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COAST GUARD

Key Budget Issues for Fiscal
Years 1999 and 2000

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Mr. Chairman and Members of the Subcommittee:

We are here today to discuss several key issues related to the Coast Guard's budgets for fiscal years 1999 and 2000. The Coast Guard, an agency within the Department of Transportation (DOT), is responsible for maritime missions that range from search and rescue operations to the enforcement of fisheries, immigration, and drug laws. For fiscal year 1999, the Coast Guard initially received \$3.9 billion in appropriated funds to carry out its missions. It received another \$377 million in emergency funding to pay for additional equipment and operations, most of which was for expanding its anti-drug efforts. This increased the Coast Guard's total fiscal year 1999 funding to about \$4.3 billion. For fiscal year 2000, the Coast Guard is requesting \$4.1 billion to fund its various programs. During the last 2 years, we have issued reports on the overall fiscal challenges facing the Coast Guard and the justification and the affordability associated with its multi-billion dollar program for replacing or modernizing many of its ships and aircraft.^{1,2} The program, called the Deepwater Replacement Project, may cost as much as \$9.8 billion (in constant 1998 dollars) over the next 20 years and is potentially the largest acquisition project in the agency's history.

My testimony today, which is based on GAO's recently completed and ongoing work at the Coast Guard, addresses three topics: (1) the Coast Guard's progress in justifying the Deepwater Replacement Project and addressing our concerns about its affordability, (2) the Coast Guard's plans for spending its fiscal year 1999 emergency funds, and (3) the budget strategies the agency may have to consider in the future to address continuing budget constraints.

In summary, our work shows the following:

- While the Coast Guard has made progress in addressing our concerns about the justification and the affordability of the Deepwater Project, additional work is needed. In our report on the Deepwater Project, we had two major concerns. First, the Coast Guard had not sufficiently justified the project, in that it lacked accurate and complete information on the condition and the performance shortcomings of its ships and aircraft and the resource hours needed to fulfill its missions. The Coast Guard and its contractors are currently developing this information, but some of it will

¹ Coast Guard: Challenges for Addressing Budget Constraints (GAO/RCED 97-110, May 14, 1997).

² Coast Guard's Acquisition Management: Deepwater Project's Justification and Affordability Need to Be Addressed More Thoroughly (GAO/RCED 99-6, Oct. 26, 1998).

not be available until later this year. The Coast Guard will prepare a new project justification sometime in early 2000. In the meantime, contractors working on the conceptual design for the project will be assessing alternatives without the benefit of current data on the performance shortcomings of the agency's ships and aircraft and the resource hours needed to fulfill its missions. The Coast Guard plans to have performance data on its current ships and aircraft by April 1999, and the agency plans to provide that information to contractors at that time. Providing this data is important because without it, there is increased risk that contractors could develop alternatives that would not be the most cost-effective to meet the needs of the Coast Guard's Deepwater Project. Second, we reported that if the cost of the Deepwater Project approaches the agency's planning estimate of \$500 million annually, it would consume more than the agency now spends for all capital projects and leave little funding for other critical capital needs. Coast Guard officials said that competition among contractors would cut costs and more closely align the potential cost of the project with probable funding levels. In addition, the agency is developing information on the advantages and disadvantages of various funding options for the project. However, until the Coast Guard develops its new justification for the Deepwater Project in early 2000 and contractors provide their cost estimates for various alternatives, neither we nor the Coast Guard can tell whether the affordability issue has been adequately addressed.

