

GAO

## Testimony

Before the Subcommittee on Oceans and Fisheries,  
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# COAST GUARD

## Budget and Management Challenges for 2003 and Beyond

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the challenges that the Coast Guard faces in its fiscal year 2003 and future budgets and the critical management issues it must resolve as it focuses relatively more of its resources on homeland security. Like many federal agencies, the Coast Guard's priorities were dramatically altered by the events of September 11, 2001. Analysis of changes in the Coast Guard budget is made more difficult by the fact that funds from the emergency supplemental were made available at different times.<sup>1</sup> The Coast Guard's fiscal year 2003 budget request of \$7.3 billion is a 36 percent increase from the previous year, part of which is for an increased emphasis on homeland security. At the same time, the Coast Guard has many other ongoing responsibilities, ranging from boater safety to icebreaking. How—and whether—the Coast Guard can continue to meet all of these responsibilities is a matter of concern to the Congress.

My testimony today, which is based on recently completed and ongoing work, addresses three topics: (1) the extent to which the homeland security measures undertaken by the Coast Guard since September 11th affected the agency's multiple missions; (2) how these changes are reflected in the requested fiscal year 2003 funding levels for each of the Coast Guard's major missions, and (3) the challenges the Coast Guard faces in 2003 and beyond in continuing to perform all of these missions. Appendix I describes the scope and methodology of our review.

In summary, our work shows the following:

- The events of September 11th caused a substantial shift of effort toward homeland security and away from certain other missions. Cutters and aircraft, used mainly on the high seas, were redeployed closer to major harbors; security was strengthened for potential terrorist targets such as oil refineries, cruise ship terminals, and port facilities; and security patrols and monitoring of ships in port were stepped up. As resources were shifted to meet these needs, the law enforcement mission area, which consists mainly of drug and migrant interdiction and fisheries enforcement, saw the most dramatic drop in mission capability, according

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<sup>1</sup>Eighteen million dollars was allocated to the Coast Guard in fiscal year 2001 and \$209 million in fiscal year 2002. In this testimony we use the \$209 million figure for fiscal year 2002 since that is what is shown in the Coast Guard budget documents used for the analysis.

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to the Coast Guard. Although activity levels for law enforcement and other mission areas are once again on the rise, they have not all reached levels of activity that existed before the terrorist attacks.

- The Coast Guard's fiscal year 2003 budget request reflects an attempt to maintain and enhance heightened levels of funding for homeland security while also increasing funding for all other Coast Guard missions beyond fiscal year 2002 levels. About two-thirds of the requested increase of \$1.9 billion would be used for future retirement payments, in keeping with proposed legislation that would make agencies more accountable for funding such obligations on an ongoing basis. The remaining one-third of the requested increase, or \$680 million, would be used for maintaining and enhancing missions. Marine safety and security, the mission area that encompasses most of the Coast Guard's homeland security activities, is slated to receive the largest percentage increase in operating expenses of any mission area—20 percent, or \$180 million. The remaining mission areas would each receive an increase over fiscal year 2002 levels of at least 12 percent. A substantial part of the increase in each mission area would go to pay increases and other entitlements, but we have not yet determined these amounts.
- The Coast Guard faces substantial management challenges in translating its requested funding increases into increased service levels in its key mission areas. When the Coast Guard received supplemental fiscal year 2002 funding after September 11th, it increased services by stretching available equipment and personnel to the limit, according to Coast Guard personnel. Additional cutters, aircraft, and patrol boats are not immediately available. Workforce issues present a daunting challenge: the Coast Guard will add an additional 2,200 full-time positions in the fiscal year 2003<sup>2</sup> (if the budget request is approved), retain and build the expertise and skills of its current workforce, and deal with issues of already high attrition rates and looming civilian retirements. Finally, the Coast Guard has not yet determined the level of security required in the long term to protect the nation's major ports. These challenges mean that in the short term giving the Coast Guard additional funding does not immediately translate into an increased ability to carry out its missions.

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<sup>2</sup>With funding provided in the Coast Guard's \$209 million supplemental for fiscal year 2002, the agency plans to hire people during fiscal 2002 to fill 843 of the 2,200 positions.

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## Background

The Coast Guard, a Department of Transportation agency, is involved in seven main mission or program areas: (1) enforcing maritime laws and treaties, (2) search and rescue (3) aids to navigation, (4) marine environmental protection, (5) marine safety and security (including homeland security), (6) defense readiness, and (7) ice operations. Most of the Coast Guard's services are provided through a number of small boat stations, air stations, marine safety offices, and other facilities and assets located in coastal areas, at sea, and near other waterways like the Great Lakes. Its equipment in operation today includes 228 cutters, approximately 1,200 small patrol and rescue boats, and 200 aircraft.

