

# CRS Report for Congress

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

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### Summary

The Coast Guard's FY2007 budget requests \$934.431 million for the Deepwater acquisition program. 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; the Senate-reported version recommends \$993.631 million. This report will be updated as events warrant.

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

**Introduction.** The Integrated Deepwater Systems (IDS) program, or Deepwater program for short, 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 Coast Guard's FY2007 budget requests \$934.431 million for the program. 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.

**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

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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/>].

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.** The revised Deepwater implementation plan, submitted on March 25, 2005, includes the acquisition or modernization over a 25-year period, at an estimated cost of \$24 billion, of the following:

**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)*.

## Issues for Congress

**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 observers have strongly criticized the Coast Guard's management of the program, particularly regarding plans for maintaining legacy assets (particularly 110-foot patrol boats and HH-65 helicopters) until they are replaced or modernized. In earlier reports and testimony, the Government Accountability Office

(GAO) expressed several concerns about the Coast Guard's ability to manage the program.<sup>2</sup> In an April 2006 report, GAO stated:

Actions by the Coast Guard and the system integrator have fully implemented three of the eight GAO [program-management] 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>3</sup>

In a June 2006 report on the FRC, GAO stated that "The Coast Guard does not have a formal, documented contingency plan should the FRC fail to meet performance requirements. However, Coast Guard officials said it plans to pursue certain mitigation strategies... to keep the current [110-foot] patrol boats operating longer.<sup>4</sup> An August 2006 report by the DHS Inspector General strongly criticized the Coast Guard's acquisition of Deepwater information technology (IT) systems.<sup>5</sup> Also in August 2006, a former Lockheed engineer who says he worked on the part of the Deepwater program for modernizing the 110-foot patrol boats posted on the Internet a video alleging significant problems with the effort and resistance by Lockheed Martin and government officials to seriously investigate his claims.<sup>6</sup>

**Adequacy of Proposed Assets.** The revised Deepwater implementation plan reflects a new, post-9/11, analysis of Coast Guard mission demands. Some observers are concerned that the revised plan did not substantially increase ship and aircraft numbers. The Coast Guard says the ships and aircraft under the revised plan would be individually more capable than under the 1998 plan. In a June 2006 report, GAO concluded that "The Coast Guard's analytical methods [in determining the revised plan] were appropriate for

<sup>2</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>3</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.

<sup>4</sup> Government Accountability Office: *COAST GUARD[:] Status of Deepwater Fast Response Cutter Design Efforts*, GAO-06-764, Jun. 2006.

<sup>5</sup> U.S. Department of Homeland Security, Office of Inspector General. *Improvements Needed in the U.S. Coast Guard's Acquisition and Implementation of Deepwater Information Technology Systems*, August 2006. (Office of Information Technology, OIG-06-55) 45 pp.

<sup>6</sup> Patricia Kime, "Video Alleges Security Problems With Converted U.S. Coast Guard Cutters," *DefenseNews.com*, August 7, 2006. See also Griff Witte, "On YouTube, Charges Of Security Flaws," *Washington Post*, August 29, 2006. The video is posted on the Internet at [<http://www.youtube.com/watch?v=qd3VV8Za04g>].

determining if the revised asset mix would provide greater mission performance and whether the mix is appropriate for meeting Deepwater missions.”<sup>7</sup>

**Program Acceleration.** Some Members are interested 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 and more quickly replace legacy assets. 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.<sup>8</sup>

## Legislative Activity in 2006

**H.R. 5681 (FY2007 Coast Guard Authorization Act).** In its report (H.Rept. 109-614 of July 28, 2006) on H.R. 5681, the House Transportation and Infrastructure Committee recommends authorizing a total of \$1,735.9 million for the Deepwater program for FY2007. **Section 407** would require the Coast Guard to use a competitive contracting procedure among U.S. shipyards for acquiring the FRC. **Section 408** requires DHS to submit a report on Coast Guard plans for managing “the annual readiness gap of lost time for 110-foot patrol boats” from FY2007 through FY2013. The report expresses strong concerns regarding the increase of the Deepwater time line to 25 years and Coast Guard efforts to maintain and replace its 110-foot patrol boats, and support for acquiring Deepwater assets as soon as possible. The report recommends that the Coast Guard examine ways to reduce costs for maintaining legacy assets, particularly 110-foot patrol boats and HH-65 helicopters, and expresses support for acquiring new assets in an expedited manner.

