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COAST GUARD

Issues Related to the Fiscal  
Year 1996 Budget Request

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Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to testify before this Subcommittee on the Coast Guard's budget request for fiscal year (FY) 1996. In our testimony today, we will focus on three areas: (1) an overview of the FY 1996 budget request; (2) the results of some of our recently completed work that could affect the agency's FY 1996 budget; and (3) actions that the Coast Guard could consider that could have an impact on its FY 1997 budget request. Our testimony today is drawn from our recently completed and ongoing work on Coast Guard budget-related issues. I would like to summarize our observations in these three areas and then turn to a more detailed explanation of them.

- First, the Coast Guard's FY 1996 budget request of just over \$3.8 billion represents a \$105 million (2.8-percent) increase over the previous year's budget. This increase is slightly larger than the average annual increase in the agency's budget since FY 1992. The overall increase in the budget request reflects increases in each of the Coast Guard's three major appropriation accounts--for operating expenses (OE); acquisition, construction, and improvements (AC&I); and retirement pay. The majority (87 percent) of the total increase is in two of these areas--about \$71 million for the AC&I account and \$19 million for retirement costs. The budget request would have been higher without a number initiatives--estimated to be worth about \$38 million--that the Coast Guard proposed to reduce expenditures in FY 1996. These initiatives include closing small boat units, reducing crew sizes on some of its cutters, and reducing aircraft resources.
- Our reviews on the Coast Guard's small boat units and inventory management for selected ships showed where planned actions by the Coast Guard could lead to significant savings. In April 1994, we reported that the Coast Guard had developed a systematic process for assessing its needs for small boat units.<sup>1</sup> Using this process, the Coast Guard identified 41 potential operational "changes," including closing 23 small boat units.<sup>2</sup> These actions would produce \$6 million in savings in FY 1996. The Coast Guard's analysis indicated that the unit changes could be implemented without

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<sup>1</sup>Coast Guard: Improved Process Exists to Evaluate Changes to Small Boat Stations (GAO/RCED-94-147, Apr. 1, 1994).

<sup>2</sup>"Changes" include closing a unit, downsizing its operations/personnel level (downgrade), or increasing its operations/personnel level (upgrade).

significantly increasing lives lost. In January 1995, we reported that the process the Coast Guard used to identify \$11 million in excess spare parts for one of its classes of cutters could be applied to other classes as well.<sup>3</sup>

- Actions by the Coast Guard in a number of other areas could yield additional reductions for the FY 1997 budget request. For example, some Coast Guard air facilities have relatively low workloads and overlapping geographic territories and could be candidates for consolidation or closure. Also, to defray at least part of its expenses for expanding its vessel traffic services (VTS) system (estimated to cost \$310 million to build and \$56 million annually to operate), the Coast Guard could explore alternative financing options.<sup>4</sup> These options include privatizing the system, charging user fees, or establishing public-private partnerships. Finally, merging Coast Guard supply centers into the Department of Defense's (DOD) supply system warrants consideration; the Coast Guard could assess the benefits and costs to see if such a change is desirable.

With that summary, I would like to turn to a more detailed discussion of these observations.

FY 1996 BUDGET REQUEST CONTAINS A \$105 MILLION INCREASE OVER FY 1995 APPROPRIATION

The Coast Guard's \$3.8 billion budget request for FY 1996 represents a 2.8-percent increase over the FY 1995 appropriation. (See table 1.)

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<sup>3</sup>Coast Guard Cutters: Actions Needed Now to Ensure Better Management of Parts and Supplies (GAO/RCED-95-62, Jan. 24, 1995).

<sup>4</sup>VTS systems typically consist of a central data-gathering and monitoring location, known as a vessel traffic center, and an array of remote surveillance sensors, such as radar. Coast Guard personnel operate these traffic centers, monitoring vessel traffic and providing mariners with information and advisories to help prevent collisions and groundings.

Table 1: Coast Guard's Appropriations Since Fiscal Year 1992

Dollars in millions

Account	Appropriations, by fiscal year				
	1992 Actual	1993 Actual	1994 Actual	1995 Enacted	1996 Proposed
OE	\$2,494	\$2,561	\$2,588	\$2,608 <sup>a</sup>	\$2,618
AC&I	402	340	312	357	428
Retirement pay	488	520	549	563	582
Others <sup>b</sup>	187	228	217	200	205
Total	\$3,571	\$3,649	\$3,666	\$3,728	\$3,833

<sup>a</sup>This figure excludes a requested supplemental appropriation of \$28.3 million related to Haitian operations.

<sup>b</sup>The other accounts include Environmental Compliance/Restoration; Reserve Training; Research, Development, Test, and Evaluation; Alteration of Bridges; Boat Safety; Pollution Funds; Emergency Funds (from the Oil Spill Liability Trust Fund); and Payment of Claims (from the Oil Spill Liability Trust Fund).