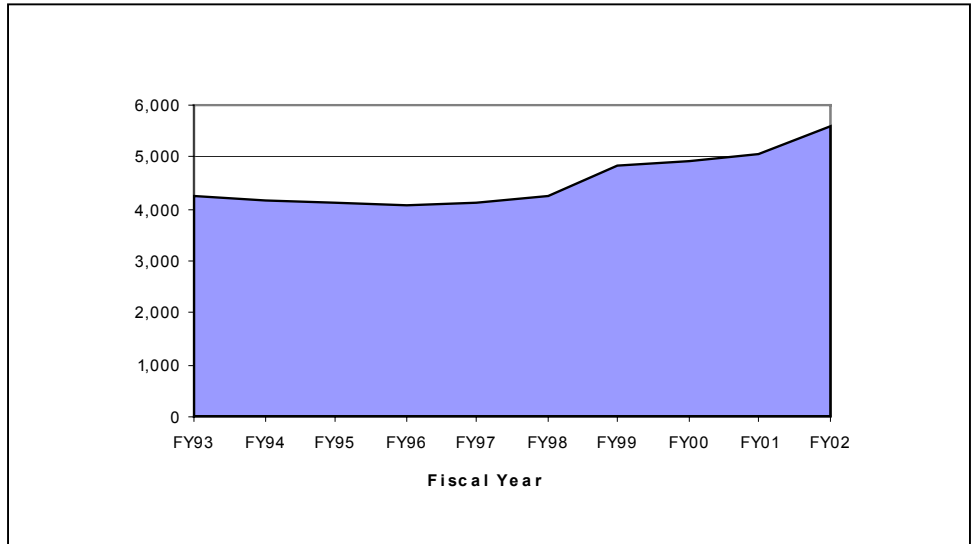
As an organization that is also part of the armed services, the Coast Guard has both military and civilian positions. At the end of fiscal year 2001, the agency had over 39,000 total full-time positions—about 33,700 military and about 5,700 civilians. The Coast Guard also has about 8,000 reservists who support the national military strategy and provide additional operational support and surge capacity during emergencies, such as natural disasters. Also, about 34,000 volunteer auxiliary personnel assist in a wide range of activities ranging from search and rescue to boating safety education.

Overall, after adjusting for the effects of inflation, the Coast Guard's total budget grew by 32 percent between fiscal years 1993 and 2002. During nearly half this period, however, in real terms the budget was basically flat. As figure 1 shows, in constant 2001 dollars, the Coast Guard's budget remained essentially static from fiscal year 1993 to 1998. Significant increases have occurred since fiscal year 1998.

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**Figure 1: Annual Budgets for the Coast Guard, Fiscal Years 1993-2002**

(Dollars in Millions)



Note: Amounts are presented in 2001 dollars.

Source: GAO analysis of data provided by the Office of Management and Budget.

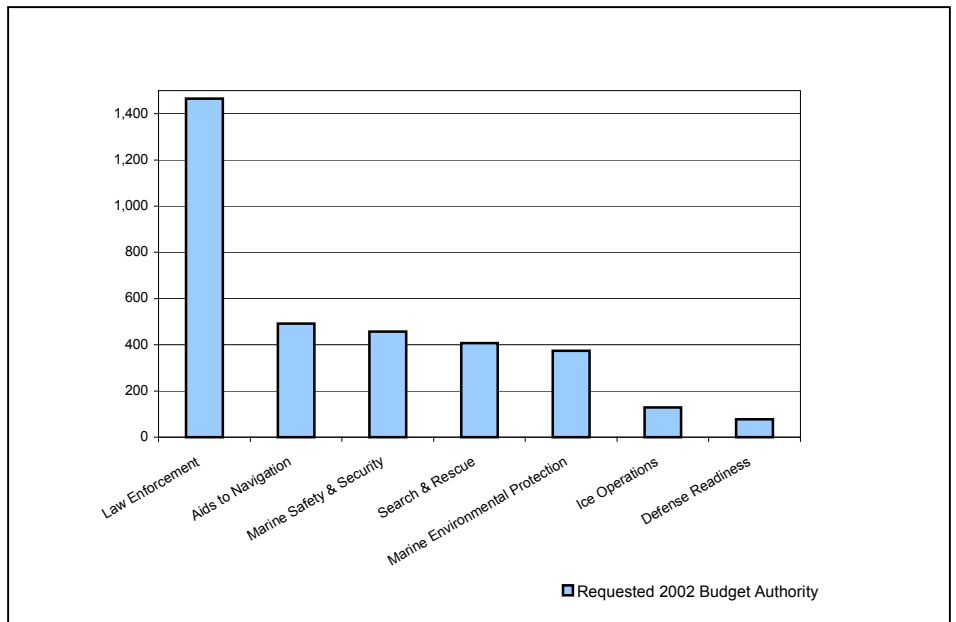
The Coast Guard's initial budget request for fiscal year 2002, submitted early in 2001, represents a pre-September 11th picture of how the Coast Guard intended to operate. As figure 2 shows, law enforcement was by far the largest mission category, with budgeted expenses estimated at \$1.47 billion, or about 43 percent of total operating expenses. Marine safety and security, at \$456 million, was about 13 percent of the total.<sup>3</sup>

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<sup>3</sup>Budget allocations such as these are estimates, not final amounts. The Coast Guard's accounting system does not track cost by program area, so there is no precise way to measure the extent to which actual expenditures in each program area mirror these budget allocation projections. Coast Guard officials note that as an agency with multiple missions, the Coast Guard must be flexible in shifting resources from one priority to another. This means that resources such as cutters may be projected for one mission but, depending on circumstances, actually be used for another more pressing need.

