operations, predesignated resources are available and on scene during drilling operations in order to ensure the

most rapid response possible in the Arctic's challenging environment. The Coast Guard coordinated with BSEE on their review and approval of the Oil Spill Response Plan for Shell's Arctic exploratory drilling to ensure adequacy for Arctic operations.

Mr. GARAMENDI. Thank you. This is a question for the Navy League.

You have made a proposal here that there be some sort of a special account for the recapitalization of the icebreaker. Could you expand on that and tell us how that might work?

Mr. OFFUTT. I am sorry, I keep forgetting. Since both of you were on the Armed Services Committee, and we actually proposed a long time ago, I think—I don't know if the idea originated with Navy League, or it came somewhere else—that the replacement program also——

Mr. GARAMENDI. Take credit or blame, as the case might be——

Mr. OFFUTT. Fine, whichever.

[Laughter.]

Mr. OFFUTT. We will take the credit, OK. We have been proposing something like that in our maritime policy, which we develop annually, for a long time. And it has come to fruition. I just think it is a great way—part of the problem we have in Government is getting our different agencies to work together. And we ought to look and see who this benefits. And, quite frankly, there are five or six different agencies that could, in fact, participate in this program of a superfund, if you want—maybe that has got a bad taste in my mouth, but a different—a strategic fund that would contribute to the icebreaker problem.

And, you know, one is not enough. As we have said before, it is somewhere in the three to six region, if we are going to cover our responsibilities, both in the Antarctic and the Arctic, with what we are seeing with icecap retreat, and some of those kinds of things. So—and I would leave it to your counsels to figure out how that fund could get set up. That is what lawyers are for.

Mr. GARAMENDI. So there was the National Sea-Based Strategic Deterrent Fund, which are submarines.

Mr. OFFUTT. Yes.

Mr. GARAMENDI. And that was set aside. So you are suggesting something similar to that.

Mr. OFFUTT. Correct, I am.

Mr. GARAMENDI. Well, we need to work on that. And I have already talked about the cross—across these two budgets.

I would like to yield the remaining—my time to my——

Ms. FRANKEL. I will wait.

Mr. GARAMENDI. OK. Very good. Then I will just let it go at that. Thank you, Mr. Chairman.

Mr. HUNTER. Mr. Graves?

Mr. GRAVES OF LOUISIANA. Thank you, Mr. Chairman.

Going back to OPC, if you can't award the contract in 2016—and going back to the somewhat tenuous funding—what is the impact to the Coast Guard folks in the fleet?

Admiral BAFFER. Well, Congressman, the biggest impact to the fleet will be that gap that we talked about, and having to spend additional funds on ships that probably aren't worthy of those additional funds.

The—just a quick aside, I was assigned to the Coast Guard Cutter *Reliance*, which is the oldest, the first ship that this OPC will be replacing. When I first graduated in 1984 from the Academy, it was 20 years old at the time, and it was already late for its midlife. The ship was not safe to sail. And I kind of still carry some—harbor some resentment to the leadership of the Coast Guard, that they asked us to sail on that ship that could not make water, where nothing worked, where it was full of lead paint and asbestos. And when *Challenger* blew up in 1986 we couldn't get underway, even though we were right there, in Port Canaveral, for the recovery efforts, because our exhaust stacks were cracked, and we would fill the ship with carbon monoxide every time we lit the engines off.

Admittedly, the ship is in much better shape now.

Mr. GRAVES OF LOUISIANA. Sounds like college.

[Laughter.]

Admiral BAFFER. We took it, and it had to be—you know, the Coast Guard took it, and it moved it up in the midlife cycle, and that was part of the recovery process for that ship. And I visited it while I was at the Coast Guard yard a couple years ago. It is in much better shape now. But, again, you get to the point where we just can't ask our young folks to get underway any more on ships like that. We went 2 years without showers at sea because we couldn't make water. Those kind of conditions I wouldn't put my son, who is in the Coast Guard, on a ship like that, and I wouldn't put other people's children on a ship like that.

So, we are getting to the point where we need to do something on the OPC, or we are going to have to put people's children on ships like that.

Mr. GRAVES OF LOUISIANA. I thank you very much. I appreciate the feedback there. That is very helpful.

Pivoting over to the FRC acquisition, there is—going smoothly from your perspective? I heard Mr. Offutt talk about the—how much he enjoyed those boats.

Admiral BAFFER. It is—we have the RFP on the street right now for the remaining 26. We have 32 on contract on the first phase. They are very successful operational platforms. They are down working the Caribbean. They were very busy this spring, with the changing of the relationship with Cuba. And there was some misinformation on the potential change in what—immigration policies, and they were very busy. But, because they were there, and they took care of business, and—we didn't have a large migration effort, or a large migration incident because of that.

It has been a very successful program for us. The ranking member mentioned the engines. We have had some warranty issues with the engine. It is a firm, fixed-price contract with a rock-solid warranty, so the engine manufacturer has been very forthright in fixing those things, and taking care of those things, but we have had more issues than we would expect on the—with that particular engine. But we are working our way through it, and we anticipate more on-time and on-schedule deliveries for that cutter class.

Mr. GRAVES OF LOUISIANA. Which would be awarding 26 in April of next year?

Admiral BAFFER. It will be awarded in 2016. Yes, sir.

Mr. GRAVES OF LOUISIANA. OK. Last question for Ms. Mackin and for you, Admiral, on the Arctic and Antarctic capabilities, icebreaker capabilities.

In comparing U.S. capabilities to other countries, do you think we are where we need to be? Yes or no?

Admiral BAFFER. Well, I mean, obviously, I am biased. We, obviously, are not where we need to be.

Mr. GRAVES OF LOUISIANA. It has been a—somewhat of a tortured process, watching for the last 10-plus years, this whole decision on *Polar Sea*, *Polar Star*. Where do we go from here? You are asking for additional funds to do another condition assessment and chart a path forward. Could you just try and paint a—paint your vision on what the appropriate path forward is for us to get where we need to be, in regard to icebreaking capabilities?

Again, Ms. Mackin, I would love to hear your thoughts on that, as well.

Admiral BAFFER. First we are going to have to build a new polar icebreaker. *Polar Star*, it would be a potential bridging—I am sorry, *Polar Sea* would be a potential bridging gap. But, at the end of the day, we are still going to have a ship, if we reactivate her, that has fuel against the hull, that doesn't meet Clean Air Act requirements, that doesn't have the environmental capabilities that current ships need to have, especially working in a pristine environment, like we see in Antarctica and up in the Arctic.

So, it only delays the inevitable. We still need to build a new icebreaker. The problem with a new icebreaker is it has such a long lead time. It is a very significant asset. The design is very unique. The construction is very unique. It is going to take a long time to build. So we need to get started with that, whether or not we reactive *Polar Sea*, or not.

Reactivating *Polar Sea* is a very interesting question, because the hull is pretty good. But if we tried to take everything out of the hull and rebuild it from the top, it is a very expensive shipbuilding evolution. Modern ships are built in blocks, not in—stick built, from the ground up. So whether we would actually be cost-effective or feasible in reactivating *Polar Sea* in that way remains to be seen. And we have got some significant engineering work that we have to do to make a smart decision on that.

Mr. HUNTER. Thank the gentleman. Ms. Frankel——

Ms. FRANKEL. Thank you.

Mr. HUNTER [continuing]. Is recognized.

Ms. FRANKEL. Well, it does sound like there was a—I put it politely—a planning error, probably on the part of, probably, Congress, but I don't know. Because—with this gap.

I was going to say how much is it going to cost, do you think, to do these repairs during the gap period?

Admiral BAFFER. Ms. Frankel, it would depend on how big the gap is, what our new program of record comes out to be, in terms of how many cutters we need, and what that new Mission Need Statement says. Our goal would be not to spend any more on old ships than we have to. And we probably wouldn't have to do all of them. It would be: take the best couple, and do what we have to do to them to carry ourselves across.

But at this point, until we come up with a new program of record, and we finish our engineering work on assessing what the 270s would take, we really can't provide a number.

Ms. FRANKEL. Well, I mean, do you think it is going to be in the millions?

Admiral BAFFER. Oh, yes, ma'am. Definitely in the millions. I mean it is very significant. If it wasn't——

Ms. FRANKEL. Yes.

Admiral BAFFER [continuing]. We would just be doing it.

Ms. FRANKEL. OK. All right. Let me—I am going to go to another subject. That sounds like it is a touchy subject for you. But sure we didn't help you much with this.

I have a problem with bridges. I don't know whether you have anything to do with bridges, but south Florida—maybe you have heard of this issue—we have—it is a—down in Broward County, Fort Lauderdale, there is what I call a train bridge. There is a bridge that, in order for the trains to go back and forth, the bridge goes down, and then there is no boats—I mean not even—I don't even—I have been there—not even a canoe. I mean you would have to sort of lie flat in a canoe to even get under it.

And we literally have hundreds of businesses that cater to boats and yachts, and so forth, but there is no way to get from the intercoastal—from the east part of the bridge to the west part of the bridge under that bridge when it is down. And there are going to be lots more trains going back and forth, and this is a very slow bridge, getting up and down.

So, I am just—do you get involved with these kinds of bridges?

Admiral BAFFER. I use bridges, but I am not part of the regulatory process of bridges. And we would be more than happy to take a question for the record, and——

Ms. FRANKEL. Well, do you know——

Admiral BAFFER [continuing]. Address that, specifically.

Ms. FRANKEL. Is there a budget for bridges? Does the Coast Guard have——

Admiral BAFFER. Well, we regulate the bridges, and we permit them, and we are certainly involved in them. I don't suspect that we pay for all the bridges out of the Coast Guard budget.

