

May 1997

# COAST GUARD

## Challenges for Addressing Budget Constraints



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United States  
General Accounting Office  
Washington, D.C. 20548

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**Resources, Community, and  
Economic Development Division**

274164

May 1997

The Honorable Wayne T. Gilchrest  
Chairman  
The Honorable Bob Clement  
Ranking Minority Member  
Subcommittee on Coast Guard  
and Maritime Transportation  
Committee on Transportation  
and Infrastructure  
House of Representatives

The Honorable Howard Coble  
House of Representatives

In response to your request, this report discusses the fiscal constraints that the U.S. Coast Guard is facing and the efforts that the agency is making to adjust to constrained budgets. This report contains recommendations to the Secretary of Transportation and two matters for congressional consideration to assist the Coast Guard in meeting its budget targets.

As requested, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days after the date of this letter. We will then send copies to the Secretary of Transportation; the Commandant of the Coast Guard; the Director, Office of Management and Budget; and other interested parties. We will make copies available to others upon request.

If you or your staff have any questions, please call me at (202) 512-2834. Major contributors to this report are listed in appendix III.

John H. Anderson, Jr.  
Director, Transportation  
Issues

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# Executive Summary

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## Purpose

Since fiscal year 1992, the Coast Guard has assumed increased responsibilities while shrinking its workforce by nearly 10 percent and operating with a budget that has risen about 1 percent a year in actual dollars. The Commandant of the Coast Guard told the Congress in 1996 that funding was no longer sufficient to sustain the normal pace of operations over time. Yet the Coast Guard, like the federal government as a whole, faces the prospect of further budget cuts to meet deficit reduction targets over the next several years.

The Chairman and Ranking Minority Member of the Subcommittee on Coast Guard and Maritime Transportation, House Committee on Transportation and Infrastructure, asked GAO to determine how the Coast Guard plans to carry out its roles and missions in the face of stringent budgets. GAO's review addressed the following questions:

- What is the extent of the gap between the funding needed to maintain the Coast Guard's current level of services and the funding that the Office of Management and Budget (OMB) has targeted for the agency through fiscal year 2002?
- What is the Coast Guard's strategy for addressing this gap, and is the strategy adequate?
- What additional actions, if any, would help close the gap?

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## Background

The Coast Guard, a Department of Transportation (DOT) agency, is responsible for maritime missions that include conducting search and rescue operations; protecting the marine environment; enforcing fisheries, immigration, and drug laws; and facilitating the safe navigation of vessels through U.S. waters. The Coast Guard's nearly 43,000 full-time military and civilian employees, 7,800 reservists, and 34,000 volunteer auxiliary staff provide services through a number of boat stations, air stations, marine safety offices, and other facilities located in coastal areas and navigable lakes and rivers. The agency maintains a sizable fleet of cutters and other vessels, airplanes, and helicopters to carry out its functions.

The Coast Guard's budget for fiscal year 1997 is about \$3.8 billion. Operating expenses account for nearly three-fourths of this amount; the remainder is mainly for military retirement pay and capital purchases. The President has requested an increase of about \$137 million for fiscal year 1998, primarily for increased drug interdiction efforts, pay increases and other employee-related programs, and mandatory increases for retirees.

Most of the Coast Guard's funding comes from the Department of the Treasury's General Fund. The agency also receives moneys from the Oil Spill Liability Trust Fund (for the prevention and cleanup of oil spills) and from the Boat Safety Account of the Aquatic Resources Trust Fund (for a national recreational boating safety program). Since 1982, the Coast Guard has also received varying annual amounts—\$6 million to \$490 million—from the Department of Defense for national security activities.

The Congress and the President have reached agreement in principle to achieve a balanced budget by fiscal year 2002. OMB, the lead agency for coordinating the administration's efforts to balance the budget, develops and periodically updates budget targets for each federal agency to use in managing toward a balanced budget. In setting these targets, OMB also estimates the funds that each agency would need to maintain its current level of services in future years. If an agency's current estimate for services exceeds budget targets, the agency is expected to take the necessary steps to eliminate the gap.

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## Results in Brief

Deficit reduction efforts will create substantial pressure on the Coast Guard's budget. By fiscal year 2002, the Coast Guard is projected to have a gap of as much as a \$493 million between OMB's budget target and the estimated cost of maintaining services at current levels. Eliminating a gap of this size means that by fiscal year 2002, the Coast Guard would need to identify cuts in operating expenses of \$363 million, or an average of about \$90 million each year. The Coast Guard would also have to defer a substantial portion of its budget—at least \$130 million—to replace or modernize its aging ships, aircraft, and facilities through fiscal year 2002, according to OMB's and the Coast Guard's estimates.

Whether the Coast Guard can close the gap with its current budget strategy is highly uncertain at this point and is likely to remain so for some time. Coast Guard managers have acknowledged the enormity of the task but have not yet fully developed an approach or a specific plan for addressing the task. To their credit, agency managers have begun to strengthen planning and budgeting processes through such steps as developing new business and capital expenditure plans. But these changes will not be fully in place for a year or more, and their usefulness in addressing immediate needs for reductions is unclear. In the meantime, the Coast Guard continues to rely heavily on its past strategy, which focuses almost exclusively on cutting costs through greater

efficiency—that is, on providing all services at the same levels as before but doing so at less cost. While this strategy has yielded savings of about \$343 million, achieving OMB’s targets will be a much more difficult challenge.

The sheer size of the gap and the dwindling number of available efficiency-related options mean that in developing its plan for meeting OMB’s budget targets, the Coast Guard may have to reexamine its current focus of addressing efficiency measures alone. GAO’s past work shows that when private-sector and public organizations have successfully faced fiscal constraints like the Coast Guard’s, they have done so through a much broader approach that includes the consideration of other alternatives, such as changing the services provided or reassessing how they are paid for. As the first step in developing its plan, the Coast Guard needs to quantify the extent of likely savings from ongoing or planned actions. Except for the recent streamlining program, the Coast Guard has relatively incomplete knowledge about the savings that it can anticipate in the next several years from cost-saving steps that are in various stages of implementation. As a result, the agency does not know the degree to which these steps would close future funding gaps. In addition, the Coast Guard may have to consider measures that call for considerable change in its operating culture, such as changing its military rotation policy, or that stir public opposition, such as closing small boat stations. Fully addressing such options may require further study or new implementation strategies.

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## Principal Findings

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### Projected Gap Is Substantial

OMB’s budget targets call for capping the Coast Guard’s expenditures in most discretionary spending categories at the requested levels for fiscal year 1998 throughout fiscal 1999-2002, with no adjustments for inflation. For operating expenditures—everything from salaries and benefits to maintenance and training—a freeze translates into a reduction in purchasing power and therefore a need to make cuts in activities. Cuts are necessary because costs rise from year to year as a result of inflation and other factors, even if funding levels do not. If no funding is received to cover the additional cost of providing the same level of operations, the Coast Guard must find ways to cover the loss in purchasing power by reducing costs. If OMB’s targets become the mark that the Coast Guard must meet during fiscal years 1999-2002, the Coast Guard will have to

make cuts of \$363 million in the operating portion of its budget—an average of about \$90 million each year.

For capital expenditures, where the gap is \$130 million, a freeze in expenditure levels for new ships, aircraft, and facilities does not necessarily translate into the need to make immediate cuts in activities because the Coast Guard may be able to go on using the old equipment. Instead, the effect of the freeze is deferred; at some future point, the equipment will likely need to be replaced or modernized. These deferrals can represent a potential funding dilemma, in that future budgets may not be able to accommodate all of the replacement or modernization projects that the agency believes cannot be put off any longer. The Coast Guard has estimated that replacing aging equipment and facilities on a one-for-one basis would require annual expenditures of from \$768 million to about \$1.2 billion in fiscal years 1999-2002, an amount that is at least double that included in OMB's targets. Deferring these acquisition costs can also affect the costs of operations, in that the cost-saving advantages of new or modernized equipment may not be realized, and the costs of maintaining older equipment and facilities can increase.

OMB's current targets are not the final word on how large the gap will be. The targets characteristically are subject to revision, on the basis of assumptions about how well the economy will perform, and changes in these assumptions can have a major impact on the size of the gap. The targets are also subject to change as the administration and the Congress consider the trade-offs involved in distributing limited funding among all programs, including those of the Coast Guard. Any of these factors could cause the Coast Guard's funding gap to widen or narrow.

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### Adequacy of Strategy to Meet OMB's Targets Is Highly Uncertain

For the Coast Guard, the current deficit reduction efforts come on the heels of the largest cost-reduction effort in the agency's recent history. The agency's cost-reduction efforts since fiscal year 1994 occurred in two phases and have yielded savings totaling about \$343 million. The agency's efforts in fiscal years 1994-96 yielded savings of about \$266 million by eliminating over 2,600 jobs and decommissioning old cutters and aircraft. In fiscal year 1996, the agency began a second round of efforts, called the National Plan for Streamlining, from which it expects to achieve an additional \$77 million in net savings by fiscal year 1999. However, despite the substantial savings from these cost-reduction efforts, Coast Guard management may face an even greater fiscal challenge in the near future. If OMB's budget targets hold, the Coast Guard must make additional cuts in

operating expenses equal to \$363 million by fiscal year 2002. In addition, the agency may have to defer capital expenditures of \$130 million or more, according to OMB's and the Coast Guard's estimates.

Coast Guard managers have not yet fully developed an approach or specific plan to meet OMB's budget targets. Although the Coast Guard has taken several actions to strengthen its budget review process, specific steps associated with these actions are just getting under way, and some of them will take time to put in place. The actions include developing (1) a revised planning and budgeting process that builds in mechanisms for identifying cost-saving alternatives, (2) a new senior management group that provides the agency with an additional opportunity to focus on dealing with budget targets, and (3) a new capital-planning process designed to focus on the scaled-down realities of the current budget environment. But the internal processes for developing and considering cost-cutting ideas are not yet fully developed, and the full development of the new capital-planning process is not expected until 1999.

In the short term, the Coast Guard is planning to rely mainly on its past strategy as a way to meet future budget targets. This strategy, which mirrors many efforts undertaken in past years, relies heavily on asking program managers to (1) consider a number of specific budget-cutting options suggested by top management to improve efficiency for fiscal years 1998-99 and (2) identify additional opportunities to operate more efficiently. However, the Coast Guard itself acknowledges that nearly all of what it considers to be realistic savings opportunities have already been taken, leaving little in the "savings locker." Given the size of the gap and the depleted list of cost-saving efficiencies, the adequacy of this approach in meeting much sterner budget challenges is highly uncertain, and the agency may have to look beyond efficiency measures only for budget-cutting options.

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### **Additional Actions Needed on Several Fronts to Better Prepare for Budget Contingencies**

Coast Guard officials voiced optimism that additional steps recently undertaken or planned would yield substantial savings to offset future funding gaps. These steps include such projects as replacing old motor lifeboats with fewer, more efficient ones and replacing aircraft engines with others that use less fuel and require less maintenance. However, the Coast Guard does not appear to have a very clear picture of the extent of these savings, particularly on a year-by-year basis. If such estimates can be developed, they would help provide clearer indications of likely savings and earlier warnings about the extent to which further cost-cutting efforts



will be needed. Coast Guard officials indicated that in many cases, such estimates could be developed.

So far, many of the Coast Guard's cost-cutting measures have generally not been controversial. However, some of the cost-cutting options that have been raised by previous studies—but not adopted—are controversial within the Coast Guard because they involve a change in the organizational culture. For example, past studies by DOT and the National Advisory Committee on Oceans and Atmosphere have pointed out that lengthening periods between military assignment rotations could substantially reduce the costs of transferring military personnel, which now amount to more than \$60 million a year. The Coast Guard believes that its current policies are best and does not plan to study this issue further.

Other changes are controversial with the public. The Coast Guard has proposed consolidating small boat stations to save money. However, despite assurances that response capabilities will not be significantly affected, the agency's consolidation proposals have not been accepted by the Congress. Also, substantial public opposition to closing Coast Guard facilities is likely to occur in local communities that derive significant economic benefits or services from the agency. If the size of budget reductions makes it necessary for the Coast Guard to consider controversial closure actions, these controversies need to be acknowledged and addressed. To address a similar situation, the Department of Defense used a "base closure" approach under which an independent commission had authority to recommend closures of facilities.

GAO's past work examining a cross section of private-sector and public organizations that have faced fiscal constraints similar to the Coast Guard's shows that they have often adopted a much broader approach or framework for evaluating potential cost-cutting options. Frequently, these broader assessments have involved a fundamental rethinking of the missions and services performed by these organizations and their relationship to user groups vis-a-vis the payment for such services. Expanding budget-cutting options to include a reassessment of missions or user fees is likely to involve controversy as well, given past opposition to reductions in services and requirements to pay for services. Partly because of these potential controversies, the Coast Guard has not pursued significant changes in its missions and rarely has suggested additional user fees to pay for its services. But if future cuts cannot be accommodated by

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efficiency measures alone, the Coast Guard's strategy needs to be nimble enough to allow quick but thorough consideration of changes in these areas. Because most changes in these areas would require congressional action, it is important for the Coast Guard to be able to identify cost-cutting options for congressional consideration as budget targets are being debated.

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## Recommendations

GAO is not taking a position on the level of resources needed by the Coast Guard to carry out its responsibilities or the specific budget reduction options that it should adopt. However, to enhance the Coast Guard's strategic planning process for considering cost-cutting options, GAO recommends that the Secretary of Transportation direct the Commandant of the Coast Guard to

- quantify anticipated year-by-year savings already under way or planned, to the maximum degree possible, and
- develop a more comprehensive strategy and corresponding plan for addressing impending budget targets by, among other things, systematically identifying and prioritizing alternatives that could be considered if future budget targets require additional reductions. Serious consideration should be given to relevant but unimplemented recommendations from past studies and to a reassessment of the Coast Guard's missions and the issue of users' paying for a portion of the costs for the services they receive.