**Figure 2: Distribution of Budgeted Operating Expenses by Mission, Fiscal Year 2002 Budget Request**

(Dollars in Millions)

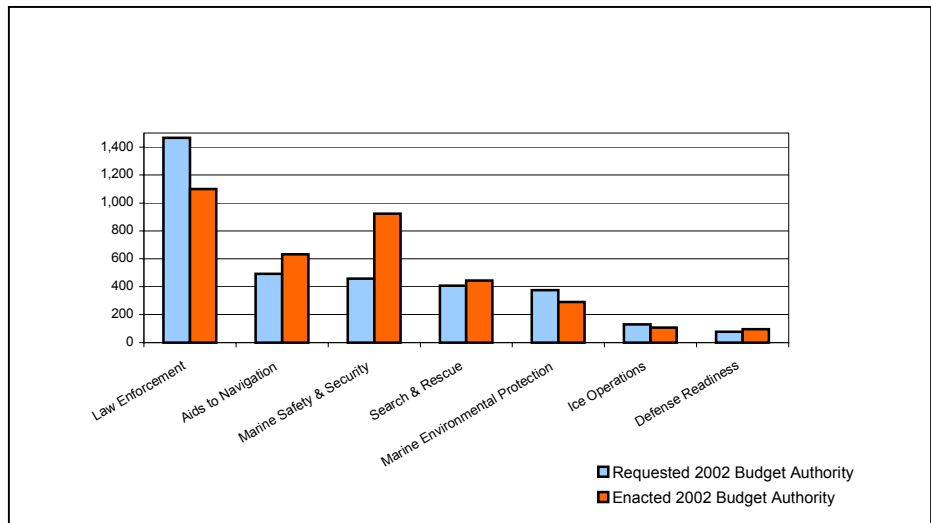


Source: GAO analysis of data provided by the United States Coast Guard.

Following the events of September 11th, the Congress provided the Coast Guard with a supplemental appropriation of \$209 million. After it received this additional amount, the Coast Guard revised the budget allocation for its various missions. As figure 3 shows, the revision produced a doubling of projected expenses for marine safety and security and smaller increases for aids to navigation and search and rescue. By contrast, projected expenses for law enforcement, ice operations, and marine environmental protection were reduced.

**Figure 3: Comparison of Initial and Final Operating Expense Projections by Mission, Fiscal Year 2002**

(Dollars in Millions)



Source: GAO analysis of data provided by the United States Coast Guard.

## Events of September 11th Substantially Affected Some Coast Guard Missions

For the Coast Guard, the events of September 11th produced a dramatic shift in resources used for certain missions. The Coast Guard responded quickly to the attacks with a number of significant steps to ensure that the nation’s ports remained open and operating. The Coast Guard relocated vessels, aircraft, and personnel from traditional missions—especially law enforcement—to enhance security activities. Subsequently, the Coast Guard has returned some of these resources to their more traditional non-security missions, but in some areas, it faces challenges in restoring the level of activity to what it had been.

## Protecting Port Facilities Became a Top Priority

After September 11th, the Coast Guard responded by positioning vessels, aircraft, and personnel not only to provide security, but also to increase visibility in key maritime locations. Key actions taken included the following:

- Recalling all cutters that were conducting offshore law enforcement patrols for drug, immigration, and fisheries enforcement and repositioning them at entrances to such ports as Boston, Los Angeles, Miami, New York,

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and San Francisco. The Coast Guard also used smaller assets, such as patrol boats, motor lifeboats, and aircraft, to supplement increased port security activities. The smaller boats were used mainly for conducting security patrols within port facilities and in fact, became the port's "cop on the beat,"<sup>4</sup> according to Coast Guard officials.