Ms. FRANKEL. I will yield to——

Mr. GARAMENDI. If I recall correctly, within the law there is such a program, unfunded for many, many years now.

Mr. GRAVES OF LOUISIANA. Truman-Hobbs Program. And, yes, this administration has not funded it, but it deals in impediments to navigation, yes.

Mr. GARAMENDI. So go find some money.

Ms. FRANKEL. Impediment to navigation, OK. Thank you. We will submit the question.

Admiral BAFFER. Yes, ma'am. We would be happy to answer that.

Mr. HUNTER. Thank the gentlelady.

Mr. Curbelo?

Mr. CURBELO. Thank you, Mr. Chairman. And thank all of you for your time this morning.

The fiscal year 2016 budget request, $340 million to acquire six Fast Response Cutters, these are very important to our area, cer-

tainly, in south Florida. And this would be the first order under the recompeted contract that the Service expects to award by April 2016. Do you still expect to award the recompeted contract for the remaining 26 FRCs by April?

Admiral BAFFER. Yes, sir, we do. The RFP is on the street now. We are answering questions from potential vendors. And we see no reason why we would have any problems meeting that date.

Mr. CURBELO. That is wonderful. I commend you on that, and I will hold you to it, because, in my visits down to Key West and Miami, we all know how critical these vessels are. So I appreciate it.

That is all I got, Mr. Chairman. Thank you. I yield back.

Mr. HUNTER. Thank the gentleman. Hey, on the OPC, let me see. Before you award next year, OMB wants you to do an alternatives analysis. Is that right? Of different types of ship designs?

Admiral BAFFER. Of different sea state-type sizes. One would be a modernized MEC, if we took the existing capabilities of the existing MEC fleet of a 270, modernized it to current conditions, what would that cost.

Mr. HUNTER. But do you—meaning how much is it going to cost you to do the design alternatives? Do you have to take a lot of money to do that, to do ship design, or—you don't have to go as far on it, so it is not as expensive, or what?

Admiral BAFFER. Yes, Mr. Chairman, it is not a complete design. It was just a kind of a concept using parametric figures on—for costs, and what would that ship look like, if we tried to build it today to modern standards. And then, what would be a parametric rough order of magnitude cost of that. It is not a complete design study.

Mr. HUNTER. But your RFP that is out there now—right? The RFP that is out there now has a specific design to—or no, not at all? Or——

Admiral BAFFER. What we have out there is we have performance requirements that—it is required to meet the naval vessel rules. It has also got a Coast Guard addendum, which applies many commercial specs to the NVR.

So it is not a Navy ship and it is not a commercial ship, it is a Coast Guard cutter. It is designed to be a specific Coast Guard cutter. It is not plans and specs on how to build a ship. It is not like what is out on the FRC right now, because each contractor is designing their ship, their product, to be built efficiently in their yard. So they have got to meet all the requirements, and all the NVR specifications, and everything that we required. It is a pretty thick, lengthy specification, because we have been operating ships like this a long time. We know what we need. But they have to meet those performance requirements. And then that is what they are submitting. That will be evaluated and awarded.

Mr. HUNTER. OK. Could you get us—could you get this committee the alternatives that you are looking at, just the—like the 210 MEC change, and whatever other alternatives you guys have in mind?

And you are not doing that—I am just having a hard time understanding you. Are you doing that for fun?

Admiral BAFFER. No, we are doing it just——

Mr. HUNTER. Because you are not really going to use it, you are just doing it.

Admiral BAFFER. It is a cost excursion, it is somewhat of an academic exercise, just to make sure that our program of record is the most optimum program that we are doing, and we get the greatest bang for the buck from the cost-benefit perspective that meets the mission need, at what cost. It is all part of our affordability program for the OPC.

Mr. HUNTER. OK. Last month, Admiral Michel said that the recompete for the FRCs that is going on right now, he said that they made some changes. The subcommittee was unaware that you were going to put in different design requirements for the second batch of FRCs. And he said no, that is the way it was supposed to be, all along.

So, I would like to ask Ms. Mackin. When it comes to changing specs, can they—because Admiral Michel was very straightforward and said this will not raise costs, or it will not make it go over schedule, either. He goes, "It is just a few changes, and it will be fine." On the Armed Services Committee and other acquisition stuff, there is no such thing as a few changes and it will all be fine.

[Laughter.]

Mr. HUNTER. So, I would just like your point of view on that, on them changing specs, minimum—they are doing small changes, nothing crazy. But, still, how do you think that is going to affect the schedule and the budget for the FRC, the second tranche of buys?

Ms. MACKIN. Well, it is correct, this was always the plan, to recompete the second part of the FRC buy, and we definitely think competition—and, especially in a firm, fixed-price environment like the FRC, will drive prices down. It is infinitely better than a sole-source environment. So, from that perspective, we certainly do support the Coast Guard strategy.

That said, I think you are right, they will have to be careful about managing their requirements, scrutinizing what the contractors may come back with, to make sure that costs do stay under control.

Admiral BAFFER. Sir, if I could, because we are competing it, and because you had an incumbent shipbuilder, if we just said, "Here are the plans and specs, build the exact same ship," that would have a negative effect on competition. Because who could come in and compete with a shipyard that is already building the exact same ship?

So, when we went out to industry and we asked them in our industry engagement, we realized that we were going to have a lack of competition if we did say, "Build the exact same ship." We like the same—we would like to get the same ship. We like the ship. And, from a life-cycle perspective, that is the way to do it. On the other hand, in order to get the competition to drive down acquisition costs, as Ms. Mackin mentions is the way to do that, we want to open up as much as the ship as we can.

The performance requirements are all the same. It has to meet all the same performance requirements. We took the things that were really important to us to have standardized, because we have got a large infrastructure associated with it in terms of training,

and things like that, spare parts, so we specified things like electrical switchboards, engines, things that they couldn't change. And then the other things we said, "OK, outside of these things, you can change, if you like." And that was done to, hopefully, increase competition, and let alternative vendors come in and then——

Mr. HUNTER. OK, let me ask it this way. I am all for competition, but—and maybe, Ms. Mackin, you can answer this, or maybe Mr. Offutt, too. If you have a batch where you make 20 ships—let's just say you got a company that makes 20 ships. You then change a few specs on it and then you now say, "We are going to recompete this as a brandnew thing, we are going to put it out there on the market and see who can bite at this," I don't know how anybody could still match the company that made the first 20 ships.

No matter what you do, by changing requirements to try to get the competition out there, I don't understand how that works. Right? Because they don't have—you already have a pipeline, they already have their employees, they already have everything for those 20 ships. And to have a new company come in and say, "Hey, we can do it cheaper," how? Because, usually, that is not the case in real life. Right?

Ms. MACKIN. I think it—the supply chain is a factor, but you know, the incumbent contractor might also sharpen his pencil, now that there is competition out there. And, with the trade space that other potential vendors have, they might be able to get a better price. It is possible, just by the basis of their own supply chain, the relationship with their vendors and suppliers.

So, as I said, though, the Coast Guard will have to manage the requirements and make sure that the costs don't increase, as a result of this.

Mr. HUNTER. OK. How likely do you think that is, that costs will not increase as a result of this? You are dealing with a brandnew—let's say somebody brandnew gets this contract, right? You are dealing with a brandnew contractor that you might not be familiar with, a—different design specs in certain ways, but nothing crazy. Right? You said the majority is staying the same. How do costs not go up?

I am just not understanding. Knowing how Government works, and acquisition stuff—at least on the armed services side—there is no way that costs don't go up.

Admiral BAFFER. The major thing is it is a firm, fixed-price contract. The contractors are bidding at a firm, fixed price that they are going to build that ship to meet those performance requirements at a fixed price. There is no share line. It is firm, fixed price. So that is really our—not guaranteed, but that is our warranty against the prices going up. It is not a cost-plus contract. You would certainly not want to do this with a different type of contracting vehicle.

Mr. HUNTER. All right. Anybody else?

Mr. GARAMENDI. You have raised some very important questions, Mr. Chairman, and the answers are almost complete.

The word "life-cycle cost" was used in this discussion a moment ago. And it is possible that the next tranche of ships—20-plus—could be different in significant ways. And that could affect the life-cycle costs. You now have two different maintenance systems that

you are going to have to have, and two different operational systems.

The question, therefore, is are you considering the life-cycle cost in the equation on the cheapest, best deal?

Admiral BAFFER. Ranking Member, not in terms of our selection criteria, but in terms of how we picked what items have to be the same, and what items could be changed. Those have the life-cycle cost——

Mr. GARAMENDI. So in the——

Admiral BAFFER [continuing]. Attributes.

Mr. GARAMENDI. At the outset you have taken into account the change that could occur in the life-cycle cost, and you have tried to eliminate those factors, or those issues, equipment, whatever, that would have an affect on the life-cycle cost. Is that correct?

Admiral BAFFER. That is absolutely correct, Ranking Member.

Mr. GARAMENDI. Ms. Mackin, do you agree?

Ms. MACKIN. Our understanding of the situation is as the admiral described it.

Mr. GARAMENDI. And you will be watching closely as this——

Ms. MACKIN. We will be very interested to see how this turns out.

Mr. GARAMENDI. I said earlier that this is an ongoing process. We were talking about the OPC at the time, but it is an ongoing process. And, as one member of the committee—and I suspect not the only member—as the process goes forward, I would like to know, at the critical stages, how is it going, and not wait until it is a done deal and then call you up here annually and find out why it didn't work out as we thought.

