

# 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, \$19- to \$24-billion acquisition program to replace or modernize 93 Coast Guard ships and 207 Coast Guard aircraft. The Coast Guard's 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. The House version of H.R. 2360, the FY2006 Department of Homeland Security (DHS) appropriations bill, reduces the FY2006 Deepwater funding request to \$500 million; the Senate version reduces it to \$905.6 million. 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. Congress' decisions on this issue could affect Coast Guard capabilities and funding requirements, U.S. homeland security operations, 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), 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,

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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/>].

| Report Documentation Page                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                    |                                     |                                                           | Form Approved<br>OMB No. 0704-0188                  |                                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-------------------------------------|-----------------------------------------------------------|-----------------------------------------------------|---------------------------------|
| Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number. |                                    |                                     |                                                           |                                                     |                                 |
| 1. REPORT DATE<br><b>28 JUN 2005</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                    | 2. REPORT TYPE                      |                                                           | 3. DATES COVERED<br><b>00-00-2005 to 00-00-2005</b> |                                 |
| 4. TITLE AND SUBTITLE<br><b>Coast Guard Deepwater Program: Background and Issues for Congress</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                    |                                     |                                                           | 5a. CONTRACT NUMBER                                 |                                 |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                    |                                     |                                                           | 5b. GRANT NUMBER                                    |                                 |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                    |                                     |                                                           | 5c. PROGRAM ELEMENT NUMBER                          |                                 |
| 6. AUTHOR(S)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                    |                                     |                                                           | 5d. PROJECT NUMBER                                  |                                 |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                    |                                     |                                                           | 5e. TASK NUMBER                                     |                                 |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                    |                                     |                                                           | 5f. WORK UNIT NUMBER                                |                                 |
| 7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)<br><b>Congressional Research Service, The Library of Congress, 101 Independence Avenue SE, Washington, DC, 20540-7500</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                    |                                     |                                                           | 8. PERFORMING ORGANIZATION REPORT NUMBER            |                                 |
| 9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                    |                                     |                                                           | 10. SPONSOR/MONITOR'S ACRONYM(S)                    |                                 |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                    |                                     |                                                           | 11. SPONSOR/MONITOR'S REPORT NUMBER(S)              |                                 |
| 12. DISTRIBUTION/AVAILABILITY STATEMENT<br><b>Approved for public release; distribution unlimited</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                    |                                     |                                                           |                                                     |                                 |
| 13. SUPPLEMENTARY NOTES                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                    |                                     |                                                           |                                                     |                                 |
| 14. ABSTRACT                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                    |                                     |                                                           |                                                     |                                 |
| 15. SUBJECT TERMS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                    |                                     |                                                           |                                                     |                                 |
| 16. SECURITY CLASSIFICATION OF:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                    |                                     | 17. LIMITATION OF ABSTRACT<br><b>Same as Report (SAR)</b> | 18. NUMBER OF PAGES<br><b>6</b>                     | 19a. NAME OF RESPONSIBLE PERSON |
| a. REPORT<br><b>unclassified</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | b. ABSTRACT<br><b>unclassified</b> | c. THIS PAGE<br><b>unclassified</b> |                                                           |                                                     |                                 |

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 “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 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 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. The revised plan includes the acquisition or modernization over a 20- to 25-year period, at an estimated cost of \$19 billion to \$24 billion, 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.

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

**Adequacy Of Program Information Provided To Congress.** Some Members of the Coast Guard oversight committees have strongly and repeatedly criticized DHS this year for providing incomplete and inadequately detailed information about the Deepwater program, particularly regarding the schedule after FY2006 for spending Deepwater funding and delivering new Deepwater assets. As a result of incomplete and inadequate information, some Members have argued, the revised implementation plan is insufficient in terms of transparency and accountability. Inadequate program information was a primary issue cited by the House Appropriations Committee in recommending a deep reduction in the program's FY2006 funding request (see Legislative Activity below). In response to this criticism, the Coast Guard supplemented the March 25 revised implementation plan with additional program information on April 29 and May 31.