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## Matters for Congressional Consideration

If future funding levels require the Coast Guard to consider closing operational units, the Congress may wish to establish an independent panel, much like the Defense Base Closure and Realignment Commission, to review potential closures. Also, if the Congress believes that potentially controversial issues within the Coast Guard (such as changing military rotation policies) merit further attention, the Congress may wish to (1) direct the Coast Guard to commission an outside study of these options or (2) otherwise ensure either that the options are reviewed independently or that the Coast Guard's studies of controversial internal issues are validated by a third party.

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## Agency Comments

GAO provided Coast Guard officials with copies of a draft of this report for their review and comment. GAO met with Coast Guard officials, including the Director of Resources, who generally concurred with the information

and recommendations contained in the report. However, the Coast Guard believed that the draft report did not (1) thoroughly address the unique nature of its missions and functions and the breadth of the services it provides with the budget it has and (2) properly characterize the agency's rationale for its reluctance to initiate substantive changes to its missions. The Coast Guard provided GAO with a number of other technical comments to clarify portions of the report; these changes have been incorporated into the body of the report as appropriate.

GAO believes that the report adequately describes the specific nature of the Coast Guard's missions and assets and acknowledges that the Coast Guard has been asked to do more while dealing with a relatively flat budget over the last several years. Also, the report describes in some detail the positive actions the agency has taken and is taking to reduce costs and align itself with the administration's priorities.

Coast Guard officials indicated that because the Congress ultimately decides the missions that the Coast Guard should perform, the agency has not initiated any mission-related changes. Language has been added to the report to better reflect the Coast Guard's position on this matter. However, the fact that the Coast Guard provides the public with valuable and in many cases vital services should not prevent the agency from critically examining its functions to see if other cost-effective alternatives are available to achieve its missions, as other fiscally constrained organizations have had to do. By reexamining its missions, the Coast Guard can position itself to provide relevant and timely information as the Congress conducts its budget deliberations. Also, the agency can validate the need for and the scope of its missions and functions before embarking on an aggressive program to modernize its aging assets.

# Introduction

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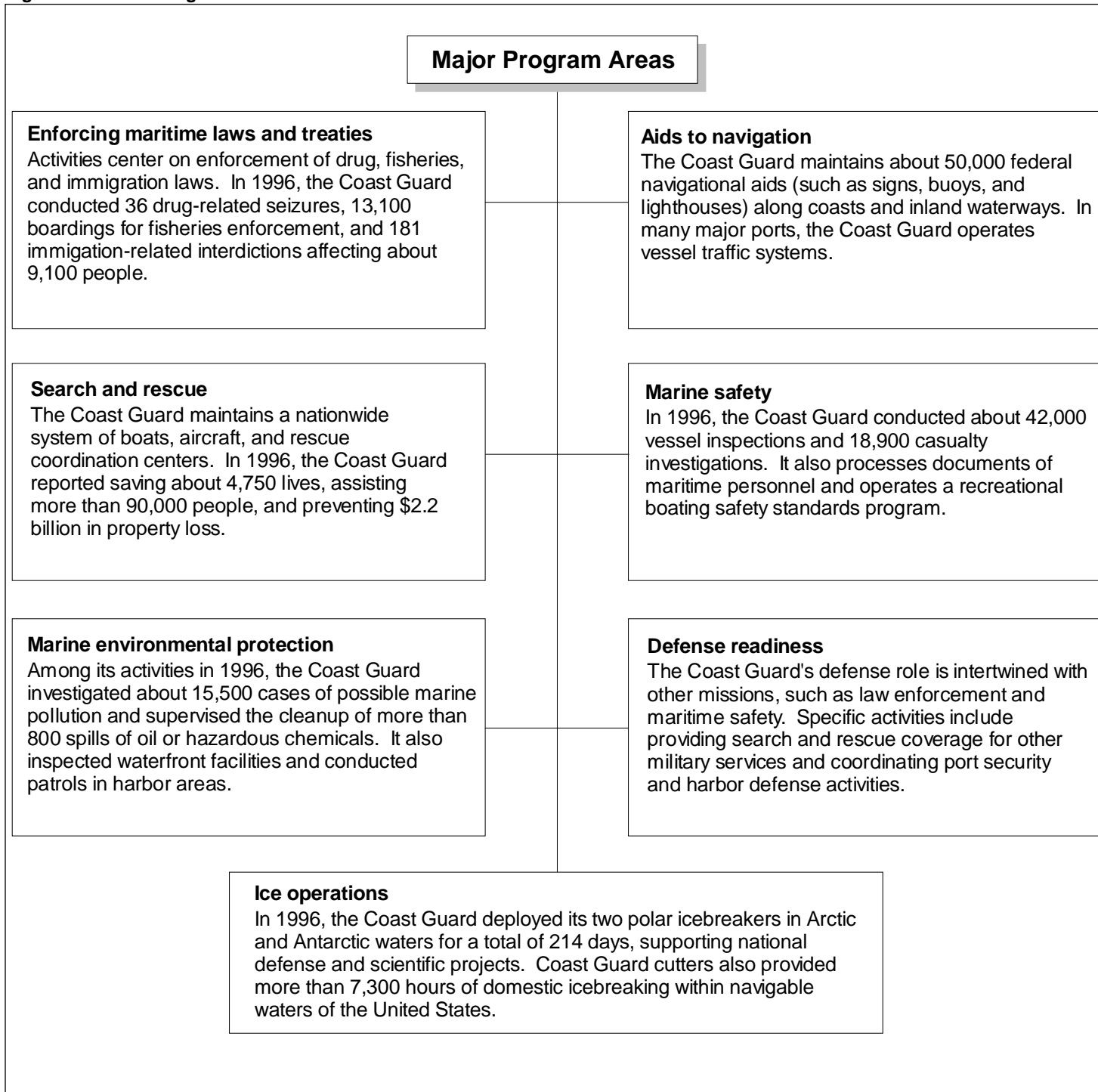
Balancing the budget—a goal that the Congress and the administration have agreed in principle to meet by fiscal year 2002—will require the federal government to find ways to dramatically reduce spending. Reducing spending to the degree required for a balanced budget will necessitate many difficult decisions. This report focuses on the efforts taken by one agency—the U.S. Coast Guard—to prepare for making such decisions. Reductions in the Coast Guard’s budget have a potentially far-reaching effect on the public, which looks to the Coast Guard for such services as rescuing people at sea, enforcing marine pollution laws, and ensuring safe operations in the nation’s ports. The Chairman and Ranking Minority Member of the Subcommittee on Coast Guard and Maritime Transportation, House Committee on Transportation and Infrastructure, asked us to conduct this study as a way of helping evaluate how the Coast Guard might best cope with such fiscal constraints.

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## The Coast Guard Has a Multifaceted List of Missions and Responsibilities

As an agency of the Department of Transportation (DOT), the Coast Guard carries out a variety of activities as the agency primarily responsible for providing many maritime services and enforcing related laws and regulations. Its staff and equipment are involved in four main missions: (1) maritime law enforcement, (2) marine environmental protection, (3) national security, and (4) maritime safety. These missions are supported by seven operating programs, as shown in figure 1.1. Some of these program responsibilities, such as enforcing U.S. fisheries laws and overseeing statutory requirements stemming from the Exxon Valdez oil spill in Alaska’s Prince William Sound, have been added or augmented by the Congress in recent years.

Figure 1.1: Basic Program Areas of the Coast Guard



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## Services Are Provided Through Many Locations and Facilities

As an organization that is part of the armed services, the Coast Guard has both military and civilian positions.<sup>1</sup> At the end of fiscal year 1996, the agency had about 43,000 total full-time positions—about 37,000 military and about 6,000 civilian. The Coast Guard has about 7,800 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.<sup>2</sup>

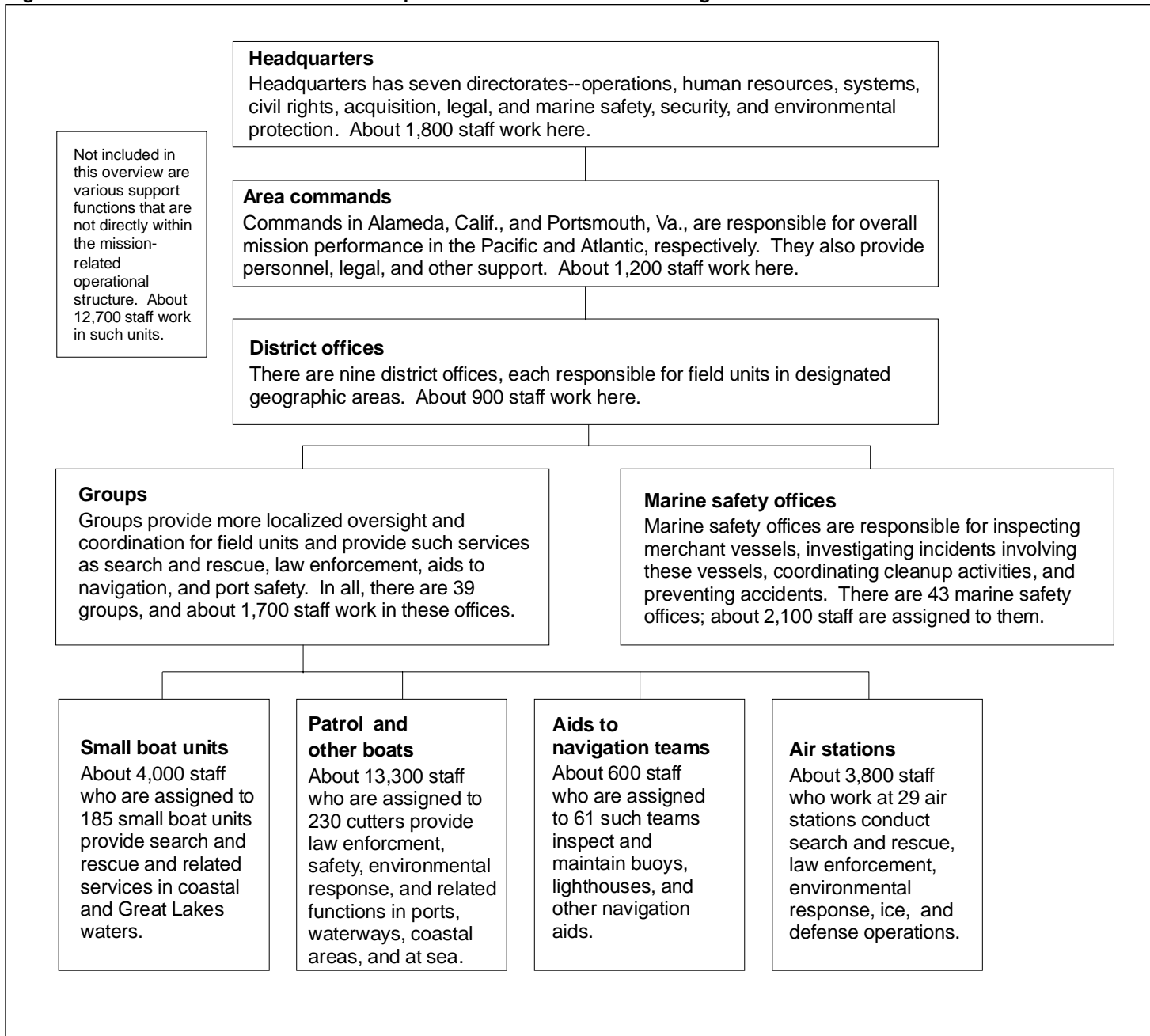
The Coast Guard is headed by a Commandant, who serves a 4-year term. The agency's organizational structure contains several tiers; most of the agency's services are provided through a number of small boat stations, air stations, marine safety offices, and other facilities and assets located in coastal areas, at sea, and near certain other waterways like the Great Lakes. Figure 1.2 shows this structure.

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<sup>1</sup>The Coast Guard is a military service that was officially established in 1915 (P.L. No. 239; 38 Stat. 800-802) as part of the Treasury Department. In 1967, the Coast Guard was transferred from the Treasury Department to the newly created Department of Transportation (P.L. 89-670; 80 Stat. 931) because its primary civil functions relate to transportation and marine safety. Upon declaration of war or when directed to do so by the President, the Coast Guard operates as a service of the Navy.

<sup>2</sup>Recently, the Congress extended the role that auxiliary personnel can play in supporting all of the Coast Guard's missions except for law enforcement and military operations.

