

# CRS Report for Congress

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## Coast Guard Deepwater Program: Background and Issues for Congress

Ronald O'Rourke  
Specialist in National Defense  
Foreign Affairs, Defense, and Trade Division

### Summary

The Deepwater program is a \$24 billion, 25-year acquisition program to replace or modernize 93 Coast Guard ships and 207 Coast Guard aircraft. The Coast Guard's FY2007 budget requests \$934.431 million for the program. Some Members of Congress have criticized and expressed strong concerns over the Deepwater program on several grounds. The House-reported version of H.R. 5441, the FY2007 Department of Homeland Security (DHS) appropriations bill, recommends \$892.64 million for the Deepwater program. This report will be updated as events warrant.

### Background<sup>1</sup>

**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 ships and aircraft. It is the largest and most complex acquisition effort 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.

**Deepwater Missions.** The Coast Guard performs a variety of missions in the deepwater environment (which generally means waters more than 50 miles from shore), 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. Deepwater assets are also used closer to shore for various operations.

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

**Legacy Deepwater-Capable Assets.** When the Deepwater program began in the late 1990s, the Coast Guard's existing (i.e., "legacy") assets for performing deepwater missions included 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 Contract.** On June 25, 2002, the Coast Guard awarded Integrated Coast Guard Systems (ICGS) — an industry team led by Lockheed Martin and Northrop Grumman's Ship Systems division — with an indefinite delivery, indefinite quantity contract for the Deepwater program. The contract includes a five-year baseline term ending in June 2007 and five potential additional award terms of up to five years (60 months) each. On May 19, 2006, the Coast Guard announced that it was awarding ICGS a 43-month first additional award term, reflecting good but not excellent performance by ICGS. With this additional award term, the contract will extend to January 2011.

**Systems to Be Procured or Modernized.** On March 25, 2005, the Coast Guard submitted to Congress a revised Deepwater implementation plan. The revised Deepwater program of record includes the acquisition or modernization over a 25-year period, at an estimated cost of \$24 billion, of the following ships and aircraft:

**Ships, boats, and surface craft:**

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

**Aircraft:**

- 22 modernized *HC-130H/J Long Range Search (LRS) aircraft*;
- 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)*.

**FY2006 And FY2007 Funding.** The FY2006 Department of Homeland Security (DHS) appropriations act (H.R. 2360/P.L. 109-90) provided \$933.1 million for the Deepwater program. This was reduced to \$923.8 million in post-enactment adjustments, and then increased to \$943.6 million by incorporating funding for Airborne Use of Force (AUF) and covert surveillance into the Deepwater program. The Coast Guard's proposed FY2007 budget requests \$934.431 million for the Deepwater program.

## Issues for Congress<sup>2</sup>

**Program Affordability.** Some observers have expressed concern about the affordability of the \$24 billion Deepwater plan, particularly in light of constraints on available funding and the funding needs of other Coast Guard and DHS programs.

**Program Management.** Some Members have strongly criticized the Coast Guard's management of the Deepwater program, particularly with regard to its plans for maintaining legacy assets until they are replaced by new assets, and for devoting what they view as an excessive portion of Deepwater funding to legacy assets. The Coast Guard says decisions regarding the plan for these legacy assets have been made or will soon be made, and that proposed spending on legacy assets is not as great as some have suggested. In earlier reports and testimony, the Government Accountability Office (GAO) expressed several concerns about the Coast Guard's ability to manage the large and complex Deepwater program.<sup>3</sup> In its latest report on the program, GAO stated:

Actions by the Coast Guard and the system integrator have fully implemented three of the eight GAO recommendations that were not fully addressed during GAO's review in 2005, and three more recommendations appear to be nearly implemented. The remaining two have unresolved concerns, but the Coast Guard is taking steps to resolve them. A program of this size, however, will likely experience other challenges beyond those that have emerged so far, making continued monitoring by the Coast Guard important.<sup>4</sup>

**Adequacy of Proposed Assets.** The original (1998) Deepwater implementation plan reflected a pre-9/11 understanding of future Coast Guard mission demands. The revised implementation plan reflects a new, post-9/11 analysis of Coast Guard mission demands. Since 9/11 led to an increase in Coast Guard homeland security operations without reducing other Coast Guard responsibilities, many observers expected the revised implementation plan to include greater numbers of ships and aircraft than the original plan. A 2004 RAND Corporation report recommended substantially increasing the

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<sup>2</sup> For additional discussion of some of these issues, see Statement of Ronald O'Rourke, Specialist in National Defense, Congressional Research Service, Before the Senate Commerce, Science, and Transportation Committee Subcommittee on Fisheries and the Coast Guard Hearing on the Coast Guard's Revised Deepwater Implementation Plan, June 21, 2005.

