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BEFORE THE
HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION

BUDGET PRIORITIES AND INITIATIVES OF THE MARITIME ADMINISTRATION FOR 2012

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Good afternoon Chairman LoBiondo, Ranking Member Larsen, and Members of the Subcommittee. I would especially like to offer a warm welcome to the Subcommittee's new members, and look forward to working with you on maritime transportation matters. Thank you for inviting me to discuss the budget priorities and initiatives of the Maritime Administration for 2012. I am pleased to appear before you to describe how the President's budget request will support maritime transportation and its contributions to our nation's economic competitiveness, our transportation system preparedness and readiness, and our environmental sustainability.

Given the budget environment we find ourselves in, the 2012 budget request sets priorities for competing needs of key elements of our maritime transportation system. Secretary LaHood has set a goal for the United States Merchant Marine Academy (USMMA) in Kings Point, New York, to become a jewel among the Federal service academies. Accordingly, Academy capital asset management, fiscal accountability, and operating program initiatives are priority emphases. The Maritime Administration's 2012 program is highlighted by a $19 million increase above the 2010 budget for long-deferred capital asset renewal and management, information technology upgrades, and operations program enhancements at USMMA.

The Maritime Administration continues to serve a vital role in ensuring sealift capacity which will meet national security and economic needs. As such, the 2012 request includes $174 million for the Maritime Security Program, an amount which, when combined with carryover funds, will allow funding of this program at the full authorized level.

The Agency's commitment to environmental sustainability is advanced through several new initiatives, including funding for a new fleet management program and technology testing to address maritime environmental challenges. As the U.S. Government's disposal agent for large commercial vessels, the Maritime Administration seeks an increase of $3.5 million above the 2010 funding level for the Ship Disposal Program to

increase obsolete vessel disposal actions, with special emphasis on meeting planned schedules and commitments outlined in the Suisan Bay Reserve Fleet (SBRF) judicial consent decree. An additional $2.5 million in new funds will allow the agency to build on successful programs which aim to find solutions to environmental challenges in the marine transportation industry.

The Agency regards our oversight and stewardship of the Recovery Act and other infrastructure grants as another priority. Moreover, I would also like to point out that for the first time, the Administration requests funding for MarView, an integrated internet-based data tool that will enhance the ability of both private sector and public sector parties to manage their Maritime Transportation System responsibilities.

I would like to take the next few minutes to provide the Subcommittee Members some information about the 2012 MARAD budget request and our initiatives and program activities.

FY 2012 BUDGET REQUEST

The Maritime Administration budget request for 2012 is $357.8 million, which will support the agency's coordinated program of activities and initiatives advancing Departmental and national objectives for the U.S. maritime transportation system. The 2012 request represents a $5 million reduction from the 2010 budget.

The Agency's mission is broad, in order to serve the breadth of this nation's maritime transportation system and its needs. Over time, legacy programs designed to sustain a viable and vibrant Merchant Marine have been enhanced with additional responsibilities in port infrastructure development, deepwater port licensing, marine transportation service development, and enhanced efforts to seek environmental, safety, and security solutions.

At the Maritime Administration's core is a cadre of maritime experts relied upon to provide policy, operational, educational and financial services to the U.S. maritime industry and public agencies. The Agency's expertise in the global logistics and maritime industry, along with industry and international relationships developed over time, has proven valuable to the operations of the Federal Government. It has also provided an acute awareness of the realities of operating in the commercial maritime industry, enabling our operational enterprises to accomplish more with fewer resources. In fact, for every dollar appropriated directly to the Maritime Administration by Congress, the Agency receives at least two more dollars from other Federal and public agencies to support additional maritime missions and objectives.

Additional services are provided to our agency partners and the industry using the base of expertise already established at the Agency. Our core competencies and agency assets have played valuable roles in enhancing military readiness, including responding to international humanitarian calls like the Haiti earthquake last year; investigating the impact to U.S. ports of the Panama Canal Expansion; and supporting operations such as the response to the DEEPWATER HORIZON spill. The Maritime Administration also

provides training platforms for Federal agencies conducting anti-piracy operations and for researchers testing ballast water treatment technologies in the harsh at-sea environment as opposed to the laboratory. We feel these services supported by the Agency's core competencies provide a net benefit to the country and are supported in the 2012 request.

ECONOMIC COMPETITIVENESS AND TRANSPORTATION SYSTEM PREPAREDNESS AND RESPONSE

Maintaining the economic competitiveness of the maritime transportation system and readiness of sealift capability relied upon by the Federal Government is the Agency's priority mission, commanding the largest share of the budget request. Approximately 86 percent of the 2012 request is devoted to economic competitiveness, defense mobilization and emergency response preparedness.