Figure 1.2: Overview of the Coast Guard's Operational Structure for Achieving Its Missions

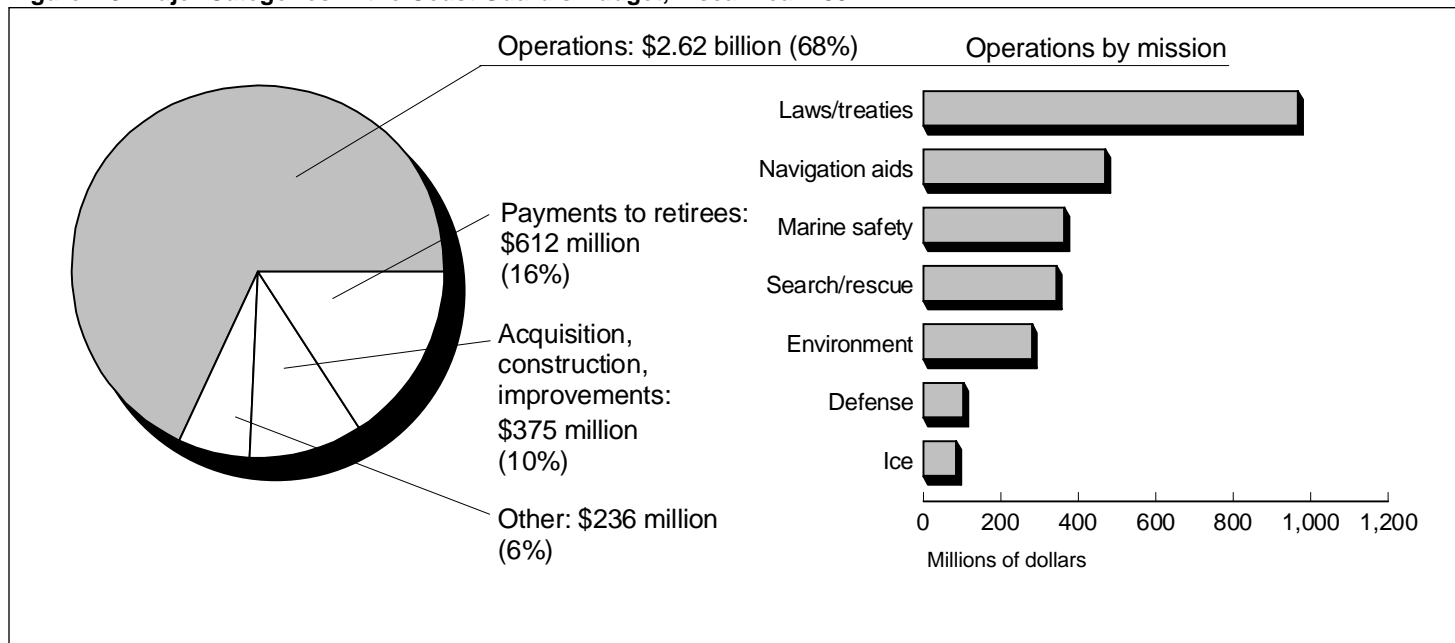


## The Coast Guard's Budget Trends, Fiscal Years 1993-98

The Coast Guard's budget for fiscal year 1997 is about \$3.84 billion. Operating expenses account for about 68 percent of this total, pay for military retirees accounts for 16 percent, and acquisition, construction, and improvements (AC&I) accounts for 10 percent. Within the operating expenses category, about 62 percent of the expenditures, or \$1.62 billion, are for salaries and associated employee costs; the remaining portion cover all other operations expenses, such as rent, communications, and materials.

The Coast Guard also prepared estimates of how total operating costs were allocated among its seven major program areas.<sup>3</sup> As figure 1.3 shows, the enforcement of laws and treaties was the program area with the largest estimated share of operations expenditures.

Figure 1.3: Major Categories in the Coast Guard's Budget, Fiscal Year 1997



The Coast Guard's budgets have remained relatively flat over the past 5 years. During fiscal years 1993-97, the total budget rose from \$3.65 billion to \$3.84 billion, or about 1 percent per year in actual dollars. (See table 1.1.) The President's proposed budget for the Coast Guard in fiscal year

<sup>3</sup>The Coast Guard's accounting system does not accumulate costs by program area; instead, the agency has developed algorithms to allocate operating costs among its seven key program areas.



1998 is \$3.98 billion, an increase of \$137 million in actual dollars, or about 3.6 percent from the previous year. The requested increase is mainly for increased drug interdiction efforts, pay increases and other employee-related programs, and mandatory increases for retirees.

**Table 1.1: Major Categories in the Coast Guard's Budget, Fiscal Years 1993-98**

Dollars in millions

Fiscal year	1993	1994	1995	1996	1997	1998 (requested)
Operating expenses	\$2,561	\$2,588	\$2,625	\$2,576	\$2,618	\$2,740
Pay for retired military personnel	520	549	563	580	612	646
Acquisition, construction, and improvements	340	312	321	362	375	370
Other	228	218	193	214	236	221
<b>Total<sup>a</sup></b>	<b>\$3,649</b>	<b>\$3,666</b>	<b>\$3,701</b>	<b>\$3,731</b>	<b>\$3,840</b>	<b>\$3,977</b>

<sup>a</sup>Because of rounding, totals may differ from the sum of the four categories.

The Coast Guard's funds come mainly from three sources—the Department of the Treasury's General Fund, trust funds, and transfers from the Department of Defense (DOD).<sup>4</sup> (See table 1.2.) Most of the Coast Guard's funding is appropriated from the general fund, but since 1982, significant amounts—ranging from \$6 million to \$490 million—have also been transferred from DOD appropriations. The purpose of these transfers has been to fund national security functions, AC&I projects, and military pay raises. The Coast Guard also receives moneys from various trust funds. The Oil Spill Liability Trust Fund, which was established after the Exxon Valdez oil spill, has been funded by a 5-cent tax on each barrel of oil produced domestically or imported and is used to pay for oil pollution prevention and cleanup responsibilities by various federal agencies.<sup>5</sup> The Boat Safety Account of the Aquatic Resources Trust Fund is funded by taxes on motorboat fuels, sport-fishing equipment, and import duties on tackle, yachts, pleasure craft, and small engine fuel and is used to pay for a national recreational boating safety program.

<sup>4</sup>General fund accounts for receipts and expenditures are composed of all federal money not allocated to any other fund accounts. Receipts come from taxes, customs duties, and miscellaneous sources. General fund expenditures represent amounts appropriated by law for the general support of the federal government. Trust funds are used to collect and distribute money designated by law for a specific purpose or program.

<sup>5</sup>The authority to collect this tax expired on December 31, 1994.

**Table 1.2: Major Sources of Funds for the Coast Guard's Budget, Fiscal Years 1993-98**

Dollars in millions

Fiscal years	1993	1994	1995	1996	1997	1998 (requested)
General Fund						
Amounts appropriated directly to Coast Guard	\$3,154	\$3,467	\$3,517	\$3,269	\$3,385	\$3,512
Amounts transferred from Department of Defense	303	22	11	300	300	300
Trust funds						
Oil Spill Liability Trust Fund	122	105	116	121	110	110
Aquatic Resources Trust Fund	70	72	58	50	45	55
<b>Total<sup>a</sup></b>	<b>\$3,649</b>	<b>\$3,666</b>	<b>\$3,701</b>	<b>\$3,731</b>	<b>\$3,840</b>	<b>\$3,977</b>

<sup>a</sup>Because of rounding, totals may differ from the sum of the categories.

## Objectives, Scope, and Methodology

The Chairman and Ranking Minority Member of the Subcommittee on Coast Guard and Maritime Transportation, House Committee on Transportation and Infrastructure, asked us to study how the Coast Guard was preparing to address the fiscal constraints and other budgetary pressures that it may face in the future. In consultation with their offices, we established three main questions to address in our review:

- What is the extent of the gap between the funding needed to maintain the Coast Guard's current level of services and the funding that the Office of Management and Budget (OMB) has targeted for the agency through fiscal year 2002?
- What is the Coast Guard's strategy for addressing this gap, and is the strategy adequate?
- What additional actions, if any, would help close the gap?

To identify the projected gap between the estimated costs to maintain the Coast Guard's current services and the budget targets set for the Coast Guard by OMB, we used OMB's February 1997 budget targets and current services estimates, which were the latest available at the time of our review. We examined how the deficit reduction targets might be affected by economic conditions and other factors. We attempted to verify OMB's methodology for developing its estimates; however, OMB officials did not respond to our requests for information. Also, we reviewed the Coast

Guard's budget documents and interviewed Coast Guard managers regarding the factors that have an impact on the gap.

To determine the adequacy of the Coast Guard's strategy for addressing fiscal constraints, we interviewed program managers, strategic planners, and the Director of Resources. We reviewed numerous Coast Guard planning documents, including the Commandant's Direction, the Commandant's Executive Business Plan, and the Commandant's instructions on planning and programming. We reviewed applicable statutory and legal citations and other documents that described the agency's roles and responsibilities and the multi-mission nature of its functions. We interviewed Coast Guard officials and reviewed the Coast Guard's records to identify the extent of cost-saving measures already implemented by the agency but not included in OMB's estimates; however, we did not verify the accuracy of the agency's savings estimates. We reviewed the Coast Guard's streamlining documents and other documents on cost savings attributable to technology improvements. We also examined how the estimates for meeting current missions might be affected by the need to replace aging, inefficient, or outdated ships and other capital items. We reviewed the agency's most recent Capital Investment Plan (Dec. 1996); however, we did not verify the accuracy of or attempt to validate its estimates for future acquisition needs. Finally, we visited several Coast Guard units, including the Pacific Area and District 11 Offices, the Petaluma and Yorktown Training Centers, Activity Command-Baltimore, Activity Command-San Diego, Integrated Support Center-Alameda, and the Coast Guard Academy.

To determine what kinds of additional actions might be taken to address the gap, we first reviewed the efforts of other agencies faced with a need to substantially reduce their budgets. Such efforts have been cataloged and analyzed in deficit reduction and strategic-planning studies conducted by us and others. This gave us a frame of reference for analyzing specific actions. For the actions themselves, we turned to a body of studies that already exists on the Coast Guard's operations. We conducted a literature search to identify major studies that have been conducted by DOT, the Coast Guard, the National Performance Review, ourselves, and others. We developed a list of 23 studies, choosing studies that (1) were completed during the last 15 years and covered a broad range of Coast Guard issues or (2) were completed in the last 5 years and covered more narrowly focused issues, such as aids to navigation and ice breaking. Also, we included only reports that contained potential budget reduction options and recommendations. (See app. I for a complete list of the outside studies

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that we included and app. II for GAO studies we included.) The 23 studies are not intended to be an exhaustive list; rather, they represent budget reduction options that have been offered during the time periods specified. We summarized cost-saving recommendations from these 23 studies and asked the Coast Guard about the current status of the recommendations; for those options that had not been implemented, we asked the agency to discuss the reasons why they had not been carried out. (See app. II for a complete list of these recommendations.) We did not intend the list to be a set of actions that the Coast Guard should take, but rather a list of options that might merit consideration. We supplemented the Coast Guard's response as needed with interviews and other follow-up work.

We provided the Coast Guard with a draft of this report for review and comment. The Coast Guard's comments and our evaluation are presented in chapter 4.

Our work was performed from July 1996 through April 1997 in accordance with generally accepted government auditing standards.

# Balanced Budget Effort Places Substantial Pressure on the Coast Guard's Budget

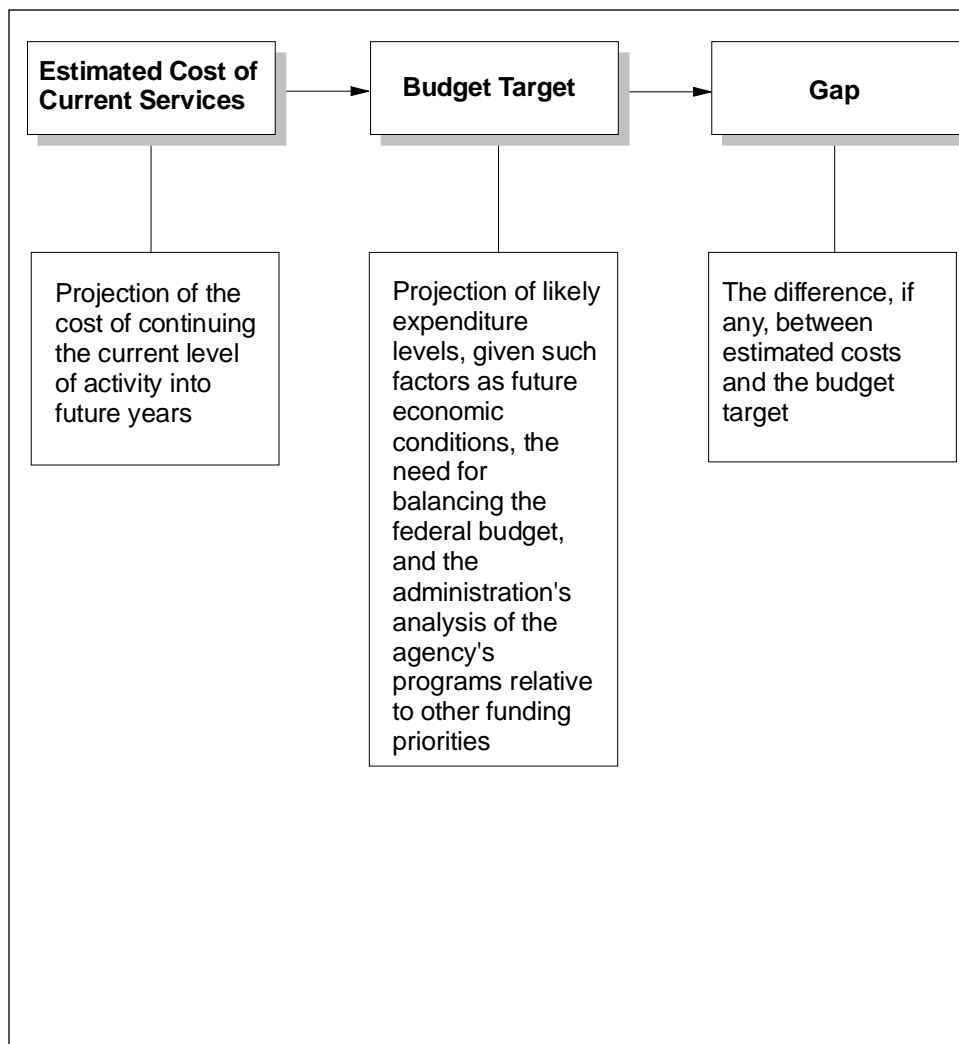
Deficit reduction efforts will create substantial pressure on the Coast Guard's budget in the coming years. OMB has proposed freezing most elements of the Coast Guard's budget through fiscal year 2002. Because of the loss of purchasing power brought on by higher costs for such things as salaries and fuel, this freeze translates into cutting each year's operations budget by an estimated \$90 million over the previous year's amount. The freeze also means that a substantial portion of the amount that the agency believes it needs to replace and modernize aging ships, aircraft, and facilities will remain unmet.