- By the end of fiscal year 1999, the Coast Guard plans to spend about 78 percent of the \$377 million in emergency funds that it received, primarily to expand its anti-drug efforts. As directed by the Congress, it has begun buying more patrol boats; reactivating its surveillance aircraft and ships; and obtaining additional equipment, such as sensors and communications systems, to improve its ability to detect drug smugglers and to coordinate its anti-drug activities. The Coast Guard is also using a portion of the funds for maintaining operational readiness, repairing equipment and facilities that were damaged by Hurricane Georges in the southeastern United States, and ensuring that its Year 2000 computer problems are resolved.
- The additional funding that will likely be needed to modernize and acquire deepwater aircraft, ships, and equipment and to sustain the newly expanded anti-drug efforts will increase the budget pressures on the Coast Guard. In the future, the agency might have to develop different budget strategies and approaches to live within its budget. Typically, the Coast Guard has adopted a budget strategy that relies heavily on cost-cutting initiatives to improve operating efficiency. Our work has shown that

additional cost-cutting measures to improve efficiency are possible, and the Coast Guard should renew its efforts in this area. For example, using civilian personnel rather than military personnel in administrative support positions could achieve significant cost-savings. However, given the potential size of the increased funding requirements, the adequacy of this approach to meet the sterner budget challenges is highly uncertain. The agency might have to look for other cost-cutting options, including rethinking its missions and services performed, which is likely to be controversial, given past opposition to reductions in this agency's services.

Work Remains to Be Done Regarding the Justification and the Affordability of the Deepwater Replacement Project

In October 1998, we issued a report that raised concerns about the justification and the affordability of the Deepwater Replacement Project. Our major findings are summarized as follows:

- We found that the Coast Guard had understated the remaining useful life of its aircraft, and to a lesser extent, its ships. For example, the Coast Guard's justification that was prepared in late 1995 estimated that its aircraft would need to be phased out starting in 1998. However, last year, the Coast Guard issued a study showing that its aircraft, with appropriate maintenance and upgrades, would be capable of operating until at least 2010 and likely beyond.³ The study's findings suggest that in upgrading or replacing its deepwater ships and aircraft, the Coast Guard should give a relatively low priority to modernizing or replacing its aircraft. Also, since our report was issued, the Coast Guard has taken additional steps to assess the condition and the remaining useful life of its ships, including hiring naval architects to evaluate the condition of its deepwater ships and completing studies on two 378-foot cutters. According to a Deepwater Project official, contractors have also conducted their own evaluations of the condition of deepwater ships and aircraft to validate their condition.
- We found that the Coast Guard had not conducted a rigorous analysis comparing the current capabilities of its aircraft and ships with current and future requirements, as required by DOT's and the Coast Guard's own guidance. Although, the Coast Guard asserted that its current deepwater ships and aircraft were incapable of effectively performing future missions or meeting the future demand for its services, we were unable to validate these assertions. The Coast Guard had originally planned to complete a comparative assessment of the current capabilities and the functional needs of the future deepwater system by November 1998, but work on that

³Aviation Near-Term Support Strategy, Office of Aeronautical Engineering, U.S. Coast Guard, Sept. 4, 1998.

assessment has slipped. The Coast Guard now plans to complete a baseline study of the capabilities of its existing fleet of ships and aircraft later this month; a comparative assessment is planned for completion in April 1999.

- We found that the Coast Guard lacked support for its estimates of the resource hours needed for its deepwater ships and aircraft to perform required missions. We attempted to verify the Coast Guard's estimates of surface and aviation hours needed for deepwater law enforcement missions, which constitute over 95 percent of the total estimated mission-related hours for its ships and about 90 percent of the total estimated mission-related hours for its aircraft. We could not verify the reasonableness of these estimates because the sources for the data were not documented or available. An independent Presidential Roles and Missions Commission will study the Coast Guard's roles and missions. The Commission plans to issue a report by October 1999 that will be used to gauge the demand for the Coast Guard's services. The Coast Guard plans to use this study to recalculate the operating levels needed to meet the requirements of its missions when it issues a revised mission analysis that is scheduled for completion in January 2000.

