

5. COAST GUARD CAPITAL ACQUISITION BUDGET

Preliminary estimates indicate that capital improvement funding of \$15 billion or more will be needed over the next 20 years to modernize assets that are critical to the Coast Guard's Marine Safety, Search and Rescue, Law Enforcement, and Marine Environmental Protection programs. Although Coast Guard has not yet provided definitive cost estimates, it has reported that the Deepwater Capability Replacement Project will cost more than \$10 billion, and the National Distress and Response System Modernization Project will cost from \$240 million to \$300 million. Other ongoing major capital acquisition projects include the Seagoing Buoy Tender replacement project and the Ports and Waterways Safety Systems project. In addition, Coast Guard estimates that the annual capital investment in shore facilities will increase from \$61 million in FY2001 to \$129 million in FY 2005.

The Coast Guard capital acquisition budget will need to more than double from \$400 million annually to at least \$850 million annually on a sustained basis to meet its stated requirements. The Office of Management and Budget targets for the Coast Guard's acquisition budget ranges from \$520 million to \$552 million annually for FY 2002 through FY 2005.

Progress in the Last Year: As directed by the Department's FY 2000 Appropriations Act, Coast Guard prepared a 5-year Capital Investment Plan, which identified funding needs through FY 2005.

The President's Interagency Task Force, appointed to provide advice and recommendations on the appropriate roles and missions for the Coast Guard, issued its report in December 1999. The Task Force reported that the Coast Guard would need to continue performing all of its multiple missions and endorsed the need for the Deepwater Project as a near term national priority. The Deepwater project has received significant support from the Commerce, Defense, Justice, and State Departments.

Three industry teams continued work on developing competing concept design proposals for replacing or modernizing Deepwater assets. The contractors' design proposals are due in April 2001. The planning process for Deepwater is expected to cost \$116.2 million (FY 1998 -- \$4.9 million; FY 1999 -- \$24.8 million; FY2000 -- \$44.2 million; FY01 -- \$42.3 million).

Coast Guard awarded three contracts in August 2000 for the preliminary design of the National Distress and Response System Modernization Project. The contractors' proposals are due in November 2001. The planning process for the project is expected to cost \$42 million.

Most Significant Open Recommendations and Issues: The Department, the Administration, and Congress face long-term challenges in proceeding with Coast Guard's stated requirements for a significant and sustained increase in acquisition funding. Other transportation programs, such as FAA operations, Maritime Administration's ship disposal program, and AMTRAK, are also seeking budget increases and will be competing with Coast Guard for limited Federal funding. These funding decisions and trade-offs must be made in the context of the missions and responsiveness expected of the Coast Guard. Short-term challenges facing the Department and the Coast Guard include:

- **Reconciling Capital Investment Priorities and Budget Targets.** Coast Guard's current 5-year Capital Investment Plan does not include full funding for the Deepwater Capability Replacement Project. When full funding estimates for Deepwater are included, Coast Guard's capital needs exceed Office of Management and Budget targets by more than \$300 million per year. Coast Guard needs to establish capital investment priorities and continue working with the Office of Management and Budget to reconcile their respective capital funding proposals and budget targets.

The budget plus-up being sought by the Coast Guard is not just a FY 2002 phenomenon. Once the Deepwater acquisition gets underway, sustaining it will require a Coast Guard acquisition budget of at least \$850 million annually for the foreseeable future. The Coast Guard notes that during the 1970s and 1980s its acquisition budget was higher than \$400 annually when looked at in FY 2000 dollars.

- **Justifying the FY 2002 Budget Request for Deepwater.** In our March 9, 2000 report on "The Coast Guard's Planning Process for the Deepwater Capability Replacement Project," we recommended that the Coast Guard justify how it can proceed with a Deepwater budget request of \$350 million for FY 2002 in advance of completing its planning process. The Coast Guard told us that they have preliminary information from the contractors to justify the budget request. That justification was briefed to the Deputy Secretary of Transportation and the Director of Budget and Program Performance on November 20, 2000.

The planning process for Deepwater has been endorsed and praised by many organizations. The Coast Guard wants to proceed with a budget request for this project. Given this, Coast Guard should be prepared for questions on which Deepwater assets need to be acquired or modernized, how this will be done, what it will cost, and when funding will be needed. We are reviewing the Coast Guard's Deepwater project.

- **Justifying the FY 2002 Budget Request for the National Distress and Response System Modernization Project.** The Coast Guard's 5-year Capital Investment

Plan includes \$199 million for the Distress and Response System. Funding for the project could be at risk given the magnitude of the needs for the Deepwater project and overall funding limitations. Deficiencies in the Distress and Response System have existed for at least 10 years, and the National Transportation Safety Board has criticized Coast Guard's interim fixes as insufficient.

Like Deepwater, Coast Guard plans to justify proceeding with a procurement request of \$42 million for Distress and Response System Project in FY 2002 although the comprehensive planning process is not complete. The major task for Coast Guard is to present a specific system modernization plan that details what assets need to be acquired or modernized, how it will be done, what it will cost, and when funding will be needed. Contractor proposals are due to the Coast Guard in November 2001. We are reviewing the Distress and Response System Project.

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5. Coast Guard Capital Acquisition Budget

Dark Grey = Top Priority Task for 2000

Light Grey = Include in 2000 Top Management Challenges Efforts

White = Sufficiently Resolved to be Dropped from Management Challenges Efforts

First Year Issue Raised in OIG Management Challenges Report	Was Significant Progress made in last year?
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| <ul style="list-style-type: none"> Establish capital investment priorities and work with OMB to reconcile their respective capital funding proposals and budget targets. When full funding estimates for the Deepwater Capability Replacement Project are included, Coast Guard's capital needs exceed OMB targets by more than \$300 million per year. | 1999 | N |
| <ul style="list-style-type: none"> Reconcile how it can proceed with a budget request in advance of completing its comprehensive planning process for Deepwater. | 1999 | Some |
| <ul style="list-style-type: none"> Establish realistic budget and schedule estimates for the National Distress System Project. | New Issue | New Issue |
| <ul style="list-style-type: none"> Correct inaccuracies in data previously provided to the industry teams on the cost of operating existing Deepwater assets. | 1999 | Y |
| <ul style="list-style-type: none"> Transition the "system-of-systems" approach from concept development and planning to budgeting and acquisition. | 1999 | Y |