## Balanced Budget Efforts Signal Substantial Reductions in Federal Expenditures

In 1996, the Congress and the President reached an agreement in principle to achieve a balanced federal budget by fiscal year 2002. In fiscal year 1996, the federal government had a budget of about \$1.6 trillion and a deficit that according to the Congressional Budget Office (CBO), was about \$107 billion. Unless actions are taken to reduce expenditure levels or increase revenues, the deficit is expected to rise to \$188 billion by fiscal year 2002. The President's fiscal year 1998 budget document acknowledges that achieving a balanced budget will mean that agencies no longer can rely on more funding each year, and for the foreseeable future, their resources will be constrained.

OMB is the lead agency for developing the administration's estimates of future budget gaps between an agency's anticipated needs and available funding caused by efforts to balance the federal budget. OMB develops and periodically updates its estimate of an agency's potential gap by making two separate determinations—(1) how much money the agency would need to provide its current level of services in future years and (2) how much money it can expect to receive as its share of the federal budget. (See fig. 2.1.) The gap, if any, is the degree to which the cost of services exceeds the agency's budget target.

Figure 2.1: Relationship of Budget Target, Projected Cost of Services, and Budget Gap



To develop its estimate of the agency's future costs for providing services, OMB begins with a baseline amount for services currently provided by the agency and adjusts it for inflation. To develop its estimate of the agency's budget target, OMB takes two main factors into account—(1) total federal revenues and expenditures and (2) the fiscal priority for the agency's programs. Estimates of federal revenues and expenditures are based on a variety of assumptions about how the economy will perform during the period. The administration's fiscal priorities take into account the position of the agency's programs relative to other federal programs. As a result,

the effect of budget reductions is not necessarily uniform across federal agencies. Funding for some agencies may increase, while funding for others may be reduced.

Accompanying the effort to balance the budget are statutory limits on total discretionary spending that have been in effect since fiscal year 1991.<sup>1</sup> These limits have placed a general freeze on total discretionary spending since 1993.<sup>2</sup> CBO estimates that under current assumptions about the economy, extending a freeze of total discretionary spending at the fiscal year 1998 level without changing other budget policies would still leave a projected deficit in fiscal year 2002 of about \$101 billion. CBO estimates that the President's budget strategy would fall \$69 billion short of balancing the budget unless alternative policies are implemented.

Budget forecasts are subject to considerable fluctuation. One major reason for this is the effect of varying assumptions about how the economy will perform. OMB's overall estimate for balancing the federal budget is contingent on numerous economic and policy assumptions about such matters as the gross domestic product, the unemployment rate, inflation, and interest rates. One example of the effect of changing these assumptions is that lowering the anticipated rate of growth in the gross domestic product by 1 percent and raising the unemployment rate by one-half percent each year would cause the projected cumulative federal deficit to increase by \$143 billion by fiscal year 2002. Estimates of overall economic performance can have a direct effect on individual agency's budget targets because the economy's strength affects how much revenue the federal government is likely to take in and the funds it will need to expend.

Budget targets for individual agencies are also subject to change as policymakers consider trade-offs involved in reducing funds for some agencies more than others. These policy trade-offs occur both as the President considers initial budget submissions from agencies and makes final decisions on the amount to request for each agency from the Congress and as the Congress considers these requests and makes

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<sup>1</sup>Discretionary spending refers to outlays controllable through the congressional appropriation process. In contrast, mandatory spending, which includes outlays for entitlement programs such as food stamps, Medicare, and veterans' pensions, is controlled by the Congress indirectly by defining eligibility and setting the benefits or payment rules rather than directly going through the appropriation process.

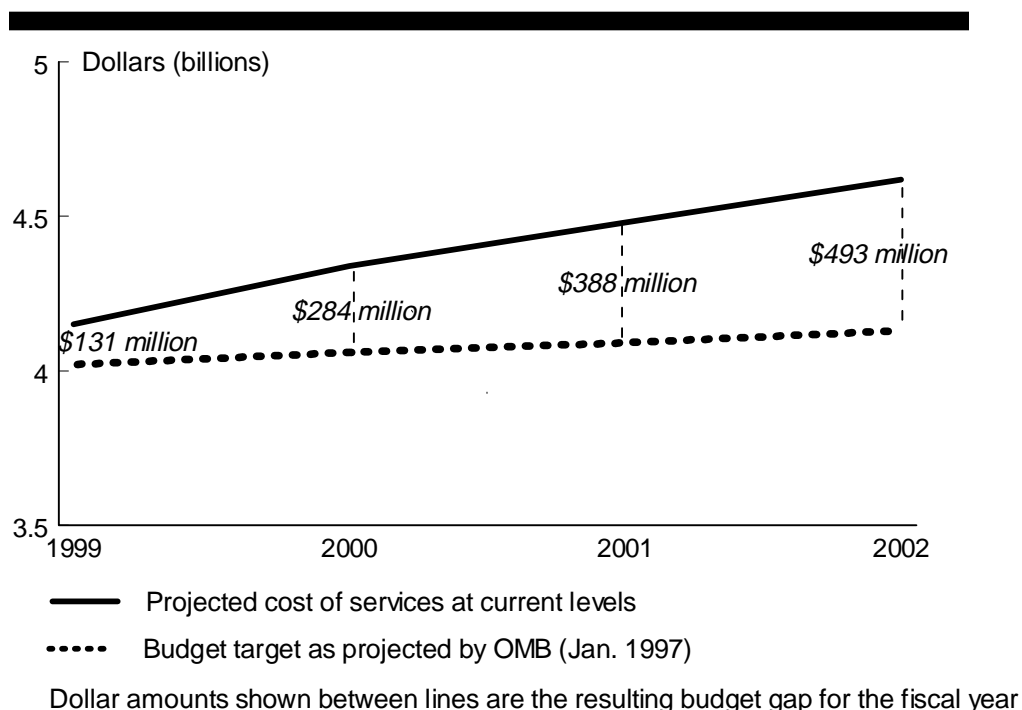
<sup>2</sup>The Budget Enforcement Act of 1990 established limits on discretionary spending through 1995. The Omnibus Budget Reconciliation Act of 1993 revised and extended those limits through 1998. OMB prepares the calculations and estimates used to adjust and enforce those limits.

decisions about them. OMB's documents make it clear that balancing the budget will require difficult decisions about what the federal government should do and what other levels of government or the private sector should more appropriately do.

## Projected Gap for the Coast Guard Approaches \$500 Million by Fiscal Year 2002

Under OMB's projections, the Coast Guard faces a budget gap of about \$131 million in fiscal year 1999, cumulatively rising to \$493 million by fiscal year 2002. (See fig. 2.2.) OMB's projections are that during this period, the cost of providing the Coast Guard's services at the requested levels for fiscal year 1998 will rise from \$4.154 billion to \$4.622 billion. The Coast Guard's budget target would remain much flatter, rising from \$4.023 billion to \$4.129 billion. The gap reflects the degree to which the budget target does not fund services at requested levels for fiscal year 1998.

**Figure 2.2: Projected Costs, Budget Targets, and Gaps in the Coast Guard's Budget, Fiscal Years 1999-2002**





OMB's budget targets call for capping the Coast Guard's expenditures in most discretionary spending categories at the requested levels for fiscal year 1998 throughout fiscal 1999-2002, with no adjustments for inflation. These caps would not apply to the largest category of the Coast Guard's budget that is subject to mandatory increases—the expenditure for pay for retired military personnel. The cost of this mandatory increase is reflected in the slight increase in the Coast Guard's total budget targets during the period (from \$4.023 billion to \$4.129 billion). For discretionary categories, the levels at which spending would be frozen are as follows:

- Operating expenses: \$2.74 billion.
- Other operations-related spending: \$141 million. This category includes certain activities, such as environmental compliance and restoration and reserve training, which also have their own accounts in the Coast Guard's budget.
- Acquisition, construction, and improvements: \$370 million. This category covers the Coast Guard's capital needs for replacing or renovating vessels, aircraft, and facilities.

A freeze affects operations and capital needs spending in markedly different ways.

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### **Spending Freeze for Operations Would Require Cuts in Activities**

For operations, a freeze in expenditure levels translates into the need to make budget cuts. Operating expenses and related activities that have their own budget accounts constitute about 74 percent of the Coast Guard's budget. These expenses include such things as salaries and benefits, fuel and supplies, maintenance, training, and administrative overhead. As OMB's methodology for operations needs acknowledges, the cost of providing the same level of operations activity rises from one year to the next. This occurs because many of these costs increase from inflation. If no money is received to cover the additional cost of providing the same level of operations, cost savings must somehow be achieved to cover the loss in purchasing power.

By fiscal year 2002, the Coast Guard will have to cut a total of \$363 million—an average of about \$90 million each year—from operating expenditures and related activities. The Coast Guard believes that it can partially offset these cuts through management efficiencies, the termination of one-time costs, and improvements in technology. While these offsets will help address OMB's budget targets, the Coast Guard will still need to identify about \$43 million to \$51 million in savings each year,

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according to Coast Guard officials. Among the alternatives for making such cuts are finding ways to provide the same levels of services, but just more efficiently, or actually reducing the level of services provided.<sup>3</sup>

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**A Spending Freeze for  
Capital Expenditures  
Would Likely Put the Coast  
Guard Further Behind in  
Replacing Aging  
Equipment**

For capital needs, a freeze in expenditures translates into a potential funding requirement for increased expenditures in the future. Unlike freezing operations, freezing the expenditure level for capital needs does not necessarily translate into the need to make direct and immediate cuts in activity levels. For example, if the Coast Guard is not able to replace or upgrade an aging cutter, the activity associated with this equipment may still continue unless the equipment is so old or ineffective that it can no longer be used at all. However, the unmet need to upgrade or replace assets still remains; at some point, equipment will have to be replaced or modernized. Deferring these expenditures can represent a funding dilemma, in that, future budgets may not be able to accommodate all of the acquisition and capital improvement projects that the agency believes cannot be put off any longer. A deferral can also represent a source of increased expenditures for operations because of the higher maintenance costs associated with aging equipment. The continued use of aging equipment may also place other limitations on the level of services that can be provided.

The Coast Guard has indicated that it is facing a period in which the level of replacement and renovation activity may need to be accelerated. The agency's December 1996 Capital Investment Plan discusses a "bow wave" of deferred out-year funding needs to replace or renovate an aging fleet of vessels, aircraft, and shoreside facilities. The Coast Guard is currently revising its estimates of this need. The Coast Guard acknowledges that estimates in its December 1996 plan do not reflect the current budget climate; therefore, it is revising its latest capital plan and expects to have an interim plan completed by July 1997.

The estimate that the Coast Guard develops is likely to be greater than the capital needs included in OMB's budget targets, which freeze capital spending at \$370 million. As table 2.1 shows, the \$370 million target is already below OMB's estimates of capital needs, which are based mainly on adjusting the amount upward to account for inflation. The target is even further below the Coast Guard's December 1996 estimates, which generally are based on a one-for-one replacement of obsolete equipment. These estimates, also shown in table 2.1, indicate that capital requirements

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<sup>3</sup>See chapter 4 for a discussion of these and other alternatives.

will rise to more than \$1.2 billion by fiscal year 2001. The Coast Guard estimates that its capital spending will need to rise to even higher levels in fiscal years 2003-08.

**Table 2.1: Comparison of Coast Guard's and OMB's Estimates of Capital Needs, Fiscal Years 1999-2002**

Dollars in millions				
Source of capital needs estimate	1999	2000	2001	2002
Coast Guard's estimates issued in December 1996 (based generally on a one-for-one replacement need for all aging equipment and facilities)	\$768	\$872	1,258	\$1,162
OMB's budget projection (based on its estimates of funding needed to maintain current services)	395	478	488	500
OMB's budget target for actual capital needs spending	370	370	370	370

It is important to emphasize that there may be a substantial difference between the December 1996 estimates and those that will be issued by July 1997 relative to the time frames for replacing or upgrading capital assets. The Commandant has indicated that the July 1997 estimates would, among other things, "provide a basis for a recapitalization strategy which is more aligned with probable funding levels." These estimates will also reflect additional consideration of how technology breakthroughs and other factors might reduce capital needs. For example, newly acquired buoy tenders are more efficient than the ships they replaced, which substantially reduces the need for one-to-one replacement. Similarly, the Coast Guard's Deepwater Mission Analysis Report, completed in 1995, cited a number of technological improvements, such as greater use of satellite vessel tracking, that could mitigate the need for replacing capital assets.<sup>4</sup>

## Conclusions

Although deficit reduction efforts will create substantial pressure on the Coast Guard's budget in the coming years, it is not possible at this point to say how great that pressure will be. This is mainly because OMB's budget targets are subject to change and the Coast Guard is still developing its plans for replacing aging equipment and facilities. If current budget targets hold, however, they point to the likely need for the Coast Guard to (1) find

<sup>4</sup>A fuller discussion of these alternatives can be found in chapter 4.

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**Chapter 2**  
**Balanced Budget Effort Places Substantial**  
**Pressure on the Coast Guard's Budget**

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ways to cut operating expenses throughout fiscal years 1999-2002 and (2) develop ways to deal with being unable to meet part of its capital replacement needs. Such possibilities accent the need for the Coast Guard to have a sound budget reduction strategy that provides for the orderly consideration of alternatives for dealing with potential budget gaps and a responsive, data-based approach for deciding what kinds of spending changes to make.

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# Magnitude of Likely Cuts Has Spurred the Coast Guard to Begin Developing Alternative Approaches

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Although the Coast Guard is in the process of completing the largest cost-reduction effort in its recent history, these efforts pale in comparison to the fiscal challenge it may face in the next several years. The Coast Guard expects that its most recent plan for streamlining operations, which required several years to study and put in place, will result in net savings of about \$77 million in operating costs by fiscal year 1999. But the budget targets established by OMB call for cuts in operating expenditures that are more than four times this amount by fiscal year 2002. In recent months, Coast Guard managers have acknowledged that new and improved planning and budgeting processes are needed to deal with future fiscal challenges. They have begun work on several actions that may help address the prospect of continued reductions. However, most of these actions are just getting under way. As a result, it is too early to determine whether the actions will result in decisions that will allow the Coast Guard to meet budget targets.