**Four Plans Rather Than One.** The information that the Coast Guard provided to Congress on May 31 included four spending plans for the Deepwater program. These four plans result from spending a total of either \$19 billion or \$24 billion using either a funding profile called CIP (Capital Investment Plan) or an alternative funding profile called CIP Plus. Under CIP, annual Deepwater funding would be used to pay for both new Deepwater assets and sustainment and modernization of legacy Deepwater assets. Under CIP Plus, spending on legacy Deepwater assets would be financed with DHS funding outside the Deepwater program. Some Members have reacted negatively to the presentation of four Deepwater plans rather than a single plan. The House Appropriations Committee has directed the Coast Guard to pick one of the four plans as its primary plan by July 14, so that the Committee can use that plan as the basis for reviewing the program at a July 21 oversight hearing.

**Program Management.** The Government Accountability Office (GAO) has on multiple occasions expressed concerns about the Coast Guard's ability to manage the large and complex Deepwater program, in part because of the potential risks to the government of the Coast Guard's acquisition strategy for the program, under which an industry team (i.e., ICGS) acts as the lead integrator for the entire project.<sup>3</sup>

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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.

**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 submitted on March 25 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 that the revised implementation plan would include greater numbers of ships and aircraft than the original plan. A 2004 RAND Corporation report recommended substantially increasing the number of numbers of cutters and aircraft to be acquired under the program.<sup>4</sup> The revised plan, however, generally does not 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. Coast Guard officials have acknowledged that the revised force would not have enough capacity to meet long-term (FY2005-FY2009) Government Performance and Review Act (GPRA) goals.

**Program Acceleration.** Since 2002, some Members have expressed an interest in accelerating procurement of Deepwater assets, and thereby compressing the Deepwater acquisition period from the originally proposed period of 20 years 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 expressed disappointment that the revised implementation plan does not propose compressing the acquisition period and instead proposes an acquisition period of 20 to 25 years, raising the possibility that the originally planned acquisition period might be lengthened by as many as five years. Compressing the Deepwater procurement period to 15 or 20 years would require increasing Deepwater acquisition funding to something between \$1 billion and \$2 billion per year. 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. Accelerating and expanding procurement of NSCs and OPCs is an option for bolstering the industrial base that builds surface combatants for the Navy.<sup>5</sup>

**Spending on Legacy Platforms.** Some Members have expressed concern that the amount of funding that the revised plan proposes spending on sustaining and modernizing legacy Deepwater assets (as opposed to procuring new Deepwater assets) is excessive, and that some of the proposed spending on legacy assets reflects the Coast Guard's decision to acquire Deepwater assets over a period of 20 to 25 years rather than 15 or 10 years. Coast Guard officials have stated that proposed spending on legacy assets

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<sup>4</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>5</sup> 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.

is not as great as some have suggested, particularly since some of this spending is to modernize legacy assets that are to form part of the final Deepwater force.

## Legislative Activity in 2005

**H.R. 2360, FY2006 DHS Appropriations Bill.** The **House Appropriations Committee** report on H.R. 2360 (H.Rept. 109-79 of May 13, 2005) reduces the FY2006 Deepwater funding request to \$500 million, a \$466-million reduction. (Page 63) Section 526 of the bill as reported rescinds \$84 million in FY2004-FY2005 Deepwater funding for modernization of 110-foot legacy patrol boats and reappropriates these funds for either procuring new 110-foot patrol boats or conducting major maintenance work on the current 110-foot patrol boat fleet. (Pages 121-122) The report expresses several strong concerns and criticisms about the program (pages 63-66 and 67), stating in part:

The Committee is wholly disappointed in the Coast Guard's management of this program and its utter disregard for the legislative direction included in P.L. 108-334, intended to clarify the program's total cost, acquisition timeline, and implementation schedule.... While the Committee remains supportive of the replacement of the Coast Guard's aging cutters and aircraft, it is not confident in the Deepwater programmatic model as means to achieve this goal at this point in time....