In our report on the Deepwater Project, we acknowledged that the Coast Guard is correct in starting now to explore alternative ways to modernize its deepwater ships and aircraft. However, we expressed concerns about proceeding with the project without a clear understanding of the current condition of its ships and aircraft and whether they are deficient in their capabilities and service demands. We recommended that the Coast Guard expedite the development and issuance of updated information from internal studies to the contractors involved in developing proposals for the project. The Coast Guard agreed with our recommendation and has made progress in developing data on the condition of its ships and aircraft; however, other data on its roles and missions and any shortfalls in its performance capabilities will not be available until later this year or early next year. Contractors, however, are now evaluating deepwater alternatives without such data, and they are scheduled to provide the Coast Guard with an analysis of alternatives for the Deepwater Project in March 1999 and conceptual designs for the system in December 1999. Without basic data on the needs of its deepwater ships and aircraft, there is increased risk that the contractors could develop alternatives or designs that would not be the most cost-effective to meet the Coast Guard's needs for the Deepwater Project. The Coast Guard agreed with the importance of providing contractors with accurate and complete data as soon as

possible; however, it also noted the importance of starting now due to the long lead times associated with a project of this magnitude. The agency has plans to provide the contractors with data on its roles and missions and performance shortfalls as soon as the information becomes available. Coast Guard officials believe that they will have data in enough time so as not to adversely affect the contractors' proposals. We believe that this is a concern that requires close oversight.

Our report also raised concerns about the project's affordability. The estimated cost of the Deepwater Project could consume nearly all of the agency's projected spending for its capital projects. By fiscal year 2002, when capital spending for the project could reach as much as \$500 million a year, the project could consume 97 percent of the Coast Guard's total projected capital budget, leaving little for other capital projects and expenditures. Unless the Congress grants additional funds, which under current budget laws could mean reducing funding for other agencies or programs, the Coast Guard's other capital projects could be severely affected.

In January 1999, Coast Guard officials told us that they plan to address the Deepwater Project's affordability issue in two ways. First, they believe that competition among three teams of contractors to develop alternative deepwater systems will help minimize the project's life-cycle costs because the proposed costs will be one key factor in the selection of the winning proposal. Second, they said that the agency's independent evaluation group will analyze various funding alternatives to determine what impact they would have on the project. The group will examine the most cost-effective funding amounts for the project as well as the minimum amount that is needed each year. However, until the Coast Guard develops its revised mission analysis in early 2000 and the contractors provide their cost estimates for various alternatives, it will not be known whether the affordability issue has been adequately addressed.

The Coast Guard's draft Agency Capital Plan, issued in January 1999, also identifies strategies for dealing with the affordability of the Deepwater Project. The plan describes the agency's long-term capital requirements and identifies strategies for dealing with affordability issues, such as extending the service life of the Coast Guard's ships and aircraft and replacing equipment with fewer, more capable assets. As an example, extending the service life of its aircraft could result in significant cost savings. A Coast Guard study estimates that between \$257 million and \$297 million in upgrades and maintenance could extend the service lives of

current deepwater aircraft by 11 to 28 years longer than the Coast Guard's initial estimate of when these aircraft would need to be phased out.⁴ However, the estimated cost to upgrade does not include the increased cost of operating older aircraft. The Coast Guard estimates that a one-for-one replacement would cost \$3.8 billion to replace the same aircraft, or about \$3.5 billion more than the option to extend the aircraft's service life. In addition, the Coast Guard's Director of Resources told us that, as part of the capital planning process, the agency will prioritize projects rather than give them the equal priority that it had previously done. This strategy would involve making trade-offs between projects. For example, the Coast Guard could concentrate its resources on buying more ships over 2 to 3 years and buying fewer aircraft or other equipment. After the ships have been bought, the agency could then focus its resources on buying the aircraft or other equipment and reducing the amount of resources used to buy ships. The Coast Guard believes that this approach could help it deal with "spikes" in the agency's capital needs during a period of fiscal constraint. While these strategies will help the Coast Guard deal with affordability issues, it is uncertain whether they will fully address the affordability issues raised by the Deepwater Project.