- Establishing a new National Vessel Movement Center to track the movement of all foreign-flagged vessels entering U.S. ports of call. The center is now the clearinghouse for vessel information, such as type of cargo and crew manifest. All commercial vessels over 300 gross tons are required to report this information to the center 96 hours in advance of their arrival. This information is then provided to the Coast Guard's local marine safety offices, which use a risk-based decision model to decide if a specific vessel is considered high interest, thus requiring an escort or additional security and safety inspections or oversight.
- Implementing a series of limited risk assessments that identified high-risk infrastructure and facilities within specific areas of operation.<sup>5</sup> These assessments, which were done by Coast Guard marine safety office personnel at individual ports, were the basis for deploying small boats for security patrols inside harbors and focused on identified high-threat facilities.
- Adopting a temporary regulation prohibiting any private vessel from approaching within 100 yards of Navy ships without permission. The Coast Guard is proposing that such a restriction become permanent.
- Activating and deploying the Coast Guard's port security units<sup>6</sup> to help support local port security patrols in high-threat areas. To maintain surge capacity and to deploy these units overseas, the Coast Guard also formed five interim marine security and safety teams, using full-time Coast Guard

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<sup>4</sup>The Coast Guard reported that for some facilities there were requirements for conducting continuous 24-hour patrols, and this caused a great strain on both assets and personnel.

<sup>5</sup>Examples of high-risk infrastructure include fossil fuel processing and storage facilities, nuclear power plants, liquid natural gas transfer facilities, naval ships and facilities, cruise ships, and terminal facilities.

<sup>6</sup>The Coast Guard's port security units are specially trained reserve personnel that provide port security for U.S. Navy vessels deployed overseas.



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personnel trained in tactical law enforcement and based in Yorktown, Virginia. The Coast Guard is considering adding more of these teams in the future.

- Recalling about 2,700 reservists to active duty. Today, more than 1,800 are still on active duty. According to Coast Guard officials, reservists have played a major role in allowing the Coast Guard to respond to both its homeland security and other mission functions. Their functions include staffing boat crews and port security units and performing administrative functions in place of active duty personnel who were pressed into new responsibilities elsewhere.

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### Enhanced Security Activities Drew Resources From Other Missions

The precise extent to which these responses changed the Coast Guard's allocation of mission resources cannot be determined, mainly because the Coast Guard is still gathering and analyzing the data. However, in our discussions with Coast Guard personnel, we were told that law enforcement activities, such as fisheries and counter drug patrols, saw the greatest reduction in actual services. For example:

- A number of Coast Guard districts have reported that security activities have impacted their ability to conduct fisheries enforcement missions, such as boarding of recreational and commercial fishing vessels. For example, District 1<sup>7</sup> reported a drop in fishing boat boardings in the New England fishing grounds, from 300 in the first quarter of fiscal year 2001 to just 38 during the first quarter of fiscal year 2002. Also, law enforcement-related civil penalties and fines were down substantially for the District as well.
- Districts also reported reduced drug interdiction efforts. For example, prior to September 11th, District 11<sup>8</sup> would send 110-foot patrol boats, which serve as the District's primary boats for drug patrols, from Alameda to areas off the southern California and Mexican shores. The District had to eliminate these patrols when the boats were reallocated for security functions.

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<sup>7</sup>District 1 is headquartered in Boston, Massachusetts and is responsible for Connecticut, Massachusetts, Maine, New Hampshire, New Jersey, New York, Rhode Island, and Vermont.

<sup>8</sup>District 11 is headquartered in Alameda, California and is responsible for Arizona, California, Nevada, and Utah.

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- Some districts had to re-allocate personnel to specific security activities. For example, District 13<sup>9</sup> reallocated personnel from small boat stations along the Washington coast to help implement added security measures in ports in Puget Sound. District 13 staff reported that patrol boats and small boats experienced a large increase in operational hours and that Coast Guard personnel who were assigned to boat stations experienced a marked increase in work hours from 60 to 80 hours per week. Other districts reported similar strains on personnel.

Although the Coast Guard drew resources from many mission areas, some areas were less negatively affected than law enforcement in continuing to meet mission requirements. For example, although the Coast Guard had to put search and rescue vessels and personnel into security roles, doing so did not negatively affect search and rescue activities or detract from saving lives, according to the Coast Guard. The main reason was that the terrorist attacks occurred when the busiest part of the search and rescue season was essentially over. In addition, during the initial response, there were no major storms and the weather was warmer, requiring less icebreaker services, search and rescue calls, and oil tanker escorts.

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### Some Resources Are Returning to Non-Security Missions, but Others Are Not

In an attempt to restore capabilities in its key mission areas, the Coast Guard has begun Operation NEPTUNE SHIELD, which has a goal of performing new enhanced security missions, while at the same time returning resources to other missions such as law enforcement, search and rescue, defense readiness, and marine safety. Also, in March 2002, the Coast Guard Commandant issued guidance<sup>10</sup> that instructed his Atlantic and Pacific Area Commanders to plan and manage assets and personnel for long-term, sustainable operating tempos more in line with traditional mission functions, while still maintaining heightened security. Coast Guard officials from both the Atlantic and Pacific Areas have started implementing this guidance. As a result, deepwater cutters and aircraft are returning to traditional mission allocations but are still not at pre-September 11th levels. For example, because the Atlantic and Pacific areas each continue to allocate a deepwater cutter for coastal security patrols,

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<sup>9</sup>District 13 is headquartered in Seattle, Washington and is responsible for Washington, Oregon, Idaho, and Montana.