<sup>3</sup> See Government Accountability Office, *COAST GUARD[: ] Preliminary Observations on the Condition of Deepwater Legacy Assets and Acquisition Management Challenges*, GAO-05-307T, Apr. 20, 2005; Government Accountability Office, *Coast Guard[: ] Observations on Agency Priorities in Fiscal Year 2006 Budget Request*, GAO-05-364T, Mar. 2005; 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.

<sup>4</sup> Government Accountability Office, *Coast Guard[: ] Changes to Deepwater Plan Appear Sound, and Program Management Has Improved, but Continued Monitoring Is Warranted*, GAO-06-546, Apr. 2006.

number of numbers of cutters and aircraft to be acquired under the program.<sup>5</sup> The revised plan, however, does not substantially increase ship and aircraft numbers. Coast Guard officials state that the revised force would have considerably more capability than the originally planned force because the ships and aircraft would be individually more capable than under the 1998 plan. Some Members of Coast Guard oversight committees have questioned whether, even with increased individual platform capability, the revised plan includes enough ships and aircraft to adequately perform all post-9/11 Coast Guard missions. In its latest report on the Deepwater program, GAO concluded that

The Coast Guard's analytical methods [in determining the revised plan] were appropriate for determining if the revised asset mix would provide greater mission performance and whether the mix is appropriate for meeting Deepwater missions. GAO and other independent experts found the Coast Guard's methods were reliable for assessing the effects of changing the asset mix and a Department of Defense review board facilitated accreditation of the Coast Guard's approach. Because the model has proved useful for guiding Coast Guard decisions on the proper asset mix for achieving Deepwater performance goals, the Coast Guard is considering ways to expand the model to guide decisions on meeting its Coast Guard-wide performance goals.<sup>6</sup>

**Program Acceleration.** Since 2002, some Members have expressed an interest in accelerating procurement of Deepwater assets and thereby compressing the Deepwater acquisition period to 15 or 10 years, so as to reduce total Deepwater acquisition costs over time and more quickly increase Coast Guard mission capabilities. Some of these Members have expressed disappointment that the Coast Guard's new plan instead lengthens the originally proposed 20-year acquisition period by five years. GAO has cautioned that accelerating the Deepwater program could increase program-management risks, but has also acknowledged that accelerating selected parts of the program might be more feasible.

## Legislative Activity in 2006

**H.R. 889 (Coast Guard and Maritime Transportation Act of 2006).** The conference report (H.Rept. 109-413) was filed on April 6, 2006. **Section 408(a)** requires the Coast Guard to provide a detailed annual report on the implementation of the Deepwater program. **Section 408(b)** requires the Coast Guard to provide a separate report on accelerating the Deepwater acquisition period to 15 or 10 years. **Section 408(c)** requires the Coast Guard, in consultation with GAO, to provide a third report on the status of the Coast Guard's implementation of the recommendations made by GAO in its report GAO-04-380. **Section 408(d)** permits the Coast Guard, through an internal review process or a contract with an outside entity, to conduct an analysis of all or part of the Deepwater program and assess whether (1) the choice of assets and capabilities selected as part of that program meets the Coast Guard's goals for performance and minimizing total ownership costs; or (2) additional or different assets should be considered as part of

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<sup>5</sup> 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.

<sup>6</sup> GAO-06-546, op cit.

that program. **Section 409** requires a study on the impact of requiring that helicopters, or any major component of a helicopter acquired by the Coast Guard, to be U.S.-made, including the contractual impact on the Deepwater program. Regarding Section 101(2)(b), the conference report states:

The Conferees remain concerned that [legacy vessels and aircraft] are deteriorating at a faster pace than originally projected and require a dedicated funding stream. The conferees recommend that the Coast Guard examine ways to decrease the costs of maintaining and sustaining the Services' legacy assets, particularly the fleet of 110-foot cutters, and HH-65 helicopters. The rapid deterioration of these assets is draining funding and resources from the acquisition of replacement assets and lengthening the time before new assets will be employed by Coast Guardsmen in our waters and in our skies.

Regarding Section 408, the report states:

The conferees remain concerned that legacy assets are deteriorating at a much faster rate than was originally expected when the Deepwater plan was first developed. Coast Guard vessels and aircraft are increasingly unavailable to carry out the Service's missions due to unscheduled maintenance and repairs. The conferees again support acceleration of the Deepwater program to, in part, provide new assets to replace aging legacy assets that are jeopardizing the success of Coast Guard missions, putting at risk the lives of the men and women of the Coast Guard and siphoning away funding from the acquisition of new assets. The conferees expect that the reports required under this section will contain a complete delivery schedule for each asset to be acquired, a projection of the remaining operational lifespan of each legacy asset, a detailed justification for each modification to the original Deepwater plan to meet the Service's revised mission needs statement, and an explanation of the costs that will be required above the estimated costs of the original Deepwater program resulting from such modifications.