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## The Coast Guard Has Just Carried Out the Most Severe Cuts in Its Recent History

Starting in fiscal year 1994, the Coast Guard entered a period of fiscal austerity that it had not experienced in recent history.<sup>1</sup> In August 1994, the Commandant set a 4-year course for the Coast Guard that centered on eight goals, two of which have particular relevance to cost cutting and Coast Guard operations: (1) meeting cost reduction goals with no reduction to essential services and (2) achieving efficiencies through improved technology. These goals were the guiding principles that the Coast Guard's staff used to translate budget-cutting and management reform requirements into action.

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## Actions to Streamline Activities Have Resulted in Significant Savings

The Coast Guard has made significant progress in meeting the Commandant's goal of cutting costs with no reduction in essential services. Through these efforts, the Coast Guard has cut costs by \$343 million and reduced the size of its workforce by over 3,500 personnel to a level that is smaller than at any time in the last 30 years.<sup>2</sup> While doing so, the Coast Guard has continued to provide services in its major areas of

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<sup>1</sup>The Coast Guard's cost reduction efforts were part of a larger movement to reduce the size of the federal government. In 1993, the President endorsed a recommendation by the National Performance Review to reduce the federal workforce by 252,000 positions. In March 1994, the Federal Workforce Restructuring Act (P.L. 103-226, 108 Stat. 111) required federal agencies to reduce their workforce by 272,900 full time equivalent positions during fiscal years 1994-99.

<sup>2</sup>The Coast Guard's \$343 million savings estimate is in constant fiscal year 1998 dollars and reflects an annual upward adjustment of 2.5 percent for inflation. Also, about \$105 million of the \$343 million in savings came from budget cuts initiated by the Congress.

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**Chapter 3**  
**Magnitude of Likely Cuts Has Spurred the**  
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responsibility, including search and rescue, law enforcement, and enforcement of maritime laws and regulations.

The Coast Guard has achieved these savings in two phases. The first phase occurred during fiscal years 1994-96, when the Coast Guard developed a multiyear budget strategy that cut costs and reduced the size of its organization. Overall, the agency's actions taken during this phase reduced costs by approximately \$266 million by (1) eliminating more than 2,600 positions from its regular workforce and 2,500 positions from its reserve forces, (2) decommissioning 18 older cutters, and (3) relocating aircraft and removing 17 multi-mission aircraft from service.

While the savings achieved during phase one were significant, the Coast Guard found that they would not be enough to meet OMB's budget targets in place beyond fiscal year 1996. As a result, in fiscal year 1996, the Coast Guard entered a second phase of its downsizing effort and developed the National Plan for Streamlining, which concentrated on reducing the Coast Guard's overhead and support structure. The plan identified four areas that would undergo streamlining actions: (1) headquarters, (2) area and district offices, (3) Governors Island in upper New York Bay, and (4) information management and research and development. (See table 3.1.) The plan also included a training component that addressed the headquarters' management structure for training, key training processes, and the field training delivery organization. The Coast Guard plans to fully implement its streamlining plans by fiscal year 1999; it estimates that net savings of about \$77 million a year will be realized through reductions in these areas and that most of the savings will be realized in fiscal years 1997 and 1998.

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**Table 3.1: Summary of the Coast Guard’s “National Plan for Streamlining”**

<b>Streamlining area</b>	<b>Actions taken or being implemented</b>
Streamline headquarters	The Coast Guard reduced the number of staff in headquarters by 300, consolidated 11 offices into 7, and relocated 300 other staff to field units.
Streamline area and district offices	The Coast Guard reduced the number of districts from 10 to 9 by merging two district offices. It also merged its two area offices with adjacent district offices, while retaining the functions of the districts. Four prototype activity commands were established to assess the potential for improved coordination and capability among Coast Guard units (groups, air stations, marine safety offices). The Coast Guard also created 12 units from existing support centers and other locations to consolidate personnel, finance, and other support services.
Close Governor’s Island	The Coast Guard is reducing staff by 500 and relocating about 1,700 staff and two high-endurance cutters to other locations.
Streamline other support functions	The Coast Guard will create “centers of excellence” by reducing the number of electronics, communications, and information support facilities by at least one; restructuring the research and development program; and consolidating military and civilian personnel services into one unit.

**Technology Improvements  
Are Expected to Add  
Further Savings**

The Coast Guard is also using new capital improvements to achieve operating efficiencies. For example, it plans to replace 37 buoy tenders with 30 new vessels. According to the Coast Guard, the new ships will require about 500 fewer crew members, and the reduced number of ships will also have reduced operating costs of about \$14 million each year when all of the new buoy tenders are deployed. For the most part, however, detailed savings estimates for technology improvements have not been developed. The issue of savings from these projects will be discussed more fully in chapter 4.

**Future Decisions to  
Cut Costs Will Be  
Even More Difficult  
Than Prior  
Cost-Cutting Efforts**

The Coast Guard’s past success at cost reductions, while notable, provides a sobering perspective for the continued austerity forecast by OMB. The future budget environment outlined by OMB’s budget targets shows that the savings the Coast Guard has achieved with its current streamlining effort are relatively small when compared with the effort required in the future. To meet OMB’s targets, required operational cuts would be about \$363 million by fiscal year 2002—more than a four-fold increase over the net savings the Coast Guard expects to achieve through its National Plan for Streamlining. While OMB’s targets are subject to change, DOT’s Budget Director indicated that the Department’s agencies are expected to manage their programs and activities to meet the targets. If the current OMB targets remain essentially unchanged through fiscal year 2002, the

reductions—and the consequent need to find savings—would be substantial.

Future cost-cutting efforts could translate into even more difficult and painful budget-cutting decisions than the ones made in the past because the Coast Guard has already taken a number of streamlining steps that are often the first to be used by organizations, such as trimming overhead. During hearings on the Coast Guard's fiscal year 1997 budget, for example, the Commandant said that funding levels were not sufficient to sustain the agency's normal pace of operations over time. This is resulting in the deferral of normal maintenance and cutbacks in prevention activities, factors that will eventually lead to compromises in safety and increased costs, according to the Commandant. In a February 1997 memorandum to agency managers, the Coast Guard's Chief of Staff also acknowledged the formidable fiscal challenge that the agency faces over the next 4 years and told his program managers that "a concerted effort, involving all program staffs, will be required to develop a strategy to meet the flat line requirements for fiscal years 1999 through 2002." He said that the Coast Guard's "savings locker"—those savings opportunities not already achieved under past initiatives—is largely depleted. These conditions frame the environment in which the Coast Guard could operate—a climate in which a smaller resource base could place unprecedented pressure on the Coast Guard's budget.

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## **The Coast Guard Has Begun Actions Designed to Address Looming Fiscal Difficulties**

During the course of our review, the Coast Guard began several actions designed to address the tight fiscal environment that it will likely face in the next 4 years. These actions are strongly intertwined with performance-based concepts embodied in the Government Performance and Results Act (GPRA) (P.L. 103-62). Enacted in 1993, GPRA calls for agencies to measure and manage their operations with a greater focus on results rather than on staffing and activity levels. The Coast Guard has taken action to comply with GPRA's principles and requirements. In its fiscal year 1998 budget proposal, the Coast Guard has set forth 5 strategic goals and 23 performance goals and is developing ways to measure progress toward achieving them.<sup>3</sup> According to Coast Guard officials, the agency is attempting to apply the same results-oriented approach as it evaluates alternatives for addressing budget constraints.

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<sup>3</sup>GPRA requires agencies to develop a strategic plan by the end of fiscal year 1997 and a performance plan beginning in fiscal year 1999. The strategic plan focuses on broader goals, while the performance plan focuses on objectives and measurable goals.



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The Coast Guard's efforts have centered on several key initiatives: a revised budgeting and planning process that places greater emphasis on cutting costs and linking resources to a program's performance, a new mechanism for focusing senior management's attention on such alternatives, and a new capital-planning approach designed more specifically with current funding limitations in mind. The Coast Guard expects that these actions will be closely linked in various ways. For example, the Coast Guard expects the capital plan to include information that is generated from the revised budgeting process and to identify potential cost-saving strategies. These actions are still largely in their infancy; by the time the actions are completed and the new systems are in place, the Coast Guard will already be developing its fiscal year 2000 budget proposal. Therefore, it is too early to tell whether the new initiatives will be sufficient or developed in time to meet OMB's budget targets.

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**Revised Budgeting Process**  
**Places Greater Focus on**  
**Developing Cost-Saving**  
**Alternatives**

In November 1996, the Coast Guard's Chief of Staff issued a memorandum outlining a new budget and planning process for building the Coast Guard's fiscal year 1999 budget. The new process aims to strengthen the link between resources and a program's performance. This guidance is the first in a series of new guidance that will redefine the Coast Guard's future budgeting and planning process.

Among the features of this new approach, one that has particular relevance for addressing budget gaps in the next few years is an emphasis on business plans—documents that will act as planning and budgeting tools for the fiscal year 1999 budget. Ultimately, the revised plans could translate into cost-saving actions that address OMB's budget targets. For example, the Coast Guard's guidance calls for managers to identify how services can be provided with fewer resources. Coast Guard officials indicated that the underlying premise of the plans will be to provide information on how programs will find potential economies by innovation or other means.

Considerable work remains to be done in putting this new system in place. The Coast Guard does not expect the system to be fully implemented until 1998. Initial drafts of the revised business plans were scheduled to be completed in mid-1997. Because revised business plans were not available for our review, we are not in a position to comment on how effective they are likely to be in addressing budget targets. Additional guidance has been

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or will be issued on a number of other key processes that affect resource allocation decisions.

Until the new planning and budgeting system is fully developed, the agency's top management is emphasizing a number of measures—that have been used in the past—to address OMB's budget targets over the next 4 years. For example, the Chief of Staff urged program managers to examine opportunities within their areas of responsibility to identify savings. Another method that the Coast Guard will continue to use to assess potential budget reduction options, at least as an interim measure, is its determinations process. The agency has used this process in the past as a way for top management to suggest specific areas that program managers should examine each year for potential savings opportunities. For example, the fiscal year 1998 determinations set out a list of potential areas for study that included (1) identifying locations that might be candidates for consolidation, (2) developing and implementing a reorganization plan for the Coast Guard's research and development efforts, and (3) studying the potential use of civilian rather than military personnel to fill marine inspector positions. According to the Coast Guard's Chief of Staff, the determinations process may be replaced as the new planning and budgeting system is developed.

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**Senior Management Group**  
**Provides Opportunity to**  
**Guide Budget Process and**  
**Focus on Budget Targets**

In September 1996, the Coast Guard formed a new management group, called the Senior Management Team, to help, among other things, refine the Coast Guard's planning and budgeting process and to ensure that the Coast Guard "epitomizes the best in quality management practices and performance." According to Coast Guard managers, the new Senior Management Team will be responsible for developing the Coast Guard's strategy for meeting OMB's targets and will help institutionalize the Coast Guard's capability to deal with these targets. The team, composed of senior managers including the Chief of Staff and the Director of Resources, aims to identify strategic business goals and the highest priority business processes that are candidates for improvement.

So far, the team's efforts have focused on only a part of its broad mandate. The team has developed a format for the revised business plans and chartered several groups to examine ways that headquarters can streamline internal processes to reflect lowered staff levels. For example, these groups have studied the process for responding to requests for information under the Freedom of Information Act and the process for reviewing and approving key Coast Guard documents, such as business

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plans and the agency's capital plan. Also, the team will decide on how to implement recommendations from the study groups.

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### **New Capital-Planning Process Intended to Focus on Scaled-Down Budget Realities**

The Coast Guard's capital-planning process has been based on determining replacement and renovation needs irrespective of probable funding levels. This has produced estimates that were based heavily on one-for-one replacement of equipment and facilities according to established life-cycle schedules. Coast Guard officials decided that another approach was needed—one that would be more aligned with probable levels of funding and a shift toward outcome-oriented operations. This movement is consistent with renewed emphasis by OMB on the manner in which agencies plan for the acquisition of their capital assets. In December 1996, OMB issued draft guidance suggesting that among other things, agencies link capital assets to their contribution to program outcomes—the framework outlined by GPRA.

The development of the new capital plan is just getting under way, and Coast Guard officials expect that the development of the new plan will take at least 2 years. Since the initial guidance for developing the plan was issued in January 1997, full development of the plan may not occur until early 1999.

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### **Conclusions**

The Coast Guard has recognized that future budget targets may continue to require aggressive cost-cutting activity. The actions that the Coast Guard has begun in recent months to strengthen its budget and planning process appear helpful in meeting this challenge, in that they hold promise for (1) focusing on ways to achieve specific performance-related outcomes, (2) providing for the comparative evaluation of cost-saving strategies by top management, and (3) developing capital plans that are more closely related to the reality of limited funding. However, much remains to be done to translate these actions into a specific plan and a fully functioning strategy to meet OMB's targets, and the Coast Guard acknowledges that some actions will take 2 years to put in place. By the time its new system is fully in place, the Coast Guard will be already working on its budget request for fiscal year 2000. This means that the steps that the agency takes in the interim will be of critical importance in identifying and evaluating cost-cutting options.

# Actions Needed on Several Fronts to Better Prepare for Budget Contingencies

Whether the Coast Guard's current budget strategy can deal effectively with future deficit-reduction targets remains an open question. Key elements of the strategy are still being developed, and the magnitude of the gap beyond fiscal year 1998 remains somewhat uncertain. However, as the Coast Guard continues to work out its budget-reduction strategy, three areas appear to merit particular attention.