Recognizing that Deepwater was at a crossroads and despite ostensible reluctance by the Coast Guard, the Committee required the service to re-baseline the entire program in the fiscal year 2005 appropriations bill (P.L. 108-334).... The Coast Guard's failure to comply with this legislative directive suggests not only a fundamental disregard for the Committee and Congress, but also brings into question how the Coast Guard itself is able to manage its own future.... To date, the Committee has yet to receive a report that fully satisfies the re-baselining requirements of P.L. 108-334. The Coast Guard has spent considerable time and effort attempting to rationalize a flawed and incomplete re-baseline plan, rather than adhering to the Congressional mandate and updating the previously submitted and approved 20-year plan or providing any justification for why such a re-baseline cannot be done.

The current state of the Deepwater program includes a myriad of questions ranging from an absence of a cogent policy on the future of the Coast Guard's patrol boats to a lack of a definitive maritime patrol aircraft solution to an alarmingly high increase in legacy asset sustainment....

The confluence of issues surrounding Deepwater has made fiscal year 2006 the tipping point for this program. Therefore, the Committee requires a completely revised Deepwater implementation plan that includes: a comprehensive acquisition timeline for the entire Deepwater program based upon the revised mission needs statement that is compared against the original Deepwater timeline; an exhaustive asset-by-asset breakdown of the entire program, aligned with the comprehensive acquisition timeline and revised mission statement that clearly shows the details of the phaseout of legacy assets and the phase-in of new, replacement assets; an aggregate total cost and timeline of the entire program that aligns with the acquisition timeline and asset-by-asset breakdown; the revised, post-9/11 mission needs statement (MNS); a detailed progress report of the C4ISR equipment upgrades that have been installed on currently operational Deepwater assets and a complete, aggregate timeline for when such equipment will be installed on all legacy Deepwater assets; and a detailed projection of the remaining operational lifespan of every type of legacy cutter and aircraft. The Committee believes this report to be essential to the fiscal year 2007

appropriations process, just as the previously requested re-baselining request was inextricably linked to the fiscal year 2006 appropriation. The Committee restricts \$50,000,000 of funds available for obligation until a revised Deepwater implementation plan, which fully complies with the outlined statutory requirements, has been received.

The **Senate Appropriations Committee** report on H.R. 2360 (S.Rept. 109-83 of June 16) reduces the FY2006 Deepwater funding request to \$905.6 million, a \$60.4-million reduction. The report expresses several strong concerns and criticisms about the program (pages 60-61), stating in part:

The Committee is extremely disappointed with the poor congressional justifications accompanying the President's budget request for fiscal year 2006. Despite clear instruction in both the bill and report language in fiscal year 2005, the documents submitted and the lack of timeliness in which they were provided, both at the time of the President's budget submission and in answer to subsequent requests for justification materials, is unacceptable. Lack of information about the future of Deepwater brings into serious question the wisdom of funding this program at the level requested in the President's Budget. It is only through information provided from outside the Department that the Committee has been able to satisfy only a basic level of knowledge regarding the assets which it has funded. Despite the Committee's disappointment with the program as a whole and the way it has been managed, \$905,602,000 for Deepwater is provided by the Committee. The Committee directs the Coast Guard to update the Deepwater plan submitted to Congress on May 31, 2005, to include the total cost for each asset that will be procured and each legacy asset that will be maintained. The updated plan should also describe how the Coast Guard will meet operational requirements under the lower-tiered funding level versus the higher-tiered level included in the May 31, 2005, revised plan. The Committee expects the updated plan to be submitted to the Committee no later than 60 days following enactment of this Act.

**Operational Gap Analysis.**—The revised Deepwater plan submitted to Congress on March 25, 2005, does not include a plan to address the gap between current operational capabilities and those required to meet operational requirements.... The Committee, therefore, directs the Coast Guard to conduct an operational gap analysis for all Deepwater assets and provide an action plan on how the revised Deepwater plan addresses the shortfalls between current operational capabilities and operational requirements applying advanced analytical methods for forecasting future needs. This plan should be submitted concurrently with the submission of the Coast Guard's fiscal year 2007 budget request.