Ms. MACKIN. We would be happy to track that.

Mr. GARAMENDI. Thank you. That is my—I yield back.

Mr. HUNTER. The gentlelady from Florida is recognized.

Ms. FRANKEL. Just follow up on that question. Are you required by law to take the cheapest bid? Or do you look to see what is the best quality?

Admiral BAFFER. These are—we use best value contracts.

Ms. FRANKEL. Best value, OK.

Admiral BAFFER. Yes, ma'am.

Ms. FRANKEL. All right. That is it. Thank you.

Mr. HUNTER. I think that is it. I would just like to just keep us—please keep us informed when the—when Secretary Johnson gives you a check for $70 million or so.

[Laughter.]

Mr. HUNTER. Let us know when that happens, please. And we are going to try to keep working that here. So, just in case something else comes up and they don't do that, there is still maybe a possibility for a different funding stream, so that the whole schedule is not put off.

But thank you all for being here. Appreciate your testimony. And I think we have learned a lot today. And we will just—we will stay on it. The hearing is adjourned.

[Whereupon, at 11:53 a.m., the subcommittee was adjourned.]

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

Commandant
United States Coast Guard

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TESTIMONY OF
REAR ADMIRAL BRUCE D. BAFFER
ASSISTANT COMMANDANT FOR ACQUISITION AND CHIEF ACQUISITION OFFICER
ON

"COAST GUARD READINESS:
EXAMINING CUTTER, AIRCRAFT, AND COMMUNICATIONS NEEDS"

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

MAY 14, 2015

INTRODUCTION

Good morning Chairman Hunter, Ranking Member Garamendi and distinguished members of the Subcommittee. On behalf of the men and women of the U.S. Coast Guard, I thank you for your oversight of and advocacy for the Coast Guard. I am honored to appear before you today, to update you on our continued efforts to recapitalize our aging cutters, boats, aircraft, Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) systems, and shore infrastructure.

The Coast Guard continues to face a dynamic and complex array of challenges in performing the service's many missions to secure, safeguard and exercise stewardship over activities in our inland, coastal and offshore waters. Chief among these challenges is the age and condition of existing assets not yet addressed by our ongoing recapitalization program and the impact that declining readiness of those legacy cutters, boats, aircraft, support systems and shoreside infrastructure have on mission performance. For this reason, the Commandant continues to place the highest priority on advancing the planned recapitalization programs that will provide our men and women in the field with new and enhanced platforms and capabilities necessary to achieve mission success.

As the Chief Acquisition Officer of the Coast Guard, I lead a talented team of professionals dedicated to delivering the goods and services the Coast Guard needs to carry out its missions. I see the impact our acquisition enterprise is having every day when I read reports outlining the key role that our newly acquired assets and capabilities, such as the National Security Cutter (NSC), Fast Response Cutter (FRC), HC-144 Ocean Sentry, Response Boat-Medium (RB-M), and Rescue 21 system, play in improving mission performance, safety and reliability. As we acquire new assets, we are also focused on sustaining and improving our existing assets, including the Medium Endurance Cutter fleet and our MH-60T and MH-65D helicopters that play a vital role in rescuing mariners in distress and interdicting threats before they reach American shores. This subcommittee has been instrumental in supporting the Coast Guard's acquisition programs, and we are realizing the results of those critical investments in every mission area.

Over the last year, we have achieved a number of successes on the way to attaining our acquisition program of record. In March, we awarded a contract for production of the eighth and final NSC, which will allow the Acquisition Directorate to transition to the Commandant's next acquisition priority: delivery of an affordable and capable Offshore Patrol Cutter (OPC). The OPC will serve as the backbone of the Coast Guard's strategy to project and maintain offshore presence in concert with the extended range and capability of the NSC and the enhanced coastal patrol capability of the Fast Response Cutter (FRC). The twelfth Fast Response Cutter was commissioned in Key West in late March, completing the fleet of six cutters there and in Miami, where FRCs are already proving invaluable to counter-drug and counter-migration efforts in the Straits of Florida and maritime approaches to the southeastern United States. In addition to our efforts to recapitalize the surface fleet, we established the C-27J Asset Project Office (APO) in Elizabeth City, NC, and have begun the process of inducting the C-27J aircraft transferred from the Air Force. We also completed deployment of the Rescue 21 communications and monitoring system along the Atlantic, Pacific, and Gulf coasts, Great Lakes, Hawaii, and U.S. territories, which has been employed in more than 75,000 search and rescue cases to date.

Recapitalization is a key component to the Coast Guard's strategy to efficiently allocate resources to meet today's operational requirements while investing in future capability to best serve the Nation. Our acquisition enterprise is working every day to ensure every appropriated dollar is used to its best advantage.

THE COAST GUARD ACQUISITIONS ENTERPRISE

With the creation of the Acquisition Directorate in 2007, the Coast Guard consolidated its portfolio of major and minor acquisition projects, contracting and procurement functions, research and development programs, logistics support and transition to sustainment functions, and other elements of acquisition support under a single command. Further, the Service established an acquisition governance structure, strengthened our processes, institutionalized the role of our technical authorities, and built and maintained a highly capable and trained acquisition workforce. These improvements have been codified in the Coast Guard's Major Systems Acquisition Manual and are guided by the principles and requirements under Department of Homeland Security (DHS) - Acquisition Management Directive 102-01 and Federal Acquisition Regulations (FAR). We continue to implement initiatives to minimize acquisition risks and maximize affordability within our projects. We leverage the experience and expertise of our partners to perform key functions and guide Coast Guard decision-makers throughout the acquisition life cycle.

As a result of these ongoing efforts, Coast Guard acquisition personnel were recognized as recipients of five Fiscal Year (FY) 2013 DHS Acquisition Awards. More importantly, we continue to deliver operational capability on-cost, on or ahead of schedule, and in a controlled risk environment.

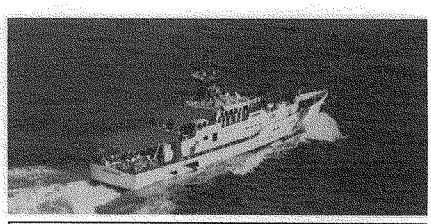
RECENT ACQUISITION SUCCESSES

The Coast Guard has made great strides in our efforts to recapitalize the Coast Guard fleet and support systems. The Service continues to accept delivery of new cutters, aviation assets, boats, C4ISR capabilities, and upgraded shore infrastructure, bolstering our mission readiness and performance.

In 2014, the Coast Guard awarded contracts for preliminary and contract design of the OPC to three shipyards – Bollinger Shipyards Lockport LLC (Lockport, Louisiana), Eastern Shipbuilding Group Inc. (Panama City, Florida), and General Dynamics, Bath Iron Works (Bath, Maine). Acquisition program staff recently conducted Preliminary Design Reviews with each of the three shipyards and the program remains on schedule..

The fifth National Security Cutter (JAMES) conducts at-sea trials, April 2015. Photo courtesy of Huntington Ingalls.

In addition to the recent production award for the eighth NSC, the Coast Guard accepted delivery of and commissioned the fourth NSC (USCGC HAMILTON) into service last year, christened the fifth NSC (JAMES), began fabrication of the sixth NSC (MUNRO) and initiated pre-fabrication activities for the seventh NSC (KIMBALL). In April, we conducted successful at-sea trials on board JAMES in advance of the cutter's scheduled delivery and commissioning later this year. NSCs are proving very successful at providing Area Commanders the requisite capabilities to perform the full range of Coast Guard missions in the offshore environment.



WPC 1112 (ISAAC MAYO) was commissioned into service March 2015 at Sector Key West, Florida. U.S. Coast Guard photo.

Last month, the Coast Guard accepted delivery of the 13th FRC, which will be the first FRC to be based at Sector San Juan, Puerto Rico. A Request for Proposal was released to industry in advance of the scheduled Phase II production award in fiscal year 2016. The contract will include options for the acquisition of up to 26 FRCs on a firm fixed price basis with an economic price adjustment. The Coast Guard has provided the Re-procurement Data Licensing Package (RDLP) from the phase I FRC contract to interested offerors. The RDLP includes design data, drawings, materials lists, and testing and technical information needed to submit a proposal. We are pursuing a full and open competition for the second phase contract to maximize affordability of the program while maintaining a single class of cutters with standardized major systems and components.

We continue to acquire two standardized cutter boat classes, the 11-meter Long Range Interceptor II (LRI-II) and 7-meter Over the Horizon IV (OTH-IV). Five LRI-IIs have been delivered to date and are supporting deployable operations onboard the NSC class, and 27 OTH-IVs have been delivered to FRCs at Sectors Miami and Key West as well as the first five NSCs.

Earlier this year, the Coast Guard received delivery of the 174th RB-M, achieving full operating capability and transitioning the program from the acquisition stage to sustainment. Operational commanders have praised the RB-M's speed, handling and capabilities to perform the full spectrum of Coast Guard missions over the legacy 41-foot Utility Boats and other station boats the RB-M replaces. Our strategy to standardize and update station boat capabilities also includes the acquisition of the Response Boats-Small II (RB-S II), of which more than 130 have been delivered to Coast Guard stations nationwide.

An RB-M assigned to Station Galveston performs operations off the Texas coast in December 2014. U.S. Coast Guard photo.

The Coast Guard has initiated activities to support the acquisition of a new Polar Icebreaker to maintain Coast Guard mission capabilities in the high latitude regions. This includes development of a Preliminary Operational Requirements Document and completion of an Alternatives Analysis. These efforts are complemented by ongoing consultation and coordination with international partners, including the Canadian Coast Guard as they continue requirements and a design for a heavy icebreaker.