Most of the Emergency Funds Will Be Spent in Fiscal Year 1999

The Coast Guard received about \$377 million in emergency funds for fiscal year 1999, most of which are aimed at reducing the use of illegal drugs in the United States. The Congress directed that these funds be used in the following ways:

- About \$271.7 million was provided for expanding the Coast Guard's anti-drug program. The Congress directed the Coast Guard to use \$217.4 million to buy new equipment; \$44.3 million to operate the new equipment and expand drug interdiction activities; and \$10 million for training Coast Guard reservists and for research, development, test, and evaluation. The Coast Guard plans to obligate about \$195 million of these funds in fiscal year 1999, with the balance to be obligated in fiscal year 2000.
- Another \$72 million was provided for maintaining the overall military readiness of the Coast Guard. According to a Coast Guard official, the funds will allow the agency to carry out its basic missions and responsibilities, such as law enforcement and search and rescue activities.

⁴See footnote 3.

All of these funds will be expended in fiscal year 1999.⁵

- Another \$12.6 million was provided for repairing damage to equipment and facilities caused by Hurricane Georges. The Coast Guard plans to spend about \$7.5 million of these funds in fiscal year 1999 and the remaining \$5.1 million the following year.⁶
- Finally, \$20.5 million was provided for ensuring that the Coast Guard's computer systems do not have Year 2000 computer problems. The agency intends to expend all of these funds in fiscal year 1999.

Spending for Anti-Drug Efforts

The Coast Guard plans to acquire a variety of new equipment to help expand its anti-drug program. For example, it plans to purchase 15 new 87-foot patrol boats at a cost of \$66.1 million. This purchase will allow it to deploy some of its larger 110-foot patrol boats in the Caribbean for counter-narcotics operations. The Coast Guard also plans to spend \$29.3 million to purchase new sensors and communications systems for its cutters and patrol boats, and it plans to reactivate two ships for \$20 million to provide command and control and logistics support for its drug-fighting efforts. In addition, the Coast Guard plans to spend \$3.5 million to purchase eight high-speed boats to help it pursue the high-speed boats used by drug smugglers.

The Coast Guard also plans to upgrade and expand its drug interdiction efforts by spending about \$52 million to reactivate six HU-25 jet aircraft used for surveillance and to buy other aircraft equipment. It will also spend about \$44 million to buy sensors for its aircraft, which will improve its ability to detect and classify suspected drug smugglers at sea, and to upgrade engines for its C-130 surveillance aircraft. (See the appendix for more details on the status of the Coast Guard's acquisition of equipment from emergency funding.)

The Office of National Drug Control Policy has set a national goal of reducing the flow of drugs entering the United States from maritime routes

⁵According to congressional budget documents and a Coast Guard budget official, the \$72 million in emergency funding will be used to offset a \$72 million budget cut that the Coast Guard received in its fiscal year 1999 appropriation.

⁶The Coast Guard plans to spend \$2.5 million to repair aids to navigation and other equipment in southern Florida, Puerto Rico, Alabama, and Louisiana and another \$200,000 to repair damage to sites and equipment used for communications. The remaining \$9.9 million will be used to repair the Coast Guard's offices, air stations, search and rescue stations, and other facilities in southern and western Florida, Alabama, Louisiana, Mississippi, and Puerto Rico. Repairs will be made to the piers, roofs, windows, and fences.

by 10 percent by 2002 and 20 percent by 2007. The Coast Guard and other federal agencies will be involved in achieving this goal. The additional emergency funds should aid the Coast Guard in its anti-drug efforts; however, currently, there is no effective way of knowing the true impact of increased funding provided to the Coast Guard or any other law enforcement agencies. Similar to what we found 2 years ago, it is difficult for the Coast Guard or any other agency to effectively measure the results of its anti-drug program.^{7,8} For example, it is inherently difficult to develop accurate data on the quantity of illegal drugs entering the country. Moreover, it is difficult to distinguish the impact that the Coast Guard's anti-drug actions are having from those of other agencies. However, progress is being made—the Office of National Drug Control Policy's Interagency Assessment of Cocaine Movement has developed estimates of the amount of cocaine shipped from foreign countries. If reasonably accurate, this information could aid the Coast Guard in measuring the results of its cocaine interdiction program.