- Identifying the extent of likely savings from current or planned cost-saving measures. Coast Guard planners currently have a number of cost-saving steps in various stages of implementation, but the dollar impact of many of these steps remains largely unclear. The Coast Guard does not, therefore, appear to be in a good position to know the degree to which these steps would close future funding gaps.
- Developing approaches for addressing controversial cost-saving efficiency options. So far, the Coast Guard's cost-saving efficiencies (such as consolidating units) generally have not been controversial. However, if future cuts are sizable, the Coast Guard may need to consider efficiency-related steps that could (1) call for considerable change in the Coast Guard's operating culture (such as lengthening rotational periods) or (2) stir public opposition (such as closing operating units that provide services or economic benefits to local communities). Fully addressing such options may require developing new study approaches or new implementation strategies.
- Being prepared to consider other options besides those related to operating efficiency. By design, the Coast Guard's strategy remains centered on cutting costs through greater efficiency. If future cuts cannot be accommodated in this manner, it will be necessary for the Coast Guard to readily and quickly consider other alternatives, such as changes in the services the Coast Guard provides.

## A Framework for Addressing Budget-Reduction Efforts

As a starting point for discussing further Coast Guard actions, it may be helpful to present a framework that highlights the basic choices that agencies face as they address budget cuts. In recent years, as the federal government has struggled increasingly with deficit-reduction issues, we have conducted a number of reviews examining how public and private sector organizations cope with downsizing, change, and related issues.<sup>1</sup> Some organizations faced with these challenges have been able to achieve significant cost reductions while improving performance and service

<sup>1</sup>See, for example, Managing for Results: State Experiences Provide Insight for Federal Management Reforms (GAO/GGD-95-22, Dec. 21, 1994), Managing for Results: Experiences Abroad Suggest Insights for Federal Management Reforms (GAO/GGD-95-120, May 2, 1995), and Government Reform: Goal Setting and Performance (GAO/AIMD/GGD-95-130R, Mar. 27, 1995).

delivery at the same time. They have done so by fundamentally rethinking their mission, strategic goals, lines of business (products and services), and customer needs and by making changes where necessary.

The framework we developed for making such reassessments and translating them into budget-cutting proposals calls for agencies to reexamine their operations and capital needs from three different perspectives, as follows:

- Operating efficiency: Can services be delivered at lower cost by changing the way they are structured, delivered, or managed?
- Program missions and objectives: What services should the agency continue to provide?
- Targeting of resources: Who should receive these services?<sup>2</sup>

The first perspective, improving efficiency, focuses on delivery methods and performance. As earlier chapters explained, the Coast Guard's cost-reduction efforts have focused almost exclusively on this perspective. For example, the Commandant's directive for the Coast Guard's streamlining initiative called for an approach "with no reduction in essential services." Coast Guard officials reiterated that this approach will remain at the center of their attempts to deal with future budget targets as they put new elements of their budget strategy in place.

The second perspective, reexamining missions and objectives, is designed to avoid those situations in which budget reductions are made only through repeated incremental cuts to the budgets of an agency's programs or activities. Without a thorough reexamination of the agency's objectives, such an approach can eventually yield an overextended agency trying to do too much with too little. An assessment from this perspective involves reconsidering the intended purpose of a program or activity, the conditions under which it continues to operate, and its cost-effectiveness.

The third perspective, the targeting of resources, is designed to ensure that an agency remains up-to-date in ascertaining who needs the agency's services and to what degree they need them. When first authorizing new programs, the Congress defines the intended audience for any program or service on some perception of eligibility or need. As time passes and conditions change, these definitions could benefit from periodic review and, where necessary, revision to better target limited resources.

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<sup>2</sup>For more information about this framework, see Addressing the Deficit: Budgetary Implications of Selected GAO Work for Fiscal Year 1998 (GAO/OCG-97-2, Mar. 14, 1997).

Considering changes in distribution formulas, eligibility rules, and fees and charges could form the basis for such improved targeting.

Our observations in this chapter are not meant to suggest that the Coast Guard's current emphasis on only the first strategy cannot succeed. However, as we have pointed out, future budget targets may tax the Coast Guard's budget-cutting skills much more severely than past targets have. In our view, this means that the Coast Guard's approach must be nimble—that is, the Coast Guard must be able to quickly assess whether its strategy is likely to be sufficient and must be capable of adapting it if circumstances warrant.

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## **Ascertaining the Dollar Impact of Actions Under Way or Planned**

Coast Guard officials were optimistic that steps recently undertaken or planned would yield substantial savings to offset future funding gaps. However, agency officials do not appear to have a very clear picture of the extent of these savings, particularly on a year-by-year basis. While we did not attempt to conduct a comprehensive review of all measures under way or planned, we did ask for information about cost savings for a number of specific initiatives. We found that although these actions could entail considerable savings, Coast Guard officials were not able to fully quantify the annual savings involved and/or did not have clear indications of when the savings could occur. For example:

- The fleet logistics system project, expected to be fully in place by 2000, provides automated data and decision support tools to manage vessel inventories more efficiently and cost effectively. The Coast Guard estimated savings of \$900,000 for fiscal year 1998 and \$100 million over the life of the project but has not developed annual savings estimates for the next few years, when the impact of deficit reduction is expected to be the greatest. A Coast Guard official said that year-by-year estimates could be developed.
- Under the motor lifeboat acquisition project, which is already under way, the Coast Guard expects to replace 100 boats with a lesser number, resulting in less personnel, maintenance, and other costs. A Coast Guard official said that savings have not been quantified at this time because the exact number of boats to be procured is not certain. The official said, however, that a range of estimated savings could be calculated.
- The HC-130 engine conversion project replaces old, inefficient aircraft engines with new, fuel-efficient engines. The Coast Guard estimates that it will save \$797,000 in fiscal year 1998 and \$1.3 million a year once all the engines are converted. While the Coast Guard has not estimated the

year-by-year savings that will occur as the project is being phased in, a Coast Guard official said such estimates could be made.

- The Coast Guard is conducting a pilot program that provides vessel owners/operators with options on how their vessels can be inspected. Instead of being inspected only by the Coast Guard, pilot program vessels can now be inspected by third-party organizations or qualified company personnel, with the Coast Guard's oversight. The delegation of these functions may allow Coast Guard personnel to perform other high-priority marine safety tasks. This pilot program was started in 1995 and originally was expected to be completed by the summer of 1996, according to a Coast Guard official. Estimates of savings are still not available.

If such year-by-year estimates can be developed, they would help provide the Coast Guard with a clearer indication of whether it can meet future budget targets with an efficiency-only approach. This would give earlier warning to the Coast Guard about whether it needs to broaden its efforts. A Coast Guard official responsible for overseeing capital budget issues said that the Coast Guard is considering developing such year-by-year estimates for savings expected from capital projects. It would seem beneficial to identify year-by-year estimates for operations-related initiatives as well.

We acknowledge that some things are beyond the Coast Guard's ability to project. For example, the Coast Guard has just begun the process to replace its high- and medium-endurance cutters. It is too early to estimate savings at this time because the acquisition process has just begun. However, making savings estimates for more mature projects should be easier.

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## **Expanding the Range of Efficiency-Related Options for Consideration**

The Coast Guard acknowledges that because it has already undertaken an ambitious streamlining effort, finding additional efficiencies will be an increasingly difficult task. As an indication of whether additional efficiency options are possible, we examined cost-saving options identified in a wide range of studies conducted on the Coast Guard. From among the various studies conducted since 1981, we focused on 23 reviews conducted by such organizations and entities as the Congress, the National Performance Review, DOT, GAO, and the Coast Guard itself. (See app. I for a list of these studies.) We found a number of efficiency-related recommendations that had not been implemented. Several of these recommendations are discussed below, and a full listing is in appendix II.

A number of the options that have not been implemented pose considerable challenges for the Coast Guard, in that, agency officials have either (1) been opposed to taking the recommended steps or slow in implementing them or (2) encountered considerable external opposition in attempting to do so. Of the examples we discuss below in more detail, two (rotational policies and civilian/military mix) illustrate the first challenge, and one (consolidating search and rescue stations) illustrates the second challenge. We also found a few support-related, potentially controversial options that the Coast Guard considered but elected not to use in earlier cost-cutting efforts. The final example below (consolidating training centers) is one such option because of possible public opposition to closure actions.

Our discussion of these examples, as well as our longer list, is not intended as an endorsement of these options. Deciding to implement any of them would require careful attention and perhaps additional information. We selected these examples for discussion because they illustrate the kinds of issues that often surfaced in considering additional efficiency-related options.

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## **Lengthening Personnel Rotations**

The Coast Guard periodically rotates all but a few of its military personnel from assignment to assignment. Officers and enlisted personnel generally change assignments every 2 to 4 years. Costs to rotate staff are over \$60 million annually, not counting costs such as moving time and preparing over 19,000 rotation orders annually.<sup>3</sup> Studies performed in the early 1980s by DOT and the National Advisory Committee on Oceans and Atmosphere questioned whether the Coast Guard should increase the length of time between rotations or even eliminate rotations for certain types of activities. The studies pointed out that besides saving money, such a change could help counter the undesirable effects of frequent rotation on the continuity of operations and ability to build expertise and knowledge in certain areas.

The Coast Guard has not substantially changed the overall lengths of tours for its military personnel since the time of these studies. However, in recent years, the Coast Guard has lengthened rotation policies in some areas on a case-by-case-basis and also made efforts to reduce relocation costs. For example, Coast Guard officials said that in 1995, duty tours were lengthened by about 1 year for certain enlisted personnel (at the rank

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<sup>3</sup>The Coast Guard estimates that as much as one-third of the rotation costs are “mandatory” because of transfers for training, retirements, and other factors.



of E-4 and E-5), except those assigned to vessels. The Coast Guard also implemented a policy in 1993 that allows military personnel to stay in the same geographic area for up to 7 years if the stay meets the agency's needs. The Coast Guard was not able to provide information on the number of personnel affected by these two initiatives or the savings that resulted. The Coast Guard also has made efforts to reduce the logistical costs of rotations, such as obtaining better contracts with moving companies and transferring personnel closer to their former location.

Coast Guard officials said that they are reluctant to make further changes to the agency's rotation policies; officials believe that they have developed optimum tour lengths that should not be revised. They said that changing current practices would have several undesirable effects, including the potential adverse effects on multi-mission capabilities, a reduced opportunity to command a variety of units or vessels, and the concern about assigning personnel to undesirable locations for extended periods. The Coast Guard, however, was not able to provide us with any studies or other data to support these contentions or demonstrate that these factors would adversely affect the agency's overall effectiveness in performing its missions or serving the public. The Coast Guard currently plans no formal study of this issue.

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## Civilian/Military Mix of Coast Guard Personnel

In addition to its 37,000 military personnel, the Coast Guard has about 6,000 civilians. Studies performed in the early 1980s by the Congress, DOT, and the National Advisory Committee on Oceans and Atmosphere questioned whether some military positions should be civilian instead to reduce costs and provide greater stability of the workforce. Overall, the Coast Guard has estimated that it costs about \$15,000 more to compensate military personnel than comparable civilians. This differential is consistent with our recent studies on this issue in DOD, where we recently reported that DOD could save about \$15,000 annually for certain military support positions that it reprogrammed to civilian positions.<sup>4</sup>

The Coast Guard maintains that military personnel provide a more front-line, rapid response capability in the operational environment than do civilian personnel. The agency also pointed out that governmentwide mandates are currently requiring the Coast Guard to reduce—not increase—the civilian workforce. However, in 1993, the House Committee on Appropriations directed the Coast Guard to initiate a comprehensive

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<sup>4</sup>DOD Force Mix Issues: Converting Some Support Officer Positions to Civilian Status Could Save Money (GAO/NSIAD-97-15, Oct. 23, 1996) and DOD Force Mix Issues: Greater Reliance on Civilians in Support Roles Could Provide Significant Benefits (GAO/NSIAD-95-5, Oct. 19, 1994).

review to determine what agencywide military positions should be reprogrammed to civilian positions. A Coast Guard official told us that the review, which was to be completed by the end of 1996, has been delayed because of other priorities. He added that he was not certain of when it will be completed and that to become a priority, it may require upper management's attention. Upper management officials later told us that they expect this study to be completed by mid-1997; at that time, the Coast Guard will identify the potential for converting current military positions to civilian and estimate the resultant savings.

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## **Consolidating Search and Rescue Stations**

One example of an option that has proven controversial with the public at large is consolidating locations from which search and rescue services are provided. The Coast Guard currently maintains 185 small boat stations (some established as early as 1884) with 1,569 small boats and 230 larger boats and cutters and 29 air stations with 163 aircraft. The Coast Guard has several times proposed consolidating some of these facilities as a cost-cutting move. For example, in 1995, the Coast Guard proposed closing 23 small boat stations to save \$6 million in facility and personnel costs, reduce personnel needs by 115 positions, and generate additional revenues by selling the unneeded properties.

These proposals have generated controversy because of concern that search and rescue services may be affected. For its part, the Coast Guard maintains that proposed closures would not affect the agency's ability to respond to needed search and rescue efforts within its established response time criteria. To address concerns about the reliability of such proposals, the Coast Guard developed a decision process that we evaluated in earlier work and found to be formal, consistent, well documented, and based on relevant criteria and the best data available.<sup>5</sup> Coast Guard officials acknowledge, however, that despite such assurances, closures may be difficult because people feel safer having a station nearby. The Congress declined to approve the proposed 1995 closures.