**H.R. 889/P.L. 109-241 of July 12, 2006 (Coast Guard and Maritime Transportation Act of 2006).** This act can be viewed in part as **the FY2006 Coast Guard authorization act**. **Section 408(a)** of the conference report (H.Rept. 109-413 of April 6, 2006) requires the Coast Guard to provide a detailed annual report on the implementation of the Deepwater program. **Section 408(b)** requires 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 Coast Guard’s implementation of the recommendations made in GAO report GAO-04-380. **Section 408(d)** permits the Coast Guard 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 the program meets the Coast Guard’s goals for performance and minimizing total ownership costs; or (2) additional or different assets should be considered. **Section 409** requires a study on the impact of requiring that helicopters, or major parts thereof, acquired by the Coast Guard, be U.S.-made, including the contractual impact on the Deepwater program. The conference report expresses strong concerns for the Coast Guard’s legacy deepwater vessels and aircraft, particularly 110-foot patrol boats and HH-65 helicopters, and support

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<sup>7</sup> GAO-06-546, op cit.

<sup>8</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.

for accelerating the Deepwater program. The conference report also provides additional discussion of what the conferees expect to see in the reports required by Section 408.

### **FY2007 DHS Appropriations Bill (H.R. 5441).**

**House.** The House-reported version of H.R. 5441 recommends \$892.64 million for the Deepwater program, 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....

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 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.

**Senate.** The Senate-reported version of H.R. 5441 recommends \$993.631 million for the program, 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 detailed explanation of how the costs of legacy assets are being accounted for within the Deepwater program; an explanation of why many assets that are elements of the Integrated Deepwater System are not accounted for within the Deepwater appropriation under this heading; a description of the competitive process conducted in all contracts and subcontracts exceeding \$5,000,000 within the Deepwater program; a description of how the Coast Guard is planning for the human resource needs of Deepwater assets; 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 5 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.... In addition, of the funds appropriated under this heading in title II of the Department of Homeland Security Appropriations Act, 2006 (Public Law 109-90; 119 Stat. 2087), \$79,200,000 are rescinded from the unexpended balances specifically identified in the Joint Explanatory Statement (House Report 109-241) accompanying that Act for the Fast Response Cutter, the service life extension program of the current 110-foot Island Class patrol boat fleet, and accelerated design and production of the Fast Response Cutter.

Section 533 of the bill rescinds \$20 million in unexpended balances for development of the Offshore Patrol Cutter. The Senate Appropriations Committee, in its report (S.Rept. 109-273 of June 29, 2006) on H.R. 5441, "notes that \$101,610,954 in carryover balances from prior-year appropriations continue to be available for the design and development of the Offshore Patrol Cutter." The report also states:

The Committee notes a Government Accountability Office report (GAO-06-546) states 'changes to Deepwater plan appear sound, and program management has improved, but continued monitoring is warranted.' The Committee agrees with these conclusions. The Deepwater program is critical to the Coast Guard's ability to address its homeland and maritime border security mission, and therefore should be accelerated toward completion in 2016 rather than 2026. The Committee encourages the Coast Guard to request sufficient funding in the fiscal year 2008 budget request to accelerate the Deepwater program accordingly.... The Committee recommendation includes \$41,580,000, as proposed in the budget, for the Fast Response Cutter program. This amount shall be used to conduct a business case analysis on the cutter, develop a proposal, and fund the preliminary design and contract design. The Committee commends the Coast Guard for suspending the program to re-evaluate the design to more accurately reflect the Coast Guard's critical mission needs. However, the Committee notes significant value in pursuing the Fast Response Cutter program to address the Coast Guard's long-term needs. In the short term, the Committee is concerned with the current gap in patrol boat hours. To address this gap, the recommendation rescinds \$79,200,000 from balances in the Fast Response Cutter program and reappropriates these funds for the purchase of off-the-shelf replacement patrol boats to address the patrol boat gap as soon as possible.