The Coast Guard plans to use the entire \$44.3 million appropriated for operating expenses by the end of this year to operate new equipment and continue intensified anti-drug initiatives begun last year in the Caribbean. In fiscal year 1999, the Coast Guard also plans to use \$5 million to train reservists in counter-narcotics operations, hire more reservists and recruiters, and buy new law enforcement equipment. Also, the Coast Guard plans to spend \$4 million of the \$5 million it received for research, development, test, and evaluation of counter-narcotics strategies by the end of fiscal year 1999.

⁷ The Coast Guard's performance goal in 1998 was to reduce the flow of illegal drugs by denying maritime smuggling routes as part of the interagency effort to reduce the supply below the national demand level. By fiscal year 2002, the agency's goal is to reduce the smugglers' success rate from the fiscal year 1995 baseline of 71 percent to 38 percent.

⁸ Drug Control: Observations on Elements of the Federal Drug Control Strategy (GAO/GGD 97-42, Mar. 14, 1997).

The Deepwater Project and the Expansion of Anti-Drug Efforts Heighten the Challenges for Addressing Budget Constraints

While the Coast Guard received a sizable emergency appropriation for fiscal year 1999, which was largely to expand its anti-drug efforts, the agency will need additional funding to sustain these higher operating levels in future years. Last month, legislation was introduced in the Senate to authorize additional funding for the Coast Guard for anti-drug operations in fiscal years 2000 and 2001; however, there is no guarantee that these funds will ultimately be appropriated. In addition, if the Deepwater Project moves forward as planned, the Coast Guard would likely need hundreds of millions of dollars each year for the next 20 years to complete the project.

In our May 1997 report to this Subcommittee, we discussed the challenges the Coast Guard faces as it operates within a constrained fiscal environment. While the Coast Guard had taken a number of steps to reduce its costs, we suggested that the Coast Guard look toward several budget strategies to further cut costs. Given the continuing budget pressures that currently exist for the Coast Guard, much of the message of our 1997 report is still relevant today.

Our report concluded that the agency could renew efforts to improve its operating efficiency by delivering services at a lower cost. For example, in our earlier report, we identified cost-cutting options that had been identified by a number of studies on the Coast Guard that have been conducted since 1981. The agency has not implemented many of these options. For example, past studies by groups outside the Coast Guard have pointed out that lengthening periods between assignment rotations for military personnel could substantially reduce transfer costs, which now amount to more than \$60 million a year. The Coast Guard thinks its current rotation policies are best and does not plan to study the issue further. In addition, using civilian personnel rather than military personnel in administrative support positions could achieve significant cost savings. Soon, we will be reporting to this Subcommittee on other administrative and support functions that have potential for cost savings. Achieving some of these cost-cutting measures will be controversial and difficult, either because they involve a change in the agency's organizational culture or they are not popular with the public.

Consolidating functions or closing facilities have been identified by previous studies as another option to reduce expenditures. For example, several years ago, the Coast Guard identified a cost-cutting option involving the consolidation of its training facilities, a move that would have resulted in annual savings of \$15 million by closing the facility at

Petaluma, California. Fearing a public outcry by the local community, especially because of the numerous recent closures of military bases in California, the Coast Guard postponed taking this step. To address situations like this, we recommended that the Congress may wish to consider a facility closure approach for the Coast Guard that is similar to the one the Department of Defense has used to evaluate base closures. Under this approach, an independent commission would be established and given authority to recommend the closure of some of the Coast Guard's facilities. To date, such a commission has not been established.

Even if the Coast Guard is successful in achieving significant cost savings by improving its operating efficiency, the adequacy of this approach alone to meet budget challenges is highly uncertain. As we pointed out in our 1997 report, the agency may have to look beyond efficiency measures for cost-cutting options. Our past work examining a cross section of private-sector and public organizations that have faced fiscal constraints similar to the Coast Guard's has shown that a much broader approach for evaluating potential cost-cutting options is often needed. Frequently, these broader assessments have involved a fundamental rethinking of the missions and services performed by the organizations and the sources of their funding.