The FY 1996 budget request continues a trend of overall budget increases since FY 1992. At 2.8 percent, the increase in funding requested for FY 1996 is slightly more than the average increase since FY 1992 of 2.2 percent.

Operating expenses, which represent the largest part of the Coast Guard's budget, would increase about \$10 million, or 0.4 percent, from the approved FY 1995 amount.<sup>5</sup> But the largest increases are for two other accounts--the AC&I and personnel retirement pay accounts. The proposed increase for the AC&I account--which is mainly used for acquiring vessels and aircraft and constructing shore facilities--is about \$71 million, or about a 20-percent increase. The proposed increase for the retirement pay account is about \$19 million, or a 3.4-percent increase.

To partially offset increases in its proposed budget, the Coast Guard plans to implement a number of budget-reducing initiatives, estimated to be worth about \$38 million in FY 1996

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<sup>5</sup>If the 1995 figure for the OE account is amended to include the Coast Guard's requested supplemental appropriation to fund its Haitian operations, the 1996 figure would represent a decrease of 0.7 percent.

and \$55 million in annual savings for subsequent years." These initiatives include closing or downsizing 40 of its 185 small boat units, reducing crew sizes on 27 of its 240 cutters, and moving (resiting) and reducing aircraft resources.<sup>7</sup> As a result of the FY 1996 initiatives, the Coast Guard's full-time positions would be reduced by 712, to a total of 43,285 positions.

The FY 1996 initiatives, while noteworthy, yield relatively small savings when compared to the potential savings from two studies now under way. These two Coast Guard-initiated studies--which focus on streamlining the organizational and training structures--will likely produce large budget savings. According to the Coast Guard, these streamlining studies, which began in 1994, could result in substantial savings through the reduction or consolidation of its vast organizational structure, which includes area commands, district offices, group commands, marine safety offices, headquarters units, and training centers. Savings from changes based on the studies are not expected until at least FY 1997, according to the Coast Guard, though the studies' results, including recommendations, should be ready within the next several months. We have not been briefed on the preliminary findings, the methodology and assumptions used, the time frames for implementation, or the measures that will be used to evaluate the savings from proposed changes.

#### GAO'S RECENT WORK RELATED TO THE COAST GUARD'S 1996 BUDGET

The results of some of our recently completed work on two issues highlight how some recent actions by the Coast Guard could impact its FY 1996 budget.

##### Small Boat Units

The Coast Guard has proposed significant changes--including 23 closures, 17 downgrades, and 1 upgrade--in its network of 185 small boat units. On the basis of our review of the Coast Guard's process for selecting the units recommended for changes in FY 1996, we concluded that the Coast Guard followed a systematic process for evaluating small boat units. If these changes are implemented, the operation of small boat units would

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<sup>6</sup>The Coast Guard reported to the Subcommittee in February 1995 that its FY 1996 budget contained initiatives that would provide recurring savings of over \$100 million. This amount includes savings from initiatives that began in FY 1995 and that are included in the FY 1996 budget.

<sup>7</sup>As the Coast Guard retires 15 Falcon jet aircraft during FY 1995 and 1996, it is resiting other aircraft to new locations.

be streamlined, personnel positions would be reduced by 115, and about \$6 million in savings could be realized.

Concern has been expressed about the impact that closing small boat units could have on the safety of citizens in the affected communities. Recognizing this concern, the Coast Guard included in its evaluation process an important analysis that assessed the potential for increases in lives lost as a result of proposed unit changes in these communities. The Coast Guard's analysis indicates that the proposed closures or downgrades of small boat units would not have a significant impact on lives lost in these locations.<sup>8</sup>

#### Inventory Management for Cutters

Another issue on which we reported was the Coast Guard's need for improved inventory management for its cutters. Our January 1995 report noted that the Coast Guard does not have the organizational structure or computer systems necessary to effectively manage its hundreds of millions of dollars in inventory for its cutters. As a result, it does not know the total value, type, quantity, and condition of the spare and repair parts in its inventory. This situation has resulted in costly emergency purchases and excess inventory. The Coast Guard recognizes these problems and has taken or plans to take action to improve its inventory controls by FY 2002.

While the direction of the Coast Guard's initiatives is correct, some of the milestones for them have slipped. We reported that several interim steps can be taken to achieve some immediate efficiencies and savings, as the following example shows. In 1993, at minimum cost, the Coast Guard analyzed the inventories held by all 13 of its 270-foot cutters. The data showed that for the 13 cutters, there were more than \$11 million worth of excess parts and that \$3 million of the excess could be redistributed among the cutters to offset their shortfalls of parts and reduce future acquisitions. Similar savings would likely accrue if the Coast Guard conducted similar analyses for other classes of its 240 cutters, especially for its twelve 378-foot vessels. The Coast Guard has agreed to consider taking the interim actions we recommended.

