CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 10, 2007

S. 924
Integrated Deepwater Program Reform Act

As ordered reported by the Senate Committee on Commerce, Science, and Transportation on April 25, 2007

SUMMARY

S. 924 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. CBO expects that implementing the bill would add about $20 million to USCG's costs over the next two years, but that increase would probably be more than offset by savings in future years. Enacting this legislation would not affect revenues or direct spending.

Several provisions of the bill could increase contract administration and other program costs, but those provisions and other reforms required by the bill also could result in lower procurement costs. Moreover, many of the bill's required reforms may be implemented by the Coast Guard even in the absence of legislation. CBO expects that implementing those reforms (whether under current law or as a result of enacting S. 924) would reduce the long-term cost of the Integrated Deepwater Program, but CBO 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 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.

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

S. 924 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. S. 924 also would mandate that future acquisitions for the program be open to competition and be subject to formal analyses of alternatives carried out by an independent entity. For acquisitions that exceed $10 million, the agency would have to certify that it has performed appropriate technological research and feasibility studies. Finally, the bill would require the Coast Guard to produce various reports on its contracting and acquisition activities.

ESTIMATED EFFECT ON THE FEDERAL BUDGET

CBO estimates that implementing S. 924 would increase USCG's administrative costs by $20 million over the next two years. Most of this cost would be incurred in 2008 to obtain an independent analysis of alternatives (AoA) for the deepwater program, as required by section 3. Under this requirement, the USCG would contract with an independent entity such as DOD or a federally funded research center for a comprehensive review of the agency's existing deepwater plan and feasible alternatives. We estimate that the costs of implementing other administrative requirements, such as certifications on large contracts or smaller AoA's on future acquisition projects, would not add significantly to the costs of the Deepwater program.

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. S. 924 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 certain 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

The bill 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 S. 924 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

S. 924 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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