

CRS Report for Congress

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Coast Guard Deepwater Program: Background and Issues for Congress

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Summary

The Deepwater program is a 20- to 25-year acquisition effort to replace or modernize 93 aging Coast Guard ships and 207 aging Coast Guard aircraft. The program's estimated total acquisition cost is \$19 billion to \$24 billion. The Coast Guard's proposed FY2006 budget requests \$966 million for the program. On March 25, 2005, the Coast Guard submitted to Congress a revised implementation plan for the program. Some Members of Congress have criticized the plan on several grounds. On May 4, 2005, the Chairman of the Homeland Security Subcommittee of the House Appropriations Committee criticized the Department of Homeland Security (DHS), the Coast Guard's parent agency, for being insufficiently responsive to the subcommittee's requests for comprehensive information on the Deepwater program. Because of this, the subcommittee recommended reducing the program's FY2006 funding request to \$500 million. The FY2006 DHS appropriations bill as reported by the House Appropriations Committee on May 10, 2005 includes this recommended reduction. This report will be updated as events warrant.

Background¹

Introduction. The Coast Guard Deepwater program, known formally as the Integrated Deepwater Systems (IDS) program, is a project to replace and modernize the Coast Guard's aging fleet of deepwater-capable cutters, patrol boats and aircraft. It is the largest and most complex acquisition program in Coast Guard history. The issue for Congress is whether to approve, reject, or modify the Administration's funding requests and overall approach for the program. Congress' decisions on this issue could affect Coast Guard capabilities, Coast Guard funding requirements, and the U.S. shipbuilding and aircraft industry.

Deepwater Missions. The Coast Guard performs a variety of missions in the deepwater environment (which generally means waters more than 50 miles from shore),

¹ For additional background information on the Deepwater program, see the program's Internet page at [<http://www.uscg.mil/deepwater/>].

including the following: drug interdiction, alien migrant interdiction, fisheries enforcement, search and rescue, the International Ice Patrol in northern waters; overseas maritime intercept (sanctions-enforcement) operations, overseas port security and defense, overseas peacetime military engagement; general defense operations in conjunction with the Navy; marine pollution law enforcement, enforcement of lightering (i.e., at-sea cargo-transfer) zones, and overseas inspection of foreign vessels entering U.S. ports.

Legacy Deepwater-Capable Assets. The Coast Guard's "legacy" assets for performing deepwater missions include 93 aging cutters and patrol boats and 207 aging aircraft. Many of these ships and aircraft are expensive to operate (in part because the cutters require large crews), increasingly expensive to maintain, technologically obsolete, and in some cases poorly suited for performing today's deepwater missions.

Deepwater Program Competition and Contract Award. On June 25, 2002, the Coast Guard announced that Integrated Coast Guard Systems (ICGS) — an industry team led by Lockheed Martin and Northrop Grumman's Ship Systems division — was the winner of the Deepwater competition. ICGS was awarded a \$16.95-billion, 20-year contract. The contract included \$11.04 billion for the production of new ships, aircraft, and C4I equipment, and \$5.91 billion for operating, maintaining, and sustaining the new Deepwater fleet. The contract may be extended up to 30 years, which would increase its value beyond \$17 billion.

Systems to Be Procured or Modernized. On March 25, 2005, the Coast Guard submitted to Congress a revised implementation plan for the Deepwater program that alters the planned capabilities and numbers of Deepwater assets and the schedule for acquiring or modernizing them. The revised implementation plan includes the acquisition or modernization over a 20- to 25-year period of the following ships and aircraft:

Ships, boats, and surface craft:

- *6 to 8 new National Security Cutters, or NSCs (also called Large Maritime Security Cutters, or WMSLs), displacing about 4,000 tons each (i.e., ships analogous to today's high-endurance cutters);*
- *25 new Offshore Patrol Cutters, or OPCs (also called Medium Maritime Security Cutters, or WMSMs), displacing about 3,200 tons each (i.e., ships analogous to today's medium-endurance cutters);*
- *43 to 58 new Fast Response Cutters (FRCs) displacing 200 tons each;*
- *31 to 33 Long Range Interceptor (LRI) craft displacing 15 tons each; and*
- *74 to 91 Short Range Prosecutor (SRP) craft displacing 9 tons each.*