<sup>10</sup>Operational and Marine Safety Mission Planning Guidance amended the fiscal year 2002 Law Enforcement Planning Guidance dated July 16, 2001 and COMDT COGARD Washington DC//G-M//P 042025Z of October 1, 2001.

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the amount of time that will be spent on counter-drug and marine resources patrols is still below pre-September 11th levels.

While a return to the pre-September 11th activity pattern is under way for deepwater cutters, district patrol boats and small boats remain deployed closer to their post-September 11th levels. Because the Coast Guard has implemented a number of new security activities or has increased the level of normal port security activities, the Coast Guard has continued to use boats and personnel from small boats stations and other areas for security missions. These missions include performing security inspections of cargo containers and port facilities, escorting or boarding high-interest commercial vessels, escorting Navy ships and cruise ships, establishing and enforcing new security zones, and conducting harbor security patrols. To relieve or augment its current small boats now performing security functions, the Coast Guard plans to purchase 70 new homeland security response boats with supplemental funds appropriated for fiscal year 2002 and fiscal year 2003 funding.<sup>11</sup> According to the Coast Guard, these new boats will increase the capabilities of existing stations at critical ports, while others will provide armed platforms for the agency's newly established marine safety and security teams.

One program, San Francisco's sea marshal program, illustrates the continued strain occurring at local ports. This program uses armed Coast Guard personnel to board and secure steering control locations aboard high-interest vessels. Implementing this program has affected the ability of the local Coast Guard office to accomplish its traditional missions in at least two ways, according to Coast Guard officials. First, the program has created new vessel boarding training needs for the sea marshal personnel. Second, the program requires the use of Coast Guard small boats in transporting sea marshals to vessels at assigned boarding points. This means that the Coast Guard must use small boats that are also being used for such missions as search and rescue and marine environmental protection, which will require further prioritizing and balancing of missions. Similar sea marshal programs are being implemented at other ports, such as Boston and Seattle, with similar impacts on other missions.

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<sup>11</sup>The fiscal year 2002 supplemental appropriation provided funds to purchase 42 homeland security response boats. The fiscal year 2003 request includes funding in the operating expenses account to purchase an additional 28 of these boats.

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## Fiscal Year 2003 Budget Request Reflects Changing Mission Priorities

The fiscal year 2003 budget request of \$7.3 billion would increase the Coast Guard's budget by about \$1.9 billion, or 36 percent, over the fiscal year 2002 budget.<sup>12</sup> More than \$1.2 billion of this increase is for retirement-related payments for current and future retirees, leaving an increase of about \$680 million for operating expenses, capital improvements, and other expenses. Funding for operating expenses for all of the Coast Guard's mission areas would increase from fiscal year 2002 levels. Under the Coast Guard's allocation formula,<sup>13</sup> operating expenses for marine safety and security (the mission area that includes most homeland security efforts) would have the largest percentage increase—20 percent. Increases in other mission areas would range from 12 percent to 16 percent.

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## Retirement Expenditures Account for Nearly Two- Thirds of the Budget Increase

The fiscal year 2003 budget contains a significant amount for retirement funding. In October 2001, legislation was proposed<sup>14</sup> that would fully accrue the retirement costs of Coast Guard military personnel. This legislation directs that agencies fully fund the future pension and health benefits of their current workforces. Although this proposed legislation has not been enacted, the Coast Guard prepared its fiscal year 2003 budget to comply with these requirements.<sup>15</sup> Excluding the amounts for retirement costs,<sup>16</sup> the fiscal year 2003 increase totals about \$680 million, which represents a 13 percent increase over the Coast Guard's fiscal year 2002 budget.

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<sup>12</sup>The Coast Guard's budget for fiscal year 2002 included both an initial budget of \$5.2 billion and a supplemental appropriation of \$209 million for operating expenses. The supplemental appropriation was for expenses to respond to the September 11, 2001 terrorist attacks on the United States. Budget figures presented in the report are based on data provided by the Coast Guard.

<sup>13</sup>The Coast Guard uses a cost allocation model to apply dollars to mission resource hours. Direct, support, and overhead costs associated with each asset type are multiplied by the operation baseline (resource hours devoted to each mission area) to determine the allocation of operating costs across mission areas.

<sup>14</sup>"Managerial Flexibility Act of 2001" (S.1612).

<sup>15</sup>The Coast Guard's fiscal year 2002 budget did not include accruals.

<sup>16</sup>Retirement funding in the budget request includes a \$736 million payment to the Coast Guard's Military Retirement Fund and \$496 million included in the budget request for operating expenses, capital improvements, and other expenditures.