Driven largely by the potential magnitude and the impact of the Deepwater Project on future budgets, the administration has renewed efforts to evaluate the roles and the missions of the Coast Guard and to push for additional user fees. The independent Presidential Commission, which is about to begin studying the agency's roles and missions, could identify areas or functions that could be (1) added or enhanced, (2) maintained at current levels of performance, or (3) reduced or eliminated. Also, in its fiscal year 2000 budget request, the Coast Guard is proposing a user fee on commercial cargo and cruise vessels for navigation services provided by the Coast Guard that could add revenues of \$41 million each year if it is fully implemented. The administration favors earmarking the proposed user fees as a means of giving agencies an incentive to collect fees. Earmarking would allow the agency to keep all or significant portions of the fees collected to pay for providing the services rather than the current practice of returning the bulk of the revenues to the Treasury. We are not taking a position on whether such fees, including the proposed fees on navigation services, should be established or on whether such fees should be earmarked for the Coast Guard rather than returned to the Treasury's general fund. This is a policy question that the Congress must ultimately decide after considering a number of issues and trade-offs.

Mr. Chairman, this concludes my testimony. I will be happy to respond to any questions you or other Members may have.

The Coast Guard's Acquisition of Equipment From Emergency Funding to Expand Its Drug Interdiction Activities, Fiscal Years 1999 and 2000

Dollars in millions

Planned equipment purchases or leases	Cost	Applicability to anti-drug program	Status of acquisition
Purchase 15 new 87-foot patrol boats	\$66.1	These boats will allow the Coast Guard to deploy larger 110-foot patrol boats to the Caribbean for counter-narcotics operations, resulting in 1,440 more operating hours to support its anti-drug program per patrol boat.	Have two of these boats in operation and obligate \$66.1 million by the end of the fiscal year. The Coast Guard plans to have four more boats in operation by the end of fiscal year 2000.
Purchase sensors and communications systems for cutters	29.3	The sensors will improve the Coast Guard's ability to detect and classify targets. The communications equipment will improve interagency communications and communications capabilities on cutters, boats, and shore facilities.	Begin to receive much of this equipment and obligate \$20 million this fiscal year.
Reactivate two ships for command and control platforms	20.0	These ships will provide command and control and logistical support for ships and fast-pursuit boats. The ships will provide 3,600 operating hours per ship for anti-drug activities.	Pay the Military Sealift Command to operate and maintain the platforms. Coast Guard personnel will be on the ships to carry out law enforcement responsibilities. The first vessel will be available in the last quarter of fiscal year 1999 and the second in the second quarter of fiscal year 2000. The Coast Guard plans to obligate all funds this fiscal year.
Purchase eight high-speed pursuit boats	3.5	These boats will provide the capability to interdict high-speed boats used by smugglers. Four will be deployed to the reactivated command and control platforms and four will be deployed to shore-based units.	Operate at least two boats by the fourth quarter of fiscal year 1999 and obligate all funds in this fiscal year. The Coast Guard anticipates all eight boats will be in operation in fiscal year 2000.
Reactivate six HU-25 jets, buy other equipment, and improve surveillance capability	52.0	The jets will increase surveillance and will provide 600 hours per aircraft to support the anti-drug effort. The use of unmanned airborne vehicles to help classify and detect targets at sea will also be examined.	Deploy three aircraft by the last quarter of this fiscal year and obligate \$21 million this year. The remaining three aircraft will be available by the last quarter of fiscal year 2000 and the Coast Guard plans to obligate the balance in fiscal year 2000.
Lease aircraft to conduct operational testing and use of force	2.5	The aircraft will help the Coast Guard evaluate the potential use of force from aircraft to interdict smugglers at sea.	Lease aircraft to develop and test tactics that include the use of force. The Coast Guard plans to obligate all funds and complete the testing this fiscal year.
Purchase aircraft sensors and upgrade C-130 engines	44.0	This equipment will improve the Coast Guard's ability to detect and classify targets at sea. In addition, the C-130 upgrade will provide maintenance and fuel savings in future years.	Complete the engine upgrades in fiscal year 1999 and install the sensors starting in the third quarter of fiscal year 1999. The Coast Guard plans to obligate \$9.3 million this fiscal year.
Total	\$217.4		

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