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<sup>8</sup>In the worst-case scenario, the evaluation process indicated that there could be an additional life lost every 12-1/2 years (0.08 per year) because of the closure of the small boat unit in Eastport, Maine.

ADDITIONAL ACTIONS COULD REDUCE  
THE FY 1997 BUDGET REQUEST

Now, I would like to focus on some examples of other actions that we believe could reduce expenditures further. These include assessing the operational need for air stations, evaluating alternative funding for the VTS system, and studying the consolidation of Coast Guard and DOD supply centers.

Assessing the Operational Need for Air Stations

Earlier in our testimony, we briefly discussed savings that will result from the Coast Guard's efforts to resite and reduce its aircraft resources. The Coast Guard is also planning to consolidate Air Stations Cape May and Brooklyn into a single station. It estimates that this will reduce its FY 1996 AC&I needs by about \$8 million and produce future operating savings as well. While these efforts are certainly important, we believe there is an additional issue that could be pursued in streamlining air stations and air facilities.

The Coast Guard currently operates 27 air stations and 3 air facilities in the United States and Puerto Rico.<sup>9</sup> In reviewing information regarding air stations' and air facilities' locations and activity levels, we identified units operating helicopters that have greatly overlapping geographic territories (or areas of responsibility). Some of these units also appear to have activity levels (e.g., search and rescue cases) that are relatively low compared to other units'. In combination, these factors suggest that the potential for consolidation exists. Closing just one full-time air facility could result in recurring savings of at least \$2.7 million. However, past congressional mandates required the Coast Guard to open these units, and congressional concurrence is also required for them to be closed.

Evaluating Alternative Funding of Vessel Traffic System

The Coast Guard's VTS 2000 system--which is an expansion of its current VTS system--may be a candidate for privatization or alternative funding because of the high cost of expanding and operating the system. Currently, the Coast Guard spends \$18 million annually to operate the VTS system in eight ports nationwide. As part of the expansion to create the VTS 2000 system, the Coast Guard will be upgrading existing VTS ports and building systems at several, as yet unspecified, ports. Coast Guard officials estimate that the cost to build and establish the expanded VTS 2000 system may be as high as \$310 million and that the system will have an annual operating cost of \$56 million.

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<sup>9</sup>Air facilities are subunits of larger air stations.



Given the large investment to build and operate this system, the Coast Guard could study alternative ways to fund it, while maintaining a strong leadership and oversight role. The study could include an assessment of a variety of options, including privatizing the system, as was done with the interim VTS system built by the Port of Los Angeles/Long Beach. In this situation, although the Port built the system, the Coast Guard maintains an on-site presence. User fees could be another method considered as a way to offset the expense for the VTS system. Currently, the Port of Los Angeles/Long Beach charges between \$200 and \$380 per ship for use of its private system. Another alternative may be a joint partnership that splits the development, construction, and/or operational costs between ports and the Coast Guard. Coast Guard officials told us that one local community has already expressed interest in such an arrangement.

#### Studying the Consolidation of Coast Guard and Department of Defense Supply Centers

The Coast Guard currently operates two spare parts supply centers--in Curtis Bay and in Baltimore, Maryland--which provide parts needed primarily by its cutters. The supply centers stock about 18,000 parts valued at about \$140 million. Even so, about 55 percent of its parts for cutters are purchased directly from commercial suppliers. Of the remaining 45 percent, about 90 percent are purchased from other federal agencies, mainly DOD. The remaining 10 percent are obtained from the Coast Guard supply centers. The Coast Guard said it spends over \$3.5 million annually for the management and distribution of spare parts from its two supply centers and employs 65 staff dedicated to this function.

As compared to the Coast Guard supply centers, the Navy center in Mechanicsburg, Pennsylvania, manages over 400,000 parts. We were told by officials at DOD that its supply center could absorb the Coast Guard supply centers' cutter parts. The unanswered questions, however, are whether it would be cost-effective to transfer to DOD the function of supplying parts and whether the service received would be adequate for the Coast Guard's missions. Coast Guard officials told us that they are having a study conducted, expected to be completed in the spring of 1995, to determine the feasibility and potential cost savings of transferring a portion of its inventory--consumable spare parts--to DOD. However, the Coast Guard is not considering transferring the bulk of its spare parts inventory to DOD from its two centers. The Coast Guard could consider studying transferring all spare parts to DOD.

This concludes our prepared remarks, Mr. Chairman. We would be pleased to respond to any questions that you or other Members of the Subcommittee may have at this time.

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