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**Remaining Budget Request  
Would Increase Operating  
Expenditures for All  
Mission Areas**

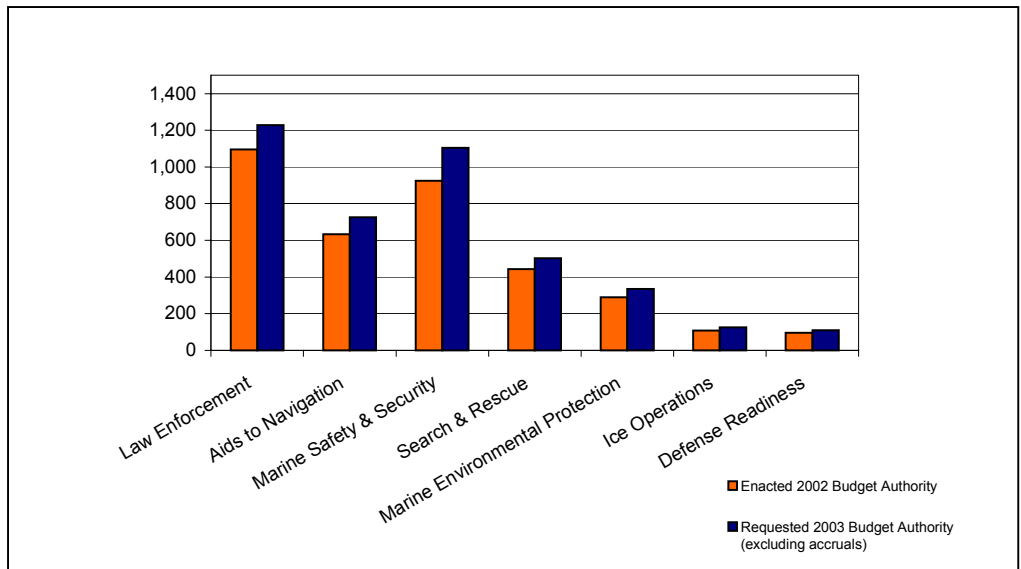
About \$542 million of the requested \$680 million increase is for operating expenses for the Coast Guard's mission areas.<sup>17</sup> The requested amount for operating expenses represents an increase of 15 percent over fiscal year 2002 levels. These expenses include such things as pay increases and other entitlements as well as new initiatives. Pay increases and military personnel entitlements in the fiscal year 2003 budget request total about \$193 million or 36 percent of the requested increase for operating expenses. This leaves \$349 million for new mission-related initiatives and enhancements. As figure 4 shows, all mission areas would receive more funding than in fiscal year 2002.

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<sup>17</sup>Most of the remainder of the \$680 million increase would be for Acquisition, Construction, and Capital Improvements (AC&I)—the Coast Guard's capital expenditures budget. AC&I expenses would increase by nearly \$89 million, an increase of 14 percent. About \$48 million of the \$680 million increase would be for other expenditures, which include such things as environmental compliance and restoration; reserve training; and research, development, testing, and evaluation.

**Figure 4: Comparison of Operating Expenses by Mission Area for Fiscal Years 2002 Enacted and 2003 Requested.**

(Dollars in Millions)



Source: GAO analysis of data provided by the United States Coast Guard.

Projected increases in operating expenses would range from a high of 20 percent for the marine safety and security mission area to a low of 12 percent for the law enforcement mission area. (See table 1.) The Coast Guard stated that the increases are intended to improve the Coast Guard’s capabilities in each respective mission area. For example, if fully funded, operating expenses for the search and rescue mission area would increase by 13 percent. According to Coast Guard officials, the Coast Guard has experienced staffing shortages, resulting in personnel working an average of 84 hours per week; therefore, if the budget request is fully funded, the Coast Guard intends to improve readiness at small boat stations by adding 138 new positions to reduce the number of hours station personnel must work each week.

**Table 1: Percentage Increase for Operating Expense by Mission Area, Fiscal Year 2003 Budget Request Compared to Fiscal Year 2002 (Enacted)**

Mission Area	Increase	
	Dollars (in millions)	Percentage
Law enforcement	131.5	12
Aids to navigation	94.3	15
Marine safety and security	180.5	20
Search and rescue	59.2	13
Marine environmental protection	45.5	16
Ice operations	17.3	16
Defense readiness	14.1	15

Source: GAO analysis of data provided by the United States Coast Guard.