Opposition to closing other types of federal facilities has required the development of new implementation approaches. For several years, recommendations for DOD base closings had to be formulated by an independent Base Closure and Realignment Commission. National Aeronautics and Space Administration and DOD officials, who are jointly

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<sup>5</sup>Coast Guard: Improved Process Exists to Evaluate Changes to Small Boat Stations (GAO/RCED-94-147, Apr. 1, 1994).

studying ways to consolidate facilities such as laboratories, have concluded that they may need to use a similar process, and the same kind of problem may also be facing the Department of State in determining office locations to close.<sup>6</sup>

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## **Consolidating Training Centers**

The consolidation of training centers is an example of a potentially controversial support-related efficiency option that the Coast Guard considered but rejected in earlier cost-cutting efforts. If the Coast Guard is faced with the need to make further reductions, however, consolidation represents a potential place to look for savings. The Coast Guard spends about \$300 million a year on training, much of which is provided at seven training centers across the country. A study conducted in conjunction with the Coast Guard's streamlining efforts recommended closing one of these centers (at Petaluma, Calif.), to save an estimated \$15 million a year. Although the Coast Guard adopted many of the study's other recommendations, it decided not to close the training center at Petaluma. One reason was that closing Petaluma would require one-time construction and other costs of about \$29 million for additional facilities at centers to which Petaluma's responsibilities would be transferred (Cape May, N.J., and Yorktown, Va.). Coast Guard officials also cited the need to keep the current training infrastructure in place so that training could be a source of strength and stability during the period when other streamlining initiatives would cause a great deal of organizational realignment. Like small boat stations, closing Petaluma or other training centers could encounter political and public opposition, especially in light of the number of DOD base closures in California in recent years. In a recent congressional hearing, the Commandant said that closing Petaluma would lead to a public outcry because of the local community's dependence on the Coast Guard.

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<sup>6</sup>NASA Infrastructure: Challenges to Achieving Reductions and Efficiencies (GAO/NSIAD-96-187, Sept. 9, 1996) and State Department: Options for Addressing Possible Budget Reductions (GAO/NSIAD-96-124, Aug. 29, 1996).

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## **Developing a Broader Cost-Reduction Strategy That Addresses Missions and Program Beneficiaries**

If the strategy of concentrating on efficiency options proves insufficient, the Coast Guard will need to turn to one or both of the other perspectives in the budget framework—reevaluating its missions and objectives and reevaluating the targeting of resources. This broader approach is in keeping with OMB's December 1996 draft guidance suggesting that agencies determine whether they must undertake a function because no alternative private-sector or governmental source can more efficiently perform it or whether performance objectives could be met through user fees or regulations.<sup>7</sup> To a limited extent, the Coast Guard has already taken actions on some measures in this regard.

To provide some indication of whether cost-saving options related to these perspectives would be readily available for consideration—and if so, what kinds of issues would likely surface in considering them—we again turned to our group of 23 previous studies. After eliminating options that were no longer relevant, 17 remaining options could be classified as reflecting these two perspectives. Several of these options are discussed below, and a full listing is in appendix II. Once again, our discussion of these examples, as well as our longer list, is intended to illustrate the kinds of options that might be considered and is not an endorsement of any particular option.

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## **Examples of Reexamining Missions and Objectives**

It has been about 15 years since a comprehensive study of the Coast Guard's roles and missions has been published. Since the early 1980s, four such reviews have been completed—the first, by DOT; the second, by the House Committee on Transportation and Infrastructure (the Coast Guard's House oversight committee); the third, by the Congressional Research Service on behalf of the Senate Committee on Commerce, Science and Transportation; and the fourth, by the National Advisory Committee on Oceans and Atmosphere. While many conditions have changed over the past 15 years, the stated purposes of these studies emphasize some of the same themes that seem important to revisit today—the danger of becoming overextended, the importance of reevaluating the need for each mission, and the value of analyzing who should perform the mission if it is worth continuing.

In June 1996, the Coast Guard contracted with the Center for Naval Analyses to conduct a comprehensive analysis of its missions; however, the focus of the analysis is long-term and it is unlikely to assist with short-term budget reduction needs. Instead, the study's purpose is to

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<sup>7</sup>Capital Programming Guide, 12.10.96 Draft (Office of Management and Budget, Dec. 1996).

review current and future trends that will affect the nature and importance of the Coast Guard's roles and missions, the future direction that those trends imply, and ways in which these future directions translate into operating approaches for the agency. The study's long-term perspective focuses on what the agency may look like in 2020, but does not consider short-term budgetary constraints, resource allocation factors, or organizational structures. Coast Guard officials acknowledge these limitations but believe the study's longer-term focus is important for ensuring that short-term decisions do not conflict with long-term strategies.

The lack of a comprehensive mission analysis is not the only reason why no reductions in Coast Guard missions have occurred in recent years. Coast Guard officials indicated that because the Congress ultimately decides the missions the Coast Guard should perform, the agency has not initiated any mission-related changes. Moreover, the Coast Guard does not view itself as having the legal authority to eliminate or significantly change many of them. Instead, Coast Guard officials believe that this type of action is a policy decision that rests with the Congress and the American public. However, we did identify mission areas in which the Coast Guard is making efforts to reassess its program standards and the scope of its activities. One area, inspecting private aids to navigation, is an example of a reassessment that might be termed "at the margin"—that is, it assumes that the Coast Guard should still keep the mission but may find another approach for performing it. The second area, operating vessel traffic service systems, demonstrates a more fundamental, in-depth examination of whether the Coast Guard needs to provide a service at all.

### New Inspection Process for Private Aids to Navigation

Until recently, the Coast Guard has included in its program standard for this mission area a requirement to inspect all private aids to navigation. These short-range aids to navigation include such items as buoys or lights that provide mariners with information. Many of these aids are owned and operated by the Coast Guard; however, almost 49,000 aids are owned and operated by individuals and organizations other than the Coast Guard. The inspection of these aids annually requires the time and resources of active duty or auxiliary personnel to ensure that they are operating properly and are in the correct location. According to the Coast Guard's program managers, limited resources, affecting the program's ability to meet this mission standard as well as others, encouraged them to reconsider how they performed this inspection process. As a result, the Coast Guard is initiating a new self-inspection process that allows the owners of private aids to inspect their own aids and provide the Coast Guard with

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**New Alternatives for Operating**  
**Vessel Traffic Service Systems**

documentation of that inspection for review. The Coast Guard expects to have this new process operational by mid-1997 and plans to utilize any gained staff time or resources to meet other program standards in this mission area.

The Coast Guard has recently begun to reexamine how it will carry out its vessel traffic service (VTS) function. Currently, the Coast Guard owns VTS systems in eight ports around the United States and operates them at an annual cost of about \$20 million. The purpose of these systems is to improve the safe and efficient movement of marine vessels in and around ports and to protect the environment by monitoring vessel traffic information, assessing the information, and passing it along to mariners. Until recently, the Coast Guard held the position that operating VTS systems is “an inherently governmental function” and had proposed constructing a network of VTS systems to be operated by the Coast Guard in up to 17 ports at an estimated capital cost of \$260 million to \$310 million. However, the Congress decided not to fund this proposal and instead directed the Coast Guard to reconsider how this function could be performed.

The Coast Guard’s new approach is a more fundamental reexamination, on a port-by-port basis, of what VTS services may be needed, if any, and who best can provide them. According to Coast Guard officials, this reexamination is being done in consultation with local community stakeholders to ensure that their wants and needs are addressed in the proposal developed for each port location. Coast Guard officials said they are willing to consider a range of options—from a fully private VTS facility to a fully Coast Guard-operated VTS facility—depending on each port’s needs.<sup>8</sup> Savings associated with this new approach are as yet unknown and could vary depending upon the decisions reached in each port location. However, the alternatives selected are likely to involve considerably less expense than the previously estimated \$260 million to \$310 million necessary for the Coast Guard to build its originally planned VTS system.

The VTS mission example comes closer to the type of comprehensive evaluation that could reveal alternative approaches for conducting missions deemed necessary while also identifying those missions that may be unnecessary or less critical than others. This type of information would

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<sup>8</sup>For example, if a location frequently requires the use of Captain of the Port authority, then this location might require a Coast Guard-operated or jointly operated (Coast Guard and private entity) VTS system to accommodate the need for this special Coast Guard authority (that cannot be delegated to another entity). However, in other ports, where Captain of the Port authority may be seldom used, the likelihood that a private entity would operate the VTS system is greater.

certainly be valuable to the Coast Guard if it faces deep budget cuts in the future, and it would also be crucial to ensure that the Coast Guard's anticipated capital asset needs are justified on the basis of sound assumptions. The Coast Guard's major acquisition process includes a requirement to conduct a mission analysis for each capital project. However, this analysis begins with the assumption that the mission is valid and analyzes the resources needed to perform it rather than evaluating the more fundamental questions of whether the mission is needed, and if so, who should conduct it. Performing these latter analyses could further prevent the agency from acquiring capital assets for missions that it may not continue to perform.

Although the Coast Guard would, for the most part, be unable to unilaterally implement decisions that would eliminate or significantly curtail many of its missions, no statutory language prohibits agency officials from conducting such reviews and identifying necessary legislative actions. With this type of information available, the Congress would then be better prepared to make these decisions if needed.

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## **Examples of Reevaluating Relationship With Users**

Beneficiary-related recommendations from previous studies have focused on implementing user fees for Coast Guard services. User fees are charges assessed for government services and for the sale or use of government goods or resources. Some of the Coast Guard's activities such as law enforcement and defense operations generally are not candidates for user fees because they are considered public services—actions that benefit the general public and not just a discrete user group. However, a number of other Coast Guard missions provide identifiable beneficiaries with individual benefits, and under the law, users can be charged for them.<sup>9</sup> In recent years, the Congress has directed that user fees be placed on a number of Coast Guard functions. These include marine licensing, certification of registry, and merchant mariner documentation (1993); vessel documentation (1994); and the renewal of merchant mariner documents and inspection or examination of U.S. and foreign commercial vessels (1995). The collections for these user fees was over \$20 million in fiscal year 1996.

Although the Coast Guard is authorized to implement user fees on its own, it has been reluctant to do so. Coast Guard officials stated that deciding to impose such fees is a policy question that should be addressed by

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<sup>9</sup>Title 31, section 9701, of the U.S. Code authorizes federal agencies to charge fees for services or benefits provided for specific beneficiaries. OMB's Circular A-25 implements this authority by prescribing guidelines for imposing charges on users of the government's services.

policymakers at higher levels within DOT, the administration, or the Congress. If policymakers decide that such fees should be charged, the Coast Guard's position is that it then becomes the agency's responsibility to address implementation and evaluation issues. Coast Guard officials stated that all three of these decision factors (policy, implementation, and evaluation) should be included in the review of a potential fee to ensure that the broad-reaching effects of imposing a user fee on a service are adequately considered.

A number of the studies we reviewed contained proposals to implement user fees on various Coast Guard functions; however, past history indicates that user fee proposals sometimes create considerable controversy. Groups affected by the fees may feel that their taxes already represent sufficient moneys to cover the costs of providing a function and that singling out a function for additional charge is unfair. Here are two examples of such controversy. The first involves a user fee that was imposed but subsequently rescinded; the other is a fee that recently has been proposed by the administration and is likely to be controversial. A related issue, also discussed below, is the extent to which the Coast Guard is able to make use of any fees that are charged.

#### Recreational Vessel Fee

In 1991, the Coast Guard began charging recreational boat owners a fee to partially offset the costs of programs, such as search and rescue, boating safety, and aids to navigation. The annual fee, which applied to all boats 16 feet and over, operating where the Coast Guard was present, ranged from \$25 to \$100, depending on the vessel's length. The fee met with strong opposition from the recreational boating community, and according to the Coast Guard, was difficult to enforce. Legislation rescinded parts of the fee for fiscal years 1993 and 1994 and the remainder of the fee for fiscal 1995. During the short period when this fee was collected, it generated over \$60 million in revenue, most of which was deposited in the Treasury's general fund.

#### Domestic Ice-Breaking Fee

The Coast Guard conducts ice breaking on the Great Lakes, the St. Lawrence Seaway, and the northeast coast of the United States. Facilitating the safe navigation of vessels and the efficient transport of commercial products and resources through such ice-breaking services is critical to the nation's economy, according to the Coast Guard. While not taking issue with the importance of domestic ice breaking, three studies we reviewed proposed that the beneficiaries of such services share in the



cost of providing them.<sup>10</sup> The value of this service to industry can be considerable. For example, a 1995 study computed the value of ice-breaking benefits to shippers in the Great Lakes Region (Ninth Coast Guard District) at \$78.1 million, on the basis of a 3-year average of net tons of commodities shipped during the Great Lakes ice season.<sup>11</sup> According to this study, the corresponding ice-breaking costs for the Coast Guard in that region were \$8.8 million.

Industry representatives are not likely to support such a fee. For example, at a congressional hearing in 1996, Great Lakes port and shipping representatives testified on the importance of the Coast Guard's maintaining Great Lakes ice-breaking services, but none offered user fees as a viable alternative to pay for these services. Although the law does not prohibit the Coast Guard from imposing a fee, the 1995 study noted that doing so would require overcoming "the traditional expectations of free (taxpayer supported) service."

Despite the potential controversy posed by this fee, the administration is making renewed efforts to enact user fees for domestic ice-breaking services. Information in the administration's fiscal year 1998 budget proposal indicates that legislation will be proposed to assess and collect fees from commercial maritime carriers to recover the Coast Guard's cost of providing domestic ice-breaking services in the Great Lakes and the Northeast. Fishing vessels and recreational vessels would be exempt from the fee. The administration estimates that these fees, if approved, would become effective in fiscal year 1999 and would produce \$25 million annually.

## Earmarking of User Fees

The potential for user fees to help the Coast Guard in reducing any future budget gaps is tied directly to the issue of earmarking—that is, allowing an agency to keep at least a portion of fees collected to pay for providing the service. Currently, the Coast Guard is not allowed to keep fees collected; the revenues are sent to the Treasury, and the agency is reimbursed for its collection costs only.<sup>12</sup> Under these circumstances, according to Coast

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<sup>10</sup>Six of the 23 past studies on the Coast Guard that we reviewed contained recommendations for the Coast Guard to charge user fees for services it provides. Three of these studies specifically recommended that the Coast Guard charge beneficiaries for the costs of domestic ice-breaking services.