The Coast Guard's In Service Vessel Sustainment program is carrying out key sustainment projects, including a Service Life Extension Project (SLEP) for the 140-foot icebreaking tug to enhance mission readiness and extend the service life of this nine-vessel class by approximately 15 years. The Coast Guard also completed the first of four planned SLEP phases on Coast Guard Cutter EAGLE earlier this month. EAGLE SLEP will enhance habitability, remediate hazardous materials and complete major maintenance necessary to ensure the vessel remains safe for operations. The Coast Guard is also developing work plans and documentation to guide a Midlife Maintenance Availability on the 225-foot sea-going buoy tender fleet with the first vessel scheduled to arrive this year.

Within the aviation domain, the Medium Range Surveillance aircraft program has been adapted to include the transfer of 14 C-27J medium-lift aircraft formerly operated by the U.S. Air Force. The C-27Js will complement the 18 HC-144 Ocean Sentries that have been delivered and are performing operations at four Coast Guard air stations. The Coast Guard has established a C-27J APO, co-located with the Aviation Logistics

CGNR-2714, the first C-27J to be regenerated by the Coast Guard performs a training and logistics mission at Air Station Clearwater, Florida, April 2015. U.S. Coast Guard photo

Center at Elizabeth City, North Carolina, to oversee the generation of Coast Guard-specific operational, maintenance, training and test and evaluation procedures as well as the regeneration and missionization of the aircraft. Following delivery to the APO, the Coast Guard plans to further missionize the aircraft with specialized components such as surface search radar and electro-optical/infrared sensors to enhance the aircraft's capability to carry out the full range of Coast Guard maritime operations.

The service also recently accepted the delivery of two C-130J aircraft and will also receive another C-130J this summer, which will be the lead aircraft to undergo missionization with the next-generation Minotaur Mission System Suite. Minotaur integrates specialized systems, including radar, sensors, and other C4ISR equipment to collect and process surveillance information for transmission to shore and surface operators. Minotaur is an open-architecture, government-owned system that is currently in use by the Navy and Customs and Border Protection. The Coast Guard has released a Request for Proposal to missionize up to five new C-130Js as well as retrofits on the first HC-130Js delivered to the Coast Guard. The Coast Guard is developing a Minotaur-based solution to missionize the HC-144 Ocean Sentry and HC-27J fleet, as well as to enhance commonality and reduce life-cycle costs across the fixed wing fleet.

The seventh C-130J long range surveillance aircraft arrives in Greenville, South Carolina, Feb. 26, 2015, where it will undergo missionization prior to final delivery. U.S. Coast Guard photo.

The Coast Guard has initiated an examination of the aviation program of record to determine what changes are needed following the planned introduction of 14 missionized C-27Js. The updated fleet mix analysis will be used to guide decisions on the numbers and types of assets needed to be acquired in the future as well as potential revisions to basing strategies to best meet fixed-wing aviation mission needs.

Additionally, ongoing conversion and sustainment projects extended the service life of our H-60 and H-65 helicopter fleets and provided these aircraft with enhanced avionics and sensors. In addition, we have initiated development of an MH-65E prototype. All of these improvements have enhanced the safety and reliability of the rotary wing fleet.

We continue to work with the U.S. Navy and U.S. Customs and Border Protection to leverage their existing programs to develop Unmanned Aerial Systems (UAS) to supplement manned aircraft to meet maritime surveillance requirements. Last year, the Coast Guard's Research and Development Center concluded a series of evaluations of cutter-based UAS. The Acquisition Directorate has initiated a non-major program to acquire small UAS for the NSC class, and we continue to evaluate available systems and how they may complement Coast Guard missions.

The Coast Guard is continuing deployment of new and updated C4ISR systems on our deployable assets and shore facilities around the country. We are continuing deployment of Rescue 21 along the Western Rivers and in Alaska as well as the Nationwide Automatic Identification System to save lives and enhance maritime awareness in our ports and on the inland and coastal waterways. The service recently achieved full operating capability of the Rescue 21 system along the Atlantic, Pacific and Gulf coasts, Great Lakes, Hawaii and U.S. territories. The WatchKeeper system, which provides real-time joint planning and operational capabilities to the Coast Guard and intergovernmental partners and industry has been deployed in 37 locations nationwide. Finally, the Coast Guard recently demonstrated an updated C4ISR Segment 2 baseline on board USCGC WAESCHE that has been incorporated into production of NSCs 5-8 and will be retrofitted on BERTHOLF, STRATTON and HAMILTON. C4ISR equipment and software provide situational awareness, data processing and information awareness tools required to modernize and recapitalize our shore sites, surface and aviation assets.

FY 2016-2020 CAPITAL INVESTMENT PLAN

The Coast Guard is committed to prioritizing available resources to address today's greatest maritime safety and security needs while making the necessary investment in recapitalization to ensure the viability of the Coast Guard well into the future. The condition and serviceability of the Coast Guard's air and surface fleet, and the projected timelines to replace and sustain these assets require the Coast Guard to continue investment in recapitalization to maintain the capability necessary to operate in areas strategically important to our Nation.

The FY 2016-2020 Capital Investment Plan summarizes the Coast Guard's latest projections for Acquisition, Construction, and Improvements and is consistent with the funding levels outlined in the FY 2016-2020 Future Year Homeland Security Program report to Congress.

CONCLUSION

Since 1790, the Coast Guard has safeguarded our Nation's maritime interests and natural resources on our rivers, in the ports, on the high seas, and in theaters around the world. Each day, the Coast Guard carries out its missions to protect lives, protect the environment, secure our maritime borders and facilitate commerce. Our acquisition workforce is, likewise, working each day to acquire and deliver the assets and capabilities needed to support these critical missions in a manner that maximizes the Nation's return on its investment.

Thank you for the opportunity to testify before you today and for all you do for the men and women of the U.S. Coast Guard. I look forward to answering your questions.

United States Government Accountability Office

GAO

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

For Release on Delivery
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Thursday, May 14, 2015

COAST GUARD ACQUISITIONS

As Major Assets Are Fielded, Overall Portfolio Remains Unaffordable

Statement of Michele Mackin, Director, Acquisition and Sourcing Management

GAO Highlights

Highlights of GAO-15-620T, a testimony before the Subcommittee on Coast Guard and Maritime Transportation, Committee on Transportation and Infrastructure, House of Representatives

May 14, 2015

COAST GUARD ACQUISITIONS

As Major Assets are Fielded, Overall Portfolio Remains Unaffordable

Why GAO Did This Study

The Coast Guard is managing a multi-billion dollar effort to modernize aging assets, including ships, aircraft, and information technology, to provide new capabilities to conduct missions ranging from marine safety to defense readiness. The Coast Guard has made progress in its acquisition management capabilities, such as more closely following acquisition best practices and taking steps to increase competition. However, GAO has consistently found that DHS and the Coast Guard recognize, but have yet to address, the fact that the Coast Guard's acquisition needs are not affordable.

This statement is based on GAO's body of work issued during the past three years on Coast Guard major acquisitions and highlights GAO's recently completed review of the transfer to the Coast Guard of the C-27J aircraft as well as observations regarding the Coast Guard's fiscal year 2016 Capital Investment Plan. The statement addresses the status of the Coast Guard's (1) aviation assets, particularly the C-27J aircraft and (2) surface assets, as well as (3) the overall affordability of its major acquisition portfolio.

GAO has made a number of recommendations to improve acquisition management and assess the affordability of the Coast Guard's portfolio. DHS and the Coast Guard agreed with GAO's recommendations and are working on implementing them by revisiting the Coast Guard's mission needs and fleet mix, as well as creating a 20-year acquisition plan that balances needs and resources, though the agencies have not specified when they will finish these efforts.

View GAO-15-620T. For more information, contact Michele Mackin at (202) 512-4841 or mackinm@gao.gov.

What GAO Found

GAO reported in March 2015 that the Coast Guard is in the process of receiving 14 C-27J fixed-wing aircraft transferred from the Air Force at no cost to the Coast Guard. However, it will take 7 years and about $600 million to fully transfer and modify the aircraft by adding information technology and surveillance systems. Transfer of the C-27J faces a number of risks but the aircraft is expected to contribute significant flight hours toward the Coast Guard's goal once complete. In light of this transfer, the Coast Guard is in the process of determining the best mix of fixed-wing aircraft to provide the capabilities it needs to carry out its missions. As shown in the table, GAO reported that the Coast Guard has fallen short of its flight hour goal; this trend is expected to continue until the Coast Guard revises its mission needs, an effort it expects to complete in 2016. The Coast Guard also plans to complete a fixed-wing fleet mix analysis by 2019, which will revisit the current flight hour goal and the assets that will best meet its needs. The table reflects the existing fleet and flight hours as compared to GAO's analysis of the Coast Guard's planned fleet including the C-27J aircraft.

Flight Hour Performance of Actual and Planned Fixed-Wing Assets

	2014 fleet (actual)		GAO analysis of the Coast Guard's current plan	
Fleet composition (total quantity of aircraft)	Medium Range	Long Range	Medium Range	Long Range
	20	21	32	22
Flight hours per year	32,543		43,200	
Difference based on the program of record goal of 52,400 flight hours (planned or actual hours / 52,400)	38 percent short of flight hour goal		18 percent short of flight hour goal	

Source: GAO analysis based on the data in the Coast Guard's May 2012 business case analysis (which informed the Coast Guard's August 2013 letter to Congress), current operational plans, and other Coast Guard data. | GAO-15-620T

Note: The HC-144 and C-27J are medium range assets while the HC-130H and HC-130J are long range assets. The fiscal year 2014 'medium range' column includes 4 legacy medium range aircraft.