In line with the Coast Guard’s relatively new responsibilities for homeland security, the marine safety and security area would receive the largest portion of the operating expenses increase. The levels of funding requested for the maritime security area would allow the Coast Guard to continue and enhance homeland security functions, begun in 2002, aimed at improving the security of the nation’s ports, waterways, and maritime borders. New security initiatives to be undertaken in fiscal year 2003 include programs to build maritime domain awareness,<sup>18</sup> ensure controlled movement of high-interest vessels,<sup>19</sup> enhance presence and response capabilities, protect critical infrastructure, enhance Coast Guard force protection, and increase domestic and international outreach. For example, to enhance presence and response capabilities, the Coast Guard intends to spend \$12.7 million to establish two additional deployable maritime safety and security teams, which are mobile law enforcement and security specialists that can be used in various regions during times of heightened risk. These teams would be added to the four teams already established with funds from the fiscal year 2002 supplemental appropriation. Other new security initiatives would largely be funded from

<sup>18</sup>Maritime domain awareness is the real-time tracking of vessels, people, and cargo. The Coast Guard plans to increase intelligence efforts in ports and improve advanced information on passengers, crew, and cargo.

<sup>19</sup>High-interest vessels are vessels that may pose a threat to the United States or that require a heightened level of security. For example, naval vessels or vessels carrying hazardous materials would be considered high interest vessels.

the operating expenses appropriation.<sup>20</sup> Table 2 provides a detailed breakdown of the cost of each of the proposed security measures.

**Table 2: Homeland Security Strategies and Initiatives in the Fiscal Year 2003 Budget Request**

(Dollars in millions)

Strategy	Security Initiative	Amount (in millions)
Build maritime domain awareness	Improve communications and connectivity	\$34.4
	Improve information and investigations capability	\$26.1
Ensure controlled movement of high interest vessels	Maritime escort and safety patrols	\$18.5
Enhance presence and response capabilities	Maritime Safety and Security Teams	\$47.5
Protect critical infrastructure and enhance Coast Guard force protection	Chemical, biological and radiological countermeasures	\$17.5
	Critical infrastructure protection	\$11.2
	Firearms and ammunition	\$9.1
Increase domestic and international outreach	Security readiness and planning	\$21.5
	Incident command system	\$2.3
<b>Total fiscal year 2003 new initiatives</b>		<b>\$188.1</b>

Source: United States Coast Guard Fiscal Year 2001 Performance Report and Fiscal Year 2003 Performance Plan.

Note: Figures may not add up to total due to rounding.

## Coast Guard Faces Difficult Budget and Management Challenges

While the fiscal year 2003 budget request provides funding increases for every mission area, these increases alone may not return all of its missions to levels that existed prior to September 11th. The Coast Guard faces other daunting budget and management challenges and unknowns as it strives to achieve its new mission priorities and maintain its core missions at desired levels. The most serious challenges are as follows:

- The Coast Guard is now at or near its maximum sustainable operating capacity in performing its missions. The agency has a finite set of cutters, boats, and aircraft to use in performing its missions, and according to Coast Guard officials, these assets, particularly the cutters, are now being operated at their maximum capabilities. In fact, officials in some districts

<sup>20</sup> A portion of this funding, \$9.4 million, would come from the AC&I appropriation. This would fund the Maritime Domain Awareness Information Management initiative, which is intended to enhance the Coast Guard's information management capabilities and improve its ability to collect, analyze, and disseminate information.



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we visited said that some of the patrol boats and small boats are operating at 120 to 150 percent of the levels they normally operate. Significantly increasing the numbers of its cutters, boats, and aircraft is not feasible in the short term. Adding new deepwater cutters and aircraft, for example, is years away as are new motor lifeboats to replace the aging 41-foot boats, which have been the mainstay of harbor security patrols in recent months. Also, according to officials in various Coast Guard units, many personnel are also working long hours even now, six months after the terrorist attacks.

- The Coast Guard does not yet know the level of resources required for its “new normalcy”—the level of security required in the long term to protect the nation’s major ports and its role in overseeing these levels. Until the Coast Guard completes comprehensive vulnerability assessments at major U.S. ports and the Congress decides whether or not to enact proposed port security legislation,<sup>21</sup> the Coast Guard cannot define the level of resources needed for its security mission. Also, the full extent of the demands on its resources to deal with all of its missions may not have been fully tested. In terms of its ability to respond to port security functions, the Coast Guard was fortunate in the timing of the terrorist attacks. For example, the busiest part of the search and rescue season was essentially over, and the agency was able to redeploy search and rescue boats from stations during the off-season to perform harbor security functions. The cruise ship season was over in many locations, requiring fewer Coast Guard escorts for these vessels. There were no major storms, and the weather has been warmer—requiring less icebreaking services, search and rescue calls, and oil tanker escorts. Also, there were no major security incidents in our nation’s ports. A major change in any or a series of these events could mean major adjustments in mission priorities and performance.
- The Coast Guard faces a host of human capital challenges in managing its most important resource—its people. Even before September 11, 2001, the Coast Guard saw signs of needed reform in its human resources policies and practices. Attrition rates among military and civilian employees are relatively high, and about 28 percent of the agency’s civilian employees are eligible to retire within the next five years. Budget constraints during the

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<sup>21</sup>Pending legislation (S. 1214 and H.R. 3437) proposed a number of security measures for U.S. seaports. Major provisions of these bills would require heavy involvement by the Coast Guard in conducting vulnerability assessments at 50 U.S. ports, reviewing port security plans, developing seaport security standards, and making loan guarantees and authorizing grants for port security improvements.