<sup>11</sup>Analysis of Great Lakes Icebreaking Requirements, U.S. Department of Transportation, John A. Volpe National Transportation Systems Center (Cambridge, Mass., Mar. 1995).

<sup>12</sup>In some circumstances, the Congress has allowed agencies to keep the proceeds from user fees to finance programs. For example, in 1997, the Congress authorized the National Park Service to conduct a demonstration fee program that allows parks and other units to collect new or increased admission and user fees and spend the new revenue for park improvements.

Guard officials, the agency has had little incentive to propose new fees on its own, since the agency receives no budgetary benefit from them and often encounters public and political opposition to them. Furthermore, even though the agency may be reimbursed for its fee collection efforts, agency officials said that funds received for this often do not offset the costs incurred.

The administration favors earmarking user fee proceeds for agencies, in part as a means of providing agencies with an incentive to collect fees and giving them a greater stake in the collection of receipts important to their operations. The fiscal year 1998 budget submission contains a proposal that would directly align user fees with the agency's operations being paid for by the fees, thereby providing agencies with an incentive to support user fees. Under this proposal, a revised budget-scoring rule would also be used.<sup>13</sup> If the new scoring rule and the proposal to charge user fees for domestic ice breaking are both approved by the Congress, the Coast Guard would be allowed to use the fee proceeds to cover its costs for ice-breaking services.

One of the key issues to consider in deciding whether to earmark user fees relates to oversight and accountability—that is, ensuring that controls are in place so that the proceeds will be used prudently and for purposes intended or deemed to be high priority. For example, in allowing the Food and Drug Administration to retain the proceeds from user fees related to new drug applications from manufacturers, the Congress set up specific controls on the use of these funds and required that the agency make annual reports to the Congress on how the funds were used.<sup>14</sup>

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## Conclusions

The Coast Guard, like other federal agencies, has a daunting task ahead. If current predictions about the size of its funding gap hold true, the Coast Guard is likely to face the task of identifying budgetary savings far in excess of what it has been forced to identify in recent years. At the same time, the agency faces pressures to find enough money to replace or modernize aging equipment.

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<sup>13</sup>“Scoring” is the process of estimating the budgetary effects of pending and enacted legislation and comparing them with limits set in the budget resolution or legislation. Scoring involves tracking data, such as budget authority, receipts, outlays, the surplus or deficit, and the public debt limit. According to the fiscal year 1998 Budget of the United States Government, the new scoring rule proposed by the administration would (1) employ a definition of user fees that is currently part of the House rules on jurisdiction, (2) support the long-standing practice of authorizing user fees in authorizing legislation, and (3) require that the fees be appropriated before they could be spent.

<sup>14</sup>See *FDA User Fees: Current Measures Not Sufficient for Evaluating Effect on Public Health* (GAO/PEMD-94-26, July 22, 1994).

We have no opinion regarding the level of resources needed by the Coast Guard to carry out its responsibilities or on the advisability of specific cost-cutting options. However, we believe that the Coast Guard's best opportunity to deal effectively with this task is first to identify total expected annual savings from actions already taken or planned. Doing so would allow the Coast Guard to more readily determine the extent to which it may need to seek even further savings to meet future budget targets. If additional savings are needed, the Coast Guard could then expand the scope of its efforts to examine additional efficiency-related actions and, if appropriate, potential changes in the services it provides or the way in which these services are funded. Regarding user fees, we are not taking a position on whether such fees, including the proposed domestic ice-breaking user fees, should be established or if such fees should be earmarked for the Coast Guard rather than returned to the Treasury's general fund. This is largely a policy question that the Congress must ultimately decide after weighing a number of issues and trade-offs.

To a greater degree than with past cost-cutting efforts, future efficiency-related options are likely to be controversial in some way. Some could be controversial within the Coast Guard itself because the changes would involve a major shift in its organizational culture. Others could be controversial with the public because they involve a real or perceived change in services or the closure of facilities deemed important by nearby communities.

Expanding budget-cutting options to include a reassessment of missions or user fees is likely to involve controversy as well, given past opposition to reductions in services and requirements to pay for services. Even so, given the uncertainty of future budget targets, it is important for the Coast Guard to be prepared to make or suggest changes in these areas. This is especially relevant in light of the substantial capital expenditures anticipated for replacing or renovating aging equipment and facilities. In a time of budget austerity, it would be a double mistake to commit money to replace or renovate equipment or facilities that may no longer be useful if missions must be trimmed.

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## **Recommendations**

We recommend that the Secretary of Transportation direct the Commandant of the Coast Guard to incorporate the following approaches into the Coast Guard's strategy for confronting and managing possible changes in the current budget climate:

- To the maximum degree possible, quantify the anticipated year-by-year savings from actions already under way or planned, such as specifying the future savings realized by replacing old vessels with fewer new ones and implementing alternative vessel inspection methods.
- Develop a more comprehensive strategy and corresponding plan for addressing impending budget targets, including systematically identifying and prioritizing alternatives that could be considered if future budget targets require additional spending reductions. In so doing, the Coast Guard should give serious consideration to relevant but unimplemented recommendations from past studies and options identified in its recent National Streamlining Study. The agency should also identify the legislative actions necessary to implement these alternatives. Particularly in light of the large anticipated backlog of capital projects, the Coast Guard should consider including a reassessment of its missions and its relationship to user groups as part of this activity.

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## Matters for Congressional Consideration

If future funding levels require the Coast Guard to consider closing operational units such as small boat stations, air stations, marine safety offices, or training centers, the Congress may wish to establish an independent panel to review potential agency facilities closures in view of (1) the potential financial benefits, (2) the impact on beneficiaries of services currently provided, and (3) the potential opposition that inevitably accompanies consolidation and closure decisions. A panel much like the Defense Base Closure and Realignment Commission established to review military installations may be useful to address these issues.

Also, if the Congress believes that potentially controversial issues within the Coast Guard—such as changing military rotation policies or converting more military positions to civilian positions—merit further consideration, the Congress may wish to (1) direct the Coast Guard to commission an outside study of these options or (2) otherwise ensure either that the options are reviewed independently or that the Coast Guard’s studies of controversial internal issues are validated by a third party.

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## Agency Comments

We provided the Coast Guard with copies of a draft of this report for its review and comment. We met with Coast Guard officials, including the Director of Resources, who generally concurred with the information and recommendations contained in the report. However, the Coast Guard believed that the draft report did not (1) thoroughly address the unique nature of the agency’s missions and functions and the breadth of the

services that it provides with the budget it has and (2) properly characterize the agency's rationale for its reluctance to initiate substantive changes to its missions. The Coast Guard provided us with a number of other technical comments to clarify portions of the report; these changes have been incorporated into the body of the report as appropriate.

We believe that the report adequately describes the specific nature of the Coast Guard's missions and assets and acknowledges that the Coast Guard has been asked to do more while dealing with a relatively flat budget over the last several years. Also, the report describes in some detail the positive actions the agency has made and is making to reduce costs and align itself with the administration's priorities.

Coast Guard officials indicated that because the Congress ultimately decides the missions that the Coast Guard should perform, the agency has not initiated any mission-related changes. Language has been added to the report to better reflect the Coast Guard's position on this matter. However, while we recognize that the Coast Guard provides the public with valuable and in many cases vital services, this should not prevent the agency from critically examining its functions to see if other cost-effective alternatives are available to achieve its missions, as other fiscally constrained organizations have had to do. By reexamining its missions, the Coast Guard can position itself to provide relevant and timely information as the Congress conducts its budget deliberations. Also, the agency can validate the need for and the scope of its missions and functions before embarking on an aggressive program to modernize its aging assets.

# List of Studies With Potential Budget-Cutting Recommendations and Options for the Coast Guard

Title of study	Description
Broad-based reviews of the Coast Guard	
<u>Semi-Paratus: The United States Coast Guard</u> , Nov. 1981	The Subcommittee on Coast Guard and Navigation, House Committee on Merchant Marine and Fisheries, conducted six hearings and issued a report on all of the Coast Guard's programs on the basis of the belief that the gap between the agency's resources and its responsibilities was growing.
<u>Coast Guard Roles and Missions</u> , Mar. 1982	The House Appropriations Committee directed that an interagency task force study the Coast Guard's missions and functions. The study, which was intended to serve as the impetus for the agency's planning process for the next 20 years, was undertaken to identify numerous functions that could be eliminated, reduced in scope, or performed by the private sector, public authorities, local or state entities, or other federal agencies.
<u>The U.S. Coast Guard</u> , Mar. 1982	The Senate Committee on Commerce, Science, and Transportation requested that the Congressional Research Service prepare this report because of the Committee's concern over expanded Coast Guard responsibilities and continued budgetary constraints. The report is meant to be an objective, in-depth analysis of the history of the Coast Guard, its goals and missions, and options for the future.
<u>President's Private Sector Survey on Cost Control (Grace Commission)</u> , 1983	Because of growing budget deficits, President Reagan established the Grace Commission, led by private sector experts, and gave it a mandate to identify opportunities for increased efficiency and reduced costs achievable by executive and legislative action.
<u>U.S. Coast Guard: Status, Problems, and Potential</u> , Jan. 1983	Concerned that the Coast Guard's resources may not be adequate to support its responsibilities, the National Advisory Committee on Oceans and Atmosphere examined and highlighted possible efficiencies and alternative approaches.
<u>Creating a Government That Works Better and Costs Less: A Report of the National Performance Review</u> , Sept. 1993	This federal governmentwide review examined cabinet-level Departments and 10 agencies. The report contained numerous recommendations relevant to the Coast Guard.
<u>Deepwater Mission Analysis Report</u> , Nov. 1995	This study, performed by the Coast Guard, reviews the Coast Guard's deepwater missions, both current and proposed, and projects the capabilities and corresponding capital resources that may be required to effectively carry out these responsibilities. The study covers likely technology improvements that may affect the level of resources needed and provides gross dollar estimates of resources (vessels and aircraft) needed in the future.
<u>Streamlining U.S. Coast Guard Organization &amp; Training Infrastructure</u> , 1996	This study, which stemmed in part from the President's mandate to improve efficiency in the federal government, was chartered in 1994 by the Coast Guard's Chief of Staff to identify opportunities to streamline the agency's headquarters and field organization and training infrastructure. Ultimately, it recommended major changes to the agency's headquarters and field structure and to enhance training.
GAO reports, 1990-96	Over the past 5 years, we have issued 10 reports and a testimony to Congress identifying millions of dollars of potential savings for the Coast Guard. The agency has taken actions on most of the recommendations in these reports. Open issues include funding for the VTS 2000 program and ensuring better inventory management of spare parts.
Mission-specific studies of the Coast Guard	
<u>Short Range Aids to Navigation Mission Analysis</u> , Apr. 1994	This report, based on a study performed by the Coast Guard, provides a general description of the short- range aids program and an overall plan for resource allocation and replacement within the mission area.

(continued)

**Appendix I**  
**List of Studies With Potential**  
**Budget-Cutting Recommendations and**  
**Options for the Coast Guard**

Title of study	Description
<u>Analysis of Required Fleet Size and Private Sector Cost Comparisons for the USCG Inland Construction Tender Fleet,</u> May 1994	This study, undertaken by the John A. Volpe National Transportation Systems Center, discusses three areas: the optimum number of construction tenders needed, a comparison of the Coast Guard's tender fleet construction costs with private costs, and the mission-related factors that need to be considered before reducing the fleet's size or contracting for the construction of fixed aids to navigation.
<u>Analysis of Great Lakes Icebreaking Requirements,</u> Mar. 1995	This study, undertaken by the John A. Volpe National Transportation Systems Center, examines the requirements for Great Lakes ice-breaking services and the feasible alternatives for meeting those requirements.
<u>Cost and Operational Effectiveness Analysis for Selected International Ice Patrol Mission Alternatives,</u> 1995	This study, which was conducted by the Coast Guard and outside experts, sought to review new technology and management opportunities to improve international ice patrol operations and identify selected management, technology, and operating alternatives. The report includes a cost analysis of various alternatives required to meet current performance standards and an analysis of the cost reimbursement system.

Legend

USCG = U.S. Coast Guard

VTS = Vessel Traffic Service

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

<sup>c</sup>Coast Guard: Issues Related to the Fiscal Year 1996 Budget Request (GAO/T-RCED-95-130, Mar. 13, 1995).

<sup>d</sup>Coast Guard: Acquisition Program Staff Were Funded Improperly (GAO/RCED-93-123, Apr. 27, 1993).

<sup>e</sup>Coast Guard: Use of Appropriated Funds for the Morale, Welfare, and Recreation Program (GAO/RCED-92-158, May 18, 1992).

<sup>f</sup>Coast Guard: Reorganization Unlikely to Increase Resources or Overall Effectiveness (GAO/RCED-90-132, July 12, 1990).

<sup>g</sup>Coast Guard: Management of the Research, Development, Test and Evaluation Program Needs Strengthening (GAO/RCED-93-157, May 25, 1993).

<sup>h</sup>Coast Guard: Housing Acquisition Needs Have Not Been Adequately Justified (GAO/RCED-92-159, May 19, 1992).

<sup>i</sup>Coast Guard: Program to Inspect Intermodal Containers Carrying Hazardous Materials Can Be Improved (GAO/RCED-94-139, Apr. 27, 1994).

<sup>j</sup>Coast Guard: Abandoned Vessels Pollute Waterways and Cost Millions to Clean Up and Remove (GAO/RCED-92-235, July 21, 1992).

<sup>k</sup>Coast Guard: Progress in the Marine Safety Network, but Many Uncertainties Remain (GAO/RCED-92-206, Aug. 28, 1992).

<sup>l</sup>Marine Safety: Coast Guard Should Address Alternatives as It Proceeds With VTS 2000 (GAO/RCED-96-83, Apr. 22, 1996).



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