Aircraft:

- *22 modernized HC-130H/J Long Range Search (LRS) aircraft;*
- *20 to 36 new HC-235 Medium Range Search (MRS) aircraft, also known as Maritime Patrol Aircraft (MPA), based on based on the European Aeronautic Defence and Space Company (EADS) CASA HC-235 Persuader MPA aircraft design;*
- *42 modernized HH-60J Medium Range Recovery (MRR) helicopters;*
- *95 re-engined and modernized HH-65C Multi-Mission Cutter Helicopters (MCHs);*
- *45 new HV-911 Eagle Eye VTOL (vertical take-off or landing) Unmanned Aerial Vehicles (VUAVs); and*

- 4 leased RQ-4A Global Hawk High Altitude Endurance UAVs (HAEUAVs).

Estimated Total Acquisition Cost and FY2006 Funding Request. The Coast Guard estimates the total acquisition cost of the Deepwater program under the revised implementation plan at \$19 billion to \$24 billion over 20 to 25 years. The Coast Guard's proposed FY2006 budget requests \$966 million for the program. Among other things, the FY2006 request includes funding for production of the third WMSL, design and acquisition of long-lead items for the first WMSM, initial operating capability of the first FRC, 2 LRIs, C-130H upgrades, HH-60J upgrades, HH-65 re-enginings, and production of the third VUAV.

Issues for Congress

Program Scope and Schedule. The Deepwater program as originally outlined reflected a pre-9/11 analysis of the Coast Guard's future mission requirements. As a consequence, some observers argued that the Deepwater program would need to be increased in scope to meet the Coast Guard's post-9/11 mission requirements. A 2004 RAND Corporation report recommended substantially increasing the number of numbers of cutters and aircraft to be acquired under the program.² Other observers, including some Members of Congress, argued that the original Deepwater program's 20- to 22-year acquisition schedule was economically inefficient and too leisurely to meet urgent post-9/11 mission needs, and expressed interest in the idea of compressing the Deepwater acquisition period to as few as 10 years.³

A potential key issue for Congress is whether the Coast Guard's March 2005 revised implementation plan, which is intended to reflect a post-9/11 analysis of future Coast Guard mission requirements (as well as more up-to-date data on the pace at which legacy Coast Guard assets are wearing out), is adequate in terms of program scope and schedule. Rather than substantially increasing numbers of cutters and aircraft to be acquired to meet the Coast Guard's expanded post-9/11 mission demands, the revised implementation plan increases the individual capability of the ships and aircraft while avoiding substantial increases in quantity. In addition, while accelerating the planned acquisition of some systems within the program, the revised implementation plan maintains the idea of completing the program over a period of 20 or more years. Some Members of Congress

² John Birkler, et al., *The U.S. Coast Guard's Deepwater Force Modernization Plan: Can It Be Accelerated? Will It Meet Changing Security Needs?* RAND, National Security Research Division, MG-114, 2004.

³ Coast Guard officials indicated that funding the Deepwater program in FY2005 at a level of \$1.1 billion would permit the Deepwater program to return to a 20-year schedule ending in 2022. Continuing to fund the program at \$1.1 billion per year, they indicated, would permit the program to be completed in 14 years (i.e., by 2016). Section 888(I) of H.R. 5005/P.L. 107-296 directed DHS to report to Congress on the idea of compressing the Deepwater program 20 years to 10 years. On March 12, 2003, the Coast Guard submitted the report, which concluded that compressing the Deepwater acquisition period to 10 years was feasible, that it would increase Deepwater acquisition costs over the five-year period FY2005-FY2011 by about \$4.7 billion in then-year dollars but reduce total Deepwater acquisition costs over the long run from \$16.022 billion in then-year dollars to \$11.473 billion in then-year dollars. (U.S. Coast Guard, *Report to Congress on the Feasibility of Accelerating the Integrated Deepwater System*, 2003.)