According to GAO's April 2015 review, the Coast Guard continues to field National Security Cutters and Fast Response Cutters. The Coast Guard is also working with three potential shipbuilders to design the Offshore Patrol Cutter, needed to recapitalize the majority of the major cutter fleet, with plans for the first ship to be fielded in 2022. In the meantime, the Coast Guard's legacy Medium Endurance Cutters, which the Offshore Patrol Cutter is planned to replace, have begun to reach the end of their service lives. The Coast Guard currently has no definitive plan to extend the service life of these legacy assets and as a result faces a potentially significant capability gap.

GAO found in June 2014 that budget officials have acknowledged that the Coast Guard's current plan for developing new, more capable assets is not affordable given current and expected funding levels. For the past 5 years, GAO has found that the Coast Guard's acquisition funding has fallen short of what it estimates it needs to fully recapitalize its assets. The Coast Guard has responded by annually delaying or reducing its capability. The Coast Guard and the Department of Homeland Security (DHS) have taken some steps to address these affordability issues, but as yet these efforts have not led to the types of significant trade-off decisions among resources and needs that would improve the long-term outlook of the Coast Guard's acquisition portfolio.

Chairman Hunter, Ranking Member Garamendi, and Members of the Subcommittee:

I am pleased to be here today to discuss the Coast Guard's plan to buy and deploy the assets it has determined it needs to fulfill its current and anticipated missions. We have been reviewing the Coast Guard's efforts to purchase a new portfolio of aircraft, ships, and other assets for many years. Most recently, we issued a report on the transfer of 14 C-27J aircraft from the Air Force to the Coast Guard.[1]

The Coast Guard has made progress in its acquisition management capabilities over the past several years, such as more closely following acquisition best practices and taking steps to increase competition. We have consistently found, however, that the Department of Homeland Security (DHS) and the Coast Guard recognize, but have yet to address, the fact that the Coast Guard's acquisition needs are not affordable based on past and expected future funding levels.

My statement today is based on our body of work on Coast Guard major acquisitions and the operational capabilities of its assets completed over the past 3 years and highlights our recently completed review of the transfer to the Coast Guard of the C-27J aircraft as well as our observations regarding the Coast Guard's fiscal year 2016 Capital Investment Plan. I will address issues related to the Coast Guard's (1) aviation assets, particularly the C-27J aircraft and (2) surface assets, as well as (3) the overall affordability of its major acquisition portfolio.

For our March 2015 report on the C-27J, we assessed the status and timeframes for making the fleet operational. We also assessed gaps in the fixed wing aviation fleet, based on the current flight hour goals and surveillance capabilities. We analyzed the Coast Guard's May 2012 C-27J business case analysis and the subsequent analysis that it provided to Congress in an August 2013 letter. We also reviewed aviation fleet performance information and talked with operators and maintenance personnel. We also made observations on the Coast Guard's fiscal year 2016 budget and Capital Investment Plan and interviewed Coast Guard budget officials. We discussed these observations with Coast Guard

[1]GAO, *Coast Guard Aircraft: Transfer of Fixed-Wing C-27J Aircraft is Complex and Further Fleet Purchases Should Coincide with Study Results*, GAO-15-325 (Washington, D.C.: March 26, 2015).

budget officials and incorporated their views as appropriate. For other past work cited in this statement, specifically our 2014 comprehensive portfolio review of the overall Coast Guard acquisition portfolio, we assessed the Coast Guard's acquisition program baselines, the cost of the Coast Guard's portfolio, and steps taken to address affordability concerns, including the need for long-term planning.[2] We reviewed the Coast Guard's funding needs, mission needs, future plans, and performance data to assess to what extent, if any, the Coast Guard is experiencing capability gaps. More detailed information on our objectives, scope, and methodology for the work cited throughout this statement can be found in the issued reports. We conducted the work on which this statement is based 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Coast Guard Is Reevaluating Its Aviation Fleet Mix in Light of C-27J Transfer

The Coast Guard is in the process of receiving 14 C-27Js as a part of a Congressionally mandated transfer, at no cost to the Coast Guard, from the Air Force, and these aircraft are planned to significantly contribute to the Coast Guard's missions once they are operational. However, as we reported in March 2015, it will take time and money to fully transfer and modify the aircraft. As of May 2015, 2 of the 14 C-27J aircraft had been removed from storage at the Air Force's 309th Aerospace Maintenance and Regeneration Group (AMARG) at Davis-Monthan Air Force Base where 13 of the 14 C-27Js are stored. These 2 aircraft are currently at the Coast Guard's aviation maintenance facility in Elizabeth City, North Carolina where the aircraft are continuing to be inducted into the Coast Guard. The Coast Guard expects to deliver 2 additional C-27Js from AMARG to its maintenance facility by the end of fiscal year 2015.

The first part of induction entails removing the aircraft from the AMARG storage facility, which involves taking off a protective compound, conducting system checks and basic maintenance, and successfully

[2]GAO, *Coast Guard Acquisitions: Better Information on Performance and Funding Needed to Address Shortfalls*, GAO-14-450 (Washington, D.C.: June 5, 2014). Other past work reflected in this statement includes: GAO, *Coast Guard: Legacy Vessels' Declining Conditions Reinforce Need for More Realistic Operational Targets*, GAO-12-741 (Washington, D.C.: July 31, 2012), and GAO-15-325.

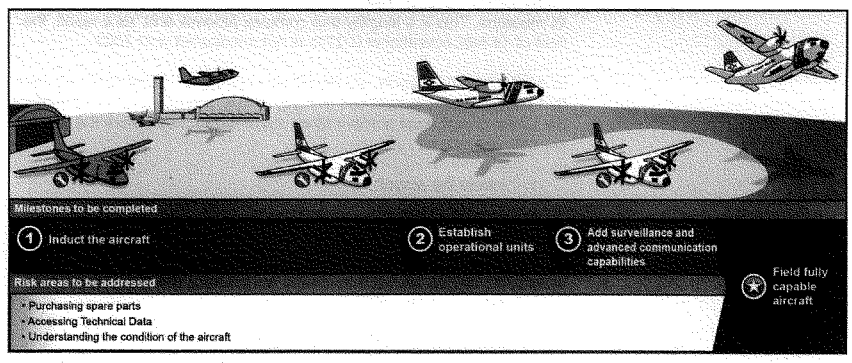
completing a flight test—among other steps. The Coast Guard then needs to ensure that it can support these assets and modify the C-27Js to meet its missions. This is a lengthy and complex process and, as a result, the fleet of 14 fully operational C-27Js is not anticipated until 2022.

In our March 2015 report, we identified a number of milestones and risks that will need to be addressed to achieve fully capable aircraft. In general, the Coast Guard must achieve three major milestones before the aircraft are fully operational:

1. induct the aircraft,
2. establish operational units (bases), and
3. add surveillance and advanced communication capabilities.

In addition, complicating these efforts are areas of risk that need to be addressed before the Coast Guard can field fully operational C-27Js. These three risk areas are: (1) purchasing spare parts, (2) accessing technical data, and (3) understanding the condition of the aircraft. These and other risks may inhibit the Coast Guard's ability to operate the aircraft as planned. However, the Coast Guard is working to mitigate these risks. Figure 1 illustrates the milestones and risk areas the Coast Guard must address before it can field a fully capable C-27J aircraft.

Figure 1: Major Milestones and Risk Areas in Developing a Fully Operational Coast Guard C-27J Aircraft



Source: GAO presentation of Coast Guard data. | GAO-15-620T

According to initial Coast Guard estimates, while the C-27J aircraft come at no acquisition cost to the Coast Guard, the costs to fully operationalize them will total about $600 million. The fiscal year 2016 Capital Investment Plan includes $482 million for this effort. The Capital Investment Plan also notes that the Coast Guard has yet to fully estimate the total cost of incorporating and operating the C-27J. The Coast Guard is planning to refine this initial estimate by January 2016, in accordance with a February 2015 DHS acquisition decision memo.

In addition to the challenges in converting the C-27Js to fully operational aircraft, we found in March 2015 that the Coast Guard faces a shortfall in achieving its overall flight hour goal.[3] To fully meet its mission needs, the Coast Guard's 2005 mission needs statement set forth a goal of 52,400 hours per year. In fiscal year 2014, the Coast Guard's fixed-wing aviation fleet flew 38 percent fewer hours than these stated needs—a total of 32,543 hours. The revised fleet as currently envisioned, with the addition

[3]GAO-15-325.

of the C-27J, will narrow this gap, but the Coast Guard will still fall short of the 52,400 flight hour goal. As a result of planned changes to its fleet composition to accommodate the C-27J—specifically reducing its planned purchase of 36 HC-144s to 18—and other reasons the Coast Guard is now on a path to fall short of meeting this goal by 18 percent when all planned assets are operational.[4]

Table 1 shows: (1) the aircraft that comprise the current 2014 fleet plan and the Coast Guard's planned fleet once the C-27Js are operational, (2) the annual flight hours each fleet provides, and (3) the difference between the flight hours of the fleets and the 52,400 hour goal.