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last decade had led to understaffing and training deficiencies in some program areas. For example, a recent study<sup>22</sup> of the Coast Guard's small boat stations showed that the agency's search and rescue program is understaffed, personnel often work over 80 hours each week, and many staff are not fully trained. All of these challenges have been exacerbated by new challenges added since September 11th. As a result of its new emphasis on homeland security, the Coast Guard plans to hire over 2,200 new full-time positions to its workforce and increase its pool of reservists by 1,000 if its funding request is approved—putting added strain on its recruiting and retention efforts. While the Coast Guard has embarked on a strategy to address these issues, many of its human capital initiatives are yet to be developed or implemented.

- Other needs that have been put on the “back burner” in the fiscal year 2003 request may require increased attention—some rather soon. For example, sizeable capital improvements for shore facilities may be required in the near future, and required funding for this purpose could be considerable. For example, it appears that the agency reduced the fiscal year 2003 budget request for this budget item to fund other priorities. In last year's capital plan, the Coast Guard estimated that \$66.4 million would be required in fiscal year 2003 for shore facilities and aids to navigation. However, the fiscal 2003 budget request seeks only \$28.7 million, a significant disparity from last year's estimate. Other priorities, such as funding for the Deepwater Project and the National Distress System, will consume much of the funding available for its capital projects for years to come. Coast Guard officials said that while they still face the need for significant capital projects at their shore facilities, they are taking steps in the fiscal year 2003 budget request to improve the agency's maintenance program in an effort to forestall the need for capital projects at these facilities.

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In conclusion, to its credit, the Coast Guard has assumed its homeland security functions in a stellar manner through the hard work and dedication of its people. It has had to significantly adjust its mission priorities, reposition and add to its resources, and operate at an intense pace to protect our nation's ports. Now, six months after the terrorist attacks, the agency is still seeking to define a “new normalcy”—one that

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<sup>22</sup>*Report on Audit of the Small Boat Station Search and Rescue Program, United States Coast Guard* (MH-2001-094, September 14, 2001), U.S. Department of Transportation, Office of Inspector General.

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requires a new set of priorities and poses new challenges. By seeking increases in each of the agency's mission areas, the fiscal year 2003 budget request is an attempt to provide the Coast Guard with the resources needed to operate within this environment. But particularly in the short term, increased funding alone is not necessarily the answer and is no guarantee that key Coast Guard missions and priorities will be achieved. In fact, because of the formidable challenges the Coast Guard faces today— particularly the finite numbers of cutters, boats, and aircraft it has available in the short run and its significant human capital issues—the Coast Guard will likely have to continue to make significant trade-offs and shifts among mission areas until it develops clear strategies to address its new mission environment.

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

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# Appendix I: Scope and Methodology

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To determine the nature of the Coast Guard's shift from traditional core missions to its new security functions for homeland security, we interviewed Coast Guard officials and reviewed relevant documents regarding the reallocation of Coast Guard resources. Coast Guard interviews involved personnel from Headquarters, Atlantic Area Command, Pacific Area Command, District 1, District 5, District 11, District 13, and a variety of group and small boat station personnel under these commands. These officials provided examples of post-September 11th activities and the operational status of assets and personnel. We gathered information on asset planning and operations from the Coast Guard's Abstract of Operations and the Commandant's Fiscal Year 2002 Law Enforcement Planning Guidance.

To evaluate the Coast Guard's efforts to fund enhanced security missions and increase funding for all other Coast Guard missions beyond fiscal year 2002 levels, we examined relevant budget and performance documents including the Coast Guard's Fiscal Year 2003 Budget in Brief and the Coast Guard's Fiscal Year 2001 Performance Report and Fiscal Year 2003 Performance Plan. We interviewed Coast Guard officials within the Office of Programs regarding proposed legislation establishing an accrual funding system, the Coast Guard's method of allocating operating costs across mission areas, and the fiscal year 2003 budget request.

Analysis of changes in the Coast Guard budget is made more difficult by the fact that funds from the emergency supplemental were made available at different times. Eighteen million dollars was allocated to the Coast Guard in fiscal year 2001 and \$209 million in fiscal year 2002. In this testimony we use the \$209 million figure for fiscal year 2002 since that is what is shown in the Coast Guard budget documents used for the analysis.

To identify substantial management challenges that the Coast Guard will face translating these budget request increases into increased service levels, we relied on previous GAO work. We also interviewed Coast Guard Headquarters and field personnel regarding the Coast Guard's ability to establish a sustainable operating tempo, develop and implement new security requirements and port security assessments, manage and plan for major increases its workforce, and funding requests for capital improvements at shore facilities.