have criticized the revised implementation plan on the grounds that it does not provide sufficient transparency, accountability, or predictability; that it increases funding to be spent on modernizing legacy assets at the expense of acquiring new assets; and that it stretches the program out to as much as 25 years rather than compressing it to something less than 20.⁴

Program Management. The Government Accountability Office (GAO) has long expressed concerns about the Coast Guard's ability to manage the Deepwater program. On April 20, 2005, GAO testified that:

Available Coast Guard condition measures indicate that the Coast Guard's deepwater legacy aircraft and cutters are generally declining, but these measures are inadequate to capture the full extent of the decline in the condition of deepwater assets with any degree of precision. GAO's field visits and interviews with Coast Guard staff, as well as reviews of other evidence, showed significant problems in a variety of the assets' systems and equipment. The Coast Guard has acknowledged that it needs to develop condition measures that more clearly demonstrate the extent to which asset conditions affect mission capabilities, but such measures have not yet been finalized or implemented.

The Coast Guard has taken several types of actions to help keep the deepwater legacy assets operational, but these actions, while helpful, may not fully address mission capability issues and may require additional funding. For example, to help meet mission requirements, Coast Guard staff are performing more extensive maintenance between deployments, but even so, aircraft and cutters continue to lose mission capabilities. One Coast Guard command is using a new approach to help sustain the oldest class of cutters, but this approach will likely require additional funds — something not included thus far in Coast Guard budget plans or requests.

If the Coast Guard adopts a more aggressive acquisition schedule, it will likely continue to face a number of challenges that have already affected its ability to effectively manage the Deepwater program. GAO has warned that the Coast Guard's acquisition strategy, which relies on a prime contractor ("system integrator") to identify and deliver the assets needed, carries substantial risks. In 2004, well into the contract's second year, key components for managing the program and overseeing the system integrator's performance had not been effectively implemented. The Coast Guard has begun addressing some problems — for example, putting more emphasis on competition as a way to control costs — but many areas have not been fully addressed. A more aggressive schedule would only heighten the risks.⁵

On March 17, 2005, GAO testified that among three efforts under way that hold promise for enhancing mission performance,

⁴ See, for example, Kathy A. Gambrell, "Lawmakers Fault Changes In Coast Guard Acquisition Program," *GovExec.com*, Mar. 30, 2005; Calvin Biesecker, "Collins, Lieberman Blast Revised Deepwater Plan," *Defense Daily*, Mar. 30, 2005; Caitlin Harrington, "Senators Drop Anchor on Coast Guard's Fleet Rebuilding Pace," *CQ Homeland Security*, Mar. 28, 2005; Dave Ahearn, "Collins, Lieberman Flail DHS For Weak Support of Deepwater Program," *Defense Today Instant Update*, Mar. 28, 2005.

⁵ Government Accountability Office, *COAST GUARD[:] Preliminary Observations on the Condition of Deepwater Legacy Assets and Acquisition Management Challenges*, GAO-05-307T, Apr. 20, 2005.

The Deepwater program, which would receive \$966 million under the budget request, appears to merit the most ongoing attention. GAO reviews of this program have shown that the Coast Guard clearly needs new or upgraded assets, but the Coast Guard's contracting approach carries a number of inherent risks that, left unaddressed, could lead to spiraling costs and slipped schedules. The Coast Guard is taking some action in this regard, but GAO continues to regard this approach as carrying substantial risk. Some expansion of cost and slippage in schedule has already occurred.⁶

A November 2004 report by the DHS Inspector General stated:

Maintaining the operational readiness of critical legacy assets is a major challenge to the Coast Guard.... The Coast Guard estimates that sustaining its deteriorating legacy assets will escalate to \$145 million in fiscal year 2005, further challenging the Coast Guard to rethink plans and schedules for maintaining or replacing legacy assets. Revisiting maintenance, upgrade, and replacement decisions for legacy assets may disrupt the Deepwater contractor's plans and schedules and, therefore, could greatly increase future program costs.⁷

Industrial Base. Accelerating and expanding procurement of NSCs and OPCs is an option for bolstering the industrial base that builds surface combatants for the Navy.⁸

Legislative Activity in 2005

FY2006 Department of Homeland Security Appropriations Bill. On May 4, 2005, Representative Harold Rogers, the Chairman of the Homeland Security Subcommittee of the House Appropriations Subcommittee, criticized DHS for being insufficiently responsive to the subcommittee's requests for comprehensive information on the Deepwater program. Because of this, the subcommittee recommended reducing the program's FY2006 funding request to \$500 million. The FY2006 DHS appropriations bill as reported by the House Appropriations Committee on May 10, 2005 includes this recommended reduction. Representative Rogers' prepared remarks for the May 10 full committee markup stated:

For those that know the work of this Subcommittee, they know that we are not casual bystanders. At times, the Department has made the mistake of assuming that

⁶ Government Accountability Office, *Coast Guard[:] Observations on Agency Priorities in Fiscal Year 2006 Budget Request*. Washington, 2005. (GAO-05-364T, Testimony Before the Subcommittee on Fisheries and Coast Guard, Committee on Commerce, Science, and Transportation, U.S. Senate, March 17, 2005.) See also General Accounting Office, *Contract Management: Coast Guard's Deepwater Program Needs Increased Attention to Management and Contractor Oversight*, GAO-04-380, Mar. 2004; and General Accounting Office, *Coast Guard: Deepwater Program Acquisition Schedule Update Needed*, GAO-04-695, June 2004.

⁷ Department of Homeland Security, Office of Inspector General, *Major Management Challenges Facing The Department of Homeland Security*, Washington, 2004, (Nov. 1, 2004) p. 18.

⁸ For additional discussion of this issue, see CRS Report RS21059, *Navy DD(X) and CG(X) Programs: Background and Issues for Congress*, by Ronald O'Rourke and CRS Report RL32109, *Navy DD(X), CG(X), and LCS Ship Acquisition Programs: Oversight Issues and Options for Congress*, by Ronald O'Rourke.

appropriators are simply here to rubber stamp their budgets. That is a bad assumption. The Department comes to us for assets and resources and our job is to scrutinize those requests. Over the last two years, we've told the Department that we would require accountability. We've told the Department that we expect it to establish and meet specific milestones. We've told the Department that we would closely watch and measure its progress. This Committee has done exactly that and I must report that we are disappointed.

The Department has repeatedly ignored Congressional requests for information and has disregarded direction to implement critical national policies and directives. There is no better example of this attitude of unaccountability than in the Department's failure to provide comprehensive information on the Coast Guard's Deepwater program. Because we have yet to receive a revised, complete baseline that reflects post-September 11th mission requirements, Deepwater is funded at the pre-September 11th level of \$500 million. This is \$466 million below the request.

In the press last week, representatives of the Coast Guard stated that they were disappointed with these cuts and that "the Deepwater program is a cornerstone of the Department of Homeland Security and the Coast Guard's ability to fulfill their responsibilities to the national homeland security strategy." I could not agree more. This Committee strongly supports the Deepwater program and wants nothing more than to see it succeed. However, we will not write a blank check for this multi-billion dollar initiative. Just as it is the mission of the Coast Guard to protect our nation's ports and water ways, it is the mission of Congress to wisely appropriate taxpayer dollars. To adequately perform our oversight duties, we need information. As I stated at our Subcommittee markup last week: no information equals no money.⁹

⁹ Remarks of Chairman Harold Rogers, FY2006 Homeland Security Full Committee Mark Up, May 10th, 2005.

[http://appropriations.house.gov/index.cfm?FuseAction=PressReleases.Detail&PressRelease_id=474]