Table 1: Flight Hour Performance of Actual and Planned Fixed-Wing Fleets

	2014 fleet (actual)			GAO analysis of the Coast Guard's current plan		
Fleet composition (total quantity of aircraft)	HC-144	HC-130H and other legacy aircraft	HC-130J	HC-144	C-27J	HC-130J
	16	20	5	18	14	22
Flight hours per year	32,543			43,200		
Difference based on the program of record goal of 52,400 flight hours (planned or actual hours / 52,400)	38 percent short of flight hour goal			18 percent short of flight hour goal		

Source: GAO analysis based on the data in the Coast Guard's May 2012 business case analysis (which informed the Coast Guard's August 2013 letter to Congress), current operational plans, and other Coast Guard data. | GAO-15-620T

Notes: Numbers may not add up due to rounding.

In conducting our analysis, we used the Coast Guard's 2012 business case analysis but modified the planned flight hours for the HC-144 and the C-27J. The program of record and the 2012 business case assumed that the HC-144 would fly 1,200 hours per year but the Coast Guard plans to fly the HC-144 and the C-27J for 1,000 hours per year.

The Coast Guard is planning to retire the HC-130Hs as it begins to operate the C-27Js and receives more HC-130Js.

The HC-144 and C-27J are medium range assets while the HC-130H and HC-130J are long range assets. The fiscal year 2014 'HC-130H and other legacy aircraft' column includes 4 medium range legacy aircraft.

[4]Also contributing to this reduction in flight hours is the current plan to reduce the HC-144 flight hours from 1,200 to 1,000 hours per year—due primarily to the high cost of maintaining the aircraft while flying at the higher pace.

According to the fiscal year 2016 Capital Investment Plan, the Coast Guard is currently conducting a revised fixed-wing fleet analysis, intended to be a fundamental reassessment of the capabilities and mix of fixed-wing assets needed to fulfill its missions. Coast Guard budget and programming officials recognize the aviation fleet may change based on the flight hour goals in the new mission needs statement and the overall fleet mix analysis. The fiscal year 2016 Capital Investment Plan, therefore, does not include any additional fixed-wing asset purchases. For example, DHS and the Coast Guard have formally paused the HC-144 acquisition program at 18 aircraft, which are the aircraft they have already purchased.

The Coast Guard has begun to rewrite its mission needs statement and concept of operations and plans to complete this effort by 2016. The Coast Guard plans to complete its full fixed-wing fleet mix analysis, which includes the assets it estimates will best meet these needs, by 2019, but has not set forth specific timeframes for completing key milestones. We recommended in our March 2015 report that the Secretary of Homeland Security and the Commandant of the Coast Guard inform Congress of the time frames and key milestones for completing the fleet mix study, including the specific date when the Coast Guard will publish its revised annual flight hour needs and when it plans to inform Congress of the corresponding changes to the composition of its fixed-wing fleet to meet these needs.[5] DHS concurred with our recommendation but did not provide specific time lines for meeting this recommendation. The bill for the Coast Guard Authorization Act of 2015, introduced in April 2015, requires a revised Coast Guard fixed-wing aircraft fleet mix analysis to be submitted to congressional transportation committees by the end of fiscal year 2015.[6]

[5]GAO-15-325.

[6]H.R. 1987, § 204, 114th Cong. (1st Sess. 2015).

The Coast Guard Is Beginning to Field New Surface Fleet Assets but Faces Potentially Significant Capability Gap

The Coast Guard continues to field National Security Cutters (NSCs) and Fast Response Cutters (FRCs), which are replacing the legacy 378'-foot high endurance cutters and the 110'-foot patrol boats, respectively. As we reported in April 2015, the Coast Guard is also in the process of working with three potential shipbuilders to design the Offshore Patrol Cutter, but this asset, needed to recapitalize the vast majority of the major cutter fleet, remains years away from being fielded.[7] In the meantime, the Coast Guard's legacy Medium Endurance Cutters, which the Offshore Patrol Cutter is planned to replace, have begun to reach the end of their service lives creating a potential gap.

National Security Cutter

The Coast Guard has all 8 NSCs on contract or delivered as of May 2015, and, as we reported in April 2015, completed operational test and evaluation in April 2014. All 8 NSCs are planned to be fully operational by 2020 and the Coast Guard is phasing out the legacy 378'-foot high endurance cutters as the NSCs become operational. We are currently conducting a detailed review of the NSC's recent test event at the request of this subcommittee. We reported in April 2015, however, that during this initial operational testing, the NSC was found to be operationally effective and suitable, but with several major deficiencies. For example, the NSC's small boat—which is launched from the back of the cutter—is not suited to operate in rough waters (sea state 5) as intended.[8] Coast Guard officials told us they planned to test a new small boat by March 2015. In addition, the Coast Guard deferred testing for several key capabilities on the cutter, such as cybersecurity, the use of unmanned aerial systems, or its ability to handle certain classified information. Coast Guard officials said follow-on operational tests will be conducted between fiscal years 2015 and 2017. While future tests will be key to understanding the NSC's capabilities, any necessary changes resulting from these tests will have to be retrofit onto all 8 NSCs since they are all either built or under contract. In June 2014, we found that the NSC program had at least $140 million in retrofits and design changes to fund and implement on the NSC fleet.[9]

[7]GAO, *Homeland Security Acquisitions: Major Program Assessments Reveal Actions Needed to Improve Accountability,* GAO-15-171SP, (Washington D.C.: April 22, 2015).

[8]Sea states refer to the height, period, and character of waves on the surface of a large body of water. Sea state 5 represents 8.2- to 13.1-foot waves.

[9]GAO-14-450. The Coast Guard reported these numbers for all eight hulls. However, for some items, such as the information system replacement, the costs primarily cover retrofitting some or all of the first four hulls.

As we also reported in June 2014, further changes may be needed due to issues discovered through operating the NSC, which could result in the Coast Guard having to spend even more money in the future to ensure the NSC fleet meets requirements and is logistically supportable.[10] For example, the cutter is experiencing problems operating in warm climates, including cooling system failures, excessive condensation forming puddles on the deck of the ship, and limited redundancy in its air conditioning system affecting use of information technology systems. According to operational reports from a 2013 deployment, the Commanding Officer of an NSC had to impose speed restrictions on the vessel because of engine overheating when the seawater temperature was greater than 68 degrees. In addition, cold climate issues on the cutter include a lack of heaters to keep oil and other fluids warm during operations in cold climates, such as the arctic. Further, Coast Guard operators state that operating near ice must be done with extreme caution since the ice can move quickly and the NSC could sustain significant damage if it comes in contact with the ice. In June 2014 we reported that while senior Coast Guard officials acknowledged that there were issues to address, they stated that the Coast Guard has not yet determined what, if any, fixes are necessary and that it depends on where the cutter ultimately operates.

Fast Response Cutter

In April 2015, the Coast Guard accepted delivery of the 13th of 58 FRCs and now has 32 of the cutters on contract. As we reported in April 2015, the Coast Guard is introducing additional competition into this purchase by recompeting the construction contract for the remaining 26 vessels; this contract is planned to be awarded in fiscal year 2016. According to the Coast Guard, the FRC has already been used to rescue over 400 undocumented immigrants, seize nearly $20 million in contraband, and apprehend several suspected drug smugglers. The fiscal year 2016 Capital Investment Plan includes $1.47 billion over the next 5 years to continue purchasing these assets by which time the Coast Guard plans to have fielded 42 FRCs.

As we reported in June 2014, operational testers within the Department of the Navy determined in July 2013 that the FRC, without the cutter's small boat, is operationally effective—meaning that testers determined that the asset enables mission success.[11] However, these operational testers also

[10]GAO-14-450.

[11]GAO-14-450.

determined that the FRC is not operationally suitable because a key engine part failed, which lowered the amount of time the ship was available for missions to an unacceptable level. Despite the mixed test results, Navy and DHS testers as well as Coast Guard program officials all agreed that the FRC is a capable vessel, and the Coast Guard plans to confirm that it has resolved these issues during follow-on testing planned to be completed by the end of fiscal year 2015.

Offshore Patrol Cutter

The Coast Guard is using a two-phased, competitive strategy to select a contactor to construct the Offshore Patrol Cutter (OPC), as we reported in April 2015. First, the Coast Guard conducted a full and open competition to select three contractors to perform preliminary and contract design work, and in February 2014, the Coast Guard awarded firm-fixed price contracts to three shipbuilders. Second, by the end of fiscal year 2016, the Coast Guard plans to award a contract to one of these shipbuilders to complete the detailed design of the vessel and construct the first 9 to 11 ships, at which time the Coast Guard plans to recompete the contract for the remaining vessels. The Coast Guard currently plans to begin construction on the lead ship in fiscal year 2018—one year later than planned in its most recent program baseline—and deliver this ship in 2022. The Coast Guard attributes the schedule delay to procurement delays, including a bid protest. The fiscal year 2016 Capital Investment Plan has $1.5 billion in funding for the OPC, which funds the design work and construction of the first three vessels. After the first 3 of the planned fleet of 25 OPCs are built, the Coast Guard plans to increase its purchase to 2 OPCs per year until the final asset is delivered, currently scheduled for fiscal year 2035.

Potential Surface Fleet Capability Gaps

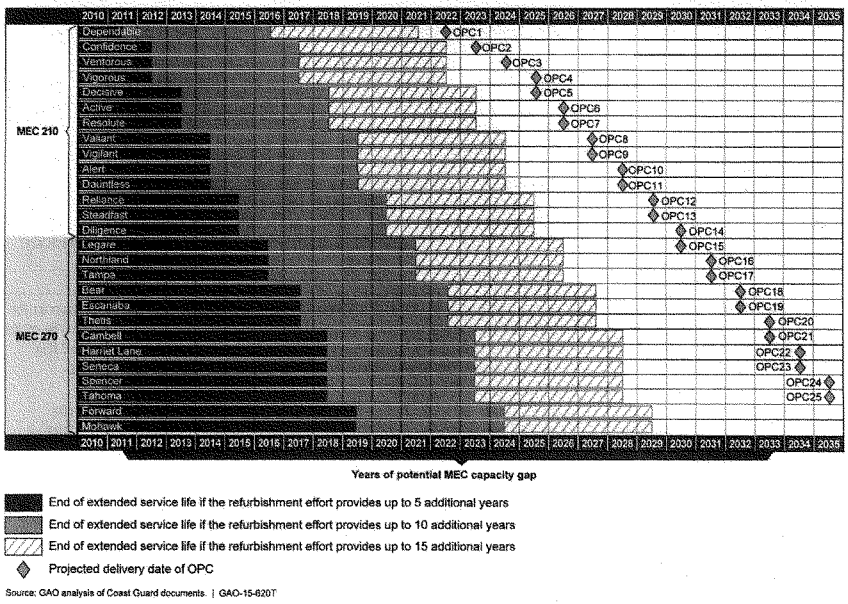
As we reported in July 2012, the Coast Guard faces capability gaps in its surface fleet over the next several years as the projected service life of its Medium Endurance Cutter fleet expires before planned delivery of the OPCs, which will replace these aging cutters.[12] The Coast Guard completed a refurbishment of the Medium Endurance Cutters in September 2014 to increase their reliability and reduce longer-term maintenance costs. Senior Coast Guard officials responsible for this project reported that these efforts may provide up to 15 years of additional service life to the fleet. However, they noted that this estimate is optimistic and that the refurbishment provided needed upgrades to the

[12]GAO-12-741.

Medium Endurance Cutters, but was not designed to further extend the cutters' service lives.

As depicted in figure 2, even with the most optimistic projection for the current service life of the Medium Endurance Cutters, we estimated in our July 2012 report that there was a gap before the planned OPC deliveries. The figure shows the service lives for each of the 27 210'-foot and 270'-foot Medium Endurance Cutters if the service life extensions provide 5, 10, or 15 years of additional service, and the planned delivery of the 25 OPCs.

Figure 2: Comparison of the Projected End of Service Lives for the Legacy Medium Endurance Cutter (MEC) Fleet with the Planned Offshore Patrol Cutter (OPC) Delivery Dates



Source: GAO analysis of Coast Guard documents. | GAO-15-620T

Note: This analysis is based on the Coast Guard's existing fleet of 27 legacy Medium Endurance Cutters, each of which is identified by class and name. Coast Guard officials also reported that there is no correlation between the end of a vessel's service life and its decommissioning date. Figure from GAO-12-741.

Coast Guard budget officials recently told us that the Coast Guard is studying whether to perform additional service life extension work on the Medium Endurance Cutters to keep them operational until the OPCs are delivered. Coast Guard officials could not tell us when a decision will be made about this work and the fiscal year 2016 Capital Investment Plan does not include funds for this effort.

The Coast Guard Faces Affordability Challenges as Funding Needs for the Offshore Patrol Cutter Loom

As we have found in recent years, the Coast Guard faces a significant challenge in the affordability of its overall fleet, driven primarily by the upcoming OPC procurement, which is planned to cost $12.1 billion. The OPC will absorb about two-thirds of the Coast Guard's acquisition funding between 2018 and 2032 while it is being built. As a result, remaining Coast Guard acquisition programs will have to compete for a small percentage of funding during this time.

We found in June 2014 that there are gaps between what the Coast Guard estimates it needs to carry out its program of record for its major acquisitions and what it has traditionally requested and received.[13] For example, senior Coast Guard officials have stated a need for over $2 billion per year, but the Coast Guard has received $1.5 billion or less over the past 5 years. The President's budget requests $1 billion for fiscal year 2016. In an effort to address the funding constraints it has faced annually, the Coast Guard has been in a reactive mode, delaying and reducing its capability through the annual budget process but without a plan to realistically set forth affordable priorities. The Coast Guard, DHS, and Office of Management and Budget officials have acknowledged that the Coast Guard cannot afford to recapitalize and modernize its assets in accordance with the current plan at current funding levels. Efforts are underway to address this issue, but so far, these efforts have not led to the difficult trade-off decisions needed to improve the affordability of the Coast Guard's portfolio. We recommended in 2014 that the Coast Guard develop a 20-year fleet modernization plan that identifies all acquisitions needed to maintain the current level of service—aviation and surface—and the fiscal resources needed to buy the identified assets. We

[13]GAO-14-450.

recommended that the plan should consider trade-offs if the fiscal resources needed to execute the plan are not consistent with annual budgets. The Coast Guard concurred with our recommendation, but its response did not fully address our concerns or set forth an estimated date for completion.[14]

In June 2014, we also reported that the Coast Guard faces a potentially expensive recapitalization of other surface assets, such as the polar icebreakers and its fleet of river buoy tenders, as these assets continue to age beyond their expected service lives and, in some cases, have been removed from service without a replacement. These issues pose additional potential challenges to the affordability of the Coast Guard's overall acquisition portfolio.

Icebreakers—According to program officials, due to funding constraints, the Coast Guard chose not to invest in either of its heavy icebreakers as they approached the end of their service lives. Thus, both heavy icebreakers were out of service from 2010 to 2013 and the Coast Guard could not complete missions, such as resupplying a science laboratory in Antarctica. The Coast Guard has recently returned one of these heavy icebreakers back to service, but still has one fewer heavy icebreaker than it has historically operated and several fewer than it needs, according to the Coast Guard's June 2013 heavy icebreaker mission need statement. The fiscal year 2016 President's Budget asks for $4 million for continued preparatory studies to develop a cost estimate, among other things. The associated fiscal year 2016 Capital Investment Plan contains $166 million for polar icebreakers over the next five years but does not identify what this money is for, though it is far short of the estimated $831 million needed to build the vessel. The Coast Guard is currently working with several U.S. government agencies to develop requirements and establish a plan to build a heavy icebreaker that could be jointly funded by the U.S. government agencies that need the asset to accomplish its missions.

River Buoy Tenders—The Coast Guard is facing a gap in its river buoy tender fleet and has yet to formalize an acquisition project to replace this fleet—a project estimated to cost over $1.5 billion.

[14]GAO-14-450.

HH-60 and HH-65 Helicopter Fleets—The HH-60 and HH-65 helicopter fleets will approach the end of their lifespans between 2022 and 2026 and will need to either be replaced or have a service life extension performed to keep them operational. Regardless of the future path, significant acquisition dollars will be required to maintain annual flight hours for the next 20 years, according to Coast Guard program officials.

Chairman Hunter, Ranking Member Garamendi, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this statement, please contact Michele Mackin at (202) 512-4841 or mackinm@gao.gov. In addition, contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this testimony include Katherine Trimble, Assistant Director; Laurier R. Fish; John Crawford; and Peter W. Anderson.

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WRITTEN TESTIMONY OF

James Offutt

President, Navy League of the United States

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

Coast Guard Major Acquisitions

May 14, 2015

Washington, D.C.

Chairman Hunter, Ranking Member Garamendi, and Members of the Committee — thank you for the opportunity to appear before you today on such an important topic. The Navy League is grateful for your leadership in bringing this issue to the nation's attention.

It is an honor and a privilege to be here to today talk about the Coast Guard, our fifth armed service.

The Navy League is one of the few advocates that act on behalf of the Coast Guard. The Navy League was founded in 1902 with the encouragement of President Theodore Roosevelt, and since then has provided a powerful, nonpartisan voice for stronger sea services to Congress and to the American people. The Navy League has grown into the foremost citizens' organization to serve, support, and stand with all the sea services -- the U.S. Navy, Marine Corps, Coast Guard and U.S.-flag Merchant Marine. The Navy League comprises 40,000 civilians in more than 240 councils around the world, working to support sea service members and their families. The Navy League has three missions: to enhance the morale of active-duty personnel and their families; to inform Congress and the American public on the importance of strong sea services; and to support youth through programs that expose young people to the

values of our sea services. We are appreciate the opportunity to fulfill our mission of advocacy before this committee.

The U.S. Coast Guard is a truly unique service, with military and civil responsibilities, and humanitarian missions that have accrued by Acts of Congress since the service's founding in 1790. This extraordinarily broad mission portfolio continues to serve the United States well. The Coast Guard provides a complementary and non-redundant portfolio of operations that furthers the nation's maritime presence worldwide. Since 9/11, the Coast Guard has seen its area of responsibility grow to 11 statuary missions, but its budget growth has not kept pace with this increase, failing to match mission demand or be adjusted for inflation.

The Coast Guard faces many familiar but daunting challenges in a world that continues to threaten America on our own shores. 2014 was a year of many operational successes, including responding to 7,508 search and rescue cases and saving more than 3,400 lives; and seizing 91 metric tons of cocaine and 49 metric tons of marijuana, and detaining 344 suspected drug smugglers. The Coast Guard interdicted 3,587 undocumented migrants attempting to illegally enter the United States and responded to approximately 8,905 reports of pollution incidents. In addition, the service conducted 8,688 security boardings of small vessels in and around U.S. ports, waterways, and coastal regions.

While these were significant accomplishments for the Coast Guard, the world around us is changing, especially in our own hemisphere and in the Arctic. These changes will place even more stress on the Coast Guard and increase the service's operational tempo, stretching limited and aging assets to the very limit.

The instability of nations within our own Western Hemisphere is increasing and transnational crime from drug and human trafficking has spiked to intolerable levels, resulting in soaring murder rates and social unrest.

International economics has had its own effect on the world economy as oil prices have plunged, benefitting many nations but causing hardships in others. Within the United States, the

"shale revolution" has been an absolute boon that has caused the U.S. to lead the world in oil and gas production; however, this has seen the transportation of these energy commodities increase ten-fold over the years. Increased traffic on the Mississippi may lead to accidents, back up, and other issues in maritime transportation.

In the Arctic, the Coast Guard must adapt its operations as well. The abundant natural resources there, combined with an unforgiving environment have made Alaska a focal point of the Coast Guard's fisheries management and search-and-rescue activities. Receding ice is, in effect, creating a new ocean that needs American stewardship.

Cyber attacks are crimes that know no boundaries, and could cripple the world's economy. The Coast Guard will have a role to play in this new domain as we face unexpected challenges. This necessitates a buildup of information technology assets and intelligence capability.

These areas of change require the attention of our fifth armed service. The Coast Guard will face increasing demands for its unique capabilities, but the service will not be properly equipped to meet these challenges unless we make serious investments now. We need the Coast Guard to dissuade criminal networks in the Western Hemisphere, to protect the flow of commerce on the seas and inland waterways, meet cyber threats to the maritime domain, and prepare for increased activity in the Arctic.

Admiral Papp, the previous commandant, has testified before this committee that the Coast Guard needs an acquisition budget of $2.5 billion per year, so that the service can continue to protect those on the sea, protect the nation from threats delivered by the sea, and protect the sea itself. Unfortunately, the Administration continually requests an acquisition budget that hovers at, or below, $1 billion per year, with Congress always providing badly-needed extra funding. Given the fiscal climate, the Navy League recommends a budget of at least $1.5 billion per year to help the Coast Guard achieve its recapitalization goals. This committee's Coast Guard Authorization Act of 2015 authorizes appropriations at a level the Navy League supports, at just over $1.5 billion per year.

The administration's continual budget requests of $1 billion or less for Acquisition, Construction and Improvements (AC&I) over recent years represents the bare minimum in funding for the Coast Guard to accomplish its missions. The Navy League notes with disappointment that this proposed funding level and its plan for zero personnel increases in fiscal year 2016 is totally unsatisfactory and strongly proposes a steady acquisition budget of at least $1.5 billion in FY2016 and annually thereafter.

The highest AC&I priority for the Coast Guard is to lay the groundwork for construction of the Offshore Patrol Cutter (OPC), which will replace fourteen 210-foot and thirteen 270-foot medium-endurance cutters built in the 1960s and 1980s, respectively. The importance of the OPC cannot be overstated: it will function as the service's operational workhorse to carry out the Coast Guard's primary missions over the next four decades. Given the magnitude of an impending capability gap caused by the forced decommissionings of existing high-endurance and medium-endurance cutters, the Navy League believes Congress should fund the construction of two OPCs annually.

Facing more complex challenges and a growing demand signal, the Coast Guard will need Fast Response Cutters (FRCs), acquired at six a year. Achieving a balance of decommissioning old and ineffective assets and replacing them at just the right time with newer, more-effective ones is one of the Coast Guard's main goals. The Navy League supports this goal. In FY16, the Coast Guard will decommission two Island-class patrol boats constructed in the 1980s. They will be replaced by new and more capable FRCs.

The National Security Cutter (NSC) acquisition is an excellent success story; these cutters work well in far, off-shore regions. This year will continue construction on the final three NSCs. These are the most technologically advanced white-hull patrol cutters the Coast Guard has used, and they have served them well. The NSC provides better sea-keeping, higher sustained transit speeds, greater endurance and range, and an increased array of mission versatility, among other benefits.

On the aviation front, sustainment and conversion work on fixed- and rotary-wing legacy aircraft, and missionization of the HC-27J aircraft received from the Air Force are a priority. The Coast Guard will retire three HC-130Hs for use in the U.S. Forest Service and will begin using the first of 14 C-27J aircraft received from the U.S. Air Force. This intra-service transfer of aircraft is a true success story for the taxpayer; it saves money for the Air Force and the Coast Guard. The Coast Guard saved about half a billion dollars in acquisition costs, a significant piece of a small pie.

In the near future, the Coast Guard will need to make significant investments in its Unmanned Aircraft Systems (UAS). The Coast Guard is still in the research phase of determining what system requirements will best provide maritime domain awareness with extended deployment. This will be a significant part of the total force package for major cutters like the NSC and the OPC.

As fast-paced operations continue, the Coast Guard must be not only effective through near-flawless mission execution, it also must efficiently manage its existing assets and act as a good steward of taxpayers' investments. Some new assets will be coming online in FY16, but at the same time the Coast Guard will have just decommissioned many aging assets and reduced the number of personnel associated with them. The Navy League appreciates the necessity of being good stewards of the taxpayers' dollar, but remains concerned with the increasing capability gap caused by the rapid decommissioning of operational assets before replacements are available. This cost-driven strategy is not in the best interests of homeland security. The answer is new ships sooner; the old ones cannot be run effectively, and, in some cases, safely.

And the Coast Guard has been a good steward, receiving a clean audit, increasing competition for major acquisitions, and its acquisition team has won multiple federal awards. The Coast Guard still faces many of the same challenges that come with every major acquisition program, including increased costs. However, these increased costs have not been met with increased funds—meaning program delays, which in turn mean increased costs for in-service vessel sustainment. This diverts already-limited funds from acquisition, further exacerbating the funding shortfall.

Shore infrastructure repairs are estimated to cost $1.4 billion, but the Coast Guard has only been given about $40 million a year for this needed investment—the costs are increasing faster than the Coast Guard can pay, yet another devastating cycle.

The need for a new polar ice breaker deserves special consideration. Ecotourism, exploitation of natural resources, and exploration are all expected to increase in the Arctic. The Coast Guard must have a sustained presence there: Russia is planning to, with a fleet of more than twenty icebreakers. An independent Coast Guard analysis shows that the service would need three heavy and three medium ice breakers to fully meet the needs of the United States.---including the six different agencies with interests in the polar regions. Our current fleet of one heavy and one medium polar icebreaker is not enough. Starting in FY2013, the service has received about $9.6 million for preacquisition activities for the new icebreaker. The estimated cost is $1 billion. We need to invest more — but we cannot allow this investment to disrupt other planned recapitalization. The top line of the acquisition budget must increase. The committee could also consider a special fund outside the normal AC&I budget for an icebreaker, similar to what the National Defense Authorization Act of FY2015 created for the National Sea-Based Strategic Deterrent Fund. The alternative to not funding a polar ice breaker soon is the U.S. abdication of Arctic influence and responsibility. The ability to provide select and emergency services, such as fuel deliveries to Barrow and to Nome, Alaska will be impossible.

All of the major decision makers — the Coast Guard, the Department of Homeland Security, the Office of Management and Budget, Congress — have agreed that the Coast Guard's recapitalization and modernization plan at current funding levels will be extremely challenging to execute. We recognize that the entire federal government is working within very strict fiscal constraints, but given the unique role the Coast Guard plays — saving American lives every day, safeguarding our national security and contributing to our economic prosperity by ensuring the free flow of commerce — we believe the service deserves special consideration. A minimum of $1.5 billion in AC&I funding is the very lowest acquisition funding should go. The administration's consistent requests of around $1 billion or below are simply unacceptable. In his "State of the United States Coast Guard" address, Commandant Paul Zukunft stated that the

Coast Guard has "lost nearly 40 percent of our acquisition budget over the last four years." This pattern can no longer continue. The Coast Guard needs the assets it requests in its Capital Investment Plan at a rate that it can execute the acquisitions. The current budget request falls short of that goal.

Legacy Coast Guard assets have exceeded their planned lifespan. By the time the first OPC is begun, many legacy cutters will be over 55 years old --- well beyond their intended life spans. Cutters are routinely being sent to costly, emergency, dry docks for unscheduled maintenance. The legacy ships are, as the Congressional Research Service describes, "manpower-intensive and increasingly expensive to maintain, and have features that in some cases are not optimal for performing their assigned missions." This is an unnecessary risk for the men and women who already put their lives on the line for us every day. We do not want to increase that risk unnecessarily due to artificially low budgets created by sequestration and the Budget Control Act.

The new assets coming online are a significant and necessary improvement. The estimated total cost of the NSC, OPC, FRC is $21.1 billion. The FY16 budget requests about $449.9 million for these three major programs. The full program of record, 91 new ships, will replace 90 legacy cutters, and with their improved durability, reliability, and capabilities, will make our already successful Coast Guard even more adept at fulfilling its many missions. The entire recapitalization will be complete by 2034.

The Navy League of the United States supports:

- An AC&I budget of $1.5 billion or greater in FY 2016 and growing larger in future years
- Technical review and analysis of preliminary and contract design phase deliverables for the OPC project with an eye to future funding for at least two OPCs annually
- Continued funding sufficient to procure at least six FRCs annually
- Funding to support spare parts necessary to maintain operational availability of the HC-144A Maritime Patrol Aircraft
- Continued support including spare parts for the HC-130J Long-Range Surveillance Aircraft

- Funding for C-27J spare parts in addition to funding for a C-27J simulator and for continued activities of the HC-27J Asset Project Office
- Continued modernization and sustainment of the Coast Guard's fleet of HH-65 helicopters, converting them to MH-65 Short Range Recovery helicopters
- Significant funding and investment for pre-acquisition activities for one new polar icebreaker
- $101.4 million for various critical shore projects

The Navy League would like to thank this Committee for its leadership, and thank Congress for being supportive of the Coast Guard in ensuring they have the resources they need. We must be as good of shipmates to them as they have been to every American.