**FY2007 DHS Appropriations Bill (H.R. 5441).** H.R. 5441, as reported in the House, provides \$892.64 million for the Deepwater program, a reduction of \$41.791 million from the requested amount, provided, among other things,

That the Secretary of Homeland Security shall submit to the Committees on Appropriations of the Senate and the House of Representatives, in conjunction with the President's fiscal year 2008 budget, a review of the Revised Deepwater Implementation Plan that identifies any changes to the plan for the fiscal year; an annual performance comparison of Deepwater assets to pre-Deepwater legacy assets; a status report of legacy assets; a description of the competitive process conducted in all contracts and subcontracts exceeding \$5,000,000 within the Deepwater program; and the earned value management system gold card data for each Deepwater asset: *Provided further*, That the Secretary shall submit to the Committees on Appropriations of the Senate and the House of Representatives a comprehensive review of the Revised Deepwater Implementation Plan every five years, beginning in fiscal year 2011, that includes a complete projection of the acquisition costs and schedule for the duration of the plan through fiscal year 2027....

The House Appropriations Committee, in its report (H.Rept. 109-476 of May 22, 2006) on H.R. 5441, states:

The Committee directs the Government Accountability Office (GAO) to continue its oversight of the Deepwater program. GAO should focus on (1) the status of development and delivery of the major aviation and maritime assets; (2) maintenance, logistics and training; and (3) the Coast Guard's management of the ICGS contract. GAO should provide the Committee the results of its work annually and the first report should be delivered no later than April 2007.

#### FAST RESPONSE CUTTER (FRC)

The Committee denies \$41,580,000 for the production of the Fast Response Cutter (FRC) requested by the President. This program is experiencing substantial difficulties and the estimated delivery date of the first FRC has been pushed back at least three fiscal years (2010). Until ongoing problems are resolved, the Committee cannot continue to support a program that has so much risk of failure that it may be terminated or substantially revised.

The FRC was slated to replace the 110-foot and 123-foot patrol boats. According to the revised Deepwater implementation plan, the Coast Guard planned to acquire 58 FRCs by 2027. The FRC was to be built from composite materials to increase performance through weight savings; increase operational availability and extend the time between required maintenance activities; and reduce total ownership costs. However, since January 2005, well before the revised Deepwater plan was finalized, the Coast Guard and independent contractors began outlining as many as 14 concerns with the FRC's hull form, potential speed, and propulsion systems. The Coast Guard appeared to ignore these concerns until October 2005. At that time, the Coast Guard slowed down the critical design review of the FRC, scheduled for December 2005 to March 2006. This design review has been further delayed to June 2006. On February 28, 2006, the Coast Guard's Deepwater Program Office temporarily suspended the work on the FRC design because of high technical risks associated with the current design. On April 6, 2006, the Coast Guard issued a request for information to obtain data about the state of the market for proven patrol boat design. It appears that the Coast Guard may procure 'off-the-shelf' patrol boats instead of the FRC or procure two types of patrol boats (FRC and traditional patrol boats) concurrently. The Committee is extremely concerned that the Coast Guard continues to flounder to find an effective solution to replace the 110-foot patrol boats — the workhorse of the Coast Guard's maritime fleet. Until a decision has been reached about what will be procured, it is premature for the Committee to continue funding the production of the first FRC. Further, the Committee expects the Coast Guard to provide monthly briefings on the patrol boat replacement problem.

The Coast Guard has \$79,347,002 in unobligated balances available to the FRC and for service life extensions of the 110-foot patrol boat. Bill language (Sec. 521) has been included that reprograms these unobligated balances to the acquisition of traditional patrol boats (what the Coast Guard is referring to as the 'parent craft' in their recent request for information) so that the Coast Guard may continue to maintain patrol boat hours and meet operational requirements in the near-term. Also, funding may continue to be used for service life extensions of the 110-foot patrol boat. Procuring new patrol boats and completing service life extensions is even more critical now that the Navy has informed the Coast Guard that they are not willing to extend the current Memorandum of Agreement to permit the Coast Guard to continue operating the Navy's five 179-foot patrol boats past 2008. Without these assets, the Coast Guard will have to reduce patrol hours by 12,500 (7 percent) per year, further exacerbating a mission hour deficit.