Maritime matters. Maritime transportation is a vital industry, contributing more than $10 billion per year to the national economy, and creating more than 265,000 jobs. The Maritime Administration's program activities focus on developing and maintaining a vital and viable U.S. merchant marine for commerce, emergency response, and national security. In order to further identify ways to improve our industry's global competitiveness, I have initiated a study on the Impediments to U.S.-Flag Registry using discretionary funds and savings accrued during 2010. The study is expected to conclude this spring and will provide an in-depth, comprehensive analysis of the incentives and detriments related to flagging vessels under the U.S. registry. I look forward to sharing these results with you and working with you on approaches to strengthen the U.S.-flag merchant marine in international trade.

United States Merchant Marine Academy

Secretary LaHood has identified heightening the profile and prestige of the U.S. Merchant Marine Academy as a priority for the Department of Transportation and the Maritime Administration. Consistent with this emphasis, the Administration's 2012 request includes $93 million for the USMMA, an increase of $19 million above the 2010 baseline level. This increase will support capital improvements, operational funding for necessary IT upgrades, and academic program enhancements, and provide for the elimination of midshipman fee collections. The USMMA anticipates graduating 225 licensed merchant marine officers and future leaders for service in the maritime industry and the Armed Forces in 2012.

An area of primary emphasis has been strengthening the management of USMMA capital improvement. At the request of the Secretary, the Maritime Administration engaged the assistance of a Blue Ribbon Panel of senior Federal executives from across the government to assist in an independent analysis of the Academy's capital improvement needs. The Panel toured the campus and inspected the physical condition of all major facilities to better consider and formulate observations and recommendations for the Secretary. The Panel issued its report, "USMMA: Red Sky in the Morning" in March 2010, and included recommendations for Academy capital improvement program

management. Responding to the panel report, the 2012 budget request introduces a new USMMA Capital Asset Management program, structured in accordance with the panel's recommendation:

> *"...consistent with the sustainment, restoration and modernization approach to life-cycle facility management, USMMA funding should be restructured to provide for three separate funding streams: facilities maintenance, equipment, and capital improvements."*

As the condition of midshipmen facilities can impact recruitment, retention, morale, and academic performance—in addition to the institution's ability to meet its mission-- the FY 2012 request includes a total of $28.9 million (an increase of $12 million above the FY 2010 level) for the Capital Asset Management portfolio. The request includes $23 million (an increase of $9 million above 2010 levels) for midshipmen-oriented capital improvements, consistent with areas of high concern noted by the panel. Of the funding in the 2012 request, $9 million will support completion of the priority renovation of the Delano Hall midshipman galley (subject to receipt of a full-year 2011 appropriation at FY 2010 levels), where the midshipmen receive their meals. The Academy will also be able to initiate the renovation of berthing spaces in Cleveland Hall ($11.5 million), and undertake the architectural and engineering studies ($2.5 million) for renovations to the remaining barracks and academic buildings. And, consistent with Blue Ribbon Panel emphasis on the importance of robust facilities maintenance and repairs, the 2012 capital program request includes another $2 million for major capital repairs and equipment replacement (an increase of $1 million above 2010) and $3.9 million (an increase of $2 million above 2010) for maintenance and routine repair of Academy facilities.

The 2012 request also includes $64.2 million for Academy operations, reflecting an increase of $6 million above the 2010 enacted level for operational enhancements and inflationary increases. The program increase will support ongoing renewal of critical IT infrastructure improvements needed to meet Federal Information Security Management Act (FISMA) and Clinger-Cohen requirements ($2.1 million), improvements and enhancements to the Academy's instructional program ($1.1 million), including two new instructor positions, operational requirements ($0.9 million), including regulatory body inspection requirements for the school's training vessel KINGS POINTER, and a recruitment diversity initiative ($0.1 million).

The Maritime Administration request also includes an increase of $2 million in base funding to support midshipmen requirements (laptop issue, laundry services, tailor and barber services, and supplemental health insurance) previously funded by the collection of Midshipman Fees. In the past, collection of these fees has posed internal controls and management challenges associated with fee administration as identified by the Government Accountability Office. Unlike cadets attending all other Federal service academies, USMMA midshipmen are not employed in a service branch and paid for their attendance at the school. Many midshipmen have used other Federal programs—such as Pell Grants—to cover these costs anyway. This funding would enable the elimination of Midshipman Fees, and midshipmen would be able to attend the Academy at no cost.

The Maritime Administration has made great progress towards restoring and strengthening USMMA financial management. During the last year, I appointed a new Academy Superintendent, as well as other senior officers, including new management to provide leadership and oversight for the Academy's facilities and capital improvement program. The Agency has also made significant progress in implementing management and process improvements based on recommendations in the GAO audit report, and this remains a priority performance goal of the Department. I'm pleased to report that the Agency has already completed actions responding to 42 of the 47 GAO recommendations for the Academy, and we expect to complete actions closing all recommendations during this fiscal year.

State Maritime Academies

The 2012 request for the State Maritime Academy (SMA) program includes $17.1 million, an increase of $1.2 above the 2010 enacted level, including funds for: (1) the Student Incentive Payment (SIP) program, (2) annual direct payments to each of the six State maritime academies, and (3) payment of maintenance and repair costs for training ships on loan to the State academies. Of the $17.1 million request:

- $2.4 million will fund the SIP program, enabling enrollment of sufficient students to be able to meet identified Armed Forces reserve requirements.
- $3.6 million will be paid directly to the State maritime academies for maintenance and support, a payment of $0.5 million to each school in FY 2012 (the maximum authorized amount). The request also includes $0.6 million to support fuel costs for the operation of SMA training vessels.
- $11.1 million will fund maintenance and repair costs for Federally-owned training ships on loan to the various State academies.

The State academies regard the SIP Program as among the most important recruiting tools to encourage State maritime academy cadets to pursue careers as merchant mariners. The Maritime Administration anticipates approximately 580 students in the license program will graduate from the academies in 2012.

Maritime Security Program

The Maritime Security Program (MSP) is the agency's largest appropriated program. The primary purpose of the MSP is maintenance of a fleet capable of supporting a U.S. presence in foreign commerce, while also ensuring the military's ability to obtain assured access to a sufficient number of commercial vessels and mariners. MSP vessel participants also deliver cargoes supporting overseas deployments of U.S. forces. The Maritime Administration requests an appropriation of $174 million for 2012 for this critical, proven, and effective sealift program. Together with unobligated carry-over balances, this request will provide the total 2012 program obligation level of $186 million necessary to meet the Administration's commitment of fully funding the program at the FY 2012 authorized level. This will result in enrollment of 60 authorized MSP vessels at

the full $3.1 million level. Funding at this level will enable DOT to continue to maintain a U.S.-flag international trade merchant fleet crewed by U.S. citizens to serve the Nation's commercial and national security needs. In 2012, the program anticipates maintaining enrollment of 60 U.S. flag vessels, and achieving 2.6 million square feet of roll-on roll-off sealift capacity by ensuring MSP operators replace older vessels with newer, more modern and efficient vessels.

Maritime Guaranteed Loan Program (Title XI)

Title XI offers loan guarantees for shipyard modernization projects and for building vessels in U.S. shipyards for operation under the U.S. flag, as well as supporting infrastructure investment and economic growth. The program helps by providing applicants access to long-term financing at stable interest rates, sustaining facilities for shipbuilding and ship repair within the U.S., and promoting system capacity and jobs. The 2012 request proposes funding of $3.7 million for administration of the Title XI guaranteed loan portfolio to ensure compliance with the Federal Credit Reform Act. The current loan portfolio is $1.95 billion, covering approximately 330 vessels.

The Administration has proposed a cancellation of $54.1 million of the $76.6 million currently available to fund the subsidy costs associated with new Title XI guarantees. In these times of economic challenge and shared sacrifice, the Administration believes these funds can more appropriately be used elsewhere to fund other pressing priorities at this time. The Maritime Administration will continue to process applications subject to available funding.

We remain cognizant that Title XI program is not an appropriate tool for every shipbuilding project. Many prospective applicants have decided that the time and cost involved in the Title XI process is not workable for smaller-sized shipbuilding projects. In addition, $2.8 billion remains available for shipbuilding projects in privately-held Capital Construction Fund (CCF) accounts, another ship finance program administered by the Agency.

Assistance to Small Shipyard Grants

In 2010, Congress provided $15 million in funding to support capital improvements at qualified shipyards to allow domestic shipyards to better compete for domestic and international commercial ship construction. This follows $117.5 million in combined Omnibus and American Reinvestment and Recovery Act (ARRA) funding provided in 2009. As the focus of our 2012 grant program will be on the administration of the 2010 grant awards and continued oversight of 2009 Recovery Act grants, no funding is requested for shipyard grants in 2012.

I am pleased to report that of 70 ARRA-funded Small Shipyard grants issued in 2009, 27 grant projects are reported as completed, with aggregate program outlays to date of $70 million. To date, the 70 shipyards have reported more than 500 full-time equivalent

job years of labor generated by these grants. In addition, these grants support additional indirect jobs.

Port Development/America's Marine Highways

In 2010, the Department of Transportation designated $120.4 million in Transportation Investment Generating Economic Recovery (TIGER I) Discretionary grants for seven port and maritime-related projects, most of which will be supplemented by State and local funds. Recently, the DOT announced another six TIGER II grants for maritime projects for an additional $84.8 million. The Maritime Administration is managing these port-related grants under the oversight of the Office of the Secretary. These grants are supporting new marine highway services, adding capacity to and improving efficiency of ports, and improving shoreside linkages to inland markets. As the focus of the 2012 program will be on the administration and oversight of the Department's TIGER Discretionary grants, no funding is requested in MARAD's budget for additional Marine Highway grants in 2012. However, I would like to highlight a new source of funding for Marine Highway and other port projects. The President is requesting $5 billion in 2012 to establish the National Infrastructure Bank that will provide grants, loans, and a blend of both for multi-modal projects including highway, transit, rail, aviation (including equipage), ports, and maritime initiatives. This is the first time such a large amount of funds would be available for Federal assistance to port and maritime projects, and the President has proposed continuing this funding for six years, totaling $30 billion.

MarView

As I noted earlier, for the first time, the Administration's budget request includes $1 million for the continued development of MarView, our integrated, data-driven web portal designed to collect, store, and display data on the Marine Transportation System (MTS). MarView is a tool for the fusion of this data to create models of the MTS that allow for advanced business analysis and planning. These models will help us to better understand and manage the MTS and its intermodal connections. MarView seeks to take advantage of the many data resources, whether they are already available or being created by others in the maritime community, by pulling together in one location as many of these resources as possible. This makes more efficient use of the time needed to support leadership in the decision making process. It supports the government's interagency efforts to develop and manage our maritime domain awareness capability by enhancing our global vessel tracking efforts, and planning for and reacting to emergency situations, particularly the effects of mobilization events and natural or man-made disasters and how they affect the U.S. national economy.

ENVIRONMENT

Maritime Administration environmental programs are aimed at reducing pollution and the adverse environmental effects of maritime transportation and facilities on communities and livability by focusing on obsolete vessel disposal, reducing marine transportation related air emissions, and treating ballast water to prevent ecological and commercial damage associated with nonnative invasive species.

Ship Disposal

The 2012 request of $18.5 million for the Ship Disposal program ($3.5 million above the 2010 level), includes $13 million to accelerate the removal of obsolete vessels from the National Defense Reserve Fleet for disposal, with priority emphasis on disposal of vessels in the Suisan Bay Reserve Fleet and compliance with judicial consent decree requirements for those vessels. At the requested funding level, the Maritime Administration will be able to dispose of 8 obsolete ships, consistent with settlement requirements. Due to the presence of onboard hazardous materials--such as residual fuel, asbestos and solid polychlorinated biphenyls-- on these ships, they must be disposed of properly. Expedited disposal of obsolete ships lessens environmental risk and makes sense not only from the standpoint of avoiding possible harm to the environment, but also in terms of reducing costs and stimulating economic activity in the domestic ship recycling industry. Of note, the Agency recently certified a new ship-recycling facility—the first on the West Coast—which will allow for competitive bidding of ship disposal contracts. Most ships removed from Suisun Bay Reserve Fleet, which now contains all remaining high-environmental risk vessels, have out of necessity been covered by sole-source contracts for the cleaning of the ships before towing through the Panama Canal to recycling facilities on the U.S. East and Gulf Coasts.

The request also includes $2.5 million for a new Fleet Environmental Initiative to support environmentally sustainable practices for the obsolete vessels in the fleet awaiting disposal, to reduce the environmental risks associated with vessel storage and deterioration.

The 2012 budget request also includes $3 million in funding to continue nuclear license management for the inactive Nuclear Ship SAVANNAH. The budget will support the continued maintenance and safeguarding of the SAVANNAH nuclear plant, and allow for technical actions to keep the vessel in conformance with Nuclear Regulatory Commission standards.

Environmental Programs

The impact of marine transportation on the human and natural environment has become more evident in port and coastal communities, which are feeling the brunt of environmental quality impacts from marine transportation activities. At the same time, marine transportation is expected to grow considerably due to increased use of our nation's waterways for freight and passenger movement. Marine-related environmental impacts will therefore become more profound. The environmental impacts of marine transportation must be adequately anticipated and addressed or they will adversely affect the nation's economic growth and the quality of life of our port and seaside communities.

The most pressing environmental issues facing the maritime industry are invasive species in ballast water, and energy use and air emissions. The Maritime Administration has

been called upon by industry and government agencies to provide technical advice and expertise, data, and assistance for the development of policy, regulation, research and studies in these areas. The Administration's 2012 request includes $1.5 million to advance critical multi-modal transportation research to reduce environmental pollution, develop a ballast water discharge standard, expand infrastructure and methodologies for certifying and verifying ballast water technology, improve in vessel emissions data, and reduce the Agency's carbon footprint.

Mr. Chairman, I wish to express my appreciation for the opportunity to present and discuss the MARAD program for 2012, and for the Committee's continuing support for maritime programs. We will continue to keep this Committee apprised of the progress of our programs in these areas in the coming year, including our efforts to improve processes and internal controls at the USMMA.

I look forward to working with you on advancing maritime transportation in the United States, and am happy to respond to any questions you and the members of this Committee may have. Thank you.