



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 17, 2007

H.R. 2722 **Integrated Deepwater Program Reform Act**

*As ordered reported by the House Committee on Transportation and Infrastructure
on June 28, 2007*

SUMMARY

H.R. 2722 addresses the contracting practices used by the United States Coast Guard (USCG) for the Integrated Deepwater Program (IDP), a 25-year, \$24 billion initiative to replace many of the agency's vessels, aircraft, and other assets.

Assuming appropriation of the necessary amounts, CBO estimates that the USCG would spend \$5 million over the next two years for additional contracting personnel and to develop a life-cycle cost estimate for the IDP, as required by the legislation. That increase in spending would probably be more than offset by savings in future years.

Several provisions of H.R. 2722 could increase other costs of administering contracts under the IDP, but those provisions and other reforms required by the bill also could result in lower procurement expenditures. Moreover, many of the bill's required reforms may be carried out by the USCG even in the absence of legislation. CBO expects that implementing those reforms (whether under current law or as a result of enacting H.R. 2722) would reduce the long-term cost of the program, but we cannot estimate the likely size of that cost savings or clearly identify what proportion of any long-term savings would be attributable to this legislation and what share would result from changes that the Coast Guard would implement under current law.

Any annual costs or savings realized by the agency as a result of the legislation would depend on future changes in the level of discretionary appropriations for this initiative. Enacting this legislation would not affect revenues or direct spending.

The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

MAJOR PROVISIONS

H.R. 2722 would restrict the Coast Guard's reliance on private entities to manage IDP and would require the agency to revise other procurement practices to rectify problems identified by the Department of Defense (DoD), the Department of Homeland Security (DHS), and the Government Accountability Office. The bill also would require that many future acquisitions for the program be open to competition and be subject to new testing, analysis, and certification requirements. Finally, the bill would require the Coast Guard to hire additional contracting and management personnel and to produce various reports on its acquisition activities.

ESTIMATED IMPACT ON THE FEDERAL BUDGET

CBO estimates that complying with the requirements of H.R. 2722 would increase USCG's cost to administer IDP by \$5 million over the next two years, assuming appropriation of the necessary amounts. We expect that the USCG would spend most of this amount to create a position for new chief acquisition officer, to hire and compensate new contract officers for each class of cutter and aircraft acquired under IDP, and to perform a comprehensive cost estimate for the initiative. We estimate that the cost of implementing other administrative requirements, such as testing and certifying vessels to meet U.S. Navy standards, would not add significantly to the costs of the Deepwater initiative.

The budgetary impact of other provisions of the bill is uncertain—as is the cost of the deepwater initiative under existing law. According to the DHS Inspector General, the Coast Guard's most recent cost estimate for the program—\$24 billion—is likely to be too low because it does not take into account costs of hundreds of millions of dollars resulting from delays, design failures, and other problems. H.R. 2722 would seek to address those problems by requiring greater agency supervision and more reliance on competitive bidding. CBO expects that those reforms would result in savings, but we cannot estimate the magnitude of such savings or predict the extent to which some savings would be realized by implementing similar reforms under current law.

Pending Acquisitions

CBO expects that implementing the bill would not directly affect pending acquisitions of certain classes of assets, such as the national security cutter and the maritime patrol aircraft, two assets that the USCG has already begun acquiring from its chosen contractor. The bill would exempt those and other specified projects from its requirements on management and competitive bidding if certain conditions are met. The administrative burden of meeting those conditions could cause delays in acquiring some fleet replacements and thus result in

additional operating and maintenance costs over the next few years for existing assets. Similar delays, however, may occur under current law; the Coast Guard has already had to begin revising the design of those assets to address known problems.

Future Acquisitions

H.R. 2722 would require that future phases of IDP be subject to open competition and other reforms. The resulting savings from such reforms could be significant—perhaps hundreds of millions of dollars—but cannot be estimated with any precision. Moreover, many of the contracting changes may occur even in the absence of legislation. For example, the Coast Guard recently announced that it intends to begin managing the program itself rather than relying on a private systems integrator. The agency has also begun implementing some of the other reforms suggested by DHS, such as more reliance on competition and independent analysis.

Any costs or savings that result from implementing the bill would depend on corresponding changes in annual appropriation acts. Annual funding for acquisitions under the program has varied widely—from \$320 million in fiscal year 2002 to more than \$1.1 billion to date for 2007. The President’s budget request for 2008 includes nearly \$840 million for the program.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2722 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO COST ESTIMATE

On May 10, 2007, CBO transmitted a cost estimate for S. 924, the Integrated Deepwater Program Reform Act, as ordered reported by the Senate Committee on Commerce, Science, and Transportation on April 25, 2007. H.R. 2722 and S. 924 address similar issues. CBO estimates that the up-front administrative cost of complying with H.R. 2722 would be less than those to comply with S. 924 because the House legislation would not require the Coast Guard to contract with a third party to perform a major analysis of IDP.

ESTIMATE PREPARED BY:

Federal Costs: Deborah Reis

Impact on State, Local, and Tribal Governments: Elizabeth Cove

Impact on the Private Sector: Craig Cammarata

ESTIMATE APPROVED BY:

Peter H. Fontaine

Deputy Assistant